

CALIFORNIA PHYSICIANS' SERVICE

Blue Shield of California

bylaws

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BYLAWS
CALIFORNIA PHYSICIANS' SERVICE

Preamble

California Physicians' Service was established as a non-profit corporation on February 2, 1939, to provide not only leadership in the maintenance of high standards of medical service, but also in the means of distribution of that service so that all who need care may receive it. Recognizing that the very advances made by modern science have greatly increased the cost of good health care services and will continue to increase that cost as new methods and equipment for diagnosis and treatment are discovered and perfected; and, therefore, that the cost of always unpredictable injury or illness is a financial catastrophe too great to be borne by the few citizens of California thus always inflicted at any given time, although the total cost over any period is within the means of the total group; this corporation was established as a method to distribute this cost of medical service so as to relieve the intolerable financial burden heretofore falling on the unfortunate few in any given period of time. This voluntary medical service plan was established to enable the people of the State of California to obtain prompt and adequate health care services whenever needed on a periodic budgeting basis without injury to the standards of medical service, without disruption of the proper physician-patient relation and without profit to any agency, assuring that all payments made by patients except administrative costs will be utilized for health care services and not otherwise, in an efficient, coordinated and organized service which can, upon the same fundamental basis, be the means which governmental agencies -- federal, state, and local -- may use to provide, at the lowest possible cost to the taxpayer, good health care services.

CHAPTER 1. PURPOSES

The purposes of this corporation are:

1. The establishment and maintenance of a fund obtained by means of periodic payments on behalf of its beneficiary members, to be used to defray the costs of medical services, hospital care and other health services and facilities or medical service and hospital care alone or in conjunction with other health services and facilities.
2. To furnish and supply to those persons eligible for and admitted to beneficiary membership herein, hospital and nursing service at the lowest cost consistent with due and adequate care on a periodic payment plan, in hospitals now or hereafter organized or established in the State of California, whose organization and management evidence that they are qualified to render and are actually rendering economic and efficient hospital care to the sick and injured.

3. To enter into, make, perform and carry out contracts for the performance of medical services or for the furnishing of hospital care or both medical services and hospital care or for any other lawful object or purpose with any public or municipal corporation, body politic, the State of California, or any political subdivision of said state, any instrumentality, commission, board, bureau, or other administrative agency of said state, the United States of America, or any department, bureau, commission or other administrative agency thereof, or any corporation incorporated under the laws of the United States or any foreign state.
4. To build, acquire, operate, equip, maintain, lease as lessee or lessor, mortgage, deed in trust, sell, and otherwise dispose of hospitals, laboratories, drugs, medicines, medical and surgical apparatus, instruments and supplies and all other physical means and facilities for the relief, care and treatment of sick and injured persons.
5. And in aid and furtherance of the foregoing purposes, to exercise all powers afforded or permissible under the laws governing this corporation.

CHAPTER 2. MEMBERSHIP

Section 1. Classification of Members. The corporation has no members within the meaning of Section 5056 of the California Corporations Code. The corporation may refer to persons associated with it as "members" even though such persons are not members within the meaning of Section 5056.

CHAPTER 3. PHYSICIAN MEMBERS

Section 1. Physician Members. Physician Members shall be those licensed physicians who, pursuant to written agreement with this corporation, have the privilege of rendering medical services to subscribers or enrollees when chosen to do so by subscribers or enrollees, and who have the right of receiving payment for such services from available funds of the corporation. The term "Physician Member" shall include individuals entering into such written agreements, and individuals who are partners, officers, members or employees of each Physician Group entering into such agreement, including persons affiliating with said Physician Group subsequent to the making of such agreement, when consistent with the terms thereof. Each Physician Member shall be bound by the Bylaws, schedules of compensation for services rendered, and rules and regulations of the corporations, together with any amendments to such Bylaws, schedules or rules and regulations.

