

1 2. Form A Statement Regarding the Acquisition of Control of or Merger with
2 a Domestic Insurer, Anthem Insurance Companies, Inc., dated July 25,
3 2001, together with all materials filed therewith, and all materials filed
4 with the Kansas Department of Insurance in supplementation or
5 amendment thereof.

6 These documents are incorporated by reference as part of this testimony.

7 Pursuant to the Alliance Agreement, upon the effectiveness of the conversion of
8 BCBSKS from a mutual insurance company to a stock insurance corporation, the stock of
9 BCBSKS will be issued directly to Anthem. The Plan of Conversion of BCBSKS
10 describes the conversion process in detail. BCBSKS will be a wholly owned subsidiary
11 of Anthem West, Inc., an Indiana stock corporation (“Anthem West”), which, in turn, is a
12 wholly owned stock subsidiary of Anthem Insurance Companies, Inc., an Indiana stock
13 insurance company (“Anthem”). The transaction, as reflected in the Alliance Agreement,
14 was approved by the Board of Directors of Anthem.

15 Following the closing of the transaction, BCBSKS will retain all of its operating
16 assets, businesses, liabilities and obligations. Of the \$190.0 million purchase price,
17 \$142.0 million will be distributed to Eligible Policyholders of BCBSKS shortly after the
18 closing, while the remaining \$48.0 million will be held in an Escrow Fund to pay
19 Contingent Litigation Matter Costs, Indemnifiable Tax Costs and certain expenses of the
20 Escrow Fund and the Policyholder Committee to the extent of the Escrow Fund. The
21 amount, if any, remaining in the Escrow Fund after Final Determination and satisfaction
22 of the Contingent Liabilities will be distributed to the Eligible Policyholders. In addition,

1 a Special Distribution of BCBSKS’s surplus at the closing date in excess of \$155.0
2 million will be paid to Eligible Policyholders shortly after the closing.

3 Anthem will acquire BCBSKS’s interest in its direct and indirect subsidiaries and
4 affiliates, as well as succeed to BCBSKS’s position as a stockholder or partner of certain
5 non-controlled entities, as a result of the transaction. The companies include Advance
6 Insurance Company; Premier Health, Inc.; HMO Kansas, Inc.; Administrative Services of
7 Kansas, Inc.; Kansas Group Insurance Services, Inc.; TriWest Healthcare Alliance Corp.;
8 Prime Therapeutics, Inc.; MII Life, Inc.; and BCS Insurance Company.

9 In addition, on the date of closing, the legal name of BCBSKS will be changed to
10 “Anthem Health Plans of Kansas, Inc.,” which will do business under the name “Anthem
11 Blue Cross and Blue Shield.”

12 Q. Please describe the manner by which Anthem Health Plans of Kansas will treat
13 the existing obligations of BCBSKS to its policyholders.

14 A. Following the closing of the transaction, the policy and contract holders of
15 BCBSKS, Premier Health, Inc., HMO Kansas, Inc., and Advance Insurance Company
16 will remain policy or contract holders of such entities without a break in continuity of
17 benefits and services to such contract and policyholders.

18 In addition, Anthem Health Plans of Kansas expects to offer the same range of
19 products after the acquisition as those currently offered by BCBSKS, and expects to
20 continue offering products throughout the state. No significant changes to BCBSKS’s
21 product families – HMO, POS, and Indemnity – are planned in the near term beyond
22 those previously identified by BCBSKS management. The market conditions in Kansas,
23 customer needs, and the regulatory environment will ultimately determine Anthem

1 Health Plans of Kansas's product portfolio. Our expectations concerning specific
2 products are described in more detail in the Form A Application.

3 Also, it is well to note that nearly 9 out of 10 of our customers annually renew
4 their policies. In addition, in states where Blue Cross and Blue Shield Plans have
5 affiliated with Anthem, enrollment has increased. Since our affiliation in Connecticut in
6 1997, we have added 284,000 new customers; in New Hampshire and Maine, nearly
7 250,000 new customers; and in Colorado and Nevada, 269,000 new customers—more
8 than three-quarters of a million new customers in just these five states.

