

Responses to OCI Comments

1. I need a complete copy of the Purchaser Disclosure Schedule and Target Disclosure Schedule to the Agreement and Plan of Merger dated as of June 3, 2003 among WellPoint Health Networks Inc., Crossroads Acquisition Corporation, and Cobalt Corporation, so that I might obtain a complete understanding of the proposed transaction. If the parties wish to seek confidentiality for certain aspects of the transaction, please provide a written legal analysis in support of your position that the filing or any portion of the filing should be kept confidential under s. 19.36(5), Wis. Stat., or other applicable Wisconsin law. Please describe this in a distinct and separate written communication, so that this Office's legal unit can review the merits of your legal analysis.

We expect to provide two (2) copies of the Purchaser Disclosure Schedules and Target Disclosure Schedules under separate cover. As set forth in the cover letter, WellPoint is requesting confidential treatment of the disclosure schedules and will discuss their submission with you early next week.

2. Please provide a copy of the Confidentiality Agreement dated April 29, 2003 between WellPoint Health Networks Inc. and Cobalt Corporation.

Attached as Exhibit A please find a copy of the Confidentiality Agreement dated April 29, 2003 between WellPoint and Cobalt.

3. Please file a Consent to Jurisdiction on Form E by each of the following entities in the proposed succession of control of the Wisconsin-domiciled insurance companies that you are seeking to acquire:

- a. WellPoint Health Networks Inc. (Delaware)**
- b. Crossroads Acquisition Corporation (Delaware)**

Attached as Exhibits B and C please find Consents to Jurisdiction on Form E for each of WellPoint and Crossroads Acquisition Corp. ("Crossroads").

4. Please provide the following information with respect to WellPoint Health Networks Inc.

- a. Date of incorporation**
- b. Capitalization structure, including the number of shares authorized, and issued and outstanding for each class of common and preferred stock. Debt issued.**
- c. If the company carries debt, who holds the debt and what are the rates, maturity schedules and covenants on that debt?**

WellPoint was originally incorporated in Delaware on November 20, 1992. Attached as Exhibit D please find the balance sheet of WellPoint as of March 31, 2003, which shows, among other things, the number of shares of Common Stock and Preferred Stock authorized, and issued

and outstanding as of such date. In addition, the balance sheet shows WellPoint's total indebtedness as of such date. More specifically, as of March 31, 2003, WellPoint had the following outstanding indebtedness:

<u>Type of Indebtedness</u>	<u>Principal Amount Outstanding</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
6 ³ / ₈ % Notes due 2006	\$450,000,000	June 15, 2006	6.375%
6 ³ / ₈ % Notes due 2012	\$350,000,000	January 16, 2012	6.375%
Commercial paper	\$349,600,000	32 days *	1.48%*

* WellPoint's outstanding commercial paper was issued at various times in different amounts. The maturity date and interest rate shown are on a weighted-average basis.

WellPoint's 6-3/8% Notes due 2006, 6-3/8% Notes due 2012 and commercial paper are broadly distributed and held by various investors. Both issues of 6-3/8% Notes were issued in the public debt markets and contain customary covenants limiting WellPoint's ability to create certain secured indebtedness and to engage in certain sale-and-leaseback transactions. WellPoint's commercial paper is issued from time to time in the private commercial paper market and does not contain any covenants.

As noted in the original Form A filing, WellPoint maintains two revolving credit facilities. One facility, which expires in March 2006, provides for borrowings of up to \$750,000,000. The other facility, which expires in March 2004, provides for borrowings of up to \$250,000,000. The documents relating to these facilities were attached as Exhibits 4-A and 4-B to the original Form A filing. Loans under these facilities are made by a syndicate of national banks. These facilities contain various customary covenants for borrowers of WellPoint's size and creditworthiness. There are currently no amounts outstanding under these two facilities.

5. Please provide the following information with respect to Crossroads Acquisition Corporation:

- a. *Financial statements as of June 30, 2003 (unaudited is acceptable, if that's the best available)*
- b. *Date of incorporation*

Crossroads was originally incorporated on June 2, 2003, for the sole purpose of serving as the acquisition entity for the proposed transaction. Financial statements of this entity have not been prepared because the entity was capitalized with only a nominal investment and has no other purpose or activity other than to serve as an acquisition vehicle.

