

**Junior, Steve**

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**From:** Junior, Steve  
**Sent:** Wednesday, March 31, 2004 1:50 PM  
**To:** 'TEKlanchnik@mbf-law.com'  
**Subject:** Draft Recommendation Memorandum

Dear Mr. Klanchnik:

Attached is a draft recommendation memorandum for Case No. 04-C28767. Please inform me of any updates or changes that should be made to this document in the interests of accuracy in either fact or implication.

Steven J. Junior  
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Office of the Commissioner of Insurance  
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Exh #	14
Date	1 April 2004
Case	04-C28767
Ins. Comm.	



# State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

*Jim Doyle, Governor*  
*Jorge Gomez, Commissioner*

*Wisconsin.gov*

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DATE: Draft of March 31, 2004

TO: Commissioner Jorge Gomez

FROM: Steven J. Junior, Senior Insurance Examiner

SUBJECT: In the Matter of the Acquisition of Control of Blue Cross & Blue Shield United of Wisconsin; CompCare Health Services Insurance Corporation; United Heartland Life Insurance Company; United Wisconsin Insurance Company; Unity Health Plans Insurance Corporation; and Valley Health Plan, Inc. by Anthem Inc. and Crossroads Acquisition Corp. (Case No. 04-C28767)

## **DESCRIPTION OF THE TRANSACTION**

### *Overview*

Anthem, Inc. and Anthem Holding Corp. filed a Form A, "Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer", dated December 17, 2003. David J. Hanson, a partner with the Madison law office of Michael, Best & Friedrich LLP, signed a cover letter introducing the filing on behalf of the applicants. Anthem, Inc. is a publicly traded holding company domiciled in Delaware, which is listed on the New York Stock Exchange. Anthem Holding Corp. is a Delaware domiciled corporation formed for the specific purpose of being the survivor in a merger with WellPoint Health Networks Inc.

On December 17, 2003, Anthem, Inc. (hereinafter also, "Anthem") filed a plan to acquire WellPoint Health Networks Inc. (hereinafter also, "WellPoint"), which controls the following Wisconsin insurance corporations: Blue Cross Blue Shield of Wisconsin; CompCare Health Services Insurance Corporation; United Heartland Life Insurance Company; United Wisconsin Insurance Company; Unity Health Plans Insurance Corporation; and Valley Health Plan, Inc. Under the plan, WellPoint will be merged with and into Anthem Holding Corp. (hereinafter also, "Anthem Holding"), a direct, wholly owned subsidiary of Anthem. Immediately following the merger, Anthem would be renamed WellPoint, Inc.

The plan of acquisition will be implemented through an Amended and Restated Agreement and Plan of Merger by and among Anthem, Anthem Holding, and WellPoint, effective as of October 26, 2003.

If the plan is to be executed, the shareholders of both Anthem and WellPoint must vote to approve the merger. It is anticipated that the closing date will occur soon after the shareholders' vote, subject to regulatory approval by various state insurance departments.

The aggregate consideration to be paid WellPoint's shareholders, based on the closing price of the Anthem common stock on the New York Stock Exchange on October 24, 2003, was valued at approximately \$15.6 billion. Under the proposed plan, each share of WellPoint common stock issued and outstanding, other than shares held by Anthem and WellPoint and their respective subsidiaries, will be converted into the right to receive (i) \$23.80 in cash and (ii) one share of Anthem common stock.

As proposed, each share of common stock held by WellPoint and WellPoint's subsidiaries will be converted into the right to receive (i) one share of Anthem common stock plus (ii) a fraction the numerator of which is 23.80 and the denominator of which is the closing trading price of Anthem common stock on the New York Stock Exchange, as reported in the Eastern Edition of the Wall Street Journal on the business day immediately prior to the day the merger closes.

Anthem will not issue fractional shares to any shareholder in connection with this transaction. Instead, Anthem will pay cash, without interest, based on the market value of its common stock on the business day immediately prior to the day the merger closes for any fractional share that a shareholder would otherwise have been entitled to receive.

In the Form A, WellPoint stated that funds for the acquisition would be paid from currently available funds and up to \$3 billion in bridge financing under a Commitment Letter dated October 17, 2003, by Anthem, Inc., Banc of America Bridge LLC and Banc of America Securities LLC. The bridge loans will be replaced by financing of longer duration as soon as circumstances permit.

#### *Scope of Wisconsin's Regulatory Concern*

Section 611.72, Wis. Stats., requires the Office of the Commissioner of Insurance (hereinafter also, "OCI") to approve a plan for acquisition of control if it finds, after a hearing, that the plan would not violate the law or be contrary to the interests of the insureds of any domestic corporation or of the Wisconsin insureds of any participating nondomestic corporation.

The holding company system of the proposed acquirer (hereinafter also, "Anthem Group") includes the following seventeen insurers throughout the United States:

1. Anthem Insurance Companies, Inc. (Indiana; NAIC #28207)
2. Anthem Health Plans, Inc. (Connecticut; NAIC #60217)
3. Anthem Health Plans of Kentucky, Inc. (Kentucky; NAIC #95120)
4. Anthem Health Plans of Maine, Inc. (Maine; NAIC #52618)
5. Anthem Health Plans of New Hampshire, Inc. (New Hampshire; NAIC #53759)
6. Anthem Health Plans of Virginia, Inc. (formerly, Trigon Insurance Company) (Virginia; NAIC #71835)
7. Anthem Life Insurance Company (Indiana; NAIC #61069)
8. Community Insurance Company (Ohio; NAIC #10345)
9. HealthKeepers, Inc. (Virginia; NAIC #95169)
10. HMO Colorado, Inc. (Colorado; NAIC #95473)
11. Maine Partners Health Plan, Inc. (Maine; NAIC #95728)
12. Matthew Thornton Health Plan, Inc. (New Hampshire; NAIC #95527)
13. OneNation Insurance Company (formerly, Anthem Alliance Health Insurance Company) (Texas; NAIC #85286)
14. Peninsula Health Care, Inc. (Virginia; NAIC #95167)

15. Priority Healthcare, Inc. (Virginia; NAIC #96512)
16. Rocky Mountain Hospital and Medical Service, Inc. (Colorado; NAIC #11011)
17. Trigon Health and Life Insurance Company (Virginia; NAIC #71768)

Of the foregoing companies in the Anthem Group, only the following four are licensed in Wisconsin: Anthem Insurance Companies, Inc.; Anthem Life Insurance Company; OneNation Insurance Company; and Trigon Health and Life Insurance Company. Of these four, only one, Anthem Life Insurance Company wrote any business in Wisconsin during 2003. None of the insurers in the Anthem Group wrote any business in Wisconsin on a surplus lines basis.

Each of the foregoing insurers in the Anthem Group is described as follows:

Anthem Insurance Companies, Inc.

Anthem Insurance Companies, Inc. was incorporated in Indiana on May 22, 1944, and commenced business on November 1, 1944. It is licensed in 31 states, but is active in only Indiana, Kentucky, and Ohio. It holds a license for the right to use the Blue Cross name and related service marks in Indiana. As of December 31, 2003, Anthem Insurance Companies, Inc.'s statutory financial statements indicated assets of \$3,935,084,674, liabilities of \$1,477,337,971, policyholders' surplus of \$2,457,746,703, and net income of \$338,537,674. The corporation paid \$347,000,000 in dividends to its stockholder in 2003.

Anthem Health Plans, Inc.

Anthem Health Plans, Inc. was incorporated in Connecticut on February 7, 1997, and commenced business on August 1, 1997. It operates and is licensed only in Connecticut. It holds a license for the right to use the Blue Cross name and related service marks in Connecticut. As of December 31, 2003, Anthem Health Plans, Inc.'s statutory financial statements indicated assets of \$891,752,444, liabilities of \$605,390,151, policyholders' surplus of \$286,362,293, and net income of \$117,063,090. The corporation paid \$115,000,000 in dividends to its stockholder in 2003.

Anthem Health Plans of Kentucky, Inc.

