

WELLPOINT INC  
Form DEF 14A  
April 13, 2006  
**Table of Contents**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934**

**(Amendment No. )**

Filed by the Registrant ☒ x

Filed by a Party other than the Registrant ☐ "

Check the appropriate box:

☐ " Preliminary Proxy Statement

☐ " **Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

☒ x Definitive Proxy Statement

☐ " Definitive Additional Materials

☐ " Soliciting Material Pursuant to Section 240.14a-12

**WellPoint, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(2) Form, Schedule or Registration Statement No.:

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(3) Filing Party:

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(4) Date Filed:

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**Table of Contents**

April 13, 2006

To Our Shareholders:

The Board of Directors joins me in extending to you a cordial invitation to attend the 2006 Annual Meeting of Shareholders of WellPoint, Inc. (the Company). The meeting will be held at WellPoint, Inc.'s principal executive offices at 120 Monument Circle, Indianapolis, Indiana, at 10:00 a.m., Indianapolis time, on Tuesday, May 16, 2006.

In addition to voting on the matters described in this Proxy Statement, we will review the Company's 2005 business results and discuss our plans for 2006 and beyond. There will be an opportunity to discuss matters of interest to you as a shareholder.

We hope many of our shareholders will find it convenient to be present at the meeting, and we look forward to greeting those personally able to attend. If you are unable to attend, it is still important that your shares be represented and voted. Therefore, regardless of the number of shares you own, PLEASE COMPLETE, SIGN, AND PROMPTLY RETURN THE ENCLOSED PROXY CARD IN THE POSTAGE-PAID ENVELOPE PROVIDED, OR YOU CAN VOTE THROUGH THE INTERNET OR BY TELEPHONE BY FOLLOWING THE INSTRUCTIONS ON THE ENCLOSED PROXY CARD. No postage is necessary if the envelope is mailed in the United States. The prompt return of your proxy card will save the expense involved in further communications. Any shareholder who attends the meeting may vote in person, even if he or she has returned a proxy card.

If you plan to attend the Annual Meeting and are a registered shareholder, please bring the admission ticket attached to your proxy card. If your shares are registered in the name of a bank or your broker, please obtain a legal proxy from your bank or broker and bring it with you to the Annual Meeting.

We hope that you will be able to attend the meeting, and we look forward to seeing you.

Sincerely,

LARRY C. GLASSCOCK

*Chairman of the Board, President*

*and Chief Executive Officer*

**Table of Contents**

**WELLPOINT, INC.**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD MAY 16, 2006**

**WELLPOINT, INC.**

**120 Monument Circle**

**Indianapolis, Indiana 46204**

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**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

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**TIME AND DATE**

10:00 a.m., Indianapolis time, on Tuesday, May 16, 2006

**PLACE**

WellPoint, Inc.  
120 Monument Circle  
Indianapolis, Indiana 46204

**ITEMS OF BUSINESS**

- (1) To elect five members of the Board of Directors for three-year terms.
- (2) To approve the proposed WellPoint 2006 Incentive Compensation Plan.
- (3) To ratify the appointment of Ernst & Young LLP as the independent registered public accounting firm for the Company for 2006.
- (4) To transact such other business as may properly come before the Meeting and any adjournment or postponement.

**RECORD DATE**

You can vote if you are a shareholder of record on March 24, 2006.

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### ANNUAL REPORT

Our 2005 Summary Annual Report, which is not a part of the proxy solicitation material, and our 2005 Annual Report on Form 10-K, which is our Annual Report to Shareholders, are enclosed.

### PROXY VOTING

It is important that your shares be represented and voted at the Meeting. You can vote your shares by completing and returning the proxy card sent to you. Most shareholders also have the option of voting their shares on the Internet or by telephone. If Internet or telephone voting is available to you, voting instructions are printed on your proxy card or included with your proxy materials. You can revoke a proxy at any time prior to its exercise at the Meeting by following the instructions in the accompanying Proxy Statement. **If you vote by telephone or on the Internet, you do not need to return your proxy card.**

By Order of the Board of Directors

Nancy L. Purcell

*Secretary*

**Table of Contents**

**TABLE OF CONTENTS**

	<u>Page</u>
<b><u>PROXY STATEMENT</u></b>	<b>1</b>
<b><u>PURPOSE</u></b>	<b>1</b>
<b><u>RECORD DATE, QUORUM AND VOTE REQUIRED</u></b>	<b>1</b>
<b><u>Record Date</u></b>	<b>1</b>
<b><u>Quorum</u></b>	<b>1</b>
<b><u>Vote Required</u></b>	<b>1</b>
<b><u>SHAREHOLDERS</u></b>	<b>2</b>
<b><u>Shareholder of Record</u></b>	<b>2</b>
<b><u>Beneficial Owner</u></b>	<b>2</b>
<b><u>Employee Shareholder</u></b>	<b>2</b>
<b><u>VOTING</u></b>	<b>2</b>
<b><u>By Mail</u></b>	<b>2</b>
<b><u>By Internet</u></b>	<b>3</b>
<b><u>By Telephone</u></b>	<b>3</b>
<b><u>Changing Your Vote</u></b>	<b>3</b>
<b><u>ADDITIONAL MATTERS</u></b>	<b>3</b>
<b><u>SHAREHOLDER PROPOSALS AND NOMINATIONS FOR NEXT YEAR'S ANNUAL MEETING</u></b>	<b>3</b>
<b><u>Shareholder Proposal</u></b>	<b>3</b>
<b><u>Nomination of Candidate for Election as Director</u></b>	<b>3</b>
<b><u>Timely Notice</u></b>	<b>3</b>
<b><u>Copy of By-Law Provisions</u></b>	<b>4</b>
<b><u>ANNUAL MEETING ADMISSION</u></b>	<b>4</b>
<b><u>IMPORTANT NOTICE REGARDING DELIVERY OF SECURITY HOLDER DOCUMENTS</u></b>	<b>4</b>
<b><u>HOUSEHOLDING NOTICE</u></b>	<b>4</b>
<b><u>ELECTRONIC DELIVERY OF PROXY MATERIALS</u></b>	<b>5</b>
<b><u>COST OF SOLICITATION</u></b>	<b>5</b>
<b><u>GOVERNANCE OF THE COMPANY</u></b>	<b>5</b>
<b><u>BOARD AND COMMITTEE MEMBERSHIP</u></b>	<b>6</b>
<b><u>MEETINGS AND COMMITTEES OF THE BOARD</u></b>	<b>7</b>
<b><u>The Audit Committee</u></b>	<b>7</b>
<b><u>The Compensation Committee</u></b>	<b>7</b>
<b><u>The Governance Committee</u></b>	<b>8</b>
<b><u>The Planning Committee</u></b>	<b>9</b>
<b><u>The Executive Committee</u></b>	<b>9</b>
<b><u>Communications with the Board</u></b>	<b>9</b>
<b><u>Board Attendance at Annual Meeting of Shareholders</u></b>	<b>10</b>
<b><u>COMPENSATION OF NON-EMPLOYEE DIRECTORS</u></b>	<b>11</b>
<b><u>2005 COMPENSATION TO CURRENT NON-EMPLOYEE DIRECTORS</u></b>	<b>11</b>
<b><u>BOARD DEFERRED COMPENSATION PLAN</u></b>	<b>12</b>
<b><u>BOARD EQUITY COMPENSATION AND STOCK OWNERSHIP GUIDELINES</u></b>	<b>12</b>
<b><u>2005 PAYMENTS TO THE FORMER CHAIRMAN OF THE BOARD</u></b>	<b>13</b>
<b><u>Amended and Restated Employment Agreement</u></b>	<b>13</b>
<b><u>Other 2005 Compensation and Benefits</u></b>	<b>15</b>
<b><u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u></b>	<b>15</b>

**Table of Contents**

	<u>Page</u>
<b><u>PROPOSAL NO. 1 ELECTION OF DIRECTORS</u></b>	<b>18</b>
<b><u>VOTE REQUIRED</u></b>	<b>19</b>
<b><u>RECOMMENDATION</u></b>	<b>19</b>
<b><u>NOMINEES FOR DIRECTOR</u></b>	<b>19</b>
<b><u>THREE-YEAR TERM TO EXPIRE AT THE ANNUAL MEETING OF SHAREHOLDERS IN 2009</u></b>	<b>19</b>
<b><u>Lenox D. Baker, Jr., M.D.</u></b>	<b>19</b>
<b><u>Susan B. Bayh</u></b>	<b>19</b>
<b><u>Larry C. Glasscock</u></b>	<b>19</b>
<b><u>Julie A. Hill</u></b>	<b>19</b>
<b><u>Ramiro G. Peru</u></b>	<b>20</b>
<b><u>DIRECTORS CONTINUING IN OFFICE</u></b>	<b>20</b>
<b><u>TERM EXPIRING AT THE ANNUAL MEETING OF SHAREHOLDERS IN 2007</u></b>	<b>20</b>
<b><u>Sheila P. Burke</u></b>	<b>20</b>
<b><u>Victor S. Liss</u></b>	<b>20</b>
<b><u>Jane G. Pisano, Ph.D.</u></b>	<b>20</b>
<b><u>George A. Schaefer, Jr.</u></b>	<b>21</b>
<b><u>Jackie M. Ward</u></b>	<b>21</b>
<b><u>John E. Zuccotti</u></b>	<b>21</b>
<b><u>TERM EXPIRING AT THE ANNUAL MEETING OF SHAREHOLDERS IN 2008</u></b>	<b>21</b>
<b><u>William H.T. Bush</u></b>	<b>21</b>
<b><u>Warren Y. Jobe</u></b>	<b>21</b>
<b><u>William G. Mays</u></b>	<b>22</b>
<b><u>Senator Donald W. Riegle, Jr.</u></b>	<b>22</b>
<b><u>William J. Ryan</u></b>	<b>22</b>
<b><u>PROPOSAL NO. 2 APPROVAL OF THE WELLPOINT 2006 INCENTIVE COMPENSATION PLAN</u></b>	<b>22</b>
<b><u>ADMINISTRATION</u></b>	<b>23</b>
<b><u>SHARES SUBJECT TO THE 2006 INCENTIVE PLAN</u></b>	<b>23</b>
<b><u>PARTICIPATION</u></b>	<b>24</b>
<b><u>STOCK OPTIONS</u></b>	<b>24</b>
<b><u>SARs</u></b>	<b>25</b>
<b><u>RESTRICTED STOCK AND RESTRICTED STOCK UNITS</u></b>	<b>25</b>
<b><u>PERFORMANCE UNITS, PERFORMANCE SHARES AND CASH-BASED AWARDS</u></b>	<b>25</b>
<b><u>OTHER STOCK-BASED AWARDS</u></b>	<b>26</b>
<b><u>DIVIDEND EQUIVALENTS</u></b>	<b>26</b>
<b><u>RECEIPT OF NON-EMPLOYEE DIRECTORS FEES IN AWARDS</u></b>	<b>26</b>
<b><u>PERFORMANCE-BASED AWARDS</u></b>	<b>26</b>
<b><u>TRANSFERABILITY OF AWARDS</u></b>	<b>27</b>
<b><u>CHANGE OF CONTROL</u></b>	<b>28</b>
<b><u>CHANGES IN CAPITAL</u></b>	<b>28</b>
<b><u>AMENDMENT AND TERMINATION</u></b>	<b>28</b>
<b><u>DURATION OF 2006 INCENTIVE PLAN</u></b>	<b>29</b>
<b><u>NON-UNITED STATES PARTICIPANTS</u></b>	<b>29</b>
<b><u>TAX WITHHOLDING OBLIGATIONS</u></b>	<b>29</b>
<b><u>CERTAIN FEDERAL INCOME TAX CONSEQUENCES</u></b>	<b>29</b>



**Table of Contents**

	<u>Page</u>
<b><u>PROPOSAL NO. 3 RATIFICATION OF THE APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u></b>	31
<b><u>INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM S FEES</u></b>	32
<b><u>THE AUDIT COMMITTEE S CONSIDERATION OF INDEPENDENCE OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u></b>	32
<b><u>AUDIT COMMITTEE PRE-APPROVAL POLICY</u></b>	32
<b><u>AUDIT COMMITTEE REPORT</u></b>	33
<b><u>EXECUTIVE OFFICERS OF THE COMPANY</u></b>	34
<b><u>LARRY C. GLASSCOCK</u></b>	34
<b><u>MARK L. BOXER</u></b>	34
<b><u>ANGELA F. BRALY</u></b>	34
<b><u>RANDAL L. BROWN</u></b>	34
<b><u>DAVID C. COLBY</u></b>	35
<b><u>WAYNE S. DeVEYDT</u></b>	35
<b><u>MARJORIE W. DORR</u></b>	35
<b><u>KEITH R. FALLER</u></b>	35
<b><u>DAVID S. HELWIG</u></b>	35
<b><u>JOAN E. HERMAN</u></b>	35
<b><u>RANDALL J. LEWIS</u></b>	35
<b><u>SAMUEL R. NUSSBAUM, M.D.</u></b>	36
<b><u>ALICE F. ROSENBLATT</u></b>	36
<b><u>MICHAEL A. STOCKER, M.D.</u></b>	36
<b><u>JOHN S. WATTS, JR.</u></b>	36
<b><u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u></b>	36
<b><u>STANDARDS OF ETHICAL BUSINESS CONDUCT</u></b>	37
<b><u>COMPENSATION OF EXECUTIVE OFFICERS</u></b>	38
<b><u>SUMMARY COMPENSATION TABLE</u></b>	38
<b><u>DIRECTED EXECUTIVE COMPENSATION PROGRAM</u></b>	41
<b><u>OPTION GRANTS IN LAST FISCAL YEAR</u></b>	41
<b><u>AGGREGATED OPTION EXERCISES IN THE LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES</u></b>	42
<b><u>COMPENSATION PLANS</u></b>	42
<b><u>ANNUAL INCENTIVE PLAN</u></b>	42
<b><u>WHN OFFICER CHANGE IN CONTROL PLAN</u></b>	43
<b><u>ANTHEM 2001 LONG-TERM INCENTIVE PLAN</u></b>	43
<b><u>ANTHEM LONG-TERM INCENTIVE PLAN</u></b>	44
<b><u>ANTHEM 2001 STOCK INCENTIVE PLAN</u></b>	44
<b><u>TRIGON STOCK INCENTIVE PLANS</u></b>	45
<b><u>WHN STOCK INCENTIVE PLANS</u></b>	45
<b><u>WELLCHOICE STOCK INCENTIVE PLAN</u></b>	46
<b><u>EMPLOYEE STOCK PURCHASE PLAN</u></b>	46
<b><u>SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS</u></b>	47
<b><u>401(K) PLAN</u></b>	48
<b><u>PRIOR WHN 401(K) PLAN</u></b>	48
<b><u>EMPIRE 401(K) PLAN</u></b>	48
<b><u>WHC EXECUTIVE SAVINGS PLAN</u></b>	49

