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ANTHEM INC  
Form 424B4  
October 30, 2001

FILED PURSUANT TO RULE NO. 424(b)(4)  
REGISTRATION NOS. 333-67714  
333-72438

48,000,000 Shares

Anthem, Inc.

Common Stock

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This is an initial public offering of shares of common stock of Anthem, Inc. The offering is being made in connection with the conversion of Anthem Insurance Companies, Inc. from a mutual insurance company to a stock insurance company in a process called demutualization. All of the shares of common stock are being sold by Anthem, Inc.

In addition to these shares, an estimated 54,861,000 shares of our common stock will be issued to eligible statutory members of Anthem Insurance Companies, Inc. in the demutualization.

Prior to this offering, there has been no public market for our common stock. Our common stock has been approved for listing on the New York Stock Exchange, subject to official notice of issuance, under the symbol "ATH".

Concurrently with this offering, we are offering 4,000,000 6.00% equity security units for an aggregate offering of \$200.0 million, plus up to an additional \$30.0 million if the underwriters' option to purchase additional units is exercised in full, by means of a separate prospectus. Each unit consists of (a) a contract to purchase shares of our common stock and (b) a 5.95% subordinated debenture.

See "Risk Factors" beginning on page 10 to read about factors you should consider before buying shares of our common stock.

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Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

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	Per Share	Total
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Initial public offering price.....	\$36.00	\$1,728,000,000
Underwriting discount.....	\$ 1.656	\$ 79,488,000
Proceeds, before expenses, to Anthem, Inc.....	\$34.344	\$1,648,512,000

To the extent that the underwriters sell more than 48,000,000 shares of common stock, the underwriters have the option to purchase up to an additional

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7,200,000 shares from Anthem, Inc. at the initial public offering price less the underwriting discount.

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The underwriters expect to deliver the shares against payment in New York, New York on November 2, 2001.

Goldman, Sachs & Co.

Merrill Lynch & Co.

Morgan Stanley

JPMorgan

Banc of America Securities LLC

Credit Suisse First Boston

Lehman Brothers

UBS Warburg

ABN AMRO Rothschild LLC

Dresdner Kleinwort Wasserstein

A.G. Edwards & Sons, Inc.

McDonald Investments Inc.

Utendahl Capital Partners, L.P.

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Prospectus dated October 29, 2001.

UNDER INDIANA LAW, FOR A PERIOD OF FIVE YEARS FOLLOWING THE EFFECTIVE DATE OF THE DEMUTUALIZATION, NO PERSON MAY ACQUIRE BENEFICIAL OWNERSHIP OF 5% OR MORE OF THE OUTSTANDING SHARES OF OUR COMMON STOCK WITHOUT THE PRIOR APPROVAL OF THE INDIANA INSURANCE COMMISSIONER AND OUR BOARD OF DIRECTORS. THIS RESTRICTION DOES NOT APPLY TO ACQUISITIONS MADE BY US OR MADE PURSUANT TO AN EMPLOYEE BENEFIT PLAN OR EMPLOYEE BENEFIT TRUST SPONSORED BY US. THE INDIANA INSURANCE COMMISSIONER HAS ADOPTED RULES UNDER WHICH PASSIVE INSTITUTIONAL INVESTORS COULD PURCHASE 5% OR MORE BUT LESS THAN 10% OF OUR OUTSTANDING COMMON STOCK WITH THE PRIOR APPROVAL OF OUR BOARD OF DIRECTORS AND PRIOR NOTICE TO THE INDIANA INSURANCE COMMISSIONER. SEE "DESCRIPTION OF CAPITAL STOCK--CERTAIN PROVISIONS OF INDIANA LAW."

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### PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. As a result, it does not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully, including the "Risk Factors" section and the consolidated financial statements and the notes to those statements. References to the term "Anthem Insurance" refer to Anthem Insurance Companies, Inc., an Indiana insurance company. References to the term "Anthem" refer to Anthem Insurance and its direct and indirect subsidiaries before the demutualization, and to Anthem, Inc., a newly-formed Indiana holding company, and its direct and indirect subsidiaries, including Anthem Insurance, after the demutualization, as the context requires. References to the terms "we," "our," or "us," refer to Anthem, before and after the demutualization.

Anthem

We are one of the nation's largest health benefits companies, serving over seven million members, or customers, primarily in Indiana, Kentucky, Ohio, Connecticut, New Hampshire, Maine, Colorado and Nevada. We hold the leading market position in seven of these eight states and own the exclusive right to market our products and services using the Blue Cross(R) Blue Shield(R), or BCBS, names and marks in all eight states under license agreements with the Blue Cross Blue Shield Association, or BCBSA, an association of independent BCBS plans. We seek to be a leader in our industry by offering a broad selection of flexible and competitively priced health benefits products.

Our product portfolio includes a diversified mix of managed care products, including Health Maintenance Organizations or HMOs, Preferred Provider Organizations or PPOs, and Point of Service or POS plans, as well as traditional indemnity products. We also offer a broad range of administrative and managed care services and partially insured products for employer self-funded plans. These services and products include underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, claims processing and other administrative services. In addition, we offer our customers several specialty products including group life, disability, prescription management, workers compensation, dental and vision. Our products allow our customers to choose from a wide array of funding alternatives. For our insured products, we charge a premium and assume all or a

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majority of the health care risk. Under our self-funded and partially insured products, we charge a fee for services, and the employer or plan sponsor reimburses us for all or a majority of the health care costs.

Our managed care plans and products are designed to encourage providers and members to select quality, cost-effective health care by utilizing the full range of our innovative medical management services, quality initiatives and financial incentives. Our leading market shares enable us to realize the long-term benefits of investing in preventive and early detection programs. We further improve our ability to provide cost-effective health benefits products and services through a disciplined approach to internal cost containment, prudent management of our risk exposure and successful integration of acquired businesses. These measures have allowed us to achieve significant growth in membership (78%), revenue (68%), and net income (135%) from 1996 through 2000.

### Our Operating Segments

Our reportable segments are strategic business units delineated by geographic areas within which we offer similar products and services, but manage with a local focus to address each geographic region's unique market, regulatory and health care delivery characteristics. The regions are:

- . the Midwest, which includes Indiana, Kentucky and Ohio;
- . the East, which includes Connecticut, New Hampshire and Maine; and

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- . the West, which includes Colorado and Nevada.

In addition to our three geographic regions, we have a Specialty segment and an Other segment. Our Specialty segment includes business units providing:

- . group life and disability insurance benefits;
- . pharmacy benefit management;
- . dental administration services; and
- . third party occupational health services.

Various ancillary business units (reported with the Other segment) include:

- . AdminaStar Federal, a subsidiary which administers Medicare programs in Indiana, Illinois, Kentucky and Ohio; and
- . Anthem Alliance Health Insurance Company, a subsidiary which primarily provided health care benefits and administration in nine states for the Department of Defense's TRICARE program for military families. On May 31, 2001, the TRICARE operations were sold.

The Other segment also includes intersegment revenue, expense eliminations and corporate expenses not allocated to reportable segments.

### Our Strategy and Operating Principles

Our strategic objective is to be among the best and biggest in our industry with the size and scale to deliver the best product value with the best people.

To achieve these goals, we offer a broad selection of flexible and

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competitively priced products and seek to establish leading market positions. We believe that increased scale in each of our regional markets will provide us competitive advantages, cost efficiencies and greater opportunities to sustain profitable growth. The key to our ability to deliver this growth is our commitment to work with providers to optimize the cost and quality of care while improving the health of our members and improving the quality of our service.

The following are key elements to our strategy and operating principles:

- . **Promote Quality Care:** We believe that our ability to help our members receive quality, cost-effective health care will be key to our success. We promote the health of our members through education and through products that cover prevention and early detection programs that help our members and their providers manage illness before higher cost intervention is required.
- . **Product Value:** We aim to create products that offer value to our customers. By offering a wide spectrum of products supported by broad provider networks, we seek to meet the differing needs of our various customers.
- . **Operational Excellence:** To provide cost-effective products, we continuously strive to improve operational efficiency. We actively benchmark our performance against other leading health benefits companies to identify opportunities to drive continuous performance improvement.
- . **Technology:** We continuously review opportunities to improve our interactions with customers, brokers and providers. By utilizing technologies, we seek to make the interactions as simple, efficient and productive as possible.

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- . **Growth:** We believe that profitable growth, both organic and through acquisitions, is an important part of our business. Increased scale allows us to increase customer convenience and improve operating margins, while keeping our products competitively priced. Expansion into new geographic markets enables us to reduce exposure to economic cycles and regulatory changes and provides options for business expansion.

Our principal executive offices are located at 120 Monument Circle, Indianapolis, Indiana. Our telephone number is (317) 488-6000.

### The Demutualization

This offering of our shares and the concurrent offering of our equity security units, or the units, are made in connection with the conversion of Anthem Insurance from a mutual insurance company into a stock insurance company in a process called demutualization. Upon demutualization, all membership interests in Anthem Insurance will be extinguished, and Anthem Insurance's eligible statutory members will receive consideration in exchange for the extinguishment of their membership interests. Their consideration will be in the form of Anthem, Inc. common stock or cash.

The terms of the demutualization are governed by the plan of conversion. The plan requires approval by Anthem Insurance's statutory members who are eligible to vote on the plan and by the Indiana Insurance Commissioner. Anthem Insurance's statutory members approved the plan on October 29, 2001. The

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Indiana Insurance Commissioner approved the plan on October 25, 2001.

Anthem Insurance has formed an Indiana subsidiary, Anthem, Inc., the issuer of the common stock offered by this prospectus. The demutualization of Anthem Insurance includes the following steps, all of which will occur on or promptly after the effective date of the demutualization:

- . Anthem Insurance will convert from a mutual insurance company into a stock insurance company;
- . all membership interests in Anthem Insurance will be extinguished;
- . the converted Anthem Insurance will become a wholly-owned subsidiary of Anthem, Inc.;
- . Anthem Insurance's eligible statutory members will be entitled to receive shares of common stock of Anthem, Inc. or cash, as consideration for the extinguishment of their membership interests in Anthem Insurance;
- . shares of Anthem, Inc. common stock will be sold to the public pursuant to this offering;
- . equity security units will be sold to the public pursuant to the units offering; and
- . a portion of the net proceeds from this offering and the units offering will be paid to eligible statutory members of Anthem Insurance who receive cash instead of shares of Anthem, Inc. common stock in the demutualization, as set forth in "Use of Proceeds."

If the demutualization is not completed for any reason, Anthem Insurance will remain a mutual insurance company, no shares of Anthem, Inc. common stock will be sold to the public pursuant to this offering and no equity security units will be sold pursuant to the units offering.

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### Offering of Equity Security Units

Concurrently with this offering, we are offering 4,000,000 equity security units for an aggregate offering of \$200.0 million, plus up to an additional \$30.0 million if the underwriters' option to purchase additional units is exercised in full, by means of a separate prospectus. Each unit initially consists of (a) a contract to purchase shares of our common stock and (b) a 5.95% subordinated debenture.

The purchase contract underlying a unit obligates holders to purchase, and us to sell, for \$50, on November 15, 2004, a number of newly issued shares of our common stock equal to a settlement rate based on the average trading price of our common stock at that time. We will pay quarterly contract fee payments on the purchase contracts at the annual rate of 0.05% of the stated amount of \$50 per purchase contract, subject to our rights to defer these payments.

