



State of California
Franchise Tax Board

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**FTB EXHIBIT
B8
October 14, 2014
Arturo Lopez and Maria D. Lopez
740943**

Date: Case: 4800421068112770
Case Unit: 4800435579874566
In reply refer to 410:DTW

TO: CHIEF, BOARD PROCEEDINGS DIVISION
STATE BOARD OF EQUALIZATION
450 N STREET, MIC: 81
SACRAMENTO, CA 95814

FROM: D. TODD WATKINS

RE: Appeal of Arturo & Maria D. Lopez
Appeal Case ID No. 740943
Submission of additional exhibits for appeal hearing.

MEMORANDUM

Respondent is submitting for purposes of this appeal additional exhibits as follows:

Exhibit Y - (46 pages)

The partnership agreement dated July 23, 2003, entered into between Arturo Lopez, M.D., Inc. (ALMD) and Caremore Medical Group (CMG).

Exhibit Z - (2 pages)

Appellant Arturo Lopez, M.D.'s letter to your Board dated September 16, 2014, which constitutes testimonial evidence.

Exhibit AA - (1 page)

Diagram of February 28, 2006, Caremore Medical Group sale and merger.

Exhibit BB - (8 pages)

The 2006 Partnership Return of Income (form FTB 565 (2006)), (exclusive of Schedules K-1 for the 38 partners) filed by Caremore Medical Group. The Schedule K-1 (565) filed for partner Arturo Lopez, M.D., was previously submitted as an exhibit to Respondent's opening brief.

STATE BOARD OF EQUALIZATION



FTB 2140 PASS (REV 12-2011) Appeals\Correspondence\SBE
memo_additional exhibit

Appeal Name: Arturo & Maria Lopez
Case ID: 740943 ITEM #: B8
Date: 10.14.14 Exhibit No: 10.5

TP **FTB** DEPT PUBLIC COMMENT

Date :
Appeal Name : Arturo & Maria D. Lopez
Appeal Case ID No. : 740943
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Exhibit CC - (9 pages)

The 2007 Partnership Return of Income (form FTB 565 (2007)), (exclusive of Schedules K-1 for the 38 partners) filed by Caremore Medical Group. The Schedule K-1 (565) filed for partner Arturo Lopez, M.D., was previously submitted as an exhibit to Respondent's opening brief.

Exhibit DD - (8 pages)

Relevant portions of the 2006 Partnership Return of Income (form 565 (2006)) of Caremore Medical Management Company.

Sincerely,



Tax Counsel III

cc:

Enclosures

Appeal of Arturo and Maria D. Lopez

Appeal Case ID No. 740943

Submitted by: D. Todd Watkins, Tax Counsel

For: Respondent, Franchise Tax Board

Exhibit Y

The partnership agreement dated July 23, 2003, entered into between Arturo Lopez, M.D., Inc. (ALMD) and Caremore Medical Group (CMG).

Total pages - 46

This Partnership Agreement (Agreement) is entered into by the parties set forth in Addendum A to this Agreement.

RECITALS

A. On or about June 1st, 1993, the Partners formed a General Partnership under the laws of the State of California for the purposes and on the terms and conditions stated in the CareMore Medical Group General Partnership & Professional Services Contract.

B. The Partners now wish to restate the terms and conditions of General Partnership & Professional Services Agreement (hereinafter referred to as the "Agreement" as set forth below to more accurately reflect the current operating environment.

ARTICLE I.

Formation, Name and Term

1.1 Formation. The Partners by this Agreement form the Partnership under the laws of the State of California, and agree as follows:

1.2 Firm Name. The name of the Partnership is CareMore Medical Group.

1.3 Places of Business. The Partnership's principal office and place of business shall be at 10000 Lakewood Boulevard, Downey California 90241, in Los Angeles County, California. The principal place of business may be changed from time to time, and other offices may be established by actions taken in accordance with the provisions of this Agreement that govern management of CareMore Medical Group's business and affairs.

1.4 Term. CareMore Medical Group shall begin on March 15, 1993, hereinafter the (Effective Date) and shall continue for thirty-five (35) years thereafter or until dissolved and terminated by mutual agreement of all the Partners or under the provisions for dissolution and winding up as set forth in this Agreement.

1.5 Purpose. The purposes of CareMore Medical Group are to engage in the business of providing health care and medical services and to do all things reasonably incidental to or in furtherance of that business.

1.6 Powers of Partnership. CareMore Medical Group is empowered to do any and all things necessary, appropriate, or convenient for the furtherance and

accomplishment of its purposes, and for the protection and benefit of CareMore Medical Group and its properties, including but not limited to the following:

- 1.6.1 Entering into and performing contracts of any kind;
- 1.6.2 Acquiring, constructing, operating, maintaining, owning, transferring, renting or leasing any property, real, personal or mixed;
- 1.6.3 Borrowing money and issuing evidences of indebtedness and securing any such indebtedness by mortgage, deed of trust, pledge, lien or other security interest in or on any properties of CareMore Medical Group;
- 1.6.4 Applying for and obtaining governmental authorizations and approvals;
- 1.6.5 Bringing and defending actions at law or equity;
- 1.6.6 Subject to the express provisions of this Agreement, purchasing the interest of any Partner.

1.7 Requirement of Professional Corporation. Each Partner shall be a California Medical Professional Corporation in good standing at the time it executes and delivers this Agreement and shall remain a California Professional Medical Corporation during the period that the Partner remains a General Partner.

ARTICLE II.

Statutory Filings

2.1 Fictitious Business Name Permit. The Partnership shall cause to be filed an application with the California Department of Consumer Affairs for a fictitious business name permit number and comply with the laws and regulations related thereto.

2.2 Fictitious Business Name Statement. The Partners, or any one of them on CareMore Medical Group's behalf, shall sign and cause to be filed and published an appropriate fictitious business name statement under the California Fictitious Business Name Law within forty (40) days after CareMore Medical Group begins doing business, within forty (40) days after any subsequent change in its membership and before the expiration of any previously filed statement. Each Partner appoints Sheldon S. Zinberg, M.D., as his or her agent and attorney-in-fact to execute on his or her behalf any such fictitious business name statement relating to this Partnership.

2.3 Address and Agent for Service. CareMore Medical Group shall execute and file with the California Secretary of State a statement pursuant to California Corporations Code section 24003 in which the location and complete address of CareMore Medical Group's principal office in California, is designated and in which an agent of CareMore Medical Group for service of process is designated.

ARTICLE III.

Management

3.1 Management of Business. Except as otherwise specifically provided in this Agreement, the conduct of the business of CareMore Medical Group shall be exclusively controlled by and be the responsibility of the Executive Management Committee hereinafter referred to as the (Management Committee). The Management Committee shall consult and confer as far as practicable with the Partners, but the power of decision shall be vested exclusively in the Management Committee. Except as otherwise expressly provided in this Agreement, all things to be done by CareMore Medical Group shall be done under the Management Committee's control and supervision. The members of the Management Committee shall be entitled to reimbursement monthly, on the submission of an itemized account, of any reasonable sums incurred for the benefit of the CareMore Medical Group's business. Without limiting their general powers, the Management Committee shall have the following specific powers:

3.1.1 To have control over CareMore Medical Group's books and records and the hiring of any independent public accountants it deems necessary for this purpose;

3.1.2 To select and terminate all medical administrative service providers and medical service providers of CareMore Medical Group, to prescribe duties and to fix compensation for the providers and to require if necessary, security for faithful performance of this Agreement by the providers;

3.1.3 To enter into Partnerships and joint ventures as may be necessary or convenient;

3.1.4 To borrow money or incur indebtedness and to cause to be executed necessary documents for such indebtedness;

3.1.5 To generally conduct, manage and control the affairs and business of CareMore Medical Group, to enter into contracts with other entities, to conduct or assist in the management and control of the affairs and business

of CareMore Medical Group and to make rules and regulations not inconsistent with this Agreement;

3.1.6 To recruit, hire and terminate employee physicians who are not Shareholder Employees and determine the compensation and benefits of the employee physicians;

3.1.7 To implement practice consolidation programs of the Partners for the purpose of reducing overhead expense and increasing profitability;

3.1.8 To determine and distribute risk fund profits and the other profits of the Partnership except as otherwise specifically provided in this Agreement;

3.1.9 To develop and conduct appropriate grievance procedures for Partners;

3.1.10 To determine the amount and to purchase general liability insurance and/or an insurance umbrella policy or annuity to indemnify the Partnership, its Management Committee and its Partners from liability resulting from being a Partner or Management Committee member;

3.1.11 To sell, transfer or otherwise dispose of CareMore Medical Group and all of its assets;

3.1.12 To determine and implement procedures for the discipline and/or removal of a member of the Management Committee and the filing of a vacancy caused thereby;

3.1.13 To determine and set billing rates for all medical services.

3.2 Management Committee. There shall be a maximum of eleven (11) members of the Management Committee until such maximum number is changed by amendment to this Agreement. Each member of the Management Committee (except the initial Chairman and the members appointed by the Chairman) shall be elected by a majority vote of the Partners from time to time at properly held meetings of the Partners. Members of the Management Committee shall hold office for two (2) years after being elected or appointed. Each member of the Management Committee shall hold office until his/her respective successor is elected or until he/she dies, resigns or is removed from office. The Management Committee by majority vote, shall have the right to fill any vacancy in the Management Committee. The successor shall serve the remainder of the term of the person he or she has replaced. If the member to be replaced was one appointed by the Chairman, the Chairman shall have the right to

select the successor and not the Management Committee. Except as otherwise specifically provided for in this Agreement, if any annual meeting is not held or the members of the Management Committee are not elected at that time, the members of the Management Committee may be elected at any special meeting of the Partners held for that purpose. At no time shall more than two (2) physician specialists serve on the Management Committee. For purposes of this Section the term "specialist" does not include pediatrics, OB-GYN or internal medicine when the internist engages in full time primary care.

3.3 Management Committee Structure. At the first annual meeting of the Partners nine (9) of the eleven (11) members of the Management Committee will be elected and/or appointed (including the Chairman). The Management Committee, upon a majority vote and in its sole discretion, has the authority to appoint the tenth (10th) and eleventh (11th) members of the Management Committee to serve for a single two (2) year term after which those Management Committee positions shall be subject to election by the Partners.

3.4 Appointment and Election of the Chairman. The Chairman of the Management Committee shall be a voting member and the initial Chairman shall serve for a term of six (6) years commencing with the first annual meeting of Partners during which the Management Committee members are elected. Sheldon S. Zinberg, M.D., shall be the Chairman of the Management Committee for the initial six (6) year term of CareMore Medical Group and during that period shall not be required to be elected. Thereafter the Chairman shall be elected at the annual meeting by a majority of the Management Committee from one of the duly elected and/or appointed Management Committee members and shall serve a two (2) year term. A Chairman may serve more than one (1) term as long as the Chairman is a member of the Management Committee.

3.5 Special Powers of the Chairman. Commencing with the formation of the Management Committee and every two (2) years thereafter, the Chairman shall have the authority to appoint two (2) Management Committee members to each serve for a two (2) year term. This special power of the Chairman shall be in effect whether or not the Management Committee consists of nine (9) or eleven (11) members.

3.6 Management Committee Eligibility. To be eligible to serve as a member of the Management Committee an individual must be professionally licensed by the State of California Department of Consumer Affairs as a physician and must be a shareholder of a Partner and must be a Shareholder Employee as defined in Section 3.11.6 hereof and be actively engaged during their term in the practice of medicine. The restrictions *set forth above in this section 3.6 shall not apply to* Chairman of the Management Committee *nor to the Chief Medical Officer.*

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3.7 Management Committee Nominations. Nominations for the Management Committee can be made by any Partner. The names of the nominees shall be submitted in writing to the Management Committee no later than sixty (60) days prior to the annual Partners meeting and thereafter the names will be mailed to all of the Partners by the Chairman of the Management Committee at least thirty (30) days prior to the annual Partners meeting of each year in which elections shall be held. Thereafter all nominations shall be closed. At the time of elections, all such nominees must agree in writing to serve as a member of the Management Committee if elected.

3.8 Management of Meetings. The following provisions and requirements shall apply with regard to the conduct of the business by the members of the Management Committee:

3.8.1 Meetings. As soon as is reasonably practical after the first meeting of the Partners and after the adjournment of each annual meeting of the Partners, the Management Committee shall hold its annual meeting for the purpose of organization and the transaction of such other business as it deems appropriate. No notice of such meeting need be given. Regular meetings of the Management Committee shall also be held from time to time for the making of all decisions relating to the business of CareMore Medical Group. Notice of any regular meeting of the Management Committee must be given to all members of the Management Committee by telephone, fax or by personal delivery if given at least forty-eight (48) hours in advance of the meeting or by United States mail at least five (5) days prior to the meeting. All meetings shall be held at the principal place of business of CareMore Medical Group or at such place as shall be designated in writing by the Chairman of the Management Committee.

3.8.2 Action of Meetings. Every action taken or made by a majority of the members of the Management Committee present at a meeting duly held and at which a *quorum* is present shall be regarded as the action of the Management Committee. Each Management Committee member shall have one (1) vote. Action taken at any meeting of the Management Committee shall be valid and binding on the Partnership if: (i) taken at a meeting duly held after a regular call and notice; (ii) a *quorum* was present and the vote was by a majority of the members then present; or, (iii) if a *quorum* was not present a majority of the members of the Management Committee sign a written waiver of notice and consent to the holding of such meeting and approves the minutes taken at the meeting. Such waivers, consents or approvals shall be filed with the records of CareMore Medical Group.

3.8.3 Quorum. A majority of the duly constituted members of the Management Committee shall constitute a *quorum* for the transaction of business.

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3.8.4 Action without Meeting. Any action by the Management Committee may be taken without a meeting if a majority of the members of the Management Committee individually or collectively consent in writing to such action. Such written consent shall be filed with the minutes of the proceedings of the Management Committee.

3.8.5 Delegation. None of the foregoing Sections shall be construed as preventing the Management Committee from reasonably delegating any day to day management powers, duties or responsibilities to individual Management Committee members, to establish appropriate subcommittees or enter into agreements for the exercise of management powers with third parties.

3.9 Salaries. Each member of the Management Committee shall be entitled to a salary or other compensation for services rendered in connection with the business of CareMore Medical Group as may be fixed from time to time by the Management Committee but not to exceed \$2,000.00 per month for any member of the Management Committee without amendment to this Agreement. This Section does not prevent or limit a member of the Management Committee to have a contract for services with the Partnership, as approved by the Management Committee.

3.10 Meetings of Partners. Annual and special meetings of the Partners shall be held for the purpose of voting on matters upon which action by the Partners is required and on any other matters affecting the Partners interest. Such meetings shall also be required for the conduct of any business of CareMore Medical Group not otherwise under the control of the Management Committee under the terms of this Agreement. No action may be taken by the Partners except at a meeting. All such meetings shall be conducted according to the following rules:

3.10.1 Place of Meetings. All meetings of Partners shall be held at the principal place of business of CareMore Medical Group or at such place as designated in writing by the Chairman of the Management Committee.

3.10.2 Annual Meetings. The annual meeting of the Partners shall be held on the fourth Monday of January of each year except for the first annual meeting which shall be held on June 15, 1993, or at the time noticed by the Chairman of the Temporary Management Committee. If for any reason the annual meeting shall not be held on the day or place specified, it may be held at such other time and place as the Chairman or the Management Committee may determine upon the same notice and conditions as a regular meeting.

3.10.3 Special Meetings. Special Meetings of the Partners may be called at any time by a resolution of the Management Committee or by the Partners holding not less than one-fourth (1/4) of the Partnership Equity Interest. A

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Partnership Equity Interest means that equity interest purchased by each Partner in CareMore Medical Group and is equivalent to the number of shareholders in each Partner's professional corporation.

3.10.4 Notice of Meetings. Notice of the annual or any special meeting of Partners shall be mailed to each Partner entitled to vote at such meeting by United States mail at least fifteen (15) days prior to the date of the meeting. All notices shall specify the place, day and hour of such meeting and may specify the general nature of the business to be transacted.

3.10.5 Quorum. The Partners entitled to vote under Section 3.10.6 and who are, present in person or by proxy, and holding fifty-one percent (51%) or more of the Partnership Equity Interest shall constitute a *quorum* for the transaction of business at a meeting of the Partners. Partners present at a duly held meeting at which a *quorum* was established may continue to conduct business until adjournment of the meeting notwithstanding the withdrawal of Partners from the meeting so that a *quorum* is no longer present.

3.10.6 Voting. Each Partner of the Partnership shall have one vote for each Shareholder Employee of record who is actively engaged in the practice of medicine as set forth in Exhibit "A" (referenced in paragraph 4.1), hereinafter referred to as a (Shareholder Employee). All voting rights of a Partner and any other actions required of or permitted to be performed by a Partner shall be performed by a designated representative of that Partner (the Partner Representative) who shall be a Shareholder Employee. Each Partner shall file with the Management Committee thirty (30) days prior to any Partners' meeting, a designation of its Partner Representative who shall have the authority of that Partner to vote all of the votes of that Partner at any special or annual meeting of the Partnership. Any Shareholder Employee of a Partner who does not want the Partner Representative to vote his or her vote at the annual or special meeting of the Partnership shall either attend the annual or special meeting and vote his/her vote in person or designate another Shareholder Employee his/her agent for voting purposes at the annual or special meeting of the Partnership. The designation of another Shareholder Employee for voting purposes shall be a written proxy to be delivered to the Chairman of the Management Committee prior to any vote at the annual or special meeting of the Partners.

3.10.7 Majority Vote. Wherever a majority vote is required such action shall be approved by a majority of the total votes cast at any annual or special meeting of the Partnership even though the vote in favor of an action may be less than the total number of Shareholder Employees which could be eligible to vote if all Shareholder Employees were present at the meeting or were represented by a Partner Representative at the meeting. Whenever more than a majority vote is required as set forth in this Agreement, such action shall be approved by the necessary

number of votes to be cast at any annual or special meeting of the Partnership for which a *quorum* was present pursuant to Section 3.10.7.

3.10.8 Adjournments. Any meeting of Partners may be adjourned by the vote of the holders of a majority of the votes present at the meeting whether or not a *quorum* was present at the meeting.

3.11 Admission of New Partners. A new Partner may be admitted to CareMore Medical Group upon the approval of the Management Committee. Each new Partner shall be admitted only if the new Partner shall have executed this Agreement or an appropriate supplement in which the new Partner agrees to be bound by the terms and provisions of this Agreement and as modified by any supplement.

3.12 Special Power of Attorney. Each Partner and each Shareholder Employee hereby appoints Sheldon S. Zinberg, M.D. or any successor Chairman of the Management Committee as limited attorney-in-fact for the purposes of executing any amendments to this document in accordance with Section 14.4 and to execute any documents necessary to complete the sale and/or transfer of any Partner's or Shareholder Employee's interest in CareMore Medical Group and/or CMMC in the event that DCH exercises its option rights as specified in the CareMore Medical Group Option Agreement and the CMMC Option Agreement.

ARTICLE IV.

Capital; Profits and Losses

4.1 Capital.

4.1.1 Contributions. CareMore Medical Group's initial capital shall consist of cash to be contributed by the Partners in the amounts set forth next to their respective names in Exhibit A. Each Partner shall purchase a number of Partnership Equity Interests equivalent to the number of shareholders in its professional corporation. The purchase price shall be \$500.00 per Partnership Equity Interest. A Partner's Partnership Equity Interest shall be reduced in the event that the number of shareholders in that Partner is reduced. Each Partner's contribution shall be paid in full within ninety (90) days after the execution of this Agreement by the Partner.