**Table of Contents**

	<b>Page</b>
<b><u>2005 EXECUTIVE SAVINGS PLAN</u></b>	<b>49</b>
<b><u>DEFERRED COMPENSATION PLANS</u></b>	<b>50</b>
<b><u>PENSION PLAN</u></b>	<b>51</b>
<b><u>PENSION ACCUMULATION PLAN</u></b>	<b>52</b>
<b><u>EMPIRE CASH BALANCE PENSION PLAN</u></b>	<b>53</b>
<b><u>EMPIRE SUPPLEMENTAL CASH BALANCE PENSION PLAN</u></b>	<b>53</b>
<b><u>WHN SERP</u></b>	<b>53</b>
<b><u>ANTHEM SERP</u></b>	<b>54</b>
<b><u>EMPLOYMENT AGREEMENTS</u></b>	<b>54</b>
<b><u>OTHER EXECUTIVE SEVERANCE ARRANGEMENTS</u></b>	<b>56</b>
<b><u>Executive Severance Plan</u></b>	<b>56</b>
<b><u>Employment Agreement</u></b>	<b>58</b>
<b><u>COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION</u></b>	<b>58</b>
<b><u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</u></b>	<b>58</b>
<b><u>COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION</u></b>	<b>58</b>
<b><u>COMPENSATION PHILOSOPHY</u></b>	<b>59</b>
<b><u>ELEMENTS OF THE COMPENSATION PACKAGE</u></b>	<b>60</b>
<b><u>Base Salary</u></b>	<b>60</b>
<b><u>Annual Bonus</u></b>	<b>60</b>
<b><u>Long-Term Stock Incentive</u></b>	<b>60</b>
<b><u>Other Compensation and Benefits Programs</u></b>	<b>60</b>
<b><u>Executive Severance Plan</u></b>	<b>61</b>
<b><u>Employment Agreements</u></b>	<b>61</b>
<b><u>COMPENSATION OF CHAIRMAN OF THE BOARD, PRESIDENT AND CHIEF EXECUTIVE OFFICER</u></b>	<b>61</b>
<b><u>REVIEW OF ALL COMPONENTS OF EXECUTIVE COMPENSATION</u></b>	<b>62</b>
<b><u>CONCLUSION</u></b>	<b>63</b>
<b><u>PERFORMANCE GRAPH</u></b>	<b>64</b>
<b><u>APPENDIX I: CORPORATE GOVERNANCE GUIDELINES</u></b>	<b>I-1</b>
<b><u>APPENDIX II: CATEGORICAL STANDARDS OF DIRECTOR INDEPENDENCE</u></b>	<b>II-1</b>
<b><u>APPENDIX III: AUDIT COMMITTEE CHARTER</u></b>	<b>III-1</b>
<b><u>APPENDIX IV: COMPENSATION COMMITTEE CHARTER</u></b>	<b>IV-1</b>
<b><u>APPENDIX V: GOVERNANCE COMMITTEE CHARTER</u></b>	<b>V-1</b>
<b><u>APPENDIX VI: PLANNING COMMITTEE CHARTER</u></b>	<b>VI-1</b>
<b><u>APPENDIX VII: EXECUTIVE COMMITTEE CHARTER</u></b>	<b>VII-1</b>
<b><u>APPENDIX VIII: WELLPOINT 2006 INCENTIVE COMPENSATION PLAN</u></b>	<b>VIII-1</b>

**Table of Contents**

**WELLPOINT, INC.**

**120 Monument Circle**

**Indianapolis, Indiana 46204**

**PROXY STATEMENT**

**Annual Meeting of Shareholders**

**May 16, 2006**

**Purpose**

This Proxy Statement is being furnished to shareholders on or about April 13, 2006 in connection with a solicitation by the Board of Directors of WellPoint, Inc. ( WellPoint , the Company , we , us or our ) of proxies to be voted at the Annual Meeting of Shareholders and any adjournment or postponements, to be held at 10:00 a.m., Indianapolis time, Tuesday, May 16, 2006, at our principal executive offices at 120 Monument Circle, Indianapolis, Indiana, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. Shareholders will be admitted to the Annual Meeting beginning at 9:00 a.m., Indianapolis time.

**Record Date, Quorum and Vote Required**

**Record Date** At the close of business on March 24, 2006, the record date for the Annual Meeting, there were 647,367,918 shares of Common Stock of the Company outstanding and entitled to vote at the Annual Meeting.

**Quorum** In order for business to be conducted at the Annual Meeting, a quorum must be present. A quorum will be present if 25% of the votes entitled to be cast on a matter are represented in person or by proxy.

**Vote Required** You will have one vote for each share held. Proposal 1, election of directors, will be determined by the vote of a plurality of the votes cast on such election. Proposal 2, the approval of the WellPoint 2006 Incentive Compensation Plan, will require that the number of votes cast on such proposal represent more than 50% of the votes entitled to be cast, and a majority of the votes cast must vote in favor of such proposal, in accordance with the listing standards of the New York Stock Exchange ( NYSE ). Proposal 3, the ratification of the appointment of the Company's independent registered public accounting firm, will be approved if the votes cast for the proposal exceed the votes cast against the proposal.

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Shares of Common Stock of the Company represented by properly executed proxies will be voted at the Annual Meeting in accordance with the choices indicated on the proxy. Abstentions on a specific proposal will be considered as present at the Annual Meeting and will be counted for purposes of determining whether a quorum is present. Abstentions will not be counted in the votes cast on Proposal 1, election of directors, or Proposal 3, the ratification of the appointment of the Company's independent registered public accounting firm. Abstentions will be counted as votes cast regarding Proposal 2, the approval of the WellPoint 2006 Incentive Compensation Plan and will have the same effect as a vote against this proposal.

If your shares of Common Stock of the Company are held in street name, and you do not provide your broker with voting instructions regarding Proposal 1, election of directors, or Proposal 3, the ratification of the appointment of the Company's independent registered public accounting firm, your broker will nevertheless have the discretion to vote your shares of Common Stock for the proposals. There are certain other matters, however, over which your broker does not have discretion to vote your Common Stock without your instructions, which are referred to as broker non-votes. Proposal 2, the approval of the WellPoint 2006 Incentive Compensation Plan, falls into this category. If you do not provide your broker with voting instructions on this proposal, your shares of Common Stock will not be voted on this proposal. Broker non-votes will not be considered as votes cast on this proposal but could affect the requirement that the number of votes cast on such proposal represent more than 50% of the votes entitled to be cast.

## **Table of Contents**

### **Shareholders**

Shares of the Company Common Stock may be held directly in your own name or may be held through a stockbroker, bank or other nominee in street name. Summarized below are some distinctions between shares held of record and those owned beneficially:

**Shareholder of Record** If your shares are registered directly in your name with the Company's transfer agent, Computershare Trust Company, N.A., you are considered the shareholder of record with respect to those shares and we are sending these proxy materials directly to you. As the shareholder of record, you have the right to vote in person at the Annual Meeting or to grant your voting proxy to the persons designated by us. We have enclosed a proxy card for you to use.

**Beneficial Owner** If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of the shares held in street name, and you have received these proxy materials from your broker, bank or other nominee who is considered the shareholder of record with respect to the shares. As the beneficial owner, you have the right to direct the broker, bank or nominee on how to vote your shares and are also invited to attend the Annual Meeting. Your broker, bank or nominee is obligated to provide you with a voting instruction card for you to use. However, since you are not the shareholder of record, you may not vote these shares in person at the Annual Meeting unless you bring with you to the Annual Meeting a legal proxy, executed in your favor from the shareholder of record.

**Employee Shareholder** If you participate in the WellPoint 401(k) Retirement Savings Plan and you are invested in the Company Common Stock fund in your account, you may give voting instructions to the plan Trustee as to the number of shares of Common Stock equivalent to the interest in the Company Common Stock fund credited to your account as of the most recent valuation date coincident with or preceding the record date. The Trustee will vote your shares in accordance with your instructions received by May 12, 2006 at 12:00 Noon EDT. You may also revoke previously given voting instructions by May 12, 2006 at 12:00 Noon EDT, by filing with the Trustee either written notice of revocation or a properly completed and signed proxy card bearing a later date. Your voting instructions will be kept confidential by the Trustee. If you do not send instructions for Proposal 1, the Election of Directors, and Proposal 3, the ratification of the appointment of the Company's independent registered public accounting firm, the Trustee will vote the number of shares equal to the share equivalents credited to your account in the same proportion that it votes shares for which it did receive timely instructions. For Proposal 2, the approval of the WellPoint 2006 Incentive Compensation Plan, if you do not send instructions, the Trustee will not vote your shares.

### **Voting**

Whether you hold shares as a shareholder of record or as a beneficial owner you may vote before the Annual Meeting by granting a proxy or, for shares held in street name, by submitting voting instructions to your broker or nominee. Most shareholders will have a choice of voting through the Internet or by telephone or completing a proxy card or instruction form and returning it in the enclosed postage-prepaid envelope. Please refer to the instructions below and on the accompanying proxy card or voting instruction card.

**By Mail** You may vote by mail by signing and dating your proxy card or voting instruction card provided by your broker, bank or nominee and mailing it in the enclosed postage-prepaid envelope. If you provide specific voting instructions, your shares will be voted as you instruct. **If you sign and date your proxy card, but do not provide instructions, your shares will be voted FOR the election of each of the Company's nominee directors listed beginning on page 19 of this Proxy Statement, FOR the approval of the WellPoint 2006 Incentive Compensation Plan described beginning on page 22 of this Proxy Statement and FOR the ratification of the appointment of the independent registered public accounting firm described beginning on page 31 of this Proxy Statement.**



## **Table of Contents**

**By Internet** You may vote by Internet by going to [www.computershare.com/expressvote](http://www.computershare.com/expressvote) and following the instructions. You will need to have your proxy card or voting instruction card available when voting by the Internet. If you want to vote through the Internet, you must do so before 11:59 p.m. EDT, May 15, 2006. **If you vote on the Internet, you do not need to return your proxy card.**

**By Telephone** You may vote by touchtone telephone by calling (800) 652-8683. You will need to have your proxy card or voting instruction card available when voting by telephone. If you want to vote by telephone, you must do so before 11:59 p.m. EDT, May 15, 2006. **If you vote by telephone, you do not need to return your proxy card.**

## **Changing Your Vote**

You may revoke your proxy at any time prior to the Annual Meeting. If you execute more than one proxy, the proxy having the latest date will revoke any earlier proxy. If you attend the Annual Meeting you will be given the opportunity to revoke your proxy and vote in person.

## **Additional Matters**

The Board of Directors of the Company (the "Board") has not received notice of, and knows of no matters, other than those described in the attached Notice of Annual Meeting of Shareholders, which are to be brought before the Annual Meeting. If other matters properly come before the Annual Meeting, it is the intention of the persons named in the accompanying proxy card to vote such proxy in accordance with their judgment on such matters.

## **Shareholder Proposals and Nominations for Next Year's Annual Meeting**

In order to be considered at the 2007 Annual Meeting, shareholder proposals must comply with the advance notice and eligibility requirements contained in the Company's By-Laws.

**Shareholder Proposal** The By-Laws provide that for business to be properly brought before an annual meeting by a shareholder, the shareholder must have the legal right and authority to make the proposal for consideration at the meeting and the shareholder must give timely written notice thereof to the Secretary of the Company. Such proposals also will need to comply with the Securities and Exchange Commission ("SEC") regulations regarding the inclusion of shareholder proposals in the Company-sponsored proxy materials if the shareholder would like the proposal to be so included.

**Nomination of Candidate for Election as Director** The By-Laws provide that a shareholder may nominate a person for election to the Company's Board of Directors, provided the shareholder is entitled to vote for the election of directors at the meeting and has given timely written notice of the nomination to the Secretary of the Company.

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**Timely Notice** In order to be timely, a shareholder's notice must be delivered to the principal executive offices of the Company not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting. In the event that the date of the annual meeting is advanced by more than 30 days or delayed by more than 60 days from such anniversary date, notice by the shareholder must be delivered not earlier than the 120<sup>th</sup> day prior to such annual meeting and not later than the close of business on the later of the 90<sup>th</sup> day prior to such annual meeting or the 10<sup>th</sup> day following the day on which public announcement of the date of such meeting is first made. The notice must contain specified information about each nominee or the proposed business and the shareholder making the nomination or proposal. The date by which shareholder proposals and nominations of candidates for elections as directors must be received by the Company for inclusion in proxy materials relating to the 2007 Annual Meeting of Shareholders is December 14, 2006.



## **Table of Contents**

**Copy of By-Law Provisions** The specific requirements of these advance notice and eligibility provisions are set forth in Section 1.4 and Section 1.5 of the Company's By-Laws. You may contact the Secretary, WellPoint, Inc., 120 Monument Circle, Mail No. IN12B-315, Indianapolis, Indiana 46204 for a copy of these relevant provisions of the Company's By-Laws.

## **Annual Meeting Admission**

Either an admission ticket or proof of ownership of Company Common Stock, as well as a form of personal identification, must be presented in order to be admitted to the Annual Meeting. If you are a shareholder of record, your admission ticket is attached to your proxy card. If you are a beneficial owner and your shares are held in the name of a broker, bank or other nominee, you must bring a brokerage statement or other proof of ownership with you to the Annual Meeting, or you may request an admission ticket in advance by mailing a request, along with proof of your ownership of Company Common Stock, to WellPoint Shareholder Services, 120 Monument Circle, Mail No. IN12B-323, Indianapolis, Indiana 46204.

No cameras, recording equipment, electronic devices, large bags, briefcases or packages will be permitted in the Annual Meeting.

## **IMPORTANT NOTICE REGARDING DELIVERY OF SECURITY HOLDER DOCUMENTS**

### **Householding Notice**

The SEC has adopted rules that allow us to deliver a single annual report, proxy statement, proxy statement combined with a prospectus or any information statement to any household at which two or more shareholders reside who share the same last name or whom we believe to be members of the same family. This procedure is referred to as householding.

If you share the same last name and address with one or more shareholders, from now on, unless we receive contrary instructions from you (or from one of these other shareholders), you and all other shareholders who have your last name and live at the same home address will receive only one copy of any of our Annual Report, Proxy Statement for our Annual Meeting of Shareholders, any proxy statement we file and deliver in connection with any other meeting of shareholders, any proxy statement combined with a prospectus or any information statement. We will include with the householded materials for our annual meetings, or any other shareholders' meeting, a separate proxy card and Notice of Shareholders' Meeting for each registered shareholder who shares your last name and lives at your home address.

If you object to householding or wish to revoke householding in the future, in order to receive individual copies of these documents, you may write or call our Secretary, WellPoint, Inc., 120 Monument Circle, Mail No. IN12B-315, Indianapolis, Indiana, 46204 or telephone (800) 985-0999. You can call the same number or write to the same address if you participate in householding but wish to receive a separate copy of these documents or to request householding if shareholders are receiving multiple copies of the annual report, proxy statement or information statement. You may opt out of householding at any time prior to 30 days before the mailing of proxy materials each year, which you can measure by reference to the date 30 days before the mailing date of the proxy statement for the prior year's Annual Meeting of Shareholders. If you would like to opt out of householding for any other shareholders' meeting that might be scheduled during a given calendar year, we will issue a press release notifying shareholders of the actual deadline for opting out of householding via either of the methods just described. If we do not hear from you, you will be deemed to have consented to the delivery of only one set of these documents to your household. We intend to household indefinitely, and your consent will be perpetual unless you revoke it. If you revoke your consent, we will begin sending you

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individual copies of these documents within 30 days after we receive your revocation notice.

