



## **DISCLOSURE BROCHURE AND MEMORANDUM TO MEMBERS**

### **Doctors & Surgeons National Risk Retention Group, Inc.**

This Disclosure Brochure ("Memorandum to Members") is being distributed by Doctors & Surgeons National Risk Retention Group, Inc. (the "Company"), to Healing Arts Professionals ("Members"). The Company is a wholly owned subsidiary of Doctors and Surgeons National Corporation (the "Holding Company").

#### **Stock purchase in the Holding Company**

Each Member must purchase shares in the Holding Company, according to the terms of the Subscription Agreement which is enclosed in this Disclosure Brochure.

**STOCK CERTIFICATES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR UNDER THE SECURITIES LAWS OF ANY STATE, PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED IN THE LIABILITY RISK RETENTION ACT OF 1986. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR THE COMMISSIONER OF INSURANCE OF THE COMMONWEALTH OF KENTUCKY OR OF ANY OTHER STATE HAVE APPROVED OR DISAPPROVED OR PASSED UPON THE ACCURACY OR ADEQUACY OF THIS MEMORANDUM TO MEMBERS.**

**PARTICIPATION IN THE COMPANY INVOLVES A HIGH DEGREE OF RISK. PROSPECTIVE APPLICANTS SHOULD CAREFULLY CONSIDER THE RISKS DISCUSSED UNDER THE HEADING "RISK AND OTHER IMPORTANT FACTORS."**

**THIS MEMORANDUM TO MEMBERS SHOULD NOT BE CONSTRUED AS AN OFFER TO SELL STOCK CERTIFICATES OR INSURANCE IN ANY JURISDICTION WHERE NOT PERMITTED BY LAW.**

The date of this Memorandum to Members is December 31, 2007

## **PREFACE**

The offering of professional liability insurance by The Company and the purchase of Stock Certificates in the Holding Company as described in this Memorandum to Members is organized and undertaken by The Company and the Holding Company, with the assistance of the officers, directors, and staff of Doctors & Surgeons National Management Services Company, Inc, (the "Management Company ").

The contents of this Memorandum to Members have been supplied by, and are the responsibility of, The Company and the Holding Company, except for the information relating to the Management Company that has been supplied by, and is the responsibility of, the Management Company. No person except for the officers and directors of The Company, the Holding Company and the Management Company has been authorized to give any information or to make any representations other than as contained in or incorporated by reference into this Memorandum to Members. Prospective applicants should read completely and carefully this Memorandum to Members and other materials supplied herewith, and are urged to call or write to The Company and or the Holding Company at the administrative offices at 605 East 1<sup>st</sup> Street, Suite 102, Rome, GA 30161 telephone number 706-232-9591, to ask questions or to obtain any additional information that is requested to supplement or verify the accuracy of the information set forth herein. To the extent The Company and the Holding Company possesses such information or can acquire it without unreasonable effort or expense, The Company and the Holding Company will provide such information. The summary information contained in this Memorandum to Members is set forth as of the date hereof and is qualified in its entirety by the terms and provisions of the accompanying documents and other documents referenced herein.

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## INTRODUCTION

This introduction is qualified in its entirety by, and must be read in conjunction with, the more detailed information appearing elsewhere in this Memorandum to Members.

Doctors & Surgeons National Risk Retention Group, Inc ("The Company") has been organized to offer professional liability insurance to Healing Arts Professionals ("Members"). The Company also extends professional liability insurance to those partnerships, companies and professional corporations (each a "professional entity") owned by the Members. The Company operates under the Liability Risk Retention Act of 1986 and is organized as an insurance company under the laws of the Commonwealth of Kentucky.

Subject to the general supervision and control of the Board of Directors of The Company, The Company is managed by Doctors & Surgeons National Management Services Company, Inc (the "Management Company"). The Management Company is a newly organized corporation, incorporated under the laws of the State of Georgia, and has its principal office at Rome, GA. The Company will pay the Management Company a management fee equal to a specified percentage of the annual premiums collected, and will reimburse the Management Company for other costs incurred by the Management Company in rendering services under the Management Agreement to provide day-to-day administration of the insurance business of The Company.

The Company has received a Certificate of Authority from the Commissioner of Insurance of the Commonwealth of Kentucky (the "Commissioner of Insurance") to operate as a liability insurance company. To provide The Company with the minimum level of funds required by regulations promulgated by the Commonwealth of Kentucky, The Company requires as a condition of obtaining insurance that each Healing Arts Professional seeking insurance from The Company purchase stock in the Holding Company pursuant to the terms and conditions of the Subscription Agreement.

Policy premiums received from policyholders and contributed capital from the Holding Company, together with any earnings from the investment of such funds, provides a commingled pool of assets from which covered claims against the policyholders (to the extent not covered by the contracts which The Company has with third party reinsurers) and organizational and operational expenses of The Company are paid.

The Company expects to file notice to offer insurance in Florida, Texas, Michigan and other target states including the State of Indiana during its first three (3) years of operation. However, there is no assurance that the insurance authorities of a particular state will not object to the offering of insurance within that state by a risk retention group, and, thus, there is no assurance that The Company will offer insurance in the target states.

The Company's offices are located at 231 Scott Boulevard, Covington, Kentucky 41011.

## RISK AND OTHER IMPORTANT FACTORS

Each prospective applicant should note that participation in The Company through payment for a stock purchase to the Holding Company and of an insurance premium to The Company involves certain risks, including, without limitation, the risk of total loss of such payments. Among the factors that prospective applicants should consider are the following:

- 1. No Operating History or Experience.** The Company, the Holding Company and the Management Company are new organizations and have no financial or business history. Some physician members of the Board of Directors of The Company and the Holding Company have no prior experience in forming or operating a professional liability insurance Company. The Company will be in competition with well-established insurance companies under the guidance of experienced management. The lack of experience of the Board of Directors of The Company could have a material adverse effect on the business of The Company.
- 2. Reliance on the Management Company for Day-to-Day Operation of The Company.** The Company is not capable of independently conducting the day-to-day operations of an insurance company and has subcontracted for services with the Management Company. The Board of Directors believes that the Management Company has the expertise and experience to service properly and efficiently the operations of The Company. If, however, the Management Company proves unable or unwilling to perform satisfactorily its obligations on behalf of The Company, The Company would be required to obtain services from another source. There can be no assurance that those services could be obtained, or that they could be obtained at reasonable cost. Failure to hire a replacement services company, or to hire able personnel, would have a material adverse effect on the business of The Company.
- 3. Terms Subject to Change.** The terms of The Company's bylaws, underwriting guidelines, form of policy, and other documents identified in this Memorandum to Members are subject to prospective change at the discretion of the Board of Directors of The Company, which change, should it occur, could result in terms that are less favorable to policyholders. Prospective applicants should not rely on such terms remaining unchanged.
- 4. Reinsurance Coverage and Limits.** The Company has negotiated excess of loss reinsurance. There is no assurance that adequate reinsurance can also be obtained if the current reinsurance arrangements are not renewed in the future. The Company may have to reduce the coverage it offers if it fails to obtain continuing reinsurance at the same level.
- 5. Retroactive Liability.** Each professional liability insurance policy issued by The Company covers claims falling within the coverage of the policy issued by The Company and arising from incidents subsequent to the retroactive date and prior to the effective date of the policy, for applicants whose current insurance coverage is under a claims-made policy. Such exposure could materially affect the business of The Company.
- 6. Competition.** The Company is a new business with substantially smaller financial resources and less experience than its competitors. No assurances can be given that The Company will be able to continue to offer insurance coverage at premiums competitive with other insurance companies that offer similar insurance or that The Company will be able to successfully compete against insurance companies that broaden coverage offered and/ or offer occurrence policies. Failure to do so could have an adverse effect on the business of The Company.
- 7. Insurance Industry Risks.** The business of insurance involves the inherent risk that The Company's reserves and surplus, in the aggregate, will be insufficient to pay all claims for which The Company is responsible under the policies that it has issued. This risk is significant for companies, such as The Company, that underwrite medical professional liability insurance. This type of insurance has demonstrated in recent years wide variations in claims experience, both over time and by geographical area, so that the frequency or cost of future malpractice claims that may be brought against The Company's policyholders cannot be predicted with certainty. The volatility of claims experience increases the difficulty of determining the appropriate premium charges for The Company's policies. Because of the delay between the assertion of claims and payment of such claims, The Company has the opportunity to attempt to cover unexpectedly high-incurred losses by increasing its premium rates. However, if The Company underestimates the appropriate premium charges, deficiencies will have to be paid from The Company's surplus. If The Company's surplus funds are insufficient, The Company will not be able to pay such claims.

- 8. Liability Risk Retention Act of 1986 and State Regulators.** The Company operates under the federal Liability Risk Retention Act of 1986, which enables risk retention groups licensed in one state to provide liability insurance on a nationwide basis, without being licensed in each state in which the group operates. In the past, certain state insurance commissioners have reacted unfavorably towards risk retention groups proposing to operate within their jurisdiction. As a consequence, The Company is unable to predict whether it will be able to offer insurance in the target states and The Company's business may be adversely affected if it does not offer insurance in the target states.
- 9. Absence of Statutory Protections.** Because The Company operates under the provisions of the federal Liability Risk Retention Act of 1986, it will not participate in state insurance insolvency funds. There can be no assurance that The Company could pay all of its insured losses if The Company became insolvent. In that circumstance, individual policyholders would be liable for that portion of claims brought against them that is not covered by reinsurance.
- 10. Potential for Conflicts of Interest.** Some members of The Company's Board of Directors are also principals in companies that provide services to The Company, the Holding Company or the Management Company, and as such may potentially have conflicts of interest. Each Board member recognizes and acknowledges his or her individual fiduciary obligation in conducting the affairs of The Company. The Board has also adopted a conflict of interest policy that requires each Board member to declare in writing any known potential conflicts, and to follow certain guidelines during the conduct of business of The Company. There is no assurance that conflicts of interest will not affect some decision of the Board.
- 11. Regulation under Commonwealth of Kentucky law.** The business of The Company is subject to extensive regulation by the Commonwealth of Kentucky Office of Insurance. Such regulation includes, among other things, periodic review for adequacy of reserves and surplus, a determination of the form and content of required financial statements, and approval of policy forms. The Company believes that it is in compliance in all-material respects with applicable regulatory requirements, and that The Company will operate on an ongoing basis in compliance with such requirements. No assurance can be given, however, that at some future date the applicable regulatory requirements will not change, and if such changes should occur, it may prove difficult or impossible to comply with the applicable requirements. Failure to comply with regulatory requirements could result in the imposition of penalties, the revocation of The Company's Certificate of Authority to transact insurance business in the Commonwealth of Kentucky and the liquidation of The Company.
- 12. Minimum Surplus and Reserves; Increased Premiums; Additional Stock purchases.** If at any time the surplus of The Company falls below the amount then required by the Commissioner of Insurance, The Company will take one or more of the following actions: (a) renegotiate its reinsurance agreements so as to reduce the maximum risk assumed by The Company on any one claim to an amount covered by The Company's reduced surplus; (b) discontinue issuing insurance policies altogether (an action which might in the circumstances be required by the Commissioner of Insurance); (c) increase premiums; or (d) seek additional stock purchases from its Members in the Holding Company. There can be no assurance that The Company would be able to reduce its risk exposure or secure the surplus amount then required for it to continue or recommence issuing insurance policies.
- 13. Certain Tax Matters.** The Company has not obtained rulings from the Internal Revenue Service with respect to the tax consequences to The Company and or the Holding Company of the receipt of stock purchases.
- 14. Projected Financial Statements.** The projected proforma financial statements attached to The Company's application for licensure to the Office of Insurance of the Commonwealth of Kentucky for authorization to form an insurance Company are based on estimates of future events and circumstances. Among other assumptions, the projected financial statements assume certain enrollment and claim levels that may not be attained. As the projected financial statements relate to future events and circumstances, no representation or warranty is or can be made as to their accuracy or that the projected results will be realized. In addition the projected financial statements have been prepared without the benefit of any actual experience as to market acceptance of the insurance offered by The Company, and, accordingly, may be subject to a greater margin of error than those of companies with established businesses.

## LIABILITY RISK RETENTION ACT OF 1986 AND STATE REGULATION

The Company operates under the Liability Risk Retention Act of 1986, 15 U.S.C. §3901 et. seq. (the "Risk Retention Act"). The Risk Retention Act provides that organizations or persons who practice in similar or related professions with respect to their liability exposure may organize a corporation or other limited exposure association (a "Risk Retention Group") so as to underwrite liability insurance for members of such group. An insurance company organized as a risk retention group under the Risk Retention Act must be owned by its members, who must be policyholders, or by an organization whose owners are comprised exclusively of policyholders. A risk retention group must be chartered or licensed and authorized to do business as an insurance company under the laws of any one state. Because the Risk Retention Act provides an exemption from most state insurance regulations, except for those of the licensing state, a risk retention group may offer insurance coverage in a state other than its licensing state without separate licensing in such state. Thus, no state other than the licensing state can specify capitalization requirements or regulate policy form or premium rates. The Risk Retention Act continues the right of any state to require a risk retention group to comply with its unfair claim settlement practices, to pay its non-discriminatory premium and other taxes, and to participate in its assigned risk group programs. The Risk Retention Act also provides that a risk retention group must comply with an injunction issued by a court of competent jurisdiction, upon a petition by any state insurance commissioner alleging that such group, based on its present or reasonably anticipated financial condition, is unlikely to meet obligations to policyholders with respect to known claims and reasonably anticipated claims, or to pay other obligations in the normal course of business, or is financially impaired.