9 Q. How will the transaction affect the existing provider network of BCBSKS?

10 A. BCBSKS currently has contracts with approximately 4000 physicians, including
11 specialists, and approximately 3700 contracts with other health care professionals. It also
12 has existing contracts with hospitals throughout the state, and with skilled nursing
13 facilities, home health agencies, imaging centers and infusion providers. After the
14 closing, Anthem Health Plans of Kansas intends to assume and honor BCBSKS's
15 existing provider contracts for the duration of their existing terms, including those with
16 physicians and hospitals. Thus, it expects to acquire BCBSKS's existing networks of
17 providers, who will continue to provide service to the policy and contract holders of
18 Anthem Health Plans of Kansas, Premier Health, Inc. and HMO Kansas, Inc.

19 Anthem Health Plans of Kansas's contracting philosophy will be to maintain cost
20 effective provider networks in local markets to provide access and value -- that is, a
21 combination of benefits and price, for its customers in Kansas. We have no plans to
22 reduce the networks. In fact, the size of our networks has grown following each Blue
23 Plan affiliation with Anthem. For example, after the Blue Plan in Colorado joined

1 Anthem, we increased the number of physicians in our PPO network from 6,950 to over
2 7,300. In Nevada, we increased the number from 2,524 to 3,165. Provider contracting is
3 a function performed by local and regional personnel and Anthem's goal is to have broad,
4 statewide networks.

5 Q. Would you comment on the purchase price to be paid by Anthem for the common
6 stock of BCBSKS, and describe any adjustments to the purchase price provided for in the
7 Alliance Agreement.

8 A. Under the Alliance Agreement, BCBSKS policyholders eligible to receive
9 consideration in the demutualization will be entitled to receive \$190.0 million, a portion
10 of which will be held in the escrow described below, and an additional amount, equal to
11 the consolidated book value of BCBSKS, on the closing date of the acquisition in excess
12 of \$155.0 million, which is expected to be paid as a Special Distribution by BCBSKS to
13 its eligible policyholders. The amount of this Special Distribution is currently estimated
14 to be \$131.0 million. As described more fully in the Alliance Agreement and the Escrow
15 Agreement referred to therein, \$48.0 million of the \$190.0 million will be held in an
16 escrow account to pay costs, expenses and liabilities relating to an investigation by the
17 OIG of possible improper claims against Medicare by BCBSKS, and to pay costs and
18 expenses of the escrow, with any remaining amounts to be distributed to eligible
19 BCBSKS policyholders. These amounts were negotiated as part of a competitive auction
20 process facilitated by one of the country's top investment banks. As such, they represent
21 fair market value for the stock, a conclusion that has been confirmed by financial
22 advisors to BCBSKS, Anthem and the Kansas Department of Insurance.

1 Q. Has BCBSKS made warranties and representations in the Alliance Agreement
2 which extend beyond the closing?

3 A. It is customary in transactions of this type for the company being acquired to
4 make important representations and warranties regarding, among other things, the
5 condition of its business, its financial condition, and similar matters. BCBSKS has made
6 such representations and warranties in the Alliance Agreement, but, unlike in many
7 transactions, Anthem has agreed that the representations and warranties generally do not
8 continue beyond the closing of the acquisition. This increases the risk to Anthem, but it
9 provides a significant benefit to the customers of BCBSKS and the citizens of Kansas in
10 that it reduces the potential liabilities of BCBSKS in its conversion to a stock insurance
11 corporation and the sale of shares of common stock of BCBSKS.

12 Q. Please describe the commitments Anthem BCBS has made in the Alliance
13 Agreement concerning employment levels in Kansas after the affiliation.

