

**ADMINISTRATIVE AND SOLICITOR FIRM
SERVICES AGREEMENT**

BETWEEN

**PACIFICARE OF CALIFORNIA
AND
PACIFICARE HEALTH PLAN ADMINISTRATORS, INC.**

This Administrative and Solicitor Firm Services Agreement (the “Agreement”) is made by and between PacifiCare of California, a California Corporation (“PacifiCare”) and PacifiCare Health Plan Administrators, Inc., an Indiana Corporation (“PHPA”), effective as of the 1st day of January 2003.

RECITALS

A. PacifiCare is a corporation organized under the laws of the State of California and licensed as a health care service plan under the Knox-Keene Health Care Service Plan Act of 1975 (the “Knox-Keene Act”), as amended.

B. PHPA is an affiliate of PacifiCare having the personnel, expertise and equipment to economically and efficiently provide administrative services to support PacifiCare’s operations. PHPA currently provides administrative services to support the operations of health maintenance organizations and insurers affiliated with PacifiCare and PHPA (“Affiliated Plans”) pursuant to administrative services agreements between PHPA and the Affiliated Plans.

C. PHPA currently performs administrative services for PacifiCare pursuant to that certain Administrative and Solicitor Firm Services Agreement dated December 1, 2001 between PacifiCare and PHPA (the “PHPA 2001 Agreement”).

D. PHPA and PacifiCare desire that PHPA continue to provide administrative services to PacifiCare, and that PacifiCare provide administrative services to PHPA in support of PHPA’s administrative service agreements with Affiliated Plans. It is intended that such administrative services will be provided or arranged under this Agreement, and that upon receiving any necessary approvals from the California Department of Managed Health Care (“DMHC”), the PHPA 2001 Agreement will terminate as of the effective date of this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants, promises and agreements herein contained, and other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereto do hereby covenant, promise and agree as follows:

ARTICLE ONE
ADMINISTRATIVE SERVICES TO BE PERFORMED BY PHPA

Subject to the control, supervision, and direction of the Board of Directors of PacifiCare or their designees, PHPA shall provide or arrange for the provision of administrative services to PacifiCare supporting the day-to-day operations of PacifiCare (the “PHPA Administrative Services”). The PHPA Administrative Services to be provided or arranged by PHPA as requested by PacifiCare pursuant to this Agreement include the following:

1.1 Financial Services. Under the supervision of PacifiCare’s Chief Financial Officer, PHPA shall provide the following financial services to PacifiCare:

a. PHPA, relying upon data prepared by PacifiCare, shall provide electronic data processing services, including the maintenance of ledgers, processing of accounts payable and payroll, production of periodic financial reports as described below; and coordination of audit activity by outside accountants. Reports generated by PHPA shall be returned to PacifiCare for review and approval.

i. Maintenance of Ledgers - PHPA will assist PacifiCare in maintaining computerized financial ledgers. Such maintenance shall include, but is not limited to, housing and maintenance of file servers, initiation of general ledger posts as part of the normal close process, selection of supplementary and complementary software, and establishment of backup procedures and disaster recovery programs.

ii. Processing of Accounts Payable - PHPA shall perform the accounts payable function for PacifiCare. Services provided shall include receiving vendor invoices, validating appropriate approvals, entering information into a computerized accounts payable system, printing checks and responding to external vendor inquiries. Additional services shall include federal 1099 and related form processing; audit support for financial statement and tax reporting purposes; records retention and management. PHPA shall also advise on tax planning with respect to specific issues and projects as requested by PacifiCare, and manage federal, state and local tax audits.

iii. Accounting and Reporting Functions – PHPA shall perform accounting and reporting functions for sales, general and administrative expenses (SG&A) on behalf of PacifiCare. Services provided shall include account analysis, reconciliation, preparation and recording of SG&A journal entries into PacifiCare’s general ledger, and preparation of abandoned unclaimed property filings. Additional services include related audit support for financial statements and tax reporting.

iv. Processing of Payroll - PHPA will assist PacifiCare in maintaining PacifiCare’s payroll database based upon information provided to PHPA by PacifiCare. PHPA’s responsibilities include data entry of new employee information and processing of payroll status

changes (i.e. change of employee address, job title, wage/salary increases, etc.), payroll tax reporting, distribution of payroll checks and direct deposit notifications to employees, and funding of payroll, subject to subsequent reimbursement from PacifiCare pursuant to Section 1.9 of this Agreement. PHPA shall provide PacifiCare with reports of payroll expenses within five (5) business days following each pay date. PacifiCare's Accounting Department shall review payroll expenses within five (5) business days of the close of accounting records for each month, and any adjustments required will be reflected in subsequent pay periods.

v. Preparation of Financial Reports - PHPA shall prepare quarterly and annual financial statements and related regulatory filings. Additional services include related audit support for financial statements and tax reporting. PHPA shall also create ad-hoc financial reports for internal use and development of additional reporting tools, as necessary.

b. PHPA shall assist in the preparation of tax reports and appropriate federal, state, and local returns, and shall provide PacifiCare with advice as to appropriate tax payments. PHPA shall also advise on tax planning with respect to specific issues and projects as requested by PacifiCare.

c. PHPA shall serve as investment advisor and provide short term and long term investment portfolio management and advice on investment holdings. PHPA shall also provide investment reports to PacifiCare for review.