Your participation in this program is encouraged. It will reduce the volume of duplicate information received at your household as well as the cost to us of preparing and mailing duplicate materials. You may wish

## **Table of Contents**

to receive documents electronically. We have included below instructions for consenting to electronic delivery. If you consent to electronic delivery, we will not be householding so you need not call the phone number above to object to householding. In addition, we have been notified that certain intermediaries, i.e. brokers or banks, will household proxy materials. Beneficial shareholders can request information about householding from their banks, brokers or other holders of record.

## **Electronic Delivery of Proxy Materials**

One of our main goals is to maximize shareholder value. In addition to aligning our businesses to focus on the unique issues and needs of our customers, we are harnessing technology to maximize cost savings. As an alternative to receiving printed copies of proxy materials in future years, we offer shareholders the opportunity to receive proxy mailings electronically. By consenting to electronic delivery of future Annual Reports and Proxy Statements, you will help us reduce printing and postage costs.

To take advantage of this offer, please indicate your consent by following the instructions provided as you vote by Internet or go to the website [www.econsent.com/wlp](http://www.econsent.com/wlp) and follow the prompts. You must have access to a computer and the Internet and expect to have access in the future to be eligible. Selecting this option means that you will no longer receive a printed copy of our Annual Report and Proxy Statement unless you request one.

Each year you will receive an e-mail message with information regarding the Internet web site containing the Annual Report and Proxy Statement and the Internet web site to vote your proxy online. If the e-mail is returned undeliverable, our transfer agent will mail the Annual Report and Proxy Statement to your address of record. If you consent to electronic delivery, you will be responsible for your usual telephone and Internet charges (e.g., online fees) in connection with the electronic delivery of the proxy materials and Annual Report.

Your consent will be effective until you revoke it. You may cancel your consent to electronic delivery at no cost to you at any time by written notification to our Secretary, WellPoint, Inc., at 120 Monument Circle, Mail No. IN12B-315, Indianapolis, Indiana, 46204, or at the Internet site [www.econsent.com/wlp](http://www.econsent.com/wlp).

## **Cost of Solicitation**

We will bear the cost of the solicitation of proxies and have engaged D.F. King & Co., Inc. to assist in the solicitation of proxies. D.F. King & Co., Inc. will receive a fee of approximately \$5,000 plus reasonable out-of-pocket expenses for this work. We also will reimburse banks, brokers or other custodians, nominees and fiduciaries for their expenses in forwarding the proxy materials to beneficial owners and seeking instruction with respect thereto. In addition, our directors, officers or other associates, without additional compensation, may solicit proxies from shareholders in person, or by telephone, facsimile transmission or other electronic means of communication.

## **GOVERNANCE OF THE COMPANY**

We believe that the only results worth achieving are those achieved with integrity and a commitment to excellence.

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Accordingly, we have long recognized the importance of and always placed a high priority upon having good corporate governance measures in place. We take great care to ensure that our measures align with the requirements of the Sarbanes-Oxley Act of 2002, the rules promulgated by the SEC and the listing standards of the NYSE.

We believe it is important to disclose to you a summary of our major corporate governance practices. Many of these practices have been in place for several years and predate our conversion to a public company. Others were adopted in response to regulatory and legislative changes.

## **Table of Contents**

Among the practices we adhere to are the following:

We have adopted Corporate Governance Guidelines, which are set forth in Appendix I to this Proxy Statement and are available on the Company's website at [www.wellpoint.com](http://www.wellpoint.com) under the Corporate Governance tab;

We also have published on our website the charter of each standing committee of the Board;

A majority of our Board is comprised of independent directors;

Only independent directors serve on the Audit, Compensation and Governance Committees;

Non-employee directors meet periodically in executive session without management present;

The independent director who presides at the executive sessions of independent directors rotates three times a year among the Chairpersons of each of the Audit Committee, Compensation Committee and Governance Committee;

The lead partner of the Company's independent registered public accounting firm is rotated at least every five years;

The Board, and each committee of the Board, has the authority to engage independent consultants and advisors at the Company's expense;

The Board and each standing committee annually conduct a self-evaluation; and

The Company's Board, executive officers, associates and external business partners are governed by the Company's Standards of Ethical Business Conduct.

We will continue to assess and refine our corporate governance practices and share them with you.

## **BOARD AND COMMITTEE MEMBERSHIP**

As reflected in our Corporate Governance Guidelines, our business, property and affairs are managed under the direction of our Board. Members of our Board stay informed of our business through discussions with our CEO and other officers, by reviewing materials provided to them, by visiting our offices, by participating in meetings of the Board and its committees and through their own industry knowledge and inquiries.

As permitted by the rules of the NYSE, our Board has adopted categorical standards to assist it in making determinations of independence and whether or not a director has a material relationship with the Company. These categorical standards are set forth in Appendix II to this Proxy Statement and are available on the Company's website at [www.wellpoint.com](http://www.wellpoint.com) under the Corporate Governance tab.

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Our Board has determined that each of the following directors meets these standards, has no material relationship with the Company and is independent as defined by the NYSE listing standards: Susan B. Bayh, Sheila P. Burke, William H.T. Bush, Julie A. Hill, Warren Y. Jobe, Victor S. Liss, William G. Mays, Ramiro G. Peru, Jane G. Pisano, Senator Donald W. Riegle, Jr., William J. Ryan, George A. Schaefer, Jr., Jackie M. Ward and John E. Zuccotti.

During 2005, the Board held 21 meetings. At six of the 21 meetings the Board met in executive session without management. During the period in 2005 for which he or she served as a director, each director attended at least 75% of the total meetings of the Board and each committee on which he or she served.

There are five standing committees of the Board. From time to time, the Board, in its discretion, may form other committees. The following table provides membership information for each of the Board committees as of March 15, 2006.

**Table of Contents**

<u>Directors</u>	<u>Executive Committee</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Governance Committee</u>	<u>Planning Committee</u>
Lenox D. Baker, Jr., M.D.					X
Susan B. Bayh				X	
Sheila P. Burke			X		
William H.T. Bush				X	X*
Larry C. Glasscock	X*				
Julie A. Hill				X	X
Warren Y. Jobe		X			
Victor S. Liss	X	X*			
William G. Mays		X			
Ramiro G. Peru		X			
Jane G. Pisano			X		X
Donald W. Riegle, Jr.			X	X	
William J. Ryan	X		X*		
George A. Schaefer, Jr.		X			
Jackie M. Ward	X		X	X*	
John E. Zuccotti				X	

\* Signifies Chairperson of the Committee

**Meetings and Committees of the Board**

Set forth below are the primary responsibilities of each of the committees.

**The Audit Committee**

The Audit Committee, which was established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, assists the Board in its oversight of the Company's accounting, financial reporting and internal audit controls and procedures. In its oversight of the Company's financial statements and the independent audit thereof, the Committee is responsible for the selection, evaluation and, where deemed appropriate, replacement of the independent registered public accounting firm, and for the evaluation of the independence of the independent registered public accounting firm. The Committee is also responsible for the oversight of the Company's Compliance Program and Standards of Ethical Business Conduct. See Audit Committee Report.

A copy of the Audit Committee Charter is attached as Appendix III to this Proxy Statement and is available on the Company's website at [www.wellpoint.com](http://www.wellpoint.com) under the Corporate Governance tab.

The Audit Committee met 11 times during 2005. At six of the 11 meetings the Committee met separately with management, the senior vice president of internal audit and the independent registered public accounting firm.

The current members of the Audit Committee are: Victor S. Liss (Chairperson), Warren Y. Jobe, William G. Mays, Ramiro G. Peru and George A. Schaefer, Jr. The Board has determined that each of the members of the Audit Committee is independent as defined by the rules of the SEC

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and the NYSE listing standards and that each of the members is an audit committee financial expert as defined by the SEC's rules.

### **The Compensation Committee**

The Compensation Committee assists the Board in discharging its responsibilities relating to compensation of the Company's executive officers, reviews and recommends to the Board the Company's overall compensation policy and oversees the Company's stock plans.

A copy of the Compensation Committee Charter is attached as Appendix IV to this Proxy Statement and is available on the Company's website at [www.wellpoint.com](http://www.wellpoint.com) under the Corporate Governance tab.



## **Table of Contents**

The Compensation Committee met ten times during 2005. At eight of the ten meetings the Committee met in executive session without management.

The current members of the Compensation Committee are: William J. Ryan (Chairperson), Sheila P. Burke, Jane G. Pisano, Senator Donald W. Riegler, Jr., and Jackie M. Ward. The Board has determined that each of the members of the Compensation Committee is independent as defined by the NYSE listing standards.

## **The Governance Committee**

The Governance Committee assists the Board in discharging its responsibilities relating to Board composition, director compensation and corporate governance by identifying and recommending individuals for nomination as members of the Board, recommending to the Board the overall director compensation policy and developing and recommending to the Board a set of corporate governance guidelines.

A current copy of the Governance Committee Charter is attached as Appendix V to this Proxy Statement and is available on the Company's website at [www.wellpoint.com](http://www.wellpoint.com) under the Corporate Governance tab.

The Governance Committee met eight times during 2005.

The current members of the Governance Committee are: Jackie M. Ward (Chairperson), Susan B. Bayh, William H.T. Bush, Julie A. Hill, Senator Donald W. Riegler, Jr. and John E. Zuccotti. The Board has determined that each of the members of the Governance Committee is independent as defined by the NYSE listing standards.

## *Shareholder Nominees*

The policy of the Governance Committee is to consider properly submitted shareholder nominations for candidates for membership on the Board as described below under Identifying and Evaluating Nominees for Directors. In evaluating such nominations, the Governance Committee seeks to achieve a balance of knowledge, experience and capability on the Board and to address the membership criteria set forth under Director Qualifications. Any shareholder nominations proposed for consideration by the Governance Committee must include the nominee's name and qualifications for Board membership and must be addressed to Secretary, WellPoint, Inc., 120 Monument Circle, Mail No. IN12B-315, Indianapolis, Indiana 46204.

For a description of the requirements regarding shareholder nominations and other proposals at annual meetings, see Shareholder Proposals and Nominations for Next Year's Annual Meeting beginning on page 3.

## *Director Qualifications*

The Governance Committee will look for candidates who possess qualifications that meet our strategic needs; possess high personal values, judgment and integrity; have an understanding of our business and the regulatory and policy environment in which we operate; and have diverse experiences in key business, financial and other challenges that face a publicly held health benefits company. In particular, the Governance Committee will look for candidates with special and diverse experience in areas such as management of public companies, entrepreneurial companies, and large companies, investment banking and banking industry experience, health care industry experience, public relations and mass marketing experience, accounting and audit experience, clinical health experience and technology and e-commerce experience. The candidates should be committed to enhancing shareholder value, should have sufficient time to carry out their duties and be able to provide insight and practical wisdom based on experience to represent the interests of all shareholders. Their service on other boards of public companies should be limited to a number that permits them, given their individual circumstances, to perform all director duties responsibly. The foregoing qualifications will be applied by the Governance Committee to all candidates for nominees, including candidates submitted by shareholders.

## **Table of Contents**

### *Identifying and Evaluating Nominees for Directors*

The Governance Committee utilizes a variety of methods for identifying and evaluating nominees for director. The Governance Committee regularly assesses the appropriate size of the Board and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Governance Committee considers, subject to the restrictions in the Company's By-Laws, whether the vacancy should be filled and if so, various potential candidates for director. Candidates may come to the attention of the Governance Committee through current Board members, professional search firms, shareholders or other persons. These candidates are evaluated at regular or special meetings of the Governance Committee, and may be considered at any point during the year. As described above, the Governance Committee considers properly submitted shareholder nominations for candidates for the Board. Following verification of the shareholder status of persons proposing candidates, recommendations are aggregated and considered by the Governance Committee at a regularly scheduled meeting, which is generally the first or second meeting prior to the issuance of the proxy statement for the Company's annual meeting. If any materials are provided by a shareholder in connection with the nomination of a director candidate, such materials are forwarded to the Governance Committee. The Governance Committee may also review materials provided by professional search firms or other parties in connection with a nominee who is not proposed by a shareholder.

### **The Planning Committee**

The Planning Committee reviews and monitors the Company's annual operating plan, recommends strategies to achieve the strategic plan, and reviews integration plans for mergers, acquisitions and other corporate transactions.

A current copy of the Planning Committee Charter is attached as Appendix VI to this Proxy Statement and is available on the Company's website at [www.wellpoint.com](http://www.wellpoint.com) under the Corporate Governance tab.

The Planning Committee met three times during 2005.

The current members of the Planning Committee are: William H.T. Bush (Chairperson), Lenox D. Baker, Jr., M.D., Julie A. Hill and Jane G. Pisano.

### **The Executive Committee**

Between meetings of the Board, the Executive Committee has and may exercise the powers and authority of the full Board.

A copy of the Executive Committee Charter is attached as Appendix VII to this Proxy Statement and is available on the Company's website at [www.wellpoint.com](http://www.wellpoint.com) under the Corporate Governance tab.

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The Executive Committee met one time during 2005. At the meeting, the Executive Committee met in executive session without management.

The current members of the Executive Committee are: Larry C. Glasscock (Chairperson), Victor S. Liss, William J. Ryan and Jackie M. Ward.

### **Communications with the Board**

Individuals may communicate with the Board by submitting an e-mail to the Company's Board at [boardofdirectors@wellpoint.com](mailto:boardofdirectors@wellpoint.com). Communications that are intended specifically for non-management directors or any individual director should be sent to the e-mail address above to the attention of the Presiding Director. Individuals may also communicate with the Board by submitting a letter to the Secretary, WellPoint, Inc., 120 Monument Circle, Mail No. IN12B-315, Indianapolis, Indiana 46204.

## **Table of Contents**

In addition, individuals may communicate with the Chairperson of the principal committees by submitting an e-mail to:

Chairperson of the Audit Committee: [auditchair@wellpoint.com](mailto:auditchair@wellpoint.com)

Chairperson of the Compensation Committee: [compensationchair@wellpoint.com](mailto:compensationchair@wellpoint.com)

Chairperson of the Governance Committee: [governancechair@wellpoint.com](mailto:governancechair@wellpoint.com)

The process for collecting and organizing security holder communications, as well as similar or related activities, has been approved by a majority of the independent directors. Communications are distributed to the Board, or to any individual directors as appropriate, depending on the facts and circumstances outlined in the communication. In that regard, the Board has requested that certain items which are unrelated to the duties and responsibilities of the Board should be excluded, such as:

spam;

junk mail and mass mailings;

medical claims inquiries;

new product suggestions;

resumes and other forms of job inquiries;

surveys; and

business solicitations or advertisements.

In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that any communication that is filtered out must be made available to any non-management director upon request.

## **Board Attendance at Annual Meeting of Shareholders**

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The policy of the Company is that Board members attend each Annual Meeting of Shareholders. All members of the Board at the time attended the 2005 Annual Meeting of Shareholders, except for Dr. Baker who was unable to attend.

