

INITIAL OFFERING CIRCULAR IS DATED: January 23, 1995
For Delivery: January 23, 1995

OFFERING CIRCULAR

Series "A" Common Voting Stock of
HUMBOLDT-DEL NORTE INDEPENDENT PRACTICE ASSOCIATION
A California Professional Medical Corporation

Shares at \$1,000.00 Each

Approximate Offering Period: 30 Days

EACH PROSPECTIVE INVESTOR IN THIS OFFERING BY THE HUMBOLDT-DEL NORTE INDEPENDENT PRACTICE ASSOCIATION ("HDNIPA") MUST BE A PHYSICIAN WHO IS DULY LICENSED TO PRACTICE MEDICINE IN THE STATE OF CALIFORNIA. EACH PROSPECTIVE INVESTOR MUST ALSO BE A BONA FIDE RESIDENT OF THE STATE OF CALIFORNIA AND MUST MEET CERTAIN OTHER CRITERIA.

DUE TO THE UNCERTAINTY OF THE NATURE OF THIS INVESTMENT AND ASSOCIATED RISKS, THIS OFFERING SHOULD BE CONSIDERED ONLY BY THOSE PERSONS WHO CAN AFFORD TO ASSUME A HIGH DEGREE OF RISK IN MAKING THEIR INVESTMENT.

THE SHARES BEING OFFERED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"). THE PLACEMENT OF THESE SHARES IS BEING MADE BY HDNIPA IN RELIANCE ON §3(a) (11) OF THE ACT AS AN INTRASTATE OFFERING AND §4(2) OF THE ACT TRANSACTION NOT INVOLVING A PUBLIC OFFERING AS DEFINED BY FEDERAL LAW AND REGULATION "D" AS AN OFFERING NOT TO EXCEED ONE MILLION DOLLARS (\$1,000,000.00).

IN ADDITION, THE OFFERING IS RELYING UPON AN EXCEPTION FROM REGISTRATION UNDER STATE LAW PURSUANT TO SECTION 160.105.6 OF TITLE 10 OF THE CALIFORNIA CODE OF REGULATIONS WHICH PROVIDES THAT QUALIFICATION IS NOT NECESSARY OR APPROPRIATE IN THE PUBLIC INTEREST OR FOR THE PROTECTION OF INVESTORS RELATING TO ANY OFFER OR SALE OF SHARES OF CAPITAL STOCK ISSUED BY A PROFESSIONAL CORPORATION ORGANIZED UNDER THE PROFESSIONAL CORPORATION ACT AT CALIFORNIA CORPORATIONS CODE SECTION 13400, ET SEQ.

AS A PREREQUISITE OF ANY SALE, HDNIPA WILL BE RELYING ON CERTAIN REPRESENTATIONS AND WARRANTIES FROM THE PROPOSED INVESTOR AS SET FORTH IN THE SUBSCRIPTION AGREEMENT.

THIS OFFERING CIRCULAR IS SUBMITTED IN CONNECTION WITH THE PLACEMENT OF THESE SHARES AND MAY NOT BE REPRODUCED FOR ANY OTHER PURPOSE.

THE SHARES OFFERED HEREBY ARE OFFERED SUBJECT TO PRIOR PLACEMENT, ACCEPTANCE AND APPROVAL BY HDNIPA, AND THE RIGHT OF HDNIPA TO TERMINATE THE OFFERING WITHOUT PRIOR NOTICE OR TO REJECT ANY SUBSCRIPTION.

THESE SHARES ARE NON-LIQUID. THERE IS NO MARKET FOR THESE SHARES, AND IT IS UNLIKELY THAT ONE WILL DEVELOP. THE TRANSFERABILITY OF THE SHARES IS LIMITED AND THE STOCK SHOULD ONLY BE CONSIDERED FOR LONG TERM INVESTMENT.

THIS OFFERING CIRCULAR IS INTENDED ONLY TO FURNISH INFORMATION TO THE PROPOSED INVESTOR WITH RESPECT TO THE INVESTMENT DESCRIBED. HDNIPA RESERVES THE RIGHT, IN ITS SOLE DISCRETION, TO ACCEPT OR REJECT ANY SUBSCRIPTIONS TO ACQUIRE SHARES ITSELF AND TO TERMINATE THIS PLACEMENT AT ANY TIME.

THIS OFFERING CIRCULAR INCLUDES SUMMARIES AND DESCRIPTIONS OF VARIOUS DOCUMENTS. COMPLETE ACCESS TO RELEVANT DOCUMENTS AND RECORDS SHALL BE MADE AVAILABLE UPON REQUEST BY THE PROPOSED INVESTOR.

PROSPECTIVE INVESTORS ARE NOT TO CONSTRUE THE CONTENTS OF THIS OFFERING CIRCULAR AS LEGAL, BUSINESS, SECURITIES, OR TAX ADVICE. EACH INVESTOR SHOULD CONSULT SUCH INVESTOR'S OWN ATTORNEY, BUSINESS ADVISOR AND TAX ADVISOR AS TO THE LEGAL, BUSINESS, TAX AND RELATED MATTERS CONCERNING THIS INVESTMENT. ALTHOUGH THE INFORMATION CONTAINED HEREIN NECESSARILY INCORPORATES SIGNIFICANT ASSUMPTIONS AS WELL AS FACTUAL MATTERS, NO REPRESENTATIONS OR WARRANTIES CAN BE MADE THAT ANY ASSUMPTIONS ARE VALID.

NO OFFERING LITERATURE OR ADVERTISEMENT IN WHATEVER FORM SHALL BE EMPLOYED IN THE OFFERING OF THESE UNITS EXCEPT FOR THIS OFFERING CIRCULAR AND THE STATEMENTS CONTAINED HEREIN. NO PERSON HAS BEEN AUTHORIZED TO MAKE ANY REPRESENTATION OR GIVE ANY INFORMATION WITH RESPECT TO THIS OFFERING, EXCEPT THE INFORMATION CONTAINED HEREIN.

DELIVERY AUTHORIZED BY:

HUMBOLDT-DEL NORTE INDEPENDENT
PRACTICE ASSOCIATION, A California
Professional Medical Corporation

HUMBOLDT-DEL NORTE INDEPENDENT PRACTICE ASSOCIATION.

OFFERING OF SERIES "A" COMMON VOTING STOCK

INTRODUCTION

This Offering Circular summarizes information relevant to the offered sale of common voting stock of HUMBOLDT-DEL NORTE INDEPENDENT PRACTICE ASSOCIATION. Particular attention is directed to the information summarized below, including all exhibits to this Offering Circular.

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I. SUMMARY OF THE OFFERING

A. The HUMBOLDT-DEL NORTE INDEPENDENT PRACTICE ASSOCIATION ("HDNIPA") is a California professional medical corporation formed on December 28, 1994, by the Humboldt-Del Norte Foundation for Medical Care (the "Foundation"). The primary activity of the corporation will be to contract with health plans to provide, or arrange for the provision of designated health care services to the health plan's enrollees, through HDNIPA'S panel of physicians and contracting providers.

B. Terms of Sale of Shares. This offering is a subsequent offering of Series "A" common voting stock which is priced at one thousand (\$1,000.00) dollars per share. The opportunity to subscribe will be presented to physicians practicing in Humboldt and Del Norte counties. However, subscriptions will be accepted only from physicians who are duly licensed to practice medicine in the state of California, who submit fully completed and executed subscription documents and who otherwise meet shareholder requirements hereinafter set forth. The purchase price is payable in full upon subscription. This offering will be subject to the prior approval and acceptance by HDNIPA.

C. Liability of Shareholders. The liability of a shareholder will generally be limited to the amount such shareholder has contributed to the capital of the corporation in payment for the stock. No direct liability is anticipated to any holder of common voting stock for the obligations of HDNIPA solely as a consequence of ownership of such stock. There may, however, be additional liability for each shareholder based on the risks assumed in agreeing to be a participating provider for contracting health plans or in otherwise serving in a representative capacity for the IPA (e.g., as a director or officer).

D. Summary of General Operations. The formation of the HDNIPA is an at-risk venture whereby interested and eligible physicians who may otherwise be competitors will come together to pool their capital in order to finance a network of physicians. Shareholder/physicians shall share the risk of adverse financial results from the venture as well as the possible rewards associated with the potential growth of the IPA.

The IPA will be based on a "primary care model" utilizing a "care coordinator" to manage the care rendered. This is an important element of managed care that is being demanded by the marketplace. Under this model, the primary care physician ("PCP") will have the responsibility of directing the care of his or her members. Primary care physicians will include family and general practice, general internal medicine, pediatricians and OB/GYNs, if the latter so choose. The PCP will decide which specialist is to be used, taking into consideration the patient's needs and desires.

Members must select a PCP at the time of their enrollment in the health plan. It will be critical to define a physician friendly working definition for the care coordinator.

Ownership/Membership: There shall be two classes of Shareholders: Voting and Non-Voting. Each Shareholder shall be issued no more than one (1) share of stock which will also be of one class designated as "Common." The Common shares shall be divided into two series to be designated "Series A voting common" and "Series B non-voting common." Such stock in the corporation may be issued in a manner as may be determined by the Board of Directors, providing one vote per Series A Shareholder. Each physician agreeing to become a shareholder will submit an application to the IPA for the IPA's acceptance and if approved, shall have the subsequent right to share in the benefits of the organization. While there are securities issues to address first (both in the State of California and the State of Oregon), Oregon physicians who meet all criteria for participation and are part of the referral patterns of Humboldt and Del Norte County physicians will be allowed to be shareholders of the IPA and as such, granted all rights of membership. It is reasonable to expect the initial stock issuance to take as much as 60 days to complete.

The Board of Directors will act as the membership committee. All contracting providers and Shareholders will have their credentials reviewed at least every two years. Factors to be considered will be determined by the Board of Directors and may include information not considered upon initial application to the corporation.

The HDNIPA will be based on an exclusive approach to physician participation. The Board of Directors reserves the right to close the panel to any physician based on individual-specific quality of care/utilization issues as to be provided for in the IPA's bylaws.

The redemption and associated valuation of shares shall be outlined in the corporation's bylaws and address death, disability, divorce, retirement and relocation of Shareholders.

II. DESCRIPTION OF STOCK OFFERED

HDNIPA is a California professional medical corporation, incorporated on December 28, 1994. As of the initial stock offering, HDNIPA had no issued or outstanding shares of its Series "A" common voting stock. HDNIPA was authorized to issue 1,000 shares of its Series "A" common voting stock. As described herein below, 1,000 authorized, but unissued shares of common voting stock were made available to qualified individuals pursuant to the original offering.

By this offering, HDNIPA expects to offer no more than three hundred (300) of its authorized unissued shares of common voting stock. An eligible physician may purchase one share of the stock of HDNIPA at the purchase price of one thousand dollars (\$1,000.00).

To subscribe for shares during this offering, an eligible physician must complete and execute the Subscription Agreement, including all associated forms, which are attached hereto as part of Exhibit "B" and deliver these documents, together with a check in the full amount of the subscription price, to HDNIPA. The subscriptions will be subject to the prior acceptance and approval of HDNIPA as set forth above. Rejected subscriptions will be returned to the investors by HDNIPA, without interest. HDNIPA reserves the right to extend an offering of its authorized outstanding unissued shares at some later time upon terms it deems appropriate. The common stock which is being offered pursuant to this Offering Circular shall have and possess voting rights and powers.

III. RISK FACTORS

The acquisition of the common voting stock of HDNIPA offered hereby involves a high degree of risk and is suitable only for individuals of substantial financial means whose need for liquidity, if any, will not be adversely affected by acquiring this non-liquid asset. Investors should consider, in addition to the materials previously set forth, the following risk factors:

1. Absence of Market for Stock. The sale, transfer or other disposition of the common voting stock sold hereunder is subject to substantial restrictions on transfer. It is unlikely that a public market for the stock will develop. Consequently, holders of common voting stock sold hereunder will not be able to liquidate their investment in the event of an emergency or for any other reason. In addition, there can be no assurance that HDNIPA will operate at a level of profitability which will create a market for the stock.

