Hidden Costs of M & A in a Regulated Market: A Case Study of the Merger of Anthem and Wellpoint Health Networks©

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Abstract

This paper presents a case study of the largest merger transaction of the U.S. health insurance industry. The merger between Anthem and Wellpoint highlights the many complications in M&A, especially in a highly regulated market. In addition to the normal considerations of merger structures, synergies and social considerations (new company name, severance packages, structure of the board of director, etc.), one must also take into account the political reactions of local regulators and other stakeholders. This case study is written to illustrate the various aspects of M&A to students and practitioners alike. In a regulated environment, political meddling of business transactions eventually will cost the participants many millions of additional dollars. This may have the potential to derail even the best conceived merger.
Hidden Costs of M & A in a Regulated Market: A Case Study of the Merger of Anthem and Wellpoint Health Networks

On October 26, 2003, the Chief Executive Officers of Wellpoint Health Networks, Inc. (Wellpoint) and Anthem, Inc. (Anthem) announced a $16.4 billion merger that, if successful, would create the largest managed healthcare (managed care) company in the United States (see Exhibit 1 for the company press release). The announcement came as a surprise to most observers, as both companies had been actively acquiring smaller companies. Interestingly, the merger announcement came on the same day that the nation’s market leader, United Healthcare, was announcing its latest acquisition, a $2.6 billion purchase of Mid Atlantic Medical Services, Inc., and a Maryland-based managed care company [Greenwald 1].

In financial terms, California-based Wellpoint was the larger entity, with 2003 revenues of $20.4 billion and net earnings of $935 million. Indianapolis-based Anthem was slightly smaller, with revenues of $17.8 billion and net earnings of $774 million. Both companies had strong balance sheets, impressive cash positions and were known as “aggregators” of Blue Cross and Blue Shield (BCBS) plans across the United States. Over the years, both had grown from their roots as single-state, not-for-profit BCBS plans, to become for-profit, publicly traded entities, doing business in multiple states across the country. In the process, they had grown to be counted among the largest players in the managed healthcare industry.

This paper presents a case study of the largest merger transaction of the U.S. health insurance industry. The merger between Anthem and Wellpoint highlights the many complications in M&A, especially in a highly regulated market. In addition to the normal considerations of merger structures, synergies and social considerations (new company name, severance packages, structure of the board of director, etc.), one must also take into account of the political reactions of stakeholders. In a regulated environment, political meddling of business transactions eventually will cost the participants many millions of additional dollars. This may have the potential to derail even the best conceived merger.

I. The Merger Proposal

The merger of Wellpoint and Anthem would create the largest managed care company in the United States, with estimated 2004 revenues exceeding $40 billion, 40,000 employees and nearly 28 million managed care covered lives. Exhibit 2 shows the selected financial information on the newly-combined company. Market share data for the US managed healthcare industry are contained in Exhibit 3.

The announced specifics of the merger proposal were as follows (see Exhibit 4):

- Wellpoint shareholders would be offered one share of Anthem stock plus $23.80 in cash for each share of Wellpoint stock. As of October 24, 2003, the value of the merger was an estimated $16.4 billion.
- Wellpoint would be operated as a wholly owned subsidiary of Anthem.
• Anthem would assume the name of Wellpoint (New Wellpoint) and corporate headquarters for the newly named corporation would be the existing Anthem corporate offices in Indianapolis, IN. Wellpoint’s corporate offices in Woodland Hills, CA, would be retained for operating purposes.

• Leonard D. Schaeffer, the present Chairman/CEO of Wellpoint, would become the Chairman of the Board of New Wellpoint, while Larry C. Glasscock, Anthem’s Chairman and CEO, would become President and CEO. No later than two years post-merger, Mr. Schaeffer would retire and Mr. Glasscock would succeed him as Chairman while retaining his Chief Executive duties.

• The Board of Directors of New Wellpoint would be comprised of 19 members: 11 appointed from Anthem’s Board and 8 from Wellpoint’s.

• The companies had until November 30, 2004, to close the deal but had expressed optimism that a close could be expected by mid-2004.

A. Merger Rationale and Objectives

Except as noted in later discussions, Wellpoint and Anthem were managed care competitors who did not compete; that is, they operated in different state insurance markets. Hence, the merger would not reduce operating expenses by consolidating local operating units. Nor did the companies service the same customers per se, although there was some minimal competition for so-called “national accounts.”

What the merger would produce was increased purchasing power that could be applied in negotiations with medical providers that were national in scope, i.e., national outpatient laboratories, pharmacy benefit managers and drug chains. Similarly, elimination of duplicate services could be realized in corporate functions, information systems, medical technology assessment, and product development (see Wellpoint SEC Form 425 2004).

Over a three-year period, post-merger expense savings were estimated to total $475 million, a seemingly modest sum when compared to the expected $40 billion annualized revenues of New Wellpoint.

B. Initial Reaction to the Merger Announcement

Wall Street’s initial response to the merger announcement was generally positive. Anthem’s shares were down 9.6%, while Wellpoint’s shares rose 7.5%. Analysts at Smith Barney called the deal the “ideal merger” and opined that the new entity would enjoy “enhanced bargaining power with drug suppliers and employers” [Postelniciu 46]. The next month, T. Rowe Price analysts supported Anthem and the pending deal, rating the stock a buy [Garcia 58].