4.1.2 Calls for Additional Capital. There shall be no additional calls for capital from any Partner.

4.1.3 Voluntary Contributions. No Partner may make any voluntary contribution of capital to CareMore Medical Group without the consent of all the Partners.

4.1.4 Withdrawals of Capital. No Partner may withdraw capital without the consent of the Management Committee or as otherwise provided for in this Agreement.

4.1.5 Interest on Capital Contributions. No Partner shall be entitled to receive any interest on his or her capital contribution. If a Partner is entitled to repayment of his or her contribution and such is not repaid when due, then the Partner shall be entitled to interest on the contribution not repaid at the rate determined from time to time by the Management Committee from the date when repayment should have been made to the Partner.

4.1.6 Future Loans. No Partner shall lend or advance money to or for CareMore Medical Group's benefit without the approval of a majority vote of the Management Committee. If any Partner, with the consent of the Management Committee, lends any money to CareMore Medical Group in addition to his or her contribution to its capital, the loan shall be a debt of CareMore Medical Group to that Partner and shall bear interest at the rate determined from time to time by the Management Committee. The liability shall not be regarded as an increase in the lending Partner's capital and it shall not entitle the lending Partner to any increased share of CareMore Medical Group's profits or an increase in the voting rights.

4.2 Profits and Losses.

4.2.1 Determination of Profit and Loss. CareMore Medical Group's net profit or net loss for each fiscal year shall be determined as soon as practicable after the close of that fiscal year in accordance with the accounting principles employed in the preparation of the federal income tax return filed for that year by CareMore Medical Group. The Management Committee shall have the sole and exclusive authority to determine the amount to be distributed to the Partners as well as the time of such distributions, taking into account, without limitation working capital needs of the Partnership.

(a) "Profit" and "Loss" shall mean the difference between the total fees collected by CareMore Medical Group minus all expenses of the Partnership.

(b) "Operating Income" shall mean ninety percent (90%) of a Partner's gross collected fees less the Partner's direct and allocable expenses as set forth in Sections 5.6.1, 5.6.2 and 5.6.3 hereof.

(c) "Nonrecourse Deductions" has the meaning set forth in Section 1.704-2(b)(1) of the Regulations.

(d) "Nonrecourse Liability" has the meaning set forth in Section 1.704-2(b)(3) of the Regulations.

(e) "Partner Nonrecourse Debt" has the meaning set forth in Section 1.704-2(b)(4) of the Regulations.

(f) "Partner Nonrecourse Debt Minimum Gain" means an amount, with respect to each Partner Nonrecourse Debt, equal to the Partnership Minimum Gain that would result if such Partner Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Section 1.704-2(i)(3) of the Regulations.

(g) "Partner Nonrecourse Deductions" has the meaning set forth in Sections 1.704-2(i)(1) and 1.704-2(i)(2) of the Regulations.

(h) "Partnership Minimum Gain" has the meaning set forth in Regulation Sections 1.704-2(b)(2) and 1.704-2(d).

(i) "Regulations" means the income tax regulations (including temporary regulations), promulgated pursuant to the Internal Revenue Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

4.2.2 Allocation of Profits. After first giving effect to the Special Allocations set forth in Sections 4.3 and 4.4 hereof, Profits shall be allocated among the Partners in the following order of priority:

(a) First, among the Partners in the same proportion that they have received distributions pursuant to Section 5.10 until the aggregate amount allocated pursuant to this Section 4.2.2(a) for such fiscal year and all prior fiscal years is equal to the aggregate profit realized by the CareMore Medical Group upon the sale of its assets as contemplated in Section 5.10;

(b) Second, among the Partners in the same proportion that they have received distributions pursuant to Section 5.7 until the aggregate amount allocated pursuant to this Section 4.2.2(b) for such fiscal year and all prior fiscal years is equal to the aggregate risk fund profits distributed in accordance with Section 5.7;

(c) Third, among the Partners in the same proportion that they have received distributions pursuant to the last sentence of the first paragraph of Section 5.6 until the aggregate amount allocated pursuant to this Section 4.2.2(c) for

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such fiscal year and all prior fiscal years is equal to the aggregate amount distributed pursuant to such sentence of Section 5.6;

(d) Fourth, among the Partners in the same proportion that they have received distributions pursuant to the terms of Section 5.5(d) until the aggregate amount allocated pursuant to this Section 4.2.2(d) for such fiscal year and all prior fiscal years is equal to the aggregate amount distributed pursuant to Section 5.5(d); and

(e) The balance, if any, to each Partner in the same proportion that its total Partnership Equity Interest bears to the total Partnership Equity Interests held by all Partners.

4.2.3 Allocation of Losses. After giving effect to the Special Allocation set forth in Sections 4.3 and 4.4 hereof, Losses shall be allocated to each Partner in the same proportion that its Operating Income bears to the Operating Income of all Partners for the twelve (12) month period immediately preceding the end of the current fiscal year or for the number of months during which the Partner has been a Partner, whichever is less.

4.3 Special Allocations. The following special allocations shall be made in the following order:

4.3.1 Minimum Gain Chargeback. Except as otherwise provided in Section 1.704-2(f) of the Regulations, notwithstanding any other provision of this Article IV, if there is a net decrease in Partnership Minimum Gain during any Partnership fiscal year, each Partner shall be specially allocated items of Partnership income and gain for such fiscal year (and, if necessary, subsequent fiscal years) in an amount equal to such Partner's share of the net decrease in Partnership Minimum Gain, determined in accordance with Regulations Section 1.704-2(g). Allocations pursuant to the previous sentence shall be made in proportion to the representative amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Sections 1.704-2(f)(6) and 1.704-2(j)(2) of the Regulations. This Section 4.3.1 is intended to comply with the minimum gain chargeback requirement in such Section of the Regulations and shall be interpreted consistently therewith.

4.3.2 Partner Minimum Gain Chargeback. Except as otherwise provided in Section 1.704-2(i)(4) of the Regulations, notwithstanding any other provision of this Article IV, if there is a net decrease in Partner Nonrecourse Debt Minimum Gain attributable to a Partner Nonrecourse Debt during any Partnership fiscal year, each Partner who has a share of the Partner Nonrecourse Debt Minimum Gain attributable to such Partner Nonrecourse Debt, determined in

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accordance with Section 1.704-2(i)(5), shall be specially allocated items of Partnership income and gain for such fiscal year (and, if necessary, subsequent fiscal years) in an amount equal to such Partner's share of the net decrease in Partner Nonrecourse Debt Minimum Gain attributable to such Partner Nonrecourse Debt, determined in accordance with Regulations Section 1.704-2(i)(4). Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Partner pursuant thereto. The items to be so allocated shall be determined in accordance with Sections 1.704-2(i)(4) and 1.704-2(j)(2) of the Regulations. This Section 4.3.2 is intended to comply with the minimum gain chargeback requirement in such Section of the Regulations and shall be interpreted consistently therewith.

4.3.3 Code Section 754 Adjustment. To the extent an adjustment to the adjusted tax basis of any Partnership asset pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Regulations Section 1.704-1(b)(2)(iv)(m)(2) or Regulations Section 1.704-1(b)(2)(iv)(m)(4), to be taken into account in determining Capital Accounts as a result of a distribution to a Partner in complete liquidation of his interest, the amount of such adjustment to the Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specifically allocated to the Partners in accordance with their interests in the Partnership in the event Regulations Section 1.704-1(b)(2)(iv)(m)(2) applies, or to the Partners to whom such distribution was made in the event that Regulations Section 1.704-1(b)(2)(iv)(m)(4) applies.

4.3.4 Nonrecourse Deductions. Nonrecourse Deductions for any fiscal year or other period shall be specially allocated to each Partner in the same proportion that such Partner's total Partnership Equity Interests bears to the total of Partnership Equity Interests held by all Partners.

4.3.5 Partner Nonrecourse Deductions. Any Partner Nonrecourse Deductions for any fiscal year or other period shall be specially allocated to the Partner who bears the economic risk of loss with respect to the Partner Nonrecourse Debt to which such Partner Nonrecourse Deductions are attributable in accordance with Regulations Section 1.704-1(b)(4)(iv)(h).

4.4 Curative Allocations. The allocations set forth in Sections 4.3.1, 4.3.2, 4.3.3, 4.3.4 and 4.3.5 hereof (the "Regulatory Allocations") are intended to comply with certain requirements of the Regulations. It is the intent of the Partners that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of Partnership income, gain, loss, or deduction pursuant to this Section 4.4. Therefore, notwithstanding any other provision of this Article IV (other than the Regulatory

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Allocations), the Partners shall make such offsetting special allocations of Partnership income, gain, loss, or deduction in whatever manner they determine appropriate so that, after such offsetting allocations are made, each Partner's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Partner would have had if the Regulatory Allocations were not part of the Agreement and all Partnership items were allocated pursuant to Sections 4.2.3 and 4.2.4. In exercising their discretion under this Section 4.4, the Partners shall take into account future Regulatory Allocations under Sections 4.3.1 and 4.3.2 that, although not yet made, are likely to offset Regulatory Allocations made under Sections 4.3.4 and 4.3.

4.5 Other Allocation Rules.

4.5.1 The Partners are aware of the income tax consequences of the allocations made by this Article IV and hereby agree to be bound by the provisions of this Article IV in reporting their shares of Partnership income and loss for income tax purposes.

4.5.2 For purposes of determining the Profits, Losses, or any other items allocable to any period, Profits, Losses, and any such other items shall be determined on a daily, monthly, or other basis, as determined by the Partners using any permissible method under Code section 706 and the Regulations thereunder.

4.5.3 Solely for purposes of determining a Partner's proportionate share of the "excess nonrecourse liabilities" of the Partnership within the meaning of Regulations Section 1.752-3(a)(3), the Partner's interests in Partnership profits are in the same proportion that such Partner's Operating Income bears to the Operating Income of all Partners.

4.5.4 To the extent permitted by Section 1.704-2(h)(3) of the Regulations, the Partners shall endeavor not to treat distributions of cash as having been made from the proceeds of a Nonrecourse Liability or a Partner Nonrecourse Debt.

ARTICLE V.

Professional Services Contract and Compensation.

5.1 Service Contract. Each Partner and each Shareholder Employee thereof hereby contracts to render medical service to patients of CareMore Medical Group in any location where CareMore Medical Group provides medical care for so long as such Partner remains a Partner of CareMore Medical Group subject to the terms and provisions of this Agreement. Such contract will hereinafter be referred to as the Professional Services Contract.

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5.2 Commencement of the Professional Services Contract. Subject to the provisions for termination of this Agreement, the term of the Professional Services Contract shall commence on the date the Partner becomes a Partner in CareMore Medical Group and shall continue and be automatically renewed each year on the anniversary of this Agreement. If a Partner employs more than one Shareholder Employee then the terms of Articles VI and VII shall apply to each Shareholder Employee to the extent set forth herein. Exhibit A sets forth the complete list of the Shareholder Employees of each Partner when the Partner joins CareMore Medical Group. No Partner can add any additional Shareholder Employees not set forth in Exhibit A without the express written consent of a majority of the Management Committee. The Management Committee can withhold its consent for a Partner's additional Shareholder Employee for any reason whatsoever or for no reason at all.

5.3 Tracking of Income. Each Partner shall be a separate profit/loss center and all of the income and expenses shall be accounted separate from any other Partner. Each Partner shall be assigned a separate account number for the purposes of accounting for all of its income, expenses and distributions to the Partner.

5.4 Billing and Collections. CMMC shall provide accounting and billing for the Partnership with respect to each Partner. The accounting services shall be provided by the Central Billing Center. The Central Billing Center shall be staffed by billing, bookkeeping and accounting personnel who will be responsible to account for all of the income paid to each Partner and which will then pay all of the direct and allocable expenses which are attributable to the Partner and will distribute profits, if any, to the Partner. During the first year of operation as a Partner each Partner may elect to be included in the Central Billing Center for the purpose of billing and collecting professional fees or the Partner may elect to perform its own billing and collection of professional fees. If the individual Partner elects to perform its own billing and collections, all income shall still be paid to the Central Billing Center upon receipt of the professional fees by the Partner. On or before the first anniversary date of the execution of this Agreement by the Partner, each Partner shall be required to have the Central Billing Center perform all business functions that the Central Billing Center provides for the Partnership with respect to each of the individual Partners. The Central Billing Center shall be responsible to pay all of the Direct and Allocable Expenses for each Partner.

5.5 Base Distributions. The distribution to each Partner of all collected income by the Central Billing Center for that Partner shall be paid semi-monthly on or before the fifteenth (15th) and thirtieth (30th) of each month and the priority of payments shall be as follows:

5.5.1 All Direct Expenses shall be paid in full;

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5.5.2 All Allocable Expenses shall be paid in full;

5.5.3 Ten percent (10%) of the remaining account balance shall be paid to CareMore Medical Group to cover administrative expenses such as utilization review, quality assurance, and practice acquisition with the remainder to be redistributed as incentive compensation;

5.5.4 The remaining account balance shall be paid to the Partner.

5.6 CareMore's Operating Expenses. The amount of money that is paid to CareMore Medical Group by each of the individual Partners shall be identified as the CareMore Operating Account (Section 5.5.3). At the end of the Fiscal year for the Partnership, full and complete non audited accounting statements shall be provided to each Partner by the Management Committee. In the event that there remains any money in the CareMore Operating Account, then the Management Committee shall have the sole and exclusive right to distribute any of the money to any of the Partners as incentive compensation. The incentive compensation may be distributed in an unequal manner to any of the Partners.

5.6.1 Expenses. The Management Committee in its sole and absolute discretion shall determine the classification of Direct and Allocable Expenses and the formulas for allocating the Allocable Expenses.

5.6.2 Direct Expense. Direct Expenses shall include but not be limited to the following expenses which can be directly attributable to a Partner in the provision of medical services: office rent, paraprofessional and administrative personnel reasonably necessary for the efficient operation of the Partner's office, Workers' Compensation insurance coverage and expense for such personnel, Malpractice insurance expense for each Partner's Shareholder Employees as specified by the Management Committee, employee fringe benefits such as life insurance, disability insurance, health insurance and qualified pension plan benefits, any medical supplies used by the Partner, medical equipment used or required by the Partner and salaries and other employment related benefits related to CareMore Medical Group employee physicians and physician assistants utilized by the Partner.

5.6.3 Allocable Expenses. Allocable Expenses shall mean all expenses which are not Direct Expenses or which cannot readily be allocated as Direct Expenses.

5.7 Risk Fund Profits. It is anticipated that CareMore Medical Group will have profits from remaining risk funds established during its performance of pre-paid managed health care plans. To the extent that any such risk fund profits exists the

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Management Committee shall determine the method, manner and timing of such distributions taking into account the number of prepaid enrollees that a Partner has and the amount of that Partner's hospital utilization. The distribution of the incentive compensation may be distributed in an unequal manner to any of the Partners and will be distributed at the sole and exclusive discretion of the Management Committee.

5.8 Distributions to Shareholder Employees. CareMore Medical Group shall distribute all monies pursuant to this Agreement to the Partners which in turn shall be responsible to make distributions to the respective Shareholders Employees of the Partner.

5.9 Turnkey Services Fees. CareMore Medical Group shall enter into a long term management services agreement with CMMC (the Turnkey Services Agreement). Pursuant to the terms of the Turnkey Service Agreement, CMMC shall provide to CareMore Medical Group all such administrative and paraprofessional personnel, all items of furniture, fixtures, office equipment and state-of-the-art medical equipment reasonably necessary for each Partner's efficient operation of its office. CMMC shall maintain said items in good repair, condition and working order and shall furnish any and all services, parts, mechanisms, and devices required to do so. CMMC shall be paid a fee which shall be a percentage of the total collected fees of CareMore Medical Group (Overhead Contract Rate). The Overhead Contract Rate shall not exceed forty-nine percent (49%) during the first year of the Turnkey Services Agreement with CMMC. If the actual direct costs of CareMore Medical Group (as determined by the Management Committee) of CareMore Medical Group exceeds the Overhead Contract Rate the difference shall be distributed to all Partners on a *pro rata* basis expressed as the percentage that individual Partner's Direct Expenses bears to the total Direct Expenses of CareMore Medical Group.

5.10 Proceeds From Sale of Assets. If any of the assets of CareMore Medical Group are sold to Downey Community Hospital (DCH) pursuant to the exercise of the option to purchase CareMore Medical Group's assets after five (5) years from the formation of CareMore Medical Group or to any other third party if DCH's option expires, then the Partners shall receive their *Pro rata* Share from the proceeds from the sale of such assets. Included in the assets to be sold shall be all tangible and intangible assets carried on CareMore Medical Group's books or in the name of CareMore Medical Group including its goodwill, its books, records, files, its interests under leases, licenses, or franchises, the right to bill and collect for services rendered by persons who are Partners or employees of CareMore Medical Group and its interests in and expectations from engagements for patients.

5.10.1 Pro rata Share. For purposes of Article V *Pro rata* Share means, with respect to each Partner, the five year weighted average of the Partners' Operating Income in proportion to the five (5) year weighted average of the

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Operating Income for CareMore Medical Group, multiplied by the net proceeds from the sale of CareMore Medical Group's assets. The five (5) year weighted average shall use the five (5) year period prior to the sale of CareMore Medical Group's assets giving greater weight to the more recent years earnings as follows:

5th year = 30% of the Partners annual Operating Income from 5th year;(most recent)

4th year = 25% of the Partners annual Operating Income from 4th year;

3rd year = 20% of the Partners annual Operating Income from 3rd year;

2nd year = 15% of the Partners annual Operating Income from 2nd year; and,

1st year = 10% of the Partners annual Operating Income from the 1st year.

100%

The weighted average to compute CareMore Medical Group's five (5) year weighted average shall be computed in the same manner.

The following example, for purposes of illustration only, assumes:

(1) During 1999 DCH has elected to exercise its option to purchase CareMore Medical Group's assets;

(2) That the net proceeds from the sale of assets to DCH were \$12,000,000.00;

(3) That five (5) year weighted average of CareMore Medical Group's Operating Income was \$6,000,000.00;

(4) That the following represented the data necessary to compute the Partner's five (5) year weighted average Operating Income:

<u>Year</u>	<u>Percent</u>	<u>Partner's Annual Operating Income</u>	<u>Amount</u>
1998	30%	\$300,000.00	\$90,000.00
1997	25%	\$275,000.00	\$68,750.00
1996	20%	\$250,000.00	\$50,000.00
1995	15%	\$200,000.00	\$30,000.00
1994	<u>10%</u>	\$150,000.00	\$15,000.00
	100%		\$253,750.00

The Partners five (5) year weighted average Operating Income is \$253,750.00. Had a simple unweighted average been used the average profit would be \$235,000.00.

To calculate the *Pro rata* share for this Partner as a percentage; the Partner's five (5) year weighted average Operating Income is the numerator of a fraction in which the denominator is the five (5) year weighted average of CareMore Medical Group's Operating Income:

$$\frac{253,750.00}{6,000,000.00} = .0422916 = 4.23\%$$

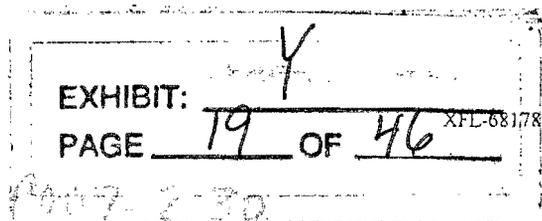
6,000,000.00

This Partner's portion of the net proceeds from the sale of CareMore Medical Group's assets would be 4.23% of \$12,000,000.00 which is \$507,600.00

ARTICLE VI.