2. Lack of Working Capital. While HDNIPA will have sufficient working capital for its initial operations, expansion and competition may significantly reduce its working capital. To the extent HDNIPA does not have adequate capital, it may elect to obtain authorization for and to sell additional shares of stock. If HDNIPA so elects, it may be necessary to seek a permit from the California Department of Corporations by filing an application for qualification of securities, unless the offering would be exempt under state and federal securities laws. However, there can be no assurance given that such permit would be issued. In the absence of an available exemption under state and federal securities laws or

the absence of a required permit, HDNIPA would not be able to acquire any additional working capital required, which could impair its operation and the value of the stock of HDNIPA.

3. Potential Dilution of Ownership Interest. While there are no present plans or discussions regarding further stock issuances, it is conceivable that some time in the future HDNIPA may establish various options or forms of employee stock ownership participation, such as through employee incentive stock option. Such a plan, if established, could result in a dilution of an investor's percentage ownership interest in the corporation.

4. Lack of Dividends. The primary method for purchasers of stock sold in this offering to receive the return on their capital invested is through the payment of dividends. There is no assurance that the earnings of HDNIPA will be adequate to support the payment of dividends to shareholders or if such earnings are adequate, that they will be used for such purpose.

5. Competition. HDNIPA is engaged in a highly competitive activity. There can be no assurances that such competition will not have an adverse effect on the operations of HDNIPA.

6. Liability as Participating Physician. There is increasing consumer activity in the area of litigation over denial of medical services or the rendering of medical services. While HDNIPA will carry insurance to cover this liability, there is no assurance that liability insurance will continue to be available or, if available, will be available at a reasonable cost. It is also not likely to cover shareholders as participating physicians so they should maintain their own malpractice coverage. Furthermore, no participating physician will be able to bill patients directly and will have to look only to the IPA or the contracting health plan for payment.

7. Risks attendant under antitrust laws and Internal Revenue Code. Although the risks appear to be minimal, formation of a for-profit corporation raises the issue of whether or not it could potentially be part of an "affiliated service group" so as to disqualify retirement plans of participating physicians under Internal Revenue Code ("IRC") section 414(m). While there are generally no safe harbors for this, a for-profit corporation is still the preferred vehicle since there are no known cases where the IRS has challenged such an IPA arrangement under section 414(m) of the IRC. Also, corporate practice of medicine issues are minimized through the use of a professional corporation.

A key concept to understand with respect to the legal structuring of an IPA is that Antitrust laws require that the IPA must be a new product or service and it must include some type of

financial integration such as risk sharing, pooling of capital, centralized business operations or other forms of business integration so that the participating physicians are no longer deemed to be competitors with each other. Providing services at a capitated rate or providing financial incentives to achieve cost containment goals (such as withholds) represent examples of acceptable risk sharing, financial integration mechanisms.

However, even if substantial integration and risk sharing are present, there can still be exposure to antitrust concerns based on the percent of the physicians in the IPA's market area that participate in the IPA. There are no clear-cut guidelines as to what constitutes an acceptable participation rate. However, the Department of Justice and the Federal Trade Commission have created several safe harbors for antitrust concerns. One such safe harbor is limiting the provider panel to 30% or less of the existing providers of any one type in the community. Some sources argue that participation of anywhere from one-third to two-thirds of the local providers are within the safe harbors, depending on the local circumstances. None of these numbers may be realistic in rural settings where participation rates needed for a broad spectrum of services may be much higher. In fact, there are other rural communities where a precedent has been set regarding broad physician participation that remains unchallenged, based on the IPA's devout community interest.

8. Managed Care Experience: HDNIPA will have a lack of managed care experience and minimal sophistication in a financially at-risk relationship which presents a learning curve that will have to be addressed. The use of experienced consultants coupled with on-going communications with providers will minimize this weakness. Also, as a new physician organization is created to respond to market demands, physicians will have to address the issue that all physicians may not be able to participate in the new organization. Those that do participate will be subject to more "business-like" policies and protocols than those of "membership organizations" such as the Foundation for Medical Care and the Medical Society. There is a recognition that things will never be perfect and inequities will develop. There will be an honest effort to deal with these inequities. Finally, in the past, physician organizations have been slow in taking action to respond to long-term market forces. This is a weakness that must be corrected.

Each proposed investor and his or her offeree representative(s) or professional advisor(s) is hereby granted access to all relevant information concerning investment in HDNIPA which it has or can provide without unreasonable expense. With respect to the investment, each proposed investor is encouraged to ask questions of and seek additional information from HDNIPA. All such inquires should be directed to the Board of Directors of HDNIPA.

IV. TERM AND MANNER OF DISTRIBUTION

1. Offering. The shares of Series A common stock offered hereby will only be offered directly by HDNIPA and/or its authorized representatives, officers, directors or employees only to physicians who are duly licensed to practice medicine in the state of California. This offering will terminate thirty (30) days after the date of issuance of this Offering Circular, unless extended by HDNIPA. HDNIPA may extend this offering from time to time without the necessity of amending or supplementing this Offering Circular. Each eligible physician subscriber may purchase one share only.

2. Residency. In order to qualify for an exemption from registration and qualification of the shares with federal agencies, it is the intention of HDNIPA to limit placement of shares to California residents.

3. Subscription. Each investor will be required to pay cash for the total shares subscribed for acquisition at the time the Subscription Agreement and Stock Redemption Agreement are submitted to HDNIPA. Each proposed investor desiring to acquire shares must complete and deliver to HDNIPA a Subscription Agreement in the form attached hereto as Exhibit "B" together with all required information and forms.

A subscription will be deemed to be received by HDNIPA when HDNIPA has received the Subscription Agreement with all information properly completed and properly executed, a properly executed Stock Purchase Agreement signature page and a check for the full amount of the subscription made payable to HDNIPA. These documents should be delivered to:

Humboldt-Del Norte Independent Practice Association
3100 Edgewood Road
Eureka, CA 95501

HDNIPA may reject the Subscription Agreement for any reason, including but not limited to failure to satisfy the criteria for participation in HDNIPA, failure to meet the investment suitability standards or to conform to the requirements of this Offering Circular, insufficient documentation, or such other reason or reasons as HDNIPA may determine to be in the best interests of HDNIPA. Subscriptions may not be revoked, cancelled or terminated by the subscriber.

V. SUITABILITY STANDARDS

Investors who could benefit from this program would be those who could commit capital over a long period with a view toward appreciation in value, but little or no cash flow.

The sale of the units offered hereby is restricted to those Investors who meet the following requirements:

(1) A current license to practice medicine in the state of California and be in good standing with the regulatory agencies of this state;

(2) Active privileges in good standing at a hospital designated by the practitioner as their primary admitting facility;

(3) A valid DEA or CDS certificate issued by the applicable regulatory agency of the state of California;

(4) Graduated from medical school with a degree of Doctor of Medicine (M.D.) or Doctor of Osteopathy (D.O.);

(5) Completed a residency program or have Board certification (or eligible for Board certification);

(6) Professional liability insurance in an amount as determined from time to time by the Board of Directors;

(7) Satisfies cost containment and practice pattern requirements as may be established by the Board of Directors;

(8) Provide care for sponsored members/patients twenty-four hours per day, seven days per week; and

(9) A resident of the State of California.

VI. SUBSCRIPTION REPRESENTATIONS

Since the shares of stock will be offered without registration under the Securities Act of 1933, as amended (the "Securities Act"), subscribers will be required to represent that:

(a) They have the requisite knowledge and experience to participate in this investment;

(b) They understand that the shares have not been registered under the Securities Act, and they have no right to acquire such registration;

(c) The shares are being purchased for their own account for investment and not for the account of any other person and not for resale to others;

(d) They are physicians who are duly licensed to practice medicine in the state of California; and

(e) They understand that their right to transfer their shares will be restricted as set forth in the legend condition, this Offering Circular and the Subscription Agreement, which also include restrictions consistent with the California Corporations Code or Business and Professions Code pertaining to professional corporations.

HDNIPA shall incur no liability nor be responsible to any shareholders for errors, omissions or representations made on any subscription agreement or any other document submitted by subscribers. If HDNIPA is incorrect in its belief as to the circumstances of a particular prospective subscriber, then the delivery of this Offering Circular to such prospective subscriber shall not be deemed to be an offer, and this Offering Circular must be returned to HDNIPA immediately.

VII. RESTRICTION ON REALES AND TRANSFERS

1. Ownership. Series A shares of this Corporation may be owned only by licensed physicians and surgeons as described in Article VII of this Offering Circular.

2. Transfer of Stock. Shares of this Corporation may be transferred only to licensed persons or to the Corporation. The shares of this Corporation owned by a person who dies or becomes a disqualified person as defined in section 13401(d) of the California Corporations Code for a period exceeding ninety (90) days shall be sold or transferred to the Corporation or its shareholders on such terms as are agreed on by the Corporation and its shareholders in a written agreement. Such sale or transfer shall occur not later than six (6) months after the death, and not later than ninety (90) days after the date on which a shareholder ceases to be an eligible shareholder or becomes a disqualified person.

3. Legend Conditions. All share certificates shall bear a legend setting forth restrictions on share ownership and transfer required by law, including the Professional Corporations Regulations adopted from time to time by the California Board of Medical Quality Assurance.

4. Restrictions on the Transfer of Stock. Before there can be a valid sale or transfer of his or her share of the corporation by any holder thereof, he shall first offer said shares to the corporation and then to other eligible individuals in the following manner:

a. Such offering shareholder shall deliver a notice in writing, by mail or otherwise, to the secretary of the corporation, stating the price, terms and conditions of such proposed sale or transfer. Within ninety (90) days thereafter, the corporation shall have the prior right so offered, at the price, terms and

conditions stated in such notice. Should the corporation fail to purchase said share at the expiration of the ninety-day period, the shareholder will be so notified.

b. If the share referred to in said notice to the secretary is not purchased as aforesaid by the corporation, or in accordance with offers made by other shareholders within the period herein above specified, the shareholder desiring to sell or transfer his share may dispose of the share of stock referred to in said notice to the secretary to any person he may so desire as long as he or she would be a qualified shareholder; provided, however, that he shall not sell or transfer the share at a lower price or on terms more favorable to the purchaser or transferee than those specified in said notice to the secretary.

c. Within the limitations herein provided, this corporation may purchase the share of this corporation from any offering shareholder; provided, however, that at no time shall the corporation be permitted to purchase all of its outstanding voting shares. Any sale or transfer, or purported sale or transfer, of the shares of the corporation shall be null and void unless the terms, conditions, and provisions of the Bylaws of the corporation are strictly observed and followed.

d. The Bylaws shall be subject to any Stock Redemption Agreement or other similar agreements entered into by the corporation and/or all of the shareholders.

VIII. CONFLICTS OF INTEREST

HDNIPA is subject to various potential conflicts of interest arising out of its relationship with the Humboldt-Del Norte Foundation for Medical Care, its principals, affiliates and/or various other parties to this transaction. Specifically, both HDNIPA and Foundation contract for certain services with various third parties.

The law firm of Jackson Emerich Pedreira & Fike, A Professional Corporation, has performed legal services for both HDNIPA and Foundation.

HDNIPA and Foundation will share certain management personnel including key executive staff and operations and financial staff. In addition, utilization and peer review personnel may be shared by both companies or may be utilized for both companies through subcontracting arrangements. The foregoing may result in conflicts with respect to the priority of work assignment with respect to such personnel.

IX. FEDERAL TAX CONSEQUENCES

This offering of stock is not designed or intended to provide any form of tax benefits to the purchasers. There are no meaningful tax consequences regarding the purchase of the shares offered hereunder which would distinguish this transaction from any other purchase of common stock of a corporation.

X. ADDITIONAL INFORMATION

1. Legal Proceedings. HDNIPA is not a party to any lawsuit or other legal proceeding as of the date of this Memorandum.

2. Reports to Shareholders. HDNIPA will prepare and distribute to its shareholders, officers and Board and, if required, to the Commissioner of Corporations of the State of California annual reports regarding its financial operations.

3. Other Documents. Copies of all documents not delivered herewith relating to HDNIPA described in this Offering Circular are available from HDNIPA upon request by a proposed investor and will be maintained at 3100 Edgewood Road, Eureka, California 95501, HDNIPA'S place of business within the State of California.

