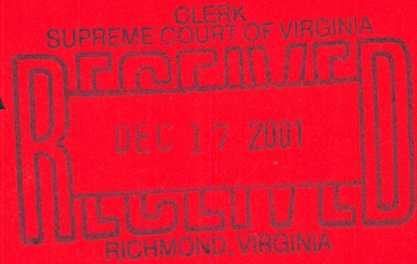


263Va 520

IN THE
SUPREME COURT OF VIRGINIA
AT RICHMOND



RECORD NO. 011150

LASZLO N. TAUBER, LESLIE L. PETERS, IRWIN S. FREEDMAN, ESTATE OF SAMUEL BURTOFF, MICHAEL A. CORRADO, DAN J. FERIOZI, LESLIE P. GONDOR, REGINALD P. MCMANUS, MAGDOLNA A. IRANYI, ESTATE OF JAMES H. SCULLY, JEFFERSON MEMORIAL HOSPITAL JOINT VENTURE, JEFFERSON MEMORIAL HOSPITAL, INC., JEFFERSON MEMORIAL HOSPITAL ASSOCIATES, JEFFERSON MEMORIAL HOSPITAL CORPORATION, JEFFERSON CORPORATION OF ALEXANDRIA, THE TAUBER FOUNDATION, and THE CHARITABLE REMAINDER UNITRUST,

Appellants-Respondents,

v.

COMMONWEALTH OF VIRGINIA, *ex.rel.*, RANDOLPH A. BEALES, ACTING ATTORNEY GENERAL OF THE COMMONWEALTH OF VIRGINIA; RANDOLPH A. BEALES, ACTING ATTORNEY GENERAL OF THE COMMONWEALTH OF VIRGINIA; and THE COMMONWEALTH'S ATTORNEY FOR THE CITY OF ALEXANDRIA,

Appellees-Complainants.

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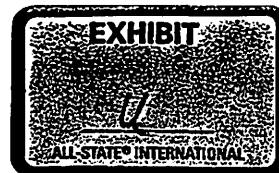


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CIRCUIT COURT OF THE CITY OF ALEXANDRIA

COMMONWEALTH OF VIRGINIA, ex rel.)
JAMES S. GILMORE,)
ATTORNEY GENERAL OF THE)
COMMONWEALTH OF VIRGINIA,)

Complainants,)

v.)

LASZLO N. TAUBER, et al.)

Respondents.)

CHANCERY NO. CH961241

**ACCOUNTING OF THE ASSETS OF
JEFFERSON MEMORIAL HOSPITAL, INC.**

INTRODUCTION

Cobb & Associates, Ltd., a professional corporation, has been retained to prepare an accounting of the assets of Jefferson Memorial Hospital Inc. (JMHI) based on holding of the assets of JMHI "in trust for the public" in "accord with the charitable purposes to which they should have been devoted." Arthur H. Cobb has primary responsibility for this engagement.

PURPOSE AND CONTENT

The Court entered a declaratory judgment that the assets of JMHI remain in the hands of Respondents as trustees and ordered Respondents to submit "a full and complete accounting of all assets and liabilities" of JMHI.

The Court found that "the assets remained in JMHI until its dissolution," which occurred on or about April 18, 1973 ("The charter revocation terminated JMHI's corporate existence and powers, and it could no longer function as a corporation") and "(a)t the time of dissolution, these assets passed into and remain in the hands of Respondents as trustees." Therefore, we have prepared an accounting of the assets of JMHI through April 18, 1973.

We have prepared alternative accountings based on assumptions regarding operations, assets, and dates of liquidation of operations. The alternative dates are July 1, 1975, March 31, 1982, December 31, 1992, and October 1, 2005, which represent the dates of significant changes in operations or asset base. The alternative accountings are to provide the Court with additional information.

ACCOUNTING

Hospital Operations Through April 18, 1973 - \$0 (\$0 as of September 30, 1999)

We have prepared an accounting of the assets of JMHI, based on JMHI operating a 120-bed general-acute hospital, Jefferson Memorial Hospital, through June 30, 1973 (the date closest to the April 18, 1973 dissolution of JMHI, for which financial statements have been available) and on JMHI "no longer function(ing) as a corporation" and, therefore, "to wind up or liquidate the business" as of approximately April 18, 1973.

As of approximately April 18, 1973 (June 30, 1973) Hospital Operations are estimated to result in total liabilities of approximately \$1,719,290, total assets of approximately \$1,661,785 and total shareholders' deficit of approximately (\$57,505). Liquidation of the business would be expected to have resulted in realization of cash in amounts less than reflected in the balance sheet asset accounts. Liquidation of the business as of April 18, 1973 is estimated to result in no net proceeds.

Hospital Operations through, and liquidation of the business as of, April 18, 1973 follows the Courts' findings and reflects the business and financing of Hospital Operations. (Medical staff physicians, including physicians who comprised the Board of Directors of JMHI and senior management of the Hospital, focused primarily on their individual practices and did not maintain pace with the rapidly changing and increasingly sophisticated hospital industry. Jefferson Memorial Hospital competed with general-acute care hospitals located in the City of Alexandria, Arlington County and Fairfax County, including hospitals which were larger and which provided a broader range of services. Hospital Operations were undercapitalized and did not make all payments on certain Lease Agreements or on Bonds Payable. Further, Hospital Operations were supported by a cash infusion of \$221,260 during the year ended June 30, 1973.)

ALTERNATIVE ACCOUNTINGS

To provide additional information, we have prepared alternative accountings based on alternative assumptions regarding operations, assets, and date of liquidation of operations.

Hospital Operations Through July 1, 1975-\$0 (\$0 as of September 30, 1999)

We have prepared an accounting of assets of JMHI, based on continuation of Hospital Operations (effectively investment of the net assets of JMHI as of April 18, 1973 in Hospital Operations) through July 1, 1975 and on no longer participating in Hospital Operations and, therefore, "to wind up or liquidate the business" as of approximately July 1, 1975.

As of approximately July 1, 1975 (June 30, 1975) Hospital Operations are estimated to result in total assets of approximately \$1,954,985, total liabilities of approximately \$1,926,414, and total shareholders' equity of \$28,571. Liquidation of the business would be expected to have resulted in realization of cash in amounts less than reflected in the balance sheet asset accounts. Liquidation of the business as of July 1, 1975 is estimated to result in no net proceeds.

Hospital Operations Through March 31, 1982-\$1,254,000 (\$8,571,000 as of September 30, 1999)

We have prepared an accounting of the assets of JMHI for the period from June 30, 1971 through March 31, 1982 (including periods after April 18, 1973). This accounting is based on continuation of Hospital Operations (effectively investment of the net assets of JMHI as of April 18, 1973 in Hospital Operations) through March 31, 1982, when Hospital Operations were relinquished to Health Group of Virginia and on JMHI no longer participating in Hospital Operations and, therefore, "to wind up or liquidate the business" as of approximately March 31, 1982 and investing net assets from April 1, 1982 through September 30, 1999.

As of March 31, 1982 (June 30, 1982), Hospital Operations are estimated to result in total assets of approximately \$2,982,215, total liabilities of approximately \$1,727,531 and total shareholders' equity of approximately \$1,254,684. Liquidation of the business of JMHI as of March 31, 1982 would be expected to have resulted in realization of cash in amounts less than reflected in the balance sheet accounts. Liquidation of the business of JMHI as of March 31, 1982 is estimated to result in net proceeds of approximately \$1,254,000.

Investment of \$1,254,000 from April 1, 1982 through September 30, 1999 at an average annual rate of return of 13.35 percent results in assets with a pretax value of approximately \$11,142,000, investment gains would be subject to taxes. The balance as of September 30, 1999 is estimated to be \$8,571,000.

The balance as of September 30, 1999, based on an annual rate of 9.0 percent, is estimated to be \$4,493,000.

**Hospital Lease Through December 31, 1992-\$5,462,000 (\$9,859,000 or \$9,253,000
as of September 30, 1999)**

We have prepared an accounting of the assets of JMHI for periods after March 31, 1982 based on JMHI participating in leasing or sub-leasing certain land, building and related equipment, furniture and fixtures to Health Group of Virginia, Inc. and to Fairfax Hospital Association.

As of December 31, 1992, Hospital Operations and Hospital Leasing are estimated to result in total assets of approximately \$5,476,463, total liabilities of approximately \$14,652 and total shareholders' equity of approximately \$5,461,811. Liquidation of the business of JMHI as of December 31, 1992 is estimated to result in net proceeds of approximately \$5,462,000.

Investment of \$5,462,000 from January 1, 1993 through September 30, 1999 at an average annual rate of return of 13.35 percent results in assets with a pretax value of approximately \$11,330,520, investment gain would be subject to taxes. The balance as of September 30, 1999 is estimated to be \$9,859,000.

The balance as of September 30, 1999, based on an average annual rate of 9.0 percent, is estimated to be \$5,370,000.

Alternatively, we have prepared an accounting of the assets of JMHI for periods after March 31, 1982 based on JMHI receiving net proceeds of \$100,000 to buy out interests in the 1966 Hospital Lease and 1968 Hospital Lease.

Liquidation of the business of JMHI as of March 31, 1982 plus \$100,000 is estimated to result in net proceeds of approximately \$1,354,000. Investment of \$1,354,000 from April 1, 1982 through September 30, 1999 at an average annual rate of 13.35 percent results in assets with a pretax value of approximately \$12,031,000, investment gain would be subject to taxes. The balance as of September 30, 1999 is estimated to be \$9,255,000.

The balance as of September 30, 1999, based on an average annual rate of 9.0 percent, is estimated to be \$4,850,000.

Hospital Settlement Through September 30, 2005-\$21,944,511

(\$10,347,000 as of September 30, 1999)

We have prepared an accounting of the assets of JMHI for periods after December 31, 1992 based on JMHI participating in payment under the Inova Letter Agreement and the Settlement Agreement between Inova and JMHIJV.

As of September 30, 2005, Hospital Operations, Hospital Leasing and Hospital Settlement are estimated to result in total assets of approximately \$28,813,786, total liabilities of approximately \$6,869,276, and total shareholders' equity of approximately \$21,944,511. (The total assets and total shareholders' equity balances do not include an amount related to the payment due on October 1, 2005.) Liquidation of the business of JMHI as of September 30, 2005 is estimated to result in net proceeds of approximately \$21,944,511.

The balance as of September 30, 2005 is estimated to be \$21,944,511 and the present value as of September 30, 1999, at an average annual rate of return of 13.35 percent, is estimated to be \$10,347,000.

The present value as of September 30, 1999, based on an annual rate of 9.0 percent, is estimated to be \$4,646,000.