1.2 Personnel Services. PHPA shall provide, subject to the direction and ultimate authority of PacifiCare's Chief Executive Officer and other management, the following personnel services to PacifiCare:

a. PHPA shall assist, as directed, in the preparation of job descriptions, and in the recruitment of personnel.

b. PHPA shall conduct salary and compensation surveys and propose compensation guidelines for employees, assist in determining appropriate adjustments in compensation, advise on executive contracts and compensation packages, consult with PacifiCare on employee benefit programs, and provide supportive services as necessary for the implementation and maintenance of related policies and initiatives.

c. PHPA shall assist, as requested, in employee training and development, including preparation of instructional materials and conduct of training programs.

d. PHPA shall advise and provide supportive services in the development, implementation and maintenance of employee policies and programs.

e. PHPA shall consult with the management of PacifiCare about employee reviews; discipline; grievances; employee claims, including worker's compensation claims; and relationships with any employee unions.

1.3 Corporate Planning. Under the supervision and control of PacifiCare's Chief Executive Officer, PHPA shall provide, as requested, the following corporate planning services to PacifiCare:

a. PHPA shall consult with, advise, and provide supportive services to PacifiCare management on corporate planning, including long-range business planning, internal organization, acquisitions, access to capital markets, executive oversight and operations review.

b. PHPA shall consult with, advise, and provide supportive services to PacifiCare on internal audits, cost-effectiveness of operating units and programs, and integrity of operations.

1.4 Marketing and Communications. Under the supervision of PacifiCare's Chief Executive Officer, PHPA shall provide, as requested, the following marketing and communications services:

a. PHPA shall provide public relations services, including drafting of news releases, drafting of member and provider publications, responses to public inquiries about PacifiCare, and implementation of special promotions sponsored by PacifiCare.

b. PHPA shall provide advertising and publication services including media advertising and member publications. Additional services shall include the development and budgeting of advertising programs, the selection of advertising agencies, the coordination of relationships between PacifiCare and selected advertising agencies, and the evaluation of the effectiveness of advertising.

c. PHPA shall consult with, advise, and provide supportive services to PacifiCare on market research and development for PacifiCare management, development, implementation, and maintenance of promotional programs, and preparation of evaluations of new products and customer satisfaction with existing programs.

1.5 Legal Services. Under the supervision and control of PacifiCare's Chief Executive Officer, PHPA shall provide or arrange for the provision of legal services, as required by PacifiCare, including advice on corporate governance, contracting, regulatory matters, litigation, risk management activities, and other issues requiring the attention of legal counsel, other than those services provided by insurers of PacifiCare. Services may be performed by in-house counsel or by outside counsel as necessary.

1.6 Regulatory Affairs and Government Relations Services. Under the supervision and control of PacifiCare's Vice President Public and Regulatory Affairs, PHPA shall advise PacifiCare on governmental relations and assist with liaison to legislatures, regulatory agencies, and agencies of county and local government.

1.7 Purchasing. Under the supervision and control of PacifiCare's Chief Financial Officer, PHPA shall, as requested, provide to PacifiCare the services of a purchasing agent and assist the management of PacifiCare in evaluating insurance coverage and vendors, preparing requests for proposals, and contracting for goods and services as required for PacifiCare's operations.

1.8 Property Management. Under the supervision and control of PacifiCare's Chief Executive Officer, PHPA shall provide to PacifiCare the services of property and facility managers

to assist PacifiCare management in selecting, contracting and managing vendors who provide, maintain and repair facilities of PacifiCare.

1.9 Intercompany Transactions. Under the supervision and control of PacifiCare's Chief Financial Officer, PHPA may advance cash to PacifiCare or make payments to third parties on behalf of PacifiCare, including expense allocations and payment of commissions to solicitors or solicitor firms under contract with PHPA or PacifiCare ("Intercompany Advance(s)"). PacifiCare shall have discretionary authority over all Intercompany Advances. Within seven (7) business days following the end of each calendar month, PHPA shall provide PacifiCare with a list of all Intercompany Advances made on PacifiCare's behalf. PacifiCare shall have seven (7) business days from receipt of the list to dispute any Intercompany Advance appearing on the list ("Disputed Charge(s)"). The term "Disputed Charge," as used in this Section 1.9, includes without limitation, any Intercompany Advance that PacifiCare reasonably believes is inaccurate, inappropriate or not within the scope of this Agreement. PacifiCare shall not be liable for, or required to reimburse or repay PHPA for, any Disputed Charge until the Disputed Charge has been resolved in a manner mutually agreed upon by the parties. The parties agree that all Disputed Charges shall be resolved by the end of the calendar month following the month in which the Disputed Charge occurred. PacifiCare shall reimburse and repay PHPA for any Disputed Charges resolved in favor of payment by the end of the calendar month following the month in which the Disputed Charge occurred. PacifiCare shall reimburse and repay PHPA for any undisputed Intercompany Advances made by PHPA to or on behalf of PacifiCare no later than seven (7) business days following the close of the accounting records for each calendar month. PHPA shall maintain separate and adequate records of all Intercompany Advances and all amounts paid by PHPA with respect thereto. Such records shall be made available to PacifiCare or any governmental authority for the purpose of inspection or copying, upon request. Such records shall be the joint property of PacifiCare and PHPA, and shall be retained until no longer required by either party, but not less than six (6) years, the last two (2) years of which shall be in an easily accessible place at the offices of PacifiCare in California. Upon termination of this Agreement, the records shall be delivered to PacifiCare or may be retained by PHPA at the direction of PacifiCare hereunder, upon its request; provided, however, that such records shall continue to be the joint property of PacifiCare and PHPA and if delivered to PacifiCare such records shall be available for inspection and copying by PHPA.

