

DATE: Draft of September 3, 2003

TO: Guenther H. Ruch, Hearing Examiner

FROM: Steven J. Junior, Senior Insurance Examiner

SUBJECT: In the Matter of the Acquisition of Control of Blue Cross & Blue Shield United of Wisconsin; Compicare Health Services Insurance Corporation; United Heartland Life Insurance Company; United Wisconsin Insurance Company; Unity Health Plans Insurance Corporation; and Valley Health Plan, Inc. by WellPoint Health Networks Inc. and Crossroads Acquisition Corp. (Case No. 03-C28447)

## DESCRIPTION OF THE TRANSACTION

### *Overview*

WellPoint Health Networks Inc. filed a Form A, "Statement Regarding the Acquisition of Control of or Merger with a Domestic Insurer", dated June 20, 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 WellPoint Health Networks Inc. WellPoint Health Networks Inc. is a publicly traded holding company domiciled in Delaware, which is listed on the New York Stock Exchange.

On June 20, 2003, WellPoint Health Networks Inc. (hereinafter also, "WellPoint") filed a plan to acquire Cobalt Corporation (hereinafter also, "Cobalt"), which controls the following Wisconsin insurance corporations: Blue Cross & Blue Shield United of Wisconsin; Compicare 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, Cobalt will be merged with and into Crossroads Acquisition Corp. (hereinafter also, "Crossroads"), a direct, wholly owned subsidiary of WellPoint. Immediately following the merger, Crossroads, as the surviving corporation, would be renamed Cobalt Corporation.

The plan of acquisition will be implemented through an Agreement and Plan of Merger by and among WellPoint, Crossroads, and Cobalt and a Voting and Lockup Agreement by and between WellPoint and Wisconsin United for Health Foundation, Inc.

The shareholders of Cobalt Corporation must vote to approve the merger. As clearly stated in the Form S-4 filed with the U.S. Securities and Exchange Commission, because Wisconsin United for Health Foundation, Inc. (hereinafter also, "Foundation") owns approximately ~~59.6%~~ **59%** of Cobalt Corporation's issued and outstanding shares, its vote will be sufficient to approve the merger regardless of the vote of any other shareholders. It is anticipated that the closing date will occur soon thereafter, ~~subject to~~ **after** the shareholders' vote and, **subject to** OCI's regulatory approval.

At the time the Agreement and Plan of Merger was signed, the aggregate consideration to be paid Cobalt's shareholders, other than Cobalt's and WellPoint's subsidiaries that hold shares of Cobalt common stock, was valued at approximately \$906,000,000, or \$20.50 per share of Cobalt's common stock. Under the proposed plan, each share of Cobalt common stock issued

and outstanding, other than shares held by Cobalt, WellPoint, Crossroads, and Cobalt's and WellPoint's subsidiaries, will be converted into the right to receive (i) \$10.25 in cash and (ii) 0.1233 of a share of WellPoint common stock. The stock portion of the consideration to be paid to Cobalt's shareholders, other than Cobalt's and WellPoint's subsidiaries that hold shares of Cobalt common stock, is subject to adjustment so that, at closing, those shareholders of Cobalt would receive no less than \$8.75 per share in WellPoint common stock and no less than \$19.00 per share in aggregate stock and cash consideration.

As proposed, each share of common stock held by Cobalt's and WellPoint's subsidiaries will be converted into the right to receive 0.2466 of a share of WellPoint common stock, which amount is also subject to adjustment so that Cobalt's and WellPoint's subsidiaries receive approximately twice the amount of stock consideration per share received by Cobalt's other shareholders as described above. In the proposed merger, no cash will be paid to Cobalt's and WellPoint's subsidiaries that hold shares of Cobalt's common stock.

WellPoint will not issue fractional shares to any shareholder in connection with this transaction. Instead, WellPoint will pay cash, without interest, based on the market value of its common stock on the date of the merger for any fractional share that a shareholder, except Cobalt's and WellPoint's subsidiaries that hold shares of Cobalt common stock, would otherwise have been entitled to receive.

Under the Agreement and Plan of Merger, Cobalt Corporation will be merged with and into Crossroads Acquisition Corp., a direct, wholly owned subsidiary of WellPoint Health Networks Inc. Immediately following the merger, Crossroads Acquisition Corp., as the surviving corporation, would be renamed Cobalt Corporation.

In the Form A, WellPoint stated that funds for the acquisition would be paid from currently available funds or a combination of currently available funds and borrowings under its two revolving credit facilities or its commercial paper program.