Termination and Removal

6.1 Automatic Termination of the Professional Services Contract. Unless the CareMore Medical Group Management Committee shall determine otherwise, the CareMore Medical Group Professional Services Contract shall terminate with respect to a particular Partner upon the suspension or revocation of any professional license of that Partner or of any of its Shareholder Employees by action of a duly constituted licensing authority or the death, disability, termination of employment or the seventy-fifth (75th) birthday of the last remaining Shareholder



Employee of the Partner. A Partner may avert its termination in the Partnership by terminating the noncomplying Shareholder Employee.

6.2 Additional Grounds for Termination of the CareMore Medical Group Professional Services Contract. The CareMore Medical Group Professional Services Contract with a particular Partner may be terminated for any of the following reasons or for any other reasons the Management Committee deems to justify such action:

6.2.1 Commencement of a disciplinary proceeding against the Terminating Partner or any of its Shareholder Employees by any professional authority.

6.2.2 The expulsion of that Partner or any of its Shareholder Employees from any professional association for breach of professional ethics or other unprofessional conduct.

6.2.3 The breach of professional ethics by that Partner or any of its Shareholder Employees after request by the Management Committee to cease and desist.

6.2.4 The commission by that Partner or any of its Shareholder Employees of any criminal act resulting in a felony conviction or an act involving moral turpitude or an act which may injure the reputation of CareMore Medical Group and its practice.

6.2.5 The inability of that Partner or any of its Shareholder Employees for any reason to competently render the services contemplated by this Agreement, including but not limited to, extended physical disability of any of that Partner's Shareholder Employees.

6.2.6 The continued practice of medicine by that Partner or any of its Shareholder Employees reflecting careless, irresponsible, incompetent or negligent medical care which endangers patients and/or risks for CareMore Medical Group, including continued failure to practice in accordance with the standard of care in the community and/or continued failure to practice or maintain medical records in accordance with established standards of CareMore Medical Group, after the request by the Management Committee to take corrective action.

6.2.7 The breach by that Partner or any of its Shareholder Employees of any of the terms and conditions of this Agreement or any other matter adopted by the Partners or the CareMore Medical Group Management Committee. In the event that a Shareholder Employee shall commit any act considered by the Management Committee to be a substantial breach of any of the provisions of this

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Agreement, CareMore Medical Group shall give such Partner written notice by registered mail of such breach. If the breach shall not be cured within ten (10) working days of such notice, then the Professional Service Contract may be terminated according to the terms of this Agreement.

6.3 Procedure for Termination by Management Committee. CareMore Medical Group acting through the Management Committee may at any time terminate any Partner's Professional Services Contract at a meeting of the Management Committee specially called for that purpose only.

6.3.1 A meeting of the Management Committee shall be specially called by its Chairman for the purpose of considering the termination of the CareMore Medical Group Professional Services Contract with a specific Partner. The meeting shall be called by service of written notice upon the members of the Management Committee and the affected Partner at least ten (10) days prior to said meeting (by registered mail to the affected Partner) and shall state the purpose, date, place and time of such meeting.

6.3.2 At such meeting and prior to the taking of any vote regarding termination of the Professional Services Contract as to such a Partner, officers of that Partner shall be given an oral statement of the reasons for the proposed termination. The Management Committee may, but is not required to call Shareholder Employees or witnesses to give testimony or opinions regarding the proposed termination. Such Shareholder Employees or witnesses cannot be compelled to give any testimony or statements. Thereafter the Partner's officers shall be entitled to state their contentions regarding the alleged grounds for termination and to call any Shareholder Employee or witness to give testimony on their behalf. The expression of opinion by any Partner, Shareholder Employee or member of the Management Committee shall in no way obligate the Management Committee to vote for or against the proposed termination.

6.3.3 In the event that the Partner for whom the termination is proposed fails to attend such meeting, such Partner shall be deemed to waive any right to be heard and to have consented to the actions of the Management Committee.

6.3.4 Such meeting shall be closed to all persons except members of the Management Committee, its legal and/or administrative representatives, Shareholder Employees of the Terminating Partner, its legal and/or administrative representatives and any other Shareholder Employees or other witnesses called to testify by either the Management Committee or the Terminating Partner. Such proceedings shall remain confidential and all Management Committee Members, Partners and Shareholder Employees hereby expressly agree that statements

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made during such meetings are privileged and cannot be the basis for a cause of action for defamation, slander, libel, wrongful termination; breach of contract, breach of Partnership, fraud, negligent misrepresentation and/or breach of the covenant of good faith and fair dealing and each further waives the provisions of California Civil Code section 43.

6.3.5 The members of the Management Committee shall vote by secret written ballot after a *quorum* has been established. No proxies shall be accepted for voting, notwithstanding any provision to the contrary in this Agreement or pursuant to law. A three-fourth (3/4) majority vote of the Management Committee present shall be required for termination. Within five (5) days after the decision concerning termination or non termination, written notice of the termination or non termination shall be served upon the Partner. The notice shall be by registered or certified United States mail to the Partner. A written statement of facts or reasons for termination or non termination need not be given in the notice to the Partner.

6.3.6 A Partner may avert a termination of the Professional Services Contract by terminating the Shareholder Employee who was the subject of the hearing within five (5) days of the receipt of the notice of the termination of the Partner by CareMore Medical Group. The notice by the Partner of the termination of the Shareholder Employee shall be by registered or certified United States mail to CareMore Medical Group.

6.4 Compliance with Health Care Quality Improvement Act. In any instance where the removal or termination of a Partner or Shareholder Employee is for a "Medical disciplinary cause or reason" as that term is defined in the California Business & Professions Code section 805(B)(6) then the Management Committee shall adhere to the requirements of the California Business & Professions Code sections 805, and 809 through 809.9 and any related statutes.

6.4.1 Procedure. If a hearing is requested pursuant to California Business & Professions Code section 809.2, the parties agree that the trier of fact at such a hearing shall be a four (4) member panel comprised of three (3) physician arbitrators and one (1) non-voting presiding hearing officer. The presiding hearing officer shall be a retired California Superior Court Judge who shall have all the authorities granted under California Business & Professions Code section 809.2. In instances where the Partner or Shareholder Employee in question is a specialist then the physician arbitrators must also be of that same specialty unless otherwise agreed to by the Management Committee and the Partner or Shareholder Employee.

6.4.2 Selection. Physician arbitrators must be selected from the American Arbitration Association of Los Angeles. The Management Committee of CareMore Medical Group shall select the presiding officer. If the

parties cannot agree on the three (3) physician arbitrators, then the Management Committee of CareMore Medical Group and the affected Shareholder Employee or Partner shall each select one (1) arbitrator and the presiding officer shall select the final arbitrator.

6.4.3 Costs. The costs of the hearing shall be borne equally between the parties.

6.4.4 No Right of Internal Appeal. Notwithstanding any provision of California Business & Profession Code section 809.4, the decision of the arbitration panel shall be binding upon the parties and no internal appeal rights shall apply.

6.5 Removal From Partnership. A Partner shall be removed from CareMore Medical Group upon the termination of the Professional Service Contract of the Partner for any reason. If the removal is for any reason other than death, disability or retirement, CareMore Medical Group shall distribute all amounts then owed under Article V, the balance in such Partner's capital account plus any undistributed profits as defined in Article IV to the Partner being terminated. This shall be the selling price of that Partner's Partnership Interest. If a Shareholder Employee of a multi-shareholder Partner is terminated by the Partner, the Professional Service Contract of that Partner shall not terminate, and only that share of the Partner's capital account equal to the fraction, the denominator of which shall be the number of Shareholder Employees and the numerator of which shall be the number of terminating Shareholder Employees on the day before such termination, shall be distributed. Any deficiencies in the Partner's capital account shall be promptly repaid to CareMore Medical Group by the Partner. Upon termination of the Professional Service Contract for the Partner neither the Partner nor any of its assigns, successors, and personal representatives shall have any further right nor interest as a Partner in CareMore Medical Group subsequent to the date of such termination, other than the right as a creditor to receive amounts specifically provided for herein. All sums owed under this Section shall be paid immediately upon the termination of the Professional Service Contract.

6.6 Asset Repurchase Obligation. Upon the removal of a Partner, the Terminating Partner or Shareholder Employee, at the option of CareMore Medical Group shall either: (i) assign any and all rights for amounts due under a promissory note from CMMC for the purchase of those assets it sold to CMMC concurrent with becoming a CareMore Medical Group Partner in exchange for CareMore Medical Group paying the balance due on said note within fifteen (15) days; or (ii) the Partner shall refund all monies paid to the Partner for the purchase of said assets and execute a release of the note in exchange for the return of all assets or reasonable substitutes of like assets as agreed to between the parties.

6.7 No Other Payments to Be Made. Other than the amounts specifically provided for in Articles, Article V, VI or VII, no additional payments shall be made to a Terminating Partner, Terminating Shareholder Employee nor any of their representatives for their Partnership interest, including goodwill.

6.8 Release From Restrictive Covenants. Terminating Partners or Shareholder Employees removed from CareMore Medical Group shall be released from any restrictive covenants of this Agreement but shall not be released from the provisions of Section 6.10.

6.9 Retention of Patients. Upon termination, the Terminating Partner or Terminating Shareholder Employee shall provide to CareMore Medical Group, at the expense of either the Terminating Partner or the Terminating Shareholder Employee, a complete and legible copy of every patient chart and medical records for which the Terminating Partner or the Terminating Shareholder Employee provided medical care while associated with CareMore Medical Group. Thereafter the Terminating Partner and/ or the Terminating Shareholder Employee shall retain all of the patient charts and medical records which said Partner or Shareholder Employee had control of upon becoming a member in CareMore Medical Group, including any new pre-paid health plan patients for which the Partner or Shareholder Employee provided medical services under that health plan prior to becoming a Partner through either a direct contract with that health plan or subcontract with an entity other than CareMore Medical Group or any of its Partners or affiliates.

6.10 Prohibition Against Solicitation and Conversion. A Terminating Partner or Terminating Shareholder Employee shall be prohibited from soliciting any of CareMore Medical Group's patients other than those specifically identified by Section 6.9. If a Terminating Partner or Terminating Shareholder Employee converts any prepaid CareMore Medical Group patients not allowed pursuant to Section 6.9 either directly or through any type of subcontract relationship of which said Partner or Shareholder Employee is a party then CareMore Medical Group shall receive compensation from said Partner or Shareholder Employee. The amount of compensation shall be five dollars (\$5.00) per patient per month for a period of twenty four (24) months for pre-paid commercial and twenty dollars (\$20) per patient per month for twenty-four (24) months for pre-paid Medicare and Medi-Cal patients. The compensation shall be paid monthly by the fifth (5th) day of each month and shall continue for the period set forth above or until that patient is re-enrolled under a pre-paid plan with CareMore Medical Group, whichever is sooner.

6.11 Cooperation After Termination. A terminated Partner and/or its Shareholder Employees shall provide CareMore Medical Group and/or its representatives reasonable access to its books and records to ensure compliance with the provisions of Section 6.10. The inspection and photocopying shall be at CareMore

Medical Group's expense. Such access shall be given during ordinary business hours at the place of business of the terminated Partner or Shareholder Employee unless the parties otherwise agree. Furthermore, each terminated Partner and Shareholder Employee shall be required to reasonably cooperate with CareMore Medical Group in the resolution of third party disputes which may arise and are related to their provision of medical service while a Partner or Shareholder Employee. The cooperation required under this Section includes but is not limited to providing factual information to CareMore Medical Group and giving depositions and testimony in judicial and administrative proceedings. Insofar as such cooperation of that terminated Partner or Shareholder Employee is reasonably required by CareMore Medical Group, that Partner and/or Shareholder Employee agrees to cooperate in every reasonable manner without any charge for out-of-pocket expenses incurred in connection therewith.

6.12 Continuation of Partnership. The Partnership shall not dissolve or terminate on any Partner's or Shareholder Employee's death, permanent physical or mental disability or retirement, removal or withdrawal from the Partnership, but its business shall continue without interruption and without any break in continuity. On the death, disability, retirement, removal or withdrawal from the Partnership of any Partner, the others shall not liquidate or wind up the affairs of the Partnership, except as otherwise provided under the terms of this Agreement.

ARTICLE VII.

Retirement, Death and Disability

7.1 Retirement. A Partner or a Shareholder Employee may retire or withdraw any time after becoming a Partner in CareMore Medical Group by giving at least ninety (90) days written notice of intended retirement to the Management Committee.

7.2 Obligation to Sell and Purchase in Single Employee Shareholder Partner. A retiring Shareholder Employee in a single shareholder Partner shall be required to sell his/her interest in the Partner's professional corporation and CareMore Medical Group shall be obligated to purchase that interest based on the retirement purchase price as set forth in Sections 7.4 and 7.5 and subject to the provisions of Section 7.6.

7.3 Obligation to Sell and Purchase in Multi-Employee Shareholder Partner. In the case of a multi-Shareholder Employee Partner, the retiring Shareholder Employee shall have his/her interest redeemed by the Partner in which he/she was a Shareholder Employee pursuant to a Shareholder Buy-Sale Agreement approved by the Management Committee acting in its sole and exclusive authority. The Buy-Sale Agreement shall provide that the purchase price shall be the price determined in

accordance with Article VII of the Partnership Agreement of CareMore Medical Group and shall provide that the portion of the purchase price reflecting the fair market value of the retiring Shareholder Employee's interest in the Partner (determined in accordance with Section 7.4 and 7.5 and subject to the provisions of Section 7.6 hereof) shall be an obligation of the Partner.

7.4 Valuation of Interest. Upon retirement of a Partner's Shareholder Employee, and subject to the provisions of Section 7.6.2, his or her interest in that Partner's professional corporation shall be valued at the expense of CareMore Medical Group by either Evaluation Counselors Inc., or a similarly qualified and experienced independent certified appraiser as approved by the Management Committee. The Shareholder Employee's interest in the Partner's professional corporation shall be limited to the fair market value as determined by the capitalization of excess earnings of the Shareholder Employee, as if the interest in question was a separate medical practice and shall not require a valuation of CareMore Medical Group as a whole. The appraised valuation shall be the Retirement Purchase Price. If the retiring Partner or Shareholder Employee disagrees with the Retirement Purchase Price they can elect within fifteen (15) days after receipt of the notice of the Retirement Purchase Price to have a second (2nd) valuation by a certified independent appraiser as approved by the Management Committee. The cost of the second (2nd) valuation shall be borne equally by the Partner and CareMore Medical Group. The Retirement Purchase Price shall then be the average of the two valuations. If the second appraisal (requested by the Shareholder Employee) is more than twenty percent (20%) higher than the first (obtained and paid for by CareMore Medical Group), a third appraisal shall be obtained unless the parties agree to a valuation equal to the average of the first two appraisals (or some other price). The third appraiser shall be selected by the first two appraisers with the cost for the third appraiser to be borne equally between the parties. The Retirement Purchase Price shall then be established by averaging the three (3) appraisals for the fair market value and taking an average thereof which shall then be the Retirement Purchase Price. The Retirement Purchase Price determined by the appraiser(s) shall be conclusive and binding on the retiring Partner or Shareholder Employee and CareMore Medical Group.

7.5 Minimum Retirement Purchase Price. Ninety (90) days after the third anniversary of becoming a Partner (the Effective Date for that Partner) in CareMore Medical Group, that Partner shall be eligible to receive a Minimum Retirement Purchase Price paid to the Partner for its retiring Shareholder Employee's interest in the Partner's professional corporation. This Minimum Retirement Purchase Price for early retirement or withdrawal shall, at the option of the Shareholder Employee, be paid in lieu of the Retirement Purchase Price as determined in Section 7.4. The Minimum Retirement Purchase Price shall be equal to seventy percent (70%) of the Partner's retiring Shareholder Employee's net distributions earned

as a result of medical fees paid by CareMore Medical Group to the Partner and then distributed to the Shareholder Employee for the proceeding twelve (12) months. For purposes of this Section net distributions shall include any compensation, profit or bonuses that were paid. In the event the Shareholder Employee in a multi-Shareholder Employee Partner elects a valuation pursuant to this Section and the valuation is greater than the amount established by Section 7.4 then the difference between the amount to be paid pursuant to this Section and Section 7.4 shall be paid by CareMore Medical Group to the Partner, which in turn shall then use the amount to pay the Shareholder Employee. Any payment by CareMore Medical Group pursuant to this Section shall not be charged to the Partners account and the Partner need not repay CareMore Medical Group for any payment made by CareMore Medical Group by this Section. The Minimum Retirement Purchase Price shall be reviewed annually by CareMore Medical Group's Management Committee who may at such annual reviews modify the Minimum Retirement Purchase Price without having to amend the Partnership Agreement as provided in Section 14.4.

7.6 Valuation Adjustments.

7.6.1 Transition Period. A retiring Shareholder Employee shall have a required transition period of one (1) month to a maximum of six (6) months wherein he/she shall assist the Partner or CareMore Medical Group in the training and introduction of their replacement physician or redistribution of their patient load to other CareMore Medical Group physicians. The Management Committee shall set the length of the transition period taking into consideration the nature of the practice and the experience of the replacement physician or the time necessary to redistribute the patients. Failure to complete this transition period by the retiring Shareholder Employee shall result in a twenty-five percent (25%) downward adjustment in the payment of the Retirement Purchase Price as established by Sections 7.4 or 7.5.

7.6.2 Three Year Vesting Period. The Retirement Purchase Price shall vest to the Partner for its retiring Shareholder Employee over a three (3) year period. The vesting shall be thirty-three and one third percent (33 1/3%) per year and shall be prorated on a daily basis rather than annually. For purposes of this Section the vesting period for each Shareholder Employee shall start ninety (90) days after that Partners Effective Date.

7.7 Management Committee's Powers to Set Retirement Purchase Price. Notwithstanding Sections 7.4 or 7.5 The Management Committee can with the approval of two-thirds (2/3) of the Partners, pay a retirement purchase price in excess of the amount determined by Sections 7.4 or 7.5. In the event that the Management Committee and the Partners agrees to pay a Retirement Purchase Price in excess of the amount determined by Sections 7.4 or 7.5, then CareMore Medical Group and not the

Partner shall pay the difference between the Retirement Purchase Price as determined by Sections 7.4 or 7.5 and as established by this Section. The difference shall be paid by CareMore Medical Group to the Partner which in turn shall pay the difference to the retiring Shareholder Employee.

7.8 Payment Schedule. Payments for the purchase or redemption of a retiring, deceased or permanently disabled Shareholder Employees interest shall be in five (5) equal installments of principal and accrued interest paid annually with the first payment due ninety (90) days after the effective date of retirement. The outstanding balance shall bear interest at the lesser of the maximum legal rate allowable or Bank of America's ninety (90) day certificate of deposit rate offered by its home office at the time of the purchase. The interest rate shall be adjusted at the end of every calendar quarter until the principal amount is paid in full.