Anthem Health Plans of Kentucky, Inc. was incorporated in Kentucky on March 12, 1993, and commenced business on July 1, 1993. It operates and is licensed only in Kentucky and holds a license for the right to use the Blue Cross name and related service marks in Kentucky. As of December 31, 2003, Anthem Health Plans of Kentucky, Inc.'s statutory financial statements indicated assets of \$685,482,953, liabilities of \$370,775,185, capital and surplus of \$314,707,768, and net income of \$60,876,618. The corporation paid \$28,300,000 in dividends to its stockholder in 2003.

Anthem Health Plans of Maine, Inc.

Anthem Health Plans of Maine, Inc. was incorporated in Maine on March 10, 2000, and commenced business on June 5, 2000. It operates and is licensed only in Maine and it holds a license for the right to use the Blue Cross name and related service marks in Maine. As of December 31, 2003, Anthem Health Plans of Maine, Inc.'s statutory financial statements indicated assets of \$333,495,659, liabilities of \$197,231,520, capital and surplus of

\$136,264,139, and net income of \$41,792,520. The corporation paid no dividends to its stockholder in 2003.

#### Anthem Health Plans of New Hampshire, Inc.

Anthem Health Plans of New Hampshire, Inc. was incorporated in New Hampshire on June 30, 1999, and commenced business on October 27, 1999. It operates and is licensed only in New Hampshire and it holds a license for the right to use the Blue Cross name and related service marks in New Hampshire. As of December 31, 2003, Anthem Health Plans of New Hampshire, Inc.'s statutory financial statements indicated assets of \$257,492,256, liabilities of \$119,548,646, capital and surplus of \$137,943,610, and net income of \$12,034,137. The corporation paid \$11,000,000 in dividends to its stockholder in 2003.

#### Anthem Health Plans of Virginia, Inc.

Anthem Health Plans of Virginia, Inc. was incorporated in Virginia on October 11, 1935, and commenced business on October 16, 1935. It operates and is licensed only in Virginia and it holds a license for the right to use the Blue Cross name and related service marks in Virginia. As of December 31, 2003, Anthem Health Plans of Virginia, Inc.'s statutory financial statements indicated assets of \$1,677,115,403, liabilities of \$988,405,284, policyholders' surplus of \$688,710,119, and net income of \$172,153,513. The corporation paid \$56,039,087 in dividends to its stockholder in 2003.

#### Anthem Life Insurance Company

Anthem Life Insurance Company was incorporated in Indiana on June 7, 1956, and commenced business on the same date. It is licensed in 47 states and the District of Columbia. As of December 31, 2003, Anthem Life Insurance Company's statutory financial statements indicated assets of \$233,874,647, liabilities of \$169,987,884, policyholders' surplus of \$63,886,763, and net income of \$11,003,018. The corporation paid \$11,625,245 in dividends to its stockholder in 2003.

#### Community Insurance Company

Community Insurance Company was incorporated in Ohio on July 8, 1995, and commenced business on October 1, 1995. It is licensed in Ohio and Indiana. It holds a license for the right to use the Blue Cross name and related service marks in Ohio. As of December 31, 2003, Community Insurance Company's statutory financial statements indicated assets of \$1,123,242,581, liabilities of \$771,123,259, policyholders' surplus of \$352,119,322, and net income of \$204,203,974. The corporation paid \$89,000,000 in dividends to its stockholder in 2003.

#### HealthKeepers, Inc.

HealthKeepers, Inc. was incorporated in Virginia on April 8, 1985, and commenced business on September 1, 1986. It operates and is licensed only in Virginia. As of December 31, 2003, HealthKeepers, Inc.'s statutory financial statements indicated assets of \$200,693,744, liabilities of \$87,306,904, capital and surplus of \$113,386,840, and net income of \$34,381,519. The corporation paid \$8,757,455 in dividends to its stockholder in 2003.

HMO Colorado, Inc.

HMO Colorado, Inc. was incorporated in Virginia on August 13, 1979, and commenced business on January 1, 1980. It operates and is licensed as a health maintenance organization only in Colorado and Nevada. As of December 31, 2003, HMO Colorado, Inc.'s statutory financial statements indicated assets of \$113,280,276, liabilities of \$46,552,547, capital and surplus of \$66,727,729, and net income of \$28,297,996. The corporation paid \$3,894,366 in dividends to its stockholder in 2003.

Maine Partners Health Plan, Inc.

Maine Partners Health Plan, Inc. was incorporated in Maine on May 31, 1996, and commenced business on January 1, 1998. It operates and is licensed as a health maintenance organization only in Maine. As of December 31, 2003, Maine Partners Health Plan, Inc.'s statutory financial statements indicated assets of \$53,818,039, liabilities of \$32,482,105, capital and surplus of \$21,335,934, and net income of \$9,442,414. The corporation paid no dividends to its stockholder in 2003.

Matthew Thornton Health Plan, Inc.

Matthew Thornton Health Plan, Inc. was incorporated in New Hampshire on May 15, 1971, and commenced business on November 1, 1971. It operates and is licensed as a health maintenance organization only in New Hampshire. As of December 31, 2003, Matthew Thornton Health Plan, Inc.'s statutory financial statements indicated assets of \$198,099,223, liabilities of \$84,980,723, capital and surplus of \$113,118,500, and net income of \$27,857,719. The corporation paid \$9,000,000 in dividends to its stockholder in 2003.

OneNation Insurance Company

OneNation Insurance Company was incorporated in Indiana on November 5, 1974, and commenced business on March 3, 1975. It is licensed in the District of Columbia, U.S. Virgin Islands, and all U.S. states, except New York. As of December 31, 2003, OneNation Insurance Company's statutory financial statements indicated assets of \$94,310,365, liabilities of \$25,836,645, policyholders' surplus of \$68,473,720, and net income of \$(835,786). The corporation paid \$4,000,000 in dividends to its stockholder in 2003.

Peninsula Health Care, Inc.

Peninsula Health Care, Inc. was incorporated in Virginia on January 7, 1993, and commenced business on February 1, 1994. It operates and is licensed as a health maintenance organization only in Virginia. As of December 31, 2003, Peninsula Health Care, Inc.'s statutory financial statements indicated assets of \$54,511,244, liabilities of \$23,012,781, capital and surplus of \$31,498,463, and net income of \$9,704,522. The corporation paid \$12,000,000 in dividends to its stockholder in 2003.

Priority Healthcare, Inc.

Priority Healthcare, Inc. was incorporated in Virginia on July 5, 1983, and commenced business on May 1, 1984. It operates and is licensed as a health maintenance organization only in

Virginia. As of December 31, 2003, Priority Healthcare, Inc.'s statutory financial statements indicated assets of \$71,515,303, liabilities of \$28,721,394, policyholders' surplus of \$42,793,909, and net income of \$9,571,651. Policyholders' surplus includes surplus notes in the amount of \$10,697,153. The corporation paid \$3,649,215 in dividends to its stockholder in 2003.

#### Rocky Mountain Hospital and Medical Service, Inc.

Rocky Mountain Hospital and Medical Service, Inc. commenced business in Colorado on October 1, 1938, and subsequently was incorporated on January 1, 1978. It operates and is licensed only in Colorado and Nevada and it holds a license for the right to use the Blue Cross name and related service marks in both states. As of December 31, 2003, Rocky Mountain Hospital and Medical Service, Inc.'s statutory financial statements indicated assets of \$416,091,838, liabilities of \$236,280,046, policyholders' surplus of \$179,811,792, and net income of \$64,862,812. The corporation paid \$3,336,277 in dividends to its stockholder in 2003.

#### Trigon Health and Life Insurance Company

Trigon Health and Life Insurance Company was incorporated in Virginia on December 8, 1954, and commenced business on January 1, 1955. It is licensed in the District of Columbia and 46 U.S. states. As of December 31, 2003, Trigon Health and Life Insurance Company's statutory financial statements indicated assets of \$13,989,446, liabilities of \$1,526,613, policyholders' surplus of \$12,462,833, and net income of \$569,335. The corporation paid \$1,050,316 in dividends to its stockholder in 2003.