The debentures will be unsecured and will be subordinated in right of payment to all of Anthem, Inc.'s existing and future senior indebtedness. The debentures will mature on November 15, 2006. Each debenture will initially bear interest at the rate of 5.95% per year, payable quarterly, subject to our rights to defer these payments. The applicable interest rate on the debentures outstanding on and after August 15, 2004 will be reset, and the debentures

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remarketed, as described under "Description of the Equity Security Units."

During any period in which we defer contract fee payments or interest payments on the debentures, in general we cannot declare or pay any dividend or distribution on our capital stock or take specified other actions.

Before settlement of the purchase contracts through the issuance of common stock, the units will be reflected in our diluted earnings per share calculations using the treasury stock method. Under this method, the number of shares of our common stock used in calculating earnings per share for any period will be deemed to be increased by the excess, if any, of the number of our shares that would be required to be issued upon settlement of the purchase contracts over the number of shares that could be purchased by us in the market, at the average market price during that period, using the proceeds that would be required to be paid upon settlement. Consequently, there will be no dilutive effect on our earnings per share, except during periods when the average market price of our common stock is above \$43.92 per share.

The closing of the offering of the units is conditioned on the concurrent closing of the initial public offering, as well as the closing of the demutualization.

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### The Offering

Common stock offered..... 48,000,000 shares

Common stock outstanding after the offering and the demutualization.. 102,861,000 shares

Use of proceeds..... Our net proceeds from the offering will be approximately \$1,616.5 million (or \$1,863.8 million if the underwriters exercise their option to purchase additional shares in full), based on the initial public offering price of \$36.00 per share. We will also receive estimated net proceeds of approximately \$191.0 million from the concurrent offering of units (or \$219.9 million if the underwriters exercise their option to purchase additional units in full). From the aggregate net proceeds from both offerings, we estimate that we will pay \$1,625.0 million to those eligible statutory members of Anthem Insurance who receive cash instead of shares of common stock in connection with the demutualization. We will use the remaining proceeds from the offerings for general corporate purposes.

Dividend policy..... We currently do not intend to pay cash dividends on our common stock. Future dividends will be subject to our financial condition, declaration by our board of directors and other factors described

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under "Dividend Policy."

New York Stock Exchange symbol..... "ATH"

Unless we specifically state otherwise, the information in this prospectus does not take into account the sale of up to 7,200,000 shares of our common stock, which the underwriters have the option to purchase from us to cover over-allotments. In addition, the information in this prospectus regarding the number of shares of our common stock to be outstanding after this offering does not include shares of common stock issuable upon the settlement of the purchase contracts that are a part of the equity security units being offered concurrently herewith.

Our common stock outstanding after the offering also excludes 7,000,000 shares available for issuance pursuant to awards of options, restricted stock, stock appreciation rights, performance stock and performance awards under our 2001 Stock Incentive Plan. See "Management--Stock Incentive Plan." In addition, our common stock outstanding after the offering excludes shares issuable under our Employee Stock Purchase Plan. The Employee Stock Purchase Plan reserves for issuance and purchase by employees 3,000,000 shares of our common stock. See "Management--Employee Stock Purchase Plan."

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### Recent Developments

On May 30, 2001, we signed a definitive agreement with Blue Cross and Blue Shield of Kansas, Inc., or BCBS-KS, pursuant to which we have agreed to acquire BCBS-KS for \$190.0 million in cash. The transaction is expected to close in early 2002, subject to the approval of BCBS-KS policyholders, the approval of the BCBSA, the approval of the Kansas Department of Insurance and other regulatory approvals. See "Risk Factors--Our pending acquisition of Blue Cross and Blue Shield of Kansas involves risks which could cause our business to suffer" and "Recent Developments--Pending Acquisition of Blue Cross and Blue Shield of Kansas."

Prior to May 31, 2001, our subsidiary Anthem Alliance Health Insurance Company provided health care benefits and administration in nine states for the United States Department of Defense's TRICARE program for military families. On May 31, 2001, we sold the TRICARE operations to a subsidiary of Humana, Inc. for \$45.0 million.

For the first nine months of 2001, net income increased 65.5% to \$254.5 million compared with net income of \$153.8 million for the first nine months of 2000. Net income excluding net realized gains on investments and demutualization expenses was \$215.0 million for the first nine months of 2001, a 48.0% increase compared with \$145.3 million for the first nine months of 2000. Total operating revenue was \$7.5 billion for the first nine months of 2001, a 20.9% increase compared with \$6.2 billion for the first nine months of 2000. Membership was 7.8 million at September 30, 2001, a 9.9% increase compared with 7.1 million at September 30, 2000. See "Recent Developments--Nine Months Financial Information."

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Summary Consolidated Financial and Other Data



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The following table summarizes financial information for Anthem. We prepared this information using our unaudited consolidated financial statements for the six-month periods ended June 30, 2001 and 2000 and our consolidated financial statements for each of the years in the five-year period ended December 31, 2000, which have been audited by Ernst & Young LLP. You should read this information with our audited consolidated financial statements and notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus. In our opinion, the summary financial data for the six-month periods ended June 30, 2001 and 2000 include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of that data. The summary consolidated financial and other data do not necessarily indicate the results to be expected in the future.

	As of and for the Six Months Ended June 30,		As of and for the Year Ended December 31,				
	2001(1)	2000(1)	2000(1)	1999(1)	1998	1997	1996
	(unaudited)		(\$ in Millions)				
Income Statement Data							
Revenues							
Premiums.....	\$4,542.8	\$3,589.3	\$7,737.3	\$5,418.5	\$4,739.5	\$4,581.4	\$4,445.9
Administrative fees.....	430.3	356.5	755.6	611.1	575.6	445.9	452.9
Other revenue.....	22.6	18.9	50.6	51.0	74.6	82.7	108.5
	-----	-----	-----	-----	-----	-----	-----
Total operating revenue.....	4,995.7	3,964.7	8,543.5	6,080.6	5,389.7	5,110.0	5,007.3
Net investment income...	109.0	95.0	201.6	152.0	136.8	125.2	141.9
Net realized gains (losses) on investments.....	(10.9)	6.5	25.9	37.5	155.9	97.0	73.3
Gain on sale of subsidiary operations..	25.0	--	--	--	--	--	--
	-----	-----	-----	-----	-----	-----	-----
	5,118.8	4,066.2	8,771.0	6,270.1	5,682.4	5,332.2	5,222.5
	-----	-----	-----	-----	-----	-----	-----
Expenses							
Benefit expense.....	3,870.8	3,080.6	6,551.0	4,582.7	3,934.2	3,833.3	3,715.1
Administrative expense(2).....	991.6	817.5	1,808.4	1,469.4	1,420.1	1,358.9	1,268.7
Interest expense.....	28.0	27.0	54.7	30.4	27.9	23.7	19.5
Amortization of goodwill and other intangible assets.....	15.7	11.4	27.1	12.7	12.0	9.6	10.7
Demutualization expenses.....	3.0	--	--	--	--	--	--
Endowment of non-profit foundations(3).....	--	--	--	114.1	--	--	--
	-----	-----	-----	-----	-----	-----	-----
	4,909.1	3,936.5	8,441.2	6,209.3	5,394.2	5,225.5	5,014.0
	-----	-----	-----	-----	-----	-----	-----
Income from continuing operations before income taxes and minority interest.....							
	209.7	129.7	329.8	60.8	288.2	106.7	208.5
Income taxes.....	68.6	38.9	102.2	10.2	110.9	24.1	53.0

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Minority interest (credit).....	(1.9)	0.5	1.6	(0.3)	(1.1)	3.5	15.0
Income from continuing operations.....	143.0	90.3	226.0	50.9	178.4	79.1	140.5
Discontinued operations, net of income taxes							
Loss from discontinued operations prior to disposal.....	--	--	--	--	(3.9)	(125.1)	(44.4)
Loss on disposal of discontinued operations.....	--	--	--	(6.0)	(2.1)	(113.0)	--
Net income (loss).....	\$ 143.0	\$ 90.3	\$ 226.0	\$ 44.9	\$ 172.4	\$ (159.0)	\$ 96.1

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As of and for the Six Months Ended June 30,		As of and for the Year Ended December 31,				
2001 (1)	2000 (1)	2000 (1)	1999 (1)	1998	1997	1996
(unaudited)						
(\$ in Millions, except ratios)						

Other Data--unaudited(4)

Operating revenue and premium equivalents(5).....	\$6,883.1	\$5,559.0	\$11,800.1	\$8,691.6	\$7,987.4	\$7,269.3	\$6,772.3
Benefit expense ratio...	85.2%	85.8%	84.7%	84.6%	83.0%	83.7%	83.6%
Administrative expense ratio:							
Calculated using operating revenue.....	19.8%	20.6%	21.2%	24.2%	26.3%	26.6%	25.3%
Calculated using operating revenue and premium equivalents...	14.4%	14.7%	15.3%	16.9%	17.8%	18.7%	18.7%
Return on revenue.....	2.8%	2.2%	2.6%	0.7%	3.0%	(3.0)%	1.8%
Return on revenue-- continuing operations..	2.8%	2.2%	2.6%	0.8%	3.1%	1.5%	2.7%
Return on equity.....	N/A	N/A	12.6%	2.7%	10.7%	(10.1)%	6.0%
Members (000s).....	7,779	7,030	7,270	6,265	5,167	5,261	4,078
Ratio of earnings to fixed charges(6).....	8.49	5.80	7.03	3.00	11.33	5.50	11.69
Pro forma ratio of earnings to fixed charges(6) (7).....	6.78	--	5.52	--	--	--	--
Balance Sheet Data							
Cash and investments....	\$4,029.6	\$3,418.4	\$ 3,714.6	\$2,972.4	\$2,805.1	\$2,415.6	\$2,123.4
Total assets.....	5,838.0	5,364.0	5,708.5	4,816.2	4,359.2	4,131.9	4,085.8
Policy liabilities.....	1,593.8	1,625.5	1,698.3	1,431.1	1,118.1	1,143.9	1,231.5
Debt.....	597.7	597.5	597.7	522.2	302.1	305.9	245.9
Total policyholders'							

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surplus(8)..... 2,063.9 1,756.3 1,919.8 1,660.9 1,702.5 1,524.7 1,625.2

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 (1) On October 27, 1999 and November 16, 1999 Anthem acquired New Hampshire-Vermont Health Service, formerly d/b/a Blue Cross Blue Shield of New Hampshire, and Rocky Mountain Hospital and Medical Service, Inc., formerly d/b/a Blue Cross and Blue Shield of Nevada/Colorado. On June 5, 2000, Anthem acquired Associated Hospital Service of Maine, formerly d/b/a Blue Cross and Blue Shield of Maine. These acquisitions were accounted for as purchases and the net assets and results of operations have been included in our consolidated financial statements from the respective purchase dates. Below is information for the six months ended June 30, 2001 and 2000 and for the years ended December 31, 2000 and 1999 that is included in Anthem's consolidated financial statements for the acquisitions that were completed in those periods:

	As of and for the Six Months Ended June 30,							
	2001				2000			
	Total Revenues	Operating Gain	Assets	(000s) Members	Total Revenues	Operating Loss	Assets	(000s) Members
BCBS-ME.....	\$ 457.6	\$ 3.0	\$ 326.4	496	\$ 59.6	\$(2.5)	\$264.8	468
	=====	=====	=====	=====	=====	=====	=====	=====

	As of and for the Year Ended December 31,							
	2000				1999			
	Total Revenues	Operating Gain	Assets	(000s) Members	Total Revenues	Operating Loss	Assets	(000s) Members
BCBS-NH.....	\$ 591.0	\$11.6	\$ 316.8	479	\$ 77.9	\$(0.3)	\$250.6	366
BCBS-CO/NV.....	678.6	6.5	545.8	595	76.9	(3.4)	521.5	486
BCBS-ME.....	489.4	8.7	339.5	487	--	--	--	--
Total.....	\$1,759.0	\$26.8	\$1,202.1	1,561	\$154.8	\$(3.7)	\$772.1	852
	=====	=====	=====	=====	=====	=====	=====	=====

Operating gain (loss) consists of operating revenue less benefit expense and administrative expense.