7.9 Purchase of Partnership Interest Due to Death in a Single Shareholder Employee Partner. Upon the Death of a Shareholder Employee of a single Shareholder Employee Partner, CareMore Medical Group shall purchase the deceased Shareholder Employee's interest in the Partner's professional corporation. The purchase price shall be equal to forty-five (45%) percent of the Partner's deceased Shareholder Employee's collections for one (1) year based upon averaging the past twenty-four (24) months of collections prior to the death of the Shareholder Employee. The twenty-four (24) month period shall, if necessary, include that deceased Shareholder Employee's pre-CareMore Medical Group period of practice, (i.e. if a Shareholder Employee had an interest in a Partner of CareMore Medical Group for only six (6) months prior to death, then eighteen (18) months of his/her prior practice collections would be included in the calculation.)

The following example, for purposes of illustration only, assumes:

1st years collections	=	\$400,000
2nd years collections	=	<u>\$300,000</u>
24 months total collections	=	\$700,000

To calculate the repurchase price pursuant to this Section: a) the total collections for the prior twenty-four (24) months would be divided by two (2) to obtain the one year average; and, b) this product would then be multiplied by forty-five (45%) percent.

- a.) \$700,000 divided by 2 = \$350,000
- b.) \$350,000 times .45% = \$157,500

The payment terms shall be the same as those set forth in Section 7.8. If at the time of the death of the Shareholder Employee, CareMore Medical Group is in negotiations to sell its assets to a third party, the Management Committee may in its sole and exclusive discretion, pay a higher amount for that deceased Partner Shareholder Employee's interest in his/her Partners professional corporation.

7.10 Purchase of Partnership Interest Due to Death in a Multi-Shareholder Employee Partner. Upon the Death of a Shareholder Employee of a multi-Shareholder Employee Partner, the Partner in which the deceased Shareholder Employee was a shareholder shall redeem the deceased Shareholder Employee's interest in the Partners' professional corporation pursuant to a Shareholder Buy-Sale Agreement approved by the Management Committee acting in its sole and exclusive authority. The Buy-Sale Agreement shall provide that the purchase price shall be the price determined in accordance with Article VII of the Partnership Agreement of CareMore Medical Group and shall provide that the portion of the purchase price reflecting the fair market value of the deceased Shareholder Employee's interest in the Partner (determined in accordance with Section 7.4 and 7.5 and subject to the provisions of Section 7.6) shall be an obligation of the Partner. The purchase price shall be equal to forty-five (45%) percent of the Partner's deceased Shareholder Employee's collections for one (1) year based upon averaging the past twenty-four (24) months of collections prior to the death of the Shareholder Employee. The twenty-four (24) month period shall, if necessary, include that deceased Shareholder Employee's pre-CareMore Medical Group period of practice (*i.e.*, if a Shareholder Employee had an interest in a Partner of CareMore Medical Group for only six (6) months prior to death, then eighteen (18) months of his/her prior practice collections would be included in the calculation.)

The following example, for purposes of illustration only, assumes:

1st years collections	=	\$300,000
2nd years collections	=	<u>\$400,000</u>
24 months total collections	=	\$700,000

To calculate the repurchase price pursuant to this Section: a) the total collections for the prior twenty-four (24) months would be divided by two (2) to obtain the one year average; and, b) this product would then be multiplied by 45%.

a.)	\$700,000 divided by 2	= \$350,000
b.)	\$350,000 times .45%	= \$157,500

The payment terms shall be the same as those set forth in Section 7.8. If at the time of the death of the Shareholder Employee, CareMore Medical Group is in negotiations to sell its assets to a third party, the Management Committee may in its sole and exclusive discretion, pay a higher amount for that deceased Partner Shareholder Employee's interest in his/her Partners Professional Corporation.

7.11 Short Term Disability. Short term disability shall be defined as a Partner's or Shareholder Employee's inability to perform its obligations hereunder due to physical or mental incapacitation for one-hundred twenty (120) consecutive days (including the conversion of military reserve status to active duty status). In cases of short term disability CareMore Medical Group shall provide a substitute physician to provide the medical services ordinarily provided by the disabled physician. The expense of the substitute physician shall be allocated to that Partners practice location as a direct expense. Any deficit resulting from the provision of the substitute physician shall be repaid to CareMore Medical Group within twelve (12) months or offset against any purchase price paid for the Shareholder Employee's interest in the Partner's professional corporation.

7.12 Permanent Term Disability and Purchase Thereupon. Permanent Disability shall be defined as a Partner's or Shareholder Employee's inability to perform all or substantially all of his/her obligations hereunder due to physical or mental incapacitation for a period in excess of one-hundred twenty (120) consecutive days or two-hundred seventy (270) days within a twelve (12) month period (excluding the involuntary conversion of military reserve status to active duty status) as established by the opinion of an independent physician mutually agreed to by Partner's disabled Shareholder Employee or his/her personal representative and CareMore Medical Group.

7.12.1 In the event the Shareholder Employee or his/her personal representative and CareMore Medical Group fail to agree on whether the disability is total and/or permanent either party may submit the matter to binding arbitration pursuant to Article XIII. The arbitrators shall be entitled to receive and rely on any medical advise or other advise that they shall deem required to enable them to make a decision under this Section and their decision shall be final and binding on the CareMore Medical Group, the Partner, the Shareholder Employee and his/her heirs, successors and assigns.

7.12.2 If the Shareholder Employee should die after becoming disabled, but before the actual sale of his/her interest in their Partner's professional corporation then the purchase and sale of his/her interest will be treated as the purchase and sale of a deceased Shareholder Employee pursuant to Sections 7.9 and 7.10.

7.12.3 In the case of a Permanent Disability of a single Shareholder Employee Partner, CareMore Medical Group shall purchase the shares of a single Shareholder Employee Partner and the Partner shall sell that portion thereof which represents the disabled Shareholder Employee's interest in that Partner's professional corporation for fair market value as specified in Section 7.4, subject to the provisions of Sections 7.5, and 7.7. but specifically excluding Section 7.6. The purchase and sale shall be on the same terms and conditions as if the purchase and sale were being made by a retiring Shareholder Employee and not by a deceased Shareholder Employee.

7.12.4 In the case of a Permanent Disability of a Shareholder Employee in a multi-Shareholder Employee Partner, the Partner shall redeem the shares of the Permanent Disabled Shareholder pursuant to a Shareholder Buy-Sale Agreement of the Partner approved by the Management Committee acting in its sole and exclusive authority. The Buy-Sale Agreement shall provide the purchase price shall be the price determined in accordance with Article VII of the Partnership Agreement of CareMore Medical Group and shall provide that the portion of the purchase price reflecting the fair market value of the retiring Shareholder Employee's interest in the Partner as specified in Section 7.4, subject to the provisions of Sections 7.5, and 7.7. but specifically excluding Section 7.6. The purchase and sale shall be on the same terms and conditions as if the purchase and sale were being made by a retiring Shareholder Employee and not by a deceased Shareholder Employee.

7.13 Loan by CareMore Medical Group to Multi-Shareholder Employee Partner. A multi-Shareholder Employee Partner shall have the right to borrow from CareMore Medical Group sufficient money to pay the purchase price for the redemption of a retiring Shareholder Employees shares in the Partner, for the redemption of the deceased Shareholder Employees shares in the Partner from the deceased Shareholder Employee's heirs, executors, administrators, trustees, successor or assigns or for the redemption of a permanent disabled Shareholder Employees shares in the Partner. The outstanding balance of any loan owing by the Partner to CareMore Medical Group shall bear interest at the lesser of the maximum legal rate allowable or Bank of America's ninety (90) day certificate of deposit rate offered by its home office at the time of the purchase. The interest rate shall be adjusted at the end of every calendar quarter until the principal amount is paid in full. The loan balance may be repaid by the Partner to CareMore Medical Group at any time by the Partner in its sole and exclusive discretion, or will be repaid through the provisions of Section 7.14 or at the time that the Partner and CareMore Medical Group is purchased by a third party as set forth in this Agreement.

7.14 Loan Payments Through Expense Adjustments. In the event that CareMore Medical Group advances any of the purchase price to a multi-Shareholder Employee Partner for the purpose of redemption of the retiring, or deceased or

permanently disabled Shareholder Employee's shares in a Partner as set forth in Section 7.13, then the Management Committee shall have sole and exclusive authority to make appropriate expense allocations and adjustments to that Partners account with CareMore Medical Group for the purpose of repayment to CareMore Medical Group of either the accrued interest or principal on an annual basis. The allocations and adjustments shall only be made on an annual basis after the retirement, death or permanently disabled of the Shareholder Employee if the total net annual distributions earned by the Partner as a result of medical fees paid by CareMore Medical Group to the Partner is equal to or greater then the total net distributions paid by CareMore Medical Group to the Partner for the year prior to the retiring or deceased Shareholder Employee's retirement, death or permanent disability. In determining the amount, if any, to be repaid to CareMore Medical Group the Management Committee shall take into consideration any expenses that the Partner incurred for the payment of any physician employee who replaced the retiring, deceased or permanently disabled Shareholder Employee, but shall not take into consideration any additional compensation or benefits paid or to be paid to a Shareholder Employee of the Partner who replaced or took over the patient load of the retiring, deceased or permanently disabled Shareholder Employee. If the retiring, deceased or permanently disabled Shareholder Employee and/or the Partner does not have one (1) full year of service with CareMore Medical Group then the months prior to being associated with CareMore Medical Group shall be used to calculate the year prior to retirement, death or permanently disabled.

7.15 Assumption of Outstanding Partnership Liabilities. Except as otherwise provided, the Partnership shall pay, as they mature, all Partnership obligations and liabilities (excluding liabilities that arise from any intentional acts of that Partner or its shareholders) that exist on the effective date of a Partner's termination and shall hold the terminating Partner harmless from any action or claim arising or alleged to arise from those obligations or from liabilities accruing after that date. Any direct or allocated liabilities shall be debited against the first installment of the retirement purchase price as set forth in Section 7.8.

7.16 Selling Price. Any amount paid to the Partner or a Shareholder Employee for the Shareholders' Employee's interest in that Partner's professional corporation pursuant to Sections 7.1 through 7.15 shall be the total selling price paid to the Partner or Shareholder Employee and/or his/her heirs, executors, administrators, trustees, successors or assigns. No additional sums shall be owed to the Partner or the Shareholder Employee or his/her heirs, executors, administrators, trustees, successors or assigns as a result of CareMore Medical Group selling all or substantially all of its interest or assets to a third party or otherwise transferring or assigning its interest or assets, or changing its business structure or formation in the future.

ARTICLE VIII.

Obligations of Partners

8.1 Devotion of Time, Ability and Experience. Unless otherwise consented to by the Management Committee, each Partner as well as its Shareholder Employees shall devote full time, energy, professional ability and experience to the practice of medicine on behalf of CareMore Medical Group. All revenues earned by any Partner or Shareholder Employee thereby shall belong to CareMore Medical Group. Any Partner or Shareholder Employee may engage in one or more businesses, other than the business of CareMore Medical Group, but only to the extent that this activity does not compete or materially interfere with the CareMore Medical Group's business and does not conflict with that Partner's or any of its Shareholder Employee's obligations under this Agreement. Neither CareMore Medical Group nor any other Partner or any of its Shareholder Employees shall have any right to any income or profit derived by a Partner or any of its Shareholder Employees from any business activity permitted under this Section.

8.2 Standards of Performance. Each Partner, and each of its Shareholder Employees, shall accept and discharge its share of responsibility for developing and handling the practice of CareMore Medical Group and the discharge of patient responsibilities in conformity with any reasonable standard of performance imposed by CareMore Medical Group, including the following code of ethics:

8.2.1 Each Partner and its Shareholder Employees shall accept and discharge its *pro rata* share of the responsibility for developing and handling the practice of CareMore Medical Group.

8.2.2 Each Partner and its Shareholder Employees shall subordinate its own personal interest to those of the majority of Partners of CareMore Medical Group.

8.2.3 Each Partner and its Shareholder Employees shall build up and extend its own influence and professional competence.

8.2.4 Each Partner and its Shareholder Employees shall conduct his/her personal life as to reflect creditably upon himself/herself, the other Partners and CareMore Medical Group. He/She shall not engage in any conduct for personal benefit at the expense or embarrassment of the Partners, any of the Shareholder Employees or CareMore Medical Group.

8.2.5 Each Partner and its Shareholder Employees shall not speak disparagingly of other Shareholder Employees to anyone. They shall keep confidential all information regarding CareMore Medical Group business or affairs,

except in the course of CareMore Medical Group business, and shall not divulge any such information to persons outside of CareMore Medical Group, without the written consent of the Management Committee or as required by law or the professional ethics of the Partner or Shareholder Employee.

8.2.6 Each Partner and its Shareholder Employees shall not sign, execute or negotiate any contract for the provision of medical services in the name of CareMore Medical Group, the Partner or the Shareholder Employee except at the written request of the Management Committee.

8.3 Minimum Performance. CareMore Medical Group shall have the right to establish minimum performance requirements to which each Partner and its Shareholder Employees must conform. The continued failure or refusal to comply with such requirements may result in the levy of monetary penalty assessments against a Partner or be grounds for termination of the Professional Service Contract by CareMore Medical Group.

8.4 Insurance. Each Partner shall obtain and maintain or shall cause the purchase and maintenance at all times of insurance against liability for personal injury and property with respect to any vehicle which it or its Shareholder Employees may operate, whether on business or pleasure, in the sum of \$250,000.00 for any single person injured and \$500,00.00 for each occurrence, and against loss by reason of damage to property in the amount of at least \$50,000.00. In addition, each Partner shall obtain and maintain an extended coverage rider for at least \$1,000,000.00. Such insurance shall be carried with a reputable insurance company duly licensed in the State of California, and the CareMore Medical Group shall be named as an additional named insured. The Management Committee shall be provided with current copies of certificates of insurance.

8.5 Expense to be Borne by Partners. Each Partner shall pay and be responsible for certain expenses incurred by it related to CareMore Medical Group business; however, nothing in this Agreement shall be construed so as to prevent CareMore Medical Group from reimbursing all the Partners for an expense item upon a majority vote of the Management Committee. The expenses for which each Partner shall pay and be responsible, include, but are not limited to the following:

8.5.1 Fees and expenses for educational courses, lectures and seminars for a Partner, its Shareholder Employees or employees.

8.5.2 Travel, lodging entertainment and other expenses arising from attendance at professional or educational meetings by a Partner, its Shareholder Employees or employees.

8.5.3 Dues, expenses, fees and costs of membership in medical associations, specialty societies and/or service clubs of a Partner, its Shareholder Employees or employees.

8.5.4 Medical books, publications, tapes, cassettes, literature and subscriptions of any kind.

8.5.5 Hospital dues at hospitals selected by the Management Committee for CareMore Medical Group patients.

8.5.6 Ownership, use and maintenance of automobiles necessary for professional calls and hospital attendance involving business and all expenses arising therefrom including insurance premiums for the Partner, its Shareholder Employees or employees.

8.5.7 Licenses, permits and fees.

8.5.8 Home telephone service for the Partner or its Shareholder Employees used for CareMore Medical Group business.

8.5.9 Entertainment expense for promotional and other purposes except as specifically authorized by CareMore Medical Group for reimbursement.

8.5.10 Fringe benefits approved by a Partner, such as life insurance, disability insurance, health insurance and qualified pension plan benefits for the Partner, its Shareholder Employees or employees.

8.6 Physical Examinations. Prior to employment by a Partner each Partner shall require that its Shareholder Employees obtain a complete physical examination, by a physician and/or surgeon satisfactory to the Management Committee. Each Partner and Shareholder Employee shall submit to the Management Committee a written authorization release form duly executed to allow the examining physician and/or surgeon to provide a medical report to the Management Committee's independent physician who shall review the medical reports and disclose them to the Management Committee if in the opinion of the independent physician, the report indicates that the Shareholder Employees in question may be disabled or impaired so as to prevent him/her from competently performing his/her duties hereunder. The medical report may be used by the Management Committee to determine if the Partner or Shareholder Employee is disabled in any manner. CareMore Medical Group can request each Partner to require any of its Shareholder Employees to submit to a physical or psychiatric examination by a qualified physician, surgeon or psychiatrist at any time by notifying the Partner of such requirement in writing. Such Partner shall comply, or cause such persons to comply with such request within ten (10) days

thereof. The failure or refusal of such persons to comply with the physical or psychiatric examination or medical authorization requirements of this Section may result, in the discretion of the Management Committee, in the levy of monetary penalty assessments or be grounds for termination of the Professional Service Contract, as set forth in this Agreement or as provided by the laws of the State of California.

8.7 Inspection of Tax Returns. The Management Committee may require any Partner or any of its Shareholder Employees to produce for inspection and photocopying its state and federal income tax return and business records for any year that the Partner provided services to CareMore Medical Group under the Professional Services Agreement. The state and federal income tax returns and business records shall remain confidential and only be disclosed, first to the special legal counsel and certified public accountant specified by the Management Committee and then to the Management Committee if in the opinion of the Management Committee' designated professional representatives there is a discrepancy in the tax returns or business records that may affect CareMore Medical Group or show that the Partner or the Shareholder Employee has not been devoting all of his/her professional time to CareMore Medical Group.

8.8 Standardized Corporate By-Laws and Buy-Sale Agreement. As a condition of becoming a Partner each Partner shall within ninety (90) days of executing this Agreement adopt standardized corporate By-Laws for the governance of the Partner's professional corporation as required by the Management Committee. These By-Laws shall not be amended by the Partner without the express written consent of the Management Committee. For any multi-Shareholder Employee Partner the Partner shall within ninety (90) days of executing this Agreement execute a Buy-Sale Agreement that complies with the provisions of this Agreement and particularly Article VII and shall submit the Buy-Sale Agreement to the Management Committee for its approval. The Management Committee shall be given the opportunity to inspect any Partner's corporate books and records to ensure that said standardized By-Laws and that the Buy-Sale Agreement have been adopted and that there have been no unauthorized amendments. Failure to comply with this provision may, at the option of the Management Committee, operate as a rescission of this Agreement or a termination of this Agreement.

8.9 Covenant Not to Compete. Within thirty (30) days after executing this Agreement each Partner shall cause each of its Shareholder Employees to execute a covenant not to compete between such Shareholder Employee, CareMore Medical Group and the Partner in a form to be furnished by the Management Committee. Failure to comply with this provision may at the option of Management Committee operate as a rescission of this Agreement.

8.10 Internal Compensation Structure. Within ninety (90) days after executing this Agreement each Partner who has more than one Shareholder Employee shall submit to the Management Committee a copy of its internal compensation formula. Upon written request of any of that Partner's Shareholder Employees the Management Committee shall have the authority to alter any of the Partner's internal compensation formulas which the Management Committee deems in its sole and exclusive discretion is unfair to any Shareholder Employee and detrimental to CareMore Medical Group. These documents shall remain confidential and only be disclosed to the Management Committee and its designated professional representatives.

8.11 Vacation, Sick Leave and Work Schedule. Within ninety (90) days after executing this Agreement each Partner shall submit copies of its vacation, sick leave and work schedule policies for its Shareholder Employees (or develop policies if none exists), to the Management Committee for review and approval. Such approval shall not be unreasonably withheld.