6. Please send me biographical affidavits on the NAIC form for the following directors and officers of WellPoint Health Networks Inc.:

- a. **Leonard D. Schaeffer**
- b. **Roger E. Birk**

- c. **Sheila P. Burke**
- d. **William H.T. Bush**
- e. **Julie A. Hill**
- f. **Warren Y. Jobe**
- g. **Ramiro G. Peru**
- h. **Jane G. Pisano**
- i. **Elizabeth A. Sanders**
- j. **D. Mark Weinberg**
- k. **David C. Colby**
- l. **Thomas C. Geiser**
- m. **David S. Helwig**
- n. **Joan E. Herman**
- o. **Rebecca A. Kapustay**
- p. **Woodrow A. Myers, Jr.**
- q. **John A. O'Rourke**
- r. **Alice F. Rosenblatt**
- s. **John S. Watts, Jr.**
- t. **Ronald J. Ponder**
- u. **Kenneth C. Zurek**
- v. **Robert A. Kelly**

A complete set of the requested biographical affidavits on the appropriate NAIC form for the current directors and executive officers of WellPoint will be filed under separate cover as soon as they are available.

7. *Please provide a copy of Wisconsin United for Health Foundation Inc.'s Voting Trust Agreement with WellPoint Health Networks Inc.*

Although the Voting and Lockup Agreement dated as of June 3, 2003 between WellPoint and the Wisconsin United for Health Foundation, Inc. (the "Foundation") contemplates that WellPoint and the Foundation may enter into a voting trust agreement with respect to any shares of WellPoint Common Stock owned by the Foundation after completion of the transaction, no form of agreement has been negotiated. A voting trust agreement will only be executed if it is necessary in order to comply with the Blue Cross Blue Shield Association (the "BCBSA") rules. In general, the BCBSA rules require a voting trust agreement whenever any single stockholder such as the Foundation beneficially owns more than 5% of WellPoint's outstanding Common Stock. WellPoint currently expects that, immediately following the merger, the Foundation will own less than 3% of WellPoint's outstanding Common Stock. As a result, WellPoint does not currently anticipate that such an agreement will be required. In the event that the parties enter into a voting trust agreement, WellPoint will file such agreement with the Commissioner of Insurance.

8. Please file a photocopy of the fairness opinion that UBS Warburg LLC provided to Cobalt Corporation's board of directors.

Attached as Exhibit E please find a copy of the fairness opinion dated June 3, 2003 of UBS Warburg LLC provided to Cobalt's Board of Directors. The fairness opinion was also attached as an exhibit to WellPoint's Registration Statement on Form S-4 that was filed with the Commissioner of Insurance on July 3, 2003.

9. Who will serve as directors and officers of each of the following insurance corporations following the merger: Blue Cross and Blue Shield United of Wisconsin; Compcare Health Services Insurance Corporation; Unity Health Plans Insurance Corporation; United Heartland Life Insurance Company; United Wisconsin Insurance Company; and Valley Health Plan, Inc.? Please file biographical affidavits on the NAIC form for any individuals for whom a biographical affidavit would not already be on file with this Office.

The directors and officers of the above referenced insurance corporations are anticipated to be a combination of WellPoint officers and Cobalt personnel. WellPoint is in the process of reviewing the directors and officers of these insurance corporations. No final decision has been made as to who will serve as such directors and officers. The current directors and officers of those insurance corporations will remain in place pending such a determination. WellPoint will advise the OCI of any changes when and if such changes are proposed.

10. What is the significance of the reference to s. 180.0622(2)(h), Wis. Stat. in Section 3.2 of the Agreement and Plan of Merger dated as of June 3, 2003 among WellPoint Health Networks Inc., Crossroads Acquisition Corporation and Cobalt Corporation?

Wis. Stat. s. 180.0622(2)(b) provides that shareholders "are personally liable to an amount equal to the par value of shares owned by them respectively, and to the consideration for which their shares without par value issued, for all debt, owing to employees of the corporation for services performed for such corporation, but not exceeding 6 months' service in any one case." Thus, the shares of capital stock of Wisconsin corporations are always assessable for such liabilities and representations that the shares of the "Significant Subsidiaries" were fully paid and nonassessable in Section 3.2(a)(ii) of the Agreement and Plan of Merger had to be qualified by that reference in order to be accurate.

11. What was the situation behind the \$1,250,000 monetary penalty assessed against UNICARE Life & Health Insurance Company by Texas in 2001?

In September 2001, UNICARE Life & Health Insurance Company ("UNICARE") entered into an agreed consent order with the Texas Department of Insurance for violations of the Texas prompt pay law. In the order, UNICARE agreed to a fine of \$1.25 million. Seven other major insurance groups entered into similar agreements with the Department in September 2001. The Department entered into consent agreements with almost all health carriers doing business in Texas by the end of 2002 (over 30 consent orders in total). The Texas Department of Insurance

("TDI") conducted an onsite examination of UNICARE in December 2001. The TDI examination report for UNICARE, issued in the spring of 2002, found no violations of the prompt pay law. A copy of the TDI press release announcing the consent orders is attached as Exhibit F, and a copy of the agreed consent order applicable to UNICARE is attached as Exhibit G.

