

BEFORE THE COMMISSIONER OF INSURANCE OF THE STATE OF KANSAS

In the Matter of the Plan of Conversion of
BLUE CROSS AND BLUE SHIELD OF
KANSAS, INC.

Docket No. 3014-DM

WRITTEN STATEMENT OF MICHAEL M. MATTOX

I. Background

My name is Michael M. Mattox. I am Executive Vice President of Blue Cross and Blue Shield of Kansas, Inc. (“BCBSKS” or the “Company”). Prior to serving in that position, I was the Company’s Vice President of Marketing, Provider Relations and Reimbursement from 1996 to 2001, and I have been with BCBSKS since 1971. I hold a bachelor of science degree in business administration and a bachelor of arts degree in communication from Northwestern State University.

This statement is submitted in support of BCBSKS’ request that the Commissioner of Insurance (the “Commissioner”) of the Kansas Insurance Department (the “Department”) approve the Plan of Conversion of BCBSKS from a mutual life insurance company to a stock life insurance company and the acquisition of BCBSKS by Anthem Insurance Companies, Inc. (“Anthem”). The Company’s Board of Directors has unanimously approved both the Plan of Conversion and the acquisition. This statement describes the process by which the Company entered into the Alliance Agreement with Anthem, dated as of May 30, 2001, as amended as of September 28, 2001 and November 9, 2001 (the “Alliance Agreement”), and the proposed process of Anthem’s acquisition, through its subsidiary Anthem West, Inc., of 100% of BCBSKS stock upon the

Company's conversion (the "Acquisition"). This process of conversion and acquisition is called a "sponsored demutualization." In addition to this statement, the Company's Chief Executive Officer, Vice President of Finance, and Vice President/General Counsel and our outside actuarial and financial advisors have submitted separate statements addressing certain financial, legal and actuarial aspects of the proposed sponsored demutualization.¹

II. Background to the Alliance Agreement

On September 14, 2000, the BCBSKS Board of Directors unanimously authorized our management to explore potential alliances and to propose recommendations for a course of action. To advise it in this role, our management engaged Dresdner Kleinwort Wasserstein, Inc., an independent investment banking firm. We initiated contact with seven potential partners, including Anthem, on December 12, 2000, asking them to submit a letter of interest in partnering. We asked them to address several strategic issues in the letter, including the company's vision and mission, its commitment to and local presence in the Kansas market, its current and proposed corporate governance and structure, its history and commitment to services to policyholders, its dedication to government programs, its plans for employee opportunities, its financial objectives and exposures, its operations plans and strategies, its current and proposed management structure, and its plans for employee integration.

Based on the responses from the potential partners and a series of meetings in February 2001, management invited three parties to continue in the process, including

¹ Capitalized terms used in this statement, unless otherwise defined herein, have the meanings set forth in the Alliance Agreement.

Anthem, that it believed the Board of Directors would find were most likely to offer a transaction that was in the best interest of our policyholders. During the month of April 2001, the participants in this second round and BCBSKS conducted due diligence and made further presentations regarding a possible transaction. At the end of the month, BCBSKS sent draft transaction agreements to the three second-round participants. While one of the three participants dropped out of the process, during the month of May, Anthem and the other remaining participant submitted proposals and made detailed presentations to BCBSKS, and the parties further negotiated proposal terms. Over the course of the negotiations, our management decided that the proposed definitive agreement with Anthem represented the offer that best met the objectives of our Board in seeking a business partner and, consequently, recommended the Anthem proposal. Anthem's Board of Directors unanimously approved the transaction on April 30, 2001.

