



1 Companies, Inc. In 1993, Southeastern Mutual Insurance Company, a Kentucky-  
2 domiciled mutual insurance company doing business as Blue Cross and Blue Shield of  
3 Kentucky, merged into us. In 1995, Community Mutual Insurance Company, an Ohio-  
4 domiciled mutual insurance company doing business as Community Mutual Blue Cross  
5 and Blue Shield, was merged into us. We changed our name to Anthem Insurance  
6 Companies, Inc. in 1996. In 1997, Blue Cross and Blue Shield of Connecticut, Inc., a  
7 Connecticut-domiciled mutual insurance company, merged into Anthem. We completed  
8 our acquisitions of New Hampshire-Vermont Health Service, which did business as Blue  
9 Cross and Blue Shield of New Hampshire, and Rocky Mountain Hospital and Medical  
10 Service, which did business as Blue Cross and Blue Shield of Colorado and Nevada, in  
11 1999. In 2000, we completed our acquisition of Associated Hospital Service of Maine,  
12 which did business as Blue Cross and Blue Shield of Maine.

13 Today, Anthem BCBS is one of the nation's largest health benefits companies,  
14 serving over 7.8 million customers primarily in Indiana, Kentucky, Ohio, Connecticut,  
15 New Hampshire, Maine, Colorado and Nevada. It is one of the strongest Blue Plans in  
16 the country with approximately \$2.1 billion in surplus. For the nine months ending  
17 September 30, 2001, operating revenue increased 21% to \$7.5 billion. For the same  
18 period, net income rose 65% to \$254.5 million.

19 As a mutual insurance company, Anthem BCBS was not authorized to issue or  
20 sell capital stock and, consequently, was limited in its ability to raise capital. With  
21 increasing consolidation and competition in the health benefits industry, and the resulting  
22 need to develop new business opportunities, Anthem examined alternative ways of  
23 raising capital. On January 29, 2001, Anthem's board of directors authorized

1 management to prepare a plan of conversion by which Anthem would convert from a  
2 mutual insurance company to a stock insurance company under the Indiana  
3 demutualization law. Subsequently, Anthem's board of directors unanimously approved  
4 the plan of conversion. Following a public hearing, the Commissioner of the Indiana  
5 Department of Insurance approved the plan of conversion on October 26, 2001.  
6 Anthem's Statutory Members voted overwhelmingly to approve the plan of conversion  
7 on October 29, 2001. Anthem Insurance Companies, Inc. became a stock insurance  
8 company on November 2, 2001. The principal reason for the demutualization is to  
9 increase our financial flexibility through improved access to capital, which will enhance  
10 our ability to expand existing business, develop new business opportunities to enhance  
11 our competitive position, and continue to improve service to our customers.

12 Anthem BCBS intends to continue to grow through a combination of organic  
13 growth and strategic acquisitions in both existing and new markets. Our growth strategy  
14 enables us to take advantage of the additional economies of scale provided by increased  
15 overall membership and to adopt "best practices" across our companies. For example,  
16 should this transaction be completed, Anthem will relocate its information technology  
17 national data center to BCBSKS's data center in Topeka. In addition, we believe  
18 geographic diversity reduces our exposure to local or regional economic, regulatory and  
19 competitive pressures and provides us with increased opportunities for expansion.

20 While much of our growth has been the result of strategic mergers and  
21 acquisitions, we have also achieved growth in our existing markets by providing  
22 excellent service, offering competitively priced products and effectively capturing the  
23 brand strength of the Blue Cross and Blue Shield names and marks. For example, since

1 our affiliation in Connecticut, we have added 284,000 new customers, nearly 250,000  
2 new customers in New Hampshire and Maine, and 269,000 new customers in Colorado  
3 and Nevada.

4 Q. Is there a conflict between meeting the needs of shareholders versus the needs of  
5 policyholders?

6 A. No, not at all. Anthem BCBS believes the interests of its customers and hospital  
7 and business partners – including other health care providers – coincide with the interests  
8 of shareholders. Shareholders want to invest in companies that are growing and meeting  
9 the needs of customers, so success is first and foremost measured in the marketplace. If  
10 we do not provide the kind of health benefit programs customers want, at prices that are  
11 competitive, they will not give us their business. Any inference that our mission and  
12 culture has or would change because of Anthem’s recent conversion to a stock company  
13 is simply incorrect. The ability to expand our operations to better spread fixed costs and  
14 to raise capital to continue investments in infrastructure and innovative programs are  
15 direct results of our conversion. These benefits will result in our continued success in  
16 delivering high quality products and superior service at competitive prices, which then  
17 gets recognized by shareholders.

