(c) Except as set forth on the Purchaser's Disclosure Schedule or in the Purchaser's SEC Filings, (i) there are not outstanding nor is Purchaser or CFAC bound by, any subscriptions, options, preemptive rights, warrants, calls, commitments, or agreements or rights of any character requiring Purchaser or CFAC to issue or entitling any person or entity to acquire any additional shares of capital stock or any other equity security of Purchaser or CFAC, including any right of conversion or exchange under any outstanding security or other instrument, and neither Purchaser nor CFAC is obligated to issue or transfer any shares of its capital stock for any purpose and (ii) there are no outstanding obligations of Purchaser or CFAC to purchase, redeem or otherwise acquire any outstanding shares of capital stock of Purchaser or CFAC.

(d) The Purchaser Common Stock to be issued in the Merger, when issued in accordance with this Agreement and the Articles of Merger, will be duly and validly issued, fully paid and nonassessable, and will be issued in compliance with all applicable federal and state securities laws.

Section 5.6. SEC Filings; Financial Statements.

(a) Purchaser has delivered or made available to CareFirst true and correct copies of (i) its Annual Reports on Form 10-K, as amended, for the years ended December 31, 2000, 1999 and 1998, as filed with the SEC, (ii) its proxy statements relating to all of Purchaser's meetings of stockholders (whether annual or special) since January 1, 2000, as filed with the SEC, and (iii) all other reports, statements and registration statements (including Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as amended) filed by Purchaser with the SEC since January 1, 2000 (the reports and statements set forth in clauses (i), (ii) and (iii) are referred to collectively as the "Purchaser SEC Filings"). As of their filing dates, none of the Purchaser SEC Filings contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The Purchaser SEC Filings at the time of filing complied in all material respects with the Exchange Act or the Securities Act, as the case may be, and the rules and regulations thereunder.

(b) Purchaser has delivered or made available to CareFirst copies of (i) audited consolidated financial statements of Purchaser at and for the years ended December 31, 2000, 1999 and 1998, and (ii) unaudited consolidated financial statements of Purchaser at and for the three-month period ended March 31, 2001.

(c) The financial statements referred to in clause (b) above (the "Purchaser Financial Statements") are true and complete in all material respects, have been prepared in accordance with GAAP, consistently applied throughout the periods covered by such statements (except as may be stated in the explanatory notes to such statements) and present fairly, in all material respects, the financial position and consolidated results of operations of the Purchaser Companies at the dates of and for the periods covered thereby. The Purchaser Financial Statements for interim periods are subject to normal recurring year-end adjustments.

Section 5.7. Resale Registration Statement; Purchaser's Proxy Statement.

Except for information supplied or to be supplied by CareFirst in writing for inclusion therein, as to which no representation is made, neither the Resale Registration Statement, nor Purchaser's Proxy Statement contains or will contain (in the case of the Resale Registration Statement, as amended or supplemented, at the time such registration statement becomes effective, and in the case of Purchaser's Proxy Statement or any amendments thereof or supplements thereto, at the time of the mailing of Purchaser's Proxy Statement and any amendments or supplements thereto, and at the time of the meeting of stockholders of Purchaser to which Purchaser's Proxy Statement relates) any untrue statement of material fact nor omit or will omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Except for information supplied or to be supplied by CareFirst in writing for inclusion therein, as to which no representation is made, the Resale Registration Statement and any supplements or amendments thereto will comply in all material respects with the Securities Act of 1933, as amended, and the rules and regulations thereunder (collectively, the "Securities Act").

Section 5.8. Absence of Certain Changes or Events.

Except as set forth on the Purchaser's Disclosure Schedule or in the Purchaser's SEC Filings, since December 31, 2000 and through the date of this Agreement, the Purchaser Companies have not experienced an event that has had, or would reasonably be expected to have, a Purchaser Material Adverse Effect.

Section 5.9. Litigation; Judicial Proceedings.

(a) As of the date of this Agreement, there are no judicial or administrative actions, proceedings or investigations pending or, to the knowledge of Purchaser, threatened, that (i) question the validity of this Agreement or any action taken or to be taken by Purchaser or CFAC in connection with this Agreement, or (ii) seek to prevent the consummation by Purchaser or CFAC of any of the transactions contemplated by this Agreement.

(b) Except as disclosed in Purchaser's SEC Filings, as of the date of this Agreement, there is no litigation, proceeding, suit, action, charge or investigation pending or, to the knowledge of Purchaser, threatened, or any order, judgment, injunction, decree, plea agreement, stipulation or award of any kind outstanding, against or relating to any Purchaser Company, or involving any of its property or business, the outcome of which in the aggregate may reasonably be expected to result in a Purchaser Material Adverse Effect.

Section 5.10. Compliance with Law.