**Table of Contents****COMPENSATION OF NON-EMPLOYEE DIRECTORS****2005 Compensation to Current Non-Employee Directors<sup>1</sup>**

<b>Directors</b>	<b>Annual Board/ Committee Retainer (\$) <sup>2</sup></b>	<b>Board Meeting Fees (\$) <sup>2</sup></b>	<b>Committee Meeting Fees (\$) <sup>2</sup></b>	<b>Total Cash Compensation (\$) <sup>2</sup></b>	<b>Stock Received <sup>3</sup> (#)</b>
Lenox D. Baker, Jr., M.D.	\$ 45,102	\$ 26,000	\$ 2,250	\$ 73,352	3,780
Susan B. Bayh	\$ 45,102	\$ 29,000	\$ 8,250	\$ 82,352	3,780
Sheila P. Burke	\$ 45,102	\$ 23,000	\$ 9,750	\$ 77,852	3,780 <sup>4</sup>
William H.T. Bush	\$ 45,102	\$ 28,000	\$ 8,250	\$ 81,352	3,780
Julie A. Hill	\$ 45,102	\$ 27,000	\$ 10,200	\$ 82,302	3,780 <sup>4</sup>
Warren Y. Jobe	\$ 45,102	\$ 29,000	\$ 18,000	\$ 92,102	3,780
Victor S. Liss	\$ 69,477	\$ 29,000	\$ 19,500	\$ 139,655 <sup>5</sup>	3,780 <sup>4</sup>
William G. Mays	\$ 45,102	\$ 28,000	\$ 18,000	\$ 91,102 <sup>6</sup>	3,780 <sup>4</sup>
Ramiro G. Peru	\$ 45,102	\$ 27,000	\$ 18,000	\$ 90,102	3,780
Jane G. Pisano	\$ 45,102	\$ 29,000	\$ 12,450	\$ 86,552	3,780
Donald W. Riegler, Jr.	\$ 45,102	\$ 29,000	\$ 23,400	\$ 97,502 <sup>7</sup>	3,780 <sup>4</sup>
William J. Ryan	\$ 61,352	\$ 22,000	\$ 13,950	\$ 97,302	3,780
George A. Schaefer, Jr.	\$ 45,102	\$ 28,000	\$ 17,000	\$ 90,102	3,780
Jackie M. Ward	\$ 61,352	\$ 29,000	\$ 24,600	\$ 114,952 <sup>8</sup>	3,780 <sup>4</sup>
John E. Zuccotti <sup>9</sup>	\$	\$	\$	\$	

<sup>1</sup> Employee directors do not receive any compensation for their service as a director. Meeting fees include fees received for meetings held in 2005 even if not paid until 2006.

<sup>2</sup> In addition to annual board and committee chair retainer fees, includes \$51.60 paid in cash to each non-employee director, which represents the fractional share amount paid in connection with the annual grant of shares of Company Common Stock received on the date of the Company's annual meeting of shareholders. The amounts in this column do not include that portion of the annual Board retainer fee which was paid to each director in Company Common Stock. See Footnote 3 below.

<sup>3</sup> The numbers of shares of Common Stock in this column include (i) 88 shares of Company Common Stock paid to each director in the first quarter of 2005 in lieu of a cash payment for a \$4,950 portion of the annual Board retainer fee; and (ii) 3,692 shares of Company Common Stock for the annual grant of shares of Company Common Stock received on the date of the Company's annual meeting of shareholders, receipt of which was deferred pursuant to the Board Deferred Compensation Plan. See also Compensation of Non-Employee Directors Board Equity Compensation and Stock Ownership Guidelines. All numbers of shares of Common Stock shown in this column have been adjusted to reflect the May 31, 2005 two-for-one stock split, if applicable.

<sup>4</sup> The director also deferred receipt of the one-half of the annual retainer fees paid in Company Common Stock pursuant to the Board Deferred Compensation Plan.

<sup>5</sup> Includes \$21,678 paid to Mr. Liss pursuant to the Board Deferred Compensation Plan.

<sup>6</sup> All of Mr. Mays' 2005 compensation was deferred by him pursuant to the Board Deferred Compensation Plan.

<sup>7</sup> Of this amount, \$10,630 (\$4,550 in retainer fees, \$3,200 in Board meeting fees and \$2,880 in committee meeting fees) was deferred by Mr. Riegler pursuant to the Board Deferred Compensation Plan.

<sup>8</sup> All of Ms. Ward's 2005 compensation was deferred by her pursuant to the Board Deferred Compensation Plan.

<sup>9</sup> Became a member of the Company's Board of Directors on December 28, 2005, upon the acquisition of WellChoice, Inc. (WellChoice) by the Company and therefore received no compensation for serving as a director in 2005.

## **Table of Contents**

The compensation of our non-employee directors is paid in the form of an annual retainer, meeting and chair fees and stock-based awards. During 2005, with the exception of Mr. Zuccotti, each non-employee director received:

an annual retainer fee of \$50,000, paid in advance in four equal quarterly installments;

an additional annual retainer of \$15,000 for the chairperson of the Audit Committee, paid in advance;

an additional annual retainer of \$10,000 for the chairperson of the other committees, paid in advance;

a meeting fee of \$2,000 for attendance at each Board meeting held in person;

a meeting fee of \$1,000 for participation in each Board meeting held telephonically unless otherwise specified;

a meeting fee of \$2,000 for attendance at each Audit Committee meeting held in person;

a meeting fee of \$1,000 for participation in each Audit Committee meeting held telephonically unless otherwise specified;

a meeting fee of \$1,500 for attendance at each other committee meeting held in person;

a meeting fee of \$750 for participation in each other committee meeting held telephonically unless otherwise specified; and

an annual physical examination paid for by the Company.

In addition, all directors were reimbursed for expenses incurred in connection with attendance at and/or participation in any Board and committee meetings.

## **Board Deferred Compensation Plan**

Cash fees paid to directors may be deferred under the Board Deferred Compensation Plan, which provides a method of deferring payment until a date selected by the director. Cash fees deferred accrue interest at a declared interest rate, which is determined on January 1 of each year and is the average of the 10-year U.S. Treasury Note monthly average rates for the 12-month period ending on September 30 of the previous year, plus 150 basis points. Fees paid to directors in Company Common Stock may also be deferred under the Board Deferred Compensation Plan. Stock deferred under the Board Deferred Compensation Plan is distributed in stock.

## **Board Equity Compensation and Stock Ownership Guidelines**



As approved on February 2, 2005, each non-employee director receives, subject to the deferral described below, an annual grant, on the date of the Company's annual meeting of shareholders, of the number of shares of Common Stock equal to five times the annual Board retainer fee, based on the closing price of the Company's Common Stock as reported on the NYSE on the date of grant. In 2005, each then non-employee director received 3,692 shares based on the market price of \$67.70 per share pursuant to this grant (each of the number of shares and price per share have been adjusted to reflect the May 31, 2005 two-for-one stock split). In addition, each new non-employee director receives, on the date of the first annual shareholders' meeting held after his or her election and subject to the deferral described below, a grant of the number of shares of Common Stock equal to 2.5 times the annual Board retainer fee, based on the closing price of the Company's Common Stock as reported on the NYSE on the date of grant. Each such annual and initial grant of Common Stock is deferred for a minimum of five years from the date of grant, in accordance with the terms of the Board Deferred Compensation Plan. The shares of Common Stock will not be distributed to the directors until the earlier of the expiration of such deferral period or the date on which a director ceases to be a member of the Board of Directors.

In addition, each director has an obligation to own five times the annual Board retainer fee in Company Common Stock at the end of a five-year period commencing on the later of the date such director became a member of the Board or May 3, 2002. For 2005, the annual Board retainer fee was \$50,000, so the obligation for each director is to own \$250,000 in Company Common Stock by the applicable time.

## **Table of Contents**

### **2005 Payments to the Former Chairman of the Board**

#### **Amended and Restated Employment Agreement**

Leonard D. Schaeffer was appointed Chairman of the Board of Directors of the Company upon the consummation of the merger of WellPoint Health Networks Inc. ( WHN ) with the Company on November 30, 2004 and served in that capacity until he resigned as a director of the Company on November 29, 2005. Prior to the WHN merger, Mr. Schaeffer had entered into an Amended and Restated Employment Agreement effective as of December 31, 2002 with WHN, which was previously reported by WHN in a Current Report on Form 8-K filed on December 31, 2002. Pursuant to his employment agreement, Mr. Schaeffer served as Chairman of the Board and Chief Executive Officer of WHN.

As previously reported in a Current Report on Form 8-K filed by the Company on January 21, 2005, on January 19, 2005, Mr. Schaeffer and the Company agreed that effective January 31, 2005, Mr. Schaeffer's employment would terminate due to Mr. Schaeffer's constructive termination as defined in his employment agreement, and Mr. Schaeffer ceased to be an employee of WHN on such date. As previously disclosed, under Mr. Schaeffer's employment agreement, as a result of the WHN merger and Mr. Schaeffer's constructive termination, Mr. Schaeffer received a cash payment in the amount of \$50,586,000 as well as other non-cash interests and benefits. The cash payment amount consisted of (a) a Guaranteed Annual Bonus, (b) the cash portion of his Change in Control ( CIC ) Severance Benefits, and (c) an Additional SERP Amount (each as described in more detail below).

#### *Guaranteed Annual Bonus*

Under Mr. Schaeffer's employment agreement, he was entitled to a Guaranteed Annual Bonus for 2004. The Guaranteed Annual Bonus was defined as the greatest of (i) Mr. Schaeffer's target bonus for 2004; (ii) the average of the annual (or annualized) bonus paid to Mr. Schaeffer for 2002 and 2003; or (iii) the actual bonus for Mr. Schaeffer for 2004. The Guaranteed Annual Bonus for 2004 was \$5,864,000.

#### *CIC Severance Benefits*

Under his employment agreement, Mr. Schaeffer was entitled to the following severance benefits as a result of the WHN merger and his constructive termination: (i) earned but unpaid base salary through the date of termination and any accrued but unpaid vacation and any unpaid bonus for any fiscal year that ended on or before the date of termination; (ii) a prorated portion of any bonus that he would otherwise have received for the year of termination; (iii) a cash payment equal to three times the sum of Mr. Schaeffer's base salary and the Plan Bonus ( Plan Bonus was an amount equal to (A) Mr. Schaeffer's base salary multiplied by (B) the highest target bonus percentage during the period beginning five years before the announcement of the WHN merger and ending immediately before termination of employment, or the date of the WHN merger, if earlier, multiplied by (C) the greater of (1) 100% or (2) the highest average percentage, for the two consecutive fiscal years within the same five-year period defined in clause (B) that Mr. Schaeffer's actual annual bonus represents of his base salary for such fiscal year); (iv) continuation for 48 months of (a) medical and dental coverage for Mr. Schaeffer and his family, (b) life insurance in an amount equal to three times his base salary, (c) long term disability insurance in an amount equal to one time his base salary, (d) continued participation in other retirement and deferred compensation plans, and (e) three memberships in luncheon, professional or athletic clubs; (v) outplacement services; (vi) additional service credit that increased vesting service credit to five years, three additional years of service credit and three additional years of age credit for purposes of calculating benefits under the Amended and Restated Special Executive Retirement Plan effective as of December 31, 2002 (the Schaeffer SERP ); (vii) either a lump sum payment or a special contribution to WHN's deferred compensation plan equal to the sum of the additional annuity credits and matching contributions to which Mr. Schaeffer would have been entitled under WHN's cash balance pension, 401(k) and deferred compensation plans had he remained employed with WHN for three additional years and assuming that the

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amount payable to Mr. Schaeffer under subsection (iii) above was payable over such three-year period and treated as eligible compensation under such plans;

## **Table of Contents**

(viii) transfer to Mr. Schaeffer of full title and ownership of the automobile then being leased for Mr. Schaeffer; (ix) financial counseling benefits for the five calendar years following the year of termination; (x) office space and clerical support staff for a period of five years following termination of his position as Chairman of the Board of the Company (reflected in the Letter of Agreement, dated July 22, 2005, between the Company and Mr. Schaeffer); and (xi) immediate vesting of all outstanding unvested options and any other equity grants.

As of January 31, 2005, Mr. Schaeffer had unvested stock options to purchase 1,143,608 shares of the Company's Common Stock and 71,750 shares of restricted stock (each as adjusted for the May 31, 2005 two-for-one stock split), all of which vested effective January 31, 2005 as a result of the constructive termination. Mr. Schaeffer agreed not to exercise any options which vested as a result of the constructive termination except in accordance with the original vesting schedule for such options.

Mr. Schaeffer was also entitled to receive an excise tax gross-up if payments under his employment agreement, alone or together with other compensation, would subject him to an excise tax for excess parachute payments under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Tax Code"); however, the Company determined that Mr. Schaeffer was not subject to an excise tax. The cash portion of the CIC Severance Benefits (including the amounts determined under (ii), (iii) and (vii) above) was equal to approximately \$34,100,000.

### *Additional SERP Severance Benefit*

Mr. Schaeffer was a participant in the Schaeffer SERP, which provided certain supplemental retirement benefits to Mr. Schaeffer. As previously disclosed and as described above under "CIC Severance Benefits," Mr. Schaeffer was entitled to five additional years of vesting service credit, three additional years of service credit and three additional years of age credit for purposes of calculating benefits under the Schaeffer SERP. The lump sum cash value of the additional SERP benefits resulting from the additional vesting service and service and age credits described above was in the aggregate amount of \$10,622,000 (the "Additional SERP Amount"). The Additional SERP Amount was in addition to the present value of the retirement benefit which Mr. Schaeffer accrued by reason of his actual service and attained age through January 31, 2005.

### *Elections Regarding Deferred Compensation Plans and Schaeffer SERP Balances*

Mr. Schaeffer was a participant in certain deferred compensation plans maintained by the Company or its subsidiaries, including but not limited to the WellPoint Health Comprehensive Executive Non-Qualified Retirement Plan (the "Predecessor Plan") and the successor 2005 Comprehensive Executive Non-Qualified Retirement Plan (the "2005 Non-Qualified Plan"). As described on page 51 of this Proxy Statement, the 2005 Non-Qualified Plan was available for executives and other select highly compensated employees of WHN and its subsidiaries and generally mirrored the provision of the frozen Predecessor Plan except for revisions that were necessary to comply with the new Section 409A of the Tax Code.

Notice 2005-1 under Section 409A of the Tax Code provides certain transition relief with respect to funds deferred (or deemed deferred) in 2005 under non-qualified deferred compensation plans such as the 2005 Non-Qualified Plan and with respect to other non-qualified deferred compensation plans such as the Schaeffer SERP and the Predecessor Plan, including but not limited to the right of a participant to terminate his or her participation in such plans, with the consent of the employer, and receive an immediate lump sum distribution of his or her deferred account balance or accrued benefit thereunder and the right of an employer to terminate a deferred compensation plan.