Not all analysts were so positive. Business Week was skeptical of the ability of the merger to add to shareholder value over time. Pointing to the 20% premium over market offered to Wellpoint, it is believed the deal was clearly a benefit to Wellpoint shareholders but the outcome for Anthem’s was less clear. [Henry, Der Hovanesian, and Foust 38].

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In the initial presentation of the merger to Wall Street, executives of both companies promised savings from “operating efficiencies” of some $475 million over the initial three years post-merger. However, there were other “stakeholders” of the New Wellpoint who were not impressed with this rationale. The American Medical Association, the nation’s leading advocacy group for physicians, took a distinctly negative view of the New Wellpoint. In calling for the merger to be reviewed by the Federal Trade Commission, AMA President Dr. Donald Palmisano was blunt: “We are alarmed! The proposed acquisition is on a scale not seen in an industry where competition has already been dramatically reduced! These mergers should be highly scrutinized.” [Japsen 1]. Similar concerns were expressed by hospital industry executives, who were concerned about the growing negotiating clout of New Wellpoint [Benko 6, 11/3/03].

Concurrently, consumer advocacy groups were quick to take notice of particular elements of the merger. Of special interest seemed to be Wellpoint Chairman Leonard Schaeffer’s merger related compensation package. In total, Schaeffer could receive compensation of about $335 million, $118 million in cash and the remainder in shares of New Wellpoint. Foundation for Taxpayers and Consumers spokesperson Jerry Flanagan also called for the Federal Trade Commission to intervene: “When an HMO executive is handed over a third of a billion dollars, patients will get shortchanged because there is less money for medical care!” [Benko 6, 11/3/03].

In spite of the concerns raised above, industry experts believed that the deal would be approved fairly quickly and the management of New Wellpoint went about the business of post-merger planning.

II. The Development of Health Insurance/Managed Care

Prior to the 1930’s, the cost of medical care in the United States was normally borne directly by individuals and their families. Given the state of medicine at that time, costs were generally low, and charity care provided by physicians and hospitals was not uncommon. In many ways, the Great Depression changed this scenario and gave birth to the first Blue Cross organizations. Blue Cross plans were insurance companies created in the 1930s by state hospital associations who wanted to develop a more certain payment mechanism for their services. Later in the decade, physician groups began forming similar companies and named them Blue Shield plans.

Over the years, traditional indemnity insurance companies entered the new health insurance industry, which received an unintentional boost from both labor unions and the wage and price controls of World War II. Very quietly in the background, the first “managed care plans” (a term not coined until much later) were forming on the west coast.

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1 Indemnity refers to insurance that commits to provide reimbursement in the event of a financial loss. Managed healthcare also provides this financial protection but will normally employ a wide array of risk management procedures such as provider incentives, prospective and concurrent medical service utilization management, disease management, early detection of disease, preventive medicine and patient education [Fox 2001].
By the 1950’s, employer-provided group health insurance had become the norm, helped in no small way by the preferential Federal tax treatment of employer-paid premiums. The Federal government jumped directly into the health insurance market with the Medicare and Medicaid programs, both implemented in the 1960’s. These new initiatives, which were designed to cover the elderly and the poor, greatly expanded the number of Americans who now had health insurance coverage [Beam 177-180].

Driven by escalating costs in the 1970’s, both government and employers began to look for ways to restrain their future health care costs. This search led directly to the creation of the Federal HMO Act of 1973 and a government effort to jump start a new form of health insurance which combined the financing and the provision of medical care within one entity. This was the real birth of what we now know as the managed health care industry or managed care for short.

During the period 1980-1995, traditional plans such as the Blue Cross/Blue Shield plans and larger insurance companies like CIGNA, Aetna and Prudential Insurance all formed managed care-like plans in order to compete in this new marketplace with the hundreds of smaller managed care plans that had sprung up [Fox 3-12].

What began as an experiment funded primarily by government grants and loans was by the mid-1990s, the dominant form of health insurance in the United States. Meanwhile, traditional indemnity health insurance now occupies a tiny slice of the overall market. During the 1990s, the industry also began a rapid consolidation, such that at present, the 10 largest managed care companies provide the majority of Americans with their health care coverage.

A. The History of Wellpoint and Anthem

The forerunner to the current Wellpoint organization was Blue Cross of California, an entity that still exists today as a wholly owned subsidiary of the publicly held Wellpoint. Wellpoint’s current Chairman/CEO, Leonard C. Schaeffer, came to Blue Cross of CA (BCC) in 1986 and was faced with an immediate financial crisis. Through dramatic changes in organizational structure, product design, medical underwriting, and financial systems enhancements, he righted the ship and BCC went on to prosper [Iglehart 131-143].

Recognizing the emerging trend towards managed care and the growing investor interest in that industry, Schaeffer went on the offensive. Taking BCC through a for-profit conversion, that entity later became a wholly owned subsidiary of a new public entity, Wellpoint Health Networks, Inc. Armed with investor capital, Wellpoint proceeded to acquire other for-profit Blue Cross/Shield plans in Missouri, Georgia, and Wisconsin, as well as creating specialty service management companies to assist the individual Wellpoint plans and sell services to other customers (see Wellpoint SEC Form 10-K). As membership grew, so did profits and the market value of the company. The company became known as an aggregator of Blue Cross/Shield plans and was recognized for its financial discipline, creative product development and marketing savvy.