Section 2. Termination of Physician Membership. Physician Membership shall automatically terminate in the event of any suspension or revocation of licensure as a physician in California or for disciplinary cause in any other state, whether or not stayed subject to probation, or a conviction of a felony or other criminal offense relating to practice or fitness as a physician; or in the event of action taken by any federal or state agency administering a program providing health benefits, terminating or restricting the physician's right to participate therein for reasons relating to the physician's professional competence, professional conduct, or for the commission of fraud or criminal conduct. Further, Physician Membership may be terminated, suspended, or restricted in accordance with the provisions of the corporation's written agreement authorizing the Physician Member to provide care to subscribers and enrollees, or for other good cause as the corporation may determine.

Section 3. Fair Procedure. Except when termination of Physician Membership is required pursuant to Section 2 above, the termination, suspension or restriction of Physician Membership for cause relating to the Physician Member's professional competence or professional conduct shall not become final until the corporation has afforded the Physician Member a fair procedure, including notice of the reasons for such action, and a reasonable opportunity to respond thereto. The Corporation nonetheless shall be entitled to take summary action reasonably intended for the protection of subscribers and enrollees.

CHAPTER 4. BENEFICIARY MEMBERS

Section 1. Beneficiary Members. Beneficiary members are the persons enrolled to receive services pursuant to medical service certificate or contract, and are herein otherwise referred to as "enrollees," which may include subscribers. No beneficiary member shall have the right to vote or acquire or hold or possess any property right, or right, title or interest in or to any property or assets of the corporation, nor shall any beneficiary member have any rights or privileges other than as are provided herein.

CHAPTER 5. BOARD OF DIRECTORS

Section 1. Corporate Powers Vested in Board of Directors. The corporate powers of this corporation shall be vested in a board ("the Board") of not more than fifteen (15) nor less than ten (10) Trustees (referred to herein as "Directors"), comprised primarily of persons who reside in the State of California. A majority of the Board shall constitute a quorum for the transaction of business. One Director shall be the Chief Executive Officer of the Corporation while holding office as Chief Executive Officer. One director may be the Chief Operating Officer of the Corporation while holding office as Chief Operating Officer. A majority of the Directors shall be Subscribers who are not physicians or other providers of health care services. At least two Directors shall be physicians.

Section 2. Terms of Office. The Directors elected by the Board at the regular meeting of the Board preceding the annual meeting shall hold office for three years commencing on the first day of the month in which the annual meeting is held, and ending on the last day of the month preceding the month in which the annual meeting is held three years later, unless removed as provided in these Bylaws, and until their successors are elected and/or appointed or the Board elects not to fill such office pursuant to Section 3 hereof. Directors other than the Chief Executive Officer and Chief Operating Officer are ineligible for election to the Board for more than four full terms. A Director elected to serve four full terms shall not be eligible to serve as a Director in the future.

Section 3. Nomination and Election of Directors. At the regular meeting of the Board preceding the annual meeting, the Board shall by resolution fix the exact number of Directors within the maximum and minimum number of directors authorized by these Bylaws, and shall elect a Director to fill each vacancy then existing on the Board. The Board may elect Directors from the slate of nominees presented by the Nominating and Corporate Governance Committee, or nominees presented by other Directors.

At any time other than the regular meeting of the Board preceding the annual meeting, the Board may elect up to two (2) additional Directors who shall hold office commencing upon election and ending on the last day of the month preceding the month in which the next annual meeting is held, unless removed as provided in these Bylaws, and until their successors are elected and/or appointed. Such term shall not be considered a full term for purposes of Section 2 hereof. The size of the Board shall be increased automatically to accommodate any Directors so elected.

Section 4. Vacancies. Vacancies in the Board may be filled by a majority of the remaining Directors, though less than a quorum, or by a sole remaining Director, at any time other than the regular meeting of the Board preceding the annual meeting and each Director so elected shall hold office for the remainder of such term.

Section 5. Removal From Office. Any Director may be removed from office as such by the affirmative vote of three-fourths of the Board at any regular or special meeting of the Board on written notice, setting forth the reasons and grounds therefore, mailed to such Director at his or her last known address at least ten days prior to the date of such meetings. A Director who is absent from three consecutive regular meetings of the Board, without cause, shall automatically forfeit the office of Director. "Cause" includes illness, absence from the state and other grounds acceptable to the Chairperson of the Board.