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As previously reported, on January 31, 2005, Mr. Schaeffer's participation in all deferred compensation plans with the Company and its subsidiaries, including the Predecessor Plan, the 2005 Non-Qualified Plan and the Schaeffer SERP, terminated and he received a lump sum distribution of his aggregate account balance under the Predecessor Plan, the 2005 Non-Qualified Plan and the present value of his accrued benefit under the

## **Table of Contents**

Schaeffer SERP in the aggregate amount of \$68,455,000, exclusive of the Additional SERP Amount attributable to the age and service credits provided to him under such plan as part of his CIC Severance Benefits discussed above. The cash payment amount consisted of (a) the combined Predecessor Plan and 2005 Non-Qualified Plan balance at January 31, 2005 in the amount of \$31,161,000, and (b) the Schaeffer SERP Balance as of January 31, 2005, exclusive of Additional SERP Amount attributable to age and service credits provided as part of his CIC Severance Benefits in the amount of \$37,294,000.

## **Other 2005 Compensation and Benefits**

For his service as Chairman of the Board of the Company from January 1, 2005 through November 29, 2005, Mr. Schaeffer received an annual retainer of \$300,000, paid in advance. In addition, Mr. Schaeffer received (i) an annual retainer of \$15,000, paid in advance, for service as Chairman of the Executive Committee; (ii) fees of \$28,000 for attendance at Board meetings; (iii) fees of \$5,250 for attendance at Executive Committee meetings and Planning Committee meetings; (iv) an annual grant of 3,692 shares of Company Common Stock (adjusted to reflect the May 31, 2005 two-for-one stock split) received on the date of the annual shareholders' meeting, as well as \$51.60 in cash representing the fractional share amount paid in connection with the annual grant; and (v) reimbursement for expenses incurred in connection with his performance of his responsibilities as Chairman.

In addition to the amounts that Mr. Schaeffer received in connection with his constructive termination as an employee of WHN as described above and in addition to amounts Mr. Schaeffer received as Chairman of the Board of the Company also as described above, Mr. Schaeffer received the following amounts and benefits from the Company in 2005: (i) salary and holiday pay of \$138,463 for the period in 2005 during which he was an employee of WHN (January 1, 2005 through January 31, 2005); (ii) \$287,576 for the balance of his paid time off credits at the time of his termination as an employee of WHN; (iii) \$50,655 in insurance premiums paid by the Company for medical and dental insurance for Mr. Schaeffer and his family and long-term disability and life insurance for Mr. Schaeffer; and (iv) \$71,665 in other benefits paid by the Company including an automobile allowance, club membership fees, financial consulting and legal services and tax gross-up payments relating to the financial consulting and legal services.

As stated above, Mr. Schaeffer was entitled to office space and clerical support during his service as Chairman of the Board of the Company, and will be entitled to office space and clerical support for a term of five years following his termination as Chairman. On July 22, 2005, the Company entered into a lease for space at a location selected by the Company, after consultation with Mr. Schaeffer, to provide such office space for the required period. The lease commenced on November 1, 2005 and continues for Mr. Schaeffer's use for a term ending on November 29, 2010, at an initial annual rent of \$186,507 per year plus parking charges of \$6,000 per year. In addition, the Company incurred a one-time cost associated with the build-out of the space of \$240,000.

During 2005, Mr. Schaeffer also utilized for personal travel the corporate aircraft that the Company leases. The incremental cost to the Company of Mr. Schaeffer's personal use of the aircraft in 2005 was \$68,852. For Mr. Schaeffer's flights on the Company's leased aircraft, incremental cost to the Company was calculated based on the cost-per-flight-hour charge specified in the lease agreement, plus the cost of fuel, an international positioning charge (if applicable), a charge for additional passengers and related taxes.

## **SECURITY OWNERSHIP OF**

### **CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The following table sets forth as of January 31, 2006, the number of shares of Common Stock of the Company beneficially owned by:

each of the Company's directors,

each of the Company's CEO and four other most highly compensated executive officers, based on salary and bonus earned during 2005 (together with the CEO, the Named Executive Officers ),

**Table of Contents**

all directors and executive officers as a group, and

each person known by the Company to own beneficially more than five percent of the Company's Common Stock.

Except as otherwise indicated below, each individual owns such shares of Common Stock directly with sole investment and sole voting power. The number of shares shown below reflect the May 31, 2005 two-for-one stock split.

<u>Name</u>	<u>Position</u>	<u>Number of Shares Owned</u>	<u>Number of Shares Supplementally Owned<sup>1</sup></u>	<u>Total Number of Shares Beneficially Owned</u>	<u>Percent of Class  (if more than 1%)</u>
Larry C. Glasscock	Chairman of the Board, President and Chief Executive Officer	1,127,020 <sup>2</sup>	282,188	1,409,208 <sup>2</sup>	*
Lenox D. Baker, Jr.	Director	117,209 <sup>3</sup>	3,692	120,901 <sup>3</sup>	*
Susan B. Bayh	Director	21,431 <sup>4</sup>	3,692	25,123 <sup>4</sup>	*
Sheila P. Burke	Director	115,110 <sup>5</sup>	3,780	118,890 <sup>5</sup>	*
William H.T. Bush	Director	83,182 <sup>6</sup>	3,692	86,874 <sup>6</sup>	*
Julie A. Hill	Director	109,136 <sup>7</sup>	3,780	112,916 <sup>7</sup>	*
Warren Y. Jobe	Director	47,070 <sup>8</sup>	3,692	50,762 <sup>8</sup>	*
Victor S. Liss	Director	24,211 <sup>9</sup>	4,244	28,455 <sup>9</sup>	*
William G. Mays	Director	44,411 <sup>10</sup>	4,244	48,655 <sup>10</sup>	*
Ramiro G. Peru	Director	39,374 <sup>11</sup>	3,692	43,066 <sup>11</sup>	*
Jane G. Pisano	Director	63,118 <sup>12</sup>	3,692	66,810 <sup>12</sup>	*
Senator Donald W. Riegle, Jr.	Director	29,411 <sup>13</sup>	4,244	33,655 <sup>13</sup>	*
William J. Ryan	Director	46,763 <sup>14</sup>	3,692	50,455 <sup>14</sup>	*
George A. Schaefer, Jr.	Director	44,763 <sup>15</sup>	3,692	48,455 <sup>15</sup>	*
Jackie M. Ward	Director	86,183 <sup>16</sup>	4,244	90,427 <sup>16</sup>	*
John E. Zuccotti	Director	7,866 <sup>17</sup>		7,866 <sup>17</sup>	*
David C. Colby	Executive Vice President and Chief Financial Officer	2,139,249 <sup>18</sup>	83,320	2,222,569 <sup>18</sup>	*
Keith R. Faller	President and CEO Central Region and Corporate Executive Vice President	102,975 <sup>19</sup>	131,374	234,349 <sup>19</sup>	*
Joan E. Herman	President and CEO Specialty, Senior and State Sponsored Business and Corporate Executive Vice President	505,016 <sup>20</sup>	69,570	574,586 <sup>20</sup>	*
John S. Watts, Jr.	President and CEO National Accounts Strategic Business Unit and Corporate Executive Vice President	195,844 <sup>21</sup>	69,570	265,414 <sup>21</sup>	*
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071 <sup>22</sup>		35,564,800	N/A	35,564,800	5.4%
AXA Financial, Inc. 1290 Avenue of the Americas New York, New York 10104 <sup>23</sup>		37,429,395	N/A	37,429,395	6.1%
All directors and executive officers as a group (30 persons)		7,170,011 <sup>24</sup>	1,278,522	8,448,533 <sup>24</sup>	1.3%



## Table of Contents

- \* Less than 1%
- 1 For Named Executive Officers this number represents shares of restricted stock that had not yet vested as of January 31, 2006. The Named Executive Officers have voting but not investment power over the shares of restricted stock shown as supplementally owned by them. For directors and other executive officers this number represents unvested restricted stock and/or stock compensation deferred by the individual pursuant to deferred compensation plans. The directors and officers do not have voting or investment power over the shares of Company Common Stock deferred.
- 2 Includes currently exercisable options to purchase 866,665 shares of Company Common Stock. Excludes 133,334 shares of Company Common Stock underlying options that vested upon the merger with WHN, but as to which the individual has voluntarily agreed not to exercise prior to the time the related options would have become exercisable in accordance with their original vesting schedules.
- 3 Includes currently exercisable options to purchase 33,333 shares of Company Common Stock.
- 4 Includes currently exercisable options to purchase 20,001 shares of Company Common Stock.
- 5 Includes currently exercisable options to purchase 89,280 shares of Company Common Stock.
- 6 Includes currently exercisable options to purchase 67,936 shares of Company Common Stock.
- 7 Includes currently exercisable options to purchase 57,828 shares of Company Common Stock.
- 8 Includes currently exercisable options to purchase 40,952 shares of Company Common Stock.
- 9 Includes currently exercisable options to purchase 23,333 shares of Company Common Stock.
- 10 Includes currently exercisable options to purchase 43,333 shares of Company Common Stock.
- 11 Includes currently exercisable options to purchase 14,107 shares of Company Common Stock.
- 12 Includes currently exercisable options to purchase 34,136 shares of Company Common Stock.
- 13 Includes currently exercisable options to purchase 28,333 shares of Company Common Stock.
- 14 Includes currently exercisable options to purchase 43,333 shares of Company Common Stock.
- 15 Includes currently exercisable options to purchase 43,333 shares of Company Common Stock.
- 16 Includes currently exercisable options to purchase 33,333 shares of Company Common Stock.
- 17 Includes currently exercisable options to purchase 2,695 shares of Company Common Stock.
- 18 Includes currently exercisable options to purchase 1,870,550 shares of Company Common Stock and 1,822 shares held in Mr. Colby's 401(k) Plan account. Excludes 69,440 shares of Company Common Stock underlying options that vested upon the merger with WHN, but as to which the individual has voluntarily agreed not to exercise prior to the time the related options would have become exercisable in accordance with their original vesting schedules.
- 19 Includes currently exercisable options to purchase 58,332 shares of Company Common Stock and 3,155 shares held in Mr. Faller's 401(k) Plan account. Excludes 26,667 shares of Company Common Stock underlying options that vested upon the merger with WHN, but as to which the individual has voluntarily agreed not to exercise prior to the time the related options would have become exercisable in accordance with their original vesting schedules.
- 20 Includes currently exercisable options to purchase 376,907 shares of Company Common Stock and 128,109 shares held by the Herman-Rasiej Trust, of which Ms. Herman is a co-trustee and beneficiary. Excludes 52,906 shares of Company Common Stock underlying options that vested upon the merger with WHN, but as to which the individual has voluntarily agreed not to exercise prior to the time the related options would have become exercisable in accordance with their original vesting schedules.
- 21 Includes currently exercisable options to purchase 148,108 shares of Company Common Stock. Excludes 52,906 shares of Company Common Stock underlying options that vested upon the merger with WHN, but as to which the individual has voluntarily agreed not to exercise prior to the time the related options would have become exercisable in accordance with their original vesting schedules.
- 22 The amount shown and the following information was provided by Capital Research and Management Company pursuant to a Schedule 13G/A filed with the Securities and Exchange Commission on February 10, 2006, indicating beneficial ownership as of December 31, 2005. Capital Research and

## **Table of Contents**

- Management Company is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940 and has indicated that it has sole dispositive power with respect to, and is deemed to be the beneficial owner of, the Company's Common Stock as a result of acting as an investment adviser to various investment companies.
- 23 The amount shown and the following information was provided by AXA Financial, Inc. and certain of its affiliates pursuant to a Schedule 13G filed with the Securities and Exchange Commission on February 14, 2006, indicating beneficial ownership as of December 31, 2005. The shares listed include (i) 3,946 shares beneficially owned by AXA Investment Managers Paris (France); (ii) 20,222 shares beneficially owned by AXA Investment Managers Den Haag; (iii) 178,013 shares beneficially owned by AXA Rosenberg Investment Management LLC; (iv) 36,560,777 shares beneficially owned by Alliance Capital Management L.P.; and (v) 666,437 shares beneficially owned by AXA Equitable Life Insurance Company. AXA Financial, Inc. has sole voting power with respect to 25,961,585 shares and sole dispositive power with respect to 37,420,284 shares.
- 24 Includes currently exercisable options to purchase 5,691,420 shares of Company Common Stock. Excludes 510,961 shares of Company Common Stock underlying options that vested upon the merger with WHN, but as to which the individuals have voluntarily agreed not to exercise prior to the time the related options would have become exercisable in accordance with their original vesting schedules.

Under the Indiana demutualization law, for a period of five years following the effective date of the Anthem Insurance Companies, Inc. (Anthem Insurance) demutualization, no person may acquire beneficial ownership of 5% or more of the outstanding shares of the Company's Common Stock without the prior approval of the Indiana Insurance Commissioner and the Board. The effective date of Anthem Insurance's demutualization was November 2, 2001. The Indiana Insurance Commissioner has adopted rules under which, during this five year period, passive institutional investors could purchase 5% or more but less than 10% of the Company's outstanding Common Stock with the prior approval of the Board and prior notice to the Indiana Insurance Commissioner. The Board has granted prior approval to and provided prior notice to the Indiana Insurance Commissioner of such approval for Capital Research and Management Company and AXA Financial, Inc. to own 5% or more of the outstanding shares of the Company's Common Stock as disclosed above, and previously granted such approval and provided such notice for another passive institutional investor that did own, but no longer owns, 5% or more of the outstanding shares of the Company's Common Stock. In addition, the Board has granted prior approval to and provided prior notice of such approval to the Indiana Insurance Commissioner for one other passive institutional investor to own 5% or more of the outstanding shares of the Company's Common Stock, but the Company is not aware that such investor has reached that level of ownership.

## **PROPOSAL NO. 1**

### **ELECTION OF DIRECTORS**

The Board currently consists of 16 directors divided into three classes, with two classes containing five directors each and one class containing six directors. The term of one class of directors expires each year. Generally, each director serves until the Annual Meeting of Shareholders held in the year that is three years after such director's election and until such director's successor is elected and has qualified.

Five directors are to be elected at the Annual Meeting, each to hold office for a term to expire at the 2009 Annual Meeting of Shareholders and until his or her successor is elected and qualified. It is the intention of the persons named in the accompanying form of proxy to vote such proxy for the election to the Board of Lenox D. Baker, Jr., M.D., Susan B. Bayh, Larry C. Glasscock, Julie A. Hill and Ramiro G. Peru. Each of the nominees for director is presently a director, has consented to being named as a nominee in this Proxy Statement and has indicated a willingness to serve if elected. However, if any such person is unable or unwilling to accept nomination or election, it is the intention of the persons named in the accompanying form of proxy to nominate such other person as director as they may in their discretion determine, in which event the shares will be voted for such other person.

## **Table of Contents**

### **Vote Required**

Election of directors will be determined by the vote of a plurality of the votes cast on such election.

### **Recommendation**

THE BOARD RECOMMENDS THAT SHAREHOLDERS VOTE FOR RE-ELECTION AS DIRECTORS OF LENOX D. BAKER, JR., M.D., SUSAN B. BAYH, LARRY C. GLASSCOCK, JULIE A. HILL AND RAMIRO G. PERU.