18 Q. Please describe in more detail the developments in the health benefits industry  
19 which led Anthem to expand and to consider BCBSKS’s proposal to affiliate.

20 A. The health benefits industry has experienced dramatic changes in the past several  
21 years. One of the most dramatic has been the significant consolidation within the  
22 industry, creating companies that are larger and better capitalized than in the past.  
23 Today, fewer than 25 companies serve more than 70% of the commercial customers.

1 Blue Cross and Blue Shield-licensed companies have been part of this consolidation  
2 trend. Prior to the mid-1980s, there were more than 125 separate Blue Cross or Blue  
3 Shield companies serving only one state or a portion of a state. Many of these companies  
4 have merged or combined, reducing the number of independent Blue Cross and Blue  
5 Shield licensees to 44 as of today. Further, since we announced our proposed affiliation  
6 with BCBSKS in May, four more Blue Plans (Missouri, Maryland, District of Columbia  
7 and Delaware) have announced plans to consolidate with another company. We expect  
8 this trend to continue, with health benefits companies merging or affiliating with others to  
9 address growing capital needs and other competitive pressures.

10 Q. What relevance do these developments have to BCBSKS?

11 A. National mergers and the emergence of very large regional players will have a  
12 substantial impact on BCBSKS and the regional health care market. BCBSKS enjoys a  
13 significant market share in Kansas, but overall it is quite small in comparison to the total  
14 membership and capitalization of some of its most significant competitors. The company  
15 must now compete with large plans like Aetna/U.S. Healthcare, United and Cigna, whose  
16 substantial reserves and member bases allow them to accept losses in particular markets  
17 in order to increase market share, which puts single-state Blue Plans at a disadvantage. A  
18 regional economic downturn can also devastate a local health plan, while one with  
19 operations in multiple areas can balance its risks. The wherewithal of these large health  
20 benefits companies has created a need to focus on financial strength to compete with  
21 those businesses.

22 Effective delivery of health benefits also demands the development of new  
23 systems and programs that go far beyond the historical insurance roles of processing

1 claims and adjudicating benefits. Developing new systems and programs as well as  
2 providing core business processes with state-of-the-art and efficient operating hardware  
3 and software require capital. Joining with other entities in the Blue system so that  
4 investments in the future can be spread over a wider geographic and economic base is, for  
5 a single-state Blue Cross Blue Shield company, the most advantageous avenue to address  
6 these needs. That is equally true for BCBSKS.

7 Q. What factors are important to the successful operation of health benefits  
8 companies in the environment you have described?

9 A. Successful health benefits companies in this dynamic and challenging  
10 environment have these traits in common: a broad base of membership which permits the  
11 negotiation of reduced charges from vendors of administrative services and allows a  
12 significant spread of administrative costs which helps keep rates competitive, the capital  
13 to invest in technology to improve service and the capability to provide multi-state  
14 employers with a strong product portfolio and delivery system to support it nationwide.  
15 It has become clear that only those companies with large capital resources and market  
16 share will succeed, and we intend to be one of them.

17 At the same time, we feel strongly that this key objective can and must be  
18 achieved while maintaining our focus on quality and commitment to the local markets  
19 and customers that we serve. Anthem BCBS seeks to strike this balance by providing  
20 coordinated regional and corporate support services and assistance to its subsidiaries, but  
21 leaving the day-to-day management and health care delivery decisions to managers  
22 within each local subsidiary.

1           The unprecedented changes in the health care industry have made it increasingly  
2 difficult for small health insurers to compete. Marketplace pressures are driving health  
3 benefits companies harder than ever to deliver high-quality, affordable health care  
4 coverage to their customers. Compounding these challenges are cost factors involved in  
5 the delivery of health care. Health care costs are growing as new technologies,  
6 prescription drugs and surgical and medical treatments are becoming more sophisticated  
7 and expensive. That is as true in Kansas as it is elsewhere. Similarly, as health  
8 expectations and outcomes improve, the demands for capital are increasing to support  
9 clinical programs that promote customers' health and the quality standards these  
10 programs must meet, such as accreditation by the National Committee for Quality  
11 Assurance. In addition, systems support continues to be a costly but vital component of  
12 any health benefits company.

13           We believe that the ability to have sufficient membership, capital and efficient  
14 administration, and quality, competitively priced products that can be delivered across  
15 state lines will determine success or failure of health benefits companies in the future.