For its part, Anthem’s path to the merger was fairly similar in nature. Anthem, Inc. grew out of two Indianapolis-based corporations formed in 1944 and 1946 as mutual insurance
companies. Those two companies were created to provide health insurance to residents of Indiana as Blue Cross of Indiana and Blue Shield of Indiana. They eventually merged to form Blue Cross and Blue Shield of Indiana. In October 2001, Anthem de-mutualized and conducted an initial public offering of common stock. It later made acquisitions of Blue Cross/Shield plans in Kentucky, Ohio, Connecticut, Virginia, New Hampshire, Colorado, and Maine (Anthem Inc. reports 2003). In pursuing this strategy, Anthem had become known as the “other Blue Cross/Shield aggregator” and as such, often competed with Wellpoint as a suitor for the many independent Blue plans that still existed across the United States.

Individually, Wellpoint and Anthem formed two of the nation’s largest managed care organizations though they were generally not competitors for each other’s insurance purchasing customers. However, when it came to acquiring companies, the competition between the two companies was very real indeed. Hence, the merger announcement would result in a newly combined company that would control Blue plans in 13 states and would be in the market to purchase more plans as well. This gave rise to speculation that acquisition prices for future Blue Cross/Shield could moderate as these two bidders became one [Santini 1].

B. The structure and regulation of managed healthcare

Managed care companies in the United States are subject to a myriad of Federal and State laws/regulations. Fundamentally, each state has broad legal authority to regulate the practice of insurance within its boundaries and each does so in its own peculiar manner. While there are ongoing efforts to ensure some uniformity through the voluntary efforts of the National Association of Insurance Commissioners, the fact remains that there is no such thing as a national health insurance license, and therefore, no real “national health insurance companies” ²

In many states, managed care regulation is performed solely by an insurance department or division. In other states, there may also be a “department of managed care” that acts as a second regulating body, depending on license type, programs offered and the like.

Being publicly held companies, Wellpoint and Anthem would also be subject to extensive Federal regulatory approvals including the Securities and Exchange Commission, the Federal Trade Commission and the Department of Justice. At the time of the announcement, Wellpoint management believed that the merger related approval process would include the following (see Wellpoint SEC Form 425):

- Approval of both companies shareholders
- Federal Trade Commission review and approval
- Department of Justice-Hart-Scott-Rodino review and approval

² Although the larger managed care companies attempt to create a national presence by way of multiple state licenses, association ventures, and the creation of so-called self-insurance plans regulated by the U.S. Department of Labor.
• Securities and Exchange Commission approval
• Approval of the Blue Cross and Blue Shield of Association for the continued use of the Blue’s registered brands and trademarks
• State regulatory approval (selected states)

In this same document, Wellpoint management expressed again their belief that the merger could be completed by mid-year 2004.

III. The Regulatory and Approval Process Unfolds

Of the 13 states where the New Wellpoint would be doing business, there was some uncertainty as to exactly how many states had clear legal authority to review and/or stop the merger if they so desired. However, some state regulators whose authority seemed uncertain wasted no time in reacting to the merger announcement. On October 29, 2003, Indiana’s Insurance Commissioner, Sally McCarty, indicated she wanted to find a way to review the mergers’ financial impact even though her department doesn’t normally have oversight of such a transaction. “We want a hook here to be able to have some impact,” McCarty said. “There may be …a statute that gives us some oversight.” [Swiatek 1, 10/29/03]. At the same time, Wisconsin’s Deputy Insurance Commissioner Randy Blumer indicated that his office would be reviewing the deal.

As the merger process unfolded, all states (except California) would ultimately sign off on the deal. Moreover, things at the Federal level proceeded smoothly. By the end of February 2004, the Department of Justice and Federal Trade Commission hurdles had been cleared.

On March 23, 2004, the Blue Cross and Blue Shield Association approved the merger by a unanimous vote. This decision would enable New Wellpoint to continue to use the Blue plans trademarks so valued in individual markets [PR Newswire 1, 3/23/04].

On June 28, 2004, management happily announced that the shareholders of both companies had voted to approve the merger with nearly 97% of voted shares in the affirmative. This announcement made no reference to the CalPERS shareholder saga that had unfolded prior to the vote (see below). At this point, all that remained was to receive regulatory approval from the State of California, Wellpoint’s home state and its largest consumer marketplace [PR Newswire 1, 6/28/04].

A. California-Politics Not as Usual

The State of California was one of the states that did have clear review and approval authority in the merger process. Wellpoint’s existing corporate offices were located in California and the largest single unit of the New Wellpoint (estimated membership of 7 million members) would be Blue Cross of California [Benko 6, 11/3/03].

Within California, the merger would have to pass muster with both the Department of Insurance and the Department of Managed Care, as Wellpoint operated two distinct insurance
entities. Interestingly, it was the much smaller entity, the BC Life and Accident Company, which would be at the center of contention in the difficult days ahead.

While not a regulatory hurdle per se, the formidable California Public Employees Retirement System (CalPERS) would also be a factor to contend with. Long known for its activist shareholder actions, CalPERS had made its displeasure over the merger widely known. In fact, in the week before the shareholder vote, CalPERS announced that it would lead a shareholder action to block approval of the merger. While CalPERS actually held less than 1% of the combined companies stock, it had a national reputation and significant informal influence within California politics.

CalPERS main issue with the merger focused on its negative view of excessive executive pay packages (Leonard Schaeffer’s pay package drew special mention), which it believed would lead to reduced patient care and lower shareholder value. CalPERS further suggested that this pay package could total over $600 million and that the merger was “the poster child for excessive executive compensation” according to CalPERS Board member and State of California Treasurer Phil Angelides.