1.10 Actuarial, Pricing, and Underwriting Services. Under the supervision and control of PacifiCare's Chief Financial Officer, PHPA will recommend premium rate structures for certain accounts or geographical areas and provide estimates of incurred but not reported (IBNR) claims.

1.11 Office Services. Under the supervision and control of PacifiCare's Chief Executive Officer, PHPA will provide PacifiCare with assistance in printing and dissemination of provider and member materials, reprographics, micrographics, record retention and mail room services.

1.12 Management Information Systems, Telecommunications Systems, and Computer Resources. Under the supervision and control of PacifiCare's Chief Executive Officer, PHPA shall implement and maintain management and information systems, procedures and computers as necessary for maintaining administrative data necessary for the conduct of PacifiCare's operations and business, including systems to support claims processing, eligibility, billing, and the calculation of capitation and commissions. At the request of PacifiCare, PHPA shall arrange for, coordinate the installation of, and maintain internal and external telecommunication systems

including, but not limited to, telephone lines, hardware and monitoring systems, facsimile lines and machines, and lines for the electronic transmission of computerized data.

1.13 Credentialing. Under the supervision and control of PacifiCare's Vice President/Plan Medical Director, PHPA shall provide credentialing services, recredentialing services and other peer review activities for the purpose of evaluating the qualifications of practitioners for PacifiCare's HMO provider network.

1.14 Clinical Programs Development and Consulting. Under the supervision and control of PacifiCare's Vice President Health Care Quality/ Medical Director and Vice President Health Services/Medical Director, PHPA shall consult with, advise, develop and provide supportive services for PacifiCare's health care operations, including health improvement and wellness programs, disease management programs, practice guidelines, clinical criteria, and benefits standards.

1.15 National Account Sales and Service. Under the supervision and control of PacifiCare's Chief Executive Officer, PHPA will consult with, assist, and provide supportive services to PacifiCare in conducting marketing, sales and service of national accounts.

1.16 Provider Contracting Services. Under the supervision and control of PacifiCare's Chief Executive Officer, PHPA will consult with, assist, and provide supportive services to PacifiCare for provider contracting activities, including model provider contract development, contract negotiation, and related policies, procedures, and initiatives.

1.17 Claims Services for Direct Physician Contracts. Under the supervision and control of PacifiCare's Vice President Network Management and Vice President Operations, PHPA will provide electronic provider claims connectivity, claims payment and capitation payment support services and other related services for PacifiCare's direct contracted physician network.

1.18 Claims Administration. Under the supervision and control of PacifiCare's Vice President Operations, PHPA will provide claims administration services. Such services will include receipt of claims and entry into management information systems provided and maintained by PHPA, adjudication in accordance with PacifiCare policies and applicable law and regulatory requirements, and payment. Such services shall also include the provision and use of appropriate management information systems, bookkeeping and accounting procedures, and appropriate reporting on a periodic and ad hoc basis.

1.19 Other Services as Agreed. Under the supervision and control of PacifiCare's Chief Executive Officer, PHPA will provide additional planning, policy development, supportive, and other related services as from time-to-time agreed by the parties.

ARTICLE TWO
SOLICITOR FIRM SERVICES TO BE PERFORMED BY PHPA

In addition to the PHPA Administrative Services to be provided by PHPA to PacifiCare in accordance with Article One of this Agreement, PHPA shall provide the following Solicitor Firm Services to PacifiCare under the supervision and control of PacifiCare's Chief Executive Officer:

2.1 PHPA shall promote PacifiCare health plans to prospective and existing subscriber groups interested in obtaining health benefits in PacifiCare's licensed geographic service area and may solicit and arrange for PacifiCare's enrollment of interested and qualified persons in PacifiCare's health plans pursuant to group subscriber agreements with PacifiCare ("Solicitor Firm Services"). PHPA may conduct such Solicitor Firm Services through PHPA employees, or through contracts between PHPA and other solicitors or solicitor firms.