The holding company system led by WellPoint Health Networks Inc. (hereinafter also, "WellPoint Group") includes the following twenty-seven insurers domiciled throughout the United States and its territories:

1. Blue Cross of California (California; No NAIC number)
2. BC Life & Health Insurance Company (California; NAIC #62825)
3. Blue Cross Blue Shield Healthcare Plan of Georgia, Inc. (Georgia; NAIC #96962)
4. Blue Cross and Blue Shield of Georgia, Inc. (Georgia; NAIC #54801)
5. Blue Cross Blue Shield of Wisconsin (NAIC #54003)
6. CompCare Health Services Insurance Corporation (NAIC #95693)
7. Golden West Health Plan, Inc. (California; No NAIC number; FEIN 95-2907752)
8. Greater Georgia Life Insurance Company (Georgia; NAIC #97217)
9. Healthy Alliance Life Insurance Company (Missouri; NAIC #78972)
10. HealthLink HMO, Inc. (Missouri; NAIC #96475)
11. HMO Missouri, Inc. (Missouri; NAIC #95358)
12. National Capital Health Plan, Inc. (Virginia; No NAIC number)
13. RightCHOICE Insurance Company (Illinois; NAIC #83640)
14. UNICARE Life & Health Insurance Company (Delaware; NAIC #80314)
15. UNICARE Health Plan of Oklahoma, Inc. (Oklahoma; NAIC #52616)
16. UNICARE of Texas Health Plans, Inc. (Texas; NAIC #95296)
17. UNICARE Health Plans of the Midwest, Inc. (Illinois; NAIC #95505)
18. UNICARE Health Insurance Company of the Midwest (Illinois; NAIC #70700)
19. UNICARE Health Plan of Virginia, Inc. (Virginia; NAIC #11170)
20. UNICARE Health Plans of Texas, Inc. (Texas; NAIC #95420)

21. UNICARE Health Insurance Company of Texas, Inc. (Texas; NAIC #10076)
22. UNICARE Health Plan of West Virginia, Inc. (West Virginia; 11810)
23. United Heartland Life Insurance Company (NAIC #83500)
24. United Wisconsin Insurance Company (NAIC #29157)
25. Unity Health Plans Insurance Corporation (NAIC #95796)
26. Valley Health Plan, Inc. (NAIC #95261)

Of the foregoing companies in the WellPoint Group that are not domiciled in Wisconsin, only two, UNICARE Life & Health Insurance Company and Healthy Alliance Life Insurance Company, are licensed in Wisconsin. Of these two, only UNICARE Life & Health Insurance Company has written any business in Wisconsin during 2003. None of the insurers in the WellPoint Group wrote any business in Wisconsin on a surplus lines basis.

Each of the foregoing insurers in the WellPoint Group is described as follows:

#### Blue Cross of California

Blue Cross of California was incorporated on June 8, 1982, and commenced business on July 1, 1982. It is one of California's largest managed health care companies and, together with its affiliate BC Life & Health Insurance Company, holds the exclusive license for the right to use the Blue Cross name and related service marks in California. Blue Cross of California provides a comprehensive array of managed health plans to the large employer, small employer, individual and senior markets. As of December 31, 2003, Blue Cross of California's statutory financial statements indicated assets of \$4,994,568,000, liabilities of \$3,691,353,000, capital and surplus of \$1,303,215,000, and net income of \$459,320,000. The company paid \$300,000,000 in dividends to its stockholder in 2003.

#### BC Life & Health Insurance Company

BC Life & Health Insurance Company was incorporated in California as "WellPoint Life Insurance Company" on May 29, 1991, and commenced business on August 2, 1991. The present name was adopted during 1996. BC Life & Health Insurance Company's activities have been concentrated in writing group life and group accident and health plans in conjunction with policies issued by Blue Cross of California. Products include coverages that cannot legally be written by Blue Cross of California. BC Life & Health Insurance Company offers life insurance, traditional medical and dental indemnity and limited benefit PPO coverage and provides administrative services to large employer groups that maintain self-funded health plans. The company is licensed only in California and its direct writings in 2003 were limited to that state. As of December 31, 2003, BC Life & Health Insurance Company's statutory financial statements indicated assets of \$757,862,962, liabilities of \$337,893,015, capital and surplus of \$419,969,947, and net income of \$233,135,527. The corporation paid \$90,000,000 in dividends to its stockholder in 2003.

#### Blue Cross and Blue Shield Healthcare Plan of Georgia, Inc.

Blue Cross and Blue Shield Healthcare Plan of Georgia, Inc. is a health maintenance organization that was incorporated on August 25, 1985, and commenced business on September 1, 1986. The corporation is licensed and writes business only in Georgia. As of December 31, 2003, Blue Cross and Blue Shield Healthcare Plan of Georgia, Inc.'s statutory



financial statements indicated assets of \$279,271,739, liabilities of \$155,094,536, capital and surplus of \$124,177,203, and net income of \$38,951,831. The corporation paid no dividends to its stockholder in 2003.

#### Blue Cross and Blue Shield of Georgia, Inc.

Blue Cross and Blue Shield of Georgia, Inc. was incorporated in Georgia on May 1, 1937, and commenced business on November 1, 1937. Blue Cross and Blue Shield of Georgia, Inc. is licensed and writes business only in Georgia. The corporation has four major product lines, which consist of indemnity, preferred-provider organization, point of service, and health maintenance organization. As of December 31, 2003, Blue Cross and Blue Shield of Georgia, Inc.'s statutory financial statements indicated assets of \$942,652,259, liabilities of \$590,309,020, capital and surplus of \$352,343,239, and net income of \$108,747,533. The corporation paid \$90,000,000 in dividends to its stockholder in 2003.

#### Blue Cross Blue Shield of Wisconsin

Blue Cross Blue Shield of Wisconsin (hereinafter also, "BCBSW") was a nonprofit, service insurance corporation, originally incorporated on October 19, 1939, and originally organized pursuant to ch. 613, Wis. Stats. In June 1999, the BCBSW Board of Directors announced its intention to convert BCBSW from a nonprofit service insurance corporation to a stock corporation. An application for a Plan of Conversion was filed with the OCI on June 14, 1999. On March 28, 2000, the OCI approved a plan of conversion subject to a detailed list of conditions. On March 19, 2001, the OCI recognized BCBSW's application as complete and the conversion was approved in accordance with the Order of March 28, 2000. Effective March 23, 2001, BCBSW converted to a stock insurance corporation and organized pursuant to ch. 611, Wis. Stats. In addition to the conversion, BCBSW became a wholly owned subsidiary of Cobalt Corporation through a combination of BCBSW and Cobalt Corporation on March 23, 2001.

As of December 31, 2003, BCBSW's statutory financial statements indicated assets of \$301,511,444, liabilities of \$143,798,178, capital and surplus of \$157,713,266, and net income of \$42,998,551. The corporation paid \$15,000,000 in dividends to its stockholder in 2003.

#### Compcare Health Services Insurance Corporation

Compcare Health Services Insurance Corporation (hereinafter also, "Compcare") is a Wisconsin stock insurance corporation that was incorporated on January 1, 1984, under the provisions of ch. 611, Wis. Stats. It operates as a health maintenance organization in Wisconsin. As of December 31, 2003, Compcare's statutory financial statements indicated assets of \$156,887,795, liabilities of \$73,167,075, capital and surplus of \$83,720,720, and net income of \$13,955,263. The corporation paid no dividends to its stockholder in 2003.

#### Golden West Health Plan, Inc.

Golden West Health Plan, Inc. is a California-domiciled health plan incorporated on April 11, 1974. It provides dental and vision coverage to residents of California. As of December 31, 2003, Golden West Health Plan, Inc.'s statutory financial statements indicated assets of \$5,944,912, liabilities of 4,961,768, net worth of \$983,144, and a net loss of \$(1,515,311). The company paid no dividends to its shareholder in 2003.