Section 6. Powers of the Board. The Board shall have full power to control and manage the property and conduct the affairs and business of this corporation and to make rules not inconsistent with the laws of the State of California and these Bylaws for the guidance of the officers and management of the affairs of the corporation.

Section 7. Duties of the Board. It shall be the duty of the Board, in addition to the other duties imposed on them by the law and these Bylaws, to cause to be kept a

complete record for all their minutes and acts; to supervise all committees, officers, representatives, agents and employees; to arrange, handle, conduct and maintain all property and assets of the corporation; to invest and re-invest all money, funds and securities of the corporation and to create and conserve a reserve fund for the purpose of protecting the interests of this corporation. The Board shall, in accordance with the exclusive purpose of this corporation to promote social welfare, endeavor to extend services to the fullest extent consistent with prudent management.

Section 8. Fees and Compensation. Directors shall not receive any stated salary for their services as Directors but, by resolution of the Board, expenses of attendance at each meeting, plus a fixed fee for the time devoted to any meeting, may be allowed.

Section 9. Meetings of the Board.

(a) Annual Meeting: The annual meeting of the Board shall be held in the month of November of each year, or at such other time and place as the Board, by resolution, may determine.

(b) Regular and Special Meetings: In addition to the organization meeting, the Board shall meet at the call of the Chairperson of the Board, or in his or her absence, any three Directors, but not less than four times each year.

(c) Notice and Place of Meeting: Regular meetings of the Board may be held at any place within the State of California without notice if the time and place of such meetings are fixed by the Board. Special meetings of the Board shall be held upon four days' notice by first class mail or by forty-eight hours' notice delivered personally or by telephone or telegraph.

(d) Written Consent and Waivers of Notice: When all of the Directors are present at any Directors' meeting, however called or noticed, and sign a written consent thereto on the record of such meeting, or if a majority of the Directors are present, and if those not present sign in writing a waiver of notice of such meeting, whether prior to or after the holding of such meeting, which waiver shall be filed with the Secretary, the transactions of such meeting are as valid as if had at a meeting regularly called and noticed.

Section 10. Physician Directors. No person licensed in the State of California as a physician and surgeon shall be eligible to take office as a Director of this corporation unless such person is a Physician Member of this corporation, and in the event that said membership is terminated for any reason, said person shall automatically forfeit the office of Director.

CHAPTER 6. OFFICERS AND TECHNICAL ADVISORS

Section 1. Officers. The officers of the corporation shall be a Chairperson of the Board, President, two or more Vice Presidents, Secretary, Chief Financial Officer, and

such other officers as may be deemed necessary. When the duties do not conflict, one person may hold more than one of these offices except those of President and Secretary.

Section 2. Election of Officers. The Board shall elect a Chairperson of the Board, President, two or more Vice Presidents, Secretary, Chief Financial Officer, and such other officers as may be deemed necessary. The Chairperson of the Board shall be elected at the regular meeting of the Board preceding the annual meeting, for a term of two years with the right of re-election and until his or her successor is elected and appointed unless sooner removed, provided, however, that the Chairperson of the Board shall be eligible to serve for a maximum of two terms. All officers, with the exception of the Chairperson of the Board, shall hold office for one year with the right of re-election, and until their successors are elected and appointed unless sooner removed. Prior to the election of the Chairperson of the Board, the Nominating and Corporate Governance Committee shall seek suggestions for nominees from all Directors for that position. The Committee shall then meet to select one or more nominees for that position. The Board shall elect the Chairperson of the Board from these nominations, and any additional nominees from Board members. The Chairperson of the Board must be a member of the Board, and the other officers may, but need not, be members of the Board. The Board may also appoint such other officers, technical advisors, representatives and agents as it may deem proper. Furthermore, the Chief Executive Officer, or if there is none, the President, may appoint such other officers at or below the level of Vice President, technical advisors, representatives and agents as he or she deems proper. The Board may at any time, and with or without assigning any cause therefore, remove any officer, technical advisor, representative, agent or employee elected or appointed by it or by the Chief Executive Officer or President. The Chief Executive Officer or President may at any time, and with or without assigning any cause therefore, remove any officer, technical advisor, representative, agent or employee appointed by him or her.