2.2 This Agreement and the conduct of PHPA and its agents are subject to the reasonable procedures, rules and regulations of PacifiCare provided to PHPA or its agents and the statutes and regulations of the State of California, including, but not limited to the Knox-Keene Act, as amended, and related regulations promulgated by the DMHC. PHPA shall comply and shall cause its principal persons and employees to comply with all applicable provisions of the Knox-Keene Act and the regulations promulgated by the DMHC. PHPA will become familiar with all applicable state and federal statutes and regulations governing solicitors and solicitor firms. PHPA and its agents shall further keep informed of and comply with any changes in all applicable state and federal statutes and regulations. When providing general information regarding PacifiCare's health plans to "Small Employers" (as defined in Section 1357(l) of the Knox-Keene Act), PHPA and its agents shall comply with the disclosure requirements of Sections 1357.14(i)(1), 1357.14(i)(2) and 1357.14(i)(3) of the Knox-Keene Act.

2.3 PHPA will not publish, or authorize publication of, or otherwise disseminate the marketing materials, advertisements, circulars or similar material concerning PacifiCare's health plans without the consent of PacifiCare. PHPA agrees that all advertising related to PacifiCare's health plans must be approved by PacifiCare and filed with the DMHC.

2.4 PHPA and its agents will obtain and maintain any and all applicable licenses or authorizations necessary to market health care service plans under the laws of the State of California; will provide a copy of their applicable licenses to PacifiCare upon request; and will promptly notify PacifiCare of the institution of any disciplinary proceedings, hearings, or actions against PHPA or any of its agents by any regulatory body that governs the licensure or activities of PHPA or its agents, including, without limitation, the California Insurance Commissioner. PHPA shall ensure that all solicitors or solicitor firms with which it contracts to sell, market, or promote PacifiCare benefit plans are adequately trained and knowledgeable with respect to PacifiCare's benefits, coverages, and policies and procedures regarding the Plan's operation to responsibly and accurately present PacifiCare's benefit plans to prospective subscribers. PHPA shall ensure that no solicitor or solicitor firm with which it contracts to sell, market, or promote PacifiCare's benefit plans uses or transmits PacifiCare's name, marks or any advertisement using PacifiCare's name or marks without the prior written approval of PHPA or PacifiCare.

2.5 PHPA shall accept premium payments on behalf of PacifiCare and shall at all times keep any funds that it receives for the account of PacifiCare ("PacifiCare Funds")

segregated from PHPA's assets and shall deposit PacifiCare Funds to a trust account in a state or federal bank authorized to do business in the State of California and insured by an appropriate federal insuring agency no later than one Business Day after PHPA receives PacifiCare Funds. PHPA will transmit PacifiCare Funds received during each month to PacifiCare no later than the 22nd calendar day of the following month. For purposes of this Agreement, the term "Business Day" means any day other than a Saturday or Sunday, or recognized holiday.

2.6 PHPA shall maintain on deposit with PacifiCare an amount reasonably estimated to equal the amount of PacifiCare Funds received by PHPA during the preceding one and one half-month period. On a quarterly basis, PHPA shall reconcile and adjust, if necessary, the amount on deposit with PacifiCare to equal the amount of PacifiCare Funds that PHPA reasonably estimates were received during the last one and one half month period prior to the date of each adjustment.

2.7 PHPA shall meet all applicable financial requirements for solicitor firms under the Knox-Keene Act, as amended, and regulations promulgated thereunder. PHPA must maintain: (i) a tangible net worth at least equal to twenty percent (20%) of PHPA's aggregate indebtedness or \$10,000, whichever is greater, and (ii) liquid net assets of at least \$5,000 in excess of its current liabilities. Upon request, PHPA shall provide PacifiCare with demonstrable proof of compliance with this requirement. PacifiCare will monitor PHPA's compliance with requirements of this Section on an ongoing basis.

2.8 PHPA shall maintain the books of account and other records required under the provisions of the Knox-Keene Act. Such records shall be preserved for a period of not less than six (6) years and made available to the Director of the DMHC, consistent with the requirements of Title 10, Section 1300.85.1 of the California Code of Regulations.

ARTICLE THREE

PACIFICARE'S CONTROL, AUTHORITY AND OVERSIGHT

3.1 Control Retained in PacifiCare. PacifiCare shall, throughout the term of this Agreement, exercise ultimate control over the assets and operations of PacifiCare. PacifiCare's Board of Directors shall appoint PacifiCare's officers, including, without limitation, its President/Chief Executive Officer, Secretary and Chief Financial Officer, who shall be responsible to PacifiCare's Board of Directors for the operations of PacifiCare. PacifiCare's Board of Directors shall be and remain ultimately responsible for the development, approval and implementation of policies and procedures for PacifiCare's operations. PacifiCare shall supervise all medical, professional, and ethical affairs of its business and shall establish general operating policies. PHPA shall perform or arrange for the provision of the functions described in this Agreement in accordance with the policies and directives and standards of performance given by PacifiCare. PacifiCare may, according to the terms of this Agreement, direct PHPA to implement existing or future policies and may adopt such policy recommendations or proposals made by PHPA. By entering into this Agreement, PacifiCare has not delegated any of the powers, duties, and responsibilities required to be performed by PacifiCare under any statute, ordinance, code, or other law, rule, regulation, order, standard, requirement or procedure enacted, adopted, promulgated, applied or followed by any governmental authority or court, judge, justice,

magistrate, including the Knox-Keene Act, as amended, and the regulations promulgated thereunder.