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

Section 611.72, Wis. Stat. ~~Stat.~~ **Stats.**, requires the Office of the Commissioner of Insurance 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, "WellPoint Group") includes the following nineteen insurers throughout the United States:

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. Greater Georgia Life Insurance Company (Georgia; NAIC #97217)
6. Healthy Alliance Life Insurance Company (Missouri; NAIC #78972)
7. HealthLink HMO, Inc. (Missouri; NAIC #96475)
8. HMO Missouri, Inc. (Missouri; NAIC #95358)
9. RightCHOICE Insurance Company (Illinois; NAIC #83640)
10. UNICARE Life & Health Insurance Company (Delaware; NAIC #80314)

11. UNICARE Health Plan of Oklahoma, Inc. (Oklahoma; NAIC #52616)
12. UNICARE of Texas Health Plans, Inc. (Texas; NAIC #95296)
13. UNICARE Health Plans of the Midwest, Inc. (Illinois; NAIC #95505)
14. UNICARE Health Insurance Company of the Midwest (Illinois; NAIC #70700)
15. National Capital Health Plan, Inc. (Virginia; No NAIC number)
16. UNICARE Health Plan of Virginia, Inc. (Virginia; NAIC #11170)
17. UNICARE Health Plans of Texas, Inc. (Texas; NAIC #95420)
18. UNICARE Health Insurance Company of Texas, Inc. (Texas; NAIC #10076)
19. UNICARE Health Plan of West Virginia, Inc. (West Virginia; No NAIC number)

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, 2002, Blue Cross of California's statutory financial statements indicated assets of \$4,270,840,000, liabilities of \$3,227,960,000, capital and surplus of \$1,042,880,000, and net income of \$434,614,000. The company paid \$202,000,000 in dividends to its stockholder in 2002.

#### 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 2002 were limited to that state. As of December 31, 2002, BC Life & Health Insurance Company's statutory financial statements indicated assets of \$514,596,546, liabilities of \$242,284,646, capital and surplus of \$272,311,900, and net income of \$140,284,490. The corporation paid \$60,000,000 in dividends to its stockholder in 2002.

#### 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, 2002, Blue Cross and Blue Shield Healthcare Plan of Georgia, Inc.'s statutory financial statements indicated assets of \$235,115,990, liabilities of \$148,484,077, capital and surplus of \$86,631,914, and net income of \$19,047,647. The corporation paid \$10,000,000 in dividends to its stockholder in 2002.

#### 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. According to A.M. Best, Blue Cross and Blue Shield of Georgia, Inc. and its affiliates held approximately 25% of the health insurance market in Georgia. As of December 31, 2002, Blue Cross and Blue Shield of Georgia, Inc.'s statutory financial statements indicated assets of \$713,956,541, liabilities of \$404,079,454, capital and surplus of \$309,877,087, and net income of \$108,373,910. The corporation paid \$65,000,000 in dividends to its stockholder in 2002.

#### Greater Georgia Life Insurance Company

Greater Georgia Life Insurance Company was incorporated in Georgia on November 16, 1981, and commenced business on ~~January 1, 1983~~ **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, 2002, Greater Georgia Life Insurance Company's statutory financial statements indicated assets of \$38,740,988, liabilities of \$15,520,561, capital and surplus of \$23,220,427, and net income of \$2,697,206. The corporation paid no dividends to its stockholder in 2002.

#### 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. **Health 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, 2002, Healthy Alliance Life Insurance Company's statutory financial statements indicated assets of \$516,185,891, liabilities of \$378,612,950, capital and surplus of \$137,572,941, and net income of \$33,242,636. The corporation paid \$20,000,000 in dividends to its stockholder in 2002.

#### 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~~ **Blue** branded HMO is not available. As of December 31, 2002, HealthLink HMO, Inc.'s statutory financial statements indicated assets of \$24,535,300, liabilities of \$381,433, capital and surplus of \$24,153,867, and net income of \$5,680,883. The corporation paid no dividends to its stockholder in 2002.

#### 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~~ **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, 2002, HMO Missouri, Inc.'s statutory financial statements indicated assets of \$85,229,418, liabilities of \$44,958,654, capital and surplus of \$40,270,764, and net income of \$11,326,780. Surplus includes \$49,206,550 in surplus notes. The corporation paid no dividends to its stockholder in 2002.

#### 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 under 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, 2002, RightCHOICE Insurance Company's statutory financial statements indicated assets of \$15,572,728, liabilities of \$9,352,578, capital and surplus of \$6,220,150, and net income of \$203,757. Surplus includes \$11,000,000 in surplus notes. The corporation paid no dividends to its stockholder in 2002.

#### 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, 2002, UNICARE Life & Health

Insurance Company's statutory financial statements indicated assets of \$1,381,438,353, liabilities of \$1,121,954,944, capital and surplus of \$259,483,409, and net income of \$(10,706,620). The corporation paid no dividends to its stockholder in 2002.

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, 2002, UNICARE Health Plan of Oklahoma, Inc.'s statutory financial statements indicated assets of \$20,064,973, liabilities of \$14,575,057, capital and surplus of \$5,489,916, and net income of \$711,332. The corporation paid no dividends to its stockholder in 2002.