INVESTMENT RATES

Net proceeds would be invested to generate returns on investment. The average annual rate of return was determined based on investment of net proceeds to generate returns equal to the average of the S&P 500 Composite Index Total Return (with dividends) and the Lehman Brothers Intermediate Treasury Bond Index total return. The average annual rate of return determined reflects diversification of investment in corporate equities (the S&P 500 is comprised

of approximately 80 percent of the total market value of New York Stock Exchange) and treasury bonds (Treasury Bonds with terms of one to ten years).

Alternatively, an annual rate was determined based on investment of net proceeds to generate returns equal to the 9 percent statutory rate.

No costs related to investment, investment management, legal and accounting expenses or trust management have been included. Such costs would reduce the amounts determined in the accounting.

TAXATION

Investment gains would be subject to federal and state taxes. The federal tax rate for long-term capital gains is twenty percent and the Commonwealth of Virginia corporate tax rate is six percent. Taxes on investment gains have been estimated based on a combined tax rate of twenty-six percent.

FINANCIAL STATEMENTS

The Accounting and alternative accountings are primarily based on contemporaneous documents and information, including annual financial statements which reflect Hospital Operations. JMHC Statements of Income effectively include revenues and expenses related to Hospital Operations. JMHC Balance Sheets effectively include certain assets and liabilities related to Hospital Operations. JMHC Statements of Income and Balance Sheets were analyzed and adjusted to reflect Hospital Operations.

BACKGROUND

Jefferson Memorial Hospital, Inc.

Jefferson Memorial Hospital, Inc., a Maryland corporation, (JMHI) was incorporated on or about March 13, 1963. In August 1964, JMHI had as its purpose "To establish and maintain a hospital center and adjuncts convenient and necessary for its proper administration; to receive and administer funds for scientific, educational, charitable purposes, all for the public welfare, and for no other purposes..." In the event of dissolution of JMHI, all net assets after payment of all bills and expenses of dissolution were to be distributed for such purposes as specified in Section 501 (C) of the Internal Revenue Service Code of 1954 and were not to be distributed to any members of JMHI. JMHI was dissolved by the State of Maryland on or about April 18, 1973.

JMHI Operations

JMHI operated a 120-bed general-acute hospital, Jefferson Memorial Hospital (the Hospital), at 4600 King Street in Alexandria, Virginia (Hospital Operations). The Hospital was constructed in 1964 and 1965 with 96 beds (the Original Hospital Building) and was expanded to 120 beds in 1968 (the 1968 Addition). JMHI did not own the Hospital building, all of the land, or all of the equipment used in the Hospital Operations, but leased the hospital building (the Original Hospital Building and the 1968 Addition), certain land and certain equipment. (Lease of land, buildings and equipment for use in hospital operations was not uncommon.) As of June 30, 1971, JMHI owned approximately twenty percent of the land, generally comprised of the land underlying the Hospital building.

JMHI Leases

1966 Hospital Lease

JMHI leased the Original Hospital Building for 40 years commencing on January 1, 1966 to operate the Hospital building only as a hospital center (the 1966 Lease). The 1966 Lease was canceled July 1, 1975.

Under the terms of the 1966 Lease, annual rent was \$80,940, with a provision that on each tenth anniversary of the commencement date of the lease the annual rate could be adjusted by a formula based on the wholesale price index and JMHI paid all utilities, maintenance, insurance and taxes and made all repairs and replacements on the property.

The 1966 Lease required JMHI "to use the Leased Premises for the conduct and operation of a hospital center..." and set forth "The Lessee (JMHI) may not sublet the Leased Premises, or any portion thereof, without the written consent of the Lessor (Jefferson Memorial Hospital Associates)."

1968 Hospital Lease

JMHI separately leased the 24-bed addition to the Hospital which was completed in 1968 (the 1968 Lease). No final leasing agreement had been entered into as of June 30, 1971, however, JMHI expected to pay and accrued \$11,232 per annum for lease payments.

Land Leases

JMHI had two leases for the greater portion of the land at 4600 King Street. One land lease was for 99 years commencing January 1, 1966 with annual rent of \$15,600 with a provision that on each tenth anniversary of the lease commencement date the annual rent could be adjusted by a formula based on the wholesale price index. The second land lease was for 99 years commencing January 1, 1966 with annual rent of \$2,406.80.

Equipment Lease

JMHI leased certain hospital equipment. The lease was for 10 years commencing January 2, 1966, at which time the equipment was to be contributed to JMHI. The annual rent was \$17,500 for the first two years; \$25,000 for the second two years; and \$42,500 for the subsequent six years. No curtailment of this liability was made by JMHI from 1968 through June 30, 1971. In addition to the annual rental, the Hospital was to provide and pay all maintenance, repairs, taxes and insurance on the equipment. Lease equipment was entered on the books of JMHI at the value determined by Marshall & Stevens, Incorporated.

Acquisition and Dissolution

On July 1, 1971 JMHI entered a plan and agreement of reorganization for merger with Jefferson Memorial Hospital Corporation (JMHC). The economic substance of the merger was that JMHC would receive all of the net assets (assets and liabilities) of JMHI as of June 30, 1971 for issuance of 5,000 shares of JMHC stock. No transfer of stock was made. Efforts were made in 1971 and again in 1973 to effectuate the merger. However, the transaction was not consummated as a merger.

The Court found that "no merger of JMHI and JMHC has occurred and the transactions by directors of JHMI are void, the assets remained in JMHI until its dissolution. At the time of dissolution, these assets passed into and remain in the hands of Respondents as trustees." JMHI was dissolved by the State of Maryland on or about April 18, 1973. Thereby, JMHI was "no longer function(ing) as a corporation" and, therefore, the trustees would "wind up or liquidate the business."

Jefferson Memorial Hospital

Jefferson Memorial Hospital was a 120-bed general-acute hospital at 4600 King Street in Alexandria, Virginia. Jefferson Memorial Hospital came to occupy the Original Hospital Building, the 1968 Addition, other Hospital additions and space in an adjacent and attached Medical Office Building. Additions and improvements to the Hospital and Medical Office Building are summarized as follows:

<u>Additions/Improvements</u>	<u>Date</u>
Hospital:	
Hospital Building - 96 Beds	1965
Hospital Addition - 24 Beds	1968
Medical Office Building Third Floor Hospital Space	January 2, 1979
Intensive Care Unit	July 2, 1979
Georgetown Lab	June 30, 1980
Hospital Addition - Fourth Floor	March 1, 1984
Medical Office Building:	
Medical Office Building	1978
* Office/Parking Building Annex	October 1, 1982
* Improvements Annex	January 1, 1983
* Improvements Office/Parking Annex	April 1, 1989
* Beaugard Building	

Jefferson Memorial Hospital was operated by 1) JMHI or JMHC from 1965 to March 31, 1982, when Hospital Operations were relinquished to Health Group of Virginia, Inc. 2) by HGV from April 1, 1982 to June 30, 1985 and 3) by Fairfax Hospital Association (Inova) from July 31, 1985 until December 31, 1992, when Jefferson Memorial Hospital was closed as a general-acute hospital. Inova made the decision to close in-patient facilities as a result of Hospital Operations being unable to maintain financial viability. (For 1992, total expenses of \$27,055,000 exceeded revenues of \$18,721,000 resulting in a loss of \$8,334,000.)

From June 30, 1971 through March 31, 1982, Hospital Operations did not generate sufficient cash revenues (working capital, funded depreciation, and debt service reserves) to fully compensate officers and professional administration and to make additions of building and certain equipment. Hospital Operations were supported by the physicians and staff of Jefferson Memorial Hospital and by cash infusion. After 1985, Fairfax Hospital Association operated Jefferson Memorial Hospital and was unable to maintain financial viability, reporting a loss of \$8,334,000 for 1982 and estimating substantial prospective losses of \$1,000,000 through 2005. Hospital financial operations did not support significant fair market value.

Jefferson Memorial Hospital Corporation

Jefferson Memorial Hospital Corporation (JMHC) operated Jefferson Memorial Hospital from July 1, 1971 through March 31, 1982, when Hospital Operations were relinquished to Health Group of Virginia, Inc. JMHC's name was changed to Jefferson Corporation of Alexandria effective March 23, 1982.

On July 1, 1971, JMHC entered a plan and agreement of reorganization for merger with JMHI. The economic substance of the merger was that JMHC would receive all of the net assets (assets and liabilities) of JMHI as of June 30, 1971 for issuance of 5,000 shares of JMHC stock. No transfer of stock was made. Efforts were made in 1971 and again in 1973 to effectuate the merger. However, the transaction was not consummated as a merger.

On July 1, 1971, JMHC acquired all of the net assets (assets and liabilities) of Jefferson Memorial Hospital Associates (JMHA), whose main source of income was from JMHA's ownership of the Original Hospital Building and the 1968 Addition.

Jefferson Memorial Hospital Joint Venture

As of July 1, 1975, Jefferson Memorial Hospital Joint Venture (JMHJV) acquired all of the land, buildings and equipment owned by JMHC for \$240,000 and the assumption of the existing mortgage payable of \$508,238.57. (JMHC's land and buildings included at least the greater portion of the land at 4600 King Street and the Hospital building, each of which had been leased to JMHI under the 1966 Hospital Lease, 1968 Hospital Lease and Land Leases.) JMHC leased the land and building from JMHJV for a period of twenty years. The basic annual rent was \$112,000 and JMHC was to pay maintenance, insurance and taxes on the property.

JMHC additionally leased the third floor of the Medical Office Building for expansion of the hospital, which increased annual rent to \$230,748 in fiscal years 1981 and 1982. JMHC also rented storage and physical therapy space.

Health Group of Virginia, Inc.

Health Group of Virginia, Inc. (HGV) leased the land, building and related equipment, furniture and fixtures and non-clinical replacement for a term of ten years and one month commencing April 1, 1982 (the HGV Lease). The annual rent for the first five years was \$1,000,000. As of April 1, 1982, the building included significant additions to the Original Hospital Building and 1968 Addition. HGV also purchased all patient accounts receivable, certain moveable equipment, inventory and prepaid expenses, as of March 31, 1982. In addition, HGV was responsible for payment of taxes, insurance, repairs, maintenance costs, utilities, replacement of fixtures and equipment. HGV required construction of additional general-acute care space and additional Medical Office Building space.

Concurrent with the lease of the Hospital building to HGV, JMHC's lease agreement with JMHJV was amended to provide that the annual rent would increase to \$900,000 and in consideration JMHJV would build additional space, including general-acute care space, and assume other responsibilities. JMHI would not have had funds or debt capacity to finance construction of additional general-acute care space or a Medical Office Building.

As of April 1, 1982 Hospital Operations had not generated sufficient cash to make timely lease payments, to maintain appropriate cash reserves, to fully compensate officers and professional administration and to make additions of buildings and certain equipment. Further, Medical staff physicians did not maintain pace with the rapidly changing and increasingly sophisticated hospital industry. Hospital Operations were appropriately relinquished to HGV.