**BYLAWS
of the
HUMBOLDT-DEL NORTE
INDEPENDENT PRACTICE ASSOCIATION**

Includes Changes to Bylaws Originally Approved by the Board of Directors
on 1/10/95 and Subsequently Amended 2/2/95, 7/15/97, 5/16/00, 10/17/00, 5/23/01 and
05/29/02

MAY 29, 2002

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**BYLAWS
OF THE
HUMBOLDT-DEL NORTE
INDEPENDENT PRACTICE ASSOCIATION**

ARTICLE I

NAME AND PURPOSE

Section 1. Name. The name of this corporation is HUMBOLDT-DEL NORTE INDEPENDENT PRACTICE ASSOCIATION.

Section 2. Purpose. The specific and primary purposes for which this corporation is formed are to provide quality health care for the Humboldt-Del Norte region in a coordinated and cost-effective manner which will allow health care resources to be used to improve the community's health and well being. It is also the goal of the IPA to improve health care utilization and costs while maintaining physician autonomy, local control of health care costs and overall quality while taking advantage of managed care contracts. This will be done in a manner that ensures maximum flexibility in an effort to best respond to the dynamic nature of the healthcare environment.

Section 3. Principal Office. The principal office for the transaction of the business of the corporation is fixed and located in the city of Eureka, California, or such other location as may be determined by the Board of Directors.

ARTICLE II

SHAREHOLDERS

Section 1. Classes of Shareholders. There shall be two (2) classes of shareholders in this corporation: Voting and Non-voting. Each shareholder shall be issued no more than one (1) share of stock, which will also be of one class designated as "Common." The Common shares shall be divided into two series to be designated "Series A Voting Common" and "Series B Non-Voting Common."

Section 2. Shareholder Rights and Privileges.

a. Voting Shareholder Qualifications. All currently practicing physicians within the counties of Humboldt and/or Del Norte, who satisfy the following conditions shall be eligible to become shareholders in the corporation by completing a subscription agreement. Such subscription agreement shall be subject to review and approval by the Board of Directors. A physician applicant for shareholder status shall meet all the requirements established in the agency's applicable credentialing policy and procedure as reviewed and approved by the Board of Directors annually. After completing the appropriate committee membership process, and upon approval of a subscription agreement, the Series A shareholders shall have the right to vote and the privilege to attend and take part in all meetings, committees and the Board of Directors. The shareholder shall be eligible to hold any office within the corporation. Unless authorized by the Board of Directors, both cumulative and proxy voting are expressly prohibited. Shareholder rights may be extended to additional providers by the Board of Directors. Whenever a shareholder ceases for any reason whatsoever to be a shareholder of this corporation, all rights and membership in this corporation shall immediately and automatically terminate and cease.

b. Non-Voting Shareholder Qualifications. At the sole discretion of the Board of Directors, non-voting Series B stock may be issued from time to time to medical professionals who are not physicians or who otherwise do not qualify for voting Shareholder status, as long as the applicants meet all requirements applicable to their license level set forth in the Credentialing Policies and Procedures reviewed and approved by the Board of Directors annually, and provided that each non-voting Shareholder shall be a "licensed person" as defined by California Corporations Code section 13401(d). Subject to qualifications or limitations imposed by the Board of Directors in the issuance of non-voting stock, non-voting Shareholders shall have the same rights and privileges as voting Shareholders except that non-voting Shareholders shall not be entitled to vote on any matter whatsoever.

c. Panel Participation Status. After confirmation of membership, anytime that a voting or non-voting shareholder fails to meet credentialing requirements, their corporate membership status will remain active, but their panel participation status will be changed to inactive, and the contracted health plans will be notified that the shareholder is no longer a participating panel provider. At such time as the shareholder can again meet credentialing requirements, the credentialing committee will review and consider restoring the member to active participation on the provider panel.

d. Recredentialing. All contracting providers and Shareholders shall have their qualifications reviewed at least every two (2) years. Factors to be considered will be determined by the Board and may include information not considered on initial application. Failure to satisfy recredentialing requirements shall be grounds for terminating Shareholder rights and/or contractual agreements.

e. Participation Requirements. The corporation may at any time establish withholds, financial structures or other participation requirements with respect to any shareholder or member who is out of compliance with practice pattern or quality objectives as established from time to time by the Board of Directors. Such action may be taken specifically with respect to any non-compliant regardless of action taken with respect to other Shareholders. The participation requirements may include but are not limited to those set forth in Article II Section 2. of these Bylaws.

f. Termination of Membership Rights. The Board of Directors may elect to terminate the membership rights of any member provider for good cause by giving such provider at least thirty (30) days' written notice of termination. As used in these Bylaws, the term "good cause" shall include, but shall not be limited to the following:

- (1) Failure to provide services of acceptable quality;
- (2) Failure to attend patients;
- (3) The provision of services without medical justification or necessity;
- (4) Failure to adhere to the Articles of Incorporation, these Bylaws or to the reasonable rules, regulations and requirements adopted from time to time by the corporation;
- (5) Acts of omissions constituting unprofessional conduct, violations of the principles of medical ethics or acts of moral turpitude.
- (6) Failure to practice medicine in a consistent and effective manner within the then-current agency medical management process.

Except as otherwise provided above, the procedure to be followed by this corporation with respect to termination shall be the procedure set forth in the Corrective Action and Fair Hearing Procedures as established from time to time by the Board of Directors, and as referenced under Article XI Section 12 of these Bylaws.

Notwithstanding termination of membership rights, a provider may remain a Shareholder and member in the corporation for so long as he or she continues to meet Shareholder/member eligibility requirements.

g. Disqualification. If any Shareholder of this corporation becomes legally disqualified to practice medicine in California, or if he or she

otherwise fails to continue to meet the shareholder eligibility requirements, the corporation may terminate his or her shareholder rights and all contractual arrangements with the shareholder immediately upon written notice. If a Shareholder learns of a disqualifying event and fails to notify the corporation within the ten (10) day period following such an occurrence, his or her shareholder rights and all contractual arrangements with the corporation shall thereupon terminate immediately without further notice by the corporation.

h. Appeal. In the event an applicant's membership is denied, or a decision is made to terminate a Shareholder's rights, the applicant or shareholder shall have the right to appeal the decision of the Board of Directors within thirty (30) days following notification by the Board of its denial of the membership application. Such appeal shall be pursuant to mediation. If mediation is unsuccessful, binding arbitration will be used as stated in the corrective Action and Fair Hearing Procedures, as established from time to time by the Board of Directors.

i. Shareholder Duties.

(1) Adhere to Policies and Contracts. Every shareholder shall abide by and support the Articles of Incorporation, Bylaws, purposes and policies of the corporation and shall participate in the corporation. As a shareholder of the Independent Practice Association, each shareholder shall be familiar with the purposes of the corporation and shall be bound by any agreements, contracts or statements of policy entered into or adopted by the corporation concerning the Independent Practice Association, peer review, quality assurance or other health care programs. Failure to comply with any agreements, contracts or statements of policy may result in the termination of shareholder rights in the corporation or participation in its Independent Practice Association.

(2) Referrals. Each shareholder shall use best efforts to refer covered subscribers, dependents or other

beneficiaries under corporation sponsored health plans to other participating corporation shareholder physicians, participating laboratories or radiology groups or other participating health care professionals.

(3) Provision of Records. Each shareholder shall provide, at no cost, the medical records that are requested by the corporation in order for it to perform cost containment, quality assurance and peer review programs as may be implemented by the Board of Directors.

j. Shareholder Privileges.

(1) Election of Board Members. The shareholders of Series A stock shall have the power to elect and/or appoint the Board Members and to vote on other matters set before the shareholders.

(2) Shareholders on Committees. Unless otherwise provided in these Bylaws, shareholders shall have the privilege of serving on any committee of this corporation.

Section 3. Record Date. The Board may fix, in advance, a record date for the determination of the shareholders entitled to notice of any meeting or to vote or entitled to receive payment of any dividend or other distribution, or any allotment of rights, or to exercise rights in respect of any other lawful action. The record date so fixed shall be not more than sixty (60) nor less than ten (10) days prior to the date of the meeting nor more than sixty (60) days prior to any other action. When a record date is so fixed, only shareholders of record on that date are entitled to notice of and to vote at the meeting or to receive the dividend, distribution, or allotment of rights, or to exercise of the rights, as the case may be notwithstanding any transfer of shares on the books of the corporation after the record date. A determination of shareholders shall apply to any adjournment of the meeting unless the Board fixes a new record date for the adjourned meeting. The Board shall fix a new record date if the meeting is adjourned for more than forty-five (45) days.

If no record date is fixed by the Board, the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held. The record date for determining shareholders for any purpose other than set forth in this Section 6 or Section 9 of this Article shall be at the close of business on the day on which the Board adopts the resolution relating thereto, or the sixtieth day prior to the date of such other action, whichever is later.

Section 4. Term of Shareholder/Membership Status. Shareholder status shall continue unless earlier terminated in accordance with the provisions hereof. If it is the shareholder's desire to terminate his or her shareholder rights, such termination shall be effective as of the first day of the month following receipt of written notification by the Board of Directors of the shareholder's election to terminate his or her shareholder rights. In such event, his or her written notification shall include the reasons for the termination.

Section 5. Meetings of Shareholders.

a. Annual Meetings. Shareholders of this corporation shall hold one annual meeting each year at such time and place as shall be fixed by resolution of the Board of Directors for the purposes of filling vacancies, in addition to conducting such other business as may come before the shareholders.

b. Special Meetings.

(1) Authorized Persons Who May Call a Meeting. A special meeting of the shareholders may be called at any time by any of the following: the Board of Directors, the Chief Executive Officer (CEO) of the corporation or fifty percent (50%) or more of the voting shareholders. In addition, a special meeting of voting shareholders for the purpose of removal of Board Members and election of their replacements may be called by ten percent (10%) or more of all voting shareholders.

(2) Meetings Called by Shareholders. If a special meeting is called by shareholders other than the CEO, the request shall be submitted by such shareholders in writing, specifying the general nature of the business proposed to be transacted, and shall be delivered personally or sent by registered mail CEO of the corporation. The officer receiving the request shall cause notice to be promptly given to the shareholders entitled to vote, in accordance with the provisions of these Bylaws, that a meeting will be held, and the date for such meeting, which date shall be not less than thirty-five (35) nor more than ninety (90) days following the receipt of the request. If the notice is not given within the twenty (20) days after receipt of the request, the persons entitled to call the meeting may give the notice.

(3) Meetings Called by Board. Nothing contained in this subsection shall be construed as limiting, fixing or affecting the time when a meeting of shareholders may be held when the meeting is called by action of the Board of Directors.

c. Notice of Shareholders' Meetings.

(1) Contents of General Notice. All notices of meetings of shareholders shall be sent or otherwise given in accordance with the provisions of these Bylaws not less than ten (10) nor more than ninety (90) days before the date of the meeting; provided, however, that notice be given by first-class mail or facsimile. The notice shall specify the place, date, and hour of the meeting and (a) in the case of a special meeting, the general nature of the business to be transacted, and no other business may in that case be transacted or (b) in the case of the annual meetings, those matters which the Board of Directors, at the time of giving such notice, intends to present for action by the shareholders.

(2) Shareholders to Whom Notice Must be Given. Notice pursuant to this section must be given to each shareholder of Series A stock who on the record date for notice of the meeting is entitled to vote thereat. The record date shall be as determined by the Board of Directors of the corporation. If no record date is fixed by the Board of Directors of the corporation, shareholders at the close of business on the business date preceding the day in which notice is given or, if notice is waived, at the close of business on the business date preceding the day on which the meeting is held, are entitled to notice of a meeting of shareholders.

(3) Agenda Items Requiring Notice. If action is proposed to be taken at any meeting for approval of any of the following proposals, the notice shall also state the general nature of the proposals. Without proper notice procedure, shareholder action on such items is invalid unless approved unanimously by those entitled to vote or a notice or written waiver of notice states the general nature of the proposal(s):

(a) Removing a Board Member without cause;

(b) Filling vacancies on the Board of Directors by the shareholders; In addition, the notice shall contain the names of those members who have been nominated to serve as Board Members;

(c) Amending the Articles of Incorporation or the Bylaws of the corporation;

(d) Voluntarily dissolving the corporation;

- (e) Any application, use, loan and/or transfer of any substantial portion of the assets of the corporation;
- (f) Approving a contract transaction in which a board member has a material financial interest;
- (g) Approving a plan of distribution of assets, other than cash, in liquidation of the corporation.