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, 2002, UNICARE Health Plans of the Midwest, Inc.'s statutory financial statements indicated assets of \$118,796,965, liabilities of \$82,811,782, capital and surplus of \$35,985,182, and net income of \$2,365,888. The corporation paid no dividends to its stockholder in 2002.

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 indicated assets of \$89,124,068, liabilities of \$65,422,118, capital and surplus of \$23,701,950, and net income of \$2,000,000. The corporation paid no dividends to its stockholder in 2002.

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. UNICARE Health Plan of Virginia, Inc.'s statutory financial statements indicated assets of \$19,493,776, liabilities of \$10,670,794, capital and surplus of \$8,822,982, and net income of \$3,762,824. The corporation paid no dividends to its stockholder in 2002.

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. UNICARE Health Insurance Company of Texas, Inc.'s statutory financial statements indicated assets of \$8,015,841, liabilities of \$2,169,239, capital and surplus of \$5,846,602, and net income of \$1,714,580. The corporation paid no dividends to its stockholder in 2002.

UNICARE Health Plan of West Virginia, Inc.

UNICARE Health Plan of West Virginia, Inc. is in the process of obtaining a domestic certificate of authority in West Virginia.

Of the foregoing companies in the WellPoint Group, 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. None of the insurers in the WellPoint Group wrote any business in Wisconsin on a surplus lines basis.

The holding company system led by Cobalt Corporation (hereinafter also, "Cobalt Group") includes the following six insurers, all of which are domiciled in Wisconsin:

1. Blue Cross & Blue Shield United of Wisconsin (NAIC #54003)
2. Compcare Health Services Insurance Corporation (NAIC #95693)
3. United Heartland Life Insurance Company (NAIC #83500)
4. United Wisconsin Insurance Company (NAIC #29157)
5. Unity Health Plans Insurance Corporation (NAIC #95796)
6. Valley Health Plan, Inc. (NAIC #95261)

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

### Blue Cross & Blue Shield United of Wisconsin

Blue Cross & Blue Shield United of Wisconsin (hereinafter also, "BCBSUW") was a ~~nonstock,~~ **nonprofit** service insurance corporation, **originally** incorporated on October 19, 1939, and organized pursuant to ch. 613, Wis. Statutes **Stats.** In June 1999, the BCBSUW Board of Directors announced its intention to convert BCBSUW from a nonprofit service insurance corporation to a stock corporation. An application for a Plan of Conversion was filed with the ~~commissioner~~ **Office of the Commissioner of Insurance ("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 ~~Commissioner~~ **OCI** recognized BCBSUW's application as complete, and the conversion was approved in accordance with the ~~order~~ **Order** of March 28, 2000. Effective March 23, 2001, BCBSUW converted to a stock insurance corporation and organized pursuant to ch. 611, Wis. Stat **Stats.** In addition to the conversion, BCBSUW became a wholly owned subsidiary of Cobalt Corporation through a combination of BCBSUW and Cobalt **Corporation** on March 23, 2001.

As of December 31, 2002, BCBSUW's statutory financial statements indicated assets of \$303,704,912, liabilities of \$153,484,902, capital and surplus of \$150,220,010, and net income of \$116,400,147. The corporation paid \$25,167,822 in dividends to its stockholder in 2002.

### 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. Stat **Stats.** It operates as a health maintenance organization in the ~~state~~ **State** of Wisconsin. As of December 31, 2002, Compcare's statutory financial statements indicated assets of \$155,026,552, liabilities of \$78,804,955, capital and surplus of \$76,221,597, and net income of \$811,903. The corporation paid no dividends to its stockholder in 2002.

### 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, ~~and~~ **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. Stat. **Stats., and changed its name to** United Heartland Life Insurance Company is. **As** a wholly owned subsidiary of Compcare and **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, 2002, United Heartland Life Insurance Company's statutory financial statements indicated assets of \$43,821,983, liabilities of \$31,034,690, capital and surplus of \$12,787,293, and net income of \$2,649,587. The company paid no dividends to its stockholder in 2002.



### 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. Stat 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 ~~35~~ 36 states and the District of Columbia. As of December 31, 2002, United Wisconsin Insurance Company's statutory financial statements indicated assets of \$94,670,463, liabilities of \$45,955,956, capital and surplus of \$48,714,507, and net income of \$2,685,918. The corporation paid no dividends to its stockholder in 2002.

### 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. Statutes Stats. It operates as a health maintenance organization in the ~~state~~ State of Wisconsin. As of December 31, 2002, Unity's statutory financial statements indicated assets of \$46,853,390, liabilities of \$28,974,066, capital and surplus of \$17,879,324, and net income of \$4,360,968. The corporation paid no dividends to its stockholder in 2002.