8.12 Sale of Tangible Assets and Transfer of Leases. Concurrent with executing this Agreement each Partner shall sign the Asset Purchase Agreement with CMMC which provides in part for the Partner to offer to sell to CMMC, for fair market value, all of the Partners tangible assets (excluding accounts receivable), including but not limited to all office equipment, medical equipment and supplies used in the Partners medical practice and to transfer or assign all of the Partners leased premises and equipment leases to CMMC that it owned or leased immediately prior to the execution of this Agreement. CMMC shall have the sole and exclusive right to determine what assets or leases it shall purchase or assume. Failure to comply with this provision may, at the option of the Management Committee operate as a rescission of this Agreement.

8.13 Maintenance of Corporate Formalities. Each Partner shall maintain its corporation in good standing and to have at the minimum, an annual shareholders meeting and provide the Management Committee with copies of the minutes from such meeting. The Management Committee shall be given the opportunity to inspect and photocopy (at CareMore Medical Group's expense) the corporate books and records of any Partner to ensure compliance with this provision.

8.14 Accounts Receivable. Upon becoming a Partner in CareMore Medical Group each Partner shall immediately forward all revenues collected to CareMore Medical Group by what ever means is prescribed by the Management Committee. These revenues will be redistributed to the Partner pursuant to the provisions of Article V as if it was earned pursuant to the Professional Services Contract.

8.15 Obligation to Pay Monies Due. Each Partner shall promptly pay all monies due to its Shareholder Employees

ARTICLE IX.

Obligations and Rights of CareMore Medical Group

9.1 Pension Plan. The Management Committee of CareMore Medical Group shall establish, implement and arrange for the administration of an appropriate pension and profit sharing plan for the Partners and for their Shareholder Employees as permitted by law. The Management Committee shall have the sole and exclusive right to establish, implement and arrange for the administration of any pension and profit sharing plans on behalf of CareMore Medical Group.

9.2 Provision of Medical Offices. CareMore Medical Group shall arrange for: each Partner's medical office; required administrative and paraprofessional personnel; all items of furniture, fixtures, and office equipment; and state-of-the-art medical equipment reasonably necessary for each Partner's efficient operation of its office; and, shall arrange to maintain said items in good repair, condition and working order. The Management Committee shall have the sole discretion to provide for these services and the decision of the Management Committee concerning such shall be final.

9.3 Right of Rescission. Within ninety (90) days of a Partner becoming admitted into the Partnership, CareMore Medical Group can rescind this Agreement for any reason whatsoever or for no reason at all by a majority vote of the Management Committee. In the event of a rescission the Partner or its Shareholder Employee shall be required to refund any money it received from CMMC for the purchase of its medical equipment, office equipment and supplies, and title of the assets will be returned to that Partner or Shareholder Employee. Any leases that were assigned to CMMC shall be reassigned to the Partner by CMMC.

9.4 Obligation to Pay Monies Due. CareMore Medical Group shall promptly pay all monies due to its Partners.

ARTICLE X.

Accounting, Books and Records

10.1 Fiscal Year of Partnership. The fiscal year of CareMore Medical Group shall end on December 31 of each year.

10.2 Accounting Method. CareMore Medical Group books shall be kept on a cash basis.

10.3 Partnership Books. Proper and complete books of account of CareMore Medical Group business shall be kept at CareMore Medical Group's principal place of business and shall be open to inspection by any of the Partners or their authorized representatives at any reasonable time during business hours. The accounting records shall be maintained in accordance with generally accepted bookkeeping practices for this type of business.

10.4 Annual Report to Partners. Within ninety (90) days after the end of each fiscal year, CareMore Medical Group shall furnish to each Partner an annual report consisting of at least: (i) a copy of CareMore Medical Group's federal income tax returns for that fiscal year, (ii) a supporting statement of income or loss, (iii) a balance sheet showing CareMore Medical Group's financial position as of the end of that fiscal year, and (iv) any additional information that the Partners may require for the preparation of their individual federal and state income tax returns.

ARTICLE XI.

Capital Accounts

11.1 Capital Accounts. An individual capital account shall be maintained for each Partner, and the Partner's initial capital contribution in cash or property shall be credited to that account. Capital accounts shall be maintained in accordance with Treasury Regulation Section 1.704-1(b)(2)(iv).

11.2 Increases in Capital Account. The capital account for each Partner shall be credited with or increased by the following:

11.2.1 The Partner's initial capital contribution to CareMore Medical Group;

11.2.2 Any additional capital contributions made by the Partner from time to time as authorized by this Agreement;

11.2.3 The Partner's share under this Agreement of CareMore Medical Group's profits; and

11.2.4 On CareMore Medical Group's dissolution and in its winding up, the credits authorized by the provisions of this Agreement that relate to adjustments of capital accounts in connection with liquidation.

11.3 Reductions of Capital Accounts. The capital account for each Partner shall be debited with or reduced by the following:

11.3.1 Distributions to the Partner of cash or property, which property shall be valued for this purpose at its fair market value;

11.3.2 The Partner's share under this Agreement of CareMore Medical Group's losses and of any items then required under applicable tax laws, rules, and regulations to be debited to capital accounts of Partners, to the extent and in the manner so required; and

11.3.3 On CareMore Medical Group's dissolution and in its winding up, the debits authorized by the provisions of this Agreement that relate to adjustments of capital accounts in connection with liquidation.

11.4 Capital Account Adjustments on Liquidation. In connection with the actual liquidation of the properties of CareMore Medical Group on its dissolution and winding up, the capital accounts shall be adjusted to reflect the following:

11.4.1 The results of operations for the fiscal period then ended.

11.4.2 The results of transactions in connection with the liquidation.

11.4.3 Unrealized gain or loss on property of CareMore Medical Group that is to be or has been transferred to creditors on account of their claims or distributed to Partners on account of their interests in CareMore Medical Group. The amount of such unrealized gain or loss shall be computed by comparing the fair market value of any such property to its adjusted basis for federal income tax purposes. Such unrealized gain or loss shall be allocated to the Partners' capital accounts in the same manner as the gain or loss from the actual sale of such property would have been allocated.

11.4.4 The distribution of cash or property to Partners made on the liquidation.

If there is a deficit in any Partner's capital account after the capital accounts have been adjusted as provided in this Agreement in connection with the liquidation of the properties of CareMore Medical Group, that Partner (the Partner at that time and not any predecessor) shall contribute the amount of such deficit to CareMore Medical Group before the end of the taxable year of the liquidation or by such earlier date as may be required to complete the liquidation in accordance with a duly adopted plan of liquidation. Notwithstanding the foregoing, such deficit shall be

restored no later than the latest time permitted to remain in compliance with Regulation Section 1.704-1(b)(ii)(b)(3). Amounts thus contributed shall be distributed to or among the creditors and Partners in accordance with the then applicable provisions for distribution of Partnership property on dissolution, winding up, and liquidation.

ARTICLE XII.

Dissolution

12.1 Distributions on Liquidation. On the dissolution of CareMore Medical Group, its business shall be wound up and its properties liquidated, and the net proceeds of the liquidation, together with any property to be distributed in kind, shall be distributed as follows:

12.1.1 Those owing to creditors, in the order of priority provided for by law;

12.1.2 Those owing to former Partners under Article VII in the proportion of their respective share of the amounts owed;

12.1.3 To the establishment of any reserves that the Management Committee may consider necessary, appropriate, or desirable for any future, contingent, or unforeseen liabilities, obligations, or debts of CareMore Medical Group, which reserves may but need not be deposited with an independent escrow holder with instructions to disburse them in payment of those liabilities, obligations, and debts and, at the expiration of such period as the Partners may have specified, to distribute the balance remaining as provided in this Agreement; and,

12.1.4 To the Partners having positive capital account balances in proportion to the balances in their respective capital accounts after giving effect to the adjustments of capital accounts in connection with liquidation authorized by this Agreement, but if all capital accounts then have zero balances such distributions to Partners shall be made in proportion to the allocation of profit from the sale of Partnership property applicable under this Agreement as of the date of such distributions.

ARTICLE XIII.

Arbitration

13.1 Binding Arbitration. If any dispute arises between the parties with respect to the interpretation or enforcement of this Agreement, the parties agree to

work in good faith to resolve such dispute or disagreement. If the parties are not able to resolve such dispute or disagreement in good faith, they shall submit it to binding arbitration by notice from one party to the other.

13.2 Choice of Arbitrator. If the parties can agree to a single arbitrator within thirty (30) days of one party receiving notice for arbitration from the other party, such arbitrator shall be chosen.

13.3 Failure to Choose Arbitrator. If the parties disagree as to the choice of arbitrator, each party shall choose an arbitrator within ten (10) days of the date in which it is determined they could not agree upon a single arbitrator and those chosen arbitrators shall choose an additional arbitrator within ten (10) days of the date in which the last arbitrator was chosen.

13.4 Court Appointment of Arbitrator. If at the end of the ten (10) days set forth in the proceeding Section the parties' designated arbitrators cannot agree on the selection of the third arbitrator, such selection shall be made by the Los Angeles County Superior Court.

13.5 Resolution of Dispute. The dispute between the parties shall be heard by the arbitrator(s) within thirty (30) days of the date on which the arbitrator(s) have been chosen. The arbitrator(s) shall, by a majority vote, resolve any dispute or disagreement within thirty (30) days of hearing the dispute.

13.5.1 Qualifications for Arbitrator. The arbitrator(s) shall have no qualifications other than a reasonable amount of experience and specialty in the area which is the subject of the dispute.

13.5.2 Conduct. The arbitration shall be conducted pursuant to the Commercial Rules of the American Arbitration Association.

13.6 Effect of Arbitration. The decision of the arbitrator(s) shall be binding on the parties and may be entered as a judgment in any court of competent jurisdiction pursuant to the California Code of Civil Procedure.

ARTICLE XIV.

Miscellaneous Provisions

14.1 Transferability of Interests. A Partner's interest in CareMore Medical Group shall not be transferred, in whole or in part, except as specifically provided for in this Agreement. Any other purported transfer of all or part of a Partner's interest shall be void and of no effect against CareMore Medical Group, any

other Partner, any creditor of CareMore Medical Group, or any claimant against CareMore Medical Group.

14.2 Effect of Assignment of Interest. Any assignment or hypothecation of a Partner's interest in CareMore Medical Group shall terminate that Partner's right to receive any distributions from CareMore Medical Group.

14.3 Indemnification. Each Partner shall indemnify and hold harmless CareMore Medical Group and each of the other Partners from any and all expense and liability resulting from or arising out of any negligence or misconduct on its part or the part of any of its Shareholder Employees to the extent that the amount is not covered by the applicable insurance carried by CareMore Medical Group.

14.4 Amendments. This Agreement may only be amended upon the approval of a majority of the Management Committee and the written consent of the Partners representing fifty-one percent (51%) or more of the Shareholder Employees.

14.5 Notices. Any written notice to any of the Partners required or permitted under this Agreement shall be deemed to have been duly given on the date of service if served personally on the party to whom notice is to be given, or on the second day after mailing if mailed to the party to whom notice is to be given, first class postage prepaid, return receipt requested, and addressed to the addressee at the address stated opposite his or her name below, or at the most recent address specified by written notice given to the sender by the addressee under this provision. Notices to CareMore Medical Group shall be similarly given, and addressed to it at its principal place of business.

14.6 Counterparts. The parties may execute this Agreement in two or more counterparts, which shall, in the aggregate, be signed by all the parties; each counterpart shall be deemed an original instrument as against any party who has signed it.

14.7 Governing Law. This Agreement is executed in and intended to be performed in the State of California, and the laws of California shall govern its interpretation and effect.

14.8 Successors. This Agreement shall be binding upon and inure to the benefit of the respective heirs, personal representatives, executors, administrators, trustees, successors or assigns of the parties, except to the extent of any contrary provision in this Agreement.

14.9 Severability. If any term, provision, covenant, or condition of this Agreement is held by a court of competent jurisdiction to be invalid, void, or

unenforceable, the rest of the Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

14.10 Authorization. Each person who executes this Agreement on behalf of a Partner represents and warrants to CareMore Medical Group and all of its Partners that he/she has the authority to do so on behalf of that Partner and shall furnish to CareMore Medical Group at the time of executing this Agreement, evidence of consent of all its Shareholder Employees and the Board of Directors of the professional corporation that they consent to the execution of this Agreement by the Partner. The Partner represents and warrants that the Partner and Shareholder Employee will be bound by all of its terms and conditions of this Agreement.

14.11 Review by Partners' Representatives. The Partner and/or its Shareholder Employees have been provided with sufficient time to have this Agreement and all attached documents reviewed by the Partners, its Shareholder Employees, its Board of Directors, and the Partner's independent attorney, accountant or other professional advisor. The Partner and/or Shareholder Employee is not relying upon any verbal or written representation made by any member of the Management Committee, any other Partner, Shareholder Employee, attorney, accountant or health care consultant of CareMore Medical Group, CareMore Medical Management Company or Downey Community Hospital that is not set forth in this Agreement or set forth in another written document provided to the Partner and/or its Shareholder Employee prior to the execution of this Agreement.

14.12 Entire Agreement. This Agreement contains the entire agreement of the parties relating to the rights granted and obligations assumed in this instrument. Any oral representations or modifications concerning this Agreement shall be of no force or effect unless contained in a subsequent written modification signed by the party to be charged.

14.13 Signature of Partners. The signatures of the Partners are set forth in Addendum A (Exhibit A) to this Agreement.

ADDENDUM A

IN WITNESS WHEREOF, the Partners have executed this Agreement as of the date opposite their signature to be effective as of the Effective Date.

Signatures of Partners

Arturo Lopez, M.D. Inc.
(Print Name of Corporation)

X Arturo Lopez, MD
(Signature)

1/23/03
(Date)

Print Name: Arturo Lopez, MD
By Its: President
(Corporate title)

Addresses of Partner

14350 Whittier Blvd Suite #100
Whittier, CA 90605

ADDENDUM A - (Continued)

Consent of Spouses

I certify that:

1. I am the spouse of a person who is a Shareholder Employee of Arturo Lopez, M.D. Inc.

2. I have read and approve the provisions of the CareMore Medical Group that Partnership Agreement, including but not limited to those relating to the purchase, sale, or other disposition of the interest of a deceased, retiring, withdrawing, or terminating Partner or Partner Shareholder Employee.

3. I agree to be bound by and accept the provisions of the CareMore Medical Group Partnership Agreement in lieu of all other interests I may have in the Partnership, whether the interest may be community property or otherwise.

4. My spouse shall have full power of management of his/her interest in CareMore Medical Group and the Partner in which he/she is a Shareholder Employee, including any portion of those interests that are our community property, and he/she has the full right, without my further approval, to exercise the voting rights as a Shareholder Employee of a Partner or as a Partner in CareMore Medical Group, to execute any amendments to CareMore Medical Group Partnership Agreement, and to sell, transfer, encumber, and deal in any manner with the CareMore Medical Group Partnership interests, including any portion of those interests that are our community property.

Executed on 1/23/03, at Whittier, California.

Maria Lopez
"Spouse"
Maria Lopez
Print Name

Appeal of Arturo and Maria D. Lopez

Appeal Case ID No. 740943

Submitted by: D. Todd Watkins, Tax Counsel

For: Respondent, Franchise Tax Board

Exhibit Z

Appellant Arturo Lopez, M.D.'s letter to your Board dated September 16, 2014, which constitutes testimonial evidence.

Total pages - 2



September 16, 2014

RECEIVED

Khaaliq Abd'Allah
Appeals Analyst
Board Proceedings Division
State Board of Equalization
P.O Box 942879
MIC: 80
Sacramento, CA 94279-0080

SEP 19 2014
Board Proceedings

REG: Hearing Summary Personal Income Tax Appeal
Case No. 740943
Years 2006 and 2007

To Khaaliq Abd' Allah:

In order to gain a better understanding of my situation and claims, I would like to elaborate on the statement that is made in the hearing summary.

Page 10, line 8 states that self-created assets do not have any cost basis for income tax purposes and that I had not provided any evidence that anything had been paid for the patient roster.

It is unfortunate that CareMore Medical group has been sold multiple times and that the original finance department no longer exists placing me in the predicament that I know find myself in. I would like to have the opportunity to elaborate in my own words my support for the mentioned claims. I am not an accountant and I am not an attorney but I hope that you will gain a better understanding in regards to the patient roster, goodwill claim and the profits that the medical group made with the contribution that the my senior patients made to the medical group.

I worked with another medical group in the Whittier community. It was there that I developed my reputation as a respectable and well liked physician. I had a busy practice that consisted of a large senior and commercial patient practice. Before this medical group became bankrupt the owners of CareMore saw my potential and asked me to join the practice with the promise of becoming a partner once I brought my senior patients and developed my practice of 400-500 senior members. I started my career with CareMore on March 1,

Arturo Lopez, M.D.
9209 Colima Rd
Suite 2000-B
Whittier, Ca 90605
562-236-2290

EXHIBIT: 2
PAGE 1 OF 2
Taxpayer Exhibits
B8
October 14, 2015
Arturo Lopez And Maria D. Lopez
740943

1999. I joined with the idea and certainty that I would become a physician partner by bringing my patients and building a large senior practice. It should be of note that senior membership is crucial to the survival of any medical group and that they are the most profitable patients to the practice. At that time, there were three other physicians that were hired and practiced in the same office that I worked in. Unfortunately they did not share my success and I was the only physician that succeeded in becoming a physician partner with CareMore in 2003.

It took four years of hard intellectual medical work to get ahead and become a partner with CareMore. If CareMore already had a practice for me to work in they would have paid me a set salary and there would have been no need to make me a partner, share in the profits of the medical group or benefit in the sale of the medical group. It was due to my contribution of the roster of patients that I brought with me and the combination of hard work and growing my practice that eventually assisted in the increase of the value of the medical group.

For this reason, I was able to share in the profits. It took eight years of hard work and I strongly believe that the dollar amounts that I am claiming as goodwill and the profit that the medical group made is a fair value for my hard work. I strongly disagree with the claim that it is a self-created asset.

Sincerely,

Arturo Lopez, MD
Arturo J. Lopez, M.D.