(4) Manner of Giving Notice. Notice of any meeting of shareholders shall be given either personally, by first-class mail or facsimile addressed to each shareholder either at the address of the shareholder appearing on the books of the corporation or the address given by the shareholders of the corporation for the purpose of notice. If no address appears on the corporation's books and no other has been given, notice shall be deemed to have been given notice is published at least once in a newspaper of general circulation in the county where the office is located. Notice shall be deemed to have been given at the time when deposited in the mail or on the date appearing on the transmittal sheet if sent via facsimile. Whenever any member entitled to vote has been absent from any membership meeting, whether annual or special, an entry in the minutes to the effect that notice has been duly given shall be conclusive and incontrovertible evidence that due notice of such meeting was given to such member or members as required by law or the Bylaws of this corporation.

(5) Affidavit of Mailing Notice. An affidavit of the mailing or other means of giving any notice of any shareholders' meeting may be executed by the Secretary/designated staff.

d. Voting.

(1) Eligibility to Vote. If a record date is fixed for a meeting, then only Series A Shareholders as of such date are entitled to vote. Series A shareholders who are otherwise eligible to vote as of the day of a meeting or an adjourned meeting shall likewise be entitled to vote at that meeting.

(2) Manner of Casting Votes. All shareholders entitled to vote on any item may cast one vote either in person or by an absentee vote written and signed by the shareholder and delivered to the Board of Directors.

(3) Voting. Each shareholder shall have one vote. Cumulative voting shall not be allowed with respect to

voting for any matter which may be decided upon by the shareholders. In voting, each shareholder shall have one vote for each position and may not accumulate votes.

(4) Balloting By Mail. The Board of Directors may conduct balloting of the shareholders by mail provided that the ballots are sent to each shareholder at least twenty (20) days prior to the date the ballots will be tallied; that the ballots contain a return address and the date on which they are to be tallied; and that the shareholders are duly notified of the results of the ballot.

(5) Requirement for Majority Represented. If a quorum is present, the affirmative vote of the majority of the shareholders represented at the meeting or casting their ballot by mail, entitled to vote and voting on any matter shall be the act of the shareholders, unless the vote of a greater number is required under these Bylaws.

(6) Proxy Voting. There shall be no proxy voting unless the Board of Directors authorizes such voting on specified matters by resolutions duly authorized.

(7) Cumulative Voting. Cumulative voting is expressly prohibited.

e. Adjourned Meeting. Any shareholders' meeting, annual or special, whether or not a quorum is present, may be adjourned from time to time by the vote of the majority of the shareholders represented at the meeting. But in the absence of a quorum, no other business can be transacted at the meeting, except as provided in this Article. When a shareholders' meeting is adjourned to another time and place, notice need not be given of the adjourned meeting if the time and place thereof are announced at the meeting in which the adjournment is taken.

However, an effort will be made to notify those shareholders not present at the original meeting regarding the time and place of the adjourned meeting. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than forty-five (45) days or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each shareholder of record entitled to vote at the meeting.

f. Waiver of Notice or Consent by Absent Shareholders.

(1) Written Waiver or Consent. The transactions of any meeting of shareholders, either annual or special, however called or noticed, and wherever held, shall be as valid as though taken at a meeting duly held after regular

call and notice, if a quorum be present in person, and if, either before or after the meeting, each person entitled to vote, who was not present in person, signs a written waiver of notice or consent to a holding of the meeting, or an approval of the minutes. The waiver of notice or consent need not specify either the business to be transacted or the purpose of any annual or special meeting of shareholders, unless otherwise stated in these Bylaws. All such waivers, consents, or approvals shall be filed with the corporate records or made a part of the minutes of the meeting.

(2) Waiver by Attendance. Attendance by a shareholder at a meeting shall constitute a waiver of notice of that meeting, except when the person objects at the beginning of the meeting to the transaction of any business due to the inadequacy or illegality of the notice. Also, attendance at a meeting is not a waiver of any right to object to the consideration of matters not included in the notice of the meeting, if that objection is expressly made at the meeting.

g. Quorum. The presence of fifty percent (50%) of the shareholders entitled to vote at any meeting shall constitute a quorum for the transaction of business. The shareholders present at a duly called or held meeting at which a quorum is present may continue to do business until adjournment, notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

h. Chairperson. At all meetings of the shareholders, the CEO or his or her designee(s) shall preside as Chairperson.

i. Roster. A written record of the shareholders of this corporation shall be kept by the Secretary or a designated staff member appropriately licensed to hold the position of Secretary/CFO (see Exhibit A, section 13401.5 of the California Corporations Code), and said record shall contain the name and address of each shareholder, and in any case where the status of any shareholder has been terminated for any reason whatsoever, an entry of such fact, together with the date upon which such status was so terminated, shall be noted in said written record.

Section 6. Action Without Meeting. Any action which, under any provision of the California Corporations code, may be taken at a meeting of the shareholders except approval of an agreement for merger or consolidation of the corporation with other corporations, may be taken by the shareholders without a meeting if authorized by a writing signed by all of the persons who would be entitled to vote upon such action at a meeting and filed with the Secretary/designated staff of the corporation.

Section 7. Meeting by Telephone. Any meeting of the Shareholders may be held by telephone conference call in which all or certain of the shareholders are not physically present at the place of the meeting, but participate in the conduct thereof by telephone, and for the purpose of determining the presence of a quorum and for all voting purposes, such shareholders shall be considered present and acting.

Section 8. Proxies. Every person entitled to vote or execute consents shall have the right to do so either in person or by one or more agents authorized by a written proxy executed by such person or his duly authorized agent and filed with the Secretary/designated staff of the corporation. Any proxy duly executed is not revoked and continues in full force and effect until an instrument revoking it or a duly executed proxy bearing a later date if filed with the Secretary/designated staff of the corporation; provided that no such proxy shall be valid after the expiration of eleven (11) months from the date of its execution unless the person executing it specifies therein the length of time for which such proxy is to continue in force, which in no case shall exceed seven (7) years from the date of its execution.

A proxy is not revoked by the death or incapacity of the maker unless, before the vote is counted or the authority is exercised, written notice of the death or incapacity is given to the corporation. Notwithstanding that a valid proxy is outstanding, the powers of the proxy holder are suspended, except in the case of a proxy coupled with an interest, which states that fact on its face, if the person executing the proxy is present at the meeting and elects to vote in person.

Section 9. Joint Stockholders. Shares standing in the names of two or more persons is not allowed.

ARTICLE III

BOARD OF DIRECTORS

Section 1. Number, Term of Office and Composition.

a. Number of Board Members. There shall be up to seventeen (17) Board Members of this corporation.

b. Term. The Board of Directors shall be elected by the voting shareholders. The term of office for each person elected to the Board of Directors shall be for three (3) years, commencing on the first day of the month after the month in which he/she is elected. New Board Members shall assume their duties at the first meeting of the Board of Directors subsequent to the election. The Board of Directors may, in its discretion, determine the mechanism for election so that the terms will be

staggered. The initial Board will determine a method to provide for staggering the terms to ensure one-third (1/3) of the terms expire each year.

c. Composition. The up to seventeen (17) member Board of Directors shall be comprised of equal numbers of Primary Care Physicians and Specialists (OB/GYN'S shall be considered either PCPs or Specialists for purposes of Board representation based on their choice of agency participation status), and one Series "B" member, as nominated by the Series B shareholders for the same term as other board members. Within the PCP and Specialist categories, geographical representation will be maintained on a regional basis in a manner that is roughly proportionate to the respective PCP or Specialist membership at large. The CEO shall serve as chairperson of the Board of Directors. The chairperson shall preside over meetings but shall not vote except in the case when there is a tie vote of the remaining board members.

If CEO is not a physician board member, his position does not carry a vote. In this setting, the tie-breaking vote would be delegated to the agency's Chief Medical Officer.

d. Vacancies. Any vacancy occurring in the Board of Directors shall be filled for the unexpired term by the majority vote of the remaining board members.

Section 2. Qualifications-Series "A" member. All Board Members shall be in good standing as shareholders of the corporation. No Board Member shall be required to furnish any bond or surety for the faithful performance of his duties as a director. Board Members will be required to disclose any material relationship which might influence their duties as a member of the Board of Directors of this corporation.

Section 3. Nominations and Election of Board Members.

a. Nominations. The Board of Directors shall nominate candidates to fill all of the expired terms each year. Such nominees shall not be board members of a competing IPA or contracting providers or members of a competing IPA which has twenty percent (20%) or more of the participating physicians in any one specialty in Humboldt and Del Norte counties.

(1) Nominations by Shareholders. Shareholders may nominate candidates for Board Member positions at any time before the thirtieth (30th) day preceding such election. On timely receipt of a petition signed by ten percent (10%) of the shareholders, the Secretary/staff designee shall cause the names of the candidates named on it to be placed on the ballot. Such nominees must comply with all guidelines/requirements as set forth in these Bylaws regarding qualifications of Board members.

(2) Nominations From the Floor. If there is a meeting to elect Board Members, any shareholder present may place names in nomination for election. Such nominees must comply with all guidelines/requirements as set forth in these Bylaws regarding qualifications of Board members.

b. Manner of Conducting Election. The election of Board Members shall be conducted in a manner to be determined by the Board of Directors; provided, however, that the election of shareholders to the Board of Directors shall be in accordance with the following provisions.

(1) Mailing Election Material. On written request by any nominee for election to the Board and accompanying payment of the reasonable costs of mailing (including postage) the corporation shall, within ten (10) business days after the request (provided payment has been made), mail to all shareholders, or to such portion of them as the nominee may reasonably specify, any material that the nominee may furnish and that is reasonably related to the election, unless the corporation within five (5) business days after the request allows the nominee, at the corporation's option, the right to do either of the following:

(2) Inspect and copy the record of all the shareholders' names, addresses, and voting rights at reasonable times, five (5) business days' prior written demand on the corporation, which demand shall state the purpose for which the inspection rights are requested; or

(3) Obtain from the Secretary/designated staff of the corporation, on written demand and tender of a reasonable charge, a list of the names, addresses, and voting rights of those shareholders entitled to vote for the election of Board Members, as of the most recent record date for which it has been compiled or as of a date specified by the shareholders subsequent to the date of demand. The shareholder list shall be made available on or before the latter of ten (10) business days after the demand is received or after the date specified in it as the date of which the list is to be compiled.

c. Refusal to Publish or Mail Material. The corporation may not decline to publish or mail material that it is otherwise required hereby to publish or mail on behalf of any nominee, on the basis of the content of the material, except that the corporation or any of its agents, officers, Board Members, or employees may seek and comply with an order of the Superior Court allowing them to delete material that the court finds will expose the moving party to liability.

d. Use of Corporate Funds to Support Nominee. No corporate funds may be expended to support a nominee for Board Member.

e. Election. Elections will be conducted on a regional basis with the Primary Care Physicians voting only for the Primary Care representative(s) from their respective region. For the purpose of this document, the regions are: Del Norte, Arcata/McKinleyville/Willow Creek, Eureka, and Fortuna. This will be the same for Specialists who will vote only for the Specialist representative(s) from their respective region. Candidates receiving the highest number of votes within each regional category shall be elected as Board Members. In the event of a tie vote, the two candidates with the same number of votes will be placed in a run-off election to be conducted in the same manner as the election which resulted in the tie.

Section 4. Corporate Powers Vested in Board of Directors.

a. General Powers. Subject to these Bylaws, the Board of Directors shall have full power to control and manage the property and conduct the affairs and business of this corporation; and in furtherance of the foregoing powers, but not in limitation thereof, it shall have the power:

(1) To select and remove all officers, agents, and employees of the corporation; to prescribe such powers and duties for them as may not be inconsistent with law, with the Articles of Incorporation, or with these Bylaws; fix their compensation; and require from them security for faithful service.

(2) To conduct, manage and control the affairs and business of the corporation; and to make such rules and regulations as are not inconsistent with law, with the Articles of Incorporation, or with these Bylaws; as they may deem best.

(3) To adopt, make, and use a corporate seal; to procure the application forms and to alter the form of such seal and such application forms from time to time.

(4) To borrow money and incur indebtedness for the purposes of the corporation; and to cause to be executed and delivered therefor in the corporate name promissory notes, bonds, debentures, deeds of trust, mortgages, pledges, hypothecations; or other evidence of debt and securities therefor.