While it carried on this last minute shareholder effort, CalPERS also called on California’s Department of Managed Care to hold a public hearing and prohibit “improper administrative costs, such as executive compensation” [Benko 18, 6/21/04].

Of the two California regulatory bodies, the Department of Managed Care (DMC) appeared to be priority one for the New Wellpoint team. This entity held regulatory approval over Wellpoint’s BCC unit, the crown jewel of the New Wellpoint. Yet, by June 2004 (nearly eight month’s after the merger announcement), the DMC had yet to decide if it would hold public hearings on the merger. However, in fairly short order political pressure would be brought to bear on the DMC. Led by State Treasurer Phil Angelides (soon to run for Governor) California state legislators (who had held their own sub-committee meetings on the merger) and consumer advocacy groups, the DMC agreed to hold a public hearing on July 9, 2004.

While the DMC had been silent about the merger process, the Department of Insurance (DOI) had taken a different tact. DOI Commissioner, John Garamendi (who would also run for Governor), had taken a negative view of the merger and had fired an opening salvo at a special public hearing held by the California State Assembly on June 9th. During the meeting, Garamendi stated that “he did not believe the deal was in the best interests of the state” but he stopped short of saying that he would withhold DOI approval. While it regulated the much smaller BC Life and Health Co. (only 10% of Wellpoint’s total California revenue), the DOI still could prove troublesome to the entire merger’s success. A key provision in the merger agreement stipulated that the deal was contingent upon the acquisition of all of Wellpoint’s existing subsidiaries [Crowe 1]. Apparently, this was a point that Commissioner Garamendi was well aware.

On June 25th, a second public hearing was held, chaired by Commissioner Garamendi. He went directly on the attack, threatening to kill the merger, citing the estimated $600 million executive pay package that would apply to 293 key executives of the New Wellpoint.
Interestingly, Wellpoint CEO Schaeffer’s pay package became the focus of much of the hearing. Consumer advocates brought a 25 pound stuffed pig to the hearing and a poster featuring a picture of Schaeffer’s head on the body of a pig, feeding at a trough.

At one point, Garamendi laid out the bottom line for the New Wellpoint team: “I want to see that same amount; $600 million go to the poor in California.” [Crowe 1].

This was the first mention of what would become the key outcome for the Commissioner through the remainder of the process with New Wellpoint, namely, financial concessions in exchange for merger approval. At the meeting at least, the merger candidates were not biting.

Citing the $600 million estimate as highly inaccurate, Anthem CEO Glasscock indicated the actual number would be more in the $200 million range. Moreover, he indicated that any change in the executive pay packages would require going back to the shareholders for approval [Crowe 1]. Such a prospect must have been quite unsettling for the future CEO of New Wellpoint.

In spite of their resistance to the Garamendi proposal for financial concessions, Anthem and Wellpoint executives began a series of negotiations designed to gain the Commissioner’s approval. For his part, the Commissioner frequently used the press throughout the process to try to gain advantage, and to some, to develop political capital in preparation for his run for Governor.

In a conference call with reporters on July 7th, Garamendi indicated: “I could just say no!” He went on to lobby for payments by New Wellpoint, citing the possible good that the state could do with the new monies it receives [Pondel 1]. For its part, New Wellpoint executives expressed their willingness to continue negotiations.

On July 8th, it became clear that Garamendi was not alone in his willingness to apply pressure to the New Wellpoint team. California state senator Debra Ortiz announced that day that she would be holding hearings on a contention by consumer advocacy groups that Blue Cross of California had taken advantage of a tax loophole to avoid paying the state’s premium tax since 1990. Bluntly Ortiz noted: “We are asking that no merger go forward until we can determine if the state is owned $1 billion in premium taxes.” [Pondel 1].

For its part, the Department of Managed Care (the state agency responsible for collecting premium taxes in California) saw no real legal issue with the Blue Cross exemption. However, they did indicate that the California Assembly was free to change the law if they felt the need.

**B. The Deal Unravels**

For the New Wellpoint merger team, the California process must have seemed like a nightmare. However, their concerns soon heightened as the news of California’s strategy to gain financial concessions spread. Soon insurance officials from Ohio, Indiana, New Hampshire and
Maine indicated that they were following the process in California very carefully and its outcome could make them reconsider the approvals that they had already granted.

Regulators seemed intrigued by the notion that they may have passed on financial concessions by granting their approval of the merger too quickly. In essence, the California strategy was one that they might have employed had they thought of it.

At the same time, other regulators were concerned that any monies paid to California as concessions might end up coming from policyholders who reside in their states. As New Hampshire Insurance Commissioner Roger Sevigny indicated: “I would not be an advocate of a company we regulate here in New Hampshire subsidizing another state’s policyholders.” [Swiatek 1, 7/9/04].

B. One Down, One to Go

While Commissioner Garamendi was making most of the press in California, executives from both Anthem and Wellpoint had been also negotiating with California’s other regulatory body, the Department of Managed Care (DMC). On July 23rd, a press release happily announced that the DMC had given their thumbs up to the merger, clearly a major win for the New Wellpoint team. Wellpoint Chairman/CEO Schaeffer, who had been publicly very quiet throughout this process, was pointed in his compliments about the DMC staff and his words were dramatic in their effect: “Through her dedicated efforts and good-faith negotiations, (DMC) Director Ehnes secured nearly a half-billion dollars of value for the people of California.” [PR Newswire, 11/9/04]

The value that Chairman Schaeffer was referring to was a newly negotiated $465 million commitment to fund over two-dozen initiatives that would benefit poor and disadvantaged Californians. At the same time, the press release indicated that company executives had voluntarily agreed to defer over $100 million in compensated related benefits that they were contractually entitled to receive at the closing of the merger. This was accomplished by waiving the acceleration clauses in stock option agreements.

