

BN Anthem-WellPoint Combination May Be Delayed, Some Investors Say  
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By Keith Snider

June 15 (Bloomberg) -- Anthem Inc.'s \$16.4 billion purchase of WellPoint Health Networks Inc., which would create the largest U.S. health insurer, may be pushed back because of opposition from California officials, some investors said.

The companies had said the deal would close around midyear after a scheduled shareholder vote June 28. California is the only holdout among 11 states reviewing the purchase.

The California Public Employees' Retirement System, or Calpers, has called for hearings on the more than \$600 million in special payments WellPoint executives may receive as a result of the acquisition. California treasurer Philip Angelides is fighting the takeover and state Insurance Commissioner John Garamendi has said the combination may hurt patients. The companies may be forced to make concessions, investors said.

``It may mean some negotiation with California and figuring out something that satisfies everybody,'' said Michael Obuchowski, who manages \$35 million at Altanes Investments LLC, owner of WellPoint, Anthem and UnitedHealth shares. ``It might be a bump in the road.''

Shares of WellPoint were unchanged at \$112.60 at 4:01 p.m. in New York Stock Exchange composite trading. They've risen 16 percent this year. Anthem slipped 11 cents to \$89.89.

Calpers, the largest U.S. pension fund, said yesterday it would vote against the proposed purchase because of the ``excessive pay packages'' and would encourage other shareholders to do so. Calpers owns about 700,000 shares of Thousand Oaks, California-based WellPoint and 600,000 shares of Indianapolis-based Anthem, less than one-half percent of each, according to a March regulatory filing.

#### Schaffer's Payout

WellPoint defended the executive payments yesterday in a letter to Angelides, saying the estimate was high. WellPoint said 280 of the 293 executives eligible for the payouts will remain at the combined company, meaning some of the severance won't be paid.

The cost of the payouts may be offset by administrative savings expected in the two years after the acquisition closes, WellPoint said in the letter.

The planned payout for WellPoint Chief Executive Leonard Schaeffer may be particularly vulnerable in any negotiations between the companies and the state, said Steven Hill, a fund manager at First Investors Corp., which has \$3.5 billion under

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management, including about 130,000 Anthem shares. Schaeffer is slated to get \$76 million in severance-related payments, Hill said.

``I fully expect that WellPoint is going to do what needs to be done'' to win clearance, said Hill, adding that California's objections will slow, but not stall, the acquisition. ``I think they will have to make concessions; presumably they might have to adjust severance costs for Leonard Schaeffer.''

#### Election Year

Anthem, which agreed to the purchase in October, would have almost 26 million members in its health plans after absorbing WellPoint. That would put it ahead of UnitedHealth Group Inc., the current industry leader with more than 20 million.

The combined company would cover about one in three members of Blue Cross plans and have the biggest market share in a dozen states where Anthem and WellPoint operate.

Both companies have tangled with state regulators previously. Talks between Anthem and WellPoint began after state officials blocked WellPoint's purchase of an insurer in Maryland and Anthem's purchase of a health plan in Kansas.

California regulators may have added incentives to hold hearings and investigate the acquisition because it's an election year, analysts said. Still, nobody anticipates a long delay, and the California opposition probably won't scuttle the transaction, SG Cowen analyst Edmund Kroll said.

``Ultimately, the deal will go through,'' said Kroll, who has no rating on Anthem and WellPoint. ``This is mostly noise.''

Spokespeople for Garamendi and the Department of Managed Health Care, which regulates health insurers in California, didn't immediately return phone calls seeking comment.

Calpers wants the Department of Managed Health Care to start an inquiry into the pay packages.

The state's Senate Insurance Committee will hold a hearing on the acquisition Thursday, said Tracy Fairchild, a spokeswoman for Senator Jackie Speier, a Democrat who heads the panel.

--With reporting by Kristin Reed and William Selway in San Francisco. Editor: Schauder

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