Fairfax Hospital Association

On July 31, 1985, Fairfax Hospital Association (Inova) acquired all of the outstanding stock of Health Group of Virginia, Inc., which operated Jefferson Memorial Hospital. Fairfax Hospital Association leased the land, building (the main hospital building, the entire fourth floor of the nursing wing addition, and the space leased in the Medical Office Building which included the third floor and suites (Unit 45 – December 1, 1986 and Unit 4G – November 30, 1992), all of which were then utilized in the operation of Jefferson Memorial Hospital) and related equipment, furniture and fixtures for a term of twenty years and three months commencing July 31, 1985 (the Fairfax Lease). The annual rent for fiscal years 1986 and 1987 was \$1,000,000 and for fiscal years 1988 through December 31, 1992 was \$1,200,000. In addition, the annual rent for the fourth floor addition was \$375,000. Fairfax Hospital Association was responsible for payment of taxes, insurance, repairs, maintenance costs, utilities and replacement of fixtures and equipment.

Leased Property

The JMHI Leases (1966 Hospital Lease, 1968 Hospital Lease and Land Leases), the HGV Lease, and the Fairfax Lease included certain land and certain buildings summarized as follows:

	<u>JMHI Leases</u>	<u>HGV Lease</u>	<u>Fairfax Lease</u>
Land	X	X	X
Hospital Building	X	X	X
Hospital Addition	X	X	X
Intensive Care Unit		X	X
Georgetown Lab		X	X
Hospital Addition - Fourth Floor			X
Medical Office Building - Third Floor		X	X
Medical Office Building - Suites			X

The Medical Office Building – Third Floor and the Hospital Building – Fourth Floor consisted of approximately 22,000 square feet and 18,000 square feet, respectively.

ACCOUNTING

Cobb & Associates, Ltd., a professional corporation, has been retained to prepare an accounting of the assets of Jefferson Memorial Hospital Inc. (JMHI) based on holding of the assets of JMHI "in trust for the public" in "accord with the charitable purposes to which they should have been devoted."

We understand the

"fundamental objective of an account(ing) should be to provide essential and useful information in a meaningful form to the parties interested in the accounting process. It is also important that the account(ing) should be sufficiently simple to enable its preparation without unreasonable expense to the fund, or undue distraction from the on-going administration of the estate. Finally, although the parties should understand the nature of the accounting process and the need to protect their interest, the relationship of trust and confidence existing between the fiduciary and the beneficiaries is itself important and the account should not be presented in an adversary format that will unnecessarily impair this relationship." ⁽¹⁾

"A fiduciary accounting may take one of many forms, depending, in part, upon the objectives sought to be achieved. For example, an accounting might show the recent investment performance of a fund as a springboard for future investment decisions. In general, however, state and local rules regard the fiduciary's account as a record of what he has done. These rules, or the concern of interested parties, may require the fiduciary to prepare an account at the close of his administration, or at some appropriate intermediate stage, to reflect the transactions that have occurred. The statement is presented to the parties in interest as part of the process by which the fiduciary seeks discharge of responsibility for the property entrusted and release from liability for the events disclosed. It is this type of fiduciary accounting, often referred to as "discharge" accounting, to which this book is addressed." ⁽¹⁾

(1) Fiduciary Accounting Guide, Second Edition, Robert Whitman, American Law Institute-American Bar Association Committee on Continuing Professional Education.

Preparation of the accounting required estimates and assumptions that affect the included amounts and calculations.

We have relied on financial statements and information regarding Hospital Operations, reflected in information regarding Jefferson Memorial Hospital, Inc., Jefferson Memorial Hospital Corporation, Jefferson Memorial Hospital Joint Venture, and Fairfax Hospital Association. We have not conducted an audit or review in accordance with generally accepted auditing standards. Therefore, we do not express any opinion on or provide any assurance on the fair presentation or conformance with generally accepted accounting principles of the financial statements and information.

ACCOUNTING

Hospital Operations Through April 18, 1973

The Court found that "the assets remained in JMHI until its dissolution," which occurred on or about April 18, 1973 ("The charter revocation terminated JMHI's corporate existence and powers, and it could no longer function as a corporation") and "(a)t the time of dissolution, these assets passed into and remain in the hands of Respondents as trustees." Therefore, we have prepared an accounting of the assets of JMHI through April 18, 1973.

We have prepared an accounting of the assets of JMHI, based on JMHI operating a 120-bed general-acute hospital, Jefferson Memorial Hospital, through June 30, 1973 (the date closest to the April 18, 1973 dissolution of JMHI, for which financial statements have been available) and on JMHI "no longer function(ing) as a corporation" and, therefore, "to wind up or liquidate the business" as of approximately April 18, 1973.

JMHI operated Jefferson Memorial Hospital through June 30, 1971 and JMHC effectively operated Jefferson Memorial Hospital through April 18, 1973 from the base of net assets of JMHI.

Beginning Net Assets - June 30, 1971

The accounting assets and liabilities as of June 30, 1971 related to Hospital Operations are set forth on the June 30, 1971 JMHI Balance Sheet. The Court found that JMHI "had value as a 'going concern' with growing revenues but an erratic pattern of net earnings", however, "the value of the corporation (JMHI) did not exceed its liabilities." Further, the Court found "the assets remained in JMHI until its dissolution" on or about April 18, 1973.

The accounting assets and liabilities related to Hospital Operations as of April 18, 1973 are estimated based on continued Hospital Operations through June 30, 1973 from the base of net assets of JMHI as of June 30, 1971. JMHI's Balance Sheet as of June 30, 1971 is summarized as follows:

<u>Assets</u>	
Cash	\$ 56,247
Notes Receivable	4,600
Accounts Receivable (Net)	741,431
Accrued Interest Receivable	7,239
Inventories	20,152
Plant and Equipment (Net)	
Land	\$147,456
Land Improvements	1,395
Fixed Equipment	88,213
Major Movable Equipment	<u>196,261</u>
Total Plant and Equipment (Net)	433,325
Other Assets	<u>29,757</u>
Total Assets	<u>\$ 1,292,751</u>
<u>Liabilities and Shareholders' Deficit</u>	
Accounts Payable	\$ 289,913
Contract Payable	183,196
Accrued Expenses	142,701
Provision for Contractual Adjustments	280,111
Notes Payable	84,503
Lease Agreement	280,000
Bond Payable	319,000
Advance Deposits	102,000
Funds Held in Escrow	<u>3,895</u>
Total Liabilities	\$ 1,685,319
Shareholders' Equity (Deficit)	
Donated Capital	20,051
Retained Deficit	<u>(412,619)</u>
Total Shareholders' Deficit	<u>(392,568)</u>
Total Liabilities and Shareholders' Deficit	<u>\$ 1,292,751</u>

Total Liabilities exceeded Total Assets and exceeded the value of the corporation and JMHI reported Total Shareholders' Deficit of (\$392,568) as of June 30, 1971.

Land of \$147,456 includes all of the land at 4600 King Street, although as of June 30, 1971, JMHI owned only approximately twenty percent of the land. Twenty percent of the land indicates value of \$29,491 ($\$147,456 \times .20$). However, a land transaction prior to June 30, 1971 was based on the value of the land approximately doubling, indicating value of \$58,982 ($\$147,456 \times .20 \times 2$). Inclusion of land of \$147,456 overstates JMHI's assets.

Hospital Operations Through April 18, 1973

From the base of net assets as of June 30, 1971, Hospital Operations of Jefferson Memorial Hospital continued. Receipts and disbursements related to Hospital Operations were effectively included within JMHC Statements of Income and within JMHC Balance Sheets for the years ended June 30, 1972 and 1973.

Statements of Income

JMHC Statements of Income for the years ended June 30, 1972 and June 30, 1973 (the date closest to the April 18, 1973 dissolution of JMHI, for which financial statements have been available) effectively included revenues and expenses related to Hospital Operations. JMHC Statements of Income included Hospital Operations and the operations of Jefferson Memorial Hospital Associates (JMHA), a partnership which owned the Hospital building and portions of the land.

JMHC Statements of Income adjusted to estimate Hospital Operations for the years ended June 30, 1972 and June 30, 1973 are summarized as follows:

	<u>Years Ended June 30,</u>	
	<u>1972</u>	<u>1973</u>
JMHC Statements of Income		
Revenue from Services to Patients	\$ 4,454,092	4,749,445
Other Operating Income	47,768	45,115
Total Revenue	4,501,860	4,794,560
Deductions from Revenue	535,746	548,525
Net Operating Revenue	3,966,114	4,246,035
Operating Expenses		
Hospital Operating Expenses	3,586,124	3,774,403
Depreciation	39,930	41,410
Rent of Land	-	20,006
Rent of Land, Building and Equipment	19,844	-
Taxes-other than Payroll and Income	43,823	67,179
Total Operating Expenses	3,689,721	3,902,998
Net Operating Income	276,393	343,037
Other Income (Expense)		
Other Income	52,806	12,024
Other Expenses		
Interest	(93,872)	(76,560)
Amortization of Goodwill	(11,379)	(11,377)
Loss on Disposal of Equipment	(994)	(307)
Miscellaneous	(2,176)	(2,010)
Net Other Income (Expense)	(55,615)	(78,230)
Income Before Income Taxes	220,778	264,807
Income Taxes	12,769	124,833
Net Income	\$ 208,009	139,974
Hospital Operations Adjustment		
Income Before Income Taxes	\$ 220,778	264,807
Plus:		
Building Depreciation	32,214	32,214
Rent of Land	-	20,006
Rent of Land, Building and Equipment	19,844	-
Interest on Senior Debt (1)	34,949	32,738
Interest on Junior Debt (2)	3,838	3,450
Amortization of Goodwill	11,379	11,377
Less:		
Lease Payments		
1966 Hospital Lease	(80,940)	(80,940)
1968 Hospital Lease	(11,232)	(11,232)
Land Lease #1	(15,600)	(15,600)
Land Lease #2	(2,407)	(2,407)
Adjusted Income Before Income Taxes	212,823	254,413
Adjusted Income Taxes (3)	12,344	119,829
Hospital Operations Net Income	\$ 200,479	134,584

- (1) Senior Debt principal x 6 percent interest
- (2) Junior Debt principal x 6 percent interest
- (3) Adjusted income taxes have been estimated based on the ratio of reported income taxes to reported income before income taxes. Net operating loss carry forwards were applied to income before taxes for the year ended June 30, 1972

Hospital Operations revenues and expenses and net income for the years ended June 30, 1972 and 1973 were estimated by adjusting JMHC Statements of Income for the years ended June 30, 1972 and 1973.

Hospital Operations adjustments began with JMHC Income Before Income Taxes. Building Depreciation, Interest on Senior Debt and on the Junior Debt relate to building and ownership. JMHI did not own buildings or all of the land and, therefore, building and certain land ownership expenses have been excluded from JMHC Income Before Income Taxes. (Annual Building Depreciation is reported within Accumulated Depreciation on the JMHC Balance Sheet. Senior Debt and Junior Debt ending balances and the related interest rate of six percent are reported in the notes to JMHC Financial Statements for the years ended June 30, 1972 and 1973.)

