

BEFORE THE COMMISSIONER OF INSURANCE STATE OF KANSAS

IN THE MATTER OF THE CONVERSION AND ACQUISITION
OF BLUE CROSS AND BLUE SHIELD OF KANSAS, INC.

CASE NO. 3014-DM

PREFILED TESTIMONY OF DAVID M. PLATTER

Credentials

Q. Please state your name.

A. David M. Platter.

Q. Please identify your employer and state your position.

A. I am employed by the firm of Bear, Stearns & Co. Inc. (“Bear Stearns”) and serve as a Senior Managing Director in the Investment Banking Division and Head of the Financial Institutions Group. I am responsible for the Blue Cross & Blue Shield coverage and execution effort.

Q. Please provide some background regarding your employer.

A. Founded in 1923 as a partnership, The Bear Stearns Companies Inc. (“BCSI”) is the parent company of Bear Stearns, a global investment banking, securities trading, and brokerage firm which employs approximately 10,500 people worldwide. BCSI became a public company in 1985 and trades under the ticker symbol BSC on the New York Stock Exchange. BCSI had approximately \$28 billion in total capital and \$170 billion in total assets as of August 31, 2001. Bear Stearns serves corporations, governments, institutions, and individuals on a worldwide basis. Bear Stearns is an active advisor in mergers and acquisitions, across a wide range of industries and involving many large and complex transactions.

Q. Please describe your professional background.

A. I have been involved in providing mergers and acquisitions advice and capital raising for insurance companies, healthcare companies and other financial institutions since 1985. Prior to joining Bear Stearns in 2000, I served as a Managing Director in the Investment Banking Division of Donaldson, Lufkin & Jenrette Securities Corporation (“DLJ”), specializing in the insurance industry. Prior to my position with DLJ, I served as a Principal in the Corporate Finance Group at Morgan Stanley, where I worked with insurance companies and other financial institutions on a variety of merger and acquisition assignments and equity and debt financing. I am also a graduate of the University of California at Berkeley and I received an M.B.A. from Stanford University.

Q. Please describe your prior managed care advisory experience.

A. My experience includes serving or having served as advisor to

1. Blue Cross & Blue Shield United of Wisconsin on its conversion and acquisition by United Wisconsin Services, Inc.;
2. Cobalt Corporation on various strategic alternatives;
3. Empire Blue Cross & Blue Shield of New York in their proposed conversion in New York;
4. the Insurance Commissioner of the Commonwealth of Virginia in the Trigon demutualization;
5. Anthem on a proposed merger with Blue Cross & Blue Shield of New Jersey; and
6. Several Blue Cross & Blue Shield plans to advise on potential acquisitions or sales which are not currently in the public domain.

Description of Work Performed

Q. Have you been engaged by the Kansas Insurance Department (“KID”) as its independent financial advisor in connection with its review of the Transaction, as defined below, and to render an Opinion, as defined below?

A. Yes.

Q. Specifically, what were you asked to review with respect to the Plan, as defined below?

A. We were asked by the KID to render an opinion as to whether the Aggregate Consideration, as defined below, to be received by eligible policyholders of Blue Cross and Blue Shield of Kansas, Inc. (ABCBSKS@) in the Transaction, as defined below, is fair, from a financial point of view, to such policyholders, as a group (the “Opinion”).