Section 3. Vacancies. If the office of any officer becomes vacant, the Board may elect a successor who shall hold office at the pleasure of the Board.

CHAPTER 7. DUTIES OF OFFICERS

Section 1. Chairperson of the Board. The Chairperson of the Board provides leadership to the Board to ensure the full discharge of the Board's responsibilities, and performs the following specific duties:

1. Chairs meetings of the Board (references in this section to meetings of the Board include regular and special meetings, and executive sessions);
2. Chairs meetings of the Executive Committee;
3. Oversees the scheduling of Board meetings, and works with committee chairs to coordinate the schedule of committee meetings;

4. Takes primary responsibility for creating the agenda for Board meetings, based on input from Directors, and in collaboration with the CEO;
5. Ensures proper flow of information to the Board, reviewing the adequacy and timing of documents prepared by management;
6. Ensures adequate lead time for effective study and discussion by the Board of business under consideration;
7. Helps the Board fulfill the Board's goals by assigning specific tasks to Board members, as needed;
8. Facilitates discussion among the independent Directors on key issues, both in executive sessions of the Board and outside of Board meetings, as needed;
9. Identifies guidelines for the conduct of the Directors, and ensures that each Director is making a significant contribution;
10. Communicates to each Director the results of that Director's individual Board performance evaluation;
11. Acts as liaison between the Board and management, including facilitating communication between the CEO and the Board to provide the CEO with useful perspective and insight into Board considerations;
12. Provides a "sounding board" for the CEO and actively assists in the CEO's leadership and personal development;
13. Provides advice and makes recommendations to the Chair of the Compensation Committee regarding the annual evaluation of the CEO's performance and establishment of the CEO's compensation, and communicates the Committee's decisions on these matters to the CEO;
14. Working with the Nominating and Corporate Governance Committee, ensures proper committee structure, including assignment of members and committee chairs; and
15. Carries out other duties as requested by the Board, depending on need and circumstances

Section 2. Chief Executive Officer. The Chief Executive Officer shall, subject to the control of the Board, have general supervision, direction and control of the business and offices of the corporation. The Chief Executive Officer may, but need not, be the President. The Chief Executive Officer shall be ex-officio a member of all standing committees including the Executive Committee, except the Audit, Executive

Compensation, and Nominating and Corporate Governance Committees, shall have the general powers and duties of management usually vested in the Office of Chief Executive Officer of a corporation, and shall have such other powers and duties as may be prescribed by the Board or these Bylaws.

CHAPTER 8. EXECUTIVE AND OTHER COMMITTEES ESTABLISHED

Section 1. Executive Committee. The Board shall appoint an Executive Committee which shall consist of the Chairperson of the Board plus such other members of the Board as it shall determine. Subject to all actions and instructions of the Board, the Executive Committee shall be vested with all the powers of the Board when it is not in session.

Section 2. Nominating and Corporate Governance Committee. The Board shall appoint a Nominating and Corporate Governance Committee composed exclusively of persons who are outside directors. The Nominating and Corporate Governance Committee shall be responsible for advising the Board on corporate governance matters, advising the Board on potential conflicts of interest concerning Directors, developing policies on the size and composition of the Board, developing Board selection criteria, reviewing possible candidates for Board membership, performing Board evaluations, and recommending a slate of nominees for Directors and Officers, and such additional or different responsibilities as the Board may establish by resolution from time to time.

Section 3. Other Committees. The Board may from time to time create other standing and special committees, appoint the members thereof and vest therein such powers and duties as it may deem desirable. If the Board shall create either a Medical Policy Committee or a Finance Committee, the membership thereof shall be not less than three. The Chairperson of the Board may attend and participate in the meetings of any standing or special committee whether or not he or she is a member of the committee (without vote if he or she is not a member of the committee).