- (2) The 1999 administrative expense includes a non-recurring charge of \$41.9 million related to the settlement agreement with the Office of Inspector General. See Note 14 to our audited consolidated financial statements.
- (3) During 1999, Anthem reached agreements with the states of Kentucky, Ohio and Connecticut to resolve any questions as to whether Anthem or the predecessor/successor entities were in possession of property that was impressed with a charitable trust. The endowment of non-profit foundations reflects contributions made for the benefit of charitable foundations in these states. See Note 3 to our audited consolidated financial statements.

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- (4) The benefit expense ratio represents benefit expense as a percentage of premium revenue. The administrative expense ratio represents administrative expense as a percentage of operating revenue and has also been presented as a percentage of operating revenue and premium equivalents. Return on revenue represents net income (loss) as a percentage of total revenues. Return on revenue--continuing operations represents income from continuing operations as a percentage of total revenues. Return on equity, which is only presented for annual periods, represents net income (loss) as a percentage of the average of the sum of policyholders' surplus at the beginning and the end of the period.
- (5) Operating revenue and premium equivalents is a measure of the volume of business serviced by Anthem that is commonly used in the health benefits industry to allow for a comparison of operating efficiency among companies. It is calculated by adding to premiums, administrative fees and other revenue the amount of claims attributable to non-Medicare, self-funded health business where Anthem provides a complete array of customer service, claims administration and billing and enrollment services. The self-funded claims included for the six months ended June 30, 2001 and 2000 were \$1,887.4 million and \$1,594.3 million, respectively, and for the years ended December 31, 2000, 1999, 1998, 1997 and 1996 were \$3,256.6 million, \$2,611.0 million, \$2,597.7 million, \$2,159.3 million and \$1,765.0 million, respectively.
- (6) For purposes of this computation, earnings are defined as pretax earnings from continuing operations before adjustment for minority interest, plus interest expense, and amortization of debt discount and expense related to indebtedness. Fixed charges are interest expense, including amortization of debt discount and expense on indebtedness.
- (7) For purposes of the pro forma ratio of earnings to fixed charges, fixed charges also reflect interest payments on the debentures included in the units at a rate of 5.95% (\$11.9 million and \$6.0 million for the year ended December 31, 2000 and for the six months ended June 30, 2001, respectively) and amortization of underwriting discounts and estimated unit offering expenses (\$3.0 million and \$1.5 million for the year ended December 31, 2000 and for the six months ended June 30, 2001, respectively). The pro forma ratio of earnings to fixed charges has been presented to give effect to the additional fixed charges related to the issuance of the units. The pro forma ratio does not give effect to any pro forma earnings resulting from the use of the net proceeds from the units offering.
- (8) Policyholders' surplus represents shareholders' equity prior to demutualization.

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### RISK FACTORS

An investment in our common stock involves a number of risks. The performance of our common stock and the units will reflect the performance of our business related to, among other things, our competition and general economic, market and industry conditions. The price of our common stock and the units may decline, and the value of your investment could decrease. You should consider carefully, in addition to the other information contained in this prospectus, the following factors before investing in shares of our common stock. In reviewing information contained in this prospectus, you should bear in mind that past experience is no indication of future performance.

Our ability to contain health care costs and implement increases in premium rates affects our profitability.

Our profitability depends in large part on accurately predicting health care costs and on our ability to manage future health care costs through underwriting criteria, utilization management, product design and negotiation

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of favorable provider contracts. The aging of the population and other demographic characteristics and advances in medical technology continue to contribute to rising health care costs. Government-imposed limitations on Medicare and Medicaid reimbursement have also caused the private sector to bear a greater share of increasing health care costs. Changes in health care practices, inflation, new technologies, the cost of prescription drugs, clusters of high cost cases, changes in the regulatory environment and numerous other factors affecting the cost of health care are beyond any health plan's control and may adversely affect our ability to predict and manage health care costs, as well as our business, financial condition and results of operations.

In addition to the challenge of managing health care costs, we face pressure to contain premium prices. Our customer contracts may be subject to renegotiation as customers seek to contain their costs. Alternatively, our customers may move to a competitor to obtain more favorable premiums. Fiscal concerns regarding the continued viability of programs such as Medicare and Medicaid may cause decreasing reimbursement rates for government-sponsored programs. A limitation on our ability to increase or maintain our premium levels could adversely affect our business, financial condition and results of operations.

Our reserves for policy benefits may prove inadequate.

The reserves we establish for health insurance policy benefits and other contractual rights and benefits are based upon assumptions concerning a number of factors, including trends in health care costs, enrollment in our plans, expenses, general economic conditions and other factors. Actual experience will likely differ from assumed experience, and to the extent the actual claims experience is less favorable than estimated based on our underlying assumptions, our incurred losses would increase and future earnings could be adversely affected.

Our profitability may be adversely affected if we are unable to maintain our current provider agreements and to enter into other appropriate agreements.

Our profitability is dependent upon our ability to contract on favorable terms with hospitals, physicians and other health benefits providers. The failure to maintain or to secure new cost-effective health care provider contracts may result in a loss in membership or higher medical costs. In addition, our inability to contract with providers, or the inability of providers to provide adequate care, could adversely affect our business.

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A reduction in the enrollment in our health benefits programs could have an adverse effect on our business and profitability.

Although our same store membership (excluding acquisitions) increased by 518,000 members, or 8.3%, from 1999 to 2000, a reduction in the number of enrollees in our health benefits programs could adversely affect our business, financial condition and results of operations. Factors that could contribute to a reduction in enrollment include:

- . failure to obtain new customers or retain existing customers;
- . premium increases and benefit changes;
- . our exit from a specific market;
- . reductions in workforce by existing customers;

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- . negative publicity and news coverage;
- . failure to attain or maintain nationally-recognized accreditations; and
- . general economic downturn that results in business failures.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for more detailed membership information for past years.

The health benefits industry is subject to negative publicity, which can adversely affect our profitability.

The health benefits industry is subject to negative publicity. Negative publicity may result in increased regulation and legislative review of industry practices, which may further increase our costs of doing business and adversely affect our profitability by:

- . adversely affecting our ability to market our products and services;
- . requiring us to change our products and services; or
- . increasing the regulatory burdens under which we operate.

In addition, as long as we use the BCBS names and marks in marketing our health benefits products and services, any negative publicity concerning the BCBSA or other BCBSA licensees may adversely affect us and the sale of our health benefits products and services.

Changes in state and federal regulations may affect our business, financial condition and results of operations.

Anthem Insurance and our other insurance and HMO subsidiaries are subject to extensive regulation and supervision by the insurance regulatory authorities of each state in which they are licensed or authorized, as well as to regulation by federal and local agencies. See "Legal and Regulatory Matters." We cannot assure you that future regulatory action by state insurance authorities will not have a material adverse effect on the profitability or marketability of our health benefits or managed care products or on our business, financial condition and results of operations. In addition, because of our participation in government-sponsored programs such as Medicare and

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Medicaid, changes in government regulations or policy with respect to, among other things, reimbursement levels, could also adversely affect our business, financial condition and results of operations.

Moreover, state legislatures and Congress continue to focus on health care issues. Congress is considering various forms of Patients' Bill of Rights legislation which, if adopted, could fundamentally alter the treatment of coverage decisions under the Employee Retirement Income Security Act of 1974, or ERISA. Additionally, there recently have been legislative attempts to limit ERISA's preemptive effect on state laws. If adopted, such limitations could increase our liability exposure and could permit greater state regulation of our operations. Other proposed bills and regulations at state and federal levels may impact certain aspects of our business, including provider contracting, claims payments and processing and confidentiality of health information. While we cannot predict if any of these initiatives will ultimately become effective or, if enacted, what their terms will be, their enactment could increase our costs, expose us to expanded liability or require us to revise the ways in which we conduct business. Further, as we continue to

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implement our e-business initiatives, uncertainty surrounding the regulatory authority and requirements in this area may make it difficult to ensure compliance.

We face risks related to litigation.

We may be a party to a variety of legal actions that affect any business, such as employment and employment discrimination-related suits, employee benefit claims, breach of contract actions, tort claims and intellectual property related litigation. In addition, because of the nature of our business, we are subject to a variety of legal actions relating to our business operations, including the design, management and offering of our products and services. These could include:

- . claims relating to the denial of health care benefits;
- . medical malpractice actions;
- . allegations of anti-competitive and unfair business activities;
- . provider disputes over compensation and termination of provider contracts;
- . disputes related to self-funded business;
- . disputes over co-payment calculations;
- . claims related to the failure to disclose certain business practices;  
and
- . claims relating to customer audits and contract performance.

A number of class action lawsuits have been filed against us and certain of our competitors in the managed care business. The suits are purported class actions on behalf of certain of our managed care members and network providers for alleged breaches of various state and federal laws. For more information about these and other lawsuits filed against us, see "Legal and Regulatory Matters--Litigation." While we intend to defend these suits vigorously, we will incur expenses in the defense of these suits and we cannot predict their outcome.

Recent court decisions and legislative activity may increase our exposure for any of these types of claims. In some cases, substantial non-economic, treble or punitive damages may be sought. We currently have insurance coverage for some of these potential liabilities. Other potential liabilities may not be covered by insurance, insurers may dispute coverage or the amount of insurance may not be enough to cover the damages awarded. In addition, certain types of damages, such as punitive damages, may not be covered by insurance and insurance coverage for all or certain forms of liability may become unavailable or prohibitively expensive in the future.

We have also received subpoenas from the Office of Inspector General, or OIG, related to our Medicare fiscal intermediary Part A and Part B operations and our Federal Employee Program operations. See "Legal and Regulatory Matters--Other Contingencies."

We are using the Blue Cross and Blue Shield names and marks as identifiers for our products and services under licenses from the Blue Cross Blue Shield

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Association. The termination of these license agreements could adversely affect our business, financial condition and results of operations.