Rent of Land, Building and Equipment, as reported in supplemental schedules of the JMHC Financial Statements, has been excluded and replaced with lease payments, as set forth in the 1966 Hospital Lease of \$80,990 and the 1966 Land Leases of \$18,007 (\$15,600 + \$2,407) and as set forth in the notes to financial statements for the 1968 Hospital Lease of \$11,232. (Interest expense related to untimely payment of leases has not been included.)

Amortization of Goodwill does not relate to Hospital Operations and was excluded from Income Before Income Taxes.

Adjusted income taxes have been estimated based on the ratio of reported income taxes to reported income before income taxes and subtracted from Adjusted Income Before Income Taxes.

Balance Sheets

Hospital Operations balance sheets were estimated by adjusting JMHC Balance Sheets as of June 30, 1972 and 1973 to estimate the assets and liabilities related to Hospital Operations and to include Hospital Operations Net Income. Hospital Operations Balance Sheets (JMHI and JMHC Balance Sheet amounts are in bold) are summarized as follows:

	June 30, 1971			June 30, 1972			June 30, 1973	
Assets		Debits	Credits		Debits	Credits		
Cash	\$ 56,247	3,742	15,175	(85,847)	1,000	224,059	(5,354)	
		77,663	189,474		498	1,191		
		12,344	1,465		1,998	34,905		
		1,000	2,070		265	34,639		
		939	4,704		37,745	101,075		
		200,479	24,433		107,485	24,782		
			74,256		1,309	5,000		
			48,847		221,260			
			58,337		134,584			
			19,500					
Totals		296,167	438,261		506,144	425,651		
Notes Receivable	4,600	15,175	-	19,775	-	1,000	18,775	
Accounts Receivable (Net)	741,431	189,474	-	930,905	224,059	-	1,154,964	
Accrued Interest Receivable	7,239	1,465	-	8,704	-	498	8,206	
Inventories	20,152	2,070	-	22,222	1,191	-	23,413	
Plant and Equipment (Net)								
Land	147,456			147,456				
Land Improvements	1,395			890				
Fixed Equipment	88,213			94,531				
Major Movable Equipment	196,261			186,706				
Subtotal: Total Plant and Equipment (Net)	433,325	-	3,742	429,583	-	1,998	427,585	
Other Assets	29,757	4,704	-	34,461	-	265	34,196	
Total Assets	\$ 1,292,751			1,359,803			1,661,785	
Liabilities and Shareholders' Deficit								
Accounts Payable	\$ 289,913	-	77,663	367,576	34,905	-	332,671	
Contract Payable	183,196	24,433	-	158,763	34,639	-	124,124	
Accrued Expenses	142,701	74,256	-	68,445	-	37,745	106,190	
Income Taxes Payable	-	-	12,344	12,344	-	107,485	119,829	
Provision for Contractual Adjustments	280,111	48,847	-	231,264	101,075	-	130,189	
Notes Payable	84,503	58,337	-	26,166	24,782	-	1,384	
Lease Agreement	280,000			280,000			280,000	
Bond Payable	319,000	19,500	-	299,500	-	-	299,500	
Advance Deposits	102,000	-	1,000	103,000	5,000	-	98,000	
Funds Held in Escrow	3,895	-	939	4,834	-	1,309	6,143	
Subordinate Loan (Cash Infusion)	-	-	-	-	-	221,260	221,260	
Total Liabilities	1,685,319			1,551,892			1,491,887	
Shareholders' Equity (Deficit)								
Donated Capital	20,051			20,051			20,051	
Retained Deficit	(412,619)	-	200,479	(212,140)	-	134,584	(77,556)	
Total Shareholders' Deficit	(392,568)			(192,089)			(57,505)	
Total Liabilities and Shareholders' Deficit	\$ 1,292,751			1,359,803			1,661,785	

Balance sheet accounts in bold type are amounts reported on the JMHI balance sheet as of June 30, 1971 and on JMHC balance sheets as of June 30, 1972 and 1973. Net changes in asset, liability and shareholders' deficit accounts are added to or subtracted from the ending cash balance for the prior year to calculate the estimated cash balance for the current year.

Adjusted Hospital Operations Net Income and Adjusted Income Taxes are reflected in Retained Deficit and Income Taxes Payable, respectively.

Plant and equipment, net, includes \$147,456 for all of the land, although as of June 30, 1973 JMHI owned only approximately twenty percent of the land. Twenty percent of the land indicates value of \$29,491 ($\$147,456 \times .20$). However, a land transaction prior to June 30, 1973 was based on the value of the land doubling, indicating value of \$58,982 ($\$147,456 \times .20 \times 2$). Inclusion of land of \$147,456 overstates Hospital Operations' assets.

Hospital Operations did not generate sufficient cash to maintain appropriate cash reserves (working capital, funded depreciation, and debt service reserves), to fully compensate officers and professional administration and to make additions of buildings and certain equipment. (Payments to fully compensate officers and professional administration would have reduced Hospital Operations cash flow and may not have lead to additional revenue.) During the years ended June 30, 1972 and 1973 Hospital Operations did not make payments on certain Lease Agreements and during the year ended June 30, 1973 Hospital Operations did not make payments on Bonds Payable.

Hospital Operations were supported by the physicians and staff of Jefferson Memorial Hospital and by a cash infusion of \$221,260 during the year ended June 30, 1973. (During fiscal year 1973, JMHC sold 60,000 shares of its common stock for \$221,260.) The cash infusion has been considered as a subordinate loan to Hospital Operations.

Liquidation as of April 18, 1973

As of approximately April 18, 1973 (June 30, 1973) Hospital Operations are estimated to result in total liabilities of approximately \$1,719,290 which exceed total assets of approximately \$1,661,785, and total shareholders' deficit of approximately (\$57,505). Liquidation of the business would be expected to have resulted in realization of cash in amounts less than reflected in the balance sheet asset accounts. Liquidation of the business as of April 18, 1973 is estimated to result in no net proceeds.

Balance as of September 30, 1999

Liquidation of the business of JMHI as of April 18, 1973 is estimated to result in no net proceeds. Therefore, there would not be amounts to be invested and the balance as of September 30, 1999 would be zero.

ALTERNATIVE ACCOUNTINGS

To provide additional information, we have prepared alternative accountings based on alternative assumptions regarding operations, assets, and date of liquidation of operations.

Hospital Operations Through July 1, 1975

We have prepared an accounting of the assets of JMHI, based on continuation of Hospital Operations (effectively investment of the net assets as of June 30, 1971 in Hospital Operations) through July 1, 1975 and on no longer participating in Hospital Operations "to wind up or liquidate the business" as of approximately July 1, 1975.

JMHI operated Jefferson Memorial Hospital through June 30, 1971 and JMHC effectively operated Jefferson Memorial Hospital through July 1, 1975 from the base of net assets of JMHI.

As of July 1, 1975, Jefferson Memorial Hospital Joint Venture (JMHJV) acquired all of the land, buildings and equipment owned by JMHC for \$240,000 and the assumption of the existing mortgage payable of \$508,238.57. (JMHC's land included at least the greater portion of the land at 4600 King Street and the Hospital building, each of which had been leased to JMHI under the 1966 Hospital Lease, 1968 Hospital Lease and Land Leases.) JMHC's ownership of land and buildings ended July 1, 1975. (Sale and leaseback of land, building and equipment to generate cash or to extinguish debt was not an uncommon financing vehicle.)

Beginning Net Assets - June 30, 1971

The accounting assets and liabilities as of June 30, 1971 related to Hospital Operations are set forth on the June 30, 1971 JMHI Balance Sheet. The Court found that JMHI "had value as a 'going concern' with growing revenues but an erratic pattern of net earnings", however, "the value of the corporation (JMHI) did not exceed its liabilities." Further, the Court found "the assets remained in JMHI until its dissolution" on or about April 18, 1973.

The accounting assets and liabilities related to Hospital Operations as of April 18, 1973 are estimated based on continued Hospital Operations through June 30, 1973 from the base of net assets of JMHI as of June 30, 1971. JMHI's Balance Sheet as of June 30, 1971 is summarized as follows:

<u>Assets</u>	
Cash	\$ 56,247
Notes Receivable	4,600
Accounts Receivable (Net)	741,431
Accrued Interest Receivable	7,239
Inventories	20,152
Plant and Equipment (Net)	
Land	\$147,456
Land Improvements	1,395
Fixed Equipment	88,213
Major Movable Equipment	<u>196,261</u>
Total Plant and Equipment (Net)	433,325
Other Assets	<u>29,757</u>
Total Assets	<u>\$ 1,292,751</u>
<u>Liabilities and Shareholders' Deficit</u>	
Accounts Payable	\$ 289,913
Contract Payable	183,196
Accrued Expenses	142,701
Provision for Contractual Adjustments	280,111
Notes Payable	84,503
Lease Agreement	280,000
Bond Payable	319,000
Advance Deposits	102,000
Funds Held in Escrow	<u>3,895</u>
Total Liabilities	\$ 1,685,319
Shareholders' Equity (Deficit)	
Donated Capital	20,051
Retained Deficit	<u>(412,619)</u>
Total Shareholders' Deficit	<u>(392,568)</u>
Total Liabilities and Shareholders' Deficit	<u>\$ 1,292,751</u>

Total Liabilities exceeded Total Assets and exceeded the value of the corporation and JMHI reported Total Shareholders' Deficit of (\$392,568) as of June 30, 1971.

Land of \$147,456 includes all of the land at 4600 King Street, although as of June 30, 1971, JMHI owned only approximately twenty percent of the land. Twenty percent of the land indicates value of \$29,491 ($\$147,456 \times .20$). However, a land transaction prior to June 30, 1971 was based on the value of the land approximately doubling, indicating value of \$58,982 ($\$147,456 \times .20 \times 2$). Inclusion of land of \$147,456 overstates JMHI's assets.

Hospital Operations Through July 1, 1975

From the base of net assets as of June 30, 1971, Hospital Operations of Jefferson Memorial Hospital continued. Receipts and disbursements related to Hospital Operations were effectively included within JMHC Statements of Income and within JMHC Balance Sheets for the years ended June 30, 1972 through 1975.

Statements of Income

JMHC Statements of Income for the years ended June 30, 1972 through June 30, 1975 (immediately prior to the July 1, 1975 acquisition of all of the land, buildings and equipment owned by JMHC) effectively included revenues and expenses related to Hospital Operations. JMHC Statements of Income included Hospital Operations and the operations of Jefferson Memorial Hospital Associates (JMHA), a partnership which owned the Hospital building and portions of the land through July 1975.