### 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. Statutes Stats. It operates as a health maintenance organization in the ~~state~~ State of Wisconsin. As of December 31, 2002, Valley Health Plan, Inc.'s Plan's statutory financial statements indicated assets of \$18,593,447, liabilities of \$10,200,779, capital and surplus of \$8,392,668, and net income of \$1,066,305. The corporation paid no dividends to its stockholder in 2002.

## **THE KEY CONTRACTS**

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

1. Agreement and Plan of Merger dated as of June 3, 2003 among WellPoint Health Networks Inc., Crossroads Acquisition Corp., and Cobalt Corporation (hereinafter also, "Merger Agreement"), as amended by Amendment No. 1 thereto, dated as of August 8, 2003
2. Voting and Lockup Agreement dated as of June 3, 2003, by and between WellPoint Health Networks Inc. and Wisconsin United for Health Foundation, Inc. (hereinafter also, "Voting and Lockup Agreement")
3. WellPoint Health Networks Inc.'s \$750,000,000 Five Year Unsecured Revolving Credit and Competitive Advance Facility (hereinafter also, "Five Year Credit Agreement")
4. WellPoint Health Networks Inc.'s \$250,000,000 364-Day Unsecured Revolving Credit Facility (hereinafter also, "364-Day Credit Agreement")

5. Confidentiality Agreement between WellPoint Health Networks Inc. and its Affiliates and Cobalt Corporation and its Affiliates dated April 29, 2003 (hereinafter also, "Confidentiality Agreement")
6. Fairness Opinion Issued by UBS Warburg, LLC to the Board of Directors of Cobalt Corporation (hereinafter also, "Fairness Opinion")

### Merger Agreement

There is an Agreement and Plan of Merger dated as of June 3, 2003 among WellPoint Health Networks Inc., Crossroads Acquisition Corp., and Cobalt Corporation. Under this agreement, Cobalt Corporation shall be merged with and into Crossroads Acquisition Corp., with the latter surviving, but taking the name of the expiring corporation immediately following the merger. All of the debts, liabilities, and duties of both Cobalt Corporation and Crossroads Acquisition Corp. shall survive the merger and persist in the renamed Crossroads Acquisition Corp.

The Merger Agreement indicates that the authorized capital stock of Cobalt Corporation consists of 75,000,000 common shares of one class only. As of June 3, 2003:

- There were 41,990,405 common shares of Cobalt Corporation issued and outstanding, excluding ~~the 7,949,904~~ the 7,949,904 common shares held by Blue Cross & Blue Shield United of Wisconsin.
- Blue Cross of California, a subsidiary of WellPoint, owned 712,300 common shares of Cobalt Corporation.

The consideration to be made paid to the shareholders of Cobalt Corporation is as described in the section of this memorandum captioned "Description of the Transaction – Overview". Each outstanding option for a share of common stock issued by Cobalt Corporation will be converted to an option for 0.2466 of a share of WellPoint common stock, subject to adjustment so that each option is converted to an option for approximately twice the amount of stock consideration received by Cobalt's shareholders that will receive both cash and stock consideration.

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 Simpson, Thatcher & Bartlett LLP in New York City 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 January 31, 2004.
3. Disapproval by a governmental entity of competent jurisdiction.
4. The shareholders of Cobalt Corporation disapprove the transaction.
5. Cobalt Corporation may terminate the contract if WellPoint or Crossroads Acquisition Corp. ~~fail~~ fails to perform any representation, warranty, covenant, or agreement in a manner that ~~that~~ prevents the conditions to the completion of the transaction from being satisfied.

6. WellPoint may terminate the contract if Cobalt Corporation fails to perform any representation, warranty, covenant, or agreement in a manner that ~~that~~ prevents the conditions to the completion of the transaction from being satisfied.
7. Either WellPoint or Cobalt may terminate the agreement if Cobalt's board of directors authorizes approval of a superior proposal.

In the event of termination, certain confidentiality provisions remain in full force and effect and survive termination of the Merger Agreement. Neither party shall be relieved of or released from any liabilities or damages arising out of its willful and material breach of its representations, warranties, covenants, or agreements prior to the termination.

Under certain circumstances, the agreement requires Cobalt Corporation to pay WellPoint a termination fee of \$27,200,000. If WellPoint terminates the Merger Agreement, then, under certain circumstances, it shall reimburse Wisconsin United for Health Foundation, Inc. for its documented expenses in an amount not to exceed \$600,000 and Cobalt Corporation for its documented expenses not to exceed \$1,500,000.

This agreement is governed under the laws of Wisconsin.

#### Voting and Lockup Agreement

There is a Voting and Lockup Agreement dated as of June 3, 2003, by and between WellPoint Health Networks Inc. and Wisconsin United for Health Foundation, Inc. Under this agreement, Wisconsin United for Health Foundation, Inc. agrees to vote its 25,009,390 common shares in favor of the proposed merger of Cobalt Corporation with and into Crossroads Acquisition Corp. The Foundation irrevocably and unconditionally waives any rights of appraisal or dissenters' rights that it might possess with respect to the merger.

