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Letter from The Chairman of the Board

Dear Fellow Physician,

The last year has been tumultuous with a change in our CEO. From that difficult process has come a renewed commitment to the basic goals of the XIMED Medical Group. These goals are the enhancement of the practice of medicine for our members in the private setting. We are a unique entity in the practice of medicine, a medical group that is wholly owned by physicians for the benefit of physicians.

We continue to believe that private practice is the most efficient model and that competition among physicians enhances the care of our patients. Witness the recent survey in San Diego Magazine which rated 40 XIMED physicians as "best doctors". We truly believe that our patients come first, each and every time. To that end, we welcome new physicians who share our vision. This year alone, 35 new physicians have become part of XIMED Medical Group.

We also will continue to make every effort to improve the reimbursement environment, provide services at a discount, open investment opportunities, and provide a political voice for the private practicing physicians in our service area. This year XIMED will be involved in a number of new initiatives aimed at enhancing physician practices. We recognize that such initiatives will better position XIMED for the future changes in health-care and ensure that private practice will continue to thrive as a model of delivery. The Board of Directors and I appreciate the support you have given all of us during the past year and we continue to welcome suggestions and help from the physician members and encourage all to attend the upcoming Annual Meeting.

Robert P. Brouillard, MD, FACP

XIMED Membership - Benefits of Being a Member

- **Group Contracting-** Entering into contracts with health plans as a large medical group allows for stronger leverage, which in turn, results in better reimbursement rates.
- **Marketing-** The power of the XIMED Medical Group website, combined with links to your personal website, allows your name to reach unlimited numbers of potential patients. Real time maintenance to the website provides up to date information to be available for view.
- **Physician Directories-** Published twice a year, the XIMED Medical Group directory is made available to 1-800-Scripps for future referrals.
- **Credentialing-** All credentialing for XIMED Medical Group is done in house, freeing your office staff to handle your patients and not health plan requirements. Because XIMED is delegated, you become contracted with the health plans more quickly and accurately.
- **Vendor Discounts-** XIMED has partnered with some of the biggest firms to offer up to 50% discounts for our members. Office Depot, Office Max, Physicians Sales and Services, along with Paymentech and XO Communications are just a few of the vendors available. We are currently working with Stericycle and other vendors to offer group pricing for their services.

CEO Perspective

Over the past year XIMED Medical Group has gone through a number of changes, including new management and a new direction. As with any change, nothing happens overnight. We were successful in renegotiating a number of PPO contracts, with increases averaging 10-15%, and terminating those contracts that did not meet our requirements. We were also able to reinvigorate many business and vendor relationships that had languished in the past, with none more important than our strategic partner Scripps Health Care. Unfortunately, much of the last year was spent managing litigation. While these matters are never easy, I am happy to report that both cases were settled with the best possible result for the company. Through it all, the company was able to improve its financial result by over 20%, compared to the previous fiscal year.

As we enter the next fiscal year, a new direction for the company, both in structure and span of control, will begin to take shape. This new direction will focus on a series of initiatives that are aimed at enhancing our business model and strengthening the independent physician practice.

Here is just a sampling of initiatives that are in various stages of development.

- **Urgent Care Center** - Equity joint venture relationship with a local physician group that could develop Urgent Care Centers in the local area.
- **Sleep Center** - Business relationship with an established Sleep Medicine company looking to expand into San Diego.
- **Hospitalist Company** - New company focusing exclusively on providing dedicated physician hospitalists to organizations that need them.
- **IPA** - Forming a new physician model that will take advantage of ever-changing consumer benefits trends and provide contracted physician services.
- **MPN Network** - Development of a Medical Provider Network that will take advantage of new rules regarding Workers' Compensation.
- **Medical Malpractice Company** - Captive insurance company designed to reduce the escalating cost of physician malpractice premiums.
- **XIMED II** - New Medical Office Building to be located on the Scripps-Memorial campus designed to offer convenient office space for physicians.