We are a party to license agreements with the BCBSA that entitle us to the exclusive use of the BCBS names and marks in the states of Indiana, Kentucky, Ohio, Connecticut, New Hampshire, Maine, Colorado and Nevada. The license agreements contain certain requirements and restrictions regarding the operations of Anthem and our use of the BCBS names and marks, including:

- . minimum capital and liquidity requirements;
- . enrollment and customer service performance requirements;
- . participation in programs which provide portability of membership between plans;
- . disclosures to the BCBSA relating to enrollment and financial conditions;
- . disclosures as to the structure of the BCBS system in contracts with third parties and in public statements;
- . plan governance requirements;
- . a requirement that at least 80% of a licensee's annual combined net revenue attributable to health care plans within its service area must be sold, marketed, administered or underwritten under the BCBS names and marks;
- . a requirement that neither a plan nor any of its licensed affiliates may permit an entity other than a plan or a licensed affiliate to obtain control of the plan or the licensed affiliate or to acquire a substantial portion of its assets related to licensable services;
- . a requirement that we guarantee the contractual and financial obligations of our licensed affiliates; and
- . a requirement that we indemnify the BCBSA against any claims asserted against it resulting from the contractual and financial obligations of AdminaStar Federal, our subsidiary which serves as a fiscal intermediary providing administrative services for Medicare Parts A and B.

We believe that we and our licensed affiliates are currently in compliance with these standards.

Upon the occurrence of an event causing termination of the license agreements, we would no longer have the right to use the BCBS names and marks in one or more of Indiana, Kentucky, Ohio, Connecticut, New Hampshire, Maine, Colorado and Nevada. Furthermore, BCBSA would be free to issue a license to use the BCBS names and marks in these states to another entity. Events which could cause the termination of a license agreement with BCBSA include failure to comply with minimum capital requirements imposed by the BCBSA, a change of control or violation of the BCBSA ownership limitations on our capital stock, impending financial insolvency, the appointment of a trustee or receiver or the commencement of any action against Anthem Insurance seeking its dissolution. We believe that the BCBS names and marks are valuable identifiers of our products and services in the marketplace. Accordingly, termination of the license agreements could have a material adverse effect on our business, financial condition and results of operations. We have obtained the consent of the BCBSA in order to continue our licenses following the demutualization.

Our insurance and HMO subsidiaries are subject to risk-based capital



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requirements. Our failure to meet these standards could subject us to regulatory actions.

Anthem Insurance and our other insurance and HMO subsidiaries are subject to risk-based capital, or RBC, standards, imposed by their states of domicile. These laws are based on the RBC

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Model Act adopted by the National Association of Insurance Commissioners, or NAIC, and require our regulated subsidiaries to report their results of risk-based capital calculations to the departments of insurance and the NAIC. Failure to maintain the minimum RBC standards could subject our regulated subsidiaries to corrective action, including state supervision or liquidation. Anthem Insurance and our other insurance and HMO subsidiaries are currently in compliance with the risk-based capital requirements imposed by their respective states of domicile.

Compliance with the requirements of the Health Insurance Portability and Accountability Act of 1996, or HIPAA, is expected to be costly.

In December 2000, the Department of Health and Human Services, known as HHS, promulgated certain regulations under HIPAA related to the privacy of individually identifiable health information, or protected health information. The new regulations require health plans, clearinghouses and providers to:

- . comply with various requirements and restrictions related to the use, storage and disclosure of protected health information;
- . adopt rigorous internal procedures to protect protected health information; and
- . enter into specific written agreements with business associates to whom protected health information is disclosed.

The regulations establish significant criminal penalties and civil sanctions for noncompliance. In addition, the regulations could expose us to additional liability for, among other things, violations by our business associates. We must comply with the new regulations by April 14, 2003. Although we have not quantified the costs required to comply with the regulations, we believe the costs could be material.

Regional concentrations of our business may subject us to economic downturns in those states.

Our operating segments include regional companies located in the Midwest, East and West, with most of our revenues generated in the states of Indiana, Kentucky, Ohio, Connecticut, New Hampshire, Maine, Colorado and Nevada. Due to this concentration of business in a small number of states, we are exposed to potential losses resulting from the risk of an economic downturn in these states. If economic conditions in these states deteriorate, we may experience a reduction in existing and new business, which may have a material adverse effect on our business, financial condition and results of operations.

A downgrade in our ratings may adversely affect our business, financial condition and results of operations.

Claims paying ability and financial strength ratings by recognized rating organizations have become an increasingly important factor in establishing the competitive position of insurance companies and health benefits companies. Rating organizations continue to review the financial performance and condition

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of insurers, including Anthem Insurance and our other regulated subsidiaries. Each of the rating agencies reviews its ratings periodically and there can be no assurance that current ratings will be maintained in the future. We believe our strong ratings are an important factor in marketing our products to our customers, since ratings information is broadly disseminated and generally used throughout the industry. If our ratings are downgraded or placed under surveillance or review, with possible negative implications, the downgrade, surveillance or review could adversely affect our business, financial condition and results of operations. Our ratings reflect each rating agency's opinion of our financial strength, operating performance and ability to meet our obligations to policyholders, and are not evaluations directed toward the protection of investors in our common stock, the units or the debentures and should not be relied upon when making a decision to purchase shares of the common stock offered hereby.

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Our investment portfolio is subject to varying economic and market conditions, as well as regulation.

Our investment portfolio consists primarily of fixed maturity securities, indexed mutual funds, short-term investments, cash and other investments. The market value of our investments varies from time to time depending on economic and market conditions. For various reasons, we may sell certain of our investments at prices that are less than the carrying value of the investments. In addition, in periods of declining interest rates, bond calls and mortgage loan prepayments generally increase, resulting in the reinvestment of these funds at the then lower market rates. Although there have been adverse economic conditions over the last three quarters, Anthem's liquidity has not been impacted in a negative manner. Our portfolio, which is largely comprised of fixed maturity securities, has returned 2.43%, 1.15% and 1.31% over the last three quarters ended June 30, 2001. The fixed maturity portfolio has an average credit rating of approximately double-A, and the equity securities portfolio is currently invested in S&P 500 and S&P 400 index mutual funds. We cannot assure you that our investment portfolio will produce positive returns in future periods.

Anthem Insurance and our other regulated subsidiaries are subject to state laws and regulations that require diversification of our investment portfolios and limit the amount of investments in certain investment categories, such as below-investment-grade fixed income securities, mortgage loans, real estate and equity investments. Failure to comply with these laws and regulations might cause investments exceeding regulatory limitations to be treated as non-admitted assets for purposes of measuring statutory surplus and risk-based capital, and, in some instances, require the sale of those investments.

As a Medicare fiscal intermediary, we are subject to complex regulations. If we fail to comply with these regulations, we may be exposed to criminal sanctions and significant civil penalties.

Anthem, like a number of other BCBS companies, serves as a fiscal intermediary for the Medicare program, which generally provides coverage for persons who are 65 or older and for persons with end-stage renal disease. Part A of the Medicare program provides coverage for services provided by hospitals, skilled nursing facilities and other health care facilities. Part B of the Medicare program provides coverage for services provided by physicians, physical and occupational therapists and other professional providers. Anthem serves as a fiscal intermediary for Medicare Part A for Indiana, Kentucky, Ohio, Illinois, New Hampshire, Maine, Vermont and Massachusetts and as a fiscal intermediary for Medicare Part B for Indiana and Kentucky. As a fiscal intermediary for these programs, we receive reimbursement for certain costs and

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expenditures, which is subject to adjustment upon audit by the federal Centers for Medicare and Medicaid Services, or CMS, formerly the Health Care Financing Administration, or HCFA. The laws and regulations governing fiscal intermediaries for the Medicare program are complex, subject to interpretation and can expose a fiscal intermediary to penalties for non-compliance. Fiscal intermediaries may be subject to criminal fines, civil penalties or other sanctions as a result of such audits or reviews. In the last five years, at least eight Medicare fiscal intermediaries have made payments to settle issues raised by such audits or reviews. These payments have ranged from \$700,000 to \$51.6 million, plus a payment by one company of \$144 million. In the fourth quarter of 1999, one of our subsidiaries reached a settlement agreement with the federal government in the amount of \$41.9 million to resolve an investigation into the Medicare fiscal intermediary operations of a predecessor of the subsidiary. The period investigated was before we acquired the subsidiary. While we believe that we are in compliance in all material respects with the regulations governing fiscal intermediaries, there are ongoing reviews by the federal government of our activities under certain of our Medicare fiscal intermediary contracts. Our affiliate, AdminaStar Federal, Inc., has received several subpoenas from the OIG, Health and Human Services, and from the U.S. Department of Justice seeking documents and information concerning its responsibilities as a Medicare Part B contractor in its Kentucky operations, and requesting certain financial records from AdminaStar Federal, Inc. and from us related to our Medicare fiscal intermediary Part A and Part B operations. For additional information, see "Legal and Regulatory Matters--Other Contingencies."

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We face significant competition from other health benefits companies.

As a health benefits company, we operate in a highly competitive environment and in an industry that is currently subject to significant changes from business consolidations, new strategic alliances, legislative reform, aggressive marketing practices by other health benefits organizations and market pressures brought about by an informed and organized customer base, particularly among large employers. This environment has produced and will likely continue to produce significant pressures on the profitability of health benefits companies. Many of our competitors are larger and have greater financial and other resources. In addition, the Gramm-Leach-Bliley Act, which gives banks and other financial institutions the ability to affiliate with insurance companies, could result in new competitors with significant financial resources entering our markets. As of December 31, 2000, we had the following approximate market share, based on number of members, in each of the eight core states in which we operate: Indiana, 29%; Kentucky, 38%; Ohio, 20%; Connecticut, 29%; New Hampshire, 31%; Maine, 40%; Colorado, 16%; and Nevada, 5%. We cannot assure you that we will be able to compete successfully against current and future competitors or that competitive pressures faced by us will not materially and adversely affect our business, financial condition and results of operations. For a more detailed discussion of our competition, please refer to "The Business of Anthem--Competition."

Acquisitions we have made or may make in the future may not be successful, which could cause our business and future growth prospects to suffer.

We have built a significant portion of our current business through mergers and acquisitions and we expect to pursue acquisitions in the future. The following are some of the risks associated with acquisitions that could have a material adverse effect on our business, financial condition and results of operations:

- . some of the acquired businesses may not achieve anticipated revenues,

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earnings or cash flow;

- . we may assume liabilities that were not disclosed to us;
- . we may be unable to integrate acquired businesses successfully and realize anticipated economic, operational and other benefits in a timely manner, which could result in substantial costs and delays or other operational, technical or financial problems;
- . acquisitions could disrupt our ongoing business, distract management, divert resources and make it difficult to maintain our current business standards, controls and procedures;
- . we may finance future acquisitions by issuing common stock for some or all of the purchase price, which could dilute the ownership interests of our shareholders;
- . we may also incur additional debt related to future acquisitions; and
- . we would be competing with other firms, many of which have greater financial and other resources, to acquire attractive companies.

Our pending acquisition of Blue Cross and Blue Shield of Kansas involves risks which could cause our business to suffer.