Section 4. Committee Chairs. The Board shall appoint the Chairs of all standing and special committees other than the Executive Committee, which shall be chaired by the Chairperson of the Board. Except for the Chair of the Executive Committee, committee Chairs shall serve for a term of one year with the right of re-election, provided, however, that they shall be eligible to serve for a maximum of four terms.

CHAPTER 9. ARRANGEMENTS FOR SUBSCRIBERS AND ENROLLEES, AND PUBLIC POLICY PARTICIPATION

Section 1.

(a) "Subscriber" means the person who is responsible for payment to the Corporation for beneficiary membership or whose employment or other status, except for family dependency, is the basis for eligibility for such membership.

(b) "Enrollee" means a person (who may also be a Subscriber) enrolled to be a recipient of services under any agreement by this Corporation to provide such services.

Section 2. The corporation may enter into such arrangements for the provision of health care services to Subscribers and Enrollees as are deemed appropriate, and the privileges and obligations of subscribers and enrollees shall be consistent with the written agreements pertaining thereto.

Section 3. Public Policy Participation. Subscribers and enrollees may participate in establishing corporation public policy affecting their comfort, dignity, and convenience in the receipt of health care services by submitting written recommendations, suggestions or comments identifying the policy issue, together with relevant information. Such policy issues will be included as agenda items for consideration by the Board at least quarterly. The disposition of each such item shall be reflected in the minutes, and the person submitting such item for consideration shall be informed of the Board's action within ten business days following approval of the minutes. The Corporation shall take appropriate measures to advise subscribers and enrollees as to the manner in which they may participate in the development of public policy. Such procedures are not intended for the resolution of individual inquiries or complaints, and shall not substitute for appeal procedures or other contractual provisions governing such inquiries and complaints.

CHAPTER 10. PAYMENT FOR SERVICES OF PHYSICIAN MEMBERS AND OTHERS

Section 1. Payment to Physician Members. In accordance with schedules or provisions for compensation adopted by the Corporation, Physician Members shall be paid for medical or surgical services rendered to Subscribers or Enrollees. In the event that available funds of the corporation are insufficient to pay in full for such services, the corporation may withhold from such payments by assessment such amounts as are required for the corporation's solvency and compliance with statutory requisites, until such time as funds are again available to return such monies to the Physician Members. To the extent that this corporation has, by medical service certification or contract, agreed to pay for such medical or surgical services, subscriber members shall not be liable on account thereof to Physician Members. To provide against contingencies, increased demands for services and other unforeseeable burdens, the Board shall withhold a portion of available funds and place same in a Stabilization Reserve.

Section 2. Compensation. Compensation for rendering medical, surgical, or other services shall be determined by the corporation. Schedules or provisions for compensation adopted from time to time by the corporation shall be binding upon all Physician Members, and Physician Members shall have no right, claim or demand against this corporation or Subscribers or Enrollees for any further or additional compensation beyond the sums payable pursuant to the applicable schedule.

Section 3. Surcharges Prohibited. No Physician Member and no participating health care provider shall make any surcharge for covered services, and the levying of any surcharge shall be cause for suspension or expulsion pursuant to Chapter 3, Section 2, or other appropriate action by the corporation.

Section 4. Continuation of Services. In the event that any person ceases to be a Physician Member or participating health care provider, such person shall look solely to this corporation for payment for covered services then being rendered by such person to Subscribers and Enrollees under such person's care, until services then being rendered are completed, so long as it is not reasonable and medically appropriate to obtain such services from a Physician Member or participating health care provider.

Section 5. Compliance. Each Physician Member or other participating provider shall license or register all equipment required to be licensed or registered by law, and all operating personnel for such equipment shall be licensed or certified as required by law. Further, as to the employment and utilization of allied health manpower by Physician Members and other participating providers, employment and utilization shall be consistent with the Knox-Keene Act and good medical practice.¹ Physician Members and all participating providers of health care contracting with this corporation shall maintain such records and provide such information to the corporation or to the Commissioner of Corporations as may be necessary for compliance by the corporation with the provisions of the Knox-Keene Act and the rules thereunder, such records to be retained and to remain available for at least two years regardless of any termination of membership or participating agreement, whether by rescission or otherwise.²

CHAPTER 11. FUNDS

Section 1. Investment of Funds. All funds of this corporation shall be invested in accordance with investment policies adopted from time to time by the Board of Directors or its duly authorized committee. Such investment policies shall be consistent with all applicable laws and regulations.