Q. Are you prepared to provide testimony in connection with that work?

A. Yes.

Q. Please describe briefly the nature of the work that you have performed as a result of your engagement by KID.

A. I led the team of professionals at Bear Stearns that performed the work described in

Schedule 1. We understand that BCBSKS, pursuant to the Plan of Conversion adopted by the BCBSKS Board of Directors (the "Board") on October 25, 2001, as amended (the "Plan"), is proposing to convert (the "Conversion") from a mutual insurance company to a stock company and subsequently sell newly-issued shares of common stock to Anthem Insurance Company, Inc., an Indiana mutual insurance company ("Anthem"), Anthem West, Inc., an Indiana company and wholly-owned subsidiary of Anthem, or the public holding company to be formed in connection with a demutualization of Anthem to hold all of the shares of its common stock (such sale in any event, the "Sale"). In the Conversion, all policyholders' membership interests in BCBSKS will be extinguished. Eligible policyholders will receive aggregate consideration consisting of: (i) a special distribution previously declared by the Board and payable to eligible policyholders upon consummation of the Sale, that will be equal to the amount, if any, by which the consolidated closing book value of BCBSKS, as defined in the Plan, at consummation of the Conversion exceeds \$155,000,000, which BCBSKS currently estimates to be \$131,000,000 (the "Special Distribution") and (ii) up to \$190,000,000 (the "Purchase Price"), \$142,000,000 of which will be paid to eligible policyholders upon consummation of the Sale and \$48,000,000 of which will be deposited into an escrow fund, subject to later distribution to eligible policyholders as more fully described in the Plan and Alliance Agreement (as defined below). Collectively, the Conversion, the Sale and Special Distribution are referred to herein as the "Transaction" and the amounts to be received by eligible policyholders pursuant to the Sale and the Special Distribution are referred to herein as the "Aggregate Consideration".

In the course of performing our review and analyses for rendering the Opinion, we have:

1. reviewed the Alliance Agreement dated November 9, 2001, (the "Alliance Agreement") by and between BCBSKS and Anthem;
2. reviewed the Policyholder Information Statement dated November 9, 2001, (the "Policyholder Information Statement");
3. reviewed the Plan;
4. reviewed audited and unaudited financial statements of BCBSKS for the years ended December 31, 1998, 1999 and 2000 and the quarters ended March 31, 2001, June 30, 2001, and September 30, 2001;
5. reviewed audited and unaudited financial statements of Anthem for the years ended December 31, 1998, 1999, and 2000 and the quarters ended March 31, 2001, June 30, 2001, and September 30, 2001;
6. reviewed annual statutory financial statements for the years ended December 31, 1998, 1999, and 2000, and quarterly statutory financial statements for the quarters ended March 31, 2001, and June 30, 2001, for BCBSKS and Anthem;

7. reviewed certain operating and financial information, including projections for the five years ended December 31, 2005, provided to Bear Stearns by BCBSKS' management relating to BCBSKS' business and prospects;
8. met with certain members of BCBSKS' senior management to discuss BCBSKS' business, operations, historical, and projected financial results and future prospects;
9. met with certain members of Anthem's senior management to discuss Anthem's business, operations, historical, and projected financial results and future prospects;
10. met with the KID and the legal, accounting, actuarial and tax advisors hired by the KID to discuss a draft of the Conversion Order, Alliance Agreement, Policyholder Information Statement and other appropriate regulatory guidelines;
11. reviewed publicly available financial data, stock market performance data and trading multiples of companies which Bear Stearns deemed generally comparable to CBSKS and Anthem;
12. reviewed the terms of recent acquisition transactions of companies which Bear Stearns deemed generally comparable to BCBSKS and Anthem;
13. performed discounted cash flow analyses based on the projections for BCBSKS furnished to Bear Stearns; and
14. conducted such other studies, analyses, inquiries, and investigations as Bear Stearns deemed appropriate.

Q. In arriving at the Opinion, what factors did you take into account?

A. Bear Stearns has relied upon and assumed, without independent verification, the accuracy and completeness of the financial and other information, including, without limitation, the projections and actuarial reports and synergy estimates, provided to us by BCBSKS and Anthem. With respect to BCBSKS' and Anthem's projected financial condition and results, Bear Stearns has relied upon representations that they have been reasonably prepared on bases reflecting the best currently available estimates and judgments of the senior managements of BCBSKS and Anthem as to the expected future performance of BCBSKS and Anthem, respectively, including the closing book value of BCBSKS at consummation of the Conversion. In the case of BCBSKS, Bear Stearns has relied on representations that such projections are based on BCBSKS' current not-for-profit operating model. Bear Stearns has not assumed any responsibility for the independent verification of any such information or of the projections and estimates provided to Bear Stearns, and Bear Stearns has further relied upon the assurances of the senior managements of BCBSKS and Anthem that they are unaware of any facts that would make the information, projections and estimates provided to Bear Stearns incomplete or misleading.