16           Anthem also believes there are significant operating advantages that can be  
17 obtained by creating a strong multi-regional Blue Cross and Blue Shield company.  
18 Underwriting cycles can be better managed, consolidated financial strength can be used  
19 to develop better products for customers, vendor costs can be reduced, and structural  
20 investments and fixed expenses (such as information systems development and disease  
21 management costs) can be spread among a greater number of customers. All of these  
22 factors will help Anthem provide value for our customers, and we expect to do so in  
23 Kansas.

1 Q. Please describe Anthem's operating philosophy.

2 A. Anthem's mission is to "improve the health of the people we serve." Our  
3 company seeks to identify health risks and prevent illness and to promote healthful  
4 lifestyles for our customers and the communities we serve. We work to bring quality and  
5 efficiency to the delivery of care for our customers.

6 Q. Please describe the strategic objectives of Anthem BCBS.

7 A. Each of our strategic objectives is very straightforward. Anthem BCBS believes  
8 that in today's health benefits market, if you can't match the performance characteristics  
9 of your best competitors, you will slowly go out of business. Therefore, our first  
10 objective is to meet or exceed the performance characteristics of our best competitors.  
11 Anthem regularly compares its performance against its competitors across a broad  
12 spectrum of operational, financial and health care delivery measures. The results of these  
13 measurements become the basis for continually improving our performance.

14 Our second objective is to achieve the necessary scale and market share to  
15 compete effectively. I have already discussed the market forces driving the need to  
16 achieve the scale and market share necessary to be competitive. Our proposed affiliation  
17 with BCBSKS is a direct reflection of our focus on this objective.

18 Our third strategic objective is to achieve a competitive edge by creating product  
19 value. Simply put, Anthem BCBS seeks to offer products which will deliver greater  
20 value than any other alternative for the same dollar spent. By offering a wide spectrum  
21 of products supported by broad provider networks, we seek to meet the differing needs of  
22 our various customers.

1 Finally, Anthem BCBS seeks to be the "employer of choice" within our industry.  
2 Like our objective describing product value, Anthem intends to ensure that employees  
3 looking for opportunities in our industry will choose Anthem as the organization for  
4 which they most want to work based on such factors as professional growth and  
5 development opportunities, working conditions, communication levels and a respect for  
6 the contribution made by all employees.

7 These strategic objectives are also achieved through Anthem's core values:  
8 customer focus, commitment to excellence, continuous improvement and innovation,  
9 results with integrity and teamwork. These values serve to align our strategic objectives  
10 with the manner in which we conduct our business. Our focus on these objectives and  
11 values is ongoing, and our commitment to continuous improvement in our performance is  
12 firm. If this transaction is approved, we expect to promote these objectives and values  
13 through our operations in Kansas as we already do elsewhere.

14 Q. Can you provide some examples of what Anthem BCBS has achieved in pursuing  
15 these objectives?

16 A. Anthem's health plans in Connecticut, New Hampshire and Maine are among  
17 only a handful of health plans to have earned the highest accreditation level from the  
18 National Committee on Quality Assurance, the nation's most respected managed care  
19 accrediting agency.

20 All of our health plans have shown consistent improvement in scores on the  
21 nationally-recognized Health Employers Data Information Set, commonly called  
22 "HEDIS." HEDIS measures health plan performance on specific preventive care

1 measures. In addition to steady improvement in our scores, our New England plans  
2 earned “Best in Class” or “Top Performer” status on multiple performance measures.

3 Anthem Midwest recently received a top national honor from the National  
4 Managed Health Care Congress and Wyeth-Ayerst for its HIV testing initiatives among  
5 pregnant members. The HERA award recognizes programs in women’s or children’s  
6 health that result in quantifiable improved health outcomes. This is the third year  
7 Anthem BCBS has received this award.

8 In addition, Anthem BCBS in Cincinnati and Connecticut  
9 were among 18 health plans in 12 of the top U.S. markets to be ranked highest in overall  
10 satisfaction among members according to the inaugural J.D. Power and Associates 2001  
11 Managed Care Satisfaction Study.

12 Further, Anthem BCBS in Maine was recently selected as one of the top two  
13 asthma disease management programs reviewed by the Tufts University School of  
14 Medicine’s Managed Care and Asthma Initiative Project. The committee that reviewed  
15 submissions recognized our program’s emphasis on public collaboration. In Anthem  
16 West, our mobile children’s dental program, “Miles for Smiles,” won the overall award  
17 for outstanding community involvement (large plan category) from the American  
18 Association of Health Plans.