On May 24, 2001, the BCBSKS Board of Directors met to review the proposed definitive agreement with Anthem and the conversion and acquisition that it contemplated. BCBSKS management and its financial and legal advisors assisted the Board in its review. At that meeting, Dresdner Kleinwort Wasserstein presented to the Board its opinion that the aggregate cash consideration to be paid to Eligible Policyholders under the proposed definitive agreement was fair from a financial point of view. It also submitted its opinion in a letter to the Board dated May 24, 2001. The Board also considered the strategic issues referred to above and the Company's alternatives to merging or continuing to operate on a stand-alone basis. Based on the

information presented, the Board unanimously approved the proposed definitive agreement with Anthem and authorized management to execute it.

On May 30, 2001, BCBSKS executed the Alliance Agreement with Anthem. BCBSKS and Anthem (the “Parties”) amended the Agreement on September 28, 2001 to extend the required adoption date from September 30, 2001 to November 30, 2001. After executing the Alliance Agreement, BCBSKS management, along with its advisors, developed a detailed plan to convert the Company from a mutual insurance company to a stock insurance company (the “Plan of Conversion”) to implement the terms of the Alliance Agreement.

Management presented the Plan of Conversion to the BCBSKS Board of Directors on October 25, 2001. The Board reviewed the Plan with the assistance of management and its actuarial, financial and legal advisors. After determining that the Plan of Conversion would enhance the Company’s strategic and financial flexibility, make possible a distribution of value to Eligible Policyholders, and be in the best interests of our policyholders, the Board unanimously approved the Plan. The Parties amended the Alliance Agreement again on November 9, 2001.

III. Structure of the Acquisition

The Acquisition is a series of related transactions through which we will convert from a mutual insurance company to a stock insurance company and become a direct or indirect wholly-owned subsidiary of Anthem.

- As of the conversion date, we will become a stock insurance company organized and existing under the Kansas insurance law in accordance with the Plan of Conversion.

- On the conversion date, our stock will be purchased by Anthem or an affiliate for \$190 million (the “Purchase Price”), as a result of which we will become a direct or indirect wholly-owned subsidiary of Anthem.
- On the conversion date, \$48 million of the Purchase Price will be deposited into the Escrow Fund.
- As of the conversion date, all of the Membership Interests of our policyholders will be extinguished and in consideration Eligible Policyholders will become entitled to receive their Proportionate Share of the Purchase Price, subject to resolution of the Contingent Litigation Matter.
- The remaining \$142 million of the Purchase Price not deposited into the Escrow Fund will be paid to Eligible Policyholders as soon as practicable following the resolution of the Closing Balance Sheet used to calculate the Special Distribution.
- The Special Distribution, if any, less costs of distribution, will be paid to Eligible Policyholders as soon as reasonably practicable following the resolution of the Closing Balance Sheet used to calculate the Special Distribution.
- Following the resolution of the Contingent Litigation Matter and other matters specified in the Alliance Agreement and Escrow Agreement, any amounts remaining in the Escrow Fund will be distributed to Eligible Policyholders in accordance with the Alliance Agreement, the Escrow Agreement and the Plan of Conversion.

Although these transactions are described above as a series of steps, the first four steps will effectively occur at the same time and none of those steps will be taken without the others.

IV. Certain Covenants and Agreements

The Alliance Agreement includes certain covenants and agreements between the Parties. Among them are the following: (1) BCBSKS will not solicit, initiate or encourage any other proposals or offers relating to a transaction or related group of transactions that would result in or be reasonably likely to result in a Change of Control of BCBSKS; (2) BCBSKS may provide information, participate in discussions and

negotiate in conjunction with an unsolicited Superior Proposal if our Board determines that failure to do so would be inconsistent with its statutory or fiduciary duties;

(3) Anthem agrees to use reasonable best efforts to cause a mutually satisfactory candidate from BCBSKS' current Board of Directors to be elected to Anthem's Board of Directors for a two-year term; (4) Anthem will maintain a local advisory board for Anthem's Kansas business; (5) Anthem will maintain hospital, medical and dental advisory committees for BCBSKS for at least three years following the Closing Date; and (6) other covenants customary for a transaction such as the Acquisition.