Within the same press release, company management indicated that they had learned that Commissioner Garamendi had rejected the concessions package and would withhold DOI approval of the merger, adding quite directly, “Garamendi’s politically motivated decision is a clear abuse of discretion that cannot possibly benefit Californians.”

C. The Commissioner Decides

As had been predicted, later on July 23rd, Commissioner Garamendi formally rejected the deal brokered by DMC director Cindy Ehnes. Ehnes, who was appointed directly by Governor Arnold Schwarzenegger, was candid in her assessment of the Wellpoint package: “We negotiated a pact that is a good deal for consumers and sends a strong message that California is a state where business is welcome.”
Anthem Chairman Glasscock was emphatic in condemning Garamendi’s decision: “He put his own political ambitions over the welfare of the people of California.” Then thumping the platform, he added: “I do not have a single doubt about that.”

For his part, Commission Garamendi reiterated his concerns about the pay packages of New Wellpoint’s executives and cited the inadequacy of the deal struck by DMC director Ehnes. He added: “This is a final decision.” [Theobald and Wall 1].

D. The Company Fights Back

On August 4, 2004, Anthem Inc., filed suit against Commissioner Garamendi in California Superior Court. The suit asked to set aside the Commissioner’s decision to block the Wellpoint-Anthem merger, arguing that the parties had met all the legal requirements sufficient to have their merger approved, adding: “The Commissioner’s decision is unlawful and we are asking the Court to overturn his decision and assure approval for the merger.” [PR Newswire 1, 8/3/04].

For his part, Commissioner Garamendi responded on August 26th, asking for a dismissal of the suit brought against him. A full hearing was scheduled on the suit on October 26th, although this would later be postponed. At this point, both sides appeared at an impasse and were preparing their legal arguments. Meanwhile, the fate of the $16 billion merger hung in the balance and the clock was ticking.

E. Closure is Reached and Lost

To the surprise of most everyone, November 10th brought an end of the stalemate. In a statement made during a visit to a health clinic for low-income residents in Los Angeles, Commissioner Garamendi announced that the New Wellpoint would commit an additional $265 million to fund children’s health, low income clinics, nurse’s training and other needs. Mr. Garamendi said, “The new commitments build on those negotiated with the state’s Department of Managed Care in its approval for the merger earlier this year.” [Rundle and Fuhrmans D.13].

While it appeared that the merger’s last major hurdle had been cleared, analysts expressed some concerns about other state insurance departments rescinding their prior approvals although company executives discounted this possibility.

However, this optimism proved to be unfounded. On November 15, 2004, Georgia state insurance Commissioner John Oxendine rescinded his previous approval of the merger. Specifically citing the additional concessions made to gain California’s DOI approval, Mr. Oxendine indicated that his staff was reviewing options that would include a “sweetening” of the deal for Georgia [Wall St. J. A.14, 11/15/04]. Four other states had indicated that they were reviewing their approvals in light of the California deal while four others have said their decisions would stand.
**F. Merger Completion**

On December 5, 2004, Anthem CEO Larry Glasscock happily announced the completion of the acquisition of Wellpoint Health Networks, Inc., for a reported purchase price of $16 billion, the largest transaction in the history of the US health insurance industry. Earlier in the day, Mr. Glasscock had wrapped up a package of financial concessions to the State of Georgia estimated to cost $100 million to the newly merged entity. Upon receiving formal approval of the deal from Georgia Insurance Commissioner John Oxendine at 10:30 AM, Anthem and Wellpoint officials moved with all due speed and completed the legal proceedings by 4:00 PM. Anthem Inc. and Wellpoint Health Networks, Inc. were now formally joined, with Mr. Glasscock acting as CEO of the newly named Wellpoint, Inc.

Following thirteen difficult months of preparation, negotiation and litigation, Mr. Glasscock did not want to wait another minute. “What you learn in the merger business is once you have everything done, close. Don’t wait! You never know what could go wrong!” [Swiatek 1, 12/5/04]. Given what he had been through during this ordeal, who could disagree?

**IV. Post-Script**

Now that the merger was legally complete, the Wellpoint executive team set about to tackle the difficult task of post-merger integration. As company officials later acknowledged, they had established 27 transition teams that had been working on plans on how to run the merged entity while the merger’s regulatory woes mounted. All this work had come to a halt when Commissioner Garamendi rejected the plan for California. Planning objectives for the merger (over 300) were also tabled with the Garamendi decision. Wellpoint officials had endured an “extended period of distraction” according to one outside source [Murphy A3, 10/4/04].

Also to be dealt with were the financial and other commitments made to the states of California and Georgia. In a footnote to Wellpoint’s 2004 SEC Form 10k, management acknowledged their concessions to California and Georgia as follows:

“In connection with the WHN merger, certain of our subsidiaries in California and Georgia executed undertakings with the California Department of Managed Health Care, the California Department of Insurance and the Georgia Department of Insurance which contained various commitments, including the commitment to provide $61.5 million of support for health benefit programs in those states. Additional undertakings include the requirement to maintain certain capital levels at those subsidiaries.”