Notwithstanding the general pre-emption provisions of the Risk Retention Act, a risk retention group must file in advance with the state insurance commissioner of each state in which it intends to do business a copy of the plan of operation or feasibility study furnished to its licensing state, which includes its coverages, deductibles, limits, rates and rating classification. A risk retention group must also furnish to each state insurance commissioner a copy of the annual certified financial statements submitted to the insurance commissioner of its licensing state, to which must be appended an opinion on loss and loss adjustment expense reserves by a member of the American Academy of Actuaries or a qualified loss reserves specialist. In the past, certain state insurance commissioners have reacted unfavorably towards risk retention groups proposing to operate within their jurisdictions. As a consequence, The Company is unable to predict whether it will be able to offer insurance in the target states.

A risk retention group operating under the Risk Retention Act does not participate in insurance guaranty funds or similar funds ("Insurance Insolvency Funds") that, in most states, provide coverage for claims made against policies issued by insurance companies that have subsequently become insolvent and are not able to pay their obligations. There can be no assurance that The Company could pay all of its insured losses if The Company became insolvent. In that circumstance, each policyholder may be liable for that portion of a claim that is brought against him/her/it and is not covered by reinsurance.

The Risk Retention Act also provides that the solicitation and acceptance of stock purchases in The Company or the Holding Company is exempt from the registration and prospectus delivery requirements of federal securities law, and that Stock purchases shall not be considered securities for purposes of any state Blue Sky laws.

Because The Company is organized under Commonwealth of Kentucky law, The Company is subject to regulation by the Commonwealth of Kentucky Office of Insurance. The powers of the Commissioner of Insurance allow revocation of Certificates of Authority to transact insurance business in the Commonwealth of Kentucky, review of adequacy of reserves and of guaranty funds and surplus required by statute, determination of the form and content of required financial statements, approval of policy forms, and review of The Company's business practices so as to ascertain that regulatory standards are met.

In the event The Company should fail to comply with applicable insurance laws and regulations, the Commissioner of Insurance is empowered, depending upon the circumstances and the particular provisions in question, to impose fines and/ or penalties on The Company, to suspend or revoke The Company's Certificate of Authority, to direct supervision of or appoint a conservator for The Company's property and conduct of its business, or to seek such other relief as the circumstances and interests of The Company's policyholders and creditors may require.

## CAPITAL/SURPLUS

The Commonwealth of Kentucky law requires The Company to have a surplus of at least \$500,000 (the "Statutory Surplus"), as a condition for issuance of a Certificate of Authority by the Commissioner of Insurance. In addition, prior to authorization to write policies, the Commissioner requires sufficient additional surplus to operate soundly. The premium to capital ratio minimum set by the Commissioner is a minimum of three to one (3:1).

Surplus will be raised through stock purchases in the Holding Company made in cash by Members as a condition of such applicants being accepted as insureds of The Company and being issued insurance.

The Company anticipates that it will continue, at least for the foreseeable future, to require as a condition of obtaining insurance that a stock purchase in the Holding Company be made by all new applicants for insurance. This requirement may be discontinued or modified at the discretion of the Board of Directors of The Company and the Holding Company, depending upon the level of surplus then considered necessary by the Board of Directors in light of applicable legal requirements and sound insurance practices.

If at any time the surplus of The Company falls below an amount then required by the Commissioner of Insurance, The Company may take one or more of the following actions: (a) renegotiate its reinsurance agreements to reduce the maximum risk assumed by The Company on any one claim to an amount covered by The Company's reduced surplus; (b) discontinue issuing insurance policies altogether (an action which might in the circumstances be required by the Commissioner of Insurance); (c) increase premiums; or (d) seek additional Capital from the Holding Company. There can be no assurance that The Company would be able to reduce its risk exposure or secure the surplus amounts then required for it to continue or recommence issuing insurance policies.

If The Company determines that payments for covered claims are higher than anticipated, The Company may increase premium rates. There is no assurance that such increases will be adequate to cover claims and The Company may have to pay claims from The Company's surplus.

### **Amount of Stock Purchase in the Holding Company**

The amount of the stock purchase to be made by or on behalf of a particular applicant depends upon such applicant's geographic location of practice, its claim history, other risk and underwriting factors and its ultimate premium. The stock purchase is determined by an evaluation of the risk in each geographic area based on actuarial loss projections.

The stock purchase required from each Member is based on the premium for the specific limits of professional liability coverage written for such applicant. In the future stock purchase amounts may be subject to change at the discretion of The Company's Board of Directors.

An insured changing to a higher risk location may be required to make an additional stock purchase in an amount equal to the excess of the amount which would be required to be contributed under the then-existing contribution schedule with respect to such group's new activities over the amount previously contributed by the group. However, an insured that made a stock purchase and changes to a less risk intense geographic location, has no right to receive a refund of any portion of the stock purchase previously made. Underwriters, at their discretion may reduce or increase the stock purchase amount.

The stock purchase price is equal to one year's premium. If the premium increases in a subsequent year, an additional stock purchase is required. If premiums go down, no additional stock purchase is required. Additional stock purchases may be required in later years.

### **Income Tax Aspects of Stock Purchases**

The Company believes that, under present Federal income tax law, (i) stock purchases will be treated as capital expenditures and will not be deductible by contributors for federal income tax purposes; and (ii) amounts paid as premiums for insurance coverage will be deductible for federal income tax purposes as ordinary business expenses in accordance with the rules applicable to the deduction of professional liability insurance premiums.

**Although The Company believes that the stock purchases and amounts paid as premiums should be treated, for Federal income tax purposes, as described above, their characterization cannot be assured. Thus, all applicants are urged to consult their own tax advisors to determine the particular tax consequences, including any applicable state and local tax consequences, to them.**

## THE OFFERING

The Company expects to file notice of intent to offer insurance in targeted states and the Commonwealth of Kentucky. However, there is no assurance that the insurance authorities of a state will not object to the offering of insurance within that state by a risk retention group, and, thus, no assurance that The Company will offer insurance in the targeted state.

The primary business to be conducted by The Company is to provide professional liability insurance to its Members. Applications for insurance and stock purchases in the Holding Company will be solicited via The Company's brokers and insurance agents. Policy premiums received from policyholders, contributed capital from the Holding Company, together with any earnings from investment of such funds, will provide a commingled pool of assets from which covered claims against policyholders and organizational and operational expenses of The Company will be paid.

### **Business Eligibility for Stock Purchase in the Holding Company and for Insurance Coverage**

The Company can issue insurance policies only to the stock purchasers of the Holding Company. Any Member with a valid, unrestricted, unlimited and unconditioned license to practice medicine in each state in which they practice, and who is, in the opinion of The Company, an acceptable risk for purposes of the insurance afforded by The Company, is eligible to purchase stock in the Holding Company. A partnership, Professional Company or corporation, where each applicant satisfies the criteria described in this paragraph and is accepted, may also be eligible.

A complete underwriting review will be made of each applicant as early as practicable following receipt of an application for insurance. An applicant who is found to have an adverse claims history or an above average risk profile may receive restrictive policy endorsements, reduced coverage and limits, premium surcharges, or have coverage refused by The Company.