V. Closing

The Acquisition will close on the earliest practicable date after the conditions to the obligations of the Parties set forth in the Alliance Agreement and the conditions set forth in the Plan of Conversion have been satisfied or waived, or at such other time to which the Parties mutually agree in writing.

A. Conditions to Closing

The Alliance Agreement provides that the Parties' respective obligations are subject to the satisfaction of several conditions to the Closing. Among these conditions are as follows:

- any waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, applicable to the transactions has expired or has been terminated (early termination of the waiting period has been granted);
- no actions have been commenced by or before any governmental authority against either Party that are reasonably likely to make the transactions contemplated by the Alliance Agreement illegal or impossible to consummate or likely to have a Material Adverse Effect on either party;

- both Parties have received all specified approvals, licenses and certificates from governmental authorities without burdensome conditions;
- the Plan of Conversion has been approved by the Eligible Policyholders and the Commissioner, each of the conditions set forth in the Plan has been satisfied, and the Plan has become effective;
- the Company has received assurances from the Securities and Exchange Commission or an opinion from legal counsel regarding the status of the Escrow Fund; and
- the Company has received an opinion from Dresdner Kleinwort Wasserstein confirming the fairness, from a financial point of view, of the Purchase Price and the Special Distribution to Eligible Policyholders. (We have received this opinion, a copy of which is attached to the Policyholder Information Statement).

The Alliance Agreement further provides that our obligation to consummate the Closing is subject to the satisfaction of several additional conditions. These are as follows:

- the representations and warranties of Anthem contained in the Alliance Agreement were true and correct when made and are true and correct as of the Closing, and the covenants and agreements contained in the Alliance Agreement to be complied with by Anthem on or before the Closing have been complied with, except where such failure would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on Anthem;
- we have received a certified copy of the resolutions of Anthem's Board of Directors authorizing the transactions contemplated by the Alliance Agreement;
- we have received a certificate of Anthem certifying the names and signatures of the officers of Anthem authorized to sign the Alliance Agreement and the Escrow Agreement and the other documents to be delivered at Closing;
- we have received an opinion from Anthem's legal counsel dated the Closing Date, addressing specified legal matters;
- the Escrow Agreement has been executed and delivered by Anthem; and
- we have received any required approval from the Commissioner for the declaration and payment of the Special Distribution (which may take the form of approval of the Plan of Conversion).

The Alliance Agreement further provides that the obligation of Anthem to consummate the Closing is subject to the satisfaction of several additional conditions.

These are summarized as follows:

- our representations and warranties contained in the Alliance Agreement were true and correct when made and are true and correct as of the Closing, and the covenants and agreements contained in the Alliance Agreement to be complied with by us on or before the Closing have been complied with, except where such failure would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on us;
- Anthem has received a certified copy of the resolutions adopted by our Board evidencing its approval and authorization of the execution and delivery of the Alliance Agreement, the Plan of Conversion and the Escrow Agreement and the consummation of the transactions contemplated by those documents, and the resolutions adopted by the Eligible Policyholders evidencing their approval of the Plan;
- Anthem has received a certificate from us certifying the names and signatures of our officers authorized to sign the Alliance Agreement and the Escrow Agreement and the other documents delivered at Closing;
- Anthem has received an opinion from our legal counsel dated the Closing Date, addressing specified legal matters;
- both we and Anthem have received specified third party consents without material conditions;
- no circumstance, or change in or effect on our business and that of our affiliates has occurred which has a Material Adverse Effect on us and our affiliates;
- the Blue Cross Blue Shield Association has consented to the transfer of our rights to use the Blue Cross and Blue Shield names and marks to Anthem, or has issued to Anthem primary Blue Cross and Blue Shield licenses for the 103 counties in the State of Kansas for which BCBSKS currently has licenses;
- we have delivered to Anthem certificates of good standing from the Secretary of State for the State of Kansas and the Department, as applicable, for us and our affiliates, and from applicable governmental authorities in other jurisdictions in which we or our affiliates are conducting business; and
- the Escrow Agreement has been executed and delivered by us.