Unless otherwise indicated below, the principal occupation of each director or nominee has been the same for the last five years. There is no family relationship between any of the directors or executive officers of the Company. The ages listed below for each director or nominee are as of April 1, 2006.

### **NOMINEES FOR DIRECTOR**

#### **Three-year term to expire at the Annual Meeting of Shareholders in 2009**

**Lenox D. Baker, Jr., M.D.**, age 64, has been a director of the Company since 2002 and a director of Anthem Insurance from 2002 to May 2003. Dr. Baker had served on the former Trigon Healthcare, Inc. Board of Directors from 1985 until its merger with the Company in July 2002. He is a cardiac and thoracic surgeon, and has been President of the Mid-Atlantic Cardiothoracic Surgeons, Ltd. since 1979. Dr. Baker is a trustee of Johns Hopkins University and a member of the Board of Trustees of Johns Hopkins Medicine (which includes Johns Hopkins Hospital and Health System), as well as serving on the Board of Trustees of Episcopal High School and Hermitage Foundation Museum.

**Susan B. Bayh**, age 46, has been a director of the Company since 2001 and a director of Anthem Insurance from 1998 to May 2003. Mrs. Bayh was a Distinguished Visiting Professor in the College of Business Administration at Butler University from 1994 until 2004. She was a member of the International Joint Commission between the United States and Canada from 1994 to 2001. Mrs. Bayh is a director of Dendreon Corporation (biotechnology), Curis, Inc. (biomedical), Emmis Communications Corporation (telecommunications), Natestch Pharmaceutical Company Inc. (biopharmaceutical company) and Dyax Corporation (biopharmaceutical company).

**Larry C. Glasscock**, age 57, has served as Chairman of the Board of Directors of the Company since November 2005, as President and Chief Executive Officer and as a director of the Company since 2001 and as President and Chief Executive Officer and a director of Anthem Insurance since 1999. He joined Anthem Insurance in April 1998 as Senior Executive Vice President and Chief Operating Officer. He was named President and Chief Operating Officer in April 1999 and succeeded L. Ben Lytle as Chief Executive Officer upon Mr. Lytle's retirement in October 1999. Mr. Glasscock also served as the Chairman of the Board of the Company from May 2003 until the WHN merger in November 2004. Prior to joining Anthem Insurance, Mr. Glasscock served as Chief Operating Officer of CareFirst, Inc. (not-for-profit health benefits company) from January 1998 to April 1998. Mr. Glasscock was President and Chief Executive Officer of Group Hospitalization and Medical Services, Inc., which did business as Blue Cross Blue Shield of the National Capital Area, from 1993 to January 1998 and oversaw its affiliation

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with Blue Cross Blue Shield of Maryland. Prior to moving to the health insurance industry, he served as President and Chief Operating Officer and a director of First American Bank, N.A. (Washington, DC) from 1991 until 1993 when the bank was sold. During 1991, Mr. Glasscock was President and Chief Executive Officer of Essex Holdings, Inc. (an Ohio-based capital investment firm). He also held various executive positions during his twenty-year tenure with Ameritrust Corporation (a Cleveland, Ohio bank holding company). Mr. Glasscock is a director of Zimmer Holdings, Inc. (orthopaedic industry).

**Julie A. Hill**, age 59, has been a director of the Company since November 2004. Ms. Hill served on the former WHN Board of Directors from March 1994 until WHN's merger with the Company in November 2004.

## **Table of Contents**

Ms. Hill has been an independent business consultant since December 2003. Since December 2002, she has been the owner of the Hill Companies. From December 1998 to December 2002, Ms. Hill was the President and owner of Hiram-Hill Development Company (residential real estate development firm). Ms. Hill was President and Chief Executive Officer of Costain Homes Inc. (home builder) ( Costain ) from January 1991 until November 1998. During 1998, Ms. Hill also served as Chairperson of the Board of Costain. Ms. Hill is also a director of Resources Connection, Inc. (professional services), Lord Abbett Family of Mutual Funds (mutual funds) and Holcim (US), Inc. (construction materials supplier).

**Ramiro G. Peru**, age 50, has been a director of the Company since November 2004. Mr. Peru served on the former WHN Board of Directors from May 2003 until WHN's merger with the Company in November 2004. Mr. Peru is Executive Vice President and Chief Financial Officer of Phelps Dodge Corporation (mining and manufacturing) ( Phelps Dodge ). Mr. Peru joined Phelps Dodge in 1979 and has held various finance and accounting positions with Phelps Dodge and its affiliates. Mr. Peru is currently a member of the National Board of Advisors for the Eller Graduate School of Management at the University of Arizona and a member of the Board of Directors of the University of Arizona Foundation.

## **DIRECTORS CONTINUING IN OFFICE**

### **Term expiring at the Annual Meeting of Shareholders in 2007**

**Sheila P. Burke**, age 55, has been a director of the Company since November 2004. Ms. Burke served on the former WHN Board of Directors from April 1997 until WHN's merger with the Company in November 2004. Ms. Burke currently is the Smithsonian Institution Deputy Secretary and Chief Operating Officer. She joined the Smithsonian Institution in July 2000, as the Undersecretary for American Museums and National Programs. Ms. Burke is an adjunct faculty member of Georgetown University Public Policy Institute, serves as an adjunct lecturer at the John F. Kennedy School of Government at Harvard University and is a fellow of the school's Malcolm Wiener Center for Social Policy. From December 1996 until July 2000, Ms. Burke served as an Executive Dean and lecturer on public policy at the John F. Kennedy School of Government, Harvard University. Ms. Burke served as the chief of staff to former Senate Majority Leader Bob Dole from 1986 to 1996 and was elected to serve as secretary of the Senate in 1995. Ms. Burke served as deputy chief of staff to the Senate Majority Leader from 1985 to 1986, as deputy staff director of the Senate Committee on Finance from 1982 to 1985, and as a professional staff member of the committee from 1979 to 1982. Ms. Burke currently serves as a member of the board of trustees of the University of San Francisco and the American Board of Internal Medicine Foundation and serves as a member of the board of the Kaiser Family Foundation, Palo Alto, California. She is a member of the Medicare Payment Advisory Commission (MedPAC); the Kaiser Commission on the Future of Medicaid and Uninsured, Washington, D.C.; the National Advisory Council at the Center for State Health Policy; and the Institute of Medicine. She also serves on a number of corporate boards, including The Chubb Corporation (property and casualty insurance).

**Victor S. Liss**, age 69, has been a director of the Company since 2001 and a director of Anthem Insurance from 1997 to May 2003. He was President, Chief Executive Officer, and Vice Chairman of Trans-Lux Corporation (electronics) from 1992 until his retirement in April 2002. Mr. Liss continues to serve as Vice Chairman and a director of Trans-Lux Corporation and is a director of Honey Hill Care Center (nursing care facility), an advisory board member of Sacred Heart University and is Chairman of the Trustees of Norwalk Hospital in Norwalk, Connecticut. He is a certified public accountant and a member of the American Institute of Certified Public Accountants and the Connecticut and New York state CPA societies.

**Jane G. Pisano, Ph.D.**, age 61, has been a director of the Company since November 2004. Dr. Pisano served on the former WHN Board of Directors from June 2002 until WHN's merger with the Company in November 2004. Since November 2001, Dr. Pisano has been President and Director of The Natural History Museum of Los Angeles County. From 1998 until November 2001, she was the Senior Vice President, External Relations of the University of Southern California. From 1994 to 1998, she served as the Vice President, External



## **Table of Contents**

Relations of the University of Southern California and, from 1991 until 1998, she was the Dean of the University of Southern California's School of Public Administration. From 1986 to 1991, she was President, Los Angeles 2000 Committee and The 2000 Partnership. Dr. Pisano serves as past Chair of the Board of Directors of the California Community Foundation. She also serves as the President of the John Randolph Haynes and Dora Haynes Foundation.

**George A. Schaefer, Jr.**, age 60, has been a director of the Company since 2001 and a director of Anthem Insurance from 1995 to May 2003. He has been President and Chief Executive Officer of Fifth Third Bancorp since 1990. Mr. Schaefer is a director of Fifth Third Bancorp, Kenton County Airport and Ashland, Inc. (petroleum and chemical business) and is a trustee of the Greater Cincinnati Chamber of Commerce, the Cincinnati Institute of Fine Arts and the Health Alliance of Greater Cincinnati.

**Jackie M. Ward**, age 67, has been a director of the Company since 2002 and a director of Anthem Insurance from 2002 to May 2003. Ms. Ward had served on the former Trigon Healthcare, Inc. Board of Directors from 1993 until its merger with the Company in July 2002. She was a founder and served as President, Chief Executive Officer and Chairman of Atlanta-based Computer Generation Incorporated (software developer) (CGI) from 1970 to 2000. Since December 2000, Ms. Ward has served as outside managing director of Intec Telecom Systems PLC (telecom software), which purchased CGI. Ms. Ward is a director of Bank of America Corporation, Equifax, Inc. (information management), Flowers Foods, Inc. (distribution), Sanmina-SCI Corporation (electronics manufacturing services) and SYSCO Corporation (distribution).

**John E. Zuccotti**, age 68, has been a director of the Company since December 2005. Mr. Zuccotti served on the former WellChoice Board of Directors from August 2002 until WellChoice's acquisition by the Company in December 2005. Mr. Zuccotti also served as a director of Empire HealthChoice, Inc., an affiliate of WellChoice, from October 1999 until November 2002. Mr. Zuccotti has been Chairman of Brookfield Financial Properties, a real estate development company, since 1997. Since 1998, Mr. Zuccotti has also been of Counsel in the real estate department of Weil, Gotshal & Manges LLP. Mr. Zuccotti serves on the boards of seven of the Dreyfus funds of the Dreyfus Investment Corporation. He also serves on the Doris Duke Foundation.

### **Term expiring at the Annual Meeting of Shareholders in 2008**

**William H.T. Bush**, age 67, has been a director of the Company since November 2004. Mr. Bush served on the former WHN Board of Directors from January 2002 until WHN's merger with the Company in November 2004. Mr. Bush had been elected a director of WHN upon completion of its merger with RightCHOICE Managed Care, Inc. (RightCHOICE), where Mr. Bush had served as a director from April 1994 to January 2002. He served on the Blue Cross and Blue Shield of Missouri board of directors from 1989 to 1994 and as Secretary of the Blue Cross and Blue Shield of Missouri board of directors from 1990 to 1994. Mr. Bush is the Chairman of Bush-O'Donnell & Company, Inc. of St. Louis (an investment management and financial advisory firm), which he founded in 1986. Prior to 1986, Mr. Bush served as President and as a director of The Boatmen's National Bank of St. Louis. Mr. Bush is a director of Martiz, Inc. (performance improvement, travel and management research), and the Lord Abbett Family of Mutual Funds (mutual funds).

**Warren Y. Jobe**, age 65, has been a director of the Company since November 2004. Mr. Jobe served on the former WHN Board of Directors from March 2001 until WHN's merger with the Company in November 2004. Mr. Jobe had been elected a director of WHN upon completion of its merger with Cerulean Companies, Inc. (Cerulean) in 2001. Mr. Jobe served as a director of Cerulean and Blue Cross and Blue Shield of Georgia, Inc. from April 1999 to March 2001. He is retired. Mr. Jobe was Senior Vice President of Southern Company responsible for Corporate Development from 1998 until 2001. During such time, Mr. Jobe also was Executive Vice President of Georgia Power Company. Mr. Jobe was Executive Vice President and Chief Financial Officer of Georgia Power Company from 1982 to 1998, during which time he was also a member of its Board of Directors. Mr. Jobe is a director of UniSource Energy Corporation (electric services holding company) and HomeBanc, Corp. (residential mortgage company) and is trustee of STI Classic Funds (mutual funds). He is a certified public accountant and a member of the American Institute of Certified Public Accountants.





## **Table of Contents**

**William G. Mays**, age 60, has been a director of the Company since 2001 and a director of Anthem Insurance from 1993 to May 2003. He has been President and Chief Executive Officer of Mays Chemical Company, Inc. (chemical distribution) since 1980. Mr. Mays is a director of Vectren Corporation (gas and electric utility), First Indiana Corporation (bank holding company), United Way of Central Indiana, the Indianapolis Art Museum, the Indiana University Foundation, the Indianapolis Chamber of Commerce, Central Indiana Corporate Partnership, the Chemical Education Foundation, the Indianapolis Convention and Visitors Association and the National Minority Supplier Development Council.

**Senator Donald W. Riegle, Jr.**, age 68, has been a director of the Company since 2001 and a director of Anthem Insurance from 1999 to May 2003. In April 2001, he joined APCO Worldwide (communications consulting) as Chairman of APCO Government Affairs. From 1995 to 2001, he was Deputy Chairman of Shandwick International (global communications). He served in the U.S. Senate from 1976 through 1994 and in the U.S. House of Representatives from 1967 through 1975. Senator Riegle is a director of Rx Optical (eye care and visual products) and Stillwater Mining Company (mining company).

**William J. Ryan**, age 62, has been a director of the Company since 2001 and a director of Anthem Insurance from 2000 to May 2003. He has served as Chairman, President and Chief Executive Officer of TD Banknorth Inc. since 1990. Mr. Ryan is a director of UnumProvident Corporation (life, long-term care and supplemental insurance company) and also serves as a trustee of Colby College and the Libra Foundation. Mr. Ryan is also on the board of advisors at the University of New England. He served as Chairman of the Board of the former Blue Cross Blue Shield of Maine.

## **PROPOSAL NO. 2**

### **APPROVAL OF THE WELLPOINT 2006 INCENTIVE COMPENSATION PLAN**

The Company currently provides stock-based compensation under the Anthem 2001 Stock Incentive Plan as amended and restated on January 1, 2003 (the 2001 Stock Plan) to employees, non-employee directors and consultants. As of March 15, 2006, there were 8,989,708 shares of Company Common Stock remaining available for future grants under the 2001 Stock Plan. As of that date, there were 20,570,222 shares of Company Common Stock subject to outstanding options and 3,485,187 shares of restricted stock that were issued and outstanding, but subject to forfeiture, under the 2001 Stock Plan.

The Board of Directors believes that the 2001 Stock Plan has contributed significantly to the success of the Company by enabling the Company to attract and retain the services of employees, including executive officers, directors and consultants of outstanding ability. Because the success of the Company is largely dependent upon the judgment, interest and special efforts of these employees, directors and consultants, the Company wants to continue to provide stock-based incentive awards to recruit, motivate and retain these individuals. Accordingly, on March 15, 2006, the Board of Directors adopted, subject to shareholder approval, the WellPoint 2006 Incentive Compensation Plan (the 2006 Incentive Plan).

The 2006 Incentive Plan is intended to promote the long-term success of the Company and increase shareholder value by attracting, motivating, and retaining non-employee directors, officers, employees and consultants of the Company and its subsidiaries and affiliates. To achieve this purpose, the 2006 Incentive Plan allows the flexibility to grant or award stock options, stock appreciation rights (SARs), restricted stock awards, restricted stock units, performance unit awards, performance share awards, cash-based awards and other stock-based awards to eligible persons.