Each Member, as a condition of insurance coverage, is required to purchase stock in the Holding Company.

### **Insurance Coverage**

The policy terms described herein are examples only and are subject to actual policy terms. Insureds must read and understand the terms of the policy offered to them by The Company from time to time. These descriptions will not override actual policy terms. Policy terms will control.

**Liability Limits.** The liability limits of professional liability insurance coverage offered by The Company, except in those states that have a statutory limitation of the maximum limits of coverage that can be purchased from The Company, will be as follows:

\$100,000 for each claim subject to \$300,000 policy period aggregate for all claims reported during the policy.

\$200,000 for each claim subject to \$600,000 policy period aggregate for all claims reported during the policy.

\$250,000 for each claim subject to \$750,000 policy period aggregate for all claims reported during the policy.

\$500,000 for each claim subject to \$1,500,000 policy period aggregate for all claims reported during the policy.

\$1,000,000 for each claim subject to \$3,000,000 policy period aggregate for all claims reported during the policy.

(These limits will only be offered in later years, the actual time period to be determined by the Directors.)

In states where the statutory maximum limits are lower than set forth above, the maximum limits of coverage allowed by statute are offered. Note that in Florida the statutory limits of \$250,000/\$750,000 for insureds having hospital privileges will be offered by The Company

The maximum coverage available for any one claim against an insured, their professional corporation and their employed allied healthcare staff is the policy limit established for the primary insured for all claims reported in that policy period. In other words, there is a sharing of one limit of liability among the entity, the Healing Arts Professional and one or more allied healthcare staff named in a single claim. In addition, except in those States in which it is disallowed, if multiple insureds are sued by the same plaintiff, only one policy limit applies. Limits are not stacked. In addition, except in those States in which such policies are disallowed, including the State of Florida, the policy may be a "wasting policy". This means defense costs reduce the limit to pay a claim. Wasting policies will not be offered in certain states, such as the State of Florida.

**Form of Insurance Policy.** The Company offers medical professional liability insurance coverage under a "claims-made"

policy. The policy provides coverage for claims made against policyholders arising out of the performance of professional services rendered, or that should have been rendered, by the insured during a coverage period specified in the policy. Insureds will also be covered for acts or omissions of certain allied healthcare employees subject to the sharing of limits noted above. Separate limits can be purchased for allied healthcare employees and the Healing Arts Professional's professional corporation. A separate limit will be offered in states, such as Florida, where a combined limit is not allowed.

Under The Company's claims-made policy, claims asserted against an insured relating to incidents that took place during the period for which the policyholder had coverage with The Company are covered only if such claim is also reported to The Company during the period of coverage, or during the Extended Reporting Period as defined in a reporting endorsement issued as part of the policy. A policyholder is entitled to purchase a reporting endorsement from The Company at rates established when such extended coverage is required and requested in writing, while the policy is in force or when the insured's policy is terminated for any reason, provided the insured exercises this right within 60 days after policy termination and pays the required premium, including any unpaid premium for the coverage period being terminated.

The Company will issue a reporting endorsement without any separate premium charge to a policyholder when the policyholder dies, becomes totally disabled during a coverage period for which premium has been paid or has been insured by The Company continually for a five year period. In all other cases, insureds terminating a claims-made policy will be required to pay a premium charge for a reporting endorsement.

If a policy is terminated and the policyholder does not secure a reporting endorsement, then the policy will not cover any claims reported after termination, even though the claim is based on incidents that took place while the policy was in effect. However, any such claim reported before policy termination will continue to be covered (subject to all policy provisions) after termination, even if the policyholder does not secure a reporting endorsement.

The coverage period stated in each professional liability insurance policy issued by The Company is retroactive from the effective date of the policy for applicants who currently have insurance provided under a claims-made policy. Thus, such policyholders do not need to purchase a reporting endorsement from their prior insurance carrier in order to protect against unreported claims falling within the coverage of the policy issued by The Company and arising from incidents subsequent to the retroactive date and before the effective date of their policy from The Company. The retroactive date in each policy will depend on underwriting review and analysis. In some cases The Company may decline to write such prior acts coverage for underwriting reasons.

**Premiums, Policy Periods and Cancellation.** Professional liability insurance policy premiums are based upon practice characteristics, limits of liability extended, geographic area of practice, claims history and maturity year. The premiums adopted by The Company are based upon an actuarial analysis of claims history and loss cost projections. The Company has also adopted a rating plan that establishes premiums based on acuity of the group's practice and prior claims experience. As a result of this rating plan and actuarially-determined baseline premiums, The Company's premiums are expected to be competitive with those charged for the same coverage by most other insurance companies.

Although The Company believes that its premiums will be reasonably established to provide sufficient income to cover The Company's claims expenses and to maintain reasonable reserves for projected losses, there is no assurance that actual costs will be covered. In the future, premium rates will be adjusted according to The Company's actual and projected loss experience.

All policies are subject to cancellation by the insured or The Company pursuant to cancellation conditions stated in the policies.

**Underwriting Guidelines.** The Company will issue insurance according to the initial underwriting standards and rating plan of the Company as approved by The Company's Board of Directors.

THE UNDERWRITING GUIDELINES TO BE FOLLOWED BY THE COMPANY WILL BE SUBJECT TO PROSPECTIVE CHANGE FROM TIME TO TIME.

**Assessability of Policies.** The Company offers non assessable policies.

## **Reinsurance**

Entering into a reinsurance agreement permits The Company to issue policies having greater liability limits than it is financially capable of assuming itself. The reinsurer assumes liability for losses in excess of a predetermined amount, The Company retains liability for such amounts, and the reinsurer is paid a portion of The Company's premiums for the risk it assumes.

The Company has negotiated excess of loss reinsurance in the amount of \$400,000 in excess of \$100,000. This reinsurance is negotiated tri-annually. The reinsurance treaty includes deductibles and other coverage restrictions and does not pay the excess coverage until the deductibles and other restrictions are satisfied. In addition the reinsurance is capped to a fixed amount of recovery per year.

## **Reserves**

The Company will establish, and carry as liabilities, reserves intended to meet its obligations under the policies it writes. These reserves will be calculated to meet The Company's obligations as determined by the Management Company.

## **Loss Prevention and Risk Management**

The Holding Company is the risk management service and loss prevention provider.

## **Competition**

There are commercial insurers with greater financial resources and greater experience than The Company that write professional liability insurance for Members. The Company believes that its current premium rates and rating plan are competitive with those available in the commercial market. However, such insurers may respond to The Company's entry into the market by reducing premium rates, broadening coverage and or issuing occurrence policies, such that The Company may not be able to compete and remain viable.

## **Investment Policy**

The Company's funds will be invested on a discretionary basis by a professional investment advisor selected by The Company's Board of Directors, subject to Commonwealth of Kentucky law and within broad policy guidelines that will stress diversification of risks, conservation of principal, and liquidity. Investment earnings will be included in the pool of assets from which claims against the policyholders (to the extent not covered by the contracts which The Company will enter into with reinsurers) and operational expenses of The Company will be paid.