(a) Each Purchaser Company is conducting its business in compliance with all statutes, laws, rules, regulations, ordinances, decrees, judgments, injunctions and orders applicable to it (including those relating to ERISA, labor laws, Health Benefit Laws, environmental laws, tax laws and health and safety matters), except where such failure to comply

would not have a Purchaser Material Adverse Effect, and has not received any notice that it is in noncompliance with any such statutes, laws, rules, regulations, ordinances, decrees or orders, except where such noncompliance would not have a Purchaser Material Adverse Effect.

(b) Each Purchaser Company currently holds all permits, licenses and approvals of every Governmental Entity necessary for the ownership of its respective assets and the operation of its respective businesses (including those relating to ERISA, labor laws, Health Benefit Laws, environmental laws, tax laws and health and safety matters) except where the failure to hold such permits, licenses or approvals, in the aggregate, would not result in a Purchaser Material Adverse Effect.

(c) Each Purchaser Company is in compliance with all such permits, licenses and approvals, except where such failure to comply would not result in a Purchaser Material Adverse Effect.

(d) All information provided by each Purchaser Company in connection with the preparation and filing of any regulatory notice or other regulatory filing was true, complete and accurate in all material respects when made.

Section 5.11. Employee Plans.

The Purchaser Disclosure Schedule contains a list, which is accurate and complete in all material respects, of all the Benefit Plans maintained by the Purchaser Companies (the "Purchaser Plans"), in which employees of the Purchaser Companies generally are entitled to participate as of the date of this Agreement.

Section 5.12. Brokers and Finders.

Except for Banc of America Securities LLC or any other company, whose fee shall be the sole responsibility of Purchaser, neither Purchaser nor any of its officers, directors or employees has employed any broker, finder or investment banker or incurred any liability for any brokerage fees, commissions or finders' fees in connection with the transactions contemplated by this Agreement.

Section 5.13. Financing.

Purchaser has, and will have at Closing, sufficient cash, available lines of credit or other sources of immediately available funds to enable it to make payment of the cash portion of the Purchase Price and consummate the transactions contemplated hereby.

ARTICLE VI

Covenants Of The Parties

The parties covenant as provided in this Article VI, except as expressly set forth in the Schedules or as contemplated herein:

Section 6.1. Pre-Closing Operations.

(a) CareFirst. CareFirst hereby covenants and agrees that, pending the Closing, (for purposes of the following, "CareFirst" shall be deemed to include the CareFirst Subsidiaries):

(i) except as approved by the Transition Team or otherwise consented to by Purchaser, CareFirst will operate and conduct its business only in the ordinary course in accordance with prior practices, shall maintain its assets in their present state of repair (ordinary wear and tear excepted), and shall use its Best Efforts to keep available the services of its employees and preserve the goodwill of its business and relationships with the customers, licensors, suppliers, distributors and brokers with whom it has business relations;

(ii) except as approved by the Transition Team or otherwise consented to by Purchaser, CareFirst shall not: **[Subject to discussion.]**

[Note: The following language will be included in the CareFirst Disclosure Schedule: Section 6.1 shall not prevent or preclude CareFirst from entering into or renewing any contract or commitment with customers or providers in the ordinary course of business consistent with past practice, excluding customer contracts with multi-year rate guarantees involving an annual premium or administrative services fees in excess of $2,500,000.]

(A) sell, transfer or otherwise dispose of any assets, except for sales, transfers or disposals which would not have a CareFirst Material Adverse Effect;

(B) enter into any new material contract or commitment relating to its business, with "material contract or commitment" being defined for the purpose of this subsection as a contract or commitment which involves CareFirst incurring a liability in excess of $5 million individually;

(C) mortgage, pledge or subject to liens or other encumbrances or charges any assets, except by incurring CareFirst Permitted Liens;

(D) purchase or commit to purchase any capital asset outside of the relevant CareFirst Company capital plan for a price exceeding $5

million individually or $25 million in the aggregate per calendar year;

(E) terminate or amend in any material respect any CareFirst Material Contract or any insurance policy, in force on the date hereof;

(F) amend its charter or bylaws (provided, however, the foregoing will in no way limit the actions which are required to be taken by CareFirst pursuant to Section 6.8);

(G) acquire (whether by merger, consolidation, share exchange, acquisition of stock, or acquisition of assets) any corporation, partnership, joint venture, or other business (or any part thereof), except where the consideration paid by CareFirst in connection with such acquisition (including any debt assumed as a result thereof) is less than $5 million individually or $25 million in the aggregate in any calendar year;

(H) split, combine or reclassify its outstanding capital stock or declare, set aside or pay any dividend or distribution payable in cash, stock, property or otherwise, except for payments or distributions by a wholly-owned subsidiary of CareFirst to CareFirst or to another wholly-owned subsidiary of CareFirst;

(I) except for the issuance of CareFirst Common Stock to the Tax-Exempt Entities in connection with the Conversion, issue, sell, pledge or dispose of, or agree to issue, sell, pledge or dispose of or otherwise cause to become outstanding any additional shares of or any options, warrants or rights of any kind to acquire any shares of its capital stock of any class or any debt or equity securities convertible into or exchangeable for such capital stock;