Bear Stearns has not performed or obtained any independent appraisal of the assets or liabilities (contingent or otherwise) of BCBSKS and Anthem, nor has Bear Stearns been furnished with any such appraisals. Bear Stearns has assumed that the Transaction will be consummated in a timely manner and in accordance with the terms of the Plan and the Alliance Agreement without any limitations, restrictions, conditions, amendments or modifications, regulatory or otherwise, that collectively would have a material effect on BCBSKS or Anthem. In addition, Bear Stearns has assumed, with the consent of BCBSKS, that any amounts deposited into the escrow fund referred to above but not ultimately distributed to eligible policyholders will be paid in connection with satisfying BCBSKS' obligations rising out of the Contingent Litigation Matter. Bear Stearns also has assumed, with the consent of BCBSKS, that the Special Distribution declared by the Board will be \$131,000,000. You have not asked for and Bear Stearns has not performed an analysis of other potential alternatives for conversion nor has Bear Stearns solicited indications of interest for BCBSKS from third parties. The Opinion does not address which of BCBSKS' policyholders constitute eligible policyholders entitled to receive consideration as part of this Transaction, nor does it address the fairness of the consideration to be paid to any individual policyholder or to any class of policyholders. Therefore, Bear Stearns does not express an opinion as to the allocation of consideration among the policyholders of BCBSKS. Bear Stearns did not review and does not express any opinion with respect to whether the Transaction complies with any aspect of Kansas State law.

Analysis of the Calculation of the Purchase Price

Q. Did you consider the purchase price to be paid by Anthem?

A. Yes.

Q. Please explain the factors you considered in evaluating the purchase price.

A. The preparation of a fairness opinion is a complex process that involves various judgments and determinations as to the most appropriate and relevant methods of financial and valuation analysis and the application of those methods to the particular circumstances. In order to evaluate a purchase price in this type of transaction, we compared the Purchase Price to a range of fair market values of BCBSKS as measured by a number of different methodologies described in more detail below.

Q. How did you analyze the fair market value of BCBSKS?

A. Bear Stearns has relied upon and assumed, without independent verification, the accuracy and completeness of the financial and other information, including without limitation the projections provided to Bear Stearns by BCBSKS and the assumptions made by BCBSKS that are generating those projections. In performing its analysis, Bear Stearns made numerous assumptions with respect to industry performance, general business, economic, market and financial conditions and other matters, many of which are beyond the control of

Bear Stearns and BCBSKS. Any estimates contained in the analysis performed by Bear Stearns are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analysis.

Bear Stearns utilized three different methods generally accepted by investment banking firms. Please see Section V – Valuation Analysis in Schedule 1 for more detail regarding our valuation analysis.

Comparable M&A Transaction Analysis

1. Bear Stearns noted that none of the transactions reviewed were identical to the Transaction. Bear Stearns further noted that the analysis of merger and acquisition transactions of comparable companies necessarily involves complex considerations and judgments concerning differences in financial and operating characteristics and other factors that would necessarily affect the acquisition value of BCBSKS as compared to the acquisition value of any other comparable company in general and the transactions below in particular.
2. Bear Stearns reviewed nine publicly announced transactions involving BCBSA licensees in the last couple of years.
3. For each of the transactions, we calculated the multiples of transaction value to (i) last 12 months (“LTM”) revenues and (ii) total members.
4. These precedent transactions were grouped into Low Performers and High Performers.

Discounted Cash Flow

1. Bear Stearns noted that a discounted cash flow analysis is highly dependent on growth rates and margin assumptions relating to the underlying projections and that such projections are difficult to forecast due to the rapidly changing nature of BCBSKS’ business plan and the capital markets climate. Consequently, Bear Stearns observed that the resulting discounted cash flow valuation is inherently theoretical due to the difficulty in forecasting projected operating results as well as assumptions relating to, among other factors, availability of sufficient capital, cost of such capital and assessing terminal multiples in the final year of the projection period.
2. In order to perform a discounted cash flow analysis, we requested projection information from BCBSKS and Anthem. See Section IV Summary of Bear Stearns’ Due Diligence of Schedule 1 for more detail regarding our requests for and receipt of projection information.