### Greater Georgia Life Insurance Company

Greater Georgia Life Insurance Company was incorporated in Georgia on November 16, 1981, and commenced business on May 6, 1982. It is licensed in seven states in the southeastern United States, but writes most of its business in Georgia. The corporation offers group life coverage on a yearly renewable term basis, with weekly income, long-term disability, and dependent life insurance available if the latter options are selected by the employer. Greater Georgia Life Insurance Company also offers a range of individual whole life and term policies. As of December 31, 2003, Greater Georgia Life Insurance Company's statutory financial statements indicated assets of \$42,568,618, liabilities of \$16,804,670, capital and surplus of \$25,763,948, and net income of \$5,047,279. The corporation paid \$2,500,000 in dividends to its stockholder in 2003.

### Healthy Alliance Life Insurance Company

Healthy Alliance Life Insurance Company had its origins in an insurance corporation of the same name established in Arizona on April 19, 1971, and which commenced business on June 9, 1971. In 1993, this Arizona predecessor was merged with and into American Transcontinental Life Insurance Company, which then changed its name to that currently used. Although American Transcontinental Life Insurance Company changed its name, it retained its Missouri domicile. It is licensed in the District of Columbia and 35 states, including Wisconsin. Healthy Alliance Life Insurance Company offers a portfolio of life and disability products, including group term life with accidental death and dismemberment, dependent term life, short and long-term disability, and voluntary coverages in excess of what employers might choose to provide as a paid benefit. Healthy Alliance Life Insurance Company, together with its affiliate HMO Missouri, Inc., holds the exclusive right to use the Blue Cross and Blue Shield names and marks in certain counties in Missouri, including the greater St. Louis area. As of December 31, 2003, Healthy Alliance Life Insurance Company's statutory financial statements indicated assets of \$533,878,881, liabilities of \$337,237,973, capital and surplus of \$196,640,908, and net income of \$69,250,354. The corporation paid \$15,000,000 in dividends to its stockholder in 2003.

### HealthLink HMO, Inc.

HealthLink HMO, Inc. is a health maintenance organization incorporated in Missouri on July 29, 1992, and which commenced business on January 14, 1993. It is licensed in Missouri, Illinois, and Arkansas. Service areas in Missouri are areas in which its affiliated Blue branded HMO is not available. As of December 31, 2003, HealthLink HMO, Inc.'s statutory financial statements indicated assets of \$26,709,124, liabilities of \$575,757, capital and surplus of \$26,133,366, and net income of \$7,425,274. The corporation paid \$4,000,000 in dividends to its stockholder in 2003.

### HMO Missouri, Inc.

HMO Missouri, Inc. is a health maintenance organization incorporated in Missouri on May 28, 1987, and which commenced business on December 2, 1987. It utilizes the Blue brands in certain counties in Missouri. It is licensed in Missouri and Illinois, but wrote no business in the latter state in 2002. As of December 31, 2003, HMO Missouri, Inc.'s statutory financial statements indicated assets of \$90,486,004, liabilities of \$48,101,354, capital and surplus of

\$42,384,650, and net income of \$14,964,235. Surplus includes \$36,990,255 in surplus notes. The corporation paid no dividends to its stockholder in 2003.

#### RightCHOICE Insurance Company

RightCHOICE Insurance Company was incorporated in Illinois on December 22, 1986, and commenced business on December 1, 1997. RightCHOICE Insurance Company offers fully insured PPO coverage in central and southern Illinois and is not licensed or active in any other state. Distribution is through in-house licensed enrollment representatives and independent brokers. Only fully insured products are made available to groups of fewer than 99 employees. Groups of between 100 and 500 employees have access to fully insured, minimum premium and self-funded products. Marketing to groups of 500 or more employees is focused on self-funded arrangements. As of December 31, 2003, RightCHOICE Insurance Company's statutory financial statements indicated assets of \$10,122,218, liabilities of \$2,019,252, capital and surplus of \$8,102,967, and net income of \$1,739,414. Surplus includes \$11,000,000 in surplus notes. The corporation paid no dividends to its stockholder in 2003.

#### UNICARE Life & Health Insurance Company

UNICARE Life & Health Insurance Company was incorporated in Delaware as the Bay Colony Life Insurance Company of Delaware on June 11, 1971. During 1979, the corporation's name was changed to MML Pension Insurance Company, and it commenced business on December 16, 1980. In March 1996, the title was changed to MIRUS Insurance Company. Until the corporation was acquired by WellPoint Health Networks Inc., it had served as the group life and health operation for Massachusetts Mutual Life Insurance Company. Later in 1996, after WellPoint acquired the corporation, the title was changed to that currently used and UNICARE became the brand name for most of WellPoint's non-Blue branded businesses operated outside California. In 1996, WellPoint acquired the life and health benefits management division from Massachusetts Mutual Life Insurance Company and placed the acquired business with UNICARE Life & Health Insurance Company. In 1997, certain portions of the health and related life group benefit operations of John Hancock Mutual Life Insurance Company were acquired for management under the UNICARE brand. As of December 31, 2003, UNICARE Life & Health Insurance Company's statutory financial statements indicated assets of \$1,295,802,501, liabilities of \$1,002,873,999, capital and surplus of \$292,928,502, and net income of \$39,800,684. The corporation paid no dividends to its stockholder in 2003.

#### UNICARE Health Plan of Oklahoma, Inc.

UNICARE Health Plan of Oklahoma, Inc. was incorporated in Oklahoma on February 3, 2000, and commenced business on July 1, 2000. It is licensed in Oklahoma only and its business consisted exclusively of Medicaid Title XIX business written in that state. As of December 31, 2003, UNICARE Health Plan of Oklahoma, Inc.'s statutory financial statements indicated assets of \$36,085,371, liabilities of \$33,115,219, capital and surplus of \$2,970,151, and a net loss of \$(2,553,156). The corporation paid no dividends to its stockholder in 2003.

#### UNICARE of Texas Health Plans, Inc.

UNICARE of Texas Health Plans, Inc. was incorporated in Texas on October 12, 1993, under the name "Affiliated Health Plans, Inc." and commenced business on December 18, 1995. On

February 15, 1996, the corporation received approval to move its books and records from Texas. On December 29, 1999, the corporation's liabilities were assumed by UNICARE Life & Health Insurance Company and the corporation's certificate of authority was cancelled.

#### UNICARE Health Plans of the Midwest, Inc.

UNICARE Health Plans of the Midwest, Inc. was incorporated in Illinois as Rush Prudential HMO, Inc. on July 19, 1993, and commenced business on August 1, 1993. UNICARE Health Plans of the Midwest, Inc. is a licensed, for-profit health maintenance organization, providing defined health care benefits to employer groups, individuals, and Medicare subscribers. The corporation contracts with independent health care providers on either a capitated or fee-for-service basis. As of December 31, 2003, UNICARE Health Plans of the Midwest, Inc.'s statutory financial statements indicated assets of \$152,094,324, liabilities of \$113,032,056, capital and surplus of \$39,062,268, and net income of \$2,000,000. The corporation paid no dividends to its stockholder in 2003.

#### UNICARE Health Insurance Company of the Midwest

UNICARE Health Insurance Company of the Midwest was incorporated in Illinois under the title, "Rush Prudential Insurance Company", on June 26, 1982, and commenced business after a long delay on August 31, 1993. UNICARE Health Insurance Company of the Midwest is a for-profit life, accident and health insurance company that offers primarily point of service and preferred provider organization health coverage. Its business is located primarily in the greater Chicago area, with a small enrollment base in Indiana. UNICARE Health Insurance Company of the Midwest's statutory financial statements as of December 31, 2003, indicated assets of \$105,406,387, liabilities of \$82,096,746, capital and surplus of \$23,309,641, and net income of \$2,000,000. The corporation paid no dividends to its stockholder in 2003.

#### National Capital Health Plan, Inc.

National Capital Health Plan, Inc. was incorporated in Virginia on March 13, 1995, and received its certificate of authority on the same date. Its certificate of authority was voluntarily withdrawn on July 20, 2000.