(J) incur or become contingently liable with respect to any indebtedness for borrowed money or purchase money indebtedness, other than borrowings under CareFirst's revolving credit facility not to exceed an aggregate principal amount of $30 million;

(K) modify its current investment policies or practices in any material respect except to accommodate changes in applicable law;

(L) materially change its methods of accounting in effect at December 31, 2000, except as required by changes in GAAP or SAP;

(M) enter into any Affiliate Transaction other than on terms no less favorable than those applicable to unaffiliated third parties;

(N) (1) change the compensation of its employees, except in the ordinary course of business consistent with past practices, or change in any material respects the methodology for calculating incentive payments to its employees; (2) enter into or modify any severance agreement, plan or arrangement with any employee, except with regard to non-executive employees in the ordinary course of business consistent with past practices prior to January 1, 2001; or (3) adopt or materially change any Benefit Plan, excluding any amendments to any Benefit Plans required by law;

(O) materially expand or alter its geographical service area;

(P) settle or compromise any pending or threatened suit, litigation or similar proceeding for an amount in excess of $2 million or that would result in material ongoing restrictions on the conduct of business of CareFirst; or

(Q) enter into, or agree to enter into, any agreement to do any of the foregoing.

(iii) CareFirst will consult with the Purchaser regarding any material change to its underwriting practices and policies or the sale of products or services materially different from those currently sold or provided by the CareFirst Companies; and

(iv) CareFirst shall obtain Purchaser's prior written consent to its annual capital plan prior to adoption by CareFirst's Board of Directors.

(b) Purchaser or Transition Team Consent. In the event CareFirst seeks the approval or consent of the Purchaser or the Transition Team for any action under Section 6.1(a), the proposed action shall be deemed approved or consented to by the Purchaser or the Transition Team if no objection has been provided within ten (10) business days after the date of CareFirst's request for approval or consent (provided that such request also includes information reasonably requested by Purchaser to evaluate such request).

(c) Purchaser. Purchaser hereby covenants and agrees that, except as consented to in writing by CareFirst, pending the Closing, Purchaser will, in all material respects, operate and conduct its business, and that of the Purchaser Subsidiaries, only in the ordinary course in accordance with prior practices. In addition to the foregoing (for purposes of the following, "Purchaser" shall be deemed to include CFAC and the Purchaser Subsidiaries):

(i) Purchaser shall maintain its assets in their present state of repair (ordinary wear and tear excepted), shall use its Best Efforts to keep available the services of its employees, and preserve the goodwill of its business and relationships with the customers, licensors, suppliers, distributors and brokers with whom it has business relations; and

(ii) Purchaser shall not:

(A) amend its charter or bylaws in any manner that would adversely affect the ability of Purchaser to consummate the transactions contemplated by this Agreement;

(B) acquire (whether by merger, consolidation, share exchange, acquisition of stock, or acquisition of assets) any corporation, partnership, joint venture, or other business (or any part thereof), except where such acquisition will not materially adversely affect or delay Purchaser's or CareFirst's ability to consummate the transactions contemplated by this Agreement;

(C) incur or become contingently liable with respect to any indebtedness for borrowed money except where there is no material adverse effect on Purchaser's ability to consummate the transactions contemplated by this Agreement;

(D) take any action that may reasonably be expected to cause a Purchaser Material Adverse Effect; or

(E) enter into, or agree to enter into, any agreement to do any of the foregoing.

Section 6.2. New Information; Access.

(a) Each of CareFirst and Purchaser shall be obligated to promptly disclose in writing to the other any new information which would result in a breach of their respective representations and warranties in Articles IV and V of this Agreement. Further, subject to confidentiality obligations, Purchaser shall use its Best Efforts (i) to disclose promptly to CareFirst any material development with respect to Purchaser's business, results of operations or financial condition, and (ii) to provide promptly to CareFirst and its advisors such information regarding its business, results of operations or financial condition as may be reasonably requested by CareFirst.

(b) The Parties shall form a transition team (the "Transition Team") consisting of an equal number of representatives of CareFirst and Purchaser. The Transition Team shall be responsible for facilitating a transition and integration planning process to facilitate the combination of the operations of CareFirst with those of Purchaser. The Transition Team shall be responsible for developing, and monitoring the development of, and deliverables due under, an action plan for the combination of the businesses. The Transition Team, or designated representatives thereof, shall meet monthly to review the financial performance of the CareFirst Companies and at such meetings CareFirst shall advise the Transition Team of the status of its sales, enrollment, revenues, investment income, quarterly claim trends, medical loss ratio, administrative expenses, net income, reserves and statutory capital (as indicated on the quarterly balance sheet). The Transition Team shall be informed at each quarterly meeting of the