The company’s Form 10-K also disclosed the settlement of a class-action shareholder suit that had been filed one day after the merger announcement back in October 2003. The company agreed to pay the plaintiff’s attorney fees of $2.25 million and make changes to the disclosures included in the proxy sent to shareholders for the merger’s approval.

On December 6, 2004, Wellpoint’s stock closed at $113.10. By March 28, 2005, the price had increased to $124.65.
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Anthem and WellPoint to Merge

Combination Will Create Nation’s Leading Health Benefits Company

Indianapolis, IN and Thousand Oaks, CA — October 27, 2003 — Anthem, Inc. (NYSE: ATH) and WellPoint Health Networks Inc. (NYSE: WLP), today announced that they have signed a definitive merger agreement that will create the nation’s leading health benefits company. The combined company will serve nearly 26 million medical members, and operate as a Blue Cross or Blue Cross Blue Shield licensee in 13 states.

Under the terms of the agreement, WellPoint’s shareholders will receive $23.80 in cash and one share of Anthem common stock per WellPoint share. The total value of the transaction is approximately $16.4 billion based on Anthem’s October 24, 2003 closing stock price. The merger is expected to close by mid-2004, subject to regulatory and shareholder approvals.

Benefits of Affiliation

“Today marks an historic event for both of our companies. This strategic merger combines the operational, financial and human resources of two great companies and positions the enterprise as a leader in the health benefits industry, a testament to the value and strength of the Blue Cross Blue Shield brand,” said Larry Glasscock, chairman, president and chief executive officer of Anthem. “Bringing together the long-held traditions of customer focus and operational excellence from each company provides an opportunity to create an even stronger organization that will provide the very best in products, services and information to our members and the health care professionals who serve them.”

“Advancing medical technology, the Baby Boomer generation and expanding consumer expectations continue to strain the American health care system,” said Leonard Schaeffer, chairman and chief executive officer of WellPoint. “We want to take the lead in addressing these challenges. This merger creates the nation’s leading health benefits company with an outstanding opportunity to set the industry standard and better serve our members, employer groups, physicians and hospitals, agents and brokers, and our communities.”

“Our vision is to redefine the industry by providing more value to our constituents through innovative, choice-based products, significant service enhancements, simplified transactions, and better access to information for quality care,” added Schaeffer.

Glasscock further commented, “This affiliation creates additional opportunities for both companies to expand collaborative reimbursement programs that reward physicians and hospitals for clinical quality. The associates of our combined company will also be given tremendous opportunities for personal growth and development across a much larger organization.”

“Additionally, both companies have demonstrated a strong history of community involvement and commitment to charitable causes and public health initiatives. The combined company will continue to build on those traditions in the communities where we live and work,” added Glasscock.

Both Glasscock and Schaeffer emphasized that through this affiliation, customers, providers, shareholders, and associates would benefit from:
· Complementary cultures centered on anticipating customer needs and providing quality service;

· Strong, collaborative relationships with customers, providers and regulators;

· Combined size and scale that creates the leading company in the health benefits industry;

· Expanded geographical diversity with a local focus and national reach;

· Significant growth opportunities in regional and national markets; and

· Substantial opportunities for operational synergies and cost savings that will contribute to keeping premiums affordable for customers.

This transaction is expected to be modestly dilutive to 2004 earnings per share and accretive thereafter. At least $50 million pre-tax synergies are expected to be realized in 2004 and approximately $175 million in 2005, with annual pre-tax synergies of at least $250 million expected to be fully realized on an annual basis by 2006.

New Organization

The combined company’s name will be WellPoint, Inc. The corporate headquarters will be located in Indianapolis, Indiana.

After the closing, the Board of Directors of the combined company will include 12 members from Anthem’s Board and 8 members from WellPoint’s Board. Leonard Schaeffer will serve as Chairman of the Board. Larry Glasscock will be President and Chief Executive Officer of the combined company. WellPoint’s Chief Financial Officer, David Colby, will be Executive Vice President and Chief Financial Officer. Michael Smith, Anthem’s current Executive Vice President and Chief Financial Officer, will co-chair the merger transition and integration team along with Alice Rosenblatt, WellPoint’s Executive Vice President, Integration Planning/Implementation and Chief Actuary. Upon completion of this assignment, Michael Smith will retire in accordance with his previously announced plans.

Both WellPoint and Anthem have established a regional operating model that emphasizes local decision-making. The combined company will remain committed to a regional structure with the current regional leaders participating in the integration process to ensure that best practices and operational synergies are realized across all geographic markets. To assure continuity of leadership, the Presidents of WellPoint’s Blue Plans will be asked to continue in their current roles.

The local Blue branded businesses will continue to operate in their markets under current brand names. The combined company will also continue to use the UNICARE and HealthLink brands.

Company Facts

As of Sept. 30, 2003

<table>
<thead>
<tr>
<th></th>
<th>Anthem</th>
<th>WellPoint*</th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Membership</td>
<td>12 million</td>
<td>14 million</td>
<td>26 million</td>
</tr>
<tr>
<td>Employees</td>
<td>20,000</td>
<td>20,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>
Assets

<table>
<thead>
<tr>
<th></th>
<th>$13.2 billion</th>
<th>$13.9 billion</th>
<th>$27.1 billion</th>
</tr>
</thead>
</table>

Last 12 Months Ended **Sept. 30, 2003**

<table>
<thead>
<tr>
<th></th>
<th>$16.5 billion</th>
<th>$19.4 billion</th>
<th>$35.9 billion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$737.4 million</td>
<td>$843.7 million</td>
<td>$1.6 billion</td>
</tr>
</tbody>
</table>

* Includes no income statement impact associated with the September 24, 2003 acquisition of Cobalt and does not include BlueCard host membership for WellPoint.