#### UNICARE Health Plan of Virginia, Inc.

UNICARE Health Plan of Virginia, Inc. was incorporated in Virginia on March 15, 2001, and commenced business on December 1, 2001. It is licensed and writes business only in Virginia. As of December 31, 2003, UNICARE Health Plan of Virginia, Inc.'s statutory financial statements indicated assets of \$27,960,324, liabilities of \$19,276,680, capital and surplus of \$8,683,644, and net income of \$(664,813). The corporation paid no dividends to its stockholder in 2003.

#### UNICARE Health Plans of Texas, Inc.

UNICARE Health Plans of Texas, Inc. was incorporated in Texas as a health maintenance organization on January 12, 1996, and commenced business on August 29, 1996. It writes business only in Texas. UNICARE Health Plans of Texas, Inc.'s statutory financial statements

indicated assets of \$47,628,742, liabilities of \$20,214,817, capital and surplus of \$27,413,925, and net income of \$(4,115,352). The corporation paid no dividends to its stockholder in 2002.

#### UNICARE Health Insurance Company of Texas, Inc.

UNICARE Health Insurance Company of Texas, Inc. was incorporated in Texas on December 21, 2000, and commenced business on January 2, 2001. It writes business only in Texas. As of December 31, 2003, UNICARE Health Insurance Company of Texas, Inc.'s statutory financial statements indicated assets of \$10,729,164, liabilities of \$4,825,331, capital and surplus of \$5,903,833, and net income of \$226,684. The corporation paid no dividends to its stockholder in 2003.

#### UNICARE Health Plan of West Virginia, Inc.

UNICARE Health Plan of West Virginia, Inc. was incorporated as a health maintenance organization in West Virginia on June 13, 2003 and commenced business on November 1, 2003. It operates only in West Virginia. As of December 31, 2003, UNICARE Health Plan of West Virginia, Inc.'s statutory financial statements indicated assets of \$5,672,362, liabilities of \$1,034,111, capital and surplus of \$4,638,252, and a net loss of \$(357,981). The corporation paid no dividends to its stockholder in 2003.

#### United Heartland Life Insurance Company

United Heartland Life Insurance Company is a stock insurance company, was originally incorporated as National Benefit Life Assurance Company on August 23, 1990, in the State of Ohio. On March 1, 1993, the insurance company was acquired by a subsidiary of American Medical Security Holdings, Inc. ("AMS"). During 1996, United Wisconsin Services, Inc., the predecessor-in-interest to Cobalt Corporation, merged with AMS, and thereby obtained ownership of National Benefit Life Assurance Company. Effective January 1, 1997, the company redomiciled from Ohio to Wisconsin, organized pursuant to ch. 611, Wis. Stats., and changed its name to United Heartland Life Insurance Company. As a wholly owned subsidiary of Cobalt Corporation, United Heartland Life Insurance Company provides group term life, individual whole life, and group accidental death and dismemberment coverages. It is licensed in ten states. As of December 31, 2003, United Heartland Life Insurance Company's statutory financial statements indicated assets of \$45,994,456, liabilities of \$32,329,159, capital and surplus of \$13,665,297, and net income of \$967,444. The company paid no dividends to its stockholder in 2003.

#### United Wisconsin Insurance Company

United Wisconsin Insurance Company is a Wisconsin stock insurance corporation, originally incorporated on September 11, 1957, and organized pursuant to ch. 611, Wis. Stats. United Wisconsin Insurance Company, a wholly owned subsidiary of CompCare, has established, maintained, and operated accident, sickness, long-term disability, and other health care insurance plans. It is licensed in 36 states and the District of Columbia. As of December 31, 2003, United Wisconsin Insurance Company's statutory financial statements indicated assets of \$113,908,309, liabilities of \$62,437,454, capital and surplus of \$51,470,855, and net income of \$5,081,737. The corporation paid no dividends to its stockholder in 2003.

### Unity Health Plans Insurance Corporation

Unity Health Plans Insurance Corporation (hereinafter also, "Unity") is a Wisconsin stock insurance corporation incorporated on October 31, 1983, and organized pursuant to ch. 611, Wis. Stats. It operates as a health maintenance organization in the state of Wisconsin. As of December 31, 2003, Unity's statutory financial statements indicated assets of \$56,423,849, liabilities of \$30,916,880, capital and surplus of \$25,506,969, and net income of \$9,421,099. The corporation paid no dividends to its stockholder in 2003.

### Valley Health Plan, Inc.

Valley Health Plan, Inc. is a Wisconsin stock insurance corporation incorporated on June 1, 1988, and organized pursuant to ch. 611, Wis. Stats. It operates as a health maintenance organization in Wisconsin. As of December 31, 2003, Valley Health Plan's statutory financial statements indicated assets of \$21,943,512, liabilities of \$12,673,298, capital and surplus of \$9,270,214, and net income of \$294,069. The corporation paid no dividends to its stockholder in 2003.

## **THE KEY CONTRACTS**

The following are the principal contracts that allow one to form an understanding of the proposed plan of acquisition:

1. Amended and Restated Agreement and Plan of Merger effective as of October 26, 2003 among Anthem, Inc., Anthem Holding Corp., and WellPoint Health Networks Inc., (hereinafter also, "Merger Agreement")
2. Commitment Letter dated October 17, 2003, by Anthem, Inc., Banc of America Bridge LLC and Banc of America Securities LLC (hereinafter also, "Commitment Letter")

### Merger Agreement

There is an Amended and Restated Agreement and Plan of Merger effective as of October 26, 2003 among Anthem, Inc., Anthem Holding Corp., and WellPoint Health Networks Inc. Under this agreement, WellPoint Health Networks Inc. shall be merged with and into Anthem Holdings Corp., with the latter surviving. All of the debts, liabilities, and duties of both WellPoint Health Networks Inc. and Anthem Holdings Corp. shall survive the merger. Under the terms of the Merger Agreement, an Indiana single-member limited liability company owned by Anthem and disregarded as a separate entity for federal income tax purposes may be substituted for Anthem Holding Corp.

The consideration to be paid to the shareholders of WellPoint is as described in the section of this memorandum captioned "Description of the Transaction – Overview". Each share of WellPoint common stock issued and outstanding, other than shares held by Anthem and WellPoint and their respective subsidiaries, will be converted into the right to receive (i) \$23.80 in cash and (ii) one share of Anthem common stock. Each share of common stock held by WellPoint and WellPoint's subsidiaries will be converted into the right to receive (i) one share of Anthem common stock plus (ii) a fraction the numerator of which is 23.80 and the denominator of which is the closing trading price of Anthem common stock on the New York Stock Exchange,

as reported in the Eastern Edition of the Wall Street Journal on the business day immediately prior to the day the merger closes.

The merger is to close not later than the second business day following satisfaction or waiver of all contractual conditions. The closing is to be held at the offices of Baker & Daniels in Indianapolis unless otherwise agreed by the parties.

The Merger Agreement may be terminated under any of the following circumstances, among others specified in the Agreement:

1. Mutual written agreement of the parties.
2. The merger is not consummated by November 30, 2004.
3. Disapproval by a governmental entity of competent jurisdiction.
4. The shareholders of either Anthem or WellPoint disapprove the transaction.
5. WellPoint may terminate the contract if Anthem or Anthem Holdings fails to perform any representation or warranty in a manner that that prevents the conditions to the completion of the transaction from being satisfied.
6. Anthem may terminate the contract if WellPoint fails to perform any representation or warranty in a manner that that prevents the conditions to the completion of the transaction from being satisfied.

In the event of termination, neither party shall be relieved of or released from any liabilities or damages arising out of its willful breach of any provision of the Merger Agreement.

Under certain circumstances, the agreement requires either Anthem or WellPoint to pay the other a termination fee of \$550,000,000.

This agreement is governed under the laws of New York, except that the provisions of the Delaware General Corporation Law and Indiana Business Corporation Law shall govern the merger.