EXHIBIT: 2
PAGE 2 OF 2

Appeal of Arturo and Maria D. Lopez

Appeal Case ID No. 740943

Submitted by: D. Todd Watkins, Tax Counsel

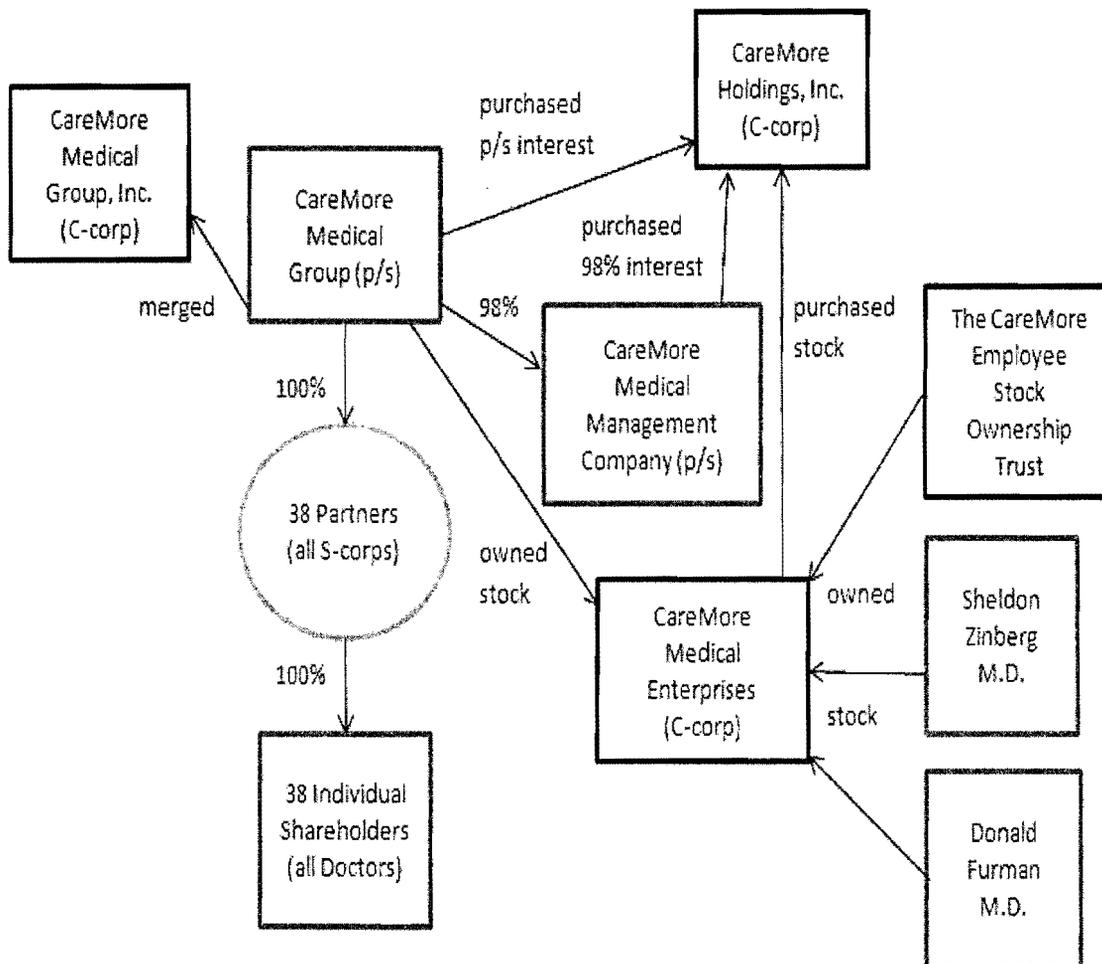
For: Respondent, Franchise Tax Board

Exhibit AA

Diagram of February 28, 2006, Caremore Medical Group sale and merger transaction.

Total pages - 1

CareMore Medical Group



Arturo Lopez M.D., Inc. was one of the 38 partners.

EXHIBIT: AA
PAGE 1 OF 1

Appeal of Arturo and Maria D. Lopez

Appeal Case ID No. 740943

Submitted by: D. Todd Watkins, Tax Counsel

For: Respondent, Franchise Tax Board

Exhibit BB

The 2006 Partnership Return of Income (form FTB 565 (2006)), (exclusive of Schedules K-1 for the 38 partners) filed by Caremore Medical Group. The Schedule K-1 (565) filed for partner Arturo Lopez, M.D., Inc., was previously submitted as an exhibit to Respondent's opening brief.

Total pages - 8

YEAR

2006 Partnership Return of Income



07 739319 10

CALIFORNIA FORM

565

For calendar year 2006 or fiscal year beginning month _____ day _____ year _____, and ending month _____ day _____ year _____

A Principal business activity name (same as federal) **Partnership name** (place label within block or type or print) Check box if name changed **D** FEIN **[REDACTED]**

MEDICAL SERVICES **CAREMORE MEDICAL GROUP**

B Principal product or service (same as federal) **DBA** **E** Date business started in California **6/01/1993**

SERVICE **4360 SEPULVEDA BOULEVARD, SECOND FLOOR** **F** Enter total assets at end of year. See instructions. **\$ 1,490,446.**

C Principal business activity code (same as federal) **City** **State** **ZIP Code**

621111 **CULVER CITY, CA 90230** **I** Check applicable box

G Check accounting method. **H** Secretary of State (SOS) file number **(1)** Initial return **(2)** FINAL RTN **(3)** Amended return

(1) Cash **(2)** Accrual **(3)** Other (attach explanation)

Caution: Include only trade or business income and expenses on line 1a through line 22 below. See the instructions for more information.

Income	1a	Gross receipts or sales	\$ 4,947,228.	b	Less returns and allowances	\$	c	Balance	1c	4,947,228.
	2	Cost of goods sold (Schedule A, line 8)					2		3,640,259.	
	3	GROSS PROFIT. Subtract line 2 from line 1c					3		1,306,969.	
	4	Total ordinary income from other partnerships and fiduciaries. Attach schedule					4			
	5	Total ordinary loss from other partnerships and fiduciaries. Attach schedule		SEE STATEMENT. 1			5		10,030.	
	6	Total farm profit. Attach federal Schedule F (Form 1040)					6			
	7	Total farm loss. Attach federal Schedule F (Form 1040)					7			
	8	Total gains included on Schedule D-1, Part II, line 17 (gain only)					8			
	9	Total losses included on Schedule D-1, Part II, line 17 (loss only)					9			
	10	Other income. Attach schedule		SEE STATEMENT. 2			10		2,367,056.	
	11	Other loss. Attach schedule					11			
	12	Total income (loss). Combine line 3 through line 11					12		3,663,995.	
Deductions	13	Salaries and wages (other than to partners)				13		411,652.		
	14	Guaranteed payments to partners				14				
	15	Bad debts				15				
	16	Deductible interest expense not claimed elsewhere on return				16				
	17a	Depreciation and amortization. Attach form FTB 3885P	\$ 32,405.				17c		32,405.	
		b	Less depreciation reported on Schedule A and elsewhere on return	\$						
	18	Depletion. Do not deduct oil and gas depletion				18				
	19	Retirement plans, etc.				19				
	20	Employee benefit programs				20				
	21	Other deductions. Attach schedule		SEE STATEMENT. 3		21		988,310.		
22	Total deductions. Add line 13 through line 21				22		1,432,367.			
23	Ordinary income (loss) from trade or business activities. Subtract line 22 from line 12				23		2,231,628.			
Pay-ments	24	Tax - \$800.00 (limited partnerships, LLPs, and REMICs only). See instructions				24				
	25	Nonresident withholding credit (\$800 maximum). See instructions		25						
	26	Amount paid with extension of time to file return (form FTB 3538)		26						
	27	Total payments. Add line 25 and line 26				27				
Amount Due or Refund	28	Tax due. If line 24 is more than line 27, subtract line 27 from line 24				28				
	29	Use Tax. See instructions				29				
	30	Refund. If the total of line 24 and line 29 is less than line 27, subtract the total from line 27			30					
	31	Penalties and interest				31				
	32	Total amount due. Add line 24, line 29, and line 31, then subtract line 27 from the result. Make the check or money order payable to the Franchise Tax Board			32					

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Please Sign Here Signature of general partner **[Signature]** **Date** **10-15-07** Telephone _____

Paid Preparer's Use Only **Paid Preparer's signature** **GREG WALLACE** **Date** **10-15-07** Check if self-employed **[REDACTED]**

Firm's name (or yours, if self-employed) and address **LESLIE, WALLACE & ASSOCIATES** **6310 SAN VICENTE BLVD STE 320** **LOS ANGELES, CA 90048-5499** **(310) [REDACTED] EXT. [REDACTED]**

EXHIBIT: **BB**
PAGE **1** OF **8**

CAREMORE MEDICAL GROUP
Schedule A Cost of Goods Sold

1	Inventory at beginning of year	
2	Purchases less cost of items withdrawn for personal use	
3	Cost of labor	
4	Additional IRC Section 263A costs. Attach schedule	
5	Other costs. Attach schedule	SEE STATEMENT 4
6	Total. Add line 1 through line 5	3,640,259.
7	Inventory at end of year	
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Side 1, line 2	3,640,259.

1	
2	
3	
4	
5	3,640,259.
6	3,640,259.
7	
8	3,640,259.

9a Check all methods used for valuing closing inventory:

- (1) Cost (2) Lower of cost or market as described in Treas Reg Section 1.471-4 (3) Write down of 'subnormal' goods as described in Treas Reg Section 1.471-2(c) (4) Other. Specify method used and attach explanation

b Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970.

c Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the partnership? Yes No

d Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If 'Yes,' attach explanation. Yes No

J What type of entity is filing this return? Check one only:

- 1 General partnership
- 2 Limited partnership required to pay annual tax (is doing business in California, is registered with SOS, or is organized in California)
- 3 Limited partnership, limited liability company (LLC), or other entity NOT required to pay annual tax (is not doing business in California, is not registered with SOS, and is not organized in California)
- 4 REMIC
- 5 Limited liability partnership
- 6 Other (See instructions)

K Enter the maximum number of partners in this partnership at any time during the year. (Be sure to attach a California Schedule K-1 (565) for each partner)

38

L Is any partner of the partnership related by blood or marriage to any other partner? Yes No

M Is any partner of the partnership a trust for the benefit of any person related by blood or marriage to any other partner? Yes No

N Are any partners in this partnership also partnerships or LLCs? Yes No

O Does the partnership meet all the requirements shown in the instructions for Question O? Yes No

P Is this partnership a partner in another partnership or LLC? If 'Yes,' attach a statement with the name(s) and FEIN(s) of each entity. SEE STATEMENT 5 Yes No

Q Was there a distribution of property or transfer (for example by sale or death) of a partnership interest during the taxable year? If 'Yes,' see the federal instructions concerning an election to adjust the basis of the partnership's assets under IRC Section 754. Yes No

R Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)? Yes No

S Is this partnership under audit by the IRS or has it been audited in a prior year? Yes No

T (1) If this partnership (or any legal entity in which it holds a controlling or majority interest) owned or leased real property in California, was there a change in control or majority ownership of any one of them this year? Yes No

(2) For this taxable year, did this partnership (or any legal entity in which it holds a controlling or majority interest) acquire control or majority ownership of any other legal entity that owned or leased real property in California? Yes No

(3) If this partnership (or any legal entity in which it holds a controlling or majority interest) owned or leased real property in California, has more than 50 percent of the partnership interest cumulatively transferred in one or more transactions since March 1, 1975? Yes No

(Penalties May Apply - See Instructions.)

U (1) Does the partnership have any foreign nonresident partners? Yes No

(2) Does the partnership have any nonresident partners? Yes No

(3) Were Form 592, Form 592-A, and Form 592-B filed for these partners? Yes No

V Is this an investment partnership? See General Information O, Investment Partnerships, in the instructions Yes No

W Is the partnership apportioning income to California using Schedule R? Yes No

X Has the partnership included a Reportable Transaction, Listed Transaction, or Registered Tax Shelter within this return? (See instructions for definitions.) If 'Yes,' complete and attach federal Form 8886 or 8271 for each such transaction. Yes No

Y Did this partnership file the Federal Schedule M-3 (Form 1065)? Yes No

Z Is this partnership a direct owner of an entity that filed a federal Schedule M-3? Yes No

AA Does this partnership have a beneficial interest in a trust or is it a grantor of a trust? Attach name, address, and FEIN. Yes No

CAREMORE MEDICAL GROUP
 Schedule K Partners' Shares of Income, Deductions, Credits, Etc.

	(a) Distributive share items	(b) Amounts from federal K (1065)	(c) California adjustments	(d) Total amounts using California law	
INCOME LOSS	1 Ordinary income (loss) from trade or business activities (Side 1, line 23)	1	2,230,028.	1,600.	2,231,628.
	2 Net income (loss) from rental real estate activities Attach federal Form 8825	2			
	3a Gross income from other rental activities	3a			
	b Less expenses. Attach sch	3b			
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c			
	4 Portfolio income (loss). See instructions:				
	a Interest income	4a	141,525.		141,525.
	b Dividend income	4b			
	c Royalty income	4c			
	d Net capital gain (loss) Schedule D (565)	4d	2,280,171.		2,280,171.
	e Other portfolio income (loss). Attach schedule	4e			
	5 Guaranteed payments to partners	5			
	6a Total Gain under IRC Section 1231 (other than due to casualty or theft)	6a			
b Total Loss under IRC Section 1231 (other than due to casualty or theft)	6b				
7a Total other income. Attach schedule. SEE STATEMENT 6	7a	750,389.		750,389.	
b Total other loss. Attach Schedule	7b				
DEDUCTIONS	8 Charitable contributions. See instructions. Attach schedule. STATEMENT 7	8	250,000.		250,000.
	9 Expense deduction for recovery property (R&C Sections 17267 2, 17267 6, 17268, and IRC Section 179). Attach schedule or worksheet for 179 deductions	9			
	10 Deductions related to portfolio income	10			
	11 Other deductions. Attach schedule	11			
INVT	12a Interest expense on investment debts	12a			
	b (1) Inv income included on lns 4a, 4b, 4c, and line 4e above. (2) Investment expenses included on line 10 above	12b (1) 12b (2)	141,525.		141,525.
CREDITS	13a Withholding on pymnts to partnership allocated to all partners.	13a			
	b Low-income housing credit	13b			
	c Credit(s) other than the credit shown on line 13b related to rental real estate activities. Attach schedule	13c			
	d Credit(s) related to other rental activities. Attach schedule	13d			
	e Nonconsenting nonresident member's tax allocated to all partners.	13e			
14 Other credits. See instructions. Attach schedule	14				
ADJ & TAX	15a Depreciation adjustment on property placed in service after 1986	15a			
	b Adjusted gain or loss	15b			
	c Depletion (other than oil and gas)	15c			
	d (1) Gross income from oil, gas, and geothermal properties. (2) Deductions allocable to oil, gas, and geothermal properties	15d (1) 15d (2)			
	e Other adjustments and tax preference items. Attach schedule	15e			
OTHER	16a Total expenditures to which IRC Section 59(e) election may apply. Attach schedule	16a			
	b Type of expenditures	16b			
	17 Tax-exempt interest income	17			
	18 Other tax-exempt income	18			
	19 Nondeductible expenses. SEE STATEMENT 8	19		1,600.	1,600.
	20 Distributions of money (cash and marketable securities)	20	3,713,228.		3,713,228.
	21 Distribution of property other than money	21			
22 Other items and amts reported separately to partners. See instructions. Attach schedule. STATEMENT 9	22				
ANALS	23 a Total distributive income/payment items. Combine line 1 through line 7 above. From the result, subtract the sum of line 8 through line 12a and line 16a	23	5,152,113.	1,600.	5,153,713.

b Analysis by type of partner:	(a) Corporate	(b) Individual		(c) Partnership	(d) Exempt Organization	(e) Nominee/ Other
		i Active	ii Passive			
	(1) General partners	5,153,713.				
(2) Limited partners						

EXHIBIT: BB
 PAGE 3 OF 8

Schedule L Balance Sheets. See the instructions for Question O before completing Schedules L, M-1, and M-2.

Assets	Beginning of Income year		End of Income year	
	(a)	(b)	(c)	(d)
1 Cash		598,741.		1,490,446.
2a Trade notes and accounts receivable.....	1,818,410.			
b Less allowance for bad debts.....		1,818,410.		
3 Inventories.....				
4 U.S. government obligations.....				
5 Tax-exempt securities.....				
6 Other current assets STATEMENT 10		5,612,008.		
7 Mortgage and real estate loans.....				
8 Other investments.....				
9a Buildings and other depreciable assets....				
b Less accumulated depreciation				
10a Depletable assets.....				
b Less accumulated depletion				
11 Land (net of any amortization).....				
12a Intangible assets (amortizable only).....	3,495,797.			
b Less accumulated amortization	1,834,988.	1,660,809.		
13 Other assets..... SEE STATEMENT 11		462,400.		
14 Total assets.....		10,152,368.		1,490,446.
Liabilities and Capital				
15 Accounts payable.....		300,070.		
16 Mortgages, notes, bonds payable in less than 1 year.....		70,000.		
17 Other current liabilities STATEMENT 12		7,548,310.		11,600.
18 All nonrecourse loans.....				
19 Mortgages, notes, bonds payable in 1 year or more....		2,162,136.		
20 Other liabilities SEE STATEMENT 13		146,029.		114,138.
21 Partners' capital accounts.....		-74,177.		1,364,708.
22 Total liabilities and capital		10,152,368.		1,490,446.

Schedule M-1 Reconciliation of Income per Books With Income per Return. Use total amount under California law. If the partnership completed federal Schedule M-3 (Form 1065), see instructions.

1 Net income (loss) per books.....	5,152,113.	6 Income recorded on books this year not included on Schedule K, line 1 through line 7. Itemize:	
2 Income included on Schedule K, line 1 through line 7, not recorded on books this year. Itemize:		a Tax-exempt interest. \$	
3 Guaranteed payments (other than health insurance)..		7 Deductions included on Schedule K, line 1 through line 12a and line 16a, not charged against book income this year. Itemize:	
4 Expenses recorded on books this year not included on Schedule K, line 1 thru line 12a and line 16a. Itemize:		a Depreciation ... \$	
a Depreciation..... \$		8 Total of line 6 and line 7.....	
b Travel & entertainment \$		9 Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5.....	
c Limited partnership tax \$ 1,600.			
	1,600.		
5 Total of line 1 through line 4.....	5,153,713.		5,153,713.

Schedule M-2 Analysis of Partners' Capital Accounts

1 Balance at beginning of year.....	-74,177.	6 Distributions:	a Cash.....	3,713,228.
2 Capital contributed during year.....		b Property.....		
3 Net income (loss) per books.....	5,152,113.	7 Other decreases. Itemize:		
4 Other increases. Itemize:				
		8 Total of line 6 and line 7.....		3,713,228.
5 Total of line 1 through line 4.....	5,077,936.	9 Balance at end of year. Subtract line 8 from line 5.....		1,364,708.

CLIENT 80017

CAREMORE MEDICAL GROUP

8/15/07

03:44PM

STATEMENT 1
FORM 565, PAGE 1, LINE 5
ORDINARY LOSS FROM PASSTHROUGH K-1'S

CAREMORE MEDICAL MANAGEMENT COMPANY
10000 LAKEWOOD BOULEVARD DOWNEY, CA 90241
95-4420935.....

\$ 10,030.
TOTAL \$ 10,030.

STATEMENT 2
FORM 565, PAGE 1, LINE 10
OTHER INCOME

EMPLOYEE PHYSICIAN & EXPENSE REIMBURSEMENTS \$ 360,468.
EXPENSE REIMBURSEMENT - TRANSACTION COSTS..... 2,000,000.
OTHER OPERATING INCOME..... 6,588.
TOTAL \$ 2,367,056.

STATEMENT 3
FORM 565, PAGE 1, LINE 21
OTHER DEDUCTIONS

DUES AND SUBSCRIPTIONS..... \$ 250.
INSURANCE..... 71,663.
LEGAL AND PROFESSIONAL..... 14,495.
LOSS - INSURANCE SETTLEMENT..... 400,000.
MANAGEMENT FEES..... 309,573.
MISCELLANEOUS..... 4,323.
PHYSICIAN CONTRACT SERVICES..... 26,208.
PHYSICIAN CREDENTIALING..... 1,207.
PHYSICIAN EXPENSES..... 2,460.
TAXES: PAYROLL TAXES..... 35,521.
TELEPHONE..... 3,926.
TRANSACTION EXPENSES..... 118,684.
TOTAL \$ 988,310.

STATEMENT 4
FORM 565, SCHEDULE A, LINE 5
OTHER COSTS

CONTRACTED OVERHEAD..... \$ 1,516,474.
PROVIDER FEES (IPA)..... 2,123,785.
TOTAL \$ 3,640,259.

