OPTION 3A: RAISE PUBLIC CAPITAL (CONT'D)

The Conversion option in conjunction with raising public capital involves a significant corporate restructuring that, once completed, yields increased operational and strategic flexibility.

Advantages

- ▲ Direct access to capital markets
- ▲ Creates acquisition currency
- ▲ Precedent transactions yield "road map" to successful conversion, mitigating risk of failed transaction
- ▲ Flexibility to merge with and/or acquire other stock entities
- ▲ Would likely create substantial charitable foundation to benefit public health interest
- ▲ Provides foundation with liquid investment
- ▲ Enhances statutory capital base

Disadvantages

- ▼ Significant transfer of capital to stakeholders
- ▼ BCBS Association issues and constraints
- ▼ Time consuming and costly process with high probability of significant media and political scrutiny

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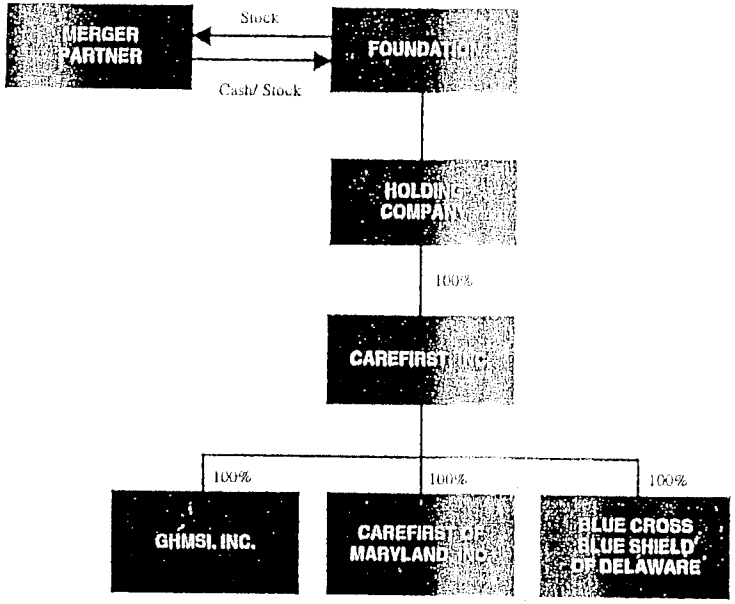
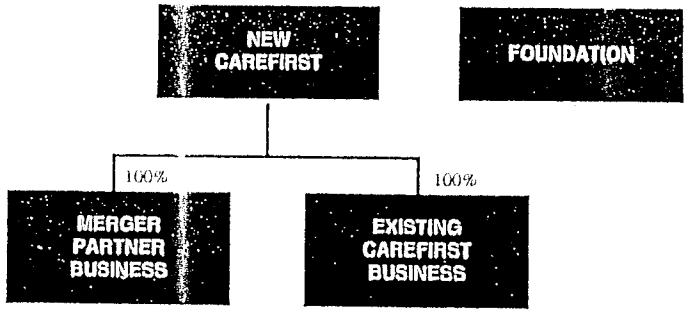
OPTION 3B: STRATEGIC MERGER

Under this scenario, CareFirst would first convert to a stock-corporation and then enter into a strategic combination with another BCBS or other managed plan.

Post-Conversion



Post-Merger



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OPTION 3B: STRATEGIC MERGER (CONT'D)

Following a Conversion, the Company becomes a publicly traded entity via a stock-for-stock merger with another BCBS or other managed plan.

Advantages

- ▲ Increases operational scale
- ▲ Creates sufficient size to access both equity and debt capital markets efficiently
- ▲ Creates acquisition currency
- ▲ Precedent transactions yield "road map" to successful conversion, mitigating risk of failed transaction
- ▲ Provides foundation with liquid investment
- ▲ Foundation owns significantly lower percentage of combined entity

Disadvantages

- ▼ Potential loss of control
- ▼ BCBS Association issues and constraints
- ▼ Time consuming and costly process with high probability of significant media and political scrutiny

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NEXT STEPS & CONSIDERATIONS

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STRATEGIC CONSIDERATIONS

CareFirst must assess its strategic alternatives in light of several important considerations.