The 2006 Incentive Plan would allow the Company to grant these stock-based incentive awards to employees, non-employee directors and consultants covering a total of up to 20,000,000 shares of Company Common Stock, plus (i) 7,000,000 shares of Company Common Stock

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available for issuance under the 2001 Stock Plan, as previously approved by the Company's shareholders, but not underlying any outstanding options

## **Table of Contents**

or other awards under the 2001 Stock Plan, and (ii) any additional shares of Company Common Stock subject to outstanding options or other awards under the 2001 Stock Plan that expire, are forfeited or otherwise terminate unexercised on or after March 15, 2006, less the number of shares of Company Common Stock subject to options or other awards that may be granted under the 2001 Stock Plan between March 15, 2006 and the date of the Annual Meeting. No awards have been made under the 2006 Incentive Plan. If the 2006 Incentive Plan is approved by the shareholders, no additional grants or awards will be made under 2001 Stock Plan in the future, but the awards outstanding under the 2001 Stock Plan will remain in effect in accordance with their terms.

The principal features of the 2006 Incentive Plan are summarized in this proxy statement. Shareholders should read the 2006 Incentive Plan for a full statement of its legal terms and conditions. Appendix VIII to this proxy statement contains the full text of the 2006 Incentive Plan as proposed to be approved by the shareholders.

## **Administration**

The Compensation Committee will have discretionary authority to operate, manage and administer the 2006 Incentive Plan in accordance with its terms. The Compensation Committee will determine the non-employee directors, employees and consultants who will be granted awards under the 2006 Incentive Plan, the size and types of awards, the terms and conditions of awards and the form and content of the award agreements representing awards. The Compensation Committee will be authorized to establish, administer and waive terms, conditions and performance goals of outstanding awards and to accelerate the vesting or exercisability of awards, in each case, subject to limitations contained in the 2006 Incentive Plan. The Compensation Committee will interpret the 2006 Incentive Plan and award agreements and will have authority to correct any defects, supply any omissions and reconcile any inconsistencies in the 2006 Incentive Plan and/or any award agreements. The Compensation Committee's decisions and actions concerning the 2006 Incentive Plan will be final and conclusive. Within the limitations of the 2006 Incentive Plan and applicable law, the Compensation Committee may delegate its responsibilities under the 2006 Incentive Plan to persons selected by it, and the Board of Directors will be permitted to exercise all of the Compensation Committee's powers under the 2006 Incentive Plan.

The Compensation Committee is comprised of at least three members of the Board of Directors, each of whom is selected by the Board of Directors and will satisfy independence criteria established by the Board of Directors and additional regulatory requirements, including the listing standards of the NYSE. Currently, the members of the Compensation Committee are Mr. Ryan, Ms. Burke, Ms. Pisano, Mr. Riegle and Ms. Ward, each of whom is a director, but not an employee, of the Company.

## **Shares Subject to the 2006 Incentive Plan**

A maximum of 20,000,000 shares of Company Common Stock would be available for delivery under the 2006 Incentive Plan, plus (i) 7,000,000 shares of Company Common Stock available for issuance under the 2001 Stock Plan, as previously approved by the Company's shareholders, but not underlying any outstanding options or other awards under the 2001 Stock Plan, and (ii) any additional shares of Company Common Stock subject to outstanding options or other awards under the 2001 Stock Plan that expire, are forfeited or otherwise terminate unexercised on or after March 15, 2006, less the number of shares of Company Common Stock subject to options or other awards that may be granted under the 2001 Stock Plan between March 15, 2006 and the date of the Annual Meeting, subject to adjustment for certain changes in the Company's capital structure (described below under "Changes in Capital"). The shares of Common Stock that may be issued under the 2006 Incentive Plan will be either authorized and unissued shares (which will not be subject to preemptive rights) or previously issued shares that have been reacquired and are held as treasury stock. The 2006 Incentive Plan provides that for purposes of determining the number of shares of Common Stock available for delivery under the 2006 Incentive Plan, (a) any restricted stock award without a purchase price at least equal to the fair market value of Company Common Stock on the award date, restricted stock unit, performance share, performance unit and other stock-based award will be counted as two shares for each one share subject to that award, (b) any shares not delivered because an award is paid in cash will be treated as

having been delivered under the 2006 Incentive Plan, unless

## **Table of Contents**

the award, by its terms, can only be settled in cash, (c) when a SAR is exercised, the full number of shares covered by the exercised portion of the SAR will be deducted from the shares available for delivery under the 2006 Incentive Plan, whether the SAR is settled in cash or shares, unless the SAR, by its terms, can only be settled in cash, in which case the exercise of that SAR will not reduce the shares available for delivery under the 2006 Incentive Plan, (d) any shares subject to an award or portion of an award that is forfeited, terminated, cancelled or otherwise expires will be available for future awards under the 2006 Incentive Plan; however, shares used to pay the exercise price or required tax withholding for an award under the 2006 Incentive Plan will not be available for future awards under the 2006 Incentive Plan, and (e) the payment of cash dividends or cash dividend equivalents in connection with awards under the 2006 Incentive Plan will not reduce the shares available for delivery under the 2006 Incentive Plan. If the Company or a subsidiary acquires or combines with another company, any awards that may be granted under the 2006 Incentive Plan in substitution or exchange for outstanding stock options or other awards of that other company will not reduce the shares available for issuance under the 2006 Incentive Plan, but the shares available for incentive stock options granted under the 2006 Incentive Plan will be limited to 27,000,000 shares of Company Common Stock, adjusted as stated above, but not increased by shares subject to expired, forfeited or terminated unexercised awards under the 2001 Stock Plan.

## **Participation**

The Compensation Committee may grant awards under the 2006 Incentive Plan to employees and consultants of the Company and its eligible subsidiaries and affiliates as well as non-employee directors of the Company. However, only employees of the Company and its subsidiaries will be eligible to receive incentive stock options under the 2006 Incentive Plan.

As of March 15, 2006, there were approximately 41,600 employees and 15 non-employee directors who would be eligible to receive awards under the 2006 Incentive Plan. Historically, approximately 3,100 of the eligible employees have received equity awards. No awards will be granted under the 2006 Incentive Plan unless the 2006 Incentive Plan is approved by the shareholders. Because it will be within the Compensation Committee's discretion to determine which employees and directors will receive awards under the 2006 Incentive Plan and the types and amounts of those awards, it is not possible at present to specify the benefits that would be received under the 2006 Incentive Plan by directors, executive officers and other employees if the 2006 Incentive Plan is approved by the shareholders. In addition, the benefits or amounts that would have been received by, or allocated to, those persons for the last completed fiscal year if the 2006 Incentive Plan had been in effect cannot be determined.

## **Stock Options**

A stock option is the right to purchase a specified number of shares of Company Common Stock in the future at a specified exercise price and subject to the other terms and conditions specified in the option agreement and the 2006 Incentive Plan. Stock options granted under the 2006 Incentive Plan will be either incentive stock options, which may be eligible for special tax treatment under the Tax Code, or options other than incentive stock options (referred to as nonqualified stock options), as determined by the Compensation Committee and stated in the option agreement. The number of shares covered by each option will be determined by the Compensation Committee, but no participant may be granted in any two consecutive fiscal years options for more than 4,000,000 shares of Company Common Stock. The exercise price of each option is set by the Compensation Committee but cannot be less than 100% of the fair market value of the Company's Common Stock at the time of grant (or, in the case of an incentive stock option granted to a 10% or more shareholder of the Company, 110% of that fair market value). Options granted under the 2006 Incentive Plan in substitution or exchange for options or awards of another company involved in a corporate transaction with the Company or a subsidiary will have an exercise price that is intended to preserve the economic value of the award that is replaced. The fair market value of the Company's Common Stock is generally determined as the last sale price of the Company's Common Stock on the NYSE on the option grant date. On March 24, 2006, the fair market value of a share of Company Common Stock was \$78.50. The exercise price of any stock options granted under the



## **Table of Contents**

2006 Incentive Plan may be paid in cash, shares of Company Common Stock already owned by the option holder or any other method that may be approved by the Compensation Committee, such as a cashless broker-assisted exercise that complies with law.

Options will become exercisable and expire at the times and on the terms established by the Compensation Committee. An option cannot be exercised later than the tenth anniversary of the grant date; however, if the exercise of an option on its scheduled expiration date would violate law, the option may be extended until its exercise would not violate law. Options generally terminate when the holder's employment or service with the Company and its affiliates terminates. However, an option may be exercised for up to one year following the holder's termination in specified circumstances, unless the option agreement permits exercise of the option following such termination to any greater or lesser extent.

## **SARs**

SARs may be granted under the 2006 Incentive Plan alone or together with specific stock options granted under the 2006 Incentive Plan. SARs are awards that, upon their exercise, give a participant the right to receive from the Company an amount equal to (1) the number of shares for which the SAR is exercised, multiplied by (2) the excess of the fair market value of a share of Company Common Stock on the exercise date over the grant price of the SAR. The grant price of a SAR cannot be less than 100% of the fair market value of the Company's Common Stock on the grant date of such SAR. A SAR may be settled in cash, shares or a combination of cash and shares, as determined by the Compensation Committee. SARs will become exercisable and expire at the times and on the terms established by the Compensation Committee, subject to the same maximum time limits as are applicable to options granted under the 2006 Incentive Plan. However, a SAR granted with an option will be exercisable and terminate when the related option is exercisable and terminates. Such an option will no longer be exercisable to the extent that the holder exercises the related SAR. Likewise, a SAR will not be exercisable to the extent that the related option is exercised. The number of shares covered by each SAR will be determined by the Compensation Committee, but no participant may be granted in any two consecutive fiscal years SARs covering more than 4,000,000 shares of Company Common Stock.

## **Restricted Stock and Restricted Stock Units**

Restricted stock awards are shares of Company Common Stock that are awarded to a participant subject to the satisfaction of the terms and conditions established by the Compensation Committee. Until the applicable restrictions lapse, shares of restricted stock are subject to forfeiture and may not be sold, assigned, pledged or otherwise disposed of by the participant who holds those shares. Restricted stock units are denominated in units of shares of Company Common Stock, except that no shares are actually issued to the participant on the grant date. When a restricted stock unit award vests, the participant is entitled to receive shares of Company Common Stock, a cash payment based on the value of shares of Company Common Stock or a combination of shares and cash. Vesting of restricted stock awards and restricted stock units may be based on continued employment or service and/or satisfaction of performance goals or other conditions established by the Compensation Committee. A recipient of restricted stock will have the rights of a shareholder during the restriction period, including the right to receive any dividends, which may be subject to the same restrictions as the restricted stock, unless the Compensation Committee provides otherwise in the grant. A recipient of restricted stock units will have none of the rights of a shareholder unless and until shares are actually delivered to the participant. The number of shares of restricted stock and/or restricted stock units granted to a participant will be determined by the Compensation Committee, but no participant may be granted in any two consecutive fiscal years more than 2,000,000 shares subject to awards of restricted stock or restricted stock units. Upon termination of employment or a period of service, or failure to satisfy other vesting conditions, a participant's unvested shares of restricted stock and unvested restricted stock units are forfeited unless the participant's award agreement, or the Compensation Committee, provides otherwise.

## **Performance Units, Performance Shares and Cash-Based Awards**

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Performance units, performance shares and cash-based awards granted to a participant are amounts credited to a bookkeeping account established for the participant. A performance unit has an initial value that is



## **Table of Contents**

established by the Compensation Committee at the time of its grant. A performance share has an initial value equal to the fair market value of a share of Company Common Stock on the date of grant. Each cash-based award has a value that is established by the Compensation Committee at the time of its grant. The number of performance units, performance shares and cash-based awards granted to a participant will be determined by the Compensation Committee; however, no participant may be granted in any two consecutive fiscal years performance units or performance shares with respect to more than 2,000,000 shares or cash-based awards amounting to more than \$15,000,000. Whether a performance unit, performance share or cash-based award actually will result in a payment to a participant will depend upon the extent to which performance goals or other conditions established by the Compensation Committee are satisfied. After a performance unit, performance share or cash-based award has vested, the participant will be entitled to receive a payout of cash, shares of Company Common Stock or a combination thereof, as determined by the Compensation Committee. A participant's award agreement describes the effect of a termination of employment on the participant's performance units, performance shares or cash-based award.

## **Other Stock-Based Awards**

The Compensation Committee may grant to participants other stock-based awards under the 2006 Incentive Plan, which are valued in whole or in part by reference to, or otherwise based on, shares of Company Common Stock. The form of any other stock-based awards will be determined by the Compensation Committee, and may include a grant or sale of unrestricted shares of Common Stock. The number of shares of Company Common Stock related to an other stock-based award will be determined by the Compensation Committee; however, no participant may be granted in any two consecutive fiscal years other stock-based awards with respect to more than 2,000,000 shares. Other stock-based awards may be paid in shares of Company Common Stock or cash, according to the award agreement. The terms and conditions, including vesting conditions, will be established by the Compensation Committee when the award is made. The Compensation Committee will determine the effect of a termination of employment or service on a participant's other stock-based awards.

## **Dividend Equivalents**

The Compensation Committee may provide for the payment of dividend equivalents with respect to shares of Company Common Stock subject to an award, such as restricted stock units, that have not actually been issued under that award.

## **Receipt of Non-Employee Directors Fees in Awards**

The Board of Directors may permit a non-employee director to elect to receive up to 100% of his or her retainer fees, meeting fees or other fees in shares of Company Common Stock or other awards under the 2006 Incentive Plan. The Board of Directors may elect to pay a director up to 100% of his or her retainer fees or other fees in shares of Company Common Stock or other awards under the 2006 Incentive Plan. If the award is based on a percentage of retainer fees or other fees that the Board of Directors and/or the director has elected to be paid in awards under the 2006 Incentive Plan, the number of shares of Company Common Stock subject to that award each quarter will be determined by multiplying the applicable percentage of retainer fees or other fees by the retainer fees or other fees and then dividing the product by the fair market value of the Company's Common Stock on the first day of the quarter.

## **Performance-Based Awards**

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Restricted stock awards, restricted stock units, performance units, performance shares, cash-based awards and other stock-based awards subject to performance conditions may be structured to qualify as performance-based compensation that is exempt from the deduction limitations of section 162(m) of the Tax Code, as described under Certain Federal Income Tax Consequences below. Awards intended to satisfy this exemption must be conditioned on the achievement of objectively determinable performance goals based on one or more of

## Table of Contents

the performance measures listed below, determined in relation to the Company or its affiliates or any business unit of either or in comparison to a designated group of other companies or index:

Asset growth	Combined net worth
Debt to equity ratio	Earnings per share
Revenue growth	Investment performance
Operating income (with or without investment income or income taxes)	Cash flow
Margin	Net income, before or after taxes
Earnings before interest, taxes, depreciation and/or amortization	Return on total capital, equity, revenue or assets
Medical loss ratio	Number of medical or specialty policyholders, members or insured
Quality of service metrics	Customer service metrics
Productivity	Administrative expense management
Improved health of members, including enrollment in disease management programs	Economic profit
Shareholder value added	Stock price appreciation or total shareholder return
Medical and/or specialty market share	Medical and/or specialty penetration rate or uninsured rate
Specialty earnings as a percent of total earnings	Associate perceptions or turnover
Consumer perceptions of the Company or the Company's industry	Merger integration synergies

The Compensation Committee will determine whether the performance goals that have been chosen for a particular performance-based award have been met. The Compensation Committee may in its discretion adjust downwards but not upwards amounts payable or benefits granted, issued, retained or vested under a performance-based award described above. The Compensation Committee may not waive the achievement of performance goals applicable to these awards, except in the case of the participant's death, disability or involuntary termination of employment without cause or a change in control of the Company. The Compensation Committee's evaluation of the achievement of performance goals may include or exclude any of the following events that occur during a performance period: (a) gains or losses on sales or dispositions, (b) asset write-downs, (c) litigation or claim judgments or settlements, (d) historic environmental obligations, (e) changes in tax law or rate, including the impact on deferred tax liabilities, (f) uninsured catastrophic property losses, (g) the cumulative effect of changes in accounting principles, (h) extraordinary items described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial performance appearing in the Company's Annual Report on Form 10-K, (i) acquisitions occurring after the start of a performance period or unbudgeted costs incurred related to future acquisitions, (j) operations discontinued, divested or restructured during the performance period including severance costs, (k) gains or losses on refinancing or extinguishment of debt, and (l) foreign exchange gains and losses.