## **Independent Auditor**

The Company has retained Muninghoff & Lange of Covington, KY to provide auditing services. The Company's auditor may be changed at any time at the discretion of The Company's Board of Directors.

## **Distribution of Assets on Liquidation**

If The Company is liquidated (voluntarily or involuntarily), all liabilities of The Company first will be paid or otherwise provided for as required by the liquidation provisions of the Commonwealth of Kentucky insurance laws. Any assets remaining after provision for all liabilities and policy obligations, including unearned premiums, will be distributed to the Holding Company in such proportion and forms as the Board of Directors determines, subject to any necessary approval by the Commissioner of Insurance.

# ORGANIZATION AND MANAGEMENT OF THE COMPANY

## The Company

The Company has been organized as an insurance company domiciled in the Commonwealth of Kentucky, at the direction of its initial Board of Directors. The current Board of Directors of The Company (the "Initial Board") is composed of five physicians, and two representatives of the Management Company. The Initial Board will serve until the date of The Company's initial annual meeting in 2007. The Company's Board of Directors exercises supervisory power over the Management Company, which is responsible for the operation of The Company. The Company has subcontracted with Doctors & Surgeons National Management Services Company, Inc to provide day-to-day management and administration of the insurance business of The Company.

Termination of membership will result in cancellation of the related policy of insurance by The Company, according to the terms and conditions of such policy. Any terminating Member may be reinstated by action of the Board of Directors of The Company upon such terms and conditions, including the payment of additional fees or insurance premiums, as the Board of Directors may from time to time require.

### **Directors of Doctors & Surgeons National Risk Retention Group, Inc.**

The names of the Initial Board and Officers of The Company are as follows:

W. Peter Graper, MD	Director & President
Kenneth Schultz, MD.	Director and Vice President
Jay Ellenby, MD	Director
Michael Gerardi, MD	Director
Robert Pendrak, MD	Director
Sara Carpenter, CPA	Director & Secretary/Treasurer and CFO
Robert Zack, Esq	Director

### **Directors of Doctors & Surgeons National Management Services Company:**

The current Directors and Officers of the Management Company are as follows:

Robert Zack, Esq	Director and President
Sara Carpenter, CPA	Director and Secretary, Treasurer and CFO

### **Directors of Doctors & Surgeons National Corporation:**

The Directors and Officers of the Holding Company are as follows:

W. Peter Graper, MD	Director & President
Kenneth Schultz, MD.	Director and Vice President
Robert Zack, Esq	Director
Sara Carpenter, CPA	Director and Secretary, Treasurer and CFO

**Compensation of Directors and Officers.** By resolution of the Board of Directors once The Company is licensed, each Director or Officer shall receive no compensation in the first three years but will be reimbursed for reasonable travel expenses, for attendance at each regular or special meeting of the Board of Directors, or any committee thereof.

**Indemnification of Directors, Officers and Employees: Limitation of Personal Liability of Directors.** The Bylaws of The Company provide that The Company shall indemnify current and former Directors to the full extent permitted by applicable law and shall indemnify officers and employees to the same extent, and subject to the same limitations, as the indemnification afforded the Directors of The Company. The Company will indemnify a Director against expenses (including attorneys' fees) incurred in connection with the defense or disposition of any action, suit or proceeding, and judgments, fines and amounts paid in settlement thereof, if the Director acted in good faith and in a manner he or she reasonably believes to be in, or not opposed to, the best interests of The Company.

The Company has procured Directors and Officers' liability insurance coverage.

## The Management Company

The Company has entered into a management agreement (the "Management Agreement") with Doctors & Surgeons National Management Services Company (the "Management Company").

The Management Agreement provides that the Management Company will take such action as may be necessary to operate The Company, and to this end will accept or reject applications, determine the form of insurance policies, handle and dispose of claims, and perform all related functions. The Board of Directors of The Company will retain supervisory powers over the financial and policy aspects of The Company, and will establish guidelines to be followed by the Management Company in certain key areas such as rates, underwriting rules, surplus requirements, claims management and investment policy.

The Management Agreement has an initial term of 36 months. The agreement will be automatically extended for successive 12-month terms thereafter, unless terminated by either party upon 90 days notice prior to the end of the term. The Company may terminate the Management Agreement prior to the end of the term, upon written notice, in the event of the fraud or dishonesty of, material breach by, or a final judicial determination of insolvency or bankruptcy of, the Management Company.

**Doctors & Surgeons National Management Services Company.** The principals of the Management Company have been involved in organizing, developing and/ or managing professional liability insurance companies for healing arts professionals in various jurisdictions over the past 40 years.

**Organizational and Offering Services Provided by the Management Company.** The Management Company has assisted The Company during its organization, including commissioning and interpreting an actuarial analysis of claims history and loss cost projections, as a basis for determining rating plans and premium amounts, and actuarial probability studies.

The Management Company is also organizing and undertaking the offering of insurance by The Company as described in this Memorandum to Members, with the assistance of officers and Directors of The Company and the Management Company.

**Operational Services Provided by the Management Company.** Subject to the general control, direction and supervision of the Board of Directors of The Company, the Management Company will be responsible for the day-to-day administration of the insurance business of The Company. The major services to be provided include the following:

- (a) Administrative Services:** Provide office facilities and personnel; cash receipts and disbursements; premium billings; maintenance of books and records; and compliance with regulatory requirements;
- (b) Financial Services:** Banking arrangements; preparation of budgets and statements; coordination with investment advisor; and general financial planning;
- (c) Claims Administration:** Recording; analysis and payment of claims in accordance with policy determined by The Company. Claims investigation services will be performed under subcontract by Western Litigation Specialists, Inc., a national firm specializing in such services, that are a subsidiary of A. J. Gallagher, Inc.;
- (d) Underwriting Services:** Review and evaluation of applications for insurance in accordance with adopted underwriting standards, issuance of policies, and compilation and analysis of loss data as approved by the Board of Directors;
- (e) Marketing Services:** Direct and manage marketing of the insurance program, including soliciting and processing stock purchases and premiums in conjunction with an exclusive group of properly licensed insurance brokers and agents strategically located around the U.S and coordinated by the National Broker, Kornreich-NIA.
- (f) Risk Management Services:** Assist in development, implementation and administration of a risk management program. The Management Company will also furnish general insurance advice to the Board of Directors of The

Company and will provide specific advice to each member of The Company and generally assist them in their relationship with The Company. The Management Company may work with Risk Managers appointed by the Holding Company. Services provided by the Risk Management Company are paid for by the Holding Company.

**Compensation of Management Company.** The Management Agreement provides that the Management Company will be reimbursed for all reasonable documented costs and expenses incurred by the Management Company and The Management Company in providing organizational and operational services to The Company. The Management Agreement also provides that for operational services the Management Company will be paid a fee equal to up to the sum of 10% of the gross written premiums. The Management Company may charge back The Company and or the Holding Company for its own direct expenses, including the costs to procure reinsurance, the costs of audits and actuarial services and any other direct administrative costs as approved by the Board of Directors of The Company and the Holding Company.