#### Commitment Letter

Anthem entered into a commitment letter dated October 17, 2003, with Banc of America Bridge LLC and Banc of America Securities LLC for a bridge loan agreement under which it may borrow up to \$3 billion to finance the cash consideration for the merger with WellPoint Health Networks Inc., to refinance certain existing indebtedness and to pay expenses of the merger and related transactions. Interest under the bridge loan will be payable quarterly in arrears at a rate per annum equal to the respective rates for base rate borrowings or Eurodollar borrowings plus an applicable margin per annum. The applicable margin for the bridge loans will range from 42.5 basis points to 112.5 basis points based upon the Standard & Poor's and Moody's debt ratings for Anthem, with the higher debt rating resulting in a lower applicable margin per annum. All indebtedness under the bridge loan must be repaid in full upon the earlier of 270 days from the closing date or March 31, 2005.

## **OBSERVATIONS BASED ON REVIEW OF DOCUMENTS AND ON INQUIRIES**

### Format and Informational Sufficiency of the Form A

The Form A filing was prepared in a format that complies with s. Ins 40.02, Wis. Adm. Code. The information contained in the filing and in the supplementary information obtained by OCI in connection with review of this filing is sufficient for OCI to make a decision concerning the proposed plan.

### Legality and Fairness of the Proposed Plan

My review of the Form A included a review of the following agreements:

1. Amended and Restated Agreement and Plan of Merger effective as of October 26, 2003 among Anthem, Inc., Anthem Holding Corp., and WellPoint Health Networks Inc., (hereinafter also, "Merger Agreement")
2. Commitment Letter dated October 17, 2003, by Anthem, Inc., Banc of America Bridge LLC and Banc of America Securities LLC (hereinafter also, "Commitment Letter")

My review of these agreements is evidenced by the summaries presented earlier in this memorandum.

This review of the Form A and the component agreements of the proposed plan, with due consideration to supplementary information filed in response to examiner inquiries, discloses no basis for denial of the application on a point of law.

I can find no basis on which the proposed acquisition, as disclosed in the Form A and its supplementary filings, should not be regarded as reasonable and fair to each participating insurer and to each participating insurer's policyholders, within the scope of Wisconsin's regulatory concern.

### Satisfaction of Licensing Requirements Maintained

Of the insurers that may be regarded as a party to the plan for the acquisition of control of WellPoint's subsidiaries, the following are licensed in Wisconsin:

1. Anthem Insurance Companies, Inc. (Indiana; NAIC #28207)
2. Anthem Life Insurance Company (Indiana; NAIC #61069)
3. Blue Cross & Blue Shield United of Wisconsin (Wisconsin; NAIC #54003)
4. CompCare Health Services Insurance Corporation (Wisconsin; NAIC #95693)
5. Healthy Alliance Life Insurance Company (Missouri; NAIC #78972)
6. OneNation Insurance Company (formerly, Anthem Alliance Health Insurance Company) (Texas; NAIC #85286)
7. Trigon Health and Life Insurance Company (Virginia; NAIC #71768)
8. UNICARE Life & Health Insurance Company (Delaware; NAIC #80314)
9. United Heartland Life Insurance Company (Wisconsin; NAIC #83500)
10. United Wisconsin Insurance Company (Wisconsin; NAIC #29157)
11. Unity Health Plans Insurance Corporation (Wisconsin; NAIC #95796)



12. Valley Health Plan, Inc. (Wisconsin; NAIC #95261)

Execution of the transactions disclosed in the Form A according to the plan indicated would have no effect on the ability of any domestic or nondomestic insurer that may be regarded as party to the proposed plan to maintain their existing licenses to write the lines of insurance for which they are presently licensed.

Effect on Competition within the Wisconsin Insurance Marketplace

I prepared a study of premium volume for every line of business written in Wisconsin by insurers that may be regarded as participating in the transactions proposed by the Form A in order to evaluate whether or not the proposed transaction is anti-competitive. This study, based on calendar year 2003, included the premium volume of the members of the Anthem Group, the WellPoint Group, and the combined groups.

In 2003, direct premium volume for all categories of business for which data is available was as follows:

<b>Type of Insurer</b>	<b>Direct Premiums Written</b>
Life and Health Companies	\$11,262,380,085
Property and Casualty Companies	7,397,437,534
Health Maintenance Organizations	4,324,943,329
Blue Plan	648,367,869
Fraternal Benefit Societies	710,493,676
Hospital, Medical & Dental Indemnity Companies	389,243,282
Title Insurers	175,962,747
Limited Service Health Organizations	Not Yet Available
Miscellaneous*	Not Available
Surplus Lines Insurers	<u>208,389,043</u>
Total	<u>\$25,117,217,565</u>

\* Miscellaneous insurers consist of gift annuity corporations, warranty plans, motor clubs, viatical settlement companies, and continuing care retirement communities.

# Two limited service health organizations received extensions until March 31, 2004 to file their 2003 annual statements, thereby resulting in incomplete data for this category of insurers.

Both the Anthem Group and the WellPoint Group have affiliates that engage in both the life and accident and health business and the property and casualty business. However, the Anthem Group did not write any property and casualty business in Wisconsin in 2003, so the proposed transaction will not result in any greater concentration in the property and casualty insurance market in this state. United Wisconsin Insurance Company was the only member of the WellPoint Group to write property and casualty business in Wisconsin during 2003. In addition to the accident and health business that will be described later in this section of this memorandum, United Wisconsin Insurance Company wrote \$43,577,010 in workers'

compensation premium in Wisconsin, representing 3.024% of the \$1,441,190,984 in total workers' compensation premium written in Wisconsin by all carriers during 2003.

Within the Anthem Group, only Anthem Life Insurance Company wrote life insurance business in Wisconsin during 2003, with direct premiums written of \$15,952. Within the WellPoint Group, only UNICARE Life & Health Insurance Company wrote life insurance business in Wisconsin during 2003, with direct premiums written of \$1,325,902. Accordingly, it is evident that the proposed transaction will not result in any lessening of competition within Wisconsin's life insurance market.

The WellPoint Group has the largest market share of Wisconsin's accident and health insurance market of any insurance holding company system operating in the state.

*Volume of Direct A&H Premiums Written in Wisconsin*

The distribution of accident and health insurance premiums in 2003 was as follows:

<b>Type of Insurer</b>	<b>Direct Premiums Written</b>
Health Maintenance Organizations	\$4,324,943,329
Life and Health Companies	2,810,529,836
Blue Plan	648,367,869
Hospital, Medical & Dental Indemnity Companies	389,243,282
Property and Casualty Companies:	
13 – Group Accident and Health	125,672,509
14 – Credit Accident and Health	11,711,511
15.1 – Collectively Renewable A&H	144
15.2 – Non-Cancelable A&H	8,121
15.3 – Guaranteed Renewable A&H	51,814,097
15.4 – Non-Renewable for Stated Reasons Only	40,894,603
15.5 – Other Accident Only	1,530,350
15.6 – All Other A&H	3,218,384
15.7 – Federal Employees Health Benefits Program	<u>0</u>
Subtotal – P&C A&H Premiums	269,075,766
Fraternal Benefit Societies	41,059,882
Limited Service Health Organizations	<u>Not Yet Available</u>
<b>Total</b>	<b><u>\$8,448,993,917</u></b>

*Volume of Direct A&H Premiums Written in Wisconsin by the Anthem and WellPoint Groups*

Relevant market share information for the Anthem Group in 2003 was as follows:

<b>Anthem Group</b>	<b>DPW in WI</b>	<b>Market Share</b>
Anthem Life Insurance Company	\$1,850	0.000%
Anthem Insurance Companies, Inc.	0	0.000%

OneNation Insurance Company	0	0.000%
Trigon Health and Life Insurance Company	0	0.000%
Total Anthem Market Share	\$1,850	0.000%

Relevant market share information for the WellPoint Group in 2003 was as follows:

<b>WellPoint Group</b>	<b>DPW in WI</b>	<b>Market Share</b>
Blue Cross & Blue Shield United of WI	\$648,367,869	7.674%
Compcare Health Services Insurance Corp.	386,403,379	4.573%
Unity Health Plans Insurance Corp.	232,831,714	2.756%
Valley Health Plan, Inc.	81,943,980	0.970%
United Wisconsin Insurance Company	28,746,885	0.340%
UNICARE Life & Health Insurance Co.	11,357,190	0.134%
Healthy Alliance Life Insurance Company	0	0.000%
United Heartland Life Insurance Company	<u>0</u>	<u>0.000%</u>
Total WellPoint Market Share	\$1,389,651,017	16.447%
Combined Groups Market Share	\$1,389,652,867	16.447%
Estimated Total A&H Business in Wisconsin	\$8,448,993,917	100.000%

This analysis of accident and health market share is qualified by a lack of information on the volume and distribution of premium equivalents under administrative services only programs. There is also a lack of information on the volume and distribution of the various distinct products offered within Wisconsin's accident and health insurance marketplace. For example, a hospitalization indemnity policy with a fixed-dollar daily benefit is not the equivalent of the coverage available with membership in a health maintenance organization.