- Mission
  - What is the Company's corporate mission and how does it intend to achieve its goals?
- Competitive Environment
  - Does the Company's current corporate structure allow it to serve its stakeholders adequately?
  - Does scale provide a competitive advantage in the managed care and health insurance industries?
  - Does the rapidly evolving managed care environment require the Company to have broader access to capital markets?
  - If the Company decides to restructure, how will it be able to access the capital markets in the future?
- Company Strategy
  - Does the Company intend to pursue growth/acquisition opportunities within its current markets, in other markets or along new product lines?
  - Will a restructuring better position the Company to take advantage of trends within the BCBS sector, such as ongoing consolidation?
- Capital Adequacy
  - Does the Company have sufficient capital to achieve its growth plans and to invest in infrastructure?
  - What impact, if any, will a restructuring have on the Company's financial position?

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APPENDIX II

OCC 015028

WELLPOINT HEALTH NETWORKS, INC.

In 1992, Blue Cross of California undertook a reorganization of its operations resulting in the creation of WellPoint Health Networks, Inc.

Description	WellPoint Health Networks Inc. ("WellPoint") is one of the nation's largest publicly traded managed health care companies, serving the health care needs of approximately 6.8 million medical members and approximately 24.0 million specialty members. WellPoint's services include HMO, PPO, POS and specialty managed care networks through which the company offers a comprehensive array of managed health care plans throughout California and several other states. The Company markets its products in California primarily under the name Blue Cross of California and outside of California primarily under the name Unicare.
Background	WellPoint was organized in 1992 as a subsidiary of Blue Cross of California ("BCC") to own and operate substantially all of the managed health care business of BCC.
Reasons for Conversion	The principal goal of the reorganization was to enable WellPoint to access the equity capital markets in order to finance its expansion plans and to enhance its competitive position.
Initial Public Offering Date	January 27, 1993
Description of Offering	WellPoint offered 17,000,000 shares of Class A Common Stock to the Public at $28.00 per share. Following the offering, WellPoint's parent, BCC, controlled 97.9% of the voting power of WellPoint through 100% ownership of the company's Class B Common Stock.
Size of Offering	$476.0 million
Subsequent Recapitalization	Partially to fulfill BCC's public benefit obligations, WellPoint and BCC entered into an agreement in March of 1996 in which: (a) WellPoint distributed $995.0 million by means of a $10.00 per share special dividend after which BCC donated its portion of these proceeds ($800.0 million) to the California Endowment (the "Endowment"); (b) BCC donated its assets other than BCC's WellPoint shares to the California HealthCare Foundation ("CHF"); (c) BCC changed its status to for-profit and issued to CHF 53.4 million shares of common stock; (d) WellPoint merged with and into BCC, with the surviving entity named WellPoint Health Networks Inc. The shares held by CHF were converted into 53.4 million shares of the post-merger company and were supplemented with a cash payment of $235.0 million.

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WELLPOINT HEALTH NETWORKS, INC. (CONT'D)

Pursuant to the reorganization, BCC created two charitable foundations, the California Endowment and the California HealthCare Foundation, for the benefit of the citizens of the State of California.

Background	The California Healthcare Foundation is required to transfer to the Endowment not less than 80% of the net cash proceeds, if any, of any sale or disposition of its WLP stock or certain other securities or property received during the preceding year. As of its fiscal year ended February 28, 1998, the Endowment had received approximately $1.4 billion in cash and in-kind contributions from CHF (pro forma for the distribution related to CHF's sale of 12 million WLP shares in April 1998). In October 1998, Wellpoint received a favorable private letter ruling from the Internal Revenue Service regarding the deductibility of its $800 million cash payment made to its former parent company, Blue Cross of California (and subsequently given to the Endowment).
Size of Endowment	$3.2 billion.
Typical Grants	Endowment: Mission to promote fundamental improvements in the health status of all Californians. In its first two years of existence, the Endowment awarded 355 grants totaling in excess of $154 million. Foundation: Funds various programs meant to expand access to affordable, quality health care for under-served individuals and communities in California.
Foundation Rules	ς For five years, a majority of the board of the Foundation must be former board members of BCC. ς The Foundation cannot vote more than 49% of WellPoint's stock, although the Foundation's voting interest is approximately 80%. ς The Foundation must reduce its voting interest to 20% after three years and 5% after five years. ς The BCBS trademark cannot be used if any entity other than the Foundation acquires more than 5% of WellPoint's stock.