#### **Compensation to Brokers**

Brokers are paid 10% of the premium amount for procuring business from The Company. Brokers are appointed directly by The Company. This commission is paid by The Company.

Brokers are also paid marketing fees from the Holding Company. The total fees paid to Brokers from the Holding Company are equal to 10% of the stock purchase amount.

The Holding Company also employs a national broker and other marketing consultants who are paid by the Holding Company and not by The Company. These additional marketing fees are equal to up to 6% of the total amount (premium and stock purchase) paid by the insured.

## FINANCIAL INFORMATION

The Company and the Management Company are both newly organized and have no financial history. The Company has submitted various projections to the Commissioner of Insurance including projected proforma financial statements for The Company for five years. Such projections (the "Projections") are available for examination at the office of the Commissioner of Insurance and The Company. Neither The Company nor the Management Company warrants the accuracy of the Projections or the assumptions upon which they are based.

The Projections are based on actuarial loss cost projections. Although The Company believes that there is a reasonable basis for the Projections, there can be no assurance that certain assumptions used in preparing the Projections will prove to be accurate in light of actual experience. Among other assumptions, the Projections assume certain enrollment and claim levels that may not be attained, and that in each of the five years The Company's claims liabilities will be partially offset by investment income, based on a projected investment return of 5.0% each year. There can be no assurance that Company investments will generate such returns, or that such rates of return will be sufficient to offset actual claims liabilities. The Projections also make no provision for income tax liabilities. Thus, there can be no assurance that The Company will not, at some future date, have to increase its premium rates, attempt to raise additional surplus, or both, if it is to remain in business and honor its obligations under its policies. Furthermore, there can be no assurance that such steps would be sufficient at the time to continue The Company's operations and permit it to honor its obligations under its policies. See "Risk and Other Important Factors - Projected Financial Statements."

**Organizational Expenses.** The cost of developing The Company will approximate \$500,000. A lump sum payment of \$100,000 will be made to the Management Company by The Company subject to the advance approval of the Commonwealth of Kentucky Office of Insurance once The Company's surplus equals \$2 million. The remainder of the organizational expenses will be repaid once The Company's surplus reaches \$2.5 million at the rate of \$30,000 per month, subject also to the approval of the Commonwealth of Kentucky Office of Insurance.

## **FEDERAL TAXATION OF THE COMPANY AND THE HOLDING COMPANY**

The Company believes it will be taxed as a corporate property and liability insurance Company for federal income tax purposes. Subchapter L of the Internal Revenue Code governs the Federal income taxation of a property and liability insurance Company. If the IRS determines that The Company is not taxable under Subchapter L, The Company will probably be taxed under Subchapter C of the Internal Revenue Code as a regular corporation. Federal taxable income may be significantly greater if The Company is taxed as a regular corporation and not as a property and liability insurance Company.

The Holding Company will report stock purchases as non-taxable contributions to capital and not as revenue includable in gross income. In addition, for purposes of Section 362 of the Internal Revenue Code, The Holding Company will take the position that Policyholders are also equity holders of the Holding Company. As such, their stock purchases should be treated consistently with the provisions for shareholder contributions to capital under Section 362. If stock purchases are treated as having been received other than as contributions to capital, the Holding Company could ultimately realize income or gain on the full amount of such stock purchases.

## **APPLYING FOR INSURANCE**

To apply for insurance, the applicant must do the following:

1. Determine the premium level and the Holding Company stock purchase amount to be purchased by working with one of The Company's agents and brokers.
2. Apply for purchase of stock in the Holding Company.
3. Complete and sign the Application for Insurance and attach a copy of the most recent declarations page and renewal certificate, or equivalent, from your current professional liability insurance policy. These pages display limits of coverage, risk classification, premium, retroactive date (on claims-made policies), etc. Do not send the original page.
4. Applications will be collected by appointed agents and brokers and sent to The Company. Please contact The Company at 706-232-9591 if you have any questions.

## ADDITIONAL DISCLOSURES

### DOCTORS & SURGEONS NATIONAL CORPORATION AND DOCTORS & SURGEONS NATIONAL GROUP

Doctors & Surgeons National Corporation (the ‘Holding Company’) is the sole owner of Doctors & Surgeons National Risk Retention Group (The Company), a property and casualty insurer.

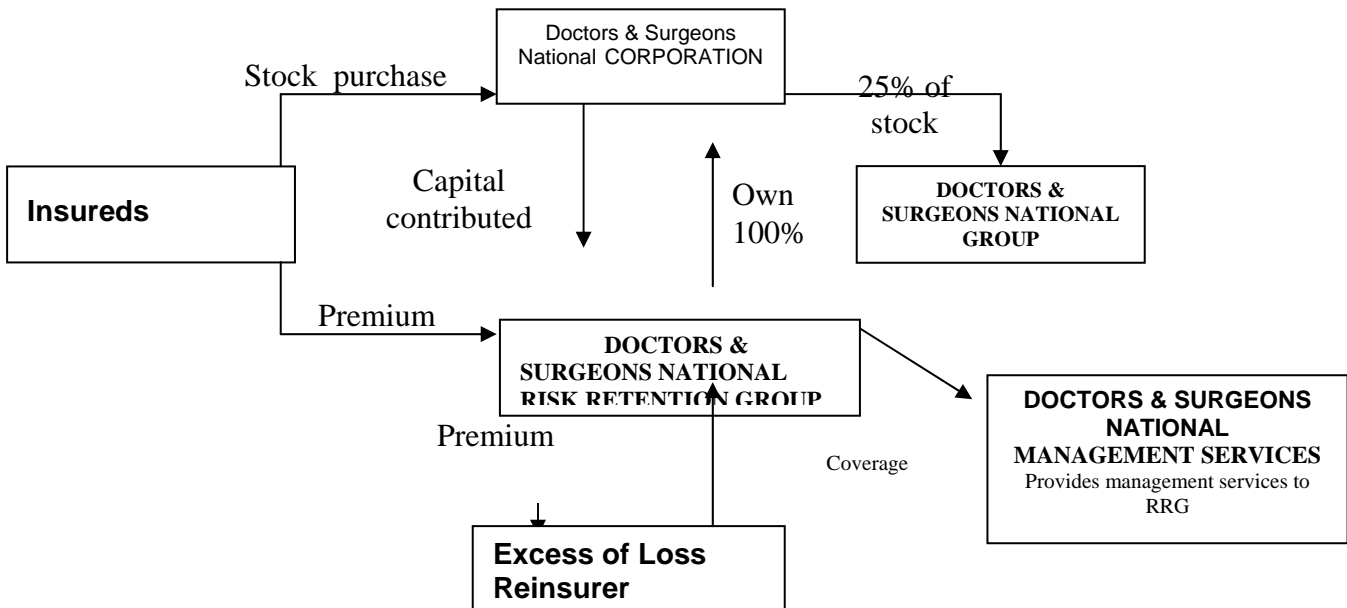
In order to become an insured you must purchase stock and pay a premium. The pricing of the product will contain two elements; a premium for liability coverage that goes to The Company and the purchase of common stock in the holding company. Each insured is required to subscribe for the purchase of stock in order to qualify as an owner as mandated by the Liability Risk Retention Act of 1986, a Federal Statute. The total cost of the stock and premium will be competitive with the competition due to existing market conditions.