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**Conference Call and Webcast**

Anthem and WellPoint will host a joint conference call and webcast today at 8:00 am Eastern Standard Time (EST) to discuss their definitive merger agreement and their respective third quarter earnings results. The conference call can be accessed by dialing 800-289-0494 (International 913-981-5520). No pass-code is required. The webcast and presentation slides can be accessed at Anthem's web site, www.anthem.com, or WellPoint's web site, www.wellpoint.com under Investor Relations. Please visit the website or dial in at least 15 minutes in advance. A replay of the call will be available after 10:30 a.m. EST on October 27, 2003 until the end of the day on November 10, 2003 by dialing 888-203-1112 (International 719-457-0820), pass-code 727923.

Please note that the previously scheduled conference calls for October 28, 2003 and October 29, 2003 for WellPoint and Anthem, respectively, have been cancelled due to the distribution of this press release and today's conference call.

**Contacts:**

<table>
<thead>
<tr>
<th></th>
<th>Anthem</th>
<th>WellPoint</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investor Relations</td>
<td>Tami Durle, 317-488-6390</td>
<td>John Cygul, 805-557-6789</td>
</tr>
<tr>
<td>Media</td>
<td>Ed West, 317-488-6100</td>
<td>Ken Ferber, 805-557-6794</td>
</tr>
</tbody>
</table>

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**About Anthem**

Anthem, Inc. is an Indiana-domiciled publicly traded company that, through its subsidiary companies, provides health care benefits to more than 11.8 million people and specialty benefits to 12.1 million people. Anthem is the fifth largest publicly traded health benefits company in the United States and an independent licensee of the Blue Cross Blue Shield Association. Anthem is the Blue Cross and Blue Shield licensee for Indiana, Kentucky, Ohio, Connecticut, New Hampshire, Colorado, Nevada, Maine and Virginia, excluding the immediate suburbs of
Washington, D.C. Anthem had assets of $13.2 billion as of September 30, 2003 and full year 2002 revenue of $13.3 billion. More information about Anthem is available at www.anthem.com.

About WellPoint

WellPoint serves the health care needs of more than 14 million medical members and more than 44 million specialty members nationwide through Blue Cross of California, Blue Cross and Blue Shield of Georgia, Blue Cross and Blue Shield of Missouri, Blue Cross & Blue Shield United of Wisconsin, HealthLink and UNICARE. Visit WellPoint on the Web at www.wellpoint.com. Blue Cross of California, Blue Cross and Blue Shield of Georgia, Blue Cross and Blue Shield of Missouri and Blue Cross & Blue Shield United of Wisconsin are independent licensees of the Blue Cross and Blue Shield Association.
Exhibit 2: Wellpoint Health Networks, Inc. and Anthem, Inc. Selected Financial Information-fiscal year ending 12/31/03

<table>
<thead>
<tr>
<th>Category</th>
<th>Wellpoint</th>
<th>Anthem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues-M $</td>
<td>20,360</td>
<td>16,771</td>
</tr>
<tr>
<td>Operating Income-M $</td>
<td>1,646</td>
<td>1,219</td>
</tr>
<tr>
<td>Net Income-M $</td>
<td>935</td>
<td>774</td>
</tr>
<tr>
<td>Assets-M $</td>
<td>14,789</td>
<td>13,439</td>
</tr>
<tr>
<td>Shareholder Equity-M $</td>
<td>5,430</td>
<td>6,000</td>
</tr>
<tr>
<td>Health Plan Members-M</td>
<td>15,011</td>
<td>11,927</td>
</tr>
<tr>
<td>Earnings per share-$</td>
<td>6.16</td>
<td>5.45</td>
</tr>
<tr>
<td>Book Value per share-$</td>
<td>35.77</td>
<td>42.25</td>
</tr>
<tr>
<td>Shares outstanding-M</td>
<td>151,773</td>
<td>142,020</td>
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</tbody>
</table>

Source: SEC Form 10-K for fiscal year 2003
Exhibit 3: Managed Healthcare Industry Comparative Data for Publicly Trade Companies
Fiscal Year 2003

<table>
<thead>
<tr>
<th>Category</th>
<th>United Health</th>
<th>Aetna</th>
<th>CIGNA</th>
<th>Humana</th>
<th>Wellpoint</th>
<th>Anthem</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>28,823</td>
<td>17,976</td>
<td>12,265</td>
<td>12,265</td>
<td>20,360</td>
<td>16,771</td>
</tr>
<tr>
<td>Net Income</td>
<td>1,825</td>
<td>934</td>
<td>668</td>
<td>229</td>
<td>935</td>
<td>774</td>
</tr>
<tr>
<td>Assets</td>
<td>17,634</td>
<td>40,950</td>
<td>11,655</td>
<td>5,293</td>
<td>14,789</td>
<td>13,439</td>
</tr>
<tr>
<td>S. Equity</td>
<td>5,128</td>
<td>7,924</td>
<td>4,519</td>
<td>1,836</td>
<td>9,359</td>
<td>6,000</td>
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<tr>
<td>EPS-diluted</td>
<td>$2.96</td>
<td>$5.91</td>
<td>$3.43</td>
<td>$1.41</td>
<td>$6.16</td>
<td>$5.45</td>
</tr>
</tbody>
</table>