Under this agreement, the Foundation agrees neither to sell any of its Cobalt shares nor to transfer the economic consequences of ownership in any way until the earliest to occur of (a) the merger agreement is terminated, (b) the merger is consummated, abandoned, or (c) the merger agreement is amended in a manner that is materially adverse to the Foundation, or (d) the Cobalt board of directors modify its recommendation to approve the merger pursuant to the merger agreement in a manner adverse to WellPoint.

All costs and expenses incurred in connection with this agreement are to be paid by the party incurring such expenses.

Both parties irrevocably and unconditionally waive any right they may have to trial by jury in connection with this agreement or transactions contemplated thereby. This agreement is governed under the laws of Wisconsin.

#### Five Year Credit Agreement

WellPoint Health Networks Inc. has a \$750,000,000 Five Year Unsecured Revolving Credit and Competitive Advance Facility. Under this agreement, WellPoint, at its option, may call upon a line of credit with interest at one-half point over the prime rate or the prevailing rate on Eurodollar loans at LIBOR for the period of time the funds are called upon. Under this credit facility, the Bank of America, N.A. will issue up to \$100,000,000 in letters of credit and offer up to

\$50,000,000 in swingline loans. Under this agreement, WellPoint might also request that participating lenders make competitive bids for loans that incept and end within the duration of this agreement.

Revolving loans are available in a minimum amount of \$5,000,000 and in integral multiples of \$500,000 in excess of that minimum. Competitive bid loans are available in a minimum amount of \$25,000,000 and in integral multiples of \$5,000,000 in excess of that minimum. Swingline loans from the Bank of America, N.A. are available in a minimum amount of \$1,000,000 and in integral multiples of \$1,000,000 in excess of that minimum. The failure of any participating lender to make a loan under this credit facility does not relieve any other participating lender of its obligations, but the commitments of the participating lenders are several and no lender is responsible for any other participating lender's failure to make loans as required.

In addition to interest on borrowings, WellPoint must pay facility and utilization fees on the credit facility provided by this agreement, as well as fees assessed by the Bank of America, N.A. in its capacity as Administrative Agent for the participating lenders. All interest is computed on the basis of a year of 360 days, except when interest is computed by reference to the alternative base rate when such rate is based on the prime rate, whereupon interest will be computed on the basis of a 365-day year or a 366-day year in leap years. Loans that are overdue bear interest at 2% over the rate otherwise applicable. WellPoint has the right to prepay any loan secured from this credit facility at any time with three days' notice on any Eurodollar loan and one day's notice on any alternative base rate loan. If any change in law increases the capital requirement of any participating lender during the term of the credit facility, WellPoint must pay the lenders affected by the change in law such additional amounts as are sufficient to compensate the lenders for the additional costs incurred by the change in law.

WellPoint is required to permit any representatives of the Bank of America, N.A., as Administrative Agent, or any participating lender, upon reasonable prior notice and subject to such reasonable confidentiality restrictions as WellPoint may reasonably impose, to visit and inspect WellPoint's properties, to examine and make extracts from its books and records, and to discuss its affairs, finances, and condition with WellPoint's officers and independent accountants at such reasonable times and so often as reasonably requested.

WellPoint agrees not to permit its consolidated leverage ratio for any four consecutive quarters to exceed 3.0 to 1.0, nor its consolidated interest coverage ratio for any four consecutive quarters to exceed 3.0 to 1.0. There are various restrictions on the indebtedness of subsidiaries. Capital lease obligations and purchase money indebtedness of subsidiaries are limited to \$50,000,000 and unsecured indebtedness ~~other than under the Five Year Credit Agreement and 364-Day Credit Agreement~~ of subsidiaries is not to exceed \$75,000,000.

Each participating lender under this credit facility acknowledges that it has, independently and without reliance upon the Administrative Agent or any other participating lender and based upon such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this agreement. Each participating lender agrees to continue to make its own decisions at all times with respect to this agreement.

Each party to this agreement waives, to the fullest extent permitted by applicable law, any right it may have to a trial by jury in any legal proceeding directly or indirectly arising out of or relating to this agreement or transactions contemplated under this agreement.

This agreement is governed under the laws of New York.

#### 364-Day Credit Agreement

WellPoint Health Networks Inc. has a \$250,000,000 364-Day Unsecured Revolving Credit Facility, with Bank of America, N.A., as administrative agent, and JPMorgan, a division of Chase Securities, Inc., as the syndication agent. The terms of this agreement largely follow those of the Five Year Credit Agreement, except that there is no provision for competitive bid loans or swingline loans from Bank of America, N.A., as the Administrative Agent, and the participating lenders' commitments are for successive terms of only 364 days rather than five years. The Since the two credit facilities are syndicated, participating lenders and their participation participating percentages are identical to the Five Year Credit Agreement can change from time to time. Loans under this credit facility are available in a minimum amount of \$5,000,000 and in integral multiples of \$500,000 in excess of that minimum.