Doctors & Surgeons National Group Corporation (the Group Company) proposes to borrow \$1,000,000 to form the Holding Company. The Holding Company is the sole owner of The Company and will be formed with 50,000,000 shares of authorized common stock which will be sold to insureds. The Holding Company has received all the shares of stock of The Company in exchange for \$1,000,000

The Liability Risk Retention Act of 1986 requires each insured to have an ownership interest. Thus, as each insured acquires insurance from The Company it must simultaneously purchase stock in the Holding Company.

**When you purchase stock, 50% of your stock purchase is contributed to The Company, 25% is put into a Keep-Well Trust, for the benefit of the The Company, and 25% is retained in the Holding Company for marketing, risk management and administration fees.**

#### RISK RETENTION GROUP ORGANIZATIONAL CHART



## **DOCTORS & SURGEONS NATIONAL GROUP**

Doctors & Surgeons National Group, Inc. ("Group Company") is a new Corporation with no prior operating history. Its principal function will be to serve as a means of satisfying the required surrender of stock by owners of the Holding Company that for any reason cease to be insured by the risk retention group. The stock surrender will be accomplished without payment by a mandatory exchange for Class B shares of Doctors & Surgeons National Group Company (The Group Company).

The Holding Company will, by contract, agree to use twenty five percent (25%) from the proceeds of the sale of its stock to purchase shares of the Group Company. In consideration of this commitment, the Group Company will agree to borrow sufficient funds necessary to the start-up of Doctors & Surgeons National Corporation and the Risk Retention Group; service the debt which it incurs and issue stock as required in exchange for stock surrendered to the Holding Company by its owner members to preserve the status of the risk retention group. The Group Company will use 25% of the stock proceeds to retire debt first. Once debt is retired the 25% of the stock proceeds will be placed in a "Keep-Well" Trust for the benefit of The Company in the event The Company needs additional capital. In the event The Company does not need additional capital, the Keep Well Trust funds, including interest earned, will be available to its Common Stock, Class B Share Holders as a dividend. Thus insureds who are no longer insured by The Company, may receive a dividend from the Group Company. An actuary will determine when funds from the Keep Well Trust can be disbursed back to the Group Company.

After the initial debt has been retired, the Group Company may be able to pay a dividend to its shareholders.

### **The Directors of Doctors & Surgeons National Group Company**

**The names of the Initial Board and Officers of The Group Company are as follows:**

Robert Zack, Esq  
Sara Carpenter, CPA  
W. Peter Graper, MD

President and CEO  
Director & Secretary/Treasurer and CFO  
Director

## DESCRIPTION OF COMMON STOCK

Pursuant to the Liability Risk Retention Act of 1986, the holders of common stock of the Holding Company will be exclusively those entities insured by and in good standing with The Company. It is unlawful for persons not fitting this description to own such stock.

All shares of common stock are not transferable and are "restricted" shares; they cannot be sold, pledged, hypothecated, given away, assigned, or otherwise transferred except back to the Holding Company when the holder is no longer insured in good standing with The Company.

Holders of common stock shall have the exclusive right to vote on all issues presented to the shareholders of the Holding Company; including but not limited to, the election of the Board of Directors. Each share of common stock shall be entitled to one vote.

Common stock will be sold to the insureds at \$1 per share in conjunction with their purchase of liability insurance policies from The Company. It must be noted that the common stock does not appreciate in value; it has no redemption value; and the Holding Company does not anticipate ever paying a dividend. The Group Company may pay a dividend to Class B shareholders

When a holder of common stock ceases to be an insured in good standing with The Company, the stock must be transferred back to the Holding Company, which will cause it to be exchanged for Class B shares of The Group Company.

Although The Company is generally exempt from both federal and state securities laws; it must comply with certain disclosure standards related to the offering and sale of its common stock to the participants of the program. In order to meet this requirement it will submit to each insured a Confidential Offering Memorandum; and will secure from each insured a signed notarized Stock Subscription Agreement.

## SUBSCRIPTION AGREEMENT

The undersigned (the "Subscriber") understands that Doctors & Surgeons National Corporation, a Georgia Corporation, is offering for sale (the "Offering") shares of its common stock at a price of \$1.00 per share (the "Shares"). The shares are sold only pursuant to a certain Confidential Offering Memorandum (the "COM") dated December 31, 2007, a copy of which has been supplied by Doctors & Surgeons National Corporation or its authorized representatives to the Subscriber.

Doctors & Surgeons National Corporation was incorporated for the purpose of using the net proceeds from this offering to own and operate Doctors & Surgeons National Risk Retention Group, Inc. ("D&SN-RRG"). D&SN-RRG was formed as a "risk retention group" within the meaning of the Liability Risk Retention Act of 1986 (hereinafter referred to as the "Risk Retention Act"). D&SN-RRG was incorporated in the Commonwealth of Kentucky on August 15, 2007 for the purpose of transacting the business of a captive liability insurance company. Doctors & Surgeons National Corporation owns all of the authorized and outstanding shares of common stock of D&SN-RRG.

The Subscriber acknowledges that the Subscriber is subscribing for Shares without being furnished any offering literature or prospectus other than the Confidential Offering Memorandum. The Subscriber has read and is familiar with the contents of the Confidential Offering Memorandum, and the Subscriber further acknowledges and confirms that he understands, among other things, that:

- (i) D&SN-RRG has recently been formed and, accordingly, has no financial or operating history;
- (ii) D&SN-RRG will serve solely as a risk retention group formed pursuant to the Liability Risk Retention Act of 1986, which intends to provide insurance to qualified persons or businesses involved in the medical services industry;
- (iii) the purchase of Shares is a speculative investment that involves a high degree of risk of loss to the Subscriber;
- (iv) the Shares will at no time be freely transferable, and may only be redeemed by Doctors & Surgeons National Corporation in exchange for stock in Doctors & Surgeons National Group, Inc.; and
- (v) the Shares will never increase in value more than \$1.00 per Share and will never pay a dividend.

The Subscriber understands that no federal or state governmental authority has passed upon the accuracy or adequacy of the written information supplied by Doctors & Surgeons National Corporation, nor has approved or disapproved the Shares, nor has made any findings, determination or recommendation concerning the fairness of an investment in Doctors & Surgeons National Corporation.

### **Subscription**

Subject to the terms and conditions hereof, the Subscriber agrees to become a shareholder in Doctors & Surgeons National Corporation and to be bound by the terms of the Confidential Offering Memorandum and this Subscription Agreement.