**Transferability of Awards**

Options, SARs, unvested restricted stock, and other awards under the 2006 Incentive Plan generally may not be sold or otherwise transferred except by will or the laws of descent and distribution. The Compensation Committee may permit awards other than incentive stock options and any related SARs to be transferred for no consideration.

## **Table of Contents**

### **Change of Control**

In the event of a change of control of the Company (as defined in the 2006 Incentive Plan), but subject to any contrary law or rule or provision of an award agreement that is in effect under 2006 Incentive Plan prior to the change of control, the Compensation Committee may, in its discretion, provide that: (a) outstanding options, SARs and other stock-based awards will become exercisable as determined by the Compensation Committee; (b) restrictions applicable to outstanding restricted stock awards and other stock-based awards will lapse; (c) outstanding awards will become vested; (d) any outstanding awards otherwise payable on a deferred basis will be paid or distributed; (e) outstanding performance-based awards will be deemed to have been earned for any performance period prior to the effective date of the change of control; (f) there will be substituted for shares subject to options or awards outstanding under the 2006 Incentive Plan shares or other securities of the surviving or successor corporation, or another corporate party to the change of control transaction, with approximately the same value, or cash out outstanding options or awards based on the highest value of the consideration received for the Company's Common Stock in that transaction, or the highest fair market value of the Company's Common Stock during the 30 business days immediately prior to the closing or expiration date of the change of control transaction, reduced by the exercise price or grant price of the award, if applicable; and (g) any options or other awards cannot be exercised after or will be terminated after a change of control transaction. However, if the surviving or successor corporation to the Company, or any other corporate party to the change of control transaction, does not agree to assume, or substitute equivalent awards for, options or other awards outstanding under the 2006 Incentive Plan, or in the event of a liquidation of the Company, then, immediately prior to such change of control of the Company, but subject to any contrary law or rule or provision of an award agreement that is in effect under 2006 Incentive Plan prior to the change of control: (1) all outstanding options, SARs and other stock-based awards will become fully exercisable; (2) all restrictions applicable to outstanding restricted stock awards and other stock-based awards will lapse; (3) all outstanding awards will become fully vested; (4) any outstanding awards otherwise payable on a deferred basis will be paid or distributed; and (5) all outstanding performance-based awards will be deemed to have been fully earned at the target level or any higher level of actual performance for the entire performance period prior to the effective date of the change of control, and any such awards denominated in shares will be paid out not later than five days prior to the change of control. None of the actions taken by the Compensation Committee in the event of a change of control may materially impair the previously accrued rights of a participant under an outstanding award without his or her consent, unless the award agreement provides otherwise. However, depending on the nature of the change of control transaction, payment of certain awards may be delayed to comply with Section 409A of the Tax Code.

### **Changes in Capital**

In the event of any corporate event or transaction, such as a stock dividend, stock split, recapitalization, reorganization, merger or consolidation or spin-off, in order to prevent dilution or enlargement of participants' rights under the 2006 Incentive Plan, the Compensation Committee, in its discretion, will substitute or adjust the number, class and kind of securities that can be delivered under the 2006 Incentive Plan and outstanding awards, the 2006 Incentive Plan's limits on the number of shares that can be subject to awards granted to a single participant during a single fiscal year, and the price, as applicable, of securities subject to awards outstanding under the 2006 Incentive Plan.

### **Amendment and Termination**

The Board of Directors may amend, alter, suspend or terminate the 2006 Incentive Plan. However, the Board of Directors will be required to obtain approval of the shareholders, if such approval is required by any applicable law or rule, of any amendment of the 2006 Incentive Plan that would: (a) increase the maximum number of shares of Company Common Stock that may be sold or awarded under the 2006 Incentive Plan, or that may be subject to awards granted to a single participant during a single fiscal year, except in the event of certain changes in capital of the Company (as described above under Changes in Capital); (b) decrease the minimum option exercise price or SAR grant price required by the 2006 Incentive Plan, except in the event of certain changes in capital of the Company (as described above under Changes in Capital); (c) change the class of



## **Table of Contents**

persons eligible to receive awards under the 2006 Incentive Plan; (d) change the performance measures applicable to awards intended to qualify as performance-based compensation under Section 162(m) of the Tax Code; (e) extend the duration of the 2006 Incentive Plan or the exercise period of any options or SARs granted under the 2006 Incentive Plan; or (f) otherwise require shareholder approval to comply with applicable laws or rules.

The Compensation Committee may amend outstanding awards. However, no amendment or termination of the 2006 Incentive Plan or amendment of outstanding awards may materially impair the previously accrued rights of a participant under any outstanding award without his or her written consent, unless the Board of Directors or the Compensation Committee determines that the amendment is necessary or advisable to comply with laws, regulations, rules or accounting standards. Additionally, the provisions of the 2006 Incentive Plan described above under Change of Control may not be amended, terminated or modified on or after the date of a Change of Control to materially impair any participant's outstanding award without that participant's written consent. The Board of Directors or the Compensation Committee may appropriately adjust awards under the 2006 Incentive Plan in recognition of unusual or nonrecurring events affecting the Company or its financial statements or changes in laws, regulations or accounting principles.

The 2006 Incentive Plan prohibits the Company from reducing the exercise price or grant price of an outstanding stock option or SAR or replacing an outstanding stock option or SAR that has an exercise price or grant price above the value of the Company's Common Stock with a new option or SAR that has a lower exercise price or grant price, or with any other type of new award other than as described under Changes in Capital above, without first obtaining shareholder approval.

### **Duration of 2006 Incentive Plan**

If the 2006 Incentive Plan is approved by the shareholders, the 2006 Incentive Plan will become effective as of the date of the Annual Meeting and will continue in effect until all shares of Company Common Stock available under the 2006 Incentive Plan are delivered and all restrictions on those shares have lapsed, unless the 2006 Incentive Plan is terminated earlier by the Board of Directors. No awards may be granted under the 2006 Incentive Plan on or after May 15, 2016.

### **Non-United States Participants**

The Compensation Committee may authorize appropriate procedures and subplans and grant awards or substitutes for awards to permit eligible individuals who are employed outside the United States to participate in the 2006 Incentive Plan or to otherwise conform to the laws or practices of non-U.S. jurisdictions.

### **Tax Withholding Obligations**

The 2006 Incentive Plan authorizes the Company and its affiliates to withhold all applicable taxes from any award or payment under the 2006 Incentive Plan and to take other actions necessary or appropriate to satisfy those tax obligations.

**Certain Federal Income Tax Consequences**

The following is a brief summary of certain significant United States Federal income tax consequences, under the Tax Code, as in effect on the date of this summary, applicable to the Company and participants in connection with awards under the 2006 Incentive Plan. This summary assumes that all awards will be exempt from, or comply with, the rules under Section 409A of the Tax Code regarding nonqualified deferred compensation. If an award constitutes nonqualified deferred compensation and fails to comply with Section 409A of the Tax Code, the award will be subject to immediate taxation and tax penalties in the year the award vests. This summary is not intended to be exhaustive, and, among other things, does not describe state, local or



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## **Table of Contents**

non-United States tax consequences, or the effect of gift, estate or inheritance taxes. References to the Company in this summary of tax consequences mean WellPoint, Inc., or any subsidiary or affiliate of WellPoint, Inc. that employs or receives the services of a recipient of an award under the 2006 Incentive Plan, as the case may be.

The grant of options under the 2006 Incentive Plan will not result in taxable income to the recipient of the option or an income tax deduction for the Company. However, the transfer of Company Common Stock to an option holder upon exercise of his or her option may or may not give rise to taxable income to the option holder and a tax deduction for the Company depending upon whether such option is a nonqualified stock option or an incentive stock option.

The exercise of a nonqualified stock option by an option holder generally results in immediate recognition of taxable ordinary income by the option holder and a corresponding tax deduction for the Company in the amount by which the fair market value of the shares of Company Common Stock purchased, on the date of such exercise, exceeds the aggregate exercise price paid. Any appreciation or depreciation in the fair market value of those shares after the exercise date will generally result in a capital gain or loss to the holder at the time he or she disposes of those shares.

The exercise of an incentive stock option by the option holder is exempt from income tax, although not from the alternative minimum tax, and does not result in a tax deduction for the Company if the holder has been an employee of the Company at all times beginning with the option grant date and ending three months before the date the holder exercises the option (or twelve months in the case of termination of employment due to disability). If the option holder has not been so employed during that time, the holder will be taxed as described above for nonqualified stock options. If the option holder disposes of the shares purchased more than two years after the option was granted and more than one year after the option was exercised, then the option holder will recognize any gain or loss upon disposition of those shares as capital gain or loss. However, if the option holder disposes of the shares prior to satisfying these holding periods (known as a disqualifying disposition), the option holder will be obligated to report as taxable ordinary income for the year in which that disposition occurs the excess, with certain adjustments, of the fair market value of the shares disposed of, on the date the incentive stock option was exercised, over the exercise price paid for those shares. The Company would be entitled to a tax deduction equal to that amount of ordinary income reported by the option holder. Any additional gain realized by the option holder on the disqualifying disposition would be capital gain. If the total amount realized in a disqualifying disposition is less than the exercise price of the incentive stock option, the difference would be a capital loss for the holder.

The granting of SARs does not result in taxable income to the recipient of a SAR or a tax deduction for the Company. Upon exercise of a SAR, the amount of any cash the participant receives and the fair market value as of the exercise date of any Company Common Stock received are taxable to the participant as ordinary income and deductible by the Company.

A participant will not recognize any taxable income upon the award of shares of restricted stock which are not transferable and are subject to a substantial risk of forfeiture. Dividends paid with respect to restricted stock prior to the lapse of restrictions applicable to that stock will be taxable as compensation income to the participant. Generally, the participant will recognize taxable ordinary income at the first time those shares become transferable or are no longer subject to a substantial risk of forfeiture, in an amount equal to the fair market value of those shares when the restrictions lapse. However, a participant may elect to recognize taxable ordinary income upon the award date of restricted stock based on the fair market value of the shares of Company Common Stock subject to the award on the date of the award. If a participant makes that election, any dividends paid with respect to that restricted stock will not be treated as compensation income, but rather as dividend income, and the participant will not recognize additional taxable income when the restrictions applicable to his or her restricted stock award lapse. Assuming compliance with the applicable tax withholding and reporting requirements, the Company will be entitled to a tax deduction equal to the amount of ordinary income recognized

## **Table of Contents**

by a participant in connection with his or her restricted stock award in the Company's taxable year in which that participant recognizes that ordinary income.

The granting of restricted stock units does not result in taxable income to the recipient of a restricted stock unit or a tax deduction for the Company. The amount of cash paid or the then-current fair market value of the Company Common Stock received upon settlement of the restricted stock units is taxable to the recipient as ordinary income and deductible by the Company.

The granting of a performance unit, performance share, cash-based award, other stock-based award or dividend equivalent right generally should not result in the recognition of taxable income by the recipient or a tax deduction by the Company. The payment or settlement of a performance unit, performance share, cash-based award, other stock-based award or dividend equivalent right should generally result in immediate recognition of taxable ordinary income by the recipient equal to the amount of any cash paid or the then-current fair market value of the shares of Company Common Stock received, and a corresponding tax deduction by the Company. If the shares covered by the award are not transferable and subject to a substantial risk of forfeiture, the tax consequences to the participant and the Company will be similar to the tax consequences of restricted stock awards, described above. If the award consists of unrestricted shares of Company Common Stock, the recipient of those shares will immediately recognize as taxable ordinary income the fair market value of those shares on the date of the award, and the Company will be entitled to a corresponding tax deduction.

Under Section 162(m) of the Tax Code, the Company may be limited as to federal income tax deductions to the extent that total annual compensation in excess of \$1 million is paid to the Company's Chief Executive Officer or any one of the Company's other four highest paid executive officers who are employed by the Company on the last day of the Company's taxable year. However, certain performance-based compensation the material terms of which are disclosed to and approved by the Company's shareholders is not subject to this deduction limitation. The 2006 Incentive Plan has been structured with the intention that compensation resulting from stock options and SARs granted under the 2006 Incentive Plan will be qualified performance-based compensation and, assuming the 2006 Incentive Plan is approved by the shareholders, deductible without regard to the limitations otherwise imposed by Section 162(m) of the Tax Code. The 2006 Incentive Plan allows the Compensation Committee discretion to award restricted stock, performance shares, performance units, cash-based awards and other stock-based awards that are intended to be qualified performance-based compensation, as described under Performance-Based Awards above.

Under certain circumstances, accelerated vesting, exercise or payment of awards under the 2006 Incentive Plan in connection with a change of control of the Company might be deemed an excess parachute payment for purposes of the golden parachute payment provisions of Section 280G of the Tax Code. To the extent it is so considered, the participant holding the award would be subject to an excise tax equal to 20% of the amount of the excess parachute payment, and the Company would be denied a tax deduction for the excess parachute payment.

**The Board of Directors recommends a vote FOR the proposal to approve the**

**WellPoint 2006 Incentive Compensation Plan.**

**PROPOSAL NO. 3**

**RATIFICATION OF THE APPOINTMENT OF INDEPENDENT**

**REGISTERED PUBLIC ACCOUNTING FIRM**

## Edgar Filing: WELLPOINT INC - Form DEF 14A

The firm of Ernst & Young LLP served as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2005. The Audit Committee has selected Ernst & Young LLP to continue in that capacity for 2006 and is submitting this matter to shareholders for their ratification. In the event this Proposal is not approved, a selection of another independent registered public accounting firm for the Company will be made by the Audit Committee. A representative of Ernst & Young LLP is expected to be present at the Annual Meeting, will

**Table of Contents**

be given an opportunity to make a statement if he or she desires and is expected to be available to respond to appropriate questions. Notwithstanding ratification by the shareholders, the Audit Committee reserves the right to replace the Company's independent registered public accounting firm at any time.

**The Board of Directors recommends a vote FOR**

**the ratification of the appointment of**