19 In the area of information technology, Anthem was recognized for its excellent  
20 performance. *Information Week* magazine publishes an annual survey that tracks the  
21 information technology agendas of the nation’s largest and most innovative  
22 organizations. This year, Anthem Information Technology moved from 444 on the list to  
23 159.

1 In addition, Anthem received five out of 16 Brand Excellence Awards presented  
2 by the Blue Cross Blue Shield Association. The Association recognized our plans in  
3 Connecticut, New Hampshire, Kentucky, Indiana and Colorado. BCBSKS also won a  
4 Brand Excellence Award, which means Anthem and BCBSKS received more than one-  
5 third of the total awards. The brand awards recognize exceptional plan performance and  
6 consistent, superior customer service.

7 Finally, Anthem was recognized as one of Fortune magazine's 10 most admired  
8 health care companies in America. The ranking was based on the assessments of  
9 executives, directors and analysts in the health care industry.

10 Q. What is Anthem's role in the Coalition for Affordable Quality Healthcare?

11 A. The Coalition for Affordable Quality Healthcare ("CAQH") was established in  
12 1999 by industry leaders to promote cooperative initiatives to improve health care  
13 coverage, service and quality for consumers and their physicians. Approximately 26 of  
14 America's largest health plans, including several Blue Cross and Blue Shield Plans,  
15 CIGNA, PacifiCare, Oxford Health Plans and Aetna, are members, which serve a  
16 combined total of more than 100 million Americans. I am currently vice-chair. Also, the  
17 president and chief executive officer of the Blue Cross and Blue Shield Association is a  
18 member of CAQH's Board of Directors.

19 CAQH is working on three major initiatives: enabling consumers to have access  
20 to quality coverage and information, simplifying processes and paperwork for physicians  
21 and consumers, and working with physicians and professional organizations to improve  
22 overall health care quality through national initiatives.

1 Anthem has assumed a leadership role in streamlining credentialing processes to  
2 reduce paperwork for physicians. Under this initiative, a common application form and  
3 online database will help ensure that each physician submits just one credentialing  
4 application, to one source, to meet the needs of all health plans participating in CAQH.  
5 This program will be launched in Colorado and Virginia in the first quarter of 2002, and  
6 will be expanded to include Kansas in 2003.

7 Anthem is also leading the effort to develop a central database of member health  
8 plans' drug formularies. We are working to create an online common formulary database  
9 not only to decrease the time physicians, their staff and pharmacies spend researching  
10 formulary coverage, but also to improve compliance with formulary management  
11 programs to assist consumers in avoiding administrative hassles.

12 Finally, Anthem helped launch another key initiative of the CAQH in partnership  
13 with the Centers for Disease Control and Prevention. "Save Antibiotic Strength"  
14 programs will educate physicians and the public about antibiotic resistance risks and  
15 solutions. Anthem BCBS-Connecticut has a program currently underway to decrease the  
16 rate of antibiotic resistance by sharing information and promoting appropriate antibiotic  
17 use among physicians and patients.

18 Q. How does Anthem deliver health benefits to its customers?

19 A. Anthem BCBS believes very strongly that health care is a local activity. Provider  
20 markets, consumer preferences and regulatory requirements all differ from state to state,  
21 and often within a state. With this recognition as its foundation, Anthem created an  
22 operating model that emphasizes the local nature of health care.

1           There are four levels of activity within the Anthem organization, and each of them  
2 is described in detail in the Form A to which reference is made. Local and state  
3 operations focus on activities that most directly impact our customers. These activities  
4 include benefits design, sales and marketing, underwriting, provider contracting, network  
5 management, and medical management functions. Decisions related to each of these  
6 activities are made by Anthem managers at the local and state level. That would also be  
7 the case in Kansas, if this transaction is completed.

8           Supporting local and state level management is a regional infrastructure and  
9 management team. Regional managers establish regional operating objectives and  
10 manage activities that support local operations. They also provide a more seamless  
11 administration across state lines for plans of employers with multi-state operations.  
12 Regional functions include those activities which are most likely to benefit from the  
13 economies of scale that can be created by performing them on a consolidated basis, such  
14 as claims processing, billing and data collection and analysis.

15           Anthem Health Plans of Kansas would operate in Kansas as part of the Anthem  
16 West region. Our Colorado and Nevada Blue Cross and Blue Shield Plans are also  
17 included in the Anthem West region.