EXHIBIT: BB
PAGE 6 OF 8

CLIENT 80017

CAREMORE MEDICAL GROUP

8/15/07

03:44PM

STATEMENT 5
FORM 565, ITEM P
PARTNERS IN ANOTHER PARTNERSHIP OR LLC

NAME OF ENTITY	ENTITY I.D. NUMBER
CAREMORE MEDICAL MANAGEMENT COMPANY	95-4420935

STATEMENT 6
FORM 565, SCHEDULE K, LINE 7A
OTHER INCOME (LOSS)

CANCELLATION OF DEBT.....	\$ 750,389.
TOTAL	\$ 750,389.

STATEMENT 7
FORM 565, SCHEDULE K, LINE 8
CHARITABLE CONTRIBUTIONS

CASH CONTRIBUTIONS - 50% LIMITATION.....	\$ 250,000.
TOTAL	\$ 250,000.

STATEMENT 8
FORM 565, SCHEDULE K, LINE 19
NONDEDUCTIBLE EXPENSES

FORM 565/568 TAX.....	\$ 1,600.
TOTAL	\$ 1,600.

STATEMENT 9
FORM 565, SCHEDULE K, LINE 22
OTHER REPORTABLE ITEMS

PROPORTIONATE INT. OF AGGREGATE GROSS RECEIPTS.....	\$ 7,455,688.
-----------------------------------------------------	---------------

STATEMENT 10
FORM 565, SCHEDULE L, LINE 6
OTHER CURRENT ASSETS

	BEGINNING	ENDING
INTEREST RECEIVABLE.....	\$ 22,906.	\$ 0.
NOTE RECEIVABLE - CIS.....	3,800,000.	0.
OTHER CURRENT ASSETS.....	92,153.	0.
PREPAID EXPENSES.....	249,266.	0.
RECEIVABLE - PARTNERS.....	1,447,683.	0.
TOTAL	\$ 5,612,008.	\$ 0.

EXHIBIT: BB
PAGE 7 OF 8

CLIENT 80017

CAREMORE MEDICAL GROUP

8/15/07

03:44PM

STATEMENT 11
FORM 565, SCHEDULE L, LINE 13
OTHER ASSETS

	BEGINNING	ENDING
INVESTMENT - CAREMORE INSURANCE SERVICES, INC.....	\$ 4,900.	\$ 0.
INVESTMENT - CMMC..	457,500.	0.
TOTAL	\$ 462,400.	\$ 0.

STATEMENT 12
FORM 565, SCHEDULE L, LINE 17
OTHER CURRENT LIABILITIES

	BEGINNING	ENDING
ACCRUED EXPENSES.....	\$ 0.	\$ 11,600.
ACCRUED MANAGEMENT FEES.....	3,524,348.	0.
ACCRUED PAYROLL..	215,055.	0.
INTERCOMPANY - CMMC.....	25,482.	0.
INTERCOMPANY - OTHER ENTITIES.....	1,806,253.	0.
PROVIDER FEES PAYABLE (IBNR).....	1,870,841.	0.
UNEARNED CAPITATION REVENUE.....	106,331.	0.
TOTAL	\$ 7,548,310.	\$ 11,600.

STATEMENT 13
FORM 565, SCHEDULE L, LINE 20
OTHER LIABILITIES

	BEGINNING	ENDING
PARTNERSHIP INVESTMENT - CAREMORE MEDICAL MANAGEMENT CO	\$ 146,029.	\$ 114,138.
TOTAL	\$ 146,029.	\$ 114,138.

BB

Appeal of Arturo and Maria D. Lopez

Appeal Case ID No. 740943

Submitted by: D. Todd Watkins, Tax Counsel

For: Respondent, Franchise Tax Board

Exhibit CC

The 2007 Partnership Return of Income (form FTB 565 (2007)), (exclusive of Schedules K-1 for the 38 partners) filed by Caremore Medical Group. The Schedule K-1 (565) filed for partner Arturo Lopez, M.D., Inc., was previously submitted as an exhibit to Respondent's opening brief.

Total pages - 9

2007 Partnership Return of Income Disaster **565**

For calendar year 2007 or fiscal year beginning month **2007-01-01** and ending month **2007-12-31**

A Principal business activity name (same as federal)	Partnership name (place label within block or type or print) <input type="checkbox"/> Check box if name changed		D FEIN [REDACTED]
	CARE CAREMORE MEDICAL GROUP DBA		
B Principal product or service (same as federal) SERVICE	Address (including suite, room, PO Box, and PMB no.) 12900 PARK PLAZA DRIVE		E Date [REDACTED] in California ● 1993-06-01
	C Principal business activity code (same as federal) ● 621111	City CERRITOS	State CA
G Check accounting method: ● (1) <input type="checkbox"/> Cash (2) <input checked="" type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (attach explanation)		H Secretary of State (SOS) file number ●	

Caution: Include only trade or business income and expenses on line 1a through line 22 below. See the instructions for more information.

Income	1 a Gross receipts or sales \$ _____ b Less returns and allowances \$ _____ c Balance ●	1c	0	00
	2 Cost of goods sold (Schedule A, line 8)	2		00
	3 GROSS PROFIT. Subtract line 2 from line 1c	3		00
	4 Total ordinary income from other partnerships and fiduciaries. Attach schedule	4		00
	5 Total ordinary loss from other partnerships and fiduciaries. Attach schedule	5		00
	6 Total farm profit. Attach federal Schedule F (Form 1040)	6		00
	7 Total farm loss. Attach federal Schedule F (Form 1040)	7		00
	8 Total gains included on Schedule D-1, Part II, line 17 (gain only)	8		00
	9 Total losses included on Schedule D-1, Part II, line 17 (loss only)	9		00
	10 Other income. Attach schedule	10		00
	11 Other loss. Attach schedule	11		00
	12 Total income (loss). Combine line 3 through line 11	12		00
Deductions	13 Salaries and wages (other than to partners)	13		00
	14 Guaranteed payments to partners	14		00
	15 Bad debts	15		00
	16 Deductible interest expense not claimed elsewhere on return	16		00
	17 a Depreciation and amortization. Attach form FTB 3885P \$ _____ b Less depreciation reported on Schedule A and elsewhere on return \$ _____ c Balance ●	17c		00
	18 Depletion. Do not deduct oil and gas depletion	18		00
	19 Retirement plans, etc.	19		00
	20 Employee benefit programs	20		00
	21 Other deductions. Attach schedule	21		611,191 00
	22 Total deductions. Add line 13 through line 21	22		611,191 00
23 Ordinary income (loss) from trade or business activities. Subtract line 22 from line 12	23		-611,191 00	
Payments	24 Tax — \$800.00 (LPs, LLPs, and REMICs only). See instructions	24		00
	25 Nonresident withholding credit (\$800 maximum). See instructions	25		00
	26 Amount paid with extension of time to file return (form FTB 3538)	26		00
	27 Total payments. Add line 25 and line 26	27		00
Amount Due or Refund	28 Tax due. If line 24 is more than line 27, subtract line 27 from line 24	28		00
	29 Use Tax. See instructions	29		0 00
	30 Refund. If the total of line 24 and line 29 is less than line 27, subtract the total from line 27	30		00
	31 Penalties and interest	31		00
	32 Total amount due. Add line 24, line 29, and line 31, then subtract line 27 from the result. Make the check or money order payable to the Franchise Tax Board	32		00

Please Sign Here Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

JOHN KEIPP MD INC Signature of general partner	General Partner	Date	Telephone
Paid Preparer's signature Greg Wallace	LESIE WALLACE & ASSOCIATES 6310 SAN VICENTE BLVD STE 320 LOS ANGELES CA 900485499	2008-10-15	3235496900

Schedule A Cost of Goods Sold

1	Inventory at beginning of year	00
2	Purchases less cost of items withdrawn for personal use	00
3	Cost of labor	00
4	Additional IRC Section 263A costs. Attach schedule	00
5	Other costs. Attach schedule	00
6	Total. Add line 1 through line 5	00
7	Inventory at end of year	00
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Side 1, line 2.	00

- 9 a Check all methods used for valuing closing inventory:
 (1) Cost (2) Lower of cost or market as described in Treas. Reg. Section 1.471-4 (3) Write down of "subnormal" goods as described in Treas. Reg. Section 1.471-2(c) (4) Other. Specify method used and attach explanation _____
- b Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970
- c Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the partnership? Yes No
- d Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation Yes No

J What type of entity is filing this return? Check one only:

- 1 General partnership
- 2 Limited partnership required to pay annual tax (is doing business in California, is registered with SOS, or is organized in California)
- 3 Limited partnership, limited liability company (LLC), or other entity NOT required to pay annual tax (is not doing business in California, is not registered with SOS, and is not organized in California)
- 4 REMIC
- 5 Limited liability partnership
- 6 Other (See instructions)

K Enter the maximum number of partners in this partnership at any time during the year. (Be sure to attach a California Schedule K-1 (565) for each partner) *K-1s Filed by Magnetic or Mass Media* **38**
Total K-1s filed by Magnetic or Mass Media

	Yes	No
L Is any partner of the partnership related by blood or marriage to any other partner?		<input checked="" type="checkbox"/>
M Is any partner of the partnership a trust for the benefit of any person related by blood or marriage to any other partner?		<input checked="" type="checkbox"/>
N Are any partners in this partnership also partnerships or LLCs?		<input checked="" type="checkbox"/>
O Does the partnership meet all the requirements shown in the instructions for Question O?		<input checked="" type="checkbox"/>
P Is this partnership a partner in another partnership or LLC? If "Yes," attach a statement with the name(s) and FEIN(s) of each entity		<input checked="" type="checkbox"/>
Q Was there a distribution of property or transfer (for example by sale or death) of a partnership interest during the taxable year? If "Yes," see the federal instructions concerning an election to adjust the basis of the partnership's assets under IRC Section 754		<input checked="" type="checkbox"/>
R Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)?		<input checked="" type="checkbox"/>
S Is this partnership under audit by the IRS or has it been audited in a prior year?		<input checked="" type="checkbox"/>
T (1) For this taxable year, was there a change in control or majority ownership for this partnership (or any legal entity in which it holds a controlling or majority interest) that owned or leased real property in California?		<input checked="" type="checkbox"/>
(2) For this taxable year, did this partnership (or any legal entity in which it holds a controlling or majority interest) acquire control or majority ownership of any other legal entity that owned or leased real property in California?		<input checked="" type="checkbox"/>
(3) If this partnership (or any legal entity in which it holds a controlling or majority interest) owned or leased real property in California, has more than 50 percent of the partnerships interest cumulatively transferred in one or more transactions since March 1, 1975, which was not reported on a previous year's tax return?		<input checked="" type="checkbox"/>
(Penalties May Apply - See Instructions.)		
U (1) Does the partnership have any foreign nonresident partners?		<input checked="" type="checkbox"/>
(2) Does the partnership have any nonresident partners?		<input checked="" type="checkbox"/>
(3) Were Form 592, Form 592-A, and Form 592-B filed for these partners?		<input checked="" type="checkbox"/>
V Is this an investment partnership? See General Information O, Investment Partnerships, in the instructions.		<input checked="" type="checkbox"/>
W Is the partnership apportioning income to California using Schedule R?		<input checked="" type="checkbox"/>
X Has the partnership included a Reportable Transaction or Listed Transaction with this return? (See instructions for definitions.) If "Yes," complete and attach Form 8886 for each transaction		<input checked="" type="checkbox"/>
Y Did this partnership file the Federal Schedule M-3 (Form 1065)?		<input checked="" type="checkbox"/>
Z Is this partnership a direct owner of an entity that filed a federal Schedule M-3?		<input checked="" type="checkbox"/>
AA Does this partnership have a beneficial interest in a trust or is it a grantor of a trust? Attach name, address, and FEIN.		<input checked="" type="checkbox"/>

Schedule K Partners' Shares of Income, Deductions, Credits, Etc.

	(a) Distributive share items		(b)	(c)	(d)	
			Amounts from federal K (1065)	California adjustments	Total amounts using California law	
Income (Loss)	1 Ordinary income (loss) from trade or business activities	1	-611,191	0	-611,191	
	2 Net income (loss) from rental real estate activities. Attach federal Form 8825	2				
	3 a Gross income from other rental activities	3a				
	b Less expenses. Attach schedule	3b				
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c			●	
	4 Guaranteed payments to partners	4			●	
	5 Interest income	5	72,985		● 72,985	
	6 Dividends	6			●	
	7 Royalties	7			●	
	8 Net short-term capital gain (loss) Schedule D (565)	8				
	9 Net long-term capital gain (loss) Schedule D (565)	9	2,000,000		2,000,000	
Deductions	10 a Total Gain under IRC Section 1231 (other than due to casualty or theft)	10a			●	
	b Total Loss under IRC Section 1231 (other than due to casualty or theft)	10b			●	
	11 a Other portfolio income (loss). Attach schedule	11a			●	
	b Total other income. Attach schedule	11b				
	c Total other loss. Attach schedule	11c				
	12 Expense deduction for recovery property (IRC Section 179 and R&TC Sections 17267.2, 17267.6, and 17268). Attach schedule	12			0	
	13 a Charitable contributions. See instructions. Attach schedule	13a			0	
	b Investment interest expense	13b			●	
	c 1 Total expenditures to which IRC Section 59(e) election may apply. Attach schedule	13c1			0	
	2 Type of expenditures	13c2				
	d Deductions related to portfolio income	13d			0	
e Other deductions. Attach schedule	13e			0		
Credits	15 a Withholding on payments to partnership allocated to all partners	15a				
	b Low-income housing credit	15b				
	c Credits other than the credit shown on line 15b related to rental real estate activities	15c				
	d Credits related to other rental activities	15d				
	e Nonconsenting nonresident members' tax allocated to all partners	15e				
	f Other credits	15f			●	
Alternative Minimum Tax (AMT) Items	17 a Depreciation adjustment on property placed in service after 1986	17a				
	b Adjusted gain or loss	17b			0	
	c Depletion (other than oil and gas)	17c				
	d Gross income from oil, gas, and geothermal properties	17d				
	e Deductions allocable to oil, gas, and geothermal properties	17e				
	f Other alternative minimum tax items	17f				
Other Information	18 a Tax-exempt interest income	18a			●	
	b Other tax-exempt income	18b				
	c Nondeductible expenses	18c	3,133		3,133	
	19 a Distributions of money (cash and marketable securities)	19a	2,823,369		2,823,369	
	b Distribution of property other than money	19b				
	20 a Investment income	20a	72,985		72,985	
b Investment expenses	20b					
c Other information. See instructions	20c					
Analysis	21 a Total distributive income/payment items. Combine lines 1, 2, and 3c through 11c. From the result, subtract the sum of lines 12 through 13e	21a	1,461,794		● 1,461,794	
	b Analysis by type of partner:					
	(a)	(b) Individual		(c)	(d)	(e)
	Corporate	i. Active	ii. Passive	Partnership	Exempt Organization	Nominee/Other
	(1) General partners	1,461,794				
	(2) Limited partners					

Schedule L Balance Sheets. See the instructions for Question O before completing Schedules L, M-1, and M-2.

Assets	Beginning of income year		End of income year	
	(a)	(b)	(c)	(d)
1 Cash		1,490,446		
2 a Trade notes and accounts receivable				
b Less allowance for bad debts	()		()	
3 Inventories				●
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets. Attach schedule				●
7 Mortgage and real estate loans				
8 Other investments. Attach schedule				●
9 a Buildings and other depreciable assets				
b Less accumulated depreciation	()		()	●
10 a Depletable assets				
b Less accumulated depletion	()		()	
11 Land (net of any amortization)				●
12 a Intangible assets (amortizable only)				
b Less accumulated amortization	()		()	
13 Other assets. Attach schedule				●
14 Total assets		1,490,446		
Liabilities and Capital				
15 Accounts payable				●
16 Mortgages, notes, bonds payable in less than 1 year				●
17 Other current liabilities. Attach schedule		11,600		
18 All nonrecourse loans				●
19 Mortgages, notes, bonds payable in 1 year or more				●
20 Other liabilities. Attach schedule		114,138		●
21 Partners' capital accounts		1,364,708		●
22 Total liabilities and capital		1,490,446		

Schedule M-1 Reconciliation of Income per Books With Income per Return. Use total amount under California law.
 If the partnership completed federal Schedule M-3 (Form 1065), see instructions.

1 Net income (loss) per books	1,458,661	6 Income recorded on books this year not included on Schedule K, line 1 through line 11c. Itemize:	
2 Income included on Schedule K, line 1 through line 11c, not recorded on books this year. Itemize:		a Tax-exempt interest \$	●
3 Guaranteed payments (other than health insurance)		7 Deductions included on Schedule K, line 1 through line 13e, not charged against book income this year. Itemize:	
4 Expenses recorded on books this year not included on Schedule K, line 1 through line 13e. Itemize:		a Depreciation \$	●
a Depreciation \$			
b Travel and entertainment \$ 3,133		8 Total of line 6 and line 7	●
c Limited partnership tax \$		9 Income (loss) (Schedule K, line 21a). Subtract line 8 from line 5	
5 Total of line 1 through line 4	1,461,794		1,461,794

Schedule M-2 Analysis of Partners' Capital Accounts

1 Balance at beginning of year	1,364,708	6 Distributions: a Cash	●	2,823,369
2 Capital contributed during year		b Property	●	
3 Net income (loss) per books	1,458,661	7 Other decreases. Itemize		
4 Other increases. Itemize			●	
5 Total of line 1 through line 4	2,823,369	8 Total of line 6 and line 7		2,823,369
		9 Balance at end of year. Subtract line 8 from line 5		

Appeal of Arturo and Maria D. Lopez

Appeal Case ID No. 740943

Submitted by: D. Todd Watkins, Tax Counsel

For: Respondent, Franchise Tax Board

Exhibit DD

Relevant portions of the 2006 Partnership Return of Income (form 565 (2006)) of Caremore Medical Management Company.

Total pages - 8

YEAR

2006

Partnership Return of Income



07 738160 00

CALIFORNIA FORM

565

For calendar year 2006 or fiscal year beginning month _____ day _____ year _____, and ending month _____ day _____ year _____

A Principal business activity name (same as federal) **Partnership name** (place label within block or type or print) Check box if name changed **D** FEIN [REDACTED]

MEDICAL MGMT **CAREMORE MEDICAL MANAGEMENT COMPANY**

B Principal product or service (same as federal) **DBA** [REDACTED]

Present address — Number and street, PO Box, rural route, or PMB no. **F** Enter total assets at end of year. See instructions.

SERVICE **4360 SEPULVEDA BOULEVARD, 2ND FLOOR**

C Principal business activity code (same as federal) **City** **State** **ZIP Code**

• **541990** **CULVER CITY, CA 90230**

G Check accounting method: **H** Secretary of State (SOS) file number

• **(1)** Cash **(2)** Accrual **(3)** Other (attach explanation)

(1) Initial return **(2)** FINAL RTN **(3)** Amended return

Caution: Include only trade or business income and expenses on line 1a through line 22 below. See the instructions for more information.