Neither Party may rely on the failure of any closing condition to be satisfied if the failure was caused by the failure to use commercially reasonable efforts to assist in the satisfaction of the condition.

B. Other Insurance Regulatory Approvals

In addition to the Commissioner's approval of the Plan, Anthem filed an application for the Commissioner's approval of its acquisition of control of a domestic insurer (Form A). The Commissioner will hold a formal public hearing on Anthem's Form A filing immediately following the conclusion of the public hearing relating to approval of the Plan of Conversion. Under the K.S.A. § 40-3304(d)(1), the Commissioner will approve the Acquisition unless, after that public hearing, she finds that:

- after the change of control BCBSKS would not be able to satisfy the requirements for the issuance of a license;
- the financial condition of Anthem is such as might jeopardize the financial stability of BCBSKS or prejudice the interest of our policyholders;
- the plans or proposals which Anthem has to liquidate the insurer, sell its assets or consolidate or merge it with any person, or to make any other material changes in its business or corporate structure or management are unfair and unreasonable to policyholders of the insurer and not in the public interest;
- the competence, experience and integrity of those persons who would control the operation of BCBSKS are such that it would not be in the interest of our policyholders and of the public to permit the Acquisition of control; or
- the Acquisition is likely to be hazardous or prejudicial to the insurance-buying public.

We hope and expect that after the review process, the Commissioner will issue an order approving the Acquisition.

VI. Termination of the Alliance Agreement

The Alliance Agreement gives both Parties the ability to terminate the agreement at any time prior to Closing under certain conditions. Either Party may exercise this option if (1) the other Party has breached any of its representations or warranties contained in the Alliance Agreement, or breached or failed to perform in any material respect any of its covenants or other agreements contained in the Alliance Agreement, which if not cured would cause the non-breaching Party's closing conditions regarding the truth and accuracy of representations and warranties and performance of covenants not to be satisfied, and the breach or failure is incapable of being cured or has not been cured within 45 days after written notice; (2) the Closing has not occurred by September 30, 2002; (3) any governmental authority has issued an order, decree or ruling or taken any other action restraining, enjoining or otherwise prohibiting the transactions contemplated by the Alliance Agreement, or the Commissioner has disapproved one or more of the transactions contemplated by the Alliance Agreement required for the sponsored demutualization to proceed; or (4) our Eligible Policyholders do not approve the Plan of Conversion at the Special Meeting. In addition, both Parties may terminate the Alliance Agreement at any time prior to the Closing by mutual written consent.

Anthem may terminate the Alliance Agreement at any time prior to the Closing if we make a general assignment for the benefit of creditors, or any proceeding has been instituted by or against us seeking to adjudicate us a bankrupt or insolvent, or seeking liquidation, winding up or reorganization, under any law relating to bankruptcy, insolvency or reorganization, which has not been dismissed within 90 days.

We may terminate the Alliance Agreement at any time prior to the Closing by action of our Board of Directors in order to enter into an agreement with respect to a transaction constituting a Superior Proposal. In order to terminate the Alliance Agreement under these terms, we must give Anthem 10 days notice of the Superior Proposal's material terms and allow Anthem the opportunity to make a counter proposal. Should we terminate the Agreement due to a Superior Proposal, we would be liable to pay Anthem a termination fee of \$12 million. In addition, we may terminate the Agreement if Anthem has experienced a Change of Control.

VII. Conclusion

For the reasons described in this and the various other written testimonies submitted to the Commissioner, BCBSKS' Plan of Conversion and the Acquisition satisfies all of the requirements set forth under the applicable Kansas Statutes and is in the best interests of the Company and our policyholders. It is therefore respectfully requested that the Commissioner approve the Plan of Conversion and the Acquisition.

Michael M. Mattox

Dated: December 17, 2001
Sworn to before me this 17th day of December, 2001

Notary Public