JMHC Statements of Income adjusted to estimate Hospital Operations for the years ended June 30, 1972 through June 30, 1975 are summarized as follows:

	Years Ended June 30.			
	1972	1973	1974	1975
JMHC Statements of Income				
Revenue from Services to Patients	\$ 4,454,092	4,749,445	5,337,784	6,303,817
Other Operating Income	<u>47,768</u>	<u>45,115</u>	<u>44,891</u>	<u>46,046</u>
Total Revenue	4,501,860	4,794,560	5,382,675	6,349,863
Deductions from Revenue	<u>535,746</u>	<u>548,525</u>	<u>896,937</u>	<u>857,337</u>
Net Operating Revenue	3,966,114	4,246,035	4,485,738	5,492,526
Operating Expenses				
Hospital Operating Expenses	3,586,124	3,774,403	4,241,784	5,047,324
Depreciation	39,930	41,410	72,394	84,948
Rent of Land	-	20,006	20,373	21,055
Rent of Land, Building and Equipment	19,844	-	-	-
Taxes- other than Payroll and Income	<u>43,823</u>	<u>67,179</u>	<u>60,657</u>	<u>62,380</u>
Total Operating Expenses	3,689,721	3,902,998	4,395,208	5,215,707
Net Operating Income	276,393	343,037	90,530	276,819
Other Income (Expense)				
Other Income	52,806	12,024	22,211	10,384
Other Expenses				
Interest	(93,872)	(76,560)	(76,423)	(71,404)
Amortization of Goodwill	(11,379)	(11,377)	(11,377)	(11,377)
Loss on Disposal of Equipment	(994)	(307)	(1,645)	(6,731)
Miscellaneous	<u>(2,176)</u>	<u>(2,010)</u>	<u>(7,559)</u>	<u>(482)</u>
Net Other Income (Expense)	(55,615)	(78,230)	(74,793)	(79,610)
Income Before Income Taxes	220,778	264,807	15,737	197,209
Income Taxes	<u>12,769</u>	<u>124,833</u>	<u>5,349</u>	<u>74,795</u>
Net Income	<u>\$ 208,009</u>	<u>139,974</u>	<u>10,388</u>	<u>122,414</u>
Hospital Operations Adjustments				
Income Before Income Taxes	\$ 220,778	264,807	15,737	197,209
Plus:				
Building Depreciation	32,214	32,214	32,214	32,214
Rent of Land	-	20,006	20,373	21,055
Rent of Land, Building and Equipment	19,844	-	-	-
Interest on Senior Debt (1)	34,949	32,738	30,316	27,895
Interest on Junior Debt (2)	3,838	3,450	3,025	2,599
Amortization of Goodwill	11,379	11,377	11,377	11,377
Less:				
Lease Payment				
1966 Hospital Lease	(80,940)	(80,940)	(80,940)	(80,940)
1968 Hospital Addition	(11,232)	(11,232)	(11,232)	(11,232)
Land Lease #1	(15,600)	(15,600)	(15,600)	(15,600)
Land Lease #2	(2,407)	(2,407)	(2,407)	(2,407)
Subordinate Loan	-	-	(21,573)	(23,676)
Adjusted Income Before Income Taxes	212,823	254,413	(18,710)	158,494
Adjusted Income Taxes (3)	<u>12,344</u>	<u>119,829</u>	<u>(6,361)</u>	<u>60,069</u>
Hospital Operations Net Income	<u>\$ 200,479</u>	<u>134,584</u>	<u>(12,349)</u>	<u>98,425</u>

- (1) Senior Debt principal x 6 percent interest
- (2) Junior Debt principal x 6 percent interest
- (3) Adjusted income taxes have been estimated based on the ratio of reported income taxes to reported income before income taxes. Net operating loss carry forwards were applied to income before taxes for the year ended June 30, 1972.

Hospital Operations revenues and expenses and net income for the years ended June 30, 1972 through 1975 were estimated by adjusting JMHC Statements of Income for the years ended June 30, 1972 through 1975.

Hospital Operations adjustments began with JMHC Income Before Income Taxes. Building Depreciation, Interest on Senior Debt and on the Junior Debt relate to building and land ownership. JMHI did not own buildings or all of the land and, therefore, building and certain land ownership expenses have been excluded. (Annual Building Depreciation is reported within Accumulated Depreciation on the JMHC Balance Sheet. Senior Debt and Junior Debt ending balances and the related interest rate of six percent are reported in the notes to JMHC Financial Statements for the years ended June 30, 1972 and 1975.)

Rent of Land, Building and Equipment, as reported in supplemental schedules of the JMHC Financial Statements, has been excluded and replaced with lease payments, as set forth in the 1966 Hospital Lease of \$80,990 and the 1966 Land Leases of \$18,007 (\$15,600 + \$2,407) and as set forth in the notes to financial statements for the 1968 Hospital Lease of \$11,232. (Interest expense related to untimely payment of leases has not been included.)

Amortization of Goodwill does not relate to Hospital Operations and was excluded from Income Before Income Taxes.

Interest expense on the Subordinate Loan was calculated at 9.75 percent, based on then prevailing rates.

Adjusted income taxes have been estimated based on the ratio of reported income taxes to reported income before income taxes and subtracted from Adjusted Income Before Income Taxes.

Balance Sheets

Hospital Operations balance sheets were estimated by adjusting JMHC Balance Sheets as of June 30, 1972 through 1975 to estimate the assets and liabilities related to Hospital Operations and to include Hospital Operations Net Income. Hospital Operations Balance Sheets (JMHI and JMHC Balance Sheet amounts are in bold) are summarized as follows:

Hospital Operations

	June 30, 1971	Debits	Credits	June 30, 1972	Debits	Credits	June 30, 1973	Debits	Credits	June 30, 1974
Assets										
Cash	\$ 56,247	3,742	15,175	(85,847)	1,000	224,059	(5,354)	304,698	31,464	(30,734)
		77,663	189,474		498	1,191		548	712	
		12,344	1,465		1,998	34,905		645	10,470	
		1,000	2,070		265	34,639		88,616	50,757	
		999	4,704		37,745	101,075		25,412	34,639	
		<u>230,479</u>	<u>24,433</u>		<u>107,485</u>	<u>24,782</u>		<u>21,573</u>	<u>32,452</u>	
			74,256		1,309	<u>5,000</u>			126,190	
			48,847		221,260				122,696	
			58,337		<u>134,584</u>				39,000	
			<u>19,500</u>						6,143	
									<u>12,349</u>	
Total		256,167	438,261		506,144	425,651		441,492	466,872	
Investments	-			-			-			-
Unrealized Gain on Investments	-			-			-			-
Note Receivable	4,600	15,175		19,775		1,000	18,775	31,464		58,239
Accounts Receivable	741,431	189,474		938,945	224,059		1,154,964		304,698	858,266
Accrued Interest Receivable	7,239	1,465		8,704		498	8,286		548	7,658
Inventories	28,152	2,070		22,222	1,191		23,413	712		24,125
Plant and Equipment										
Land	Cost 147,456		147,456							
Land Improvements	3,927	2,532	1,395							
Fixed Equipment	123,498	35,285	88,213							
Major Movable Equipment	305,807	109,546	196,261							
Total Plant and Equipment	<u>580,688</u>	<u>147,363</u>	<u>433,325</u>	3,742	429,583	1,998	427,585		645	426,940
Other Assets	<u>22,757</u>	4,704		<u>34,451</u>		265	<u>34,196</u>	10,470		<u>44,666</u>
Total Assets	\$ 1,292,751			\$ 1,359,803			\$ 1,661,785			\$ 1,373,160
Liabilities and Shareholders Equity										
Accounts Payable	\$ 289,913		77,663	347,576	34,905		332,671	50,757		281,914
Contract Payable	183,196	24,433	-	158,763	34,639		124,124	34,639		89,485
Accrued Expenses	142,701	74,256		68,445		37,745	186,190	32,452		73,738
Income Taxes Payable	-		12,344	12,344		107,485	119,829	126,190		(6,361)
Provision for Contract Adjustments	288,111	48,847		231,264	101,075		138,189	122,696		7,493
Notes Payable	84,503	58,337		26,164	24,782		1,384		88,616	98,888
Notes Payable - Real Estate	-									
Lease Agreement	280,000			280,000			280,000			280,000
Lease Agreement								25,412		25,412
Bond Payable	319,000	19,500		299,500			299,500			299,500
Advance Deposits	102,000		1,000	103,000	5,000		98,000	39,000		59,000
Funds Held in Escrow	3,895	999	4,834			1,309	6,143	6,143		-
Subordinate Loan (Cash Infusion)	-			-		221,260	221,260			221,260
Interest Payable	-			-			-		21,573	21,573
Total Liabilities	<u>1,685,312</u>			<u>1,551,892</u>			<u>1,719,290</u>			<u>1,443,011</u>
Shareholder Equity (Deficit)										
Donated Capital	28,851			28,851			28,851			28,851
Unrealized Gain on Investments	-			-			-			-
Operating Income (Deficit)	(412,619)	200,479	(212,140)		134,584	(77,556)	12,349			(89,207)
Total Shareholder Equity (Deficit)	<u>(392,568)</u>		<u>(192,089)</u>			<u>(57,505)</u>				<u>(69,806)</u>
Total Liabilities and Shareholder Equity	\$ 1,292,751	734,428	734,428	\$ 1,359,803	931,795	931,795	\$ 1,661,785	908,364	908,364	\$ 1,373,160

Hospital Operations

Debit	Credit	June 30, 1975	
			Assets
34,434	111,668	242,828	Cash
4,800	4,021		
188,380	174,234		
11,211	57,574		
66,430	28,866		
29,755	7,493		
216,943	5,753		
23,676	10,883		
<u>98,425</u>			
674,054	400,492		Totals
		-	Investments
		-	Unrealized Gain on Investments
	34,434	15,885	Note Receivable
111,668		941,934	Accounts Receivable
	4,800	2,853	Accrued Interest Receivable
4,021		28,146	Inventories
			Plant and Equipment
			Land
			Land Improvements
			Fixed Equipment
174,234		601,174	Major Movable Equipment
			Total Plant and Equipment
57,574		187,240	Other Assets
		<u>\$ 1,954,985</u>	Total Assets
			Liabilities and Shareholders' Equity
	188,380	470,294	Accounts Payable
28,866		68,619	Contract Payable
	11,211	84,949	Accrued Expenses
	66,430	60,069	Income Taxes Payable
7,493		-	Provision for Contract Adjustments
	29,755	119,755	Notes Payable
			Notes Payable - Real Estate
		280,000	Lease Agreement
5,753		19,699	Lease Agreement
	216,943	516,443	Bond Payable
10,883		48,117	Advance Deposits
			Funds Held in Escrow
		221,260	Subordinate Loan (Cash Infusion)
23,676		45,249	Interest Payable
		<u>1,926,414</u>	Total Liabilities
		28,851	Shareholder Equity (Deficit)
		-	Donated Capital
		-	Unrealized Gain on Investments
98,425		8,520	Operating Income (Deficit)
		<u>28,571</u>	Total Shareholder Equity (Deficit)
<u>1,074,546</u>	<u>1,074,546</u>	<u>\$ 1,954,985</u>	Total Liabilities and Shareholders'

Balance sheet accounts in bold type are amounts reported on the JMHI balance sheet as of June 30, 1971 and on JMHC balance sheets as of June 30, 1972 through 1975. Net changes in asset, liability and shareholders' deficit accounts are added to or subtracted from the ending cash balance for the prior year to calculate the estimated cash balance for the current year.