#### Confidentiality Agreement

There is a Confidentiality Agreement between WellPoint Health Networks Inc. and its affiliates and Cobalt Corporation and its affiliates dated April 29, 2003. This agreement is intended to control the handling and use of the nonpublic and trade secret information that the parties exchange in the course of their respective due diligence reviews of one another. The parties agree that information provided one another that is subject to this agreement will be used solely for the purpose of evaluating a possible transaction between WellPoint and Cobalt, and that such information will be kept private and held in strictest confidence by each of WellPoint and Cobalt and their respective representatives. Each of the parties acknowledges an awareness of insider trading laws and agrees to advise their respective representatives of laws prohibiting persons from trading on the basis of material, nonpublic information.

Each party agrees not to disclose the existence, terms, conditions, or status of negotiations concerning a possible transaction. Cobalt may, in compliance with its obligations pursuant to the Final Decision and Order of the Wisconsin Commissioner of Insurance dated March 28, 2000 and the Voting Trust and Divestiture Agreement dated March 23, 2001, entered into in accordance with that Order, disclose to Wisconsin United for Health Foundation, Inc. such information as is required to be disclosed thereby. Broad disclosure of matters relating to the tax treatment and tax structure of the transactions contemplated by this agreement is permitted, being restricted only as to the timing of such disclosure and to the extent that such information must be kept confidential to comply with any applicable federal and state securities laws. Any party that receives a request or demand for information that is subject to this agreement is to promptly notify the other with prompt notice so that the other party may consider seeking a protective order. There are provisions to absolve any party from complying with requests or compulsions from legal authorities in order to avoid standing in contempt or suffering censure or penalty.

Each party indicates its understanding that neither makes any representation or warranty as to the accuracy or completeness of or will have any liability to the other party resulting from use or reliance upon information exchanged under this agreement or any errors therein or omissions therefrom.

If the discussions contemplated by this letter are terminated, each party agrees to destroy the information, including memoranda and notes derived from such information, which it received from the other promptly and such destruction will be certified by the officers of the parties supervising the destruction of records.

This agreement is governed under the laws of Delaware.

#### Fairness Opinion

There is a Fairness Opinion dated June 3, 2003, which was issued to the board of directors of Cobalt Corporation by UBS Warburg, LLC. Based upon qualifications specified in the Fairness Opinion, UBS Warburg, LLC advised Cobalt Corporation's board of directors that the consideration offered to the holders of Cobalt common stock, other than WellPoint, Blue Cross & Blue Shield United of Wisconsin, and their respective affiliates, was fair from a financial point of view as of June 3, 2003.

#### **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. Agreement and Plan of Merger dated as of June 3, 2003 among WellPoint Health Networks Inc., Crossroads Acquisition Corp., and Cobalt Corporation, **as amended by Amendment No. 1 thereto dated as of August 8, 2003**
2. Voting and Lockup Agreement dated as of June 3, 2003, by and between WellPoint Health Networks Inc. and Wisconsin United for Health Foundation, Inc.
3. WellPoint Health Networks Inc.'s \$750,000,000 Five Year Unsecured Revolving Credit and Competitive Advance Facility
4. WellPoint Health Networks Inc.'s \$250,000,000 364-Day Unsecured Revolving Credit Facility
5. Confidentiality Agreement between WellPoint Health Networks Inc. and its Affiliates and Cobalt Corporation and its Affiliates dated April 29, 2003
6. Fairness Opinion Issued by UBS Warburg, LLC to the Board of Directors of Cobalt Corporation

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

As previously noted, of the insurers that may be regarded as a party to the plan for the acquisition of control of Cobalt Corporation's subsidiaries, the following are licensed in Wisconsin:

1. Blue Cross & Blue Shield United of Wisconsin (Wisconsin; NAIC #54003)
2. Compcare Health Services Insurance Corporation (Wisconsin; NAIC #95693)
3. Healthy Alliance Life Insurance Company (Missouri; NAIC #78972)
4. UNICARE Life & Health Insurance Company (Delaware; NAIC #80314)
5. United Heartland Life Insurance Company (Wisconsin; NAIC #83500)
6. United Wisconsin Insurance Company (Wisconsin; NAIC #29157)
7. Unity Health Plans Insurance Corporation (Wisconsin; NAIC #95796)
8. 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 for the acquisition of control of Cobalt Corporation's subsidiaries 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 2002, included the premium volume of the members of the Cobalt Group, the WellPoint Group, and the combined groups.