Source: SEC Form 10-K for each company
All data in $-millions except EPS
Pending Merger with Anthem

On October 26, 2003, WellPoint entered into a merger agreement with Anthem, Inc. ("Anthem"). The consideration to be received by the stockholders of WellPoint will be composed of $23.80 in cash and one share of Anthem common stock per share of WellPoint Common Stock. Based on the closing price of Anthem's common stock on October 24, 2003, the transaction was valued at approximately $16.4 billion. Upon completion of this transaction, WellPoint will merge into a wholly owned subsidiary of Anthem and Anthem will change its name to WellPoint, Inc. Anthem, a publicly traded company, is an independent licensee of the Blue Cross and Blue Shield Association and holds the exclusive right to use the Blue Cross and Blue Shield names and marks in the states of Indiana, Kentucky, Ohio, Connecticut, New Hampshire, Colorado, Nevada, Maine and Virginia, excluding the immediate suburbs of Washington D.C. As of December 31, 2003, Anthem provided health care benefits to more than 11.9 million medical members, which includes BlueCard "host" members. Headquartered in Indianapolis, Indiana, Anthem, along with its subsidiaries, offers a diverse portfolio of complementary health and group life insurance, managed care products, pharmacy benefit management and government health program administration.

The transaction is subject to customary closing conditions, including, among other things, approval of WellPoint's and Anthem's shareholders, various regulatory agencies and the Blue Cross and Blue Shield Association.

In connection with obtaining the approval of WellPoint's and Anthem's shareholders for the proposed merger, Anthem filed a preliminary registration statement on Form S-4, including the preliminary joint proxy statement/prospectus constituting a part thereof, with the Securities and Exchange Commission on November 26, 2003. Anthem will file a final registration statement, including a definitive joint proxy statement/prospectus constituting a part thereof, and other documents with the Securities and Exchange Commission. The final joint proxy statement/prospectus will be mailed to holders of WellPoint and Anthem common stock.

WellPoint and Anthem have made appropriate filings and applications with insurance and HMO regulators in California, Delaware, Georgia, Illinois, Missouri, Oklahoma, Puerto Rico, Texas, Virginia, West Virginia and Wisconsin. Pursuant to applicable insurance and HMO laws and regulations, and before the merger may be consummated, the insurance commissioner and, where applicable, HMO regulator, must review and approve the acquisition of control of the insurance company or HMO subsidiary domiciled in its respective jurisdiction. In addition to the filings with and approvals from the domiciliary insurance and HMO regulators, pre-acquisition notifications of the merger under state insurance antitrust laws and regulations will be required in certain states in which insurance company or HMO subsidiaries of both WellPoint and Anthem operate.

The Blue Cross and Blue Shield Association must approve the transfer to Anthem of WellPoint's licenses to use the Blue Cross and Blue Shield names and marks in WellPoint's geographical territories. Anthem and WellPoint have submitted a joint application requesting
that, in connection with the completion of the merger, the Blue Cross and Blue Shield Association grant to Anthem the licenses for the WellPoint service area. The Blue Cross and Blue Shield Association committee that considers licensure matters approved the transfer in December 2003, although the transaction still awaits approval by the Board of Directors of the Blue Cross and Blue Shield Association.

The Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations thereunder provide that the merger may not be completed until pre-merger notification filings have been made with the Federal Trade Commission, and the Antitrust Division of the U.S. Department of Justice, and the specified waiting period thereunder has expired or is terminated. Even after the waiting period expires or is terminated, the Department of Justice and the Federal Trade Commission will have the authority to challenge the merger on antitrust grounds before or after the merger is completed. Each of Anthem and WellPoint filed a notification and report form for the merger with the Federal Trade Commission and the Department of Justice in January 2004 and the waiting period expired on February 26, 2004.

Following the merger, WellPoint stockholders will become shareholders of Anthem. In addition, in the merger agreement, among other things, WellPoint has agreed that Anthem will have its corporate headquarters and principal executive offices in Indianapolis, Indiana and that Anthem's name will be changed to WellPoint, Inc. WellPoint and Anthem have also agreed to file an application to have the common stock of Anthem listed on the New York Stock Exchange under the ticker symbol "WLP."

After the merger, the board of directors of Anthem will have 19 members, consisting of 11 current members of Anthem's board of directors designated by Anthem (including Larry C. Glasscock) and eight current members of WellPoint's board of directors designated by WellPoint (including Leonard D. Schaeffer). Also after the merger, Leonard D. Schaeffer of WellPoint will be Chairman of the Board of Directors of Anthem and Larry C. Glasscock of Anthem will be the President and Chief Executive Officer and a director of Anthem. By the second anniversary of the completion of the merger, Leonard D. Schaeffer will retire as Chairman and as a director of Anthem and Larry C. Glasscock will succeed him as Chairman.

Either WellPoint or Anthem may terminate the merger agreement, even after the requisite shareholder approvals have been received, if the merger has not been completed by November 30, 2004, and either of them may also terminate the merger agreement in certain other circumstances specified in the merger agreement. The Company currently expects the transaction to close by mid-2004.