We have signed a definitive agreement with BCBS-KS pursuant to which we have agreed to acquire BCBS-KS. Under the agreement, BCBS-KS will demutualize and become a subsidiary of ours. BCBS-KS policyholders eligible to receive consideration in its demutualization will be entitled to receive \$190.0 million, which we will pay in cash to the escrow described below and which amount thereafter may be reduced as described below. However, we and BCBS-KS may agree to place less than the full \$190.0 million in the escrow account, in which case the portion of the \$190.0 million not placed in escrow will be distributed directly to eligible BCBS-KS policyholders. The amount held in

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the escrow account will be used to pay costs, expenses and liabilities relating to an investigation by the OIG of possible improper claims against Medicare by BCBS-KS, and to pay costs and expenses of the escrow, with any remaining amount to be distributed to eligible BCBS-KS policyholders. In addition, eligible BCBS-KS policyholders will be entitled to receive an additional amount, to be calculated based on the consolidated book value of BCBS-KS on the closing date of the acquisition, which is expected to be paid as a special distribution by BCBS-KS to its eligible policyholders. The proposed acquisition is expected to close in early 2002, and must be approved by the policyholders of BCBS-KS, the BCBSA, the Commissioner of Insurance of the State of Kansas and other regulators, and is subject to other conditions.

This proposed acquisition involves a number of risks, including:

- . if the amount of the purchase price that we will place in escrow is not sufficient to pay in full the costs, expenses and liabilities relating to the OIG investigation and the escrow, those remaining costs, expenses and liabilities would reduce the value of BCBS-KS;
- . if the final resolution of the OIG investigation results in operational restrictions being placed upon BCBS-KS, which could include BCBS-KS being disqualified from performing under federal contracts for a period of up to five years, or if such restrictions and/or a disqualification were extended to other corporate affiliates of BCBS-KS (which after

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completion of the transaction would include Anthem), then the value of BCBS-KS would be reduced and the operations of Anthem could be negatively impacted;

- . there may be liabilities that we assume but that were not disclosed to us;
- . we may be unable to integrate the operations of BCBS-KS successfully and realize anticipated economic, operational and other benefits in a timely manner, which could result in substantial costs and delays or other operational, technical or financial problems; and
- . the acquisition could distract our management and divert resources.

See "Recent Developments--Pending Acquisition of Blue Cross and Blue Shield of Kansas" for a discussion of BCBS-KS and the proposed acquisition.

The failure to effectively maintain and modernize our operations in an Internet environment could adversely affect our business.

Our businesses depend significantly on effective information systems, and we have many different information systems for our various businesses. Our information systems require an ongoing commitment of significant resources to maintain and enhance existing systems and develop new systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards, and changing customer preferences. For example, HIPAA's administrative simplification provisions and the Department of Labor's claim processing regulations may ultimately require significant changes to current systems. In addition, we may from time to time obtain significant portions of our systems-related or other services or facilities from independent third parties, which may make our operations vulnerable to such third parties' failure to perform adequately. As a result of our merger and acquisition activities we have acquired additional systems. Our failure to maintain effective and efficient information systems, or our failure to efficiently and effectively consolidate our information systems to eliminate redundant or obsolete applications, could have a material adverse effect on our business, financial condition and results of operations.

Also, like many of our competitors in the health benefits industry, our vision for the future includes becoming a premier e-business organization by modernizing interactions with customers, brokers, agents, employees and other stakeholders through web-enabling technology and re-designing internal operations. We are developing our e-business strategy with the goal of becoming widely regarded as an e-business leader in the health benefits industry. The strategy includes not only sales and

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distribution of health products on the Internet, but also implementation of advanced self-service capabilities benefiting customers, agents, brokers, partners and employees. There can be no assurance that we will be able to successfully realize our e-business vision or integrate e-business operations with our current method of operations. The failure to develop successful e-business capabilities could result in competitive and cost disadvantages to us as compared to our competitors.

A challenge to the plan of conversion or the Indiana Insurance Commissioner's approval may create uncertainty about the status of the demutualization, the issuance of our shares of common stock sold in this offering and the issuance of the units sold in the units offering.

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The plan of conversion and Anthem Insurance's Amended and Restated Articles of Incorporation are subject to approval by the Indiana Insurance Commissioner. That approval is a condition of the effectiveness of the demutualization. The Indiana Insurance Commissioner approved the plan of conversion and Anthem Insurance's Amended and Restated Articles of Incorporation on October 25, 2001.

Section 27-15-15-2 of the Indiana demutualization law provides that any action challenging the validity of, or arising out of, acts taken or proposed to be taken under any order of the Indiana Insurance Commissioner in connection with a plan of conversion must be commenced within 30 days after the Indiana Insurance Commissioner issues the order or determination. The 30-day appeal period will not have expired prior to the effective date of the demutualization and this offering. We cannot predict whether any action challenging the plan of conversion or the approval thereof will be commenced or what aspects of the plan an action might challenge. In the event that the order of the Indiana Insurance Commissioner is challenged, a successful challenge could result in monetary damages, a modification of the plan or the Indiana Insurance Commissioner's approval of the plan being set aside. A successful challenge would likely result in substantial uncertainty relating to the terms and effectiveness of the plan, including the demutualization of Anthem Insurance, the issuance of the shares of our common stock sold in this offering, the issuance of the units sold in the units offering, payment of consideration and the extinguishing of all membership interests. A substantial period of time might be required to reach a final determination. In addition, pursuant to the Indiana demutualization law, if certain claims have been asserted against Anthem Insurance and remain unresolved on the effective date of the demutualization, distribution of consideration to some or all eligible statutory members may be delayed by more than six months, by establishing one or more trusts for the purpose of holding assets on and following the effective date of the demutualization that are adequate to satisfy such claims. Any one or more of these outcomes could have a material adverse effect on the market price of our common stock and the units.

Our ability to meet our obligations may be affected by the limitation on dividends state insurance laws impose on our regulated subsidiaries.

After the demutualization, we will be a holding company whose assets will include all of the outstanding shares of common stock of Anthem Insurance. As a holding company, we will depend on dividends from Anthem Insurance and its receipt of dividends from our other regulated subsidiaries. State insurance laws may restrict the ability of our regulated subsidiaries to pay dividends. For a discussion of these restrictions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations--Liquidity and Capital Resources--Anthem, Inc." Our ability to pay dividends in the future to our shareholders and meet our obligations, including paying operating expenses and debt service on the debentures and other debt, will depend upon the receipt of dividends from our subsidiaries. An inability of our subsidiaries to pay dividends in the future in an amount sufficient for us to meet our financial obligations may materially adversely affect our business, financial condition and results of operations and the value of our common stock and the units.

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The initial public offering price of our common stock may not be indicative of the market price of our common stock after this offering and our stock price could be highly volatile.

The initial public offering price of our common stock is based on numerous factors and may not be indicative of the market price of our common stock after this offering. Factors including:

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- . variations in actual or anticipated operating results;
- . changes in or failure to meet earnings estimates of securities analysts;
- . market conditions in the health benefits industry;
- . regulatory actions and general economic and stock market conditions; and
- . the availability for sale, or sales, of a significant number of shares of our common stock in the public market,

may have a significant effect on the market price of our common stock after this offering. Accordingly, the market price of our common stock may decline below the initial public offering price.

Sales of shares by eligible statutory members who receive shares in the demutualization may reduce the market price of our common stock.

Anthem Insurance's eligible statutory members who receive shares in the demutualization will not be required to pay any cash purchase price for those shares, and generally will be free to sell their shares in the public market after the demutualization. Only eligible statutory members who receive 30,000 or more shares of our common stock in the demutualization (whom we estimate would hold an aggregate of approximately 11.5 million shares of our outstanding common stock after the offering) and continue to hold 30,000 or more shares will have volume and manner of sale restrictions on the sales of their shares in the public market. For a period of 180 days after the effective date of the demutualization, these large shareholders will be able to sell their shares only under a large holder sale program that we will establish. See "The Plan of Conversion--Large Holder Sale Program" for a description of the large holder sale program and its limitations. We anticipate that eligible statutory members receiving shares of our common stock in the demutualization will receive notices regarding the number of shares registered in their name approximately four to six weeks after the effective date of the demutualization. Sales of substantial amounts of common stock, or the perception that such sales could occur, could reduce the prevailing market price for our common stock. We believe the following facts may increase selling pressure on our common stock:

- . Some of Anthem Insurance's eligible statutory members, in particular holders of group policies who did not elect to receive common stock in the demutualization, are nevertheless likely to receive common stock instead of cash because the amount of cash available for payments to eligible statutory members will be limited. Those members may be especially likely to sell the shares of common stock they receive in the demutualization in order to realize cash proceeds.
- . Some eligible statutory members may be fiduciaries of benefit plans that are subject to ERISA or other legal or regulatory restrictions on their investments. Those members, particularly if they originally did not elect to receive common stock in the demutualization, may determine that the exercise of their fiduciary duties requires them to promptly sell the shares of common stock they receive in the demutualization.
- . We intend to provide a program for the public sale of our common stock, at prevailing market prices and without paying brokerage commissions or similar expenses, to allow each of our shareholders who owns 99 or fewer shares of our common stock to sell those shares or to purchase additional shares to round-up their holdings to 100 shares. This program would begin no sooner than the first business day after the 180th day following, and no later

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than the last business day before the twelfth-month anniversary of, the effective date of the demutualization, and it would continue for at least three months. We estimate that when we complete the demutualization we will have approximately 150,000 eligible statutory members who will in total receive in excess of five million shares that we believe would be eligible to participate in this commission-free sales program.

Applicable laws and our articles of incorporation and bylaws may prevent or discourage takeovers and business combinations that our shareholders might consider in their best interests.

State laws and our articles of incorporation and bylaws may delay, defer, prevent or render more difficult a takeover attempt that our shareholders might consider in their best interests. For instance, they may prevent our shareholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future.

Under the Indiana demutualization law, for a period of five years following the effective date of the demutualization, no person may acquire beneficial ownership of 5% or more of the outstanding shares of our common stock without the prior approval of the Indiana Insurance Commissioner and our board of directors. This restriction does not apply to acquisitions made by us or made pursuant to an employee benefit plan or employee benefit trust sponsored by us. The Indiana Insurance Commissioner has adopted rules under which passive institutional investors could purchase 5% or more but less than 10% of our outstanding common stock with the prior approval of our board of directors and prior notice to the Indiana Insurance Commissioner.

Our license agreements with the BCBSA require that our articles of incorporation contain certain provisions, including ownership limitations. The BCBSA ownership limits restrict beneficial ownership of our voting capital stock to less than 10% for institutional investors and less than 5% for noninstitutional investors, both as defined in our articles of incorporation. In addition, no person may beneficially own shares of our common stock or other equity securities, or a combination thereof, representing a 20% or more ownership interest in our company. Our articles of incorporation prohibit ownership of our capital stock in excess of these BCBSA ownership limits without prior approval of a majority of our continuing directors (as defined in our articles of incorporation).

Certain other provisions included in our articles of incorporation and bylaws may also have anti-takeover effects and may delay, defer or prevent a takeover attempt that our shareholders might consider in their best interests. In particular, our articles of incorporation and bylaws:

- . permit our board of directors to issue one or more series of preferred stock;
- . divide our board of directors into three classes serving staggered three-year terms;
- . restrict the maximum number of directors;
- . limit the ability of shareholders to remove directors;
- . impose restrictions on shareholders' ability to fill vacancies on our



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- board of directors;
- . prohibit shareholders from calling special meetings of shareholders;
- . impose advance notice requirements for shareholder proposals and nominations of directors to be considered at meetings of shareholders; and
- . impose restrictions on shareholders' ability to amend our articles of incorporation and bylaws.