In 2002, 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	\$11,409,681,303

Property and Casualty Companies	6,908,109,303
Health Maintenance Organizations	3,972,477,072
Blue Plan	600,858,618
Fraternal Benefit Societies	598,809,962
Hospital, Medical & Dental Indemnity Companies	370,801,398
Title Insurers	140,211,514
Limited Service Health Organizations	33,864,463
Miscellaneous*	Not Available
Surplus Lines Insurers	<u>181,191,850</u>
<b>Total</b>	<b><u>\$24,034,813.633</u></b>

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

The WellPoint Group engages in life and accident and health business, while the Cobalt Group engages in life and accident and health business and the property and casualty business. Since the WellPoint Group does not engage in property and casualty business, the proposed transaction will not result in any greater concentration in the property and casualty insurance market.

Within the WellPoint Group, only UNICARE Life & Health Insurance Company wrote life insurance business in Wisconsin during 2002, with direct premiums written of \$1,513,514. Within the Cobalt Group, only United Heartland Life Insurance Company is licensed to write life insurance and it did not write any life insurance business in Wisconsin during 2002. Accordingly, it is evident that the proposed transaction will not result in any greater concentration in the life insurance market.

The Cobalt 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 2002 was as follows:

<b>Type of Insurer</b>	<b>Direct Premiums Written</b>
Health Maintenance Organizations	<u>\$3,972,477,072</u>
Life and Health Companies	2,544,194,989
Blue Plan	600,858,618
Hospital, Medical & Dental Indemnity Companies	370,801,398
Property and Casualty Companies:	
13 – Group Accident and Health	143,548,838
14 – Credit Accident and Health	13,859,233
15.1 – Collectively Renewable A&H	2,530
15.2 – Non-Cancelable A&H	8,820
15.3 – Guaranteed Renewable A&H	54,348,417
15.4 – Non-Renewable for Stated Reasons Only	41,693,132



15.5 – Other Accident Only	557,102
15.6 – All Other A&H	3,958,382
15.7 – Federal Employees Health Benefits Program	<u>11,099,312</u>
Subtotal – P&C A&H Premiums	269,075,766
Fraternal Benefit Societies	39,719,099
Limited Service Health Organizations	<u>33,864,463</u>
Total	<u>\$7,830,991,405</u>

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

Relevant market share information for the Cobalt Group in 2002 was as follows:

<b>Cobalt Group</b>	<b>DPW in WI</b>	<b>Market Share</b>
Blue Cross & Blue Shield United of WI	\$600,858,618	7.673%
Compcare Health Services Insurance Corp.	385,468,118	4.922%
Unity Health Plans Insurance Corp.	197,828,861	2.526%
Valley Health Plan, Inc.	<del>88,089,390</del> 1.125%	<u>88,404,861</u> <u>1.129%</u>
United Wisconsin Insurance Company	42,370,272	0.541%
United Heartland Life Insurance Company	<u>0</u>	<u>0.000%</u>
Total Market Share	<del>\$1,314,615,259</del> 16.787%	<u>\$1,314,930,730</u> <u>16.791%</u>

Relevant market share information for the WellPoint Group in 2002 was as follows:

<b>WellPoint Group</b>	<b>DPW in WI</b>	<b>Market Share</b>
Healthy Alliance Life Insurance Company	\$0	0.000%
UNICARE Life & Health Insurance Co.	<u>8,166,438</u>	0.001%
Total WellPoint Market Share	\$8,166,438	0.001%
Combined Groups Market Share	<del>\$1,322,781,697</del> 16.788%	<u>\$1,323,097,168</u> <u>16.896%</u>
Estimated Total A&H Business in Wisconsin	\$7,830,991,405	100.00%

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 Cobalt Corporation's present subsidiaries is currently contemplated following WellPoint's proposed acquisition of control.

WellPoint and Cobalt are currently finalizing their plans with respect to service, management, cost allocation, and other written agreements among members of Cobalt's holding company system. It is expected that, over time, Cobalt's subsidiaries will become parties to one or more of WellPoint Group's intercompany agreements, which will be filed with the OCI on Form D as required.

It is expected that plans and services serving the individual and small employer markets and the uninsured market will be prioritized for growth and development following WellPoint's acquisition of control, consistent with WellPoint's own objectives. As WellPoint has done following similar acquisitions in Georgia and Missouri, WellPoint expects to introduce a broader range of products targeted to the individual and small employer market. WellPoint also intends to introduce dental and life insurance products to this state. There are no reductions or terminations in programs or services of Cobalt's insurance subsidiaries currently anticipated following the change in control.

There are no material changes anticipated in the marketing practices and distribution channels of Cobalt's insurance subsidiaries. It is possible, however, that the agents of UNICARE Life & Health Insurance Company will be cross-licensed to write on behalf of Cobalt's insurance subsidiaries, particularly Blue Cross & Blue Shield United of Wisconsin, so that UNICARE Life & Health Insurance Company's customers can be offered the opportunity to subscribe to blue-branded plans.