(5) To appoint committees as necessary, and

(6) To consider, approve or disapprove all recommendations of any committee.

b. Specific Powers. The Board Members shall:

(1) Management Property. Use ordinary care and diligence in the affairs of the corporation, and manage the corporate assets in the same manner which people of prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition thereof, considering the probable income, as well as the probable safety of the capital.

(2) Good Faith. Act in the highest good faith in the affairs of the corporation.

(3) Contracts. Negotiate contracts with independent practice associations and health maintenance organizations at such time or times, in such manner, and under such terms as they determine. Such contracts will only be considered in which a significant panel of physician providers is available to assure adequate access to patient care throughout the local area. This power to negotiate non-risk arrangements with preferred provider organizations or similar organizations specifically prohibits the corporation from establishing physician reimbursement levels pursuant to acts or omissions otherwise prohibited by the antitrust laws of the United States.

(4) Keep Minutes and Address Book. Keep, or cause to be kept, minutes of their meetings, a record of all questions voted on and the vote thereon, as well as a book setting forth the names, addresses, and telephone numbers of all Board Members, and in the case of the discharge or removal of a Board Member, the date thereof and the manner in which such removal or discharge was effected.

(5) Keep Accounts. Keep, or cause to be kept, adequate and correct accounts of all properties and business transactions of the corporation, including

accounts of its assets, liabilities, receipts disbursements, gains, and losses.

(6) Make Records Available to Assessors. On request of an assessor, make available at a place mutually acceptable to them and the assessor a true copy of all business records relevant to the amount, cost, and value of the corporate assets subject to local assessment.

(7) Tax Returns and Tax Reports. Prepare and file, or cause to be prepared and filed, all tax returns and tax reports now required, or which may hereafter be required, by any taxing authority, and to publish notice of such reports and to make such reports available to the public when required by law.

(8) Pay Taxes and Assessments. Pay all federal, state, and local taxes, or other assessments, debts, claims, or charges, which may exist against the corporation and are due and owing.

(9) Attorney General. Prepare and file, or cause to be prepared and filed, with the Office of the California Attorney General, such registration, reports, and accountings as are now, or which may hereafter be, required by law.

(10) Legal Actions. Prosecute actions by and on behalf of the corporation and defend any actions against it, and, in connection therewith, to compromise, settle, or arbitrate claims or demands made by or against the corporation.

(11) Carry Out Purposes. Fulfill the purposes of the corporation as declared herein.

(12) Audit Books. Have the books and records of the corporation periodically audited, but not less often than annually, by a certified public accountant and carefully review the audit report.

(13) Professional Liability Insurance. Maintain such insurance in amounts prudent for the corporation.

c. Specific Limitations. The Board Members shall not:

(1) Personal Interest. Use or deal with the corporate assets for their own profit, or for any other purpose unconnected with the corporation, in any manner.

(2) Transactions. Nor shall any of their agents take part in any transactions concerning the corporation

in which they, or anyone for whom they act as agent, have an interest, present or contingent, adverse to this corporation or its purposes.

(3) Mingle Property. Willfully and unnecessarily mingle the corporate assets with their own so as to constitute themselves in appearance the absolute owners thereof.

Section 5. Quorum. A majority of the Board Members shall constitute a quorum for the transaction of business.

Section 6. Removal and Resignation of Board Member.

a. Removal of a Board Member. Any Board Member may be removed from office by the affirmative vote of a majority of the Primary Care or Specialist shareholders (in accordance with the respective Board Member's specialty of practice, e.g. primary care or specialist). The vote may take place at any annual or special meeting of the shareholders, or upon a written vote after written notice to the shareholders, or upon a written vote taken after written notice to the affected Board Member has been mailed to such Board Member at his or her last known address at least ten (10) days prior to the date of the meeting or mailing of the ballots. Prior to such vote, the Board must clearly afford the affected Board Member the opportunity to be heard orally and/or in writing, not less than five (5) days prior to the vote.

b. Removal of Board Member - Conflict of Interest. If any Board member is a Board member of a competing IPA or a contracting provider or a member of a competing IPA, at the point that the competing IPA has 20% or more of the participating physicians of any one specialty in Humboldt and Del Norte Counties, the remaining Board members (except for the member(s) subject to the potential conflict of interest) shall vote as to whether or not a conflict of interest is present and whether the Board member should stay on the Board or be replaced. Removal would be based on a majority vote of the full seated Board.

c. Resignation of Board Member

(1) Except as hereafter provided, a Board Member may resign by giving written notice to the corporation. Absence from more than two (2) consecutive meetings, or four (4) meetings if four (4) or more meetings are called during one calendar year without valid excuse approved by the Board may constitute resignation from the Board.

(2) No Board Member may resign when the corporation would then be left without a duly elected Board Member or Board Members in charge of its affairs.

Section 7. Vacancies. All vacancies on the Board of Directors may be filled by a majority vote of the Board of Directors for the remainder of the vacant term.

Section 8. Meetings of the Board of Directors.

a. Regular Meetings. Regular meetings of the Board of Directors shall be held at least quarterly, at such time and place as the CEO shall determine. Notice thereof shall be given as provided in subsection B hereof. The notice need not specify the nature of the business to be conducted. In the event that the Board Members wish to establish a consistent day, time, and place for regular meetings, Secretary/designated staff, shall notify each Board Member at least fifteen (15) days prior to the first scheduled meeting and no further notice will be required for the remainder of the fiscal year.

b. Special Meetings. Special meetings of the Board of Directors for any purpose shall be called at any time by the CEO, or if he or she is absent, or unable to act, or refuses to act, then any three (3) board members. Written notice of the time and place of special meetings shall be delivered personally to the Board Members, or sent to each Board Member by first-class mail or facsimile addressed to him or her at his or her address as it is shown upon the books of the corporation. At least four (4) days' notice of the time and place of all such meetings shall be given by the Secretary/designated staff to each Board Member if such notice is given by first-class mail or facsimile, or at least two (2) days' notice if such notice is given personally. Such notice shall state the nature of the business to be considered at that meeting and no other business shall be transacted. Special meetings of the Board shall be held at Eureka, California, unless otherwise agreed to by a majority of the Board.

c. Written Consents and Waivers of Notice. The transactions of any meeting of the Board of Directors, however called and noticed, or wherever held, shall be as valid as though a meeting was duly held after regular call and notice, if a quorum be present, and if, either before or after the meeting, each of the Board Members not present sign a written waiver of notice or a consent to holding such meeting or an approval of the minutes thereof. All such waivers, consents, or approvals shall be filed with the corporate records and made a part of the minutes of the meeting.

Section 9. Meetings by Telephone. Any meeting, regular or special, may be held by conference telephone or similar communication equipment, so long as all Board Members participating in the meeting

can hear one another, and all such Board Members shall be deemed to be present in person at such meeting.

Section 10. Action Without Meeting. Any action required or permitted to be taken by the Board of Directors may be taken without a meeting, if all shareholders of the Board, individually or collectively, consent in writing to that action. Such action by written consent shall have the same force and effect as an unanimous vote of the Board of Directors. Such written consent or consents shall be filed with the minutes of the proceedings of the Board.

Section 11. Compensation. By resolution of the Board of Directors, the Board Members may be paid their expenses, if any, for attendance at each meeting of the Board of Directors and shall be paid a fixed sum of one hundred dollars (\$100.00) for attendance at each such meeting or a stated salary as Board Member. No such payment shall preclude any Board Member from serving the corporation in any other capacity and receiving compensation therefor.

ARTICLE IV

OFFICERS

Section 1. Officers. The officers of this corporation, including but not limited to a Chief Executive Officer (CEO), shall be appointed by the Board of Directors. Each shall hold his/her office for a period of one (1) year, or until he/she shall resign or shall be removed or otherwise disqualified to serve, or his/her successor shall be chosen. Furthermore, any officer, including but not limited to the CEO can be relieved of his/her office and associated duties at any time by the directive of the Board of Directors. Nothing herein shall preclude any officer from being compensated on terms and conditions as may be determined by the Board of Directors.

Section 2. Election. Any officers of the corporation shall be chosen annually by the Board of Directors and each shall hold his or her office for the full term, or until he or she shall resign or shall be removed or otherwise disqualified to serve, or his or her successor shall be elected and qualified.

Section.3. Removal and Resignation. Any officer including but not limited to a CEO can be removed from their position and associated duties at any time by a directive of the Board. Any officer may be removed, either with or without cause, by a majority vote of the Board of Directors. Intent of such action must be set forth in writing to include the reasons and grounds therefore and mailed to such officer at his or her last known address at least fifteen (15) days prior to the date such action is to be taken and

must clearly afford the officer an opportunity to be heard by the Board of Directors prior to said vote.

Any officer may resign at any time by giving written notice to the corporation. Any such resignation shall take effect on the date of the receipt of such notice or at any later time specified therein; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 4. Vacancies. In the event of a vacancy in any office because of death, resignation, removal, disqualification, or any other cause, the Board of Directors may appoint a duly qualified member to fill the office for the remainder of the term.

Section 5. Duties of Officers.

a. Chief Executive Officer (CEO). The CEO, who shall also serve as Chairperson of the Board, and shall be, subject to the control of the Board Members, have general supervision, direction and control of the business and officers of the corporation. He or she shall preside at all meetings of the shareholders and at all meetings of the Board Members. He or she shall be an ex-officio member of all standing committees, if any, including the executive committee, , and shall have the general powers and duties of management usually vested in the office of the CEO of a corporation, and shall have such other powers and duties as may be prescribed by the Board of Directors or by these Bylaws.

b. President. A President shall be appointed by the Board of Directors and in the absence or disability of the CEO will perform all the duties of the CEO, and when so acting, shall have all the powers of, and be subject to, all the restrictions upon the CEO. A President shall have such other powers and perform such other duties as from time to time may be prescribed for him or her by the Board Members or by these Bylaws.

Both the following positions (c and d) may be filled by a single appropriately-licensed designated staff member. Please refer to California Corporation Code excerpt (Exhibit A) for licensing requirements.

c. Secretary/designated staff, The Secretary/designated staff shall keep, or cause to be kept, a book of minutes at the principal office of the corporation, or such other place as the Board of Directors may order, of all meetings of the Board of Directors and members, with the time and place of holding, whether regular or special, and if special, how authorized, the notice thereof given, the names of those present at membership meetings, and the proceedings thereof. The Secretary/designated staff shall also keep and maintain the membership roll of the membership of this corporation, and

records of all termination of memberships in this corporation. Secretary/designated staff, shall give, or cause to be given, notice of all membership meetings and Board of directors meetings required by these Bylaws or by the law to be given, and he or she shall keep the seal of the corporation in safe custody, and shall have such other powers and perform such other duties as may be prescribed by the Board of Directors or by these Bylaws.

d. Chief Financial Officer/designated staff. The Chief Financial Officer/designated staff shall act as the treasurer of the corporation. He or she shall have the care and custody of all of the funds of the corporation, and shall deposit or cause to be deposited the same in the name of the corporation in such bank or banks as the Board may designate, and shall disburse the same under such rules and regulations as may be made by the Board of Directors, and shall perform such other duties as the Board of Directors may from time to time prescribe. The Chief Financial Officer/designated staff shall keep full and accurate accounts of receipts and disbursements in books belonging to the corporation, and shall see that all expenditures are duly authorized and are evidenced by proper receipts and vouchers. The Chief Financial Officer/ designated staff shall render to the CEO and the Board Members at the regular meeting of the Board, or whenever they may require it, an account of all of his or her transactions while serving in this capacity, and of the financial condition of the corporation at each annual meeting of the shareholders.

ARTICLE V

COMMITTEES OF THE BOARD

Section 1. Executive Committee. There shall be an Executive Committee, the members of which shall be appointed by the Board of Directors. It is not required that members of the Executive Committee also be members of the Board of Directors. The Executive Committee shall be vested with all of the powers of the Board when the Board is not in session; with the exception of the powers relating to the authority to incur indebtedness on behalf of the corporation, and as otherwise provided by law. Meetings of the Executive Committee will be called at the discretion of the CEO. Three (3) of the members must be present to conduct business. No proxies are recognized. Actions taken by the Executive Committee shall be reviewed by the Board of Directors at its next regular meeting as a standing agenda item. Executive Committee members shall hold as designated by the Board of Directors. Furthermore, the members of the Executive Committee can be relieved of their positions

and associated duties at any time per directive of the Board of Directors.