3. The discounted cash flow analysis we performed was based on the Marketing and Finance Task Force Projections that BCBSKS provided to us on November 5th. BCBSKS stated that these projections were management's best current estimate of future performance for BCBSKS through 2005 under its current operating philosophy of pricing its products to grow membership and to provide financial security. This set of projections was prepared by BCBSKS solely to meet a due diligence request from Bear Stearns and BCBSKS heavily discounted their reliability. Notably, the Marketing and Finance Task Force Projections assume the future performance of BCBSKS will not result in underwriting gains greater than 0.4%.

Comparable Company Analysis

1. No company utilized in the peer group comparison is identical to BCBSKS, and accordingly, Bear Stearns' analysis of comparable companies necessarily involved complex considerations and judgments concerning differences in financial and operating characteristics and other factors which would necessarily affect the relative transaction values of BCBSKS and of the companies to which it was compared.
2. Bear Stearns compared BCBSKS to all of the publicly traded licensees of the BCBSA trademark along with one large public managed care company.
3. For the comparable companies, we calculated multiples of enterprise value to (i) LTM premium revenues, (ii) risk members, and (iii) total members.
4. These comparable companies were grouped into Low Performers and High Performers.

Q. And what did you find?

A. Bear Stearns believes that its analysis must be considered as a whole and that selecting portions of its analyses and the factors considered, without considering all of the analyses and factors, would create a misleading and incomplete view of the processes underlying the Opinion. Bear Stearns did not form any opinions as to whether any individual analysis or factor, whether positive or negative, considered in isolation, supported or failed to support the Opinion. In arriving at the Opinion, Bear Stearns did not assign any particular weight to any analysis or factor considered, but rather made qualitative judgments based upon its experience in providing such opinions and on then-existing economic, monetary, market and other conditions as to the significance of each analysis and factor.

1. **Comparable M&A Transaction - Low Performers**

Bear Stearns' analysis indicates that the M&A multiples implied by the Purchase Price are closer to the low end of the range of the Low Performer M&A multiples.

2. **Comparable M&A Transaction - High Performers**

Bear Stearns' analysis indicates that the M&A multiples implied by the Aggregate Consideration are closer to the low end of the range of the High Performer M&A multiples.

3. **Discounted Cash Flow**

Bear Stearns' analysis indicated an enterprise value ranging from \$280 to \$334 million compared to the Aggregate Consideration of \$321 million, which assumes the Special Distribution is \$131 million and includes the \$48 million to be held in escrow.

4. **Comparable Company - Low Performer**

Bear Stearns' analysis indicates that the revenue M&A multiple implied by the Purchase Price is consistent with the Low Performer trading multiple and the member M&A multiples implied by the Purchase Price are below the Low Performer trading member multiples.

5. **Comparable Company - High Performers**

Bear Stearns' analysis indicates that the M&A multiples implied by the Aggregate Consideration are below the trading multiples of the High Performer trading multiples.

Conclusion

Q. Have you formed an opinion as to the fairness of the Aggregate Consideration to be received by eligible policyholders of BCBSKS as a group in the Transaction?

A. As requested, we have formed an opinion as to whether the Aggregate Consideration to be received by eligible policyholders of BCBSKS in the Transaction is fair, from a financial point of view, to such policyholders, as a group.

Q. Have you prepared written form of your opinion?

A. Yes. We submitted our Opinion to KID on December 21, 2001.

Q. Is a copy of the Opinion attached to your testimony as Schedule 1?

A. Yes it is part of the Pre-Hearing Brief Regarding Case 3014-DM.

Q. Could you please summarize the Opinion?

- A. It is our opinion that, as of December 14, 2001, the Aggregate Consideration to be received by the eligible policyholders of BCBSKS in the Transaction is fair, from a financial point of view, to such policyholders, as a group. Our opinion is based upon, and subject to, the assumptions and limitations explained more fully in the written Opinion.

Thank you Mr. Platter.