On the basis of the study performed, it does not appear that the effect of this transaction will be to create a monopoly or substantially to lessen competition in any type or line of insurance business in Wisconsin.

#### Future Plans After the Change in Control

No reorganization of the succession of control or ownership of WellPoint's Wisconsin-domiciled insurance subsidiaries is currently contemplated following Anthem's proposed acquisition of control.

Anthem has represented that it has no current plans to reduce or terminate any insurance program or service of WellPoint's Wisconsin-domiciled insurance subsidiaries. Anthem asserted that health care is a local activity and it intends to be responsive to local market conditions and customer preferences in its benefit designs. Anthem asserted that it intends to continue WellPoint's approach to its relationships with Wisconsin health care providers, including maintaining broad provider networks to ensure customer choice. There are no current plans to make changes to marketing practices or distribution channels in Wisconsin.

Anthem and WellPoint have yet to finalize their plans with respect to service, management, cost allocation, and other written agreements among members of the combined holding company system. It is expected that, over time, WellPoint's Wisconsin-domiciled insurance subsidiaries will become parties to one or more of Anthem Group's intercompany agreements, which will be filed with the OCI on Form D as required.

Anthem has represented that it has no current plans to make material changes to WellPoint's Wisconsin-domiciled insurance subsidiaries' officers or directors.

There are no current plans or intentions to change the overall level of employment in Wisconsin following the change in control. It is Anthem's intention to increase market share in Wisconsin through new product offerings in the individual and small employer market. Blue Cross Blue Shield of Wisconsin will continue to be headquartered in Wisconsin. Milwaukee will be the headquarters for United Government Service's Medicare Part A claims processing business. Overall employment levels in Wisconsin will depend on the success of Anthem's business operations following the change in control. It is not expected that the employees of Crossroads Acquisition Corporation and its subsidiaries will be transferred to become employees of Anthem or any existing Anthem subsidiary.

Although Anthem expects to borrow approximately \$3.2 billion to finance the merger, no assets of Anthem or any of its subsidiaries have been or will be pledged to secure any debt that will be incurred in connection with the merger.

It is anticipated that historical practices regarding charitable contributions and commitment to community outreach in Wisconsin will be continued following the transaction. These contributions and commitments will be made, among other channels, through the Cobalt Corporation Foundation.

#### Financial Soundness of Prospective Affiliates

Anthem, Inc. and WellPoint Health Networks Inc. are both among the nation's largest publicly traded managed health care companies. Through their respective subsidiaries, both offer a broad spectrum of network-based managed care plans to the large and small employer, individual, Medicaid and senior markets. Their managed care plans include preferred provider organizations, health maintenance organizations, point of service and other hybrid plans and traditional indemnity plans. In addition, both offer managed care services, including underwriting, actuarial services, network access, medical management, and claims processing. Both also provide a wide array of specialty and other products, including pharmacy, dental, vision, life insurance, preventive care, disability insurance, behavioral health, COBRA and flexible benefits account administration. On a consolidated basis as of December 31, 2003, Anthem reported assets of \$13,438,600,000, liabilities of \$7,438,700,000, total stockholders' equity of \$5,999,900,000, and net income of \$774,300,000 on total revenues of \$16,771,400,000. On a consolidated basis as of December 31, 2003, WellPoint reported assets of \$14,788,678,000, liabilities of \$9,358,729,000, total stockholders' equity of \$5,429,949,000, and net income of \$935,229,000 on total revenues of \$18,714,130,000.

Financial benchmark data for the insurance subsidiaries in the Anthem Group are as follows:

	A.M. Best Rating	RBC Ratio
Anthem Insurance Companies, Inc.	A	616%
Anthem Health Plans, Inc.	A	386%
Anthem Health Plans of Kentucky, Inc.	A	686%
Anthem Health Plans of Maine, Inc.	A	544%
Anthem Health Plans of New Hampshire, Inc.	A	594%
Anthem Health Plans of Virginia, Inc.	A	659%
Anthem Life Insurance Company	A	806%
Community Insurance Company	A	281%
HealthKeepers, Inc.	A	662%
HMO Colorado, Inc.	A	811%
Maine Partners Health Plan, Inc.	A	618%
Matthew Thornton Health Plan, Inc.	A	613%
OneNation Insurance Company	A-	7,331%
Peninsula Health Care, Inc.	A	723%
Priority Healthcare, Inc.	A	732%
Rocky Mountain Hospital and Medical Service, Inc.	A	661%
Trigon Health and Life Insurance Company	NR-3	1,652%

Financial benchmark data for the insurance subsidiaries in the WellPoint Group are as follows:

	A.M. Best Rating	RBC Ratio
Blue Cross of California	A	N/A
BC Life & Health Ins. Co.	A	917%
Blue Cross Blue Shield Healthcare Plan of Georgia, Inc.	A	370%
Blue Cross and Blue Shield of Georgia, Inc.	A	651%
Blue Cross & Blue Shield United of Wisconsin	B++	410%
Compcare Health Services Ins. Corp.	B++	475%
Greater Georgia Life Ins. Co.	A	971%
Healthy Alliance Life Ins. Co.	A	646%
HealthLink HMO, Inc.	A-	2,749%
HMO Missouri, Inc.	A	676%
RightCHOICE Ins. Co.	NR-3	187,886%
UNICARE Life & Health Ins. Co.	A-	595%
UNICARE Health Plan of Oklahoma, Inc.	NR-3	66%
UNICARE of Texas Health Plans, Inc.	N/A	N/A
UNICARE Health Plans of the Midwest, Inc.	A-	344%
UNICARE Health Ins. Co. of the Midwest	A-	191%

National Capital Health Plan, Inc.	N/A	N/A
UNICARE Health Plan of Virginia, Inc.	A-	241%
UNICARE Health Plans of Texas, Inc.	A-	680%
UNICARE Health Ins. Co. of Texas, Inc.	NR-2	769%
UNICARE Health Plan of West Virginia, Inc.	N/A	546%
United Heartland Life Ins. Co.	B++	355%
United Wisconsin Ins. Co.	B++	1,312%
Unity Health Plans Ins. Corp.	B++	359%
Valley Health Plan, Inc.	B++	239%

Although the A.M. Best ratings and risk-based capital ratios are listed side-by-side, the function of each is quite different. The A.M. Best ratings are that nationally recognized statistical rating organization's independent opinion, based on a comprehensive quantitative and qualitative evaluation, of the companies' balance sheet strength, operating performance and business profile. The risk-based capital ratios indicate whether certain thresholds that are commonly accepted among the states for regulatory intervention or inquiry have been reached. For example, a risk-based capital ratio of 200% or below will generally prompt the insurance department of a company's state of domicile to request a business plan outlining how the company intends to improve its financial position. The fact that one company's risk-based capital ratio is higher than another's is not an indication of relative financial strength. The foregoing financial ratings and regulatory ratios generally reflect favorably on both the Anthem Group and the WellPoint Group. It should be noted that, while the risk-based capital ratio for UNICARE Health Plan of Oklahoma, Inc. is low, that corporation is a special-purpose vehicle for participation in that state's Medicaid program.