3.2 Oversight of PHPA Services. The provision or arrangement by PHPA of PHPA Administrative Services and Solicitor Firm Services for PacifiCare pursuant to this Agreement shall at all times be subject to the supervision and authority of PacifiCare, which shall retain discretion and authority to direct and control any aspect of PHPA's provision or arrangement of such services. PacifiCare shall implement a system for continuous monitoring and oversight to ensure that PHPA's provision or arrangement of services pursuant to this Agreement complies with all applicable law, including but not limited to the Knox-Keene Act, as amended, and any regulations promulgated thereunder. Such monitoring and oversight system shall include the following:

a. Monthly Operations Reports. PHPA shall provide monthly operations reports to PacifiCare that include adequately detailed data elements to present an accurate report of PHPA's performance. Such monthly operations reports shall include, at a minimum: accounts payable processing reports, payroll reports, periodic ad hoc financial reports, tax payment reports, incurred but not reported claims reports, claims performance reports, customer services performance reports, and intercompany transaction and investment reports.

b. Special Reports. PHPA shall prepare and submit to PacifiCare's management any special reports as requested by PacifiCare regarding any proposed or rendered services as specified in this Agreement.

ARTICLE FOUR

ADMINISTRATIVE SERVICES TO BE PERFORMED BY PACIFICARE

PacifiCare shall provide or arrange for the provision of administrative services to PHPA supporting PHPA's administrative services agreements with the Affiliated Plans (the "PacifiCare Administrative Services"). In performing or arranging for the provision of PacifiCare Administrative Services, PacifiCare will comply or cause any subcontractor to comply with all legal requirements, policies, and procedures of or applicable to the Affiliated Plan for which PacifiCare Administrative Services are performed. PacifiCare Administrative Services to be provided or arranged for by PacifiCare include the following:

4.1 Capitation Payment Processing. PacifiCare shall perform capitation payment processing on behalf of PHPA. Such services shall include calculation of capitation rates, processing of manual adjustments, completion and distribution of provider reports, providing interfaces between the eligibility systems and accounts payable systems for disbursement, and other related services as required.

4.2 Provider Contract Data Entry. PacifiCare shall perform provider contract data entry processing on behalf of PHPA. Services provided shall include entering provider payment rates into the information system based on provider contract terms, periodic audits of contract rates, document control contract retention for all contracted providers, and other related services as required.

4.3 Provider Demographic Entry Processing. PacifiCare shall perform provider demographic entry processing on behalf of PHPA. Services provided shall include entering and maintaining provider demographic data into the transaction system based on the provider data received, periodic audits of transactions performed, document control and retention, and other related services as required.

4.4 Financial Planning and Analysis. PacifiCare shall perform planning and analysis functions on behalf of PHPA. Services provided shall include preparation and maintenance of revenue and health care cost models, variance analysis of actual costs to forecast/budget planning, and forecasting of revenues and health care costs.

4.5 Medical Management Services.

a. Utilization Review. PacifiCare shall provide utilization review services on behalf of PHPA to support processing of out-of-area claims, requests for transplants, appeals and grievances, prior authorizations, and other related services as required.

b. Concurrent Utilization Review. PacifiCare shall provide concurrent utilization review services on behalf of PHPA. Services include census reporting, out-of-area monitoring, and other related services as required.

4.6 Billing and Collections. PacifiCare shall provide membership accounting services to implement and carry out billing and collection procedures.

4.7 Customer Service. PacifiCare shall provide customer service functions including receiving customer service calls, responding to questions and requests, and other related services as required.

4.8 Claims Processing. PacifiCare shall provide claims administration services including adjudication and payment of claims, and provide claims information and reports on contracted providers.

4.9 Regulatory Affairs and Government Relations Services. PacifiCare shall provide regulatory services to PHPA including preparing and submitting regulatory filings with the appropriate regulatory agencies, acting as a liaison with regulatory agencies, providing regulatory audit support services, and other related regulatory services.

4.10 Accounting and Reporting Functions. PacifiCare shall perform accounting and reporting functions for revenue and health care expenses. Services provided shall include account analysis, reconciliation, preparation and recording of revenue and health care journal entries into the general ledger. Additional services include related audit support for financial statements and tax reporting.