These initiatives are being developed by XIMED to ensure that the independent physician practice continues to be a viable business model. As the future of health care delivery continues to evolve we must be flexible enough to navigate those changes in a manner that optimizes the independent practicing physician.

I look forward to seeing all of you at the upcoming annual meeting where each of these initiatives will be discussed in greater detail.

Thomas C. Sounhein, J.D.

New Medical Office Building – XIMED II

XIMED Medical Group, along with Scripps Health, is in the early stages of development of a second medical office building (MOB), referred to as XIMED II, on the Scripps Memorial Hospital La Jolla campus.

The new MOB will be approximately 120,000 square feet, with an additional parking structure to accommodate the larger volume of patients. Construction of the second parking lot will begin the process, followed by the MOB. The exact date is yet to be determined, but all planning is underway.

In mid-September, XIMED sent out a letter of interest to our physician membership, to determine the amount of space needed. The tentative plan is to offer shares based upon the square footage of leased office space, as was done with the original XIMED Limited Partnership. Many critical issues, including cost, size, structure, timing and share valuations have yet to be determined.

The response from interested physicians so far is very positive, and we look forward to starting the formal solicitation process in the very near future. If you are interested in space, please contact the XIMED Administrative offices at 858-452-1279.



XIMED Medical Group - Physicians FY 2005

We would like to extend our welcome to the new XIMED Medical Group physicians who joined us between August 1, 2004 and July 31, 2005:

<u>Name</u>	<u>Phone</u>	<u>Specialty</u>
Mark A. Wolgin, M.D.	Orthopedics	(858) 455-7680
Roy T. Avalos, M.D.	Cardiology	(760) 944-7300
Afshin Bahador, M.D.	Gynecology/Oncology	(858) 455-5524
Keenan Carriero, DPM	Podiatry	(760) 943-6700
Valerie V. Gafori, M.D.	OB/Gyn	(858) 455-7520
Vishakha V. Gigler, M.D.	Dermatology	(760) 758-5340
Kristina Kjeldsberg, M.D.	Radiology	(858) 454-4235
Joseph Konstantarkis, M.D.	Radiology	(858) 454-4235
Edward C. Paredez, M.D.	Gastroenterology	(858) 373-0211
Sunil S. Rayan, M.D.	Vascular Surgery	(858) 452-0306
Chrystal de Freitas, M.D.	Pediatrics	(858) 794-5347
Lydia Canavan, M.D.	Radiology	(858) 454-4235
Steven Sorenson, M.D.	Radiology	(858) 454-4235
Walter K. Nahm, M.D.	Dermatology	(619) 297-1810
C. Michael Wright, M.D.	Cardiology	(858) 457-1234
Alexandra Bunyak, M.D.	Pain Medicine	(760) 943-6700
Monica Perlman, M.D.	Internal Medicine	(858) 554-1212
David Blass, M.D.	General Surgery	(858) 452-5054
Pushpendu Banerjee, M.D.	Oncology/Hematology	(858) 552-1410
Kulreet Chaudhary, M.D.	Neurology	(858) 646-0400
Darrell Gonzales, M.D.	Dermatology	(858) 362-8800
Ian Purcell, M.D.	Neurology	(858) 646-0400
Richard Thunder, M.D.	Orthopedics	(858) 535-1075

XIMED Annual Shareholder's Meeting

The annual shareholders meeting for XIMED Medical Group will be held Wednesday, October 26, 2005, from 6:00-8:00pm at the Schaezel Center, on the Scripps Memorial Hospital La Jolla Campus. Formal announcements and proxies have been distributed, but you may vote at the meeting if you have not already done so.

The event will be catered by Atlanta Catering, and we hope to see all of the membership at the meeting.

Please call the Administrative offices at 858-452-1279 if you have any questions, or need a proxy to vote.



San Diego Magazine's 2005 Top Doctors

Congratulations to the following XIMED Medical Group physicians. They were chosen by more than 2,500 San Diego County Medical Society Member Physicians by electronic balloting. Member physicians were asked to name "physicians to whom you would take a close family member".