Subscriber hereby irrevocably subscribes for the following number of Shares at a purchase price of \$1.00 per share:

\_\_\_\_\_ Shares at a total purchase price of \$ \_\_\_\_\_

Subscriber hereby irrevocably subscribes for the purchase each month hereafter of the following number of Shares at a purchase price of \$1.00 per share:

\_ **NA** \_\_\_\_\_ Shares at a total purchase price of \$ \_ **NA** \_\_\_\_\_

The Subscriber acknowledges that upon executing this Subscription Agreement the Subscriber is irrevocably committed to purchase the number of Shares for which the Subscriber has subscribed.

The Subscriber further understands and agrees that Doctors & Surgeons National Corporation will maintain an account in the name of the Subscriber listing the purchase date of each acquisition of Common Stock of Doctors & Surgeons National Corporation; the number of shares of Common Stock acquired; and the cumulative number of Shares held by the

Subscriber. Stock Certificates shall be issued annually on the anniversary date of this Subscription Agreement for the total number of Shares acquired during the preceding year.

### **Stock Certificates**

Certificates representing the Shares will bear the following restrictive legend:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY APPLICABLE STATE SECURITIES LAWS AND HAVE BEEN ISSUED PURSUANT TO AN EXEMPTION FROM THE REGISTRATION OR QUALIFICATION PROVISIONS OF FEDERAL AND STATE SECURITIES LAWS PROVIDED BY THE LIABILITY RISK RETENTION ACT OF 1986.

THESE SECURITIES MAY BE REDEEMED BY DOCTORS & SURGEONS NATIONAL CORPORATION IN EXCHANGE FOR SHARES OF DOCTORS & SURGEONS NATIONAL GROUP, INC. UNDER CERTAIN CIRCUMSTANCES TO PRESERVE OR REINSTATE DOCTORS & SURGEONS NATIONAL CORPORATION RISK RETENTION GROUP AS A RISK RETENTION GROUP UNDER THE LIABILITY RISK RETENTION ACT OF 1986. EACH HOLDER OF SHARES OF COMMON STOCK MUST BE ABLE TO BEAR THE ECONOMIC RISK OF LOSS OF THE INVESTMENT, SINCE SURRENDER OF THE SHARES OF STOCK IN EXCHANGE FOR SHARES OF DOCTORS & SURGEONS NATIONAL GROUP, INC. MAY RESULT IN THE SHARES OF DOCTORS & SURGEONS NATIONAL GROUP, INC. HAVING LITTLE OR NO VALUE.

### **Restrictions**

The Shares cannot be purchased or sold on the open market, and it is to the benefit of Doctors & Surgeons National Corporation and the Subscriber that the terms of this Subscription Agreement be carried out; and for these and other reasons, the Subscriber and Doctors & Surgeons National Corporation would be irreparably damaged if this Subscription Agreement is not specifically enforced in the event of a breach hereof. If any controversy concerning the rights or obligations to purchase or sell any of the Subscriber's shares arises, or if this Subscription Agreement is breached, the Subscriber and Doctors & Surgeons National Corporation hereby agree that remedies at law might be inadequate and that, therefore, such rights and obligations, and this Subscription Agreement, shall be enforceable by specific performance, which shall not be an exclusive remedy, but shall be cumulative of all other rights and remedies of the Subscriber and Doctors & Surgeons National Corporation at law, in equity, or under this Subscription Agreement.

- (ii) The Subscriber agrees not to pledge all or any part of the Shares as collateral for a loan or otherwise, nor will allow all or any part of the Shares to become encumbered in any manner.

### **Doctors & Surgeons National Corporation's Right to Redemption**

Because Doctors & Surgeons National Corporation was formed as a holding company for a risk retention group, each shareholder of Doctors & Surgeons National Corporation must be a member of the healing arts profession. The Subscriber agrees as a condition to obtaining shares of Common Stock, that Doctors & Surgeons National Corporation will have an option to require the surrender of the shareholder's shares to Doctors & Surgeons National Corporation if, in the sole discretion and opinion of Doctors & Surgeons National Corporation, such surrender is necessary to preserve or to reinstate Doctors & Surgeons National RRG as a risk retention group. Without limitation, certain events that will give rise to the exercise of Doctors & Surgeons National Corporation's right to require a surrender of the shareholder's shares are any of the following:

- (i) The shareholder ceases to be engaged in the healing arts profession for any reason
- (ii) After acquiring insurance through Doctors & Surgeons National Risk Retention Group, the shareholder, for any reason, terminates such insurance or ceases to remain an insured, or Doctors & Surgeons National Risk Retention Group terminates such insurance.

The Subscriber hereby covenants and agrees to notify Doctors & Surgeons National Corporation immediately in writing upon the occurrence of any of the foregoing events.

**Stock Redemption Plan**

If, in the sole discretion and opinion of Doctors & Surgeons National Corporation, it becomes necessary to require a surrender of a shareholder's shares to preserve or reinstate Doctors & Surgeons National Risk Retention Group's risk retention group status, the stock of said shareholder shall immediately revert to Doctors & Surgeons National Corporation without further action, and the surrendered stock shall be exchanged for shares of Class B common stock in Doctors & Surgeons National Group, Inc.

Class B shares shall have no voting rights or other rights commonly associated with common stock shares except that such shareholders may share in the profits of the Group Company, if any, in the form of a dividend

**Limitation on Redemption**

No redemption will occur which would cause Doctors & Surgeons National Corporation to be a Personal Holding Company as those terms are defined in the Internal Revenue Code of 1986, as amended.

IN WITNESS WHEREOF, the Subscriber has hereby executed this Subscription Agreement as of the \_\_\_day of \_\_\_\_\_2007.

Signature of Subscriber:

\_\_\_\_\_

Sworn before me this \_\_\_ day of \_\_\_\_\_,2007.

\_\_\_\_\_  
NOTARY PUBLIC

STATE OF:

My commission Expires:

The foregoing subscription is hereby accepted, subject to the terms and conditions hereof, as of the \_\_\_day of \_\_\_\_\_2008.

DOCTORS & SURGEONS NATIONAL CORPORATION

By: \_\_\_\_\_

Title: \_\_\_\_\_

## **ASSOCIATED DOCUMENTS AND ADDITIONAL INFORMATION**

- A. As part of the offering package, each prospective applicant for insurance should have received, in addition to this Memorandum to Members, copies of the following documents:
1. Subscription Agreement for Stock Purchase
  2. Information regarding Stock Purchase program
  3. Application for Insurance and Prior Claims Information Addendum
- B. The Company's application to the Office of Insurance of the Commonwealth of Kentucky for authority to form an insurance Company (the "Application") is available for review in the office of the Commissioner of Insurance, Office of Insurance, Commonwealth of Kentucky, and at the office of the Management Company, at the address given below. Among other things the Application includes as attachments pro forma financial statements, an actuarial analysis of claims history in the industry and loss cost projections, and information with respect to the reinsurance obtained by The Company.