ARTICLE FIVE **COMPENSATION**

5.1 Payments to PHPA. In consideration for providing or arranging for the provision of PHPA Administrative Services and Solicitor Firm Services pursuant to this Agreement, PacifiCare shall pay PHPA as follows:

a. For PHPA Administrative Services set out in Sections 1.1.a.i, 1.1.a.iv, 1.1.a.v, 1.1.b, 1.1.c, 1.2, 1.3, 1.4.a, 1.4.c, 1.6, 1.7, 1.8, 1.9, 1.10, 1.11, 1.14, 1.15, 1.16, and 1.19 of this Agreement, and for Solicitor Firm Services set out in Article Two of this Agreement, PHPA hereby waives payment of any fee, reimbursement, or other consideration.

b. For PHPA Administrative Services set out in Sections 1.1.a.ii, 1.1.a.iii, 1.4.b, 1.5, 1.12, 1.13, 1.17, and 1.18 of this Agreement, PacifiCare shall compensate PHPA for expenses incurred by PHPA in performance of such services. Compensation under this Section 5.1.b shall be made monthly at rates reasonably calculated by the parties to reflect the actual expense incurred by PHPA in providing or arranging for the provision of such PHPA Administrative Services as the parties from time-to-time may agree.

c. Subject to Section 5.1.c of this Agreement, all payments made to PHPA by PacifiCare pursuant to Section 5.1 and Section 1.9 shall be made one month in arrears and after the parties have closed the books for the prior month.

d. PacifiCare is not obligated to pay PHPA during any given month for Intercompany Advances, PHPA Administrative Services or Solicitor Firm Services if the payment would result in PacifiCare's failure to maintain 130% of the minimum tangible net equity requirements of Rule 1300.76 of Title 28, California Code of Regulations.

5.2 Reimbursement of Other Solicitors' Commissions. In addition to the payment of compensation by PacifiCare in accordance with Section 5.1 of this Agreement, PacifiCare shall reimburse PHPA for PHPA's payment of any commissions owed by PHPA to solicitors or solicitor firms other than PHPA for the sale of PacifiCare's health plan products.

5.3 Payments to PacifiCare. For administrative services set out in Article Four of this Agreement, PHPA shall compensate PacifiCare for expenses incurred by PacifiCare on performance of such services. Compensation under this Section 5.3 shall be made monthly at rates reasonably calculated by the parties to reflect the actual expense incurred by PacifiCare in providing or arranging for the provision of such services as the parties from time-to-time may agree.

5.4 Cash Advances. From time to time, PacifiCare may advance funds to PHPA at such times and upon such terms as the parties may agree. The making of such advances is discretionary with PacifiCare and specifically subject to the provisions of Section 5.5. Such advances at times may be declared dividends upon approval by PacifiCare's Board of Directors.

5.5 Subordination of Payment. The rights of PHPA to any advance or payments from PacifiCare under this Agreement are fully subordinated and subject to the right of prior payment of

all provider and member liabilities and any obligation, liability, debt, indebtedness or monies which PacifiCare may now or hereafter owe to PacifiCare's normal trade creditors ("Senior Debt"), irrespective of the time or order of incurring such Senior Debt. Notwithstanding anything to the contrary contained in this Agreement, PacifiCare shall pay or satisfy the Senior Debt as it becomes due and owing prior to PacifiCare's payment of any amounts owed to PHPA hereunder. Upon dissolution or liquidation of PacifiCare, no payment shall be made to PHPA hereunder until all Senior Debt is satisfied. PacifiCare shall withhold payment of any amounts due to PHPA hereunder if, at the time of such payment or immediately after giving effect thereto, one or more of the following conditions exists:

- a. PacifiCare would be in default in the payment of any Senior Debt;
- b. PacifiCare would fail to maintain 130% of the minimum tangible net equity or other reserve requirements imposed by law or regulatory authority; or
- c. PacifiCare would have insufficient working capital or cash flows necessary to provide for the retirement of existing or proposed indebtedness or would affect the ability of PacifiCare to provide health care services as required by the Knox-Keene Act, or the rules thereunder.

5.6 Offset. Subject to Section 5.5 of this Agreement, the parties agree that each party may, in its sole discretion and determined on a case by case basis, deduct or offset any amounts due under this Agreement from or against any amounts which such party may owe the other party under this Agreement or any other intercompany agreement, arrangement, or understanding by and between the parties. All offsets of receivables and payables shall be resolved and applied in accordance with the procedures and time limits set forth in Section 1.9 for Intercompany Advances. Accounting for all offsets shall be recorded in accordance with Generally Accepted Accounting Principles.

ARTICLE SIX

COMPLIANCE WITH BBA REGULATIONS

6.1 PHPA shall comply with all applicable Medicare laws and regulations, and administrative guidelines issued by the Centers for Medicare and Medicaid Services ("CMS") including, but not limited to, the following:

- a. Confidentiality of Medical and Member Information. PHPA shall comply with all State and Federal laws and regulations, PacifiCare policies and procedures, and administrative guidelines issued by CMS pertaining to the confidentiality of medical and Member information.
- b. Right to Inspect. Through a period expiring six years from the termination of the Agreement, PHPA shall grant the United States Department of Health and Human Services ("DHHS"), the Comptroller General, or their designees the right to inspect any pertinent information related to the Agreement. In addition to the foregoing, following the commencement of any audit by a governmental agency, PHPA shall retain its relevant books and records until

completion of the audit. The provisions of this Section shall survive the termination of the Agreement.

c. Breach. In the event that PHPA does not perform its services to the satisfaction of PacifiCare or fails to fully and timely comply with the reporting and disclosure requirements set forth herein, PHPA will be deemed to be in material breach of the Agreement and PacifiCare shall be entitled to terminate the Agreement. PacifiCare agrees to give timely notice and a reasonable opportunity to cure any such breach prior to terminating the Agreement.

d. Right to Monitor. All services to be provided by PHPA pursuant to the Agreement shall be monitored by PacifiCare on an ongoing basis.

e. Oversight Authority. Notwithstanding anything to the contrary in the Agreement, PacifiCare retains the right to approve, suspend, or terminate any provider of covered services to PacifiCare Subscribers.

f. Performance of Related Activities. All services or other activities performed by a related entity, contractor or subcontractor of PHPA shall comply with all applicable terms and conditions of this Agreement.