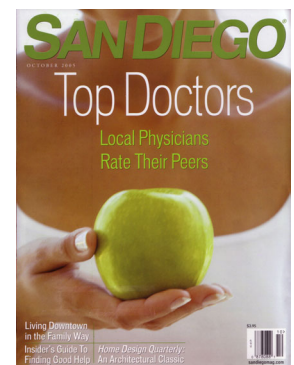
This is the second year of the collaboration between the San Diego County Medical Society and San Diego Magazine, for the selection of "Top Doctors". All of us at XIMED Medical Group are proud to have these 40 Physicians stand out among San Diego's best doctors.

Robert M. Barone, M.D.
Douglas J. Bates, M.D.
Joel I. Bernstein, M.D.
James P. Blasingame, M.D.
Robert P. Brouillard, M.D.
Maurice Buchbinder, M.D.
Kwi Y.B. Bulow, M.D.
Thomas J. Chippendale, M.D.
Marc K. Effron, M.D.
Daniel Einhorn, M.D.

Steven D. Emmet, M.D.
Nicholas R. Frost, M.D.
Susan M. Glockner, M.D.
Colin M. Haggerty, M.D.
James T. Hay, M.D.,
William P. Hummel, M.D.
Paul V.B. Hyde, M.D.
Adrian M. Jaffer, M.D.
Lee A. Kaplan, M.D.
Judith A. Koperski, M.D.

William A. Ladd, M.D.
Dana P. Launer, M.D.
Kirsten A. Lee, M.D.
Frank E. Mayer, M.D.
D. Scott McCaul, M.D.
Christian W. Mende, M.D.
Stephen I. Moreland, M.D.
Lars R. Newsome, M.D.
Richard C. Ostrup, M.D.
Richard E. Payne, M.D.

Lon S. Poliner, M.D.
Ernest E. Pund Jr., M.D.
Donald J. Ritt, M.D.
Robert S. Scheinberg M.D.
Marc M. Sedwitz, M.D.
Michael J. Skyhar, M.D.
Wendell M. Smoot, M.D.
Steven M. Sorenson, M.D.
Paul E. Sylvan, M.D.
Paul E. Tornambe, M.D.





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Credentialing Corner

XIMED Medical Group has been given full delegation for credentialing purposes by our contracted health plans. In order to retain our delegated status, there are several items that we must continue to do.

First, every three years all of our XIMED Medical Group physicians must go through a re-credentialing process. In 2003, most of our group went through this process. Beginning in December 2005 and continuing through June 2006 most of you will receive a re-credentialing packet from us. Please make sure that you complete and return this packet in the time frame allowed.

Second, it is crucial that we maintain accurate records. Should there be a change in address, name, location, tax identification number, or any other change to your practice, please forward that information on letterhead, via fax or mail to XIMED Medical Group (information below).

We will then forward that information to the health plans that XIMED is contracted with, so that your records can be updated. The health plans typically return that information to us for verification, which will only cause a delay in updating your records.

Next, XIMED Medical Group will continue to do all the credentialing of any new physicians. These documents are very time sensitive. If the signature on the application is older than 180 days, you will receive an attestation statement requesting a new signature. Please keep this in mind if you are adding any new physicians to your practice.

Finally, we are here to help you with any issues you may have. Please contact Cynthia Cullins, our Credentialing Manager with any questions, concerns or problems that you are experiencing. Ms. Cullins can be reached via email at ccullins@ximedinc.com, (858) 452-1279 ext 16 or fax at (858) 587-1642.

2005 Annual Flu Vaccine Clinic

It's time for the annual Flu Vaccine Clinic. Once again, the clinic will be administered by Scripps Health Nurses in the lobby of the Scripps/XIMED Medical Center. If you have any questions regarding the Flu Clinic, please call Kim Roberts at 858-626-7024.

Flu Shots Provided:
XIMED Lobby
Oct. 10 - Nov. 16, 2005
Mondays & Wednesdays
8:00 am - 12:00 noon
Cost is \$20