The financial condition and risks of the respective holding company systems led by Anthem, Inc. and WellPoint Health Networks Inc. are substantially similar. Both groups have assembled themselves through a long series of acquisitions and accordingly have the opportunities and the risks associated with serial acquisition. Anthem, Inc., individually, and the Anthem Group, taken as a whole, are unlikely to jeopardize the financial stability of the participating domestic insurers or to prejudice the interests of their respective Wisconsin policyholders.

#### Change in Control

The Form A will result in a change in control for Blue Cross Blue Shield of Wisconsin; Compcare Health Services Insurance Corporation; United Heartland Life Insurance Company; United Wisconsin Insurance Company; Unity Health Plans Insurance Corporation; and Valley Health Plan, Inc. Execution of the Merger Agreement referenced in, and included as an exhibit to, the Form A would result in the sale of 100% of the ownership interest in Blue Cross Blue Shield of Wisconsin; Compcare Health Services Insurance Corporation; United Heartland Life Insurance Company; United Wisconsin Insurance Company; Unity Health Plans Insurance Corporation; and Valley Health Plan, Inc. to Anthem, Inc.

#### Competence and Integrity of Prospective Management

Following the merger of WellPoint Health Networks Inc. with and into Anthem Holding Corp., the board of directors and management will be reconstituted by selection of persons from the boards of directors and managements of both Anthem, Inc. and WellPoint Health Networks Inc.

The board of directors and management of WellPoint Health Networks Inc. was reviewed last year in connection with WellPoint Health Network Inc.'s acquisition of control of the same Wisconsin-domiciled insurers that are affected by this proposed transaction. In the Recommendation Memorandum for Case No. 03-C28447 dated September 5, 2003, it was concluded that, "Review of the composition of the board and management of WellPoint Health Networks Inc. discloses no basis for disapproval of the Form A". The composition of the board of directors and management of WellPoint Health Networks Inc. has not changed significantly since the date of that memorandum.

The board of directors of Anthem, Inc. is composed of the following fifteen individuals:

<i>Name and Residence</i>	<i>Principal Occupation</i>
Lenox D. Baker, Jr., M.D. Norfolk, Virginia	President Mid-Atlantic Cardiothoracic Surgeons, Ltd.
Susan B. Bayh Washington, District of Columbia	Distinguished Visiting Professor Butler University
Larry C. Glasscock Indianapolis, Indiana	Chairman, President & Chief Executive Officer Anthem, Inc.
William B. Hart Waterford, Virginia	Chairman The National Trust for Historic Preservation
Allan B. Hubbard Indianapolis, Indiana	President E&A Industries
Victor S. Liss Stratford, Connecticut	Retired Chairman, President & Chief Executive Officer Trans-Lux Corporation
L. Ben Lytle Vail, Arizona	Retired Chairman and Chief Executive Officer Anthem Insurance Companies, Inc.
William G. Mays Indianapolis, Indiana	President Mays Chemical Company
James W. McDowell, Jr. Louisville, Kentucky	President McDowell & Associates
Donald W. Reigle, Jr. Washington, District of Columbia	Chairman APCO Government Affairs
William J. Ryan Cumberland, Maine	Chairman, President & Chief Executive Officer Bank North Financial Group
George A. Schaefer, Jr. Cincinnati, Ohio	President, Chief Executive Officer & Director Fifth Third Bancorp

John Sherman, Jr.  
Richmond, Virginia

Vice Chairman  
Scott & Stringfellow

Dennis J. Sullivan, Jr.  
Cincinnati, Ohio

Executive Counselor  
Dan Pinger Public Relations

Jacquelyn M. Ward  
Fisher Island, Florida

Retired Chairman, President & Chief Executive Officer  
Computer Generation Incorporated

The senior officers of the company are as follows:

<b>Name</b>	<b>Office</b>
Larry C. Glasscock	Chairman, President & Chief Executive Officer
Marjorie W. Dorr	President, Anthem East, Inc.
Keith R. Faller	President, Midwest Operations, Anthem Blue Cross & Blue Shield
Michael D. Houk	President, National Accounts
John M. Murphy	President, Specialty Business Division
Thomas G. Snead	President, Anthem Southeast
David R. Frick	Executive Vice President and Chief Legal and Administrative Officer
Samuel R. Nussbaum, M.D.	Executive Vice President and Chief Medical Officer
Michael L. Smith	Executive Vice President and Chief Financial and Accounting Officer
Mark L. Boxer	Senior Vice President, Chief Strategy and Business Development Officer
Caroline S. Matthews	Chief Operating Officer, Blue Cross and Blue Shield in Colorado and Nevada
Jane E. Niederberger	Senior Vice President and Chief Information Officer
Nancy L. Purcell	Vice President and Secretary
George D. Martin	Vice President and Treasurer

Anthem, Inc. provided signed, original biographical affidavits for its officers and directors. Post-merger, the directors and officers will be drawn from among the directors and officers of both Anthem, Inc. and WellPoint Health Networks Inc. There is no evidence of any criminal record, personal financial adversity, or responsibility in connection with the failure of any insurer, involving the persons described in the biographical affidavits supplied by Anthem, Inc. Review of the composition of the board and management of Anthem, Inc. discloses no basis for disapproval of the Form A.

#### Summary of Observations

1. The Form A filing was prepared in a format that complies with s. Ins 40.02, Wis. Adm. Code. The information contained in the Form A filing, together with supplementary information obtained by OCI, is sufficient to the transaction.
2. The plan would not violate the law or be contrary to the interests of any participating domestic or nondomestic insurer or their respective policyholders.



3. After the acquisition of control, none of the domestic or nondomestic insurers that may be regarded as party to the proposed plan for the acquisition of control of WellPoint Health Networks Inc.'s Wisconsin-domiciled subsidiaries will experience a change that would cause them to become unable to satisfy the requirements for the issuance of a license to write the lines of insurance for which they are presently licensed.
4. This transaction will not create a monopoly or substantially lessen competition in any type or line of insurance in Wisconsin.
5. The financial condition of Anthem, Inc., individually, and the Anthem Group, taken as a whole, are unlikely to jeopardize the financial stability of any participating domestic insurer, or to prejudice the interests of their respective Wisconsin policyholders.
6. The plan results in a change in control for Blue Cross Blue Shield of Wisconsin, Compcare Health Services Insurance Corporation, United Heartland Life Insurance Company, United Wisconsin Insurance Company, Unity Health Plans Insurance Corporation, and Valley Health Plan, Inc. The plan does not appear to be adverse to the participating insurers that are licensed in this state, or their respective Wisconsin policyholders, or to conflict with the public interest.
7. The competence and integrity of the persons who would control the operation of Blue Cross Blue Shield of Wisconsin, Compcare Health Services Insurance Corporation, United Heartland Life Insurance Company, United Wisconsin Insurance Company, Unity Health Plans Insurance Corporation, and Valley Health Plan, Inc. are such that it is in the interest of the policyholders of these insurers and of the public to permit the proposed plan.

## **RECOMMENDATION**

The OCI's review is limited to evaluating the application to make certain that it meets the standards of the statutes. These statutes are designed to ensure that the proposed change in control does not violate the law and that the OCI has sufficient information to make a decision on the application. In performing its duties, the OCI does not have the authority to substitute its judgment for that of the board of directors of WellPoint Health Networks Inc. and to direct them to pursue an alternate business strategy.

I recommend that the plan for the acquisition of control of Blue Cross Blue Shield of Wisconsin, Compcare Health Services Insurance Corporation, United Heartland Life Insurance Company, United Wisconsin Insurance Company, Unity Health Plans Insurance Corporation, and Valley Health Plan, Inc. by Anthem, Inc. and Anthem Holding Corp. be approved on the basis that there are no statutory grounds for denial pursuant to s. 611.72, Wis. Statutes.