	1a Gross receipts or sales \$ _____	b Less returns and allowances \$ _____	c Balance ...	1c	
	2 Cost of goods sold (Schedule A, line 8) ...			2	
	3 GROSS PROFIT. Subtract line 2 from line 1c.			3	
	4 Total ordinary income from other partnerships and fiduciaries. Attach schedule			4	
	5 Total ordinary loss from other partnerships and fiduciaries. Attach schedule			5	
Income	6 Total farm profit. Attach federal Schedule F (Form 1040)			6	
	7 Total farm loss. Attach federal Schedule F (Form 1040)			7	
	8 Total gains included on Schedule D-1, Part II, line 17 (gain only)			8	
	9 Total losses included on Schedule D-1, Part II, line 17 (loss only)			9	
	10 Other income. Attach schedule			10	
	11 Other loss. Attach schedule			11	
	12 Total income (loss). Combine line 3 through line 11.			12	
Deductions	13 Salaries and wages (other than to partners)			13	
	14 Guaranteed payments to partners			14	
	15 Bad debts			15	
	16 Deductible interest expense not claimed elsewhere on return			16	
	17a Depreciation and amortization. Attach form FTB 3885P.. \$ _____	b Less depreciation reported on Schedule A and elsewhere on return .. \$ _____	c Balance	17c	
	18 Depletion. Do not deduct oil and gas depletion			18	
Enclose, but do not staple, any payment	19 Retirement plans, etc.			19	
	20 Employee benefit programs			20	
	21 Other deductions. Attach schedule.	SEE STATEMENT 1		21	10,030.
	22 Total deductions. Add line 13 through line 21.			22	10,030.
	23 Ordinary income (loss) from trade or business activities. Subtract line 22 from line 12.			23	-10,030.
Payments	24 Tax — \$800.00 (limited partnerships, LLPs, and REMICs only). See instructions			24	800.
	25 Nonresident withholding credit (\$800 maximum). See instructions	25			
	26 Amount paid with extension of time to file return (form FTB 3538)	26	800.		
	27 Total payments. Add line 25 and line 26			27	800.
Amount Due or Refund	28 Tax due. If line 24 is more than line 27, subtract line 27 from line 24.			28	
	29 Use Tax. See instructions			29	
	30 Refund. If the total of line 24 and line 29 is less than line 27, subtract the total from line 27	30			
	31 Penalties and interest			31	
	32 Total amount due. Add line 24, line 29, and line 31, then subtract line 27 from the result. Make the check or money order payable to the Franchise Tax Board			32	

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Please Sign Here

Signature of general partner **Greg Wallace** Date **8/14/07** Telephone _____

Paid Preparer's Use Only

Paid Preparer's signature **GREG WALLACE** **Date** **10/3/07** **Check if self-employed** **Paid Preparer's SSN/PTIN** [REDACTED]

Firm's name (or yours, if self-employed) and address

LESLIE, WALLACE & ASSOCIATES
6310 SAN VICENTE BLVD STE 320
LOS ANGELES, CA 90048-5499 **(323) 549-6900**

PAID WITH FORM FTB 3538 \$ 800.

CAREMORE MEDICAL MANAGEMENT COMPANY

Schedule A Cost of Goods Sold

1	Inventory at beginning of year	1
2	Purchases less cost of items withdrawn for personal use	2
3	Cost of labor	3
4	Additional IRC Section 263A costs. Attach schedule	4
5	Other costs. Attach schedule	5
6	Total. Add line 1 through line 5	6
7	Inventory at end of year	7
8	Cost of goods sold. Subtract line 7 from line 6. Enter here and on Side 1, line 2	8

9a Check all methods used for valuing closing inventory:

- (1) Cost (2) Lower of cost or market as described in Treas Reg Section 1.471-4 (3) Write down of 'subnormal' goods as described in Treas Reg Section 1.471-2(c) (4) Other. Specify method used and attach explanation

b Check this box if the LIFO inventory method was adopted this taxable year for any goods. If checked, attach federal Form 970...

c Do the rules of IRC Section 263A (with respect to property produced or acquired for resale) apply to the partnership?... Yes No

d Was there any change (other than for IRC Section 263A purposes) in determining quantities, cost, or valuations between opening and closing inventory? If 'Yes,' attach explanation. Yes No

J What type of entity is filing this return? Check one only:

- 1 General partnership
- 2 Limited partnership required to pay annual tax (is doing business in California, is registered with SOS, or is organized in California)
- 3 Limited partnership, limited liability company (LLC), or other entity NOT required to pay annual tax (is not doing business in California, is not registered with SOS, and is not organized in California)
- 4 REMIC
- 5 Limited liability partnership
- 6 Other (See instructions)

K Enter the maximum number of partners in this partnership at any time during the year. (Be sure to attach a California Schedule K-1 (565) for each partner)

4	
Yes	No
	X
	X
X	
	X
	X
	X
	X
	X
	X
	X

L Is any partner of the partnership related by blood or marriage to any other partner?

M Is any partner of the partnership a trust for the benefit of any person related by blood or marriage to any other partner?

N Are any partners in this partnership also partnerships or LLCs?

O Does the partnership meet all the requirements shown in the instructions for Question O?

P Is this partnership a partner in another partnership or LLC? If 'Yes,' attach a statement with the name(s) and FEIN(s) of each entity.

Q Was there a distribution of property or transfer (for example by sale or death) of a partnership interest during the taxable year? If 'Yes,' see the federal instructions concerning an election to adjust the basis of the partnership's assets under IRC Section 754.

R Is this partnership a publicly traded partnership as defined in IRC Section 469(k)(2)?

S Is this partnership under audit by the IRS or has it been audited in a prior year?

T (1) If this partnership (or any legal entity in which it holds a controlling or majority interest) owned or leased real property in California, was there a change in control or majority ownership of any one of them this year?

(2) For this taxable year, did this partnership (or any legal entity in which it holds a controlling or majority interest) acquire control or majority ownership of any other legal entity that owned or leased real property in California?

(3) If this partnership (or any legal entity in which it holds a controlling or majority interest) owned or leased real property in California, has more than 50 percent of the partnership interest cumulatively transferred in one or more transactions since March 1, 1975?

(Penalties May Apply - See Instructions.)

U (1) Does the partnership have any foreign nonresident partners?

(2) Does the partnership have any nonresident partners?

(3) Were Form 592, Form 592-A, and Form 592-B filed for these partners?

V Is this an investment partnership? See General Information O, Investment Partnerships, in the instructions

W Is the partnership apportioning income to California using Schedule R?

X Has the partnership included a Reportable Transaction, Listed Transaction, or Registered Tax Shelter within this return? (See instructions for definitions.) If 'Yes,' complete and attach federal Form 8885 or 8271 for each such transaction

Y Did this partnership file the Federal Schedule M-3 (Form 1065)?

Z Is this partnership a direct owner of an entity that filed a federal Schedule M-3?

AA Does this partnership have a beneficial interest in a trust or is it a grantor of a trust? Attach name, address, and FEIN

CAREMORE MEDICAL MANAGEMENT COMPANY
 Schedule K Partners' Shares of Income, Deductions, Credits, Etc.

		(a) Distributive share items	(b) Amounts from federal K (1065)	(c) California adjustments	(d) Total amounts using California law		
INCOME LOSSES	1	Ordinary income (loss) from trade or business activities (Side 1, line 23)	-11,630.	1,600.	-10,030.		
	2	Net income (loss) from rental real estate activities. Attach federal Form 8825					
	3a	Gross income from other rental activities					
	3b	Less expenses. Attach sch					
	3c	Net income (loss) from other rental activities. Subtract line 3b from line 3a					
	4	Portfolio income (loss). See instructions:					
	4a	Interest income	121.		121.		
	4b	Dividend income					
	4c	Royalty income					
	4d	Net capital gain (loss) Schedule D (565)	5,099,539.		5,099,539.		
	4e	Other portfolio income (loss). Attach schedule					
	5	Guaranteed payments to partners					
	6a	Total Gain under IRC Section 1231 (other than due to casualty or theft)					
	6b	Total Loss under IRC Section 1231 (other than due to casualty or theft)					
7a	Total other income. Attach schedule. SEE STATEMENT. 2	750,389.		750,389.			
	7b	Total other loss. Attach Schedule.					
DEDUCTIONS	8	Charitable contributions. See instructions. Attach schedule.					
	9	Expense deduction for recovery property (R&TC Sections 17267.2, 17267.5, 17268, and IRC Section 179). Attach schedule or worksheet for 179 deductions					
	10	Deductions related to portfolio income.					
	11	Other deductions. Attach schedule.					
INVT	12a	Interest expense on investment debts					
	12b (1)	(1) Inv income included on lns 4a, 4b, 4c, and line 4e above.	121.		121.		
	12b (2)	(2) Investment expenses included on line 10 above					
CREDITS	13a	Withholding on pymnts to partnership allocated to all partners					
	13b	Low-income housing credit					
	13c	Credit(s) other than the credit shown on line 13b related to rental real estate activities. Attach schedule.					
	13d	Credit(s) related to other rental activities. Attach schedule.					
	13e	Nonconsenting nonresident member's tax allocated to all partners.					
	14	Other credits. See instructions. Attach schedule.					
ADJ & TAXES	15a	Depreciation adjustment on property placed in service after 1986.					
	15b	Adjusted gain or loss					
	15c	Depletion (other than oil and gas)					
	15d (1)	(1) Gross income from oil, gas, and geothermal properties					
	15d (2)	(2) Deductions allocable to oil, gas, and geothermal properties					
15e	Other adjustments and tax preference items. Attach schedule						
OTHER	16a	Total expenditures to which IRC Section 59(e) election may apply. Attach schedule.					
	16b	Type of expenditures					
	17	Tax-exempt interest income					
	18	Other tax-exempt income					
	19	Nondeductible expenses					
	20	Distributions of money (cash and marketable securities)	12,354,232.		12,354,232.		
	21	Distribution of property other than money					
22	Other items and amts reported separately to partners. See instructions. Attach schedule. STATEMENT. 3						
ANNUALS	23 a	Total distributive income/payment items. Combine line 1 through line 7 above. From the result, subtract the sum of line 8 through line 12a and line 16a.	5,838,419.	1,600.	5,840,019.		
b Analysis by type of partner		(a) Corporate	(b) Individual		(c) Partnership	(d) Exempt Organization	(e) Nominee/ Other
			i Active	ii Passive			
(1) General partners					5,840,019.		
(2) Limited partners							

CAREMORE MEDICAL MANAGEMENT COMPANY

Schedule L Balance Sheets. See the instructions for Question O before completing Schedules L, M-1, and M-2.

Assets	Beginning of income year		End of income year	
	(a)	(b)	(c)	(d)
1 Cash.....		69,932.		
2a Trade notes and accounts receivable				
b Less allowance for bad debts.....				
3 Inventories				
4 U.S. government obligations.....				
5 Tax-exempt securities				
6 Other current assets..... STATEMENT 4		12,279,207.		
7 Mortgage and real estate loans.....				
8 Other investments				
9a Buildings and other depreciable assets ...				
b Less accumulated depreciation				
10a Depletable assets.....				
b Less accumulated depletion				
11 Land (net of any amortization)				
12a Intangible assets (amortizable only).....				
b Less accumulated amortization				
13 Other assets.....				
14 Total assets		12,349,139.		0.
Liabilities and Capital				
15 Accounts payable.....				
16 Mortgages, notes, bonds payable in less than 1 year ..				
17 Other current liabilities .. STATEMENT 5		733,787.		
18 All nonrecourse loans.....				
19 Mortgages, notes, bonds payable in 1 year or more ..				
20 Other liabilities ..				
21 Partners' capital accounts		11,615,352.		0.
22 Total liabilities and capital.....		12,349,139.		0.

Schedule M-1 Reconciliation of Income per Books With Income per Return. Use total amount under California law. If the partnership completed federal Schedule M-3 (Form 1065), see instructions.

1 Net income (loss) per books.....	5,840,019.	6 Income recorded on books this year not included on Schedule K, line 1 through line 7. Itemize:	
2 Income included on Schedule K, line 1 through line 7, not recorded on books this year. Itemize:		a Tax-exempt interest \$	
3 Guaranteed payments (other than health insurance) ..			
4 Expenses recorded on books this year not included on Schedule K, line 1 thru line 12a and line 16a. Itemize:		7 Deductions included on Schedule K, line 1 through line 12a and line 16a, not charged against book income this year. Itemize:	
a Depreciation..... \$		a Depreciation ... \$	
b Travel & entertainment \$			
c Limited partnership tax \$		8 Total of line 6 and line 7 ..	
5 Total of line 1 through line 4... ..	5,840,019.	9 Income (loss) (Schedule K, line 23a). Subtract line 8 from line 5 ..	5,840,019.

Schedule M-2 Analysis of Partners' Capital Accounts

1 Balance at beginning of year.....	11,615,352.	6 Distributions:	a Cash.....	12,354,232.
2 Capital contributed during year.....		b Property.....		
3 Net income (loss) per books.....	5,838,419.	7 Other decreases Itemize:		
4 Other increases. Itemize:		SEE STATEMENT 6		5,099,539.
5 Total of line 1 through line 4.....	17,453,771.	8 Total of line 6 and line 7 ..		17,453,771.
		9 Balance at end of year. Subtract line 8 from line 5 ..		0.

YEAR
2006

Partner's Share of Income,
Deductions, Credits, etc.

CALIFORNIA SCHEDULE
K-1 (565)

For calendar year 2006 or fiscal year beginning month _____ day _____ year 2006, and ending month _____ day _____ year _____

Partner's identifying number _____ Partnership's FEIN _____
Partner's name, address, city, state, and ZIP Code _____ Secretary of State file number _____
Partnership's name, address, city, state, and ZIP Code _____

CAREMORE MEDICAL GROUP
10000 LAKEWOOD BOULEVARD
DOWNEY, CA 90241

CAREMORE MEDICAL MANAGEMENT COMPANY
4360 SEPULVEDA BOULEVARD, 2ND FLOOR
CULVER CITY, CA 90230

A Is this partner a: (1) general partner; or (2) limited partner?

B What type of entity is this partner? •

- (1) Individual (5) General Partnership (9) IRA/Keogh/SEP
 (2) S Corporation (6) Limited Partnership (10) Exempt Organization
 (3) Estate/Trust (7) LLP (11) Disregarded Entity
 (4) C Corporation (8) LLC

C Is this partner a foreign partner?..... • Yes No

D Enter partner's percentage (without regard to special allocations) of: (i) Before decrease or termination (ii) End of year

Profit sharing ... % • 100.0000 %
 Loss sharing % • 100.0000 %
 Ownership of capital . . . % • 85.0000 %

E Partner's share of liabilities:

Nonrecourse..... • \$ _____
 Qualified nonrecourse financing . . . • \$ _____
 Other • \$ _____

F Tax shelter registration number... _____

G (1) Check here if this is a publicly traded partnership as defined in IRC Section 469(k)(2).....
 (2) Check here if this is an investment partnership (R&TC Sections 17955 and 23040.1).....

H Check here if this is: •

(1) A final Schedule K-1 (565) (2) An amended Schedule K-1 (565)

I Is this partner a nonresident of California? Yes • No

J Analysis of partner's capital account:

Check the box: • Tax Basis • GAAP • Section 704(b) Book • Other (explain) _____

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of line 3, line 4, and line 7, Form 565, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year, combine column (a) through column (d)
• -146,029. •	•	• 5,838,419. •	(5,806,528.) •	• -114,138. •

Caution: Refer to Partner's Instructions for Schedule K-1 (565) before entering information from this schedule on your California return.

	(a) Distributive share items	(b) Amounts from federal Schedule K-1 (1065)	(c) California adjustments	(d) Total amounts using California law. Combine column (b) and column (c)	(e) California source amounts and credits
Income (Loss)	1 Ordinary income (loss) from trade or business activities.....	-11,630.	1,600.	-10,030.	
	2 Net income (loss) from rental real estate activities.....				
	3 Net income (loss) from other rental activities.				
	4 Portfolio income (loss):				
	a Interest.....	121.		121.	
	b Dividends.....				
	c Royalties.....				
	d Net capital gain (loss).....	5,099,539.		5,099,539.	
	e Other portfolio income (loss). Attach schedule.....				
	5 Guaranteed payments to partners.....				
	6 a Total Gain under IRC Section 1231 (other than due to casualty or theft).				
b Total Loss under IRC Section 1231 (other than due to casualty or theft)....					
7 a Total other income Attach schedule LINE 22	750,389.		750,389.		
b Total other loss. Attach schedule.....					
Deductions	8 Charitable contributions.....				
	9 Expense deduction for recovery property (R&TC Sections 17267.2, 17267.6, 17268, and IRC Section 179). Attach schedule ..				
	10 Deductions related to portfolio income. Attach schedule.....				
11 Other deductions. Attach schedule.....					

PARTNER 3

CAREMORE MEDICAL MANAGEMENT COMPANY

		(a) Distributive share items	(b) Amounts from federal Schedule K-1 (1065)	(c) California adjustments	(d) Total amounts using California law. Combine column (b) and column (c)	(e) California source amounts and credits
Investment Interest	12a	Interest expense on investment debts.				
	b (1)	Investment income included on lines 4a, 4b, 4c, and 4e	121.		121.	
	(2)	Investment expenses included on line 10.				
Credits	13a	Total withholding (equals amount on Form 592-B if calendar year partnership)				
	b	Low-income housing credit				
	c	Credits other than line 13b related to rental real estate activities. Attach sch.				
	d	Credits related to other rental activities. See instructions. Attach sch.				
	e	Nonconsenting nonresident partner's tax paid by partnership				
14	Other credits. Attach required schedules or statements					
Adjustments and Tax Preference Items	15a	Depreciation adjustment on property placed in service after 1986				
	b	Adjusted gain or loss				
	c	Depletion (other than oil and gas)				
	d (1)	Gross income from oil, gas, and geothermal properties				
	(2)	Deductions allocable to oil, gas, and geothermal properties				
e	Other adjustments and tax preference items. Attach sch.					
Other	16a	Total expenditures to which an IRC Section 59(e) election may apply				
	b	Type of expenditures				
	17	Tax-exempt interest income				
	18	Other tax-exempt income				
	19	Nondeductible expenses				
	20	Distributions of money (cash and marketable securities)	5,806,528.		5,806,528.	
	21	Distributions of property other than money				
22	Supplemental information required to be reported separately to each member. Attach additional schedules. See instructions					\$ 5,850,049.

Table 1 — Partner's share of nonbusiness income from intangibles (source of income is dependent on residence or commercial domicile of the partner):

Interest	\$	Section 1231 Gains/Losses	\$	Capital Gains/Losses	\$
Dividends	\$	Royalties	\$	Other	\$

FOR USE BY APPORTIONING UNITARY PARTNERS ONLY — See instructions.

Table 2 — Partner's share of distributive items.

- A Partner's share of the partnership's business income See instructions ... \$ _____
- B Partner's share of nonbusiness income from real and tangible personal property sourced or allocable to California.
 Capital Gains/Losses... \$ _____ Rents/Royalties... \$ _____
 Section 1231 Gains/Losses... \$ _____ Other... \$ _____
- C Partner's distributive share of the partnership's property, payroll, and sales:

Factors	Total within and outside California	Total within California
Property: Beginning	\$	\$
Ending	\$	\$
Annual Rent Expense	\$	\$
Payroll	\$	\$
Sales	\$	\$

PARTNER 3



LINE 7A, COLUMN (D)
OTHER INCOME

CANCELLATION OF DEBT / MISC	\$ 750,389.
TOTAL	<u>\$ 750,389.</u>

LINE 22, COLUMN (D)
OTHER REPORTABLE ITEMS

PROPORTIONATE INT. OF AGGREGATE GROSS RECEIPTS	\$ 5,850,049.
TOTAL	<u>\$ 5,850,049.</u>