Adjusted Hospital Operations Net Income and Adjusted Income Taxes are reflected in Retained Deficit and Income Taxes Payable, respectively.

Plant and equipment, net, includes \$147,456 for all of the land, although as of June 30, 1973 JMHI owned only approximately twenty percent of the land. Twenty percent of the land indicates value of \$29,491 ($\$147,456 \times .20$). However, a land transaction prior to June 30, 1973 was based on the value of the land doubling, indicted value of \$58,982 ($\$147,456 \times 0.20 \times 2$). Inclusion of land of \$147,456 overstates Hospital Operations' assets.

Hospital Operations did not generate sufficient cash to maintain appropriate cash reserves (working capital, funded depreciation, and debt service reserves), to fully compensate officers and professional administration and to make additions of buildings and certain equipment. (Payments to fully compensate officers and professional administration would have reduced Hospital Operations cash flow and may not have lead to additional revenue.) During the years ended June 30, 1972 and 1973 Hospital Operations did not make payments on certain Lease Agreements and during the year ended June 30, 1973 Hospital Operations did not make payments on Bonds Payable.

Hospital Operations were supported by the physicians and staff of Jefferson Memorial Hospital and by a cash infusion of \$221,260 during the year ended June 30, 1973. (During fiscal year 1973, JMHC sold 60,000 shares of its common stock for \$221,260.) The cash infusion has been considered as a subordinate loan to Hospital Operations.

Liquidation as of July 1, 1975

As of approximately July 1, 1975 (June 30, 1975) Hospital Operations are estimated to result in total assets of \$1,954,985, total liabilities of approximately \$1,926,414 and total shareholders' equity of approximately \$28,571. Liquidation of the business would be expected to have resulted in realization of cash in amounts less than reflected in the balance sheet asset accounts (for example: failure to collect only 3 percent of Accounts Receivable of \$961,934 as of June 30, 1975 would result in a shareholders' deficit). Liquidation of the business as of July 1, 1975 is estimated to result in no net proceeds.

Balance as of September 30, 1999

Liquidation of the business of JMHI as of July 1, 1975 is estimated to result in no net proceeds. Therefore, there would not be amounts to be invested and the balance as of September 30, 1999 would be zero.

Hospital Operations Through March 31, 1982

We have prepared an accounting of the assets of JMHI, based on continuation of Hospital Operations (effectively investment of the net assets as of June 30, 1971 in Hospital Operations) through March 31, 1982 and on no longer participating in Hospital Operations "to wind up or liquidate the business" as of approximately March 31, 1982 and investing net assets from April 1, 1982 through September 30, 1999 generating an annual rate of return of 13.35 percent and, alternatively, an annual rate of 9.0 percent.

As of April 1, 1982 Hospital Operations had not generated sufficient cash to make timely lease payments, to maintain appropriate cash reserves, to fully compensate officers and professional administration and to make additions of buildings and certain equipment. Further, Medical staff physicians did not maintain pace with the rapidly changing and increasingly sophisticated hospital industry. Therefore, Hospital Operations were appropriately relinquished to HGV.

Beginning Net Assets - June 30, 1971

The accounting assets and liabilities as of June 30, 1971 related to Hospital Operations are set forth on the June 30, 1971 JMHI Balance Sheet. The Court found that JMHI "had value as a 'going concern' with growing revenues but an erratic pattern of net earnings", however, "the value of the corporation (JMHI) did not exceed its liabilities." Further, the Court found "the assets remained in JMHI until its dissolution" on or about April 18, 1973.

The accounting assets and liabilities related to Hospital Operations as of April 18, 1973 are estimated based on continued Hospital Operations through June 30, 1973 from the base of net assets of JMHI as of June 30, 1971. JMHI's Balance Sheet as of June 30, 1971 is summarized as follows:

<u>Assets</u>	
Cash	\$ 56,247
Notes Receivable	4,600
Accounts Receivable (Net)	741,431
Accrued Interest Receivable	7,239
Inventories	20,152
Plant and Equipment (Net)	
Land	\$147,456
Land Improvements	1,395
Fixed Equipment	88,213
Major Movable Equipment	<u>196,261</u>
Total Plant and Equipment (Net)	433,325
Other Assets	<u>29,757</u>
Total Assets	<u>\$ 1,292,751</u>
<u>Liabilities and Shareholders' Deficit</u>	
Accounts Payable	\$ 289,913
Contract Payable	183,196
Accrued Expenses	142,701
Provision for Contractual Adjustments	280,111
Notes Payable	84,503
Lease Agreement	280,000
Bond Payable	319,000
Advance Deposits	102,000
Funds Held in Escrow	<u>3,895</u>
Total Liabilities	\$ 1,685,319
Shareholders' Equity (Deficit)	
Donated Capital	20,051
Retained Deficit	<u>(412,619)</u>
Total Shareholders' Deficit	<u>(392,568)</u>
Total Liabilities and Shareholders' Deficit	<u>\$ 1,292,751</u>

Total Liabilities exceeded Total Assets and exceeded the value of the corporation and JMHI reported Total Shareholders' Deficit of (\$392,568) as of June 30, 1971.

Land of \$147,456 includes all of the land at 4600 King Street, although as of June 30, 1971, JMHI owned only approximately twenty percent of the land. Twenty percent of the land indicates value of \$29,491 ($\$147,456 \times .20$). However, a land transaction prior to June 30, 1971 was based on the value of the land approximately doubling, indicating value of \$58,982 ($\$147,456 \times .20 \times 2$). Inclusion of land of \$147,456 overstates JMHI's assets.

Hospital Operations Through March 31, 1982

From the base of net assets as of June 30, 1971, Hospital Operations of Jefferson Memorial Hospital continued. Receipts and disbursements related to Hospital Operations were effectively included within JMHC Statements of Income and within JMHC Balance Sheets for the years ended June 30, 1972 through 1982.

Statements of Income

JMHC Statements of Income for fiscal the years ended June 30, 1972 through June 30, 1982 (the date closest to the March 31, 1982 when Hospital Operations were relinquished to HGV, for which financial statements have been available) effectively included revenues and expenses related to Hospital Operations. JMHC Statements of Income included Hospital Operations and the operations of Jefferson Memorial Hospital Associates (JMHA), a partnership which owned the Hospital building and portions of the land, through July 1975.

JMHC Statements of Income adjusted to estimate Hospital Operations for the fiscal years ended June 30, 1972 through June 30, 1982 are summarized as follows:

JMHC Statements of Income

	Years Ended June 30.										
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Revenue from Services to Patients	\$ 4,454,092	4,749,445	5,337,784	6,303,817	6,951,598	7,673,657	8,594,874	9,584,189	11,281,157	14,054,093	11,916,758
Other Operating Income	47,768	45,115	44,891	46,046	34,992	5,814	16,967	9,632	27,094	34,000	38,378
Total Revenue	4,501,860	4,794,560	5,382,675	6,349,863	6,986,590	7,679,471	8,611,841	9,593,821	11,308,251	14,088,093	11,955,086
Deductions from Revenue	535,746	548,525	896,937	857,337	804,652	858,460	1,031,112	1,277,732	1,559,876	2,334,635	1,267,458
Net Operating Revenue	3,966,114	4,246,035	4,485,738	5,492,526	6,181,938	6,821,011	7,580,729	8,316,089	9,748,375	11,753,458	10,687,628
Operating Expenses											
Hospital Operating Expenses	3,586,124	3,774,403	4,241,784	5,047,324	5,571,363	6,245,457	6,893,440	7,650,414	8,907,099	10,809,340	9,070,778
Depreciation	39,930	41,410	72,394	84,948	59,241	64,363	65,618	73,577	84,180	93,593	80,687
Rent of Land	-	20,006	20,373	21,055	-	-	-	-	-	-	-
Rent of Land, Building and Equipment	19,844	-	-	-	150,305	159,073	171,691	200,073	340,349	535,089	437,138
Taxes - other than Payroll and Income	43,823	67,179	60,657	62,380	70,271	71,888	72,924	80,432	104,331	136,593	119,737
Total Operating Expenses	3,689,721	3,902,998	4,395,208	5,215,707	5,851,180	6,540,781	7,203,673	8,004,496	9,435,959	11,574,615	9,708,340
Net Operating Income	276,393	343,037	90,530	276,819	330,758	280,230	377,056	311,593	312,416	178,843	979,288
Other Income (Expense)											
Other Income	52,806	12,024	22,211	10,384	4,181	12,028	13,462	13,041	5,148	51,844	87,388
Other Expenses											
Interest	(93,872)	(76,560)	(76,423)	(71,404)	(57,670)	(65,545)	(63,588)	(64,252)	(61,500)	(61,096)	(81,298)
Amortization of Goodwill	(11,379)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	(11,484)	(11,377)	(11,377)	(11,377)	(11,377)
Loss on Disposal of Equipment	(994)	(307)	(1,645)	(6,731)	(13,643)	(1,896)	(20,532)	(10,916)	1,090	398	-
Miscellaneous	(2,176)	(2,010)	(7,559)	(482)	-	(1,135)	-	-	-	-	-
Loss from Partnership - Lost Crook	-	-	-	-	-	-	(170,623)	(50,718)	(26,355)	(29,148)	-
Loss on Disposal of Land and Building	-	-	-	-	(51,840)	-	-	-	-	-	-
Medical Educational Expenses	-	-	-	-	-	-	-	-	-	-	(35,549)
Contributions	-	-	-	-	-	-	-	-	-	-	(1,000)
Depreciation	-	-	-	-	-	-	-	-	-	-	(27,096)
Rent Land & Bldg. and Equip.	-	-	-	-	-	-	-	-	-	-	(25,774)
Taxes - other than Payroll and Income	-	-	-	-	-	-	-	-	-	-	(265)
Net Other Income (Expense)	(55,615)	(78,230)	(74,793)	(79,610)	(130,349)	(67,925)	(252,765)	(124,222)	(92,994)	(49,379)	(94,971)
Income Before Income Taxes	220,778	264,807	15,737	197,209	200,409	212,305	124,291	187,371	219,422	129,464	884,317
Income Taxes	12,769	124,833	5,349	74,795	87,382	97,177	48,034	60,230	62,540	33,685	419,605
Net Income	\$ 208,009	139,974	10,388	122,414	113,027	115,128	76,257	127,141	156,882	95,779	464,712
Hospital Operations Adjustments											
Income Before Income Taxes	\$ 220,778	264,807	15,737	197,209	200,409	212,305	124,291	187,371	219,422	129,464	884,317
Plus:											
Building Depreciation	32,214	32,214	32,214	32,214	-	-	-	-	-	-	-
Rent of Land	-	20,006	20,373	21,055	-	-	-	-	-	-	-
Rent of Land, Building and Equipment	19,844	-	-	-	-	-	-	-	-	-	-
Interest on Senior Debt (1)	34,949	32,738	30,316	27,895	-	-	-	-	-	-	-
Interest on Junior Debt (2)	3,838	3,450	3,025	2,599	-	-	-	-	-	-	-
Amortization of Goodwill	11,379	11,377	11,377	11,377	11,377	11,377	11,484	11,377	11,377	11,377	11,377
Building Lease	-	-	-	-	112,000	112,000	112,000	112,000	112,000	230,748	230,748
Land Lease #1	-	-	-	-	25,848	25,848	25,848	25,848	25,848	25,848	25,848
Land Lease #2	-	-	-	-	3,988	3,988	3,988	3,988	3,988	3,988	3,988
Loss on Disposal of Land and Building	-	-	-	-	51,840	-	-	-	-	-	-
Loss from Partnership - Lost Crook	-	-	-	-	-	-	170,623	50,718	26,355	29,148	-
Less:											
Lease Payment											
1966 Hospital Lease	(80,940)	(80,940)	(80,940)	(80,940)	(134,109)	(134,109)	(134,109)	(134,109)	(134,109)	(134,109)	(134,109)
1968 Hospital Addition	(11,232)	(11,232)	(11,232)	(11,232)	(18,610)	(18,610)	(18,610)	(18,610)	(18,610)	(18,610)	(18,610)
Land Lease #1	(15,600)	(15,600)	(15,600)	(15,600)	(25,848)	(25,848)	(25,848)	(25,848)	(25,848)	(25,848)	(25,848)
Land Lease #2	(2,407)	(2,407)	(2,407)	(2,407)	(3,988)	(3,988)	(3,988)	(3,988)	(3,988)	(3,988)	(3,988)
Subordinate Loan	-	-	(21,573)	(23,676)	(25,985)	(28,518)	(31,299)	(34,350)	(37,699)	(41,375)	(45,409)
Adjusted Income Before Income Taxes	212,823	254,413	(18,710)	158,494	196,922	154,445	234,380	174,397	178,736	206,643	928,314
Adjusted Income Taxes (3)	12,344	119,829	(6,361)	60,069	85,858	70,736	90,471	55,981	50,940	53,727	440,021
Hospital Operations Net Income	\$ 200,479	134,584	(25,071)	98,425	111,064	83,709	143,909	118,416	127,796	152,916	488,293