Section 2. Ad Hoc Committees. Ad Hoc Committees of this corporation, the members of which shall be appointed by the Board of Directors, shall be advisory to the Board. The Chairperson and members of the Ad Hoc Committees will be shareholders in good standing. The Ad Hoc Committees may be, but will not be limited to, the following:

a. Bylaws. Shall periodically review the organization and Bylaws and recommend any desirable changes.

b. Compensation. Shall review and make recommendations concerning investments and financial operating policies and procedures.

c. Other Committees. The CEO and/or Board of Directors may appoint from time to time other committees as may be necessary. An active and dynamic committee structure will facilitate Shareholders' input into action of the corporation when non-geographic representation is a concern.

ARTICLE VI

CORPORATE RECORDS AND REPORTS

Section 1. Inspection of Corporate Records. The books or accounts and the minutes of proceedings of Board Members shall be open to inspection upon the written demand of any Board Member at any reasonable time. Demand of inspection other than at a shareholders' meeting shall be made in writing to the chairperson, or the Secretary/designated staff of the corporation. Pursuant to the above-mentioned notice requirements, shareholders shall also have access to the this information, except for issues discussed in closed session including but not limited to personnel, credentialing and disciplinary matters.

Section 2. Annual Report. The Board of Directors shall cause an annual report to be prepared not later than one hundred twenty (120) days after the close of the corporation's fiscal year. The annual report shall be prepared within one hundred twenty (120) days of the close of its fiscal year and shall contain the following information in reasonable detail:

a. Assets and Liabilities. The assets and liabilities, including the trust funds, of the corporation as of the end of the fiscal year.

b. Changes. The principal changes in assets and liabilities, including trust funds, during the fiscal year.

c. Revenues. The revenue or receipts of the corporation, both unrestricted and restricted to particular purposes, for the fiscal year.

d. Expenses. The expenses or disbursements of the corporation, for both general and restricted purposes, during the fiscal year.

e. Other Information. Any information required by California Corporations Code Section 1501.

ARTICLE VII

CERTIFICATES OF STOCK

Section 1. Stock Issuance. Stock in the Corporation may be issued in a manner as may be determined from time to time by the Board of Directors of the Corporation.

Section 2. Certificates and Records. All certificates shall be consecutively numbered and the names and addresses of all persons owning shares of stock in this corporation shall be entered in books kept for that purpose by the proper officers or agents of this corporation.

A certificate for a share of the capital stock of the corporation shall be issued to each shareholder when any such share is fully paid up. Each such certificate shall be of such form as the Board of Directors may from time to time prescribe. All such certificates shall be signed by the CEO or designated staff member.

Section 3. Mechanics of the Transfer of Stock. Transfers of shares of the capital stock of this corporation, after compliance with the above Bylaws, shall be made only on the books of this corporation by the registered owner thereof, or his duly authorized attorney or with a transfer clerk or transfer agent appointed by the Board of Directors and on surrender of the certificate or certificates for such shares properly endorsed and with all taxes thereon paid.

The person in whose name a share of stock stands on the books of the corporation shall be deemed the owner thereof for all purpose as regards this corporation. However, if any transfer of shares is made only for the purpose of furnishing collateral security, and such fact is made known to corporation's designated agent, the entry of the transfer shall record such fact.

Section 4. Lost, Destroyed or Stolen Certificates. No certificate for shares of stock in this corporation shall be issued in place of any certificate alleged to have been lost, destroyed or

stolen except on production of evidence, satisfactory to the Board of Directors, or such loss, destruction or theft, and if the Board of Directors so requires, upon the furnishing of an indemnity bond in such amount (but not to exceed twice the value of the shares represented by the certificate) and with such terms and such surety as the Board of Directors may, in its discretion, require.

Section 5. Transfer Agent and Registrar. The Board of Directors may appoint one or more transfer agents or transfer clerks and one or more registrars, and may require all certificates for shares to bear the signature or signatures of any of them.

Section 6. Legend Conditions. All share certificates shall bear a legend setting forth restrictions on share ownership and transfer required by law, including the Professional Corporations Regulations adopted from time to time by the California Board of Medical Quality Assurance.

ARTICLE VIII

RESTRICTIONS ON CERTIFICATES OF STOCK

Section 1. Ownership. Shares of this corporation may be owned only by licensed providers as described in Article II, Section 2, A and B, of these Bylaws.

Section 2. Redemption of Shares. The corporation desires to provide for the redemption of each Shareholder's stock upon the happening of certain events as herein provided, and further wishes to provide for the redemption of such stock in the event of any transfer by any Shareholder in order to limit stock ownership to physicians, or the corporation.

No Shareholder (or legal representative of any Shareholder) shall transfer or encumber all or any part of his or her respective stockholdings in the corporation by sale or otherwise unless such Shareholder shall first offer said shares to the corporation in the following manner:

a. Redemption Upon Death or Disability. Upon death of any Shareholder or upon a Shareholder's permanent disability whereby he or she can no longer practice medicine, the share of stock owned by the Shareholder shall be redeemed within six months after such event as provided herein. The corporation shall redeem from the Shareholder or the deceased Shareholder's personal representatives, assigns and successors, said stock in the manner provided in these Bylaws.

b. Redemption Upon Divorce or Third Party Claims. Each Shareholder shall offer his or her stock to the corporation as herein provided in the event of a divorce or any other situation

where the Shareholder's spouse or another third party either makes a claim as to an ownership interest in the stock or makes a claim which, if successful, would cause the corporation to lose its status as a professional medical corporation.

c. Redemption Upon Retirement or Relocation. If the retiring or relocating Shareholder remains a person who is eligible to hold stock in a professional medical corporation under California law, and if he or she continues to meet the requirements of Shareholders in the corporation except as may be determined from time to time by the Board of Directors, such retiring or relocating Shareholder may elect to redeem his or her share of stock as provided herein.

Section 3. Redemption Sale or Transfer. If a Shareholder wishes to sell or otherwise transfer stock at any time during his or her life, he or she shall otherwise first offer the share to the corporation as follows:

a. Offer to Corporation. The Shareholder shall deliver a notice in writing, by mail or otherwise of his or her intention to transfer stock to the corporation, and shall offer to transfer the share owned by him or her in the corporation. Within ninety (90) days thereafter, the corporation may elect to redeem the share of such Shareholder at the price and upon the terms and conditions hereinafter set forth.

b. Offer to Another Physician. Should the corporation elect not to redeem the stock share at the expiration of ninety (90) days or prior thereto upon determination by the corporation not to redeem the share offered in the notice, the Shareholder may sell such share to another qualified physician as determined by standards established from time to time by the corporation but in no event shall the sale to another person be on terms more favorable than first offered to the corporation without first re-offering the share at the more favorable terms to the corporation.

Section 4. Redemption Purchase Price. The purchase price for such shares shall be the value set by the following formula:

a. Publicly Traded. The closing "bid" price on the valuation date if the stock is publicly traded;

b. Not Publicly Traded. If the stock is not publicly traded, the value shall be the purchase price or net book value, based on the greater amount at the time of redemption, and as of the valuation date as determined by the Corporation's accountant, in accordance with generally accepted accounting practices and principles. In determining such value the following principles shall be observed:

- (1) No allowance shall be made for goodwill, business, name or other similar intangible assets.
- (2) All accounts payable shall be taken at face amount, less discounts deductible therefrom and all accounts receivable shall be taken at the face amount thereof, less a discount of three percent (3%) thereof for collection costs and bad debt.
- (3) All fixtures, equipment and furniture shall be taken at the depreciation value appearing on the books of the Corporation.
- (4) Supplies and material shall be computed at cost.
- (5) All unpaid and accrued taxes shall be deducted as liabilities.

c. Valuation Date. The valuation date, as hereinabove used shall mean the last day of the calendar quarter after the following dates:

- (1) For any redemption pursuant to Section 2(a), the date of death or disability of the Shareholder.
- (2) For any redemption pursuant to Section 2(b), the date of finalization of the divorce of the Shareholder.
- (3) For any redemption pursuant to Section 2(c), the date so specified in the Shareholder's notice regarding the effective date of retirement or relocation.
- (4) Any other date as may be mutually agreed to by the parties; provided, however that in the event the parties cannot agree on such date or in the event an evaluation date is not established pursuant to the above provisions, then such valuation date shall be the date on which the event occurs which brings the provisions of this agreement into effect.

Section 5. Miscellaneous Restrictions.

a. Representatives, Spouses, Successors and Assigns. The executor, administrator or personal representative of a deceased Shareholder shall execute and deliver any documents or legal instruments necessary or desirable to carry out the provisions of this agreement. This agreement shall be binding on the Shareholder, their spouse, heirs, legal representatives, successors and assigns. If Shareholder is married, Shareholder hereby warrants and represents that he or she has the consent of or the right to contract on behalf of Shareholder's spouse with

respect to the spouse's community property interest, if any, in the shares of stock subject to this Agreement.

b. Inability To Purchase All Shares Outstanding. Within the limitations herein provided, this corporation may purchase the shares of this corporation from any offering shareholder; provided, however, that at no time shall the corporation be permitted to purchase all of its outstanding voting shares. Any sale or transfer, or purported sale or transfer, of the shares of the corporation shall be null and void unless the terms, conditions, and provisions of this Article VIII of the Bylaws of the corporation are strictly observed and followed.

c. Stock Redemption Agreement. This Article VIII shall be subject to any Stock Redemption Agreement or other similar agreements entered into by the corporation and/or the shareholders.

ARTICLE IX

INDEMNIFICATION

Section 1. Indemnification. In order to induce officers, Board Members, committee shareholders, and agents of the corporation to continue to serve as such and to induce others to serve as officers, Board Members or agents and in consideration of such service, the corporation shall indemnify and hold harmless each such person now or hereafter serving the corporation, from and against any and all claims of and liabilities to third parties to which he or she may be or become subject to by reason of his or her now or hereafter being or having heretofore been a Board Member, officer or agent of the corporation or by reason of his or her alleged acts or omissions as a Board Member, officer or agent as aforesaid and shall reimburse each Board Member, officer or agent of the corporation for all legal and other expenses reasonably incurred by him or her in connection with defending against any such claims or liabilities. The foregoing rights of Board Members, officers and agents shall not be exclusive of other rights to which they may be lawfully entitled.

Section 2. Good Faith Conduct. The officers, Board Members and agents seeking indemnification must be found, in the manner provided below, that they acted in good faith, in a manner they believe to be in the best interest of this corporation, and with such care, including reasonable inquiry, as an ordinarily prudent person in a like position will use in similar circumstances. The termination of any proceeding by judgment, order, settlement, conviction, or on a plea of nolo contendere or its equivalent shall not, of itself, create a presumption that the persons did not act in good faith or in a manner in which they reasonably believed to be in the best interest of this corporation or that they had reasonable cause to believe that their conduct was unlawful. In the case of a criminal proceeding, the

persons must have had no reasonable cause to believe that their conduct was unlawful.

Section 3. Determination of Good Faith Conduct. The determination that the officer, Board Member or agent did act in the manner complying with the above paragraph shall be made by:

a. Decision by Board. The Board of Directors by a majority quorum consisting of Board Members who are not parties to the proceeding;

b. Decision by Court. The court in which the proceeding is or was pending. Such determination may be made on application brought by this corporation or the agent or the attorney or other person rendering a defense to the officer, Board Member, or agent whether or not the application by the officer, Board Member, agent, attorney or other person is opposed by this corporation.

Section 4. Limitations. No indemnification or advance shall be made under this Article in any circumstances when it appears:

a. Inconsistent with Articles. That the indemnification or advance would be inconsistent with the provisions of the Articles, a resolution of the shareholders, or an agreement in effect at the time of the accrual of the alleged cause of action asserted in the proceeding in which the expenses were incurred or other amounts were paid, which prohibits or otherwise limits indemnification; or

b. Court Imposed Conditions. That the indemnification would be inconsistent with any condition expressly imposed by a court in approving a settlement.

Section 5. Definitions. For the purpose of this Article:

a. Agent. "Agent" means any person who is or was a Board Member, officer, employee or other agent of the corporation, or who is or was serving at the request of the corporation as a shareholder of any committee authorized by the Board Members of this corporation, or who is or was an entity, organization or person who performs services under contract to the corporation, or who is or was an employee of any such entity, organization or person.

b. Proceeding. "Proceeding" means any threatened, pending, or completed action or proceeding, whether civil, criminal, administrative or investigative.