ARTICLE SEVEN
TERM AND TERMINATION

7.1 The term of this Agreement shall be one year, and shall renew for one-year periods thereafter, subject to the right of either PacifiCare or PHPA to terminate this Agreement upon ninety (90) day's prior written notice.

7.2 Termination Assistance Services.

a. Following notice of non-renewal or termination of this Agreement, PHPA shall provide termination assistance services upon the request of and as specified by PacifiCare to facilitate the smooth transition of the PHPA Administrative Services and Solicitor Firm Services to PacifiCare or another service provider of PacifiCare's choosing (the "Designee").

b. PHPA will also (i) upon the request of and as specified by PacifiCare, provide termination assistance services for up to eighteen (18) months following the effective date of non-renewal or termination of this Agreement (the "Termination Assistance Period"). Without limiting PHPA's obligations to provide termination assistance services in accordance with this Section 7.2, PacifiCare shall, as soon as reasonably practicable after notice of non-renewal or termination, advise PHPA of the anticipated duration of the Termination Assistance Period, and, to the extent reasonably possible, the types of termination assistance services that PacifiCare anticipates it will require.

c. During the Termination Assistance Period, PHPA shall provide termination assistance services until PacifiCare, in its sole discretion, provides PHPA notice that the PHPA Administrative Services and Solicitor Firm Services have been satisfactorily transferred to PacifiCare or the Designee.

d. The quality and level of termination assistance services and other services performed during the Termination Assistance Period shall not be materially degraded from the level of service provided by PHPA and for similar services while this Agreement is in effect.

e. After the expiration of the Termination Assistance Period, PHPA shall answer questions from PacifiCare or its Designee regarding the PHPA Administrative Services and Solicitor Firm Services on an as needed basis at PHPA's then-standard billing rates.

7.3 Termination Assistance Service Fees.

a. During the Termination Assistance Period, if applicable, PHPA shall provide termination assistance services at the rates applicable under this Agreement for such services.

b. With respect to termination assistance services that were not PHPA Administrative Services or Solicitor Firm Services performed under this Agreement prior to the Termination Assistance Period, PHPA shall provide such services during the Termination Assistance Period at PHPA's then standard billing rates, or at reasonable rates as agreed by the parties.

c. The fees paid for termination assistance services are subject to the terms set forth in Sections 5.1(c) and (d), 5.5, and 5.6.

7.4 Exit Duties and Exit Rights. Upon the later of the non-renewal or termination of this Agreement, and the last day of the Termination Assistance Period (the “End Date”):

a. Upon PacifiCare’s request, for a period of up to one (1) year after the End Date, with respect to any software, procedures, systems, or equipment that PHPA is using to provide the PHPA Administrative Services and Solicitor Firm Services as of the date of termination or expiration of this Agreement, PHPA shall provide to PacifiCare or PacifiCare’s designees remote access to and use of such software, procedures, systems, or equipment, together with all hosting, maintenance, support and other service required by PacifiCare or PacifiCare’s designees to continue the PHPA Administrative Services and Solicitor Firm Services, all on terms, conditions and prices agreed upon by the Parties, which shall in no event be less favorable to PacifiCare than the most favorable terms, conditions and prices PHPA offers similar customers for such services. PHPA shall provide such additional assistance as may be necessary to permit PacifiCare to establish the same or similar functions on equipment at PacifiCare’s or another service provider’s locations.

b. PacifiCare shall have the right to extend offers of employment to all PHPA personnel who have been or are assigned to or have or are performing any PHPA Administrative Services or Solicitor Firm Services or other work on behalf of PHPA with respect to PacifiCare. PHPA shall provide reasonable access to such personnel and shall not interfere in any way with any such solicitation by PacifiCare.

ARTICLE EIGHT **RECORDS AND DATA COLLECTION**

8.1 Service Records. shall maintain and provide CMS, DHHS, or the DMHC all records relating to services provided to PacifiCare subscribers, in such form and containing such information as required by applicable state law (and in accordance with usual and customary practices in the United States), including medical histories, records and reports from other providers, and such other information as CMS, DHHS or DMHC may require. The obligations created by this Section 8.1 shall not terminate upon the termination of this Agreement, whether by rescission or otherwise.

8.2 Maintenance of Records. PacifiCare and PHPA shall keep and maintain their books of account and records on a current basis. PacifiCare shall make and retain books and records which include a list of the names and addresses of all persons and firms that may act as solicitors for PHPA whether by employment or contract. PacifiCare and PHPA shall preserve for a period of not less than six (6) years, the last two (2) years of which shall be in an easily accessible place at the respective offices in California of PacifiCare, the books of account and other records required by this Agreement and the Knox-Keene Act.