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### AVAILABLE INFORMATION

We have filed with the Securities and Exchange Commission in Washington, D.C., a registration statement on Form S-1 under the Securities Act of 1933 with respect to the common stock being offered by this prospectus. This prospectus which forms a part of the registration statement does not contain all the information set forth in the registration statement, certain parts of which are omitted in accordance with the rules and regulations of the Securities and Exchange Commission. For further information with respect to Anthem, Inc., our common stock and the units, we refer you to the registration statement and to the exhibits to the registration statement. Statements made in this prospectus describing the contents of any contract, agreement or other document referred to are not necessarily complete. With respect to these contracts, agreements or other documents filed as an exhibit to the registration statement, we refer you to the exhibit for a more complete description of the matter involved, and each statement is qualified in its entirety by this reference. The registration statement and the exhibits to the registration statement may be inspected and copied at the Securities and Exchange Commission's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549, and at its regional offices located at 233 Broadway, The Woolworth Building, New York, New York 10279 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains an Internet world wide web site at <http://www.sec.gov> that contains periodic and current reports, proxy and information statements, and other information regarding issuers that file electronically with the Securities and Exchange Commission.

As a result of Anthem Insurance's conversion to a stock insurance company, this offering and the offering of the units, we will become subject to the information reporting requirements of the Securities Exchange Act of 1934. We will fulfill our obligations with respect to such requirements by filing periodic and current reports, proxy statements and other information with the Securities and Exchange Commission. These reports, proxy statements and information may be inspected and copied at the public reference facilities maintained by the Securities and Exchange Commission referenced above. We intend to furnish holders of our common stock with annual reports that include our annual consolidated financial statements audited by an independent certified public accounting firm.

Our common stock has been approved for listing on the New York Stock Exchange, subject to official notice of issuance, under the symbol "ATH". The units have been approved for listing on the New York Stock Exchange, subject to official notice of issuance, under the symbol "ATV." Upon notice of issuance, copies of the registration statement, including all exhibits thereto, and periodic reports, proxy statements and other information will be available for inspection at the offices of the New York Stock Exchange, Inc. located at 20

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Broad Street, New York, New York 10005.

### INFORMATION PERTAINING TO FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements that reflect our views about future events and financial performance. When used in this prospectus, the words "may," "will," "should," "anticipate," "estimate," "expect," "plan," "believe," "predict," "potential," "intend" and similar expressions are intended to identify forward-looking statements. Forward-looking statements are subject to known and unknown risks and uncertainties that could cause actual results to differ materially from those projected. You are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date hereof. You are also urged to carefully review and consider the various disclosures made by us which attempt to advise interested parties of the factors which affect our business, including the discussion under the caption "Risk Factors" as well as our reports filed with the Securities and Exchange Commission from time to time.

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Health benefits companies operate in a highly competitive, constantly changing environment that is significantly influenced by very large organizations that have resulted from business combinations, aggressive marketing and pricing practices of competitors and regulatory oversight. The following is a summary of factors, the results of which, either individually or in combination, if markedly different from our planning assumptions, could cause our results to differ materially from those expressed in any forward-looking statements contained in this prospectus:

- . trends in health care costs and utilization rates;
- . ability to secure sufficient premium rate increases;
- . competitor pricing below market trends of increasing costs;
- . increased government regulation of health benefits and managed care;
- . significant acquisitions or divestitures by major competitors;
- . introduction and utilization of new prescription drugs and technology;
- . a downgrade in our financial strength ratings;
- . litigation targeted at health benefits companies;
- . ability to contract with providers consistent with past practice; and
- . general economic downturns.

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### THE PLAN OF CONVERSION

The following summary discussion of the plan of conversion does not purport to be complete and is qualified in its entirety by reference to the complete text of the plan of conversion. A copy of the plan of conversion is filed as an exhibit to the registration statement of which this prospectus forms a part.

Background of the Demutualization

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Mutual insurance companies, like Anthem Insurance, are not authorized to issue or sell capital stock and as a result are limited in their ability to raise capital. With increasing consolidation and competition in the health benefits industry, and the resulting need to develop new business opportunities, Anthem Insurance has examined alternative ways of raising capital.

On January 29, 2001, Anthem Insurance's board of directors authorized management to prepare a plan of conversion, whereby Anthem Insurance will convert from a mutual insurance company to a stock insurance company under the Indiana demutualization law, Indiana Code Section 27-15-1-1 et seq., and on June 18, 2001, Anthem Insurance's board of directors unanimously approved the plan of conversion. The principal reason for the demutualization is to increase our financial flexibility through improved access to capital, which will enhance our ability to expand existing business, develop new business opportunities and enhance our competitive position in the health benefits industry, and continue to improve service to our customers. In addition, if the plan of conversion becomes effective, the eligible statutory members will receive consideration in the form of Anthem, Inc. common stock or cash in exchange for the extinguishing of their membership interests in Anthem Insurance.

### Exchange of Membership Interests

In general, holders of policies or certificates, including guaranty policies or certificates thereunder, as applicable, issued by Anthem Insurance, have rights as statutory members of Anthem Insurance, which in the context of demutualization are called membership interests. Membership interests consist principally of the right to vote on matters submitted to a vote of statutory members, including the election of directors, and the right to participate in any distribution of cash, stock or other consideration in the event of a conversion of Anthem Insurance to a stock insurance company under the Indiana demutualization law or a dissolution of Anthem Insurance. If the plan becomes effective, the membership interests of all statutory members will be extinguished and Anthem Insurance's eligible statutory members will receive consideration in the form of our common stock or cash.

### Consideration

#### Eligible Statutory Members

If the plan becomes effective, Anthem Insurance's eligible statutory members will receive consideration in the form of our common stock or cash. Prior to the vote on the plan of conversion by Anthem Insurance's statutory members eligible to vote on the plan, they were given the opportunity to elect to receive common stock in the demutualization. Those eligible statutory members who failed to make a common stock election may be paid in cash. However, the amount of cash available for distribution to eligible statutory members will be limited, and a significant portion of eligible statutory members will likely receive Anthem, Inc. common stock even if they did not elect to receive common stock in the demutualization. The number of eligible statutory members for which cash will be available will depend on a number of factors, including market conditions, the size of this offering and the size of the offering of the units. We have agreed in the plan of conversion to use our best commercially reasonable efforts, consistent with our capital and liquidity needs and projections, to assure that funds sufficient to pay cash to a substantial number of eligible statutory members will be made available and used for these cash payments.

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In general, an eligible statutory member is an Anthem Insurance statutory member who was the holder on June 18, 2001, of an in-force policy or certificate issued by Anthem Insurance and continues to be the holder of an in-force policy or certificate on the effective date of the plan. Of Anthem's more than seven million members or customers, under applicable law and the articles of incorporation and by-laws of Anthem Insurance, approximately one million are statutory members.

We have signed a definitive agreement with BCBS-KS, pursuant to which we will acquire BCBS-KS. See "Recent Developments--Pending Acquisition of Blue Cross and Blue Shield of Kansas." Policyholders of BCBS-KS will not become statutory members of Anthem Insurance and will not be eligible to receive any consideration as a result of our demutualization.

### Allocation of Shares

The aggregate consideration to be distributed to Anthem Insurance's eligible statutory members in exchange for membership interests will consist of shares of our common stock or cash equal to the fair value of Anthem Insurance as determined under Indiana law. The amount of an eligible statutory member's consideration will be based on an allocation to that member of a number of shares of Anthem, Inc. common stock. The aggregate consideration distributed to eligible statutory members will be shares of common stock and cash equal in value to 100 million shares of our common stock. The method of allocation among eligible statutory members provides to each eligible statutory member a "fixed component" equal in value to 21 shares of Anthem, Inc. common stock and a "variable component," which may be zero. The variable component in general is based on an estimate of any positive contribution made by such member to Anthem Insurance's statutory surplus relative to the sum of such positive contributions made by all eligible statutory members. We anticipate that approximately 20% of the aggregate consideration distributed to eligible statutory members will represent the fixed component, and the balance will represent the variable component. We retained Daniel J. McCarthy, FSA, MAAA, Dale S. Hagstrom, FSA, MAAA, and Robert H. Dobson, FSA, MAAA, independent consulting actuaries associated with Milliman USA, Inc., an independent actuarial consulting firm, to advise us in connection with the actuarial matters involved in the plan of conversion and the allocation of consideration to eligible statutory members. The opinion of Messrs. McCarthy, Hagstrom and Dobson, dated June 18, 2001, states, in reliance upon the matters described in the opinion, that the principles, assumptions, methodologies and formulas used to allocate consideration among eligible statutory members in exchange for their membership interests are reasonable and appropriate and that the resulting allocation of consideration to eligible statutory members is fair and equitable. A copy of the opinion is attached as Annex A to this prospectus.

### Cash Payment Amounts

For those eligible statutory members who receive cash in the demutualization, the amount of cash payments will be based on the initial public offering price of our common stock in this offering. The formula for calculation of cash payments includes a "top up" provision. If the average closing price of Anthem, Inc.'s common stock over the 20 consecutive trading days commencing with the date on which the demutualization is completed is more than 110% of the initial public offering price, eligible statutory members receiving cash will receive an additional payment equal to the amount by which the average closing price exceeds 110% of the initial public offering price, up to 120% of the initial public offering price.

### Other Capital Raising Transaction

The plan requires us to make the initial public offering and to raise proceeds from the initial public offering, together with the offering of units,

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to provide cash for the cash payments to be made to eligible statutory members under the plan, as well as to pay the fees and expenses we have incurred in connection with the demutualization. The plan also permits us to complete one or more

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other specified capital raising transactions concurrently with the initial public offering. Concurrently with this offering, we are offering 4,000,000 equity security units for an aggregate offering of \$200.0 million, plus up to an additional \$30.0 million if the underwriters' option to purchase additional units is exercised in full. Each unit consists of (a) a contract to purchase shares of our common stock and (b) a subordinated debenture. For a description of the units, see "Description of the Equity Security Units."

### Conditions to Effectiveness of the Plan

In order for the plan of conversion to become effective, the following approvals and conditions must be obtained and/or satisfied:

#### Approval by Statutory Members

One of the conditions for the plan of conversion and Anthem Insurance's Amended and Restated Articles of Incorporation to become effective is that they must be approved by a vote of Anthem Insurance's statutory members eligible to vote on the plan.

On June 18, 2001, the board of directors of Anthem Insurance unanimously approved the plan of conversion and Amended and Restated Articles of Incorporation, and recommended the plan and Amended and Restated Articles of Incorporation to Anthem Insurance's statutory members. Anthem Insurance's statutory members approved the plan and Amended and Restated Articles of Incorporation at a special meeting held on October 29, 2001.

#### Approval by the Indiana Insurance Commissioner

In order for the plan to become effective, the plan and Anthem Insurance's Amended and Restated Articles of Incorporation must be approved by the Indiana Insurance Commissioner.