ARTICLE X

FISCAL YEAR

Section 1. Fiscal Year. The fiscal year of the corporation shall be the calendar year.

ARTICLE XI

MISCELLANEOUS

Section 1. Closing of Stock Books. The Board of Directors may close the books of the corporation against transfer of shares during the whole or any part of a period of not more than sixty (60) days prior to the date of a shareholders' meeting, the date when the right to any dividend, distribution, or allotment of rights vests, or the effective date of any change, conversion, or exchange of shares.

Section 2. Inspection of Corporate Records. The share register or duplicate share register, the books of account and minutes of proceedings of the shareholders and Board Members and of the executive and other committees of the Board Members shall be open to inspection upon the written demand of any shareholder or holder of a voting trust certificate, at any reasonable time and for a purpose reasonably related to his interests as a shareholder or as the holder of a voting trust certificate, and shall be exhibited at any time when required by the demand at any shareholders' meeting of fifty-five percent (55%) of the shares represented at the meeting. Such inspection may be made in person or by an agent or attorney and shall include the right to make extracts. Demand of inspection other than at a shareholders' meeting shall be made in writing upon the CEO, Secretary/designated staff of the corporation.

Section 3. Checks, Drafts and Other Orders. All checks, drafts, or other orders for payment of money, notes or other evidences of indebtedness, issued in the name of or payable to the corporation shall be signed or endorsed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board of Directors.

Section 4. Reports to Shareholders. An annual written report to shareholders pursuant to section 1501 of the California Corporations Code is dispensed with, except when specifically requested by a shareholder; provided, however, that an oral report generally covering the matters described in Section 1501 shall be made at the annual shareholders' meeting.

Section 5. Reports to Licensing Boards. A report shall be filed annually, or as required by state laws and standard business practice with the Professional Licensing Board governing this corporation and at such other times as said Board may require,

containing such information pertaining to qualification and compliance with the statutes, rules and regulations of said Board or referred to in the Business and Professions Code of California as said Board may determine. All such reports shall be signed and verified by an officer of the corporation.

Section 6. Professional Liability Insurance or Other Security for Claims Against the Corporation. The corporation shall have responsibility for providing and maintaining security by insurance or otherwise, for claims against it by a third party for errors and omissions arising out of the Corporation's professional practice.

Section 7. Contracts and Execution. The Board of Directors, except as otherwise provided in the bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation, and such authority may be general or confined to specific instances; and unless so authorized by the Board of Directors, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or to any amount.

Section 8. Representation of Shares of Other Corporations. The CEO or vice president and the secretary/designated staff of this corporation are authorized to vote, represent and exercise, on behalf of this corporation, all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority herein granted to said officers to vote or represent on behalf of this corporation any and all shares held by this corporation in any other corporation or corporations may be exercised either by such officers in person or by any other person authorized so to do by proxy or power of attorney duly executed by said officers.

Section 9. Inspection of Bylaws. The corporation shall keep in its principal executive office the original or a copy of the bylaws as amended or otherwise altered to date, which shall be open to inspection by the shareholders at all reasonable times during office hours.

Section 10. Construction and Definitions. Unless the context otherwise requires, the general provisions, rules of construction and definitions contained in the California Corporations Code shall govern the construction of these bylaws. Without limiting the generality of the foregoing, the masculine gender shall include the feminine and neuter, the singular number shall include the plural, and the plural number includes the singular; and the term "person" shall include a corporation as well as a natural person.

Section 11. Rules of Order. All meetings of shareholders of the corporation, the Board of Directors or committees of the Board of

Directors, shall be governed by the parliamentary rules and usages contained in the current edition of Robert's "Rules of Order," when not in conflict with the Articles and Bylaws of the corporation.

Section 12. Disciplinary Action. A shareholder who is guilty of a criminal offense or gross misconduct, either as a medical practice or as a citizen, or violates any of the provisions of the Articles of Incorporation of this corporation or these Bylaws or any of the provisions of the Principles of Medical Ethics of the American Medical Association, or any principles of professional conduct adopted by this corporation, or who acts contrary to or in violation of any contracts, agreements, or statements of principle of this corporation, shall be liable to censure, suspension, or expulsion.

The procedure to be followed by this corporation with respect to censure, suspension, or expulsion of a member shall start with mediation. If mediation is unsuccessful, (binding) arbitration will be used as set forth in the Corrective Action and Fair Hearing Procedures as established from time to time by the Board of Directors. Said procedure is hereby incorporated into these Bylaws by this reference. The Corrective Action and Fair Hearing Procedures are advisory only and are not designed to afford a member an automatic right to a hearing unless otherwise allowed for under these Bylaws. The Corrective Action and Fair Hearing Procedures may be amended, modified, or superseded at any time by the Board of Directors or by a hearing committee, or any other committee as may be designated from time to time by the Board of Directors.

ARTICLE XII

AMENDMENTS TO THE BYLAWS

Section 1. Power of Shareholders. New Bylaws may be adopted, or these Bylaws may be amended or repealed, by majority vote of the Shareholders entitled to exercise voting power in the corporation, or by the written assent of such Shareholders except as otherwise provided by law or by the Articles of Incorporation.

Section 2. Powers of the Board Members. Subject to the right of the Shareholders as provided in Section 1 of this Article XIII to adopt, amend, or repeal Bylaws, Bylaw changes other than a Bylaw amendment changing the authorized number of Board Members, the qualifications of Shareholders or the powers of the Board may be adopted, amended or repealed by a two-thirds (2/3rds) vote of the Board of Directors.

Section 3. Repeal of Bylaws. All prior Bylaws of this corporation are hereby repealed and superseded by the foregoing provisions of the Bylaws.

Section 4. Amendment of Articles of Incorporation. Except as otherwise provided by the Articles of Incorporation, the law, or the regulations of the Medical Board of California, amendments to the Articles of Incorporation may be adopted if approved by the Board Members and approved by a majority of the outstanding shares entitled to vote, before or after approval by the Board Members. An amendment to the Articles of Incorporation shall be effective as of the date that the appropriate certificate of amendment is filed with the Secretary of State.

EXHIBIT A

EXCERPTS FROM THE CALIFORNIA CORPORATIONS CODE

GENERAL PROVISIONS [1-19](#)
TITLE 1. CORPORATIONS
DIVISION 1. GENERAL CORPORATION LAW
CHAPTER 1. GENERAL PROVISIONS AND DEFINITIONS [100-195](#)
CHAPTER 2. ORGANIZATION AND BYLAWS [200-213](#)
CHAPTER 3. DIRECTORS AND MANAGEMENT [300-318](#)

312. (a) A corporation shall have a chairman of the board or a president or both, a secretary, a chief financial officer and such other officers with such titles and duties as shall be stated in the bylaws or determined by the board and as may be necessary to enable it to sign instruments and share certificates. The president, or if there is no president the chairman of the board, is the general manager and chief executive officer of the corporation, unless otherwise provided in the articles or bylaws. Any number of offices may be held by the same person unless the articles or bylaws provide otherwise. (b) Except as otherwise provided by the articles or bylaws, officers shall be chosen by the board and serve at the pleasure of the board, subject to the rights, if any, of an officer under any contract of employment. Any officer may resign at any time upon written notice to the corporation without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

PART 4. PROFESSIONAL CORPORATIONS
..... [13400-13410](#)

13400. This part shall be known and may be cited as the "Moscone-Knox Professional Corporation Act."

13401.5. Notwithstanding subdivision (d) of Section 13401 and any other provision of law, the following licensed persons may be shareholders, officers, directors, or professional employees of the professional corporations designated in this section so long as the sum of all shares owned by those licensed persons does not exceed 49 percent of the total number of shares of the professional corporation so designated herein, and so long as the number of those licensed persons owning shares in the professional corporation so designated herein does not exceed the number of persons licensed by the governmental agency regulating the designated professional corporation: (a) Medical corporation. (1) Licensed doctors of podiatric medicine. (2) Licensed psychologists. (3) Registered nurses. (4) Licensed optometrists. (5) Licensed marriage, family, and child counselors. (6) Licensed clinical social workers. (7) Licensed physician assistants. (8) Licensed chiropractors. (9) Licensed acupuncturists. (b) Podiatric medical corporation. (1) Licensed physicians and surgeons. (2) Licensed psychologists. (3) Registered nurses. (4) Licensed optometrists.

(5) Licensed chiropractors. (6) Licensed acupuncturists. (c) Psychological corporation. (1) Licensed physicians and surgeons. (2) Licensed doctors of podiatric medicine. (3) Registered nurses. (4) Licensed optometrists. (5) Licensed marriage, family, and child counselors. (6) Licensed clinical social workers. (7) Licensed chiropractors. (8) Licensed acupuncturists. (d) Speech-language pathology corporation. (1) Licensed audiologists. (e) Audiology corporation. (1) Licensed speech-language pathologists. (f) Nursing corporation. (1) Licensed physicians and surgeons. (2) Licensed doctors of podiatric medicine. (3) Licensed psychologists. (4) Licensed optometrists. (5) Licensed marriage, family, and child counselors. (6) Licensed clinical social workers. (7) Licensed physician assistants. (8) Licensed chiropractors. (9) Licensed acupuncturists. (g) Marriage, family, and child counseling corporation. (1) Licensed physicians and surgeons. (2) Licensed psychologists. (3) Licensed clinical social workers. (4) Registered nurses. (5) Licensed chiropractors. (6) Licensed acupuncturists. (h) Licensed clinical social worker corporation. (1) Licensed physicians and surgeons. (2) Licensed psychologists. (3) Licensed marriage, family, and child counselors. (4) Registered nurses. (5) Licensed chiropractors. (6) Licensed acupuncturists. (i) Physician assistants corporation. (1) Licensed physicians and surgeons. (2) Registered nurses. (3) Licensed acupuncturists. (j) Optometric corporation. (1) Licensed physicians and surgeons. (2) Licensed doctors of podiatric medicine. (3) Licensed psychologists. (4) Registered nurses. (5) Licensed chiropractors. (6) Licensed acupuncturists. (k) Chiropractic corporation. (1) Licensed physicians and surgeons. (2) Licensed doctors of podiatric medicine. (3) Licensed psychologists. (4) Registered nurses. (5) Licensed optometrists. (6) Licensed marriage, family, and child counselors. (7) Licensed clinical social workers. (8) Licensed acupuncturists. (l) Acupuncture corporation. (1) Licensed physicians and surgeons. (2) Licensed doctors of podiatric medicine. (3) Licensed psychologists. (4) Registered nurses. (5) Licensed optometrists. (6) Licensed marriage, family, and child counselors. (7) Licensed clinical social workers. (8) Licensed physician assistants. (9) Licensed chiropractors.

EXHIBIT B
To Offering Circular
Initially Offered January 23, 1995

**SUBSCRIPTION AGREEMENT AND APPLICATION
FOR PARTICIPATION IN THE HUMBOLDT-DEL NORTE
INDEPENDENT PRACTICE ASSOCIATION**

The undersigned hereby offers to subscribe for one (1) share of the Series "A" common voting stock in the HUMBOLDT-DEL NORTE INDEPENDENT PRACTICE ASSOCIATION ("HDNIPA"), a California professional medical corporation, at and for the purchase price of one thousand dollars (\$1,000.00) a share, payable upon subscription.

As reflected by the Signature Page hereof, this subscription is made by the undersigned in an individual capacity.

I hereby represent, warrant and acknowledge to HDNIPA as follows:

1. I have received, read and understand the contents of the Offering Circular relating to this investment and represent that all questions concerning any aspect of an investment in HDNIPA have been answered to my satisfaction and all requests for information necessary to verify the accuracy of the information contained in the Offering Circular have been fulfilled. In this regard, all documents, records, and books I requested pertaining to my investment in HDNIPA have been made available to me and my tax and legal advisors.

2. I am aware that investments of this nature are unsecured and highly speculative, and that no assurance has been given to me that this investment is anything but highly speculative.

3. I am purchasing this stock on behalf of myself. I certify that I have a substantial net worth, excluding home, home furnishings and automobiles, and without regard to investment in HDNIPA, which is reasonable in relation to my financial situation or which may be required by law.