18           Shared Service functions are activities which are delivered on a standardized basis  
19 under the direction of a single corporate executive. Shared service functions include  
20 human resources, finance, information technology, legal and public affairs, and are  
21 performed by employees who are located throughout Anthem's service areas.

1           The final activity - Corporate functions - are limited in number and are generally  
2 performed at Anthem's headquarters. These functions include investment management,  
3 payroll, treasury, and compensation and benefits design.

4           Consistent with this approach, most of the administrative activities of Anthem's  
5 Kansas business will continue to be managed and conducted out of BCBSKS's current  
6 facilities in Kansas. Current employees of BCBSKS will perform most of the day-to-day  
7 administrative activities that will support Anthem's Kansas business.

8           Note that this structure preserves the essential nature of a local health plan.  
9 Employees in Indianapolis do not dictate product design, network composition, provider  
10 reimbursement rates, premium levels, application of medical policy, whether to  
11 participate in a line of business, or other decisions that affect the health care delivered to  
12 our customers, all of which are determined on a local level or in a collaborative effort  
13 with regional associates. In fact, any pressure applied by "corporate headquarters" in  
14 these areas is through our stated preference for broad product offerings, extensive  
15 networks and competitive pricing.

16 Q.     Has Anthem offered anyone associated with BCBSKS any special benefits in  
17 exchange for their support of this transaction?

18 A.     Absolutely not. We have purposefully avoided any discussions that would lead  
19 anyone associated with BCBSKS to expect any compensation, bonus, stock or other  
20 benefit for their support of the transaction. In addition, we have not engaged in  
21 discussions that would lead any such person to expect any promotion or promise of a  
22 particular position following the transaction. The only agreements we have made are  
23 those contained in the Alliance Agreement – primarily, that we will take on all employees

1 at the closing, transition them to Anthem’s standard compensation and benefit programs,  
2 and achieve our goal of proportional employment across our service areas.

3 Q. What is Anthem’s approach to community involvement?

4 A. Anthem BCBS is committed to continuing the strong record of community  
5 involvement established by BCBSKS. Local management of Anthem Health Plans of  
6 Kansas will determine the organizations that will receive support. In addition, we  
7 anticipate that many of our employees in Kansas will offer time and talent on a voluntary  
8 basis to assist worthwhile programs and organizations as do many of the employees who  
9 are currently employed by BCBSKS.

10 Our company and our associates contribute million of dollars and thousands of  
11 volunteer hours to hundreds of community programs ranging from significant statewide  
12 health initiatives to strong local charitable and community programs. In 2000, Anthem  
13 contributed more than \$4 million to charitable and community organizations. Anthem  
14 and its associates contributed more than \$2.5 million to the United Way in dozens of  
15 communities across our regions. As a result, Anthem BCBS was named to United Way  
16 of America’s Corporate Leadership Program, one of only 136 corporations nationwide to  
17 hold that distinction. The newly created Anthem Foundation, funded with approximately  
18 \$32 million, will support programs that further our mission to “improve the health of the  
19 people we serve.”

20 Q. What are Anthem’s plans to provide for local input and participation in  
21 connection with the business of Anthem Health Plans of Kansas?

22 A. Anthem BCBS is committed to the establishment of an active, participatory local  
23 advisory board comprised of Kansas customers and residents. In Section 5.07(b) of the

1 Alliance Agreement, Anthem has agreed that Anthem Health Plans of Kansas will  
2 establish the advisory board after the closing of the transaction. In addition, in Section  
3 5.07(b) of the Alliance Agreement, Anthem has agreed to include a proportionate number  
4 of Kansas residents on a regional advisory board that will contribute to the oversight and  
5 development of Anthem's West Region. In Section 5.08 of the Alliance Agreement,  
6 Anthem agreed to continue the hospital, medical and dental advisory committees of  
7 BCBSKS in order to preserve the ability of providers to communicate directly with the  
8 health plan management team. Finally, Anthem has agreed, in Section 5.07(a) of the  
9 Alliance Agreement, to use its reasonable best efforts to cause a mutually satisfactory  
10 candidate from BCBSKS's current Board of Directors to be nominated and elected to  
11 Anthem's Board of Directors for a two-year term at Anthem's first annual meeting after  
12 the closing of the transaction.

13 Q. Does this conclude your testimony?

14 A. Yes.

Respectfully submitted,

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Larry C. Glasscock

**CERTIFICATE OF SERVICE**

The undersigned hereby certifies that a copy of the foregoing was served upon counsel by depositing same in the United States Mail, first class postage prepaid, on this 17<sup>TH</sup> day of December 2001, properly addressed as follows:

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