The Indiana demutualization law requires the Indiana Insurance Commissioner to approve the plan and Anthem Insurance's Amended and Restated Articles of Incorporation if she finds that:

- . the amount and form of consideration to be given to Anthem Insurance's eligible statutory members under the plan is fair in the aggregate and to each member class;
- . the plan complies with the Indiana demutualization law and other applicable laws, is fair, reasonable and equitable to the eligible statutory members and will not prejudice the interests of Anthem Insurance's other statutory members or policyholders; and
- . the total consideration provided to eligible statutory members under the plan is equal to or greater than Anthem Insurance's policyholders' surplus as determined in accordance with statutory accounting principles.

A public hearing on the demutualization was held at the Indiana Government Conference Center, Auditorium, 402 West Washington Street, Indianapolis, Indiana 46204 on October 2, 2001. The Indiana Insurance Commissioner approved

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the plan of conversion and the Amended and Restated Articles of Incorporation on October 25, 2001.

### Tax Opinion

Under the plan, an opinion of Anthem's tax advisor, Ernst & Young LLP, regarding certain federal income tax consequences of the plan must be received in order for the plan to become effective.

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### ERISA Exemption

Anthem Insurance will not cause or allow the demutualization to become effective unless, on or prior to the effective date of the plan:

- . the Department of Labor has granted an exemption from Section 406 of the Employee Retirement Income Security Act of 1974, or ERISA, and Section 4975 of the Internal Revenue Code of 1986, as amended, or the Code, with respect to the receipt of consideration pursuant to the plan by employee benefit plans subject to the provisions of such sections; or
- . Anthem has, upon advice of counsel, otherwise determined and reported to the Indiana Insurance Commissioner that the distribution of consideration will not have an adverse effect on eligible statutory members or on Anthem, or that the distribution of consideration will not constitute a prohibited transaction under ERISA or the Code; or
- . the consideration payable to such employee benefit plans is placed in trust for up to six months, pending the receipt of the required exemptions.

Neither Anthem Insurance nor Anthem, Inc. nor their or their subsidiaries' employees, officers or directors are, or will be, eligible statutory members under any benefit or welfare plan established or maintained by Anthem Insurance, Anthem, Inc. or any of their subsidiaries for the benefit of such employees, officers or directors.

### Initial Public Offering

Consummation of this offering is a condition to the effectiveness of the plan of conversion.

### Other Approvals

In connection with the demutualization, we will need to obtain various regulatory approvals and the consent of the BCBSA.

### Appeal Period

Section 27-15-15-2 of the Indiana demutualization law provides that any action challenging the validity of or arising out of acts taken or proposed to be taken under any order of the Indiana Insurance Commissioner in connection with the plan must be commenced within 30 days after the Indiana Insurance Commissioner issued the order or determination. The 30-day appeal period will not have expired prior to the effective date of the demutualization and this offering. In the event that the order of the Indiana Insurance Commissioner is challenged, a successful challenge could result in monetary damages, a modification of the plan or the Indiana Insurance Commissioner's approval of the plan being set aside. A successful challenge would likely result in substantial uncertainty relating to the terms and effectiveness of the plan,

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including the demutualization of Anthem Insurance, payment of consideration and the extinguishing of membership interests. A substantial period of time might be required to reach a final determination. However, in order to challenge successfully the Indiana Insurance Commissioner's approval of the plan, the petitioner would have to sustain the burden of showing that such approval was arbitrary, capricious, an abuse of discretion or otherwise not in accordance with law, contrary to constitutional right, power, privilege or immunity, in excess of statutory jurisdiction, authority or limitations, or short of statutory right, without observance of procedure required by law or unsupported by substantial evidence. In addition, pursuant to the Indiana demutualization law, if certain claims have been asserted against Anthem Insurance and remain unresolved on the effective date of the demutualization, distribution of consideration to some or all eligible statutory members may be delayed by more than six months, by establishing one or more trusts for the purpose of holding assets on and following the effective date of the demutualization that are adequate to satisfy such claims.

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### Amendment or Withdrawal of the Plan; Corrections

The plan of conversion may be modified, amended, withdrawn or terminated only in a manner consistent with the provisions of the Indiana demutualization law and by action of a majority of Anthem Insurance's board of directors. Additionally, Anthem Insurance may make certain modifications, corrections of errors or omissions and clarifications to the plan as may be necessary under the plan, or as may be required by the Indiana Insurance Commissioner.

### Effectiveness of the Plan

If the conditions to effectiveness of the plan are met, and upon Anthem Insurance's filing with the Indiana Department of Insurance and the Indiana Secretary of State the Amended and Restated Articles of Incorporation, the plan of conversion will go into effect. The plan provides that the effective date of the plan will occur upon the date and time of approval of Anthem Insurance's Amended and Restated Articles of Incorporation by the Indiana Secretary of State, unless a later date and time are specified in the Amended and Restated Articles of Incorporation, in which case the plan and those Articles will become effective at that later date and time. We anticipate that the plan will become effective on the closing date of this offering.

If the plan does not become effective for any reason, Anthem Insurance will remain a mutual insurance company, the interests of Anthem Insurance's statutory members will remain unchanged, no consideration will be paid to eligible statutory members, and no shares will be issued or sold in this offering and no units will be issued or sold in the units offering.

### Tax Effect on Anthem

The following sections are a summary of the material federal income tax consequences to Anthem in connection with the plan, based on the opinion of Ernst & Young LLP, Anthem's tax advisor.

#### Demutualization of Anthem Insurance

The demutualization of Anthem Insurance from a mutual insurance company to a stock insurance company will be tax-free under the Code, and the holding company formation whereby Anthem Insurance will become a wholly-owned subsidiary of Anthem, Inc. will be tax-free to both Anthem Insurance and Anthem, Inc. under the Code.

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### Distribution of Cash to Eligible Statutory Members

Neither Anthem Insurance nor Anthem, Inc. will recognize gain or loss on Anthem, Inc.'s issuance of cash to those eligible statutory members who are to receive cash in lieu of Anthem, Inc. common stock under the plan.

### Treatment of Anthem, Inc.

Anthem, Inc. will not recognize gain or loss on its receipt of cash in this offering.

### Special Tax Rules Applicable to Blue Cross and Blue Shield Organizations

Under current law, Anthem currently enjoys certain federal income tax benefits as described below, including special tax deductions, as a Blue Cross or Blue Shield organization that was in existence on August 16, 1986. These special tax benefits continue for as long as Anthem does not undergo a "material change" in operations or structure. Current law does not address whether a

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demutualization transaction will constitute a material change in the operations or structure of a Blue Cross or Blue Shield organization and, therefore, it is not clear what effect the plan will have on Anthem's ability to continue to qualify for such tax benefits.

As an existing Blue Cross and Blue Shield organization, Anthem is entitled to take advantage of special tax provisions. These provisions include a deduction based on the amount by which 25% of our claims and expenses exceed our adjusted surplus (the "Section 833(b) Deduction") and a deduction for increases to our unearned premium reserve that is higher than the deduction allowable to most insurance companies. Because of the current level of adjusted surpluses, Anthem has only one subsidiary that anticipates having a Section 833(b) Deduction in calendar year 2001.

If the plan is treated as effecting a "material change" to Anthem's structure or operations, Anthem would not be allowed the Section 833(b) Deduction. Anthem would also only be allowed to deduct 80% of our unearned premium reserve rather than 100%. This would have the impact of accelerating taxable income in the year in which the material change occurs.

In addition, as a Blue Cross or Blue Shield organization, Anthem was entitled to adjust the tax basis of assets that we owned on January 1, 1987 to their fair market value on that date. If we were deemed to undergo a material change as a result of the plan, it is possible that we would lose the remaining benefit of this special basis adjustment, which could cause an increase in our tax liability on any further disposition of certain assets owned on January 1, 1987.

### Status as an Insurance Company

As long as Anthem does not undergo a material change, Anthem will be treated as an insurance company for federal income tax purposes. If Anthem were determined to have undergone a material change, Anthem's status as an insurance company would depend on whether its predominant business activities are considered to be those of an insurance company. Loss of insurance company status generally would preclude Anthem from taking into account deductions for additions to certain reserves that insurance companies are permitted to deduct for federal income tax purposes. The loss of these deductible reserves would, in general, cause acceleration of the payment of federal income tax on income



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derived from Anthem's operations. However, we believe that Anthem should continue to qualify as an insurance company regardless of whether the demutualization is viewed as a material change.

### ERISA Considerations

#### Prohibited Transaction Exemption

A significant percentage of the policies or certificates held by likely eligible statutory members are associated with welfare benefit plans subject to ERISA. The Department of Labor, or DOL, has taken the position that the stock or other consideration that is distributed in a demutualization with respect to ERISA plans generally is a "plan asset" under ERISA. Anthem may be considered to be a "party-in-interest" under ERISA with respect to these ERISA plans. Absent an exemption, the receipt of Anthem, Inc. common stock or cash by eligible statutory members whose policies or certificates are associated with ERISA plans could be viewed as a prohibited transaction under Section 406 of ERISA.

Anthem Insurance has received an individual prohibited transaction exemption from the DOL. The individual prohibited transaction exemption allows eligible statutory members with policies or certificates associated with ERISA plans to receive the Anthem, Inc. common stock or cash without application of the prohibited transaction rules. The DOL grants individual prohibited transaction exemptions if it determines that the exemption is administratively feasible, is in the interest of the ERISA plans and their participants and beneficiaries and is protective of the rights of participants and beneficiaries.

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### Large Holder Sale Program

Pursuant to the plan of conversion, shares of our common stock distributed to any of Anthem Insurance's eligible statutory members who receives and continues to hold 30,000 or more shares of our common stock may not be transferred or sold by such eligible statutory member until 180 days after the effective date of the demutualization, except for transfers that occur by operation of law, transfers with our written consent or sales in accordance with a large holder sale program that we will establish. After the 180 day period, these limitations will no longer apply.

The large holder sale program will be administered by EquiServe Trust Company, N.A. as the program agent. Under the large holder sale program procedures, if the aggregate number of shares of our common stock to be sold on the open market on any day on behalf of all holders who hold more than 30,000 shares exceeds the lesser of (i) 1/10th of 1% of the number of shares of our common stock outstanding or (ii) 25% of the average daily trading volume for the 20 consecutive trading days (or such shorter period, if fewer than 20 consecutive trading days have elapsed since the effective date of the demutualization) preceding such day, the designated broker-dealer will only process trades on the open market up to that limit for all holders who hold more than 30,000 shares. The designated broker-dealer will either defer the excess shares to the next trading day (which will be subject to the same volume limitations on that day) or sell the shares as principal through a block trade or through a nationally recognized brokerage firm that will sell the shares, as agent, at market clearing prices. The excess shares on any day may also be purchased by Anthem, subject to compliance with applicable regulatory requirements, but we have no obligation to purchase any excess shares.

### Commission-Free Sales Program

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Pursuant to the plan of conversion, we intend to establish a commission-free sales program that would commence no sooner than the first business day after the 180th day following, and no later than the last business day before the twelfth-month anniversary of, the effective date of the demutualization, and would continue for at least three months. Under this program, each of our shareholders who owns 99 or fewer shares of our common stock on the record date for the commission-free sales program would have the opportunity at any time during the term of the program to sell all, but not less than all, of those shares in one transaction at prevailing market prices without paying brokerage commissions or other similar expenses. We would also offer each shareholder eligible to participate in the commission-free sales program the opportunity to purchase shares of common stock as necessary to increase their holdings to 100 share round lots without paying brokerage commissions or other similar expenses. This stock purchase program would occur simultaneously and in conjunction with the commission-free sales program. The program may provide that we can repurchase shares of our common stock at prevailing market prices when, during any particular day of the program, the number of shares requested to be sold exceeds the number of shares requested to be purchased pursuant to round-up requests.