4. I have the business and investment experience and knowledge sufficient to enable me to evaluate the merits and risk of making this investment. I recognize that HDNIPA is recently organized (within the last year) and has no significant history of

operation and no history of earnings other than as disclosed in the Offering Circular.

5. I understand that the shares being offered hereby have not been registered under the Federal Securities Act of 1933, as amended (the "Act"). The placement of these shares is being made by the corporation in reliance on §3(a)(11) and §4(2) of the Act as an intrastate offering.

I further understand that such exemption is dependent upon the accuracy of the statements made by me herein. I further understand that this investment must be held indefinitely and that the exemption from registration under the Federal Securities Act of 1933, The California Corporate Securities Law of 1968 or other applicable law would not be available for any proposed sale by me.

6. I further represent that I have an existing personal or business relationship with the issuer, or by reason of my business or financial experience or the business or financial experience of my professional advisors who are unaffiliated with and who are not compensated by the issuer or any affiliate or selling agent of the issuer, directly or indirectly, I could be reasonably assumed to have the capacity to protect my own interests in connection with the transaction.

7. I understand that if this investment is not accepted by HDNIPA for any reason whatsoever, my cash invested shall be returned without interest, and HDNIPA and all of its agents, affiliates and other representatives shall be relieved of all further responsibility and/or liability arising out of my offer to subscribe in this offering.

8. I understand that HDNIPA anticipates being taxed as a corporation. This investment in HDNIPA offers no specific incentives and is not designed to offer any significant tax advantages. With respect to the tax and other legal aspects of this investment, the undersigned is relying solely upon the advice of his or her own tax and legal advisors.

9. I have adequate means of providing for my current needs and personal contingencies and, therefore, have no need for liquidity in this investment. Further, I understand that my investment in HDNIPA is non-liquid, that there is no market for interest, that it is unlikely one will develop and that any right to transfer or convert the investment is extremely limited.

10. I understand that HDNIPA lacks experience in investments of this type and, therefore, makes no warranties as to its ability to effectively discharge the management duties required of it. I understand further that HDNIPA has only a limited financial operating history.

11. I have read the Offering Circular in its entirety including that portion dealing with the non-independent representation by counsel, and consent to the same.

12. No representations or warranties have been made to me other than those contained in the Offering Circular. I have not relied upon any representation or warranty not contained in the Offering Circular in making any investment in HDNIPA.

13. I have disclosed to the offeree (HDNIPA), in writing, any material relationship between myself or my affiliates and the corporation or its affiliates, which is mutually understood to be contemplated or which has existed at any time during the previous two years, and any compensation received or to be received as a result of such relationship.

14. I am a physician duly licensed to practice medicine under the laws of the State of California and my license is in good standing.

15. I am over the age of twenty-one (21) years, and am a permanent, bona fide resident of the State of California.

16. I shall abide by and support the Articles of Incorporation, Bylaws, purposes and policies of HDNIPA, and shall participate in HDNIPA subject to the acceptance by HDNIPA of this fully executed Subscription Agreement and Application for Participation, a check in the amount of one thousand dollars (\$1,000.00) for the purchase of one share of the HDNIPA and any other documentation otherwise required by HDNIPA.

17. I am familiar with the purposes of the HDNIPA and shall be bound by any agreements, contracts or statements of policy entered into or adopted by the HDNIPA concerning the IPA, peer review, quality assurance or other health care programs it may undertake or sponsor. I understand that failure to comply may result in termination of my participation in the HDNIPA.

18. I understand that HDNIPA shall have a power of attorney and concomitant authority to serve as my attorney-in-fact for purposes of negotiating and entering into contracts with entities under which I shall be providing services through the HDNIPA. I understand that upon written request the HDNIPA will allow me to review any agreement, contract or statement of policy under which I am required to provide services.

19. I understand that my compensation for covered services rendered to employees, dependents or other beneficiaries under a contracting health plan shall be pursuant to a negotiated reimbursement structure as more particularly set forth in HDNIPA's

agreement with the health plan and/or in my provider agreement with HDNIPA. My compensation for such services may be subject to such withhold amount as the Board of Directors of HDNIPA may deem appropriate. The withhold funds shall be deposited and held in a special HDNIPA risk reserve account and shall be applied for the purpose set forth in the agreements entered into between HDNIPA and health plans including application towards satisfaction of excessive provider claims. I further understand and agree that HDNIPA shall have the discretion to increase or decrease each particular participating physician's withhold amount depending upon that particular physician's practice patterns and utilization reviews. Any adjustments made to individual physician withholds shall be communicated in writing by HDNIPA to the affected participating physician at least thirty (30) days before its effective date. All or any part of a physician's withhold may be returned at the end of the year depending upon the particular physician and HDNIPA's financial performance. Returns made on the withhold, if any, shall be made on a basis according to the amount withheld from each physician. Determinations regarding the payments on the withhold shall be made by the Board of Directors of HDNIPA. I further understand that all billings must be submitted within 90 days of service to qualify for reimbursement.

20. In consideration of the HDNIPA processing my application for participation, I understand that it may be necessary for the HDNIPA to obtain information from hospitals regarding staff privileges, and actions relating thereto, from medical societies, specialty organizations, the American Medical Association, the California Medical Association, medical schools and other organizations providing medical training including internship and residencies. I shall furnish the HDNIPA with all information relative to any claims or actions filed against me for professional liability or disciplinary action by any state or local board, medical association or specialty society, and I will obtain from my professional liability insurance carrier and provide to the HDNIPA any and all information regarding insurance coverage, claims and actions against me.

21. In connection with any credentialing and recredentialing performed by or on behalf of the HDNIPA with respect to its participating physicians, I agree that I will have the burden of producing accurate and adequate information for a proper evaluation of my experience, background, training, demonstrated ability, utilization patterns, malpractice activity, physical and mental health status, and all other qualifications specified in the HDNIPA'S Credentialing Procedures and for resolving any doubts about these matters. The provision of information containing significant misrepresentations or omissions and/or a failure to sustain the burden of producing adequate information shall be grounds for denial of my application or termination of my participation in the HDNIPA.

22. I understand that as a participating physician of the HDNIPA, I am required to maintain professional liability insurance in an amount not less than \$1,000,000 per claim and \$3,000,000 aggregate, but higher limits may be required by certain payors contracting with the HDNIPA, and I may not be eligible to provide services under their programs if I do not maintain the required insurance coverage.

23. I agree to notify the HDNIPA within ten (10) days of the occurrence of any of the following:

- (a) License to practice medicine in California is lost, restricted or suspended.
- (b) Hospital staff privileges are lost or restricted or they have been suspended for a cumulative total of 30 days or more for any 12-month period.
- (c) Any other situation arising which might materially affect the ability to carry out duties or obligations under this agreement.
- (d) Business address or tax ID number is changed.
- (e) Professional liability insurance is cancelled or reduced for any reason.
- (f) Dismissal, settlement, or entry of judgment in any malpractice action in which I am a named defendant.

24. I agree to use my best efforts to refer covered employees, dependents or other beneficiaries under HDNIPA-sponsored health plans to other participating HDNIPA participating physicians, participating laboratories or participating radiology groups or other participating allied health care professionals. If hospitalization is required, I shall further use my best efforts to admit such covered persons to participating hospitals.

25. I understand and agree that I shall look only to the HDNIPA or the contracting health plan for compensation for medically necessary services rendered to members. At no time shall I seek compensation from the health plan members for such services, except in the case of a co-payment or co-insurance permitted under the applicable health plan. I further understand and agree that my participation in the HDNIPA shall be subject to all applicable provisions of the Knox-Keene Health Care Service Plan Act of 1975, as amended.

I further agree to cooperate with HDNIPA to enable HDNIPA to fulfill its obligations under its agreements with health plans pursuant to applicable requirements of the Department of Insurance,

the Department of Corporations, the Medical Board of California or such other agencies as may assert jurisdiction over HDNIPA. If the health plan is licensed under the Department of Insurance, I agree to comply with the provisions of the California Insurance Code, including sections 10133 and 10133.5 and the regulations promulgated thereunder. If the health plan is licensed under the Knox-Keene Health Care Service Plan Act of 1975, as amended, I agree to do the following: (I) to maintain such records and provide such information to the health plan or the Commissioner of Corporations for compliance with the provisions of the Knox-Keene Health Care Service Plan Act of 1975, as amended, and the regulations issued pursuant thereto, such obligations not being terminated upon termination of my participation in the HDNIPA, whether by rescission or otherwise, and (ii) to permit access to the health plan upon reasonable notice to the books, records, and other papers relating to the health care services rendered by me, and the associated costs thereof. I agree to cooperate with HDNIPA under the obligations (i) and (ii) above by maintaining such records and providing such information and by permitting such access to my books, records, and other papers which will allow HNDIPA to fulfill its contractual and statutory obligations.

26. I agree that upon request, I will provide, at no cost, medical records as necessary to the HDNIPA or its designated representative for cost containment, quality assurance, and peer review purposes.

27. I authorize good faith disclosure by the HDNIPA of information which has a bearing on my professional competence, character, and ethical qualification to all hospitals and medical licensing or disciplinary boards that request such information.

28. I hereby agree that my participation in the HDNIPA with respect to any third party payor, shall be conditioned on my execution of any participation agreements required by that payor. I also agree to recognize and abide by the interpretation thereof by the authorized officers of the HDNIPA reserving all rights of appeal, if any, as may be set forth in the bylaws.

29. I understand that my participation in the HDNIPA may be terminated upon notice for cause which shall include, without limitation; 1) failure to provide medical care in accordance with generally accepted practices; 2) failure to follow policies and procedures adopted by the HDNIPA, 3) failure to comply with the terms of contracts pursuant to which services are provided, 4) failure to follow utilization review guidelines, 5) loss or suspension of my license, 6) reduction or cancellation of errors and omissions insurance such that it falls below the minimum required by the HDNIPA, 7) conviction of any felony for a crime directly related to the practice of medicine or involving moral turpitude, 8) program abuses, including excessive and redundant testing, provision of

clinically unnecessary treatment, fraud or abuse, receipt of an excessive number of denial letters, or 9) health status which impairs the ability to practice my profession.

30. I understand that my participation in the HDNIPA may be terminated by either party on written notice given at least ninety (90) days in advance of such termination. I shall continue to provide services under the terms contained herein during the notice period. At the end of the notice period, I shall cease to have any obligation or right to continue participation in the HDNIPA. I further agree that termination of my participation in the HDNIPA may be effective immediately in the event my participation is terminated for cause.

31. HDNIPA shall not be liable, responsible, or accountable in damages or otherwise to the undersigned for any act or omission performed or omitted by the corporation in good faith and in a manner reasonably believed by it to be within the scope of the authority granted to it by this Subscription Agreement and Application for Participation, and in the best interests of its shareholders; provided that HDNIPA is not guilty of gross negligence, willful or wanton misconduct, fraud, bad faith or any other breach of its fiduciary duty with respect to such acts or omissions.

32. This Subscription Agreement and Application for Participation in HDNIPA contains the entire agreement between the parties. The provisions of this agreement may not be modified or waived, except in writing. Such modifications shall be effective thirty (30) days after mailing of written notice by the HDNIPA and shall be deemed accepted by the undersigned unless a written objection to such modification is received by HDNIPA within such thirty (30) days.

33. This entire agreement shall be governed by and construed in accordance with the laws of the State of California.

34. I may not assign any of my rights or interests in and under this Subscription Agreement and Application for Participation in HDNIPA without the express prior written consent of HDNIPA and any attempted assignment of such rights without such consent shall be void and without effect.

35. I understand that the forms captioned "Required Information", "Professional Liability Information", "Authorization for Disclosure and Use of Confidential Information and Release of Liability", "Disclosure Statement" and "Consent of Spouse on Subscription to Stock In the HDNIPA", which are attached hereto and incorporated herein by this reference, are part of the Subscription Agreement and Application for Participation in HDNIPA, and must be fully completed and submitted by me to the HDNIPA, along with the other documentation referenced herein before consideration shall be given to my application.

IN WITNESS WHEREOF, the undersigned has executed this Subscription Agreement and Application for Participation with the Humboldt Del Norte Independent Practice Association, on this _____, day of _____, in his or her individual or representative capacity as hereinafter indicated.

Subscriber's Signature

Name (please type or print)

Social Security Number or
Federal Tax ID Number

Address

Telephone Number of Subscriber

Witnessed by:

MD Subscription Agreement and Application for Participation