- (1) Senior Debt principal x 6 percent interest
- (2) Junior Debt principal x 6 percent interest
- (3) Adjusted income taxes have been estimated based on the ratio of reported income taxes to reported income before taxes. Net operating loss carry forwards were applied to income before income taxes for the year ended June 30, 1972.

Hospital Operations revenues and expenses and net income for the years ended June 30, 1972 through 1982 were estimated by adjusting JMHC Statements of Income for the years ended June 30, 1972 through 1982.

Hospital Operations adjustment began with JMHC Income Before Income Taxes. Building Depreciation, Interest on Senior Debt and on the Junior Debt relate building and land ownership. JMHI did not own buildings or all of the land and, therefore, building and certain land ownership expenses have been excluded. (Annual Building Depreciation is reported within Accumulated Depreciation on the JMHC Balance Sheets for fiscal years through 1975. Senior Debt and Junior Debt ending balances and the related interest rate of six percent are reported in the notes to JMHC Financial Statements for the years ended June 30, 1972 through 1975.)

On July 1, 1975 JMHC entered an agreement with JMHIJV whereby all of the land and buildings owned by JMHC was acquired by JMHIJV. Concurrently, JMHC entered into a lease agreement with JMHIJV to rent facilities. Therefore, Statements of Income after July 1, 1975 do not include Building Depreciation and Rent of Land, and include lease payments of \$112,000 for fiscal years 1976 through 1980 and \$230,478 for fiscal years 1981 and 1982.

Rent of Land, Building and Equipment, as reported in supplemental schedules of the JMHC Financial Statements, and lease payments made by JMHC under a lease agreement for the building and parking facilities entered into with Jefferson Memorial Hospital Joint Venture and related to Land Leases have been excluded and replaced with lease payments, as set forth in the 1966 Hospital Lease of and the 1966 Land Leases and as set forth in the notes to financial statements for the 1968 Hospital Lease. (Interest expense related to untimely payment of leases has not been included.)

Lease payments were calculated based on JMHI Leases, including increases in accordance with the terms of the respective leases. The 1966 Hospital Lease and Land Lease #1 called for rental increases each tenth anniversary based on the fluctuations in the "Wholesale Price Index", All Commodities. (The "Wholesale Price Index" was effectively replaced with the "Producer Price Index".) Rental increases for the 1966 Hospital Lease, the 1968 Hospital Lease, Land Lease #1 and Land Lease #2 were calculated using Producer Price Indexes, Finished Consumer Goods Excluding Food.

Amortization of Goodwill, loss on disposal of land and building, and losses from Lost Creek Partnership do not relate to Hospital Operations and were excluded from Income Before Income Taxes.

Interest expense on the Subordinate Loan was calculated at 9.75 percent, based on then prevailing interest rates.

Adjusted income taxes have been estimated based on the ratio of reported income taxes to reported income before income taxes and subtracted from Adjusted Income Before Income Taxes.

Balance Sheets

Hospital Operations balance sheets were estimated by adjusting JMHC Balance Sheets as of June 30, 1972 through 1982 to estimate the assets and liabilities related to Hospital Operations and to include Hospital Operations Net Income. Hospital Operations Balance Sheets (JMHC Balance Sheet amounts are in bold) are summarized as follows:

Expenditure

[illegible]

Inventory

Unconditional Gain on Investments

Notes Receivable	4,689	15,175	19,775	1,000	19,775	31,464	59,239	34,434	15,805	8,195
Accounts Receivable	741,431	189,474	934,965	224,059	1,154,964	304,698	859,264	111,658	961,334	74,625
Accrued Interest Receivable	7,239	1,465	8,794	498	8,296	549	7,694	4,800	2,859	2,554
Inventories	29,152	2,070	21,222	1,191	21,413	712	24,328	4,021	28,146	6,112
Plant and Equipment										
Land	147,456	-	-	-	-	-	-	-	-	-
Land Improvements	3,977	2,532	-	-	-	-	-	-	-	-
Fixed Equipment	125,498	84,213	-	-	-	-	-	-	-	-
Major Movable Equipment	302,807	192,346	-	-	-	-	-	-	-	-
Total Plant and Equipment	580,648	417,261	3,742	439,540	1,998	427,583	645	426,940	174,234	21,678
Other Assets	22,257	4,704	34,661	265	34,186	19,670	64,666	57,574	187,246	16,429
Total assets	\$ 1,397,751		\$ 1,359,802		\$ 1,661,763		\$ 1,372,160		\$ 1,854,983	

Hospital Operations

	June 30, 1977		June 30, 1978		June 30, 1979		June 30, 1981		June 30, 1982		Assets	
	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit	Debit	Credit
Cash	68,423	499,541	23,342	244,194	328,843	498,648	47,179	37,257	202,561	798,513	1,592,044	1,912,770
Accounts Receivable	20,204		34,496	11,260	18,138	23,977	50,884	11,987		187,212	94,029	
Notes Receivable	2,456		25,168	12,132	34,350	49,659	37,699	57,471		25,812	1,678	
Investments	48,568		19,735	52,452	118,428	6,557	127,795	6,186		90,721	25,000	
Land	811		53,873	5,754		34,090		59,085		386,294		
Land Improvements	4,071		31,299	49,000		23,980		23,000		45,409		
Fixed Equipment	1,165		143,509	38,121		2,397		5,041		488,291		
Major Movable Equipment				47,500		16,000		42,500				
Total Plant and Equipment												
Other Assets												
Total Assets	1355	221,575	331,822	500,413	501,757	726,211	263,658	242,527	550,480	475,546	2,722,612	1,012,400
Liabilities and Equity												
Accounts Payable	166,110	878,429	238,194	1,158,623	498,648	1,653,371	37,257	1,692,528	1,977,899	1,592,044	385,946	
Accrued Interest Receivable												
Investments	2,456	31,202	11,260	43,863	23,977	67,409	11,987		94,839	94,029		
Plant and Equipment												
Land												
Land Improvements												
Fixed Equipment												
Major Movable Equipment												
Total Liabilities and Equity												
Total Liabilities and Equity	1355	221,575	331,822	500,413	501,757	726,211	263,658	242,527	550,480	475,546	2,722,612	1,012,400

Liabilities and Shareholders' Equity

Accounts Payable	\$ 250,915	77,603	367,576	34,505	333,071	50,757	231,314	182,380	478,254	7,628
Contract Payable	183,196	24,000	158,263	34,039	124,224	34,039	89,468	28,866	68,619	42,413
Accrued Expenses	162,781	74,256	68,445		186,190	32,433	73,758	11,211	84,949	3,988
Income Taxes Payable	-	12,344	12,344		107,483	124,180	(6,361)	66,430	60,069	25,789
Provisions for Contract Adjustments	288,111	42,847	231,264	101,075	138,189	122,606	7,493	7,493	-	14,287
Notes Payable	84,040	58,337	74,166	24,782	1,344		98,888	28,755	119,755	57,862
Notes Payable - Real Estate	-									
Lease Agreement	218,000		230,000		280,000		230,000		280,000	42,500
Lease Agreement							25,413	5,753	19,669	5,754
Bond Payable	319,000	19,500	299,500		259,500	39,000	259,500	216,943	516,443	12,920
Advance Deposits	182,000	1,000	181,000	5,000	98,000		58,000	10,883	48,117	48,117
Funds Held in Escrow	3,295	579	4,874		1,309	6,143				
Subordinated Loan (Cash Injection)	-				221,260		221,260	21,676	221,260	25,985
Interest Payable	-						21,577		45,269	
Total Liabilities	1,415,312	1,501,822	1,501,822	91,228	1,719,282		1,451,814		1,978,414	
Shareholder Equity (Deficit)										
Debt Capital	28,001		28,001		28,001		28,001		28,001	
Unrealized Gain on Investments										
Operating Income (Deficit)	(412,612)	200,479	(212,133)		134,584	12,349	(109,505)	98,425	8,520	111,064
Total Shareholder Equity (Deficit)	(279,546)		(197,092)		(57,503)		(69,154)		28,571	
Total Liabilities and Shareholder Equity	\$ 1,135,766	\$ 1,304,741	\$ 1,304,730	\$ 91,228	\$ 1,661,779	\$ 908,361	\$ 1,377,102	\$ 1,074,546	\$ 1,996,985	\$ 222,164

