

Junior, Steve

From: Klancnik, Thomas E. [TEKlancnik@MBF-LAW.com]
Sent: Wednesday, March 31, 2004 5:04 PM
To: Steve Junior (E-mail)
Subject: Case Recommendation Memorandum

| | |
|----------------|--------------|
| Doc # | 15 |
| Date | 1 April 2004 |
| Case | 04-C28767 |
| Instr. Control | |



Comments on Draft
Case Recomme...

Dear Mr. Junior,

Attached are comments to the draft Case Recommendation Memorandum. Anthem and WellPoint financial officials are still reviewing the draft Case Recommendation Memorandum and may yet have additional comments.

Thomas E. Klancnik
Michael Best & Friedrich LLP
One South Pinckney Street [Zip 53703]
P.O. Box 1806
Madison, Wisconsin 53701-1806
Ph: (608) 283-2245
Fax: (608) 283-2275
e-mail: tekclancnik@mbf-law.com

<<Comments on Draft Case Recommendation Memorandum (B0342841).PDF>>

+++++
The information contained in this communication may be confidential, is intended only for the use of the recipient(s) named above, and may be legally privileged. If the reader of this message is not the intended recipient, you are hereby notified that any dissemination, distribution, or copying of this communication, or any of its contents, is strictly prohibited. If you have received this communication in error, please return it to the sender immediately and delete the original message and any copy of it from your computer system. If you have any questions concerning this message, please contact the sender.
+++++



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

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; 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 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.

Handwritten notes: 'Indiana' with a line pointing to 'Anthem Holding Corp.', and 'an Indiana' with a line pointing to 'Anthem Holding Corp.'.

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; 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, 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.

Handwritten note: 'transaction' with a line pointing to 'merger' in the previous paragraph.



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.

an additional fractional share of Anthem common stock, the

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.

borrowings, including

If used,

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)

\$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 \$12,034,130. 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. ⑨

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 ^{Colorado} 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 is domiciled in Indiana and

OneNation Insurance Company was incorporated in ^g 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

NAIC #

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

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,]

*make same
change as on page 2*

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 ^{unless otherwise agreed to by the parties} 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. *Lits* *u*
each is

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:

| Type of Insurer | Direct Premiums Written |
|--|----------------------------|
| 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'

| | | |
|--|---------|--------|
| 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:

| WellPoint Group | DPW in WI | Market Share |
|---|------------------|---------------------|
| 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 | 0 | 0.000% |
| 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.

location of employment of

the location

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's successor, *former*

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.

20,359,691

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% 663 |
| 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 *and is currently inactive*

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 *beneficial* 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 <i>Vice Chairman and</i> President & Chief Executive Officer Trans-Lux Corporation |
| L. Ben Lytle Vail, Arizona | Retired Chairman and Chief Executive Officer <i>Presiding Director</i> Anthem Insurance Companies, Inc. |
| William G. Mays Indianapolis, Indiana | President and Chief Executive Officer <i>President and Chief Executive Officer</i> Mays Chemical Company, Inc. |
| James W. McDowell, Jr. Louisville, Kentucky | President McDowell & Associates |
| Donald W. Reagle, Jr. Washington, District of Columbia | Chairman of Government Affairs <i>Chairman of Government Affairs</i> APCO Government Affairs <i>Worldwide</i> |
| William J. Ryan Cumberland, Maine | Chairman, President & Chief Executive Officer Bank North Financial Group <i>Banknorth is one word</i> |
| George A. Schaefer, Jr. Cincinnati, Ohio | President, Chief Executive Officer & Director Fifth Third Bancorp / <i>Fifth Third Bank</i> |

John Sherman, Jr.
 Richmond, Virginia

Vice Chairman
 Scott & Stringfellow, Inc.

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: *le Outside Managing Director
 Intec Telecom Systems*

| Name | Office |
|--------------------------|---|
| 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 <i>Anthem Midwest</i> |
| 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.

(or the substitute
limited liability
company)