14 A. Anthem BCBS recognizes and respects the significant value of the present
15 employees of BCBSKS and their experience and expertise in the health benefits business
16 as well as their understanding of the health benefits needs of Kansans. Their assistance is
17 essential in ensuring continuing and superior service to customers and providers. We
18 also recognize the importance of employment of Kansas residents and the concerns of
19 some regarding the impact on employment of the proposed affiliation. Several provisions
20 of the Affiliation Agreement address these matters.

21 First, Section 6.01 of the Affiliation Agreement provides that Anthem Health
22 Plans of Kansas will offer employment to all individuals employed prior to the closing by
23 BCBSKS. Also, in Section 6.04 of the Affiliation Agreement, Anthem has committed to

1 maintaining a significant employment presence within Kansas on an ongoing basis. This
2 is consistent with our operating philosophy that many of the sales, marketing, customer
3 service, benefit design, underwriting and medical management functions should be local,
4 close to the customer. Specifically, Anthem has agreed that, within three years of the
5 closing of the transaction, the employment levels of Anthem Health Plans of Kansas will
6 be substantially proportionate to employment levels in other geographic areas in which
7 Anthem operates, based on membership levels and subject to fluctuations required to
8 respond to general business conditions or changes in Kansas laws or regulations. As with
9 any soundly operated business, we will continue to monitor trends in the economy, the
10 health care industry and the state of Kansas that influence the health benefits business.
11 As part of this process, we will work continually to ensure that our levels of membership,
12 revenue and employment align in cost-effective ways.

13 Q. Please address the impact of the proposed transaction on competition in insurance
14 in the State of Kansas.

15 A. The marketplace for health care financing includes health and accident insurers,
16 health maintenance organizations, preferred provider organizations, employers,
17 self-funded programs and government programs (including Medicaid and Medicare). As
18 of September 30, 2001, BCBSKS's approximately 720,000 members or covered persons
19 represented approximately 35% of the covered lives in BCBSKS's service area. Anthem
20 BCBS has no policy or contract holders in Kansas (although there are some Kansas
21 residents who are covered under group policies or contracts properly issued by Anthem in
22 its eight-state service area). In light of this, the transaction will not result in any increase
23 in market share or concentration in the Kansas market. Thus, it will not tend to

1 substantially lessen competition or tend to create a monopoly in Kansas. Indeed, this
2 transaction will actually help sustain health insurance competition in Kansas since over
3 time new health benefits products not presently offered in the marketplace may be
4 introduced. The United States Federal Trade Commission and Department of Justice
5 have issued an “early termination letter” pursuant to the federal Hart-Scott-Rodino Pre-
6 merger Notification requirements, indicating they have no intent to question the
7 transaction on antitrust grounds.

8 Q. Can you comment on the overall fairness of the transaction?

9 A. I believe that the terms and conditions of the proposed transaction between
10 Anthem BCBS and BCBSKS are fairly structured and protect and benefit BCBSKS, the
11 policyholders, the insurance buying public and the citizens of Kansas. Competition in the
12 health benefits marketplace and the tradition of BCBSKS of making affordable health
13 care financing available will be continued and enhanced as a result of the proposed
14 transaction. It is our firm belief that the terms and conditions of the Alliance Agreement,
15 and the transaction overall, are fair and reasonable, both from the perspective of similar
16 commercial transactions which are undertaken on a regular basis and from the
17 perspective of BCBSKS and its current policyholders. The transaction, negotiated by
18 both parties, is structured to provide policyholders with full continuity of coverage and
19 the benefits of enhanced financial strength of Anthem Health Plans of Kansas.

20 Q. Is it important to Anthem BCBS that the transaction be completed promptly?

21 A. An expeditious closing, in accordance with the terms of the Alliance Agreement
22 as they were negotiated between the parties, is very important to us. We are excited
23 about the opportunity to work collaboratively with the local management and employees

1 of BCBSKS to move forward to meet the challenges the company faces in the Kansas
2 health benefits market. Delay in the closing would postpone these activities to the
3 detriment of all.

4 Q. Does this conclude your testimony?

5 A. Yes.

Respectfully submitted,

David R. Frick

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 17TH day of December 2001, properly addressed as follows:

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