CHAPTER 12. MISCELLANEOUS

Section 1. Business to be Conducted Without Profit. This corporation shall conduct and carry on its business without profit to any of its members. No member of this corporation shall, by reason of membership herein, be or become entitled at any time to receive any assets, property, income or earnings from the corporation or to profit therefrom in any manner. The exclusive purpose of this corporation is the promotion of social welfare with respect to the costs of illness or injury.

¹ (Formerly Chapter I, Section 5.)

² (Formerly Chapter XI, Section 8.)

Section 2. Use of Income: Salaries May Be Paid to Officers and Employees. All of the income, revenue and earnings of the corporation, unless otherwise limited, shall be held, used, managed, devoted, expended and applied in the discretion and judgment of the Board to carry out the objects and purposes of the corporation and without profit directly or indirectly to any member of the corporation as such; provided, however, that (a) officers, agents and representatives of the corporation who may be selected and appointed from the members or Directors or otherwise may be paid such reasonable salaries or compensation for work done or services performed for the corporation as the Board shall from time to time determine; and (b) Physician Members may receive compensation as hereinbefore provided for medical or surgical services actually rendered to Subscribers or Enrollees.

Section 3. Distribution of Assets on Dissolution. In the event of the dissolution of this corporation, all of its assets and property, after payment and satisfaction and discharge of all claims and demands against and liabilities of the corporation, including claims of beneficiary members for the amount of dues then prepaid and unearned by the corporation, shall first be applied to the repayment of any assessments or monies withheld from Physician Members as yet unpaid, and if the assets and property remaining are insufficient for return in full, a pro rata distribution shall be made. Any assets or property then remaining shall be distributed to the beneficiary members in proportion to the amount of dues contributed by each thereof.

Section 4. Principal Offices. The principal offices for the transaction of the business of the corporation may at any time be established by the Board at any place or places where the corporation is qualified to do business.

Section 5. Other Offices. Branch or substitute offices may at any time be established by the Board at any place or places where the corporation is qualified to do business.

Section 6. Seal. The corporation shall have a common seal consisting of two concentric circles with the words and figures "CALIFORNIA PHYSICIANS' SERVICE, CALIFORNIA, FEBRUARY 2, 1939" and the caduceus engraved thereon.

Section 7. Indemnification. From and after the adoption of this section (9 September 1959) each Director and officer now or hereafter serving the corporation (and said person's heirs, executors and administrators), and each person serving on a committee of this corporation and each person serving on the California Physicians' Service Review Committee established by any county medical society in California, shall be indemnified and held harmless by this corporation from and against all costs and expenses which may be imposed upon or reasonably incurred by said person in connection with or resulting from any claim, action, suit or proceeding in which said person may be involved by reason of being or having been a Director or officer or committee member of this corporation or committee member of any such California Physicians' Service Review Committee.

As used herein, the term "costs and expenses" includes but is not limited to attorneys' fees, court costs, and amounts of judgments against and amount paid in settlement by any such Director, officer, committee member or member of any such California Physicians' Service Review Committee, other than amounts paid by the corporation itself.

No one shall be indemnified hereunder with respect to any matter in which it is finally adjudged that the Director, officer or committee member, or member of any California Physicians' Service Review Committee, is liable for misconduct in the performance of his or her duties.

This section shall also apply to medical advisors or consultants retained by the corporation on a full- or part-time basis, and members of the review committees of other professional organizations, while performing claims review functions for and at the request of this corporation.

CHAPTER 13. AMENDMENTS

Section 1. Power of the Board. Any Bylaw may be adopted or these Bylaws may be amended or repealed by the vote or written assent of a majority of the Board.