8.3 Confidentiality of Records. PHPA and PacifiCare shall maintain the confidentiality of medical records and related information in accordance with applicable federal, state and local laws.

8.4 Right to Inspect. Upon demand by PacifiCare PHPA shall provide PacifiCare access, at reasonable times, to inspect books, papers and records relating to the performance of this Agreement by PHPA. PHPA shall also provide the DMHC access to such books, papers and records for the purpose of the Department's examination of the Plan pursuant to Section 1382 of the Knox-Keene Act.

ARTICLE NINE **GENERAL PROVISIONS**

9.1 Applicable Law. This Agreement shall be construed and interpreted in accordance with the laws of the State of California.

9.2 No Discrimination. During the performance of this Agreement, PHPA shall not unlawfully discriminate against any employee or applicant for employment because of race, religion, color, national origin, ancestry, physical handicap, medical condition, marital status, age (over 40) or sex. PHPA shall insure that the evaluation and treatment of its employees and applicants for employment are free of such discrimination. PHPA shall comply with the provisions of the Fair Employment and Housing Act (Government Code, Section 12900 et seq.) and the applicable regulations promulgated thereunder (California Administrative Code, Title 2, Section 7285.0 et seq.). The applicable regulations of the Fair Employment and Housing Commission implementing Government Code Section 12990, set forth in Chapter 5 of Division 4 of Title 2 of the California Administrative Code are incorporated into this contract by reference and made a part hereof as if set forth in full. PHPA shall give written notice of its obligations under this Section to labor organizations with which it has a collective bargaining or other agreement.

9.3 Affirmative Action. The provisions of Executive Order 11246, as amended (Equal Opportunity/Affirmative Action), 38 U.S.C. 4212, as amended (Vietnam Era Veterans Readjustment Assistance Act), and Section 503 of the Rehabilitation Act of 1973, as amended (Handicapped Regulations), and the implementing regulations found at 41 C.F.R. 60-1&2, 41 C.F.R. 60-250, and 41 C.F.R. 60-741, respectively, are hereby incorporated by reference.

9.4 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed to be an original, but all of which shall constitute the same document.

9.5 Assignment. Neither party shall have the right to assign this Agreement without the prior written consent of the other party.

9.6 Notices. Any notice required or permitted to be given hereunder shall be in writing and shall be deemed to be properly given when personally delivered or sent by facsimile or by registered or certified mail, return receipt requested. Notice shall be delivered to the party's respective address below, or to the party's most recent address of record:

If to PacifiCare:	PacifiCare of California Attn: President and CEO 5995 Plaza Drive Cypress, CA 90630
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(714) 226-3914 (facsimile)

If to PHPA: PacifiCare Health Plan Administrators, Inc.
Attn: President and CEO
5995 Plaza Drive
Cypress, CA 90630
(714) 226-3083 (facsimile)

9.7 Entire Agreement and Amendments. This Agreement contains all the terms and conditions between PHPA and PacifiCare and supersedes all other agreements, oral or otherwise. This Agreement may be amended by mutual agreement of the parties, and such amendment shall be in writing, signed by both parties, and filed with the DMHC as required by law.

9.8 Severability. The invalidity or unenforceability of any term or provision of this Agreement will in no way affect the validity or enforceability of any other term or provision.

9.9 Headings. The headings of the various Sections of this Agreement are inserted merely for the purpose of convenience and do not expressly, or by implication, limit or define or extend the specific terms of the Section so designated.

9.10 Waiver of Breach. The waiver of either party of a breach or violation of any provision of this Agreement shall not operate as or be construed to be a waiver of any subsequent breach thereof.

9.11 No Third Party Beneficiaries. This Agreement is expressly entered into only for the benefit of the parties hereto. The parties agree that there is no intent by either party to create or establish third party beneficiary status in any other individual or entity, and no such party shall have any right to enforce this agreement or enjoy any right or benefit created hereunder.

9.12 Subcontracting: The parties expressly agree that their respective obligations under this Agreement may be subcontracted to third parties with appropriate expertise and experience to undertake the particular obligations subcontracted. The parties agree that the performance of any obligation under this Agreement by a subcontractor, or any subcontractor of a subcontractor, shall be subject to all terms and conditions of this Agreement, including without limitation all legal and regulatory requirements, performance standards, and reporting responsibilities. The parties agree to develop, implement, and conduct appropriate oversight procedures to monitor the performance by any subcontractor of any services under this Agreement. The retention of a subcontractor does not relieve a party from any obligation under this Agreement. Any party who retains a subcontractor for the performance of any duty under this Agreement shall remain liable to the party to whom the duty is owed for any breach, failure of performance, or inadequate performance by the subcontractor retained.

IN WITNESS WHEREOF, the parties have executed this Agreement to be effective on the date first above written.

PacifiCare of California

PacifiCare Health Plan Administrators, Inc.

BY: _____

BY: _____

NAME: _____

NAME: _____

TITLE: _____

TITLE: _____

DATE: _____

DATE: _____