There are no plans or intentions for WellPoint to contribute capital to any of Cobalt's insurance subsidiaries following the proposed change in control.

It is anticipated that Cobalt's 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. The parties have agreed in Section 5.16 of the Merger Agreement that the Cobalt Corporation Foundation will continue to make charitable contributions to Wisconsin organizations.

There are no current plans or intentions to change the overall level of employment in Wisconsin following the change in control. While some functions, such as corporate finance and treasury, will be consolidated, it is WellPoint's intention to increase market share in Wisconsin through new product offerings in the individual and small employer market. Blue Cross & Blue Shield United of Wisconsin will continue to be headquartered in Wisconsin. Milwaukee will be the headquarters for WellPoint's Medicare Part A claims processing business. Overall employment levels in Wisconsin will depend on the success of Cobalt's business operations following the change in control. It is not expected that the employees of Cobalt and its subsidiaries will be

transferred to become employees of WellPoint or any existing WellPoint subsidiary. WellPoint will, however, combine the pension plan with that plan that currently covers WellPoint's existing employees. United Government Services LLC maintains a separate pension plan covering its employees and it is expected that it will remain separate and that it will not be consolidated with the existing WellPoint pension plan.

Financial Soundness of Prospective Affiliates

WellPoint Health Networks Inc. is one of the nation's largest publicly traded managed health care companies. As of December 31, 2002, WellPoint had approximately 13.2 million medical members and approximately 48.1 million specialty members. Through its subsidiaries, WellPoint offers a broad spectrum of network-based managed care plans to the large and small employer, individual, Medicaid and senior markets. Its managed care plans include preferred provider organizations, health maintenance organizations, point of service and other hybrid plans and traditional indemnity plans. In addition, WellPoint offers managed care services, including underwriting, actuarial services, network access, medical management, and claims processing. It also provides 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, 2002 **(as restated and reported in WellPoint's Form 10-Q for the quarters ended March 31, 2003 and June 30, 2003)**, WellPoint reported assets of \$11,302,535,000, **\$11,470,631,000**, liabilities of ~~\$7,325,838,000~~ **\$7,493,934,000**, total stockholders' equity of \$3,976,697,000, and net income of \$703,079,000.

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	778%
Blue Cross Blue Shield Healthcare Plan of Georgia, Inc.	A	312%
Blue Cross and Blue Shield of Georgia, Inc.	A	801%
Greater Georgia Life Ins. Co.	A	989%
Healthy Alliance Life Ins. Co.	A-	431%
HealthLink HMO, Inc.	A-	3,204%
HMO Missouri, Inc.	A-	718%
RightCHOICE Ins. Co.	NR-3	280%
UNICARE Life & Health Ins. Co. UNICARE Health Plan of Oklahoma, Inc.	A-	754%
UNICARE of Texas Health Plans, Inc.	N/A	N/A
UNICARE Health Plans of the Midwest, Inc.	A-	209%
UNICARE Health Ins. Co. of the Midwest	A-	377%
National Capital Health Plan, Inc.	N/A	259%
UNICARE Health Plan of Virginia, Inc.	A-	N/A
		298%

UNICARE Health Plans of Texas, Inc.	A-	565%
UNICARE Health Ins. Co. of Texas, Inc.	NR-2	598%
UNICARE Health Plan of West Virginia, Inc.	N/A	N/A

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

	A.M. Best Rating	RBC Ratio	Compulsory Surplus Excess
Blue Cross & Blue Shield United of Wisconsin	B+	397%	\$60,040,901
Compcare Health Services Ins. Corp.	B+	436%	\$49,208,791
United Heartland Life Ins. Co.	B+	292%	<del>\$7,826,743</del> <b>\$7,917,142</b>
United Wisconsin Ins. Co.	B+	<del>1,583%</del> <b>1,592%</b>	\$41,708,836
Unity Health Plans Ins. Corp.	B+	289%	\$10,075,219
Valley Health Plan, Inc.	B+	225%	\$4,873,261

The financial condition of WellPoint Health Networks Inc., individually, and the WellPoint 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.

Change in Control

The Form A will result in a change in control for 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. 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 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. to WellPoint Health Networks Inc.

Competence and Integrity of Prospective Management

WellPoint Health Networks Inc. provided signed, original biographical affidavits for its officers and directors. The directors and officers will be drawn from among the directors and officers of WellPoint and from among the existing officers and directors of Cobalt Corporation and its subsidiaries. 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 these biographical affidavits. Review of the composition of the board and management of WellPoint Health Networks 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 Cobalt Corporation's 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 WellPoint Health Networks Inc., individually, and the WellPoint 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 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. 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 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. 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 Cobalt Corporation 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 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 WellPoint Health Networks Inc. be approved on the basis that there are no statutory grounds for denial pursuant to s. 611.72, Wis. Statutes.

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