68.07	400,479	34,496	443,975	328,840	773,815	50,064	824,879	250,805	1,118,687	738,513	323,184	Accounts Payable
20.206	-	-	-	-	-	-	-	-	-	-	-	Contract Payable
	26,171	25,168	140,376	19,178	159,616	6,186	153,430	59,507	212,735	187,212	25,523	Accrued Expenses
15.122	70,736	19,735	90,471	34,690	55,081	5,041	50,940	2,787	53,727	-	440,021	Income Taxes Payable
	38,165	-	-	-	-	-	-	-	-	-	-	Provision for Contract Adjustments
48.568	119,649	53,873	182,522	51,980	124,509	59,085	69,754	32,000	37,816	1,678	34,136	Notes Payable
	-	-	-	-	-	-	-	-	-	-	-	Notes Payable - Real Estate
42.500	195,000	42,500	152,500	42,500	110,000	42,500	67,500	-	25,000	25,000	-	Lease Agreement
5.794	8,151	5,754	2,397	2,397	-	-	-	-	-	-	-	Lease Agreement
21,000	482,323	49,000	433,323	16,000	417,323	21,000	394,323	-	394,323	-	394,323	Bond Payable
	39,128	-	-	-	-	-	-	-	-	-	-	Advance Deposits
	-	-	-	-	-	-	-	-	-	-	-	Funds Held in Escrow
	221,260	31,299	221,260	34,350	221,260	-	221,260	41,775	244,475	221,260	221,260	Subordinated Loan (Club Refinance)
	99,732	-	131,051	165,401	-	-	21,100	-	-	289,884	-	Interest Payable
	1,872,631	-	1,798,373	2,032,326	-	-	1,597,202	-	2,308,231	-	1,777,531	Total Liabilities
	24,661	-	24,661	24,661	24,661	-	24,661	-	24,661	-	-	Shareholder Equity (Deficit)
	-	-	-	-	-	-	-	-	-	-	-	Donated Capital
	82,760	143,909	347,202	111,426	465,628	-	593,424	152,916	746,340	-	1,234,632	Unrealized Gain on Investments
	223,244	-	367,253	483,672	-	-	613,472	-	766,391	-	1,254,684	Operating Income (Deficit)
	690,978	87,233	2,165,692	1,277,968	2,518,013	598,185	2,593,682	1,056,096	3,074,672	3,735,013	2,982,213	Total Shareholder Equity (Deficit)
	690,978	87,233	2,165,692	1,277,968	2,518,013	598,185	2,593,682	1,056,096	3,074,672	3,735,013	2,982,213	Total Liabilities and Shareholder Equity

Balance sheet accounts in bold type are amounts reported on the JMHI balance sheet as of June 30, 1971 and on JMHC balance sheets as of June 30, 1972 through 1982. Net changes in asset, liability and shareholders' deficit accounts are added to or subtracted from the ending cash balance for the prior year to calculate the estimated cash balance for the current year.

Adjusted Hospital Operations Net Income and Adjusted Income Taxes are reflected in Retained Deficit and Income Taxes Payable, respectively.

Plant and equipment, net, includes \$147,456 for all of the land, although as of June 30, 1973 JMHI owned only approximately twenty percent of the land. Twenty percent of the land indicates value of \$29,491 ($\$147,456 \times .20$). However, a land transaction prior to June 30, 1973 was based on the value of the land doubling, indicating value of \$58,982 ($\$147,456 \times .20 \times 2$). Inclusion of land of \$147,456 overstates Hospital Operations' assets.

Hospital Operations did not generate sufficient cash to maintain appropriate cash reserves (working capital, funded depreciation, and debt service reserves), to fully compensate officers and professional administration and to make additions of buildings and certain equipment. (Payments to fully compensate officers and professional administration would have reduced Hospital Operations cash flow and may not have lead to additional revenue.) During the years ended June 30, 1972 through 1982 Hospital Operations did not make payments on certain Lease Agreements and during the years ended June 30, 1973 through 1982 Hospital Operations did not make payments on Bonds Payable.

Hospital Operations were supported by the physicians and staff of Jefferson Memorial Hospital and by a cash infusion of \$221,260 during the year ended June 30, 1973. (During fiscal year 1973, JMHC sold 60,000 shares of its common stock for \$221,260.) The cash infusion has been considered as a subordinate loan to Hospital Operations.

Liquidation as of March 31, 1982

As of March 31, 1982 (June 30, 1982), Hospital Operations are estimated to result in total assets of approximately \$2,982,215, total liabilities of approximately \$1,727,531 and total shareholders' equity of approximately \$1,254,684. Liquidation of the business of JMHI as of March 31, 1982 would be expected to have resulted in realization of cash in amounts less than reflected in the balance sheet accounts. Liquidation of the business of JMHI as of March 31, 1982 is estimated to result in net proceeds of approximately \$1,254,000.

Balance as of September 30, 1999

Investment of \$1,254,000 from April 1, 1982 through September 30, 1999 at an average annual rate of return of 13.35 percent results in assets with a pretax value of approximately \$11,142,000. The investment gains of \$9,888,000 (\$11,142,000 - \$1,254,000) would be subject to taxes, estimated to be \$2,571,000 (\$9,888,000 x 26.0 percent). The balance as of September 30, 1999 is estimated to be \$8,571,000 (\$11,142,000 - \$2,571,000).

The balance as of September 30, 1999, based on an annual rate of 9.0 percent, is estimated to be \$4,493,000.

Hospital Lease Through December 31, 1992

We have prepared an accounting of the assets of JMHI 1) based on continuation of Hospital Operations (effectively investment of the net assets of as of June 30, 1971 in Hospital Operations) through March 31, 1982 and on no longer participating in Hospital Operations to "wind up or liquidate the business" as of March 31, 1982, 2) based JMHI participating in leasing or sub-leasing land, buildings and equipment to Health Group of Virginia, Inc. as of March 31, 1982 and to Fairfax Hospital Association as of July 31, 1985 through December 31, 1992, and 3) based on investing net assets through September 30, 1999 generating an average annual rate of return of 13.35 percent and, alternatively, at an annual rate of 9.0 percent.

JMHI's history of untimely lease payments, financial operations and failure to maintain pace with the hospital industry; the terms of the 1966 Hospital Lease; and the different land and buildings subject to the 1966 Hospital Lease, the HGV Lease and the Fairfax Lease: indicate that JMHI would not have had a sufficient bargaining position to participate in leasing or sub-leasing to HGV or to Fairfax Hospital Association.

JMHI operated Jefferson Memorial Hospital through June 30, 1971 and JMHC effectively operated Jefferson Memorial Hospital through March 31, 1982, when Hospital Operations were relinquished to Health Group of Virginia, Inc., from the base of net assets of JMHI. JMHI did not own the Hospital building, all of the land, or all of the equipment used in the Hospital Operations, but had leased the Original Hospital Building (the 1966 Hospital Lease) and the 1968 Addition (the 1968 Hospital Lease), certain land and certain equipment.

The 1966 Lease required JMHI "to use the Leased Premises for the conduct and operation of a hospital center..." and set forth "The Leasee (JMHI) may not sublet the Leased

Premises, or any portion thereof, without the written consent of the Lessor (Jefferson Memorial Hospital Associates).”

JMHI did not use the Leased Premises for the conduct and operation of a hospital center upon JMHI’s dissolution on or about April 18, 1973 or, when JMHC relinquished operations of Jefferson Memorial Hospital to HGV as of March 31, 1982.

As of April 1, 1982 Hospital Operations had not generated sufficient cash to make timely lease payments, to maintain appropriate cash reserves, to fully compensate officers and professional administration and to make additions of buildings and certain equipment. Further, Medical staff physicians did not maintain pace with the rapidly changing and increasingly sophisticated hospital industry. Therefore, Hospital Operations were appropriately relinquished to HGV.

As a result of the historical lease payment arrearages, of not generating sufficient cash, and of not maintaining pace with the hospital industry, JMHI would not be expected to be able to continue the conduct and operation of a hospital center and would not be expected to participate in leasing or sub-leasing the Leased Premises. Further, there is no indication that JMHIJV (or JMHA or JMHC) would have permitted JMHI to sublet interests in the 1966 Hospital Lease or other leases.

Beginning Net Assets - June 30, 1971

The accounting assets and liabilities as of June 30, 1971 related to Hospital Operations are set forth on the June 30, 1971 JMHI Balance Sheet. The Court found that JMHI “had value as a ‘going concern’ with growing revenues but an erratic pattern of net earnings”, however, “the value of the corporation (JMHI) did not exceed its liabilities.” Further, the Court found “the assets remained in JMHI until its dissolution” on or about April 18, 1973.

The accounting assets and liabilities related to Hospital Operations as of April 18, 1973 are estimated based on continued Hospital Operations through June 30, 1973 from the base of net assets of JMHI as of June 30, 1971. JMHI's Balance Sheet as of June 30, 1971 is summarized as follows:

<u>Assets</u>	
Cash	\$ 56,247
Notes Receivable	4,600
Accounts Receivable (Net)	741,431
Accrued Interest Receivable	7,239
Inventories	20,152
Plant and Equipment (Net)	
Land	\$147,456
Land Improvements	1,395
Fixed Equipment	88,213
Major Movable Equipment	<u>196,261</u>
Total Plant and Equipment (Net)	433,325
Other Assets	<u>29,757</u>
Total Assets	<u>\$ 1,292,751</u>
<u>Liabilities and Shareholders' Deficit</u>	
Accounts Payable	\$ 289,913
Contract Payable	183,196
Accrued Expenses	142,701
Provision for Contractual Adjustments	280,111
Notes Payable	84,503
Lease Agreement	280,000
Bond Payable	319,000
Advance Deposits	102,000
Funds Held in Escrow	<u>3,895</u>
Total Liabilities	\$ 1,685,319
Shareholders' Equity (Deficit)	
Donated Capital	20,051
Retained Deficit	<u>(412,619)</u>
Total Shareholders' Deficit	<u>(392,568)</u>
Total Liabilities and Shareholders' Deficit	<u>\$ 1,292,751</u>

Total Liabilities exceeded Total Assets and exceeded the value of the corporation and JMHI reported Total Shareholders' Deficit of (\$392,568) as of June 30, 1971.

Land of \$147,456 includes all of the land at 4600 King Street, although as of June 30, 1971, JMHI owned only approximately twenty percent of the land. Twenty percent of the land indicates value of \$29,491 ($\$147,456 \times .20$). However, a land transaction prior to June 30, 1971 was based on the value of the land approximately doubling, indicating value of \$58,982 ($\$147,456 \times .20 \times 2$). Inclusion of land of \$147,456 overstates JMHI's assets.

Hospital Operations Through March 31, 1982