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### USE OF PROCEEDS

Gross proceeds to us from the offering will be \$1,728.0 million. This reflects the sale of 48,000,000 shares of common stock by us, at an initial public offering price of \$36.00 per share. From these gross proceeds, we estimate we will pay \$1,434.0 million to Anthem Insurance's eligible statutory members who receive cash in lieu of shares of common stock in connection with the demutualization. We expect to pay from the gross proceeds \$79.5 million for underwriting discounts and an estimated \$32.0 million for other offering and additional demutualization expenses. We will use the estimated balance of approximately \$182.5 million, plus an estimated additional \$247.3 million of net proceeds if the underwriters exercise their over-allotment option in full, for general corporate purposes.

With respect to the concurrent offering of units, gross proceeds to us will be \$200.0 million. We expect to pay from the gross proceeds approximately \$9.0 million for underwriting discounts and offering expenses. From the resulting net proceeds of \$191.0 million, together with estimated net proceeds of \$1,616.5 million from this initial public offering of common stock (for estimated net proceeds from both offerings aggregating \$1,807.5 million), payments totaling an estimated \$1,625.0 million will be made to eligible statutory members of Anthem Insurance who receive cash instead of shares of Anthem, Inc. common stock in the demutualization. We will use the balance of the net proceeds from both offerings of approximately \$182.5 million, plus an estimated additional \$276.2 million of net proceeds if the underwriters exercise both over-allotment options in full, for general corporate purposes.

### DIVIDEND POLICY

Our board of directors does not presently intend to declare cash dividends on our common stock. The declaration and payment of future dividends will be at the discretion of our board of directors and must comply with applicable law. Future dividend payments will depend upon our financial condition, results of operations, future liquidity needs, potential acquisitions, regulatory and capital requirements and other factors deemed relevant by our board of directors. In addition, following the effective date of the plan of conversion, we will be a holding company whose primary asset will be 100% of the capital stock of Anthem Insurance. Our ability to pay dividends to our shareholders will primarily depend upon the receipt of dividends from Anthem Insurance and

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its receipt of dividends from our other regulated insurance subsidiaries.

In addition, the indenture governing the terms of the debentures to be issued in connection with the offering of units prohibits, with certain limited exceptions, the payment of dividends on our common stock during a deferral of interest payments on the debentures or an event of default under the indenture. We also have the option to defer contract fee payments on the purchase contracts. If we elect to defer contract fee payments, we cannot, with certain limited exceptions, pay dividends on our common stock during a deferral period.

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### CAPITALIZATION

The following table sets forth, as of June 30, 2001, Anthem's actual capitalization and Anthem, Inc.'s capitalization as adjusted to give effect to:

- . the demutualization;
- . the sale of 48,000,000 shares of common stock in this offering at an initial public offering price of \$36.00 per share;
- . the sale of 4,000,000 equity security units at an offering price of \$50.00 per unit; and
- . the application of estimated net proceeds from this offering and from the offering of the units as set forth under "Use of Proceeds."

	At June 30, 2001	
	Anthem Historical	Anthem, Inc. Pro forma
	(In Millions, except share data)	
Debt:		
9.00% surplus notes due 2027.....	\$ 197.2	\$ 197.2
9.125% surplus notes due 2010.....	295.7	295.7
5.95% debentures included in equity security units...	--	191.0
Other.....	104.8	104.8
	597.7	788.7
Shareholders' equity(1):		
Preferred stock, without par value, shares authorized--100,000,000 shares issued and outstanding--none.....	\$ --	\$ --
Common stock, par value \$0.01, shares authorized-- 900,000,000, shares issued and outstanding--none historically and 102,861,000 pro forma.....	--	1.0
Additional paid in capital.....	--	1,982.1
Retained earnings.....	1,991.6	--
Accumulated other comprehensive income.....	72.3	72.3
	2,063.9	2,055.4
Total capitalization.....	\$2,661.6	\$2,844.1

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 (1) Anthem historical amounts represent "Policyholders' surplus" prior to demutualization.

SELECTED CONSOLIDATED FINANCIAL AND OTHER DATA

In the table below, we provide selected consolidated financial data of Anthem. We prepared this information using our unaudited consolidated financial statements for the six-month periods ended June 30, 2001 and 2000 and our consolidated financial statements for each of the years in the five-year period ended December 31, 2000, which have been audited by Ernst & Young LLP. You should read this selected consolidated financial data together with our audited consolidated financial statements and notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in this prospectus. In our opinion, the selected consolidated financial data for the six-month periods ended June 30, 2001 and 2000 include all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of that data. The selected consolidated financial and other data do not necessarily indicate the results to be expected in the future.

	As of and for the Six Months Ended June 30,		As of and for the Year Ended December 31,				
	2001(1)	2000(1)	2000(1)	1999(1)	1998	1997	1996
	(unaudited)		(\$ in Millions)				
Income Statement Data							
Revenues							
Premiums.....	\$4,542.8	\$3,589.3	\$7,737.3	\$5,418.5	\$4,739.5	\$4,581.4	\$4,445.9
Administrative fees.....	430.3	356.5	755.6	611.1	575.6	445.9	452.9
Other revenue.....	22.6	18.9	50.6	51.0	74.6	82.7	108.5
	-----	-----	-----	-----	-----	-----	-----
Total operating revenue.....	4,995.7	3,964.7	8,543.5	6,080.6	5,389.7	5,110.0	5,007.3
Net investment income...	109.0	95.0	201.6	152.0	136.8	125.2	141.9
Net realized gains (losses) on investments.....	(10.9)	6.5	25.9	37.5	155.9	97.0	73.3
Gain on sale of subsidiary operations..	25.0	--	--	--	--	--	--
	-----	-----	-----	-----	-----	-----	-----
	5,118.8	4,066.2	8,771.0	6,270.1	5,682.4	5,332.2	5,222.5
	-----	-----	-----	-----	-----	-----	-----
Expenses							
Benefit expense.....	3,870.8	3,080.6	6,551.0	4,582.7	3,934.2	3,833.3	3,715.1
Administrative expense(2).....	991.6	817.5	1,808.4	1,469.4	1,420.1	1,358.9	1,268.7
Interest expense.....	28.0	27.0	54.7	30.4	27.9	23.7	19.5
Amortization of goodwill and other intangible assets.....	15.7	11.4	27.1	12.7	12.0	9.6	10.7
Demutualization							

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expenses.....	3.0	--	--	--	--	--	--
Endowment of non-profit foundations(3).....	--	--	--	114.1	--	--	--
	4,909.1	3,936.5	8,441.2	6,209.3	5,394.2	5,225.5	5,014.0
Income from continuing operations before income taxes and minority interest.....	209.7	129.7	329.8	60.8	288.2	106.7	208.5
Income taxes.....	68.6	38.9	102.2	10.2	110.9	24.1	53.0
Minority interest (credit).....	(1.9)	0.5	1.6	(0.3)	(1.1)	3.5	15.0
Income from continuing operations.....	143.0	90.3	226.0	50.9	178.4	79.1	140.5
Discontinued operations, net of income taxes							
Loss from discontinued operations prior to disposal.....	--	--	--	--	(3.9)	(125.1)	(44.4)
Loss on disposal of discontinued operations.....	--	--	--	(6.0)	(2.1)	(113.0)	--
Net income (loss).....	\$ 143.0	\$ 90.3	\$ 226.0	\$ 44.9	\$ 172.4	\$ (159.0)	\$ 96.1

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As of and for the  
Six Months Ended  
June 30,

As of and for the Year Ended December 31,

2001 (1)	2000 (1)	2000 (1)	1999 (1)	1998	1997	1996
(unaudited)						

(\$ in Millions, except ratios)

Other Data-unaudited(4)

Operating revenue and premium equivalents(5).....	\$6,883.1	\$5,559.0	\$11,800.1	\$8,691.6	\$7,987.4	\$7,269.3	\$6,772.3
Benefit expense ratio...	85.2%	85.8%	84.7%	84.6%	83.0%	83.7%	83.6%
Administrative expense ratio:							
Calculated using operating revenue.....	19.8%	20.6%	21.2%	24.2%	26.3%	26.6%	25.3%
Calculated using operating revenue and premium equivalents...	14.4%	14.7%	15.3%	16.9%	17.8%	18.7%	18.7%
Return on revenue.....	2.8%	2.2%	2.6%	0.7%	3.0%	(3.0)%	1.8%
Return on revenue-- continuing operations..	2.8%	2.2%	2.6%	0.8%	3.1%	1.5%	2.7%
Return on equity.....	N/A	N/A	12.6%	2.7%	10.7%	(10.1)%	6.0%
Members (000s).....	7,779	7,030	7,270	6,265	5,167	5,261	4,078
Ratio of earnings to fixed charges(6).....	8.49	5.80	7.03	3.00	11.33	5.50	11.69

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Pro forma ratio of earnings to fixed charges (6) (7).....	6.78	--	5.52	--	--	--	--
Balance Sheet Data							
Cash and investments....	\$4,029.6	\$3,418.4	\$ 3,714.6	\$2,972.4	\$2,805.1	\$2,415.6	\$2,123.4
Total assets.....	5,838.0	5,364.0	5,708.5	4,816.2	4,359.2	4,131.9	4,085.8
Policy liabilities.....	1,593.8	1,625.5	1,698.3	1,431.1	1,118.1	1,143.9	1,231.5
Debt.....	597.7	597.5	597.7	522.2	302.1	305.9	245.9
Total policyholders' surplus (8).....	2,063.9	1,756.3	1,919.8	1,660.9	1,702.5	1,524.7	1,625.2

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(1) On October 27, 1999 and November 16, 1999 Anthem acquired New Hampshire-Vermont Health Service, formerly d/b/a Blue Cross Blue Shield of New Hampshire, and Rocky Mountain Hospital and Medical Service, Inc., formerly d/b/a Blue Cross and Blue Shield of Nevada/Colorado. On June 5, 2000, Anthem acquired Associated Hospital Service of Maine, formerly d/b/a Blue Cross and Blue Shield of Maine. These acquisitions were accounted for as purchases and the net assets and results of operations have been included in our consolidated financial statements from the respective purchase dates. Below is information for the six months ended June 30, 2001 and 2000 and for the years ended December 31, 2000 and 1999 that is included in Anthem's consolidated financial statements for the acquisitions that were completed in those periods:

	As of and for the Six Months Ended June 30,							
	2001				2000			
	Total Revenues	Operating Gain	Assets	(000s) Members	Total Revenues	Operating Loss	Assets	(000s) Members
BCBS-ME.....	\$ 457.6	\$ 3.0	\$ 326.4	496	\$ 59.6	\$ (2.5)	\$264.8	468
	=====	=====	=====	=====	=====	=====	=====	=====

	As of and for the Year Ended December 31,							
	2000				1999			
	Total Revenues	Operating Gain	Assets	(000s) Members	Total Revenues	Operating Loss	Assets	(000s) Members