12. When available, please provide me with a copy of the Federal Trade Commission's early termination notice or other form of response to WellPoint's filing pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

A copy of the Federal Trade Commission's early termination notice will be provided to the Office of the Commissioner of Insurance (the "OCI") as soon as it is available.

13. What is the target date for closing the proposed merger?

The parties currently intend to complete the merger as soon as practicable following receipt of all required approvals and satisfaction of all other closing conditions. The parties are currently targeting a closing in early to mid-September, but in any event expect that the closing will occur during the quarter ending September 30, 2003.

14. Under what circumstances would WellPoint Health Networks Inc. anticipate that it would make a reverse merger election, whereby Crossroads Acquisition Corporation would be merged with and into Cobalt Corporation?

WellPoint will make the reverse merger election in the event that it does not receive opinions from Simpson Thacher & Bartlett LLP, counsel to WellPoint and Foley & Lardner, counsel to Cobalt, that the merger will qualify as a reorganization under Section 368 of the Internal Revenue Code of 1986, as amended (the "Code"). WellPoint currently believes that it will receive the opinions and not make the reverse merger election. In general, the opinions will be issued if, among other things, the stock of WellPoint constitutes at least 45% of the total consideration in the merger. Based on current stock prices and certain provisions of the merger agreement, WellPoint believes that this requirement should be satisfied.

15. What will be the primary location of Cobalt Corporation's present insurance subsidiaries' books and records following the proposed merger?

WellPoint expects that the primary location of the books and records of Cobalt's present insurance subsidiaries following the completion of the transaction will be in the State of Wisconsin.

16. *What is the anticipated impact of integration expenses upon each of Cobalt Corporation's Wisconsin-domiciled insurance subsidiaries?*

There is no material anticipated impact of integration expenses on any of Cobalt's Wisconsin-domiciled insurance subsidiaries.

17. *Is any reorganization of the succession of control or ownership of Cobalt Corporation's present subsidiaries contemplated following the proposed merger?*

No reorganization or succession of control or ownership of Cobalt's present subsidiaries is currently contemplated following the proposed merger.

18. *What changes does management anticipate with respect to service, management, cost allocation or other written agreements among members of the holding company system in consequence of the proposed merger?*

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

19. *Which types of programs and services will Cobalt Corporation's insurance subsidiaries prioritize for growth and development following the proposed merger?*

Cobalt's insurance subsidiaries currently expect that plans and services serving the individual and small employer market and the uninsured market will be prioritized for growth and development following the proposed merger, consistent with WellPoint's general business operations. 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 and that allow customers greater choice and flexibility in selecting the health plan that best meets their individual needs. In addition, WellPoint intends to introduce innovative specialty health care products (such as dental or life insurance products) that offer additional value to all customer segments.

20. *Which types of programs and services will Cobalt Corporation's insurance subsidiaries seek to reduce or terminate following the proposed merger?*

There are no currently anticipated reductions or terminations in programs and services of Cobalt's insurance subsidiaries following the proposed merger.

21. *Does management anticipate any changes in Cobalt Corporation's insurance subsidiaries' marketing practices or distribution channels following the proposed merger? Will Cobalt Corporation's distribution network be cross-licensed for agency on behalf of other*

present WellPoint Group members? Will WellPoint's distribution network be cross-licensed for agency on behalf of Cobalt Corporation's agency network? Will the producer networks be more or less comprehensively integrated, or will they remain more or less distinct?

Management does not currently anticipate any material changes in Cobalt's insurance subsidiaries' marketing practices or distribution channels following the proposed merger. While the issue is still under consideration, the two companies' respective distribution networks may be crossed-licensed for agency on behalf of each other following completion of the transaction. WellPoint's subsidiary, UNICARE Life & Health Insurance Company ("UNICARE"), currently does business in Wisconsin and it is anticipated that UNICARE's customers will be offered the opportunity to subscribe to Blue Cross Blue Shield-issued products following the merger.

22. Please describe plans, if any, to contribute capital to any of Cobalt Corporation's insurance subsidiaries following the proposed merger.

There are no current plans or intentions to contribute capital to any of Cobalt's insurance subsidiaries following the proposed merger, although the capital of these companies will be maintained at appropriate levels to comply with statutory requirements and, where applicable, the requirements of the BCBSA.

23. What significant operational changes are anticipated for WellPoint Health Networks Inc. and Cobalt Corporation following the proposed merger transaction?

There are currently no significant operational changes anticipated for WellPoint or Cobalt following the proposed transaction.

24. Please describe post-acquisition plans for charitable contributions and commitment to community outreach in Wisconsin in comparison to Cobalt Corporation's historical practices.

The parties currently anticipate 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 things, through the Cobalt Corporation Foundation. The parties have agreed in Section 5.16 of the Agreement and Plan of Merger that the Cobalt Corporation Foundation will continue to make charitable contributions to Wisconsin organizations.