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WELLPOINT HEALTH NETWORKS, INC. (CONT'D)

The California Endowment has awarded over 355 grants totaling in excess of $154 million since its formation in March 1996.

REPRESENTATIVE GRANTS

Recipient	Amount ($MM)	Purpose
National Health Law Program, Inc.	$5.0	Funds for analysis of health policies related to communities' needs and to educate state leaders and the public about California's experiences with health care services.
Center for Civic Partnership	5.3	Targets 20 communities with a focus on rural and diverse areas—to help residents decide what health concerns need attention most.
Non-Profit Resource Center	4.4	Funds for the California Management Assistant Partnership to work with non-profit health and human service organizations and provide technical assistance such as staff development, training on fundraising and strategic planning.
California Primary Care Association	2.5	A program to strengthen partnerships between clinics to help create a strong, unified voice to inform the development of health law and policy.
Women Escaping a Violent Environment / KVIE	1.4	Partnership with a public television station for a multimedia public awareness campaign, community outreach and referral services for victims of domestic violence.
California State Rural Health Association	1.0	Program to give rural residents a voice in the development of health policies and to explore the development of an HMO tailored to rural health policies.
California Child Care Resource & Referral Network	1.3	Assistance for child care agencies in response to changes in family support resulting from welfare reform.
California Dental Association Research Fund	5.0	To improve the oral health of residents in 13 cities in California.
The California Wellness Foundation	5.0	To support the California Wellness Violence Prevention Initiative Programs.
Children's Hospital Oakland	1.8	To support education for physicians and healthcare personnel to represent multi-culturalism in their practices and services.
LA Women's Foundation and Women's Foundation Berkeley	4.2	Supports programs to expand and enhance women and girls leadership programs to impact social, environmental and behavioral aspects of health.
Liberty Hill Foundation	1.7	To reduce environmental hazards by combining organizing and technical assistance to improve public health in low income and minority communities.

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WELLPOINT HEALTH NETWORKS, INC. (CONT'D)

Since its reorganization, WellPoint has undertaken several significant acquisitions and capital markets transactions.

($ in millions)

	Date	Offering Type	Gross Proceeds	Description
Capital Markets	11/96	Equity	$420	California Healthcare Foundation sold 15 million shares at $28 per share.
	4/97	Equity	380	Wellpoint sold 3 million primary shares of common stock and the California Healthcare Foundation sold 7 million secondary shares of common stock priced at $38 per share.
	4/98	Equity	864	CHF sold 12 million shares in a secondary offering of common stock priced at $72 per share. Post-transaction, CHF's ownership interest in WellPoint was reduced to approximately 25%.
	6/99	Equity	810	CHF sold 10 million shares in a secondary offering of common stock priced at $81 per share. Post-transaction, CHF's ownership interest in WellPoint was reduced to approximately 12%.
	6/99	Debenture	260	Wellpoint sold $260 million of convertible subordinated debenture due in 2019. The proceeds will be used to purchase from CHF an additional 2 million shares.

Acquisitions

- In March 1996, WellPoint acquired the Life and Health Benefits Management Division ("MMHD") of Massachusetts Mutual Life Insurance Company for $402.2 million.
- In March 1997, WellPoint acquired certain portions of the Health and related Life Group Benefit operations ("GBO") of John Hancock Mutual Life Insurance Company for $86.7 million.
- In July 1998, WellPoint announced an acquisition of Cerulean Companies, the parent of Blue Cross & Blue Shield of Georgia, in a $500 million stock for stock transaction. In May 1999, the Georgia Supreme Court issued a ruling in favor of Cerulean and BCBS of Georgia regarding their conversion to for-profit status which will enable WellPoint to close the acquisition in the near future.
- In March 1999, WellPoint announced a competing bid for BCBS of Colorado, which had, in early March, agreed to be acquired by Anthem. WellPoint's proposal was for a purchase range of $200-$240 million with $140 million being designated for a charitable foundation. On November 16, 1999, Anthem completed its acquisition of BCBS of Colorado.
- In March 1999, WellPoint agreed to acquire Qualmed Plans for Health of Colorado, Inc., a 100,000 member plan from Foundation Health Systems.
- In December 1999, WellPoint agreed to purchase Rush Prudential Health Plans, a 300,000 medical member plan from the Prudential Insurance Company of America. The purchase price for the acquisition is approximately $200 million.

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