25. Is it anticipated that the number of people employed by Cobalt Corporation and the holding company system that it presently controls will increase or decrease? If so, what is the anticipated magnitude of the change?

There are no current plans or intentions to increase or decrease employment levels by Cobalt and the other companies in its holding company system following completion of the merger. While WellPoint foresees that there will be some operational efficiencies through consolidation of some functions (such as corporate finance or treasury), as stated above, it is also

WellPoint's intention to increase Cobalt's business especially through new product offerings in the individual and small employer group market. Overall employment levels will depend on the success of the business operations.

Blue Cross & Blue Shield United of Wisconsin will continue to be headquartered in the State of Wisconsin following completion of the transaction. Additionally, WellPoint and Cobalt have agreed that Milwaukee will be the national headquarters for WellPoint's Medicare Part A claims processing business (See Section 5.16 of the Agreement and Plan of Merger). There are currently more than 600 employees working in Milwaukee on the Medicare Part A business.

26. *What are WellPoint's intentions with respect to continuation of senior executive management following the proposed merger transaction?*

WellPoint is currently evaluating the matter of senior executive management and some preliminary discussions have been held with Cobalt senior management, although no decisions have been reached. WellPoint's evaluation is continuing, and it will advise the OCI of the results of that evaluation, as well as proposed actions, if any, upon its completion.

27. *Will the acquisition of Cobalt Corporation trigger any change in control provisions under the terms of any executive employment agreement? What is the anticipated amount of change-in-control payments as a consequence of the proposed merger?*

The acquisition of Cobalt will trigger change-in-control provisions under the terms of previously negotiated Cobalt executive agreements. The potential amount of change-in-control payments as a consequence of the merger have been set forth in the Registration Statement on Form S-4, a copy of which was filed by WellPoint with the Commissioner of Insurance on July 3, 2003.

28. *Will the existing employees of Cobalt Corporation, Blue Cross and Blue Shield of United of Wisconsin, and Government Health Services, LLC be transferred to become employees of one or more other companies in the holding company system?*

WellPoint does not currently anticipate that the existing employees of any of the Cobalt entities will be transferred to become employees of other companies in the WellPoint holding company system.

29. *With respect to the transactions described in the Form A, have any executive employment agreements, side agreements, written plans, or assurances been made or placed under development concerning staff retention, salaries and benefits, or severance packages, for the officers and employees of Cobalt Corporation and its subsidiaries?*

Please see the response to Comment Number 26 above.

30. *What is the anticipated effect of the merger of pension plans on the combined plans' funded status?*

WellPoint currently expects that, following completion of the merger, it will combine the pension plan covering Blue Cross Blue Shield United of Wisconsin's employees with the pension plan that covers WellPoint employees. Following completion of the merger, WellPoint anticipates that it will continue its funding policy of maintaining plan assets equal to no less than 90 - 95% of the combined plan's current liability. WellPoint will in all events continue to fund this combined plan in accordance with applicable legal requirements. United Government Services, a subsidiary of Cobalt, currently maintains a separate plan covering its employees, and WellPoint does not currently anticipate combining that plan with any other WellPoint-maintained plan.

31. *Please describe the U.S. federal and Wisconsin state income tax treatment and tax structure contemplated. What are the anticipated tax consequences of the proposed merger?*

Neither WellPoint nor Cobalt will incur United States federal income tax in the merger. The merger will be treated as a reorganization under Section 368 of the Internal Revenue Code for United States federal income tax purposes. Under such treatment, in general, the shareholders of Cobalt will recognize gain (but not loss) to the extent of the non-stock consideration they receive in the merger. If WellPoint makes the reverse merger election, the merger will be treated as an acquisition of the stock of Cobalt and will be fully taxable to shareholders of Cobalt.

Wisconsin income tax law follows federal income tax with respect to mergers that are treated as a reorganization under Section 368 of the Internal Revenue Code. Neither WellPoint nor Cobalt will incur Wisconsin income tax in the proposed transaction. Shareholders who are subject to Wisconsin income taxes will recognize gain (but not loss) to the extent of the non-stock consideration they receive in the merger. If WellPoint makes the reverse merger election, the transaction will be treated as a taxable stock purchase for Wisconsin income tax purposes. Of course, Wisconsin and federal income tax treats capital gains differently.

32. *Please describe the implications of the federal tax election under Section 368(a) of the Internal Revenue Code.*

Section 368 of the Code provides that certain mergers and similar transactions are treated as "tax-free" reorganizations for United States federal income tax purposes, with the consequences described in 31 above. It is intended that the proposed merger qualify as a tax-free reorganization under Section 368(a)(2)(D) of the Code. There is no election under Section 368 of the Code and thus if the merger qualifies for such treatment it will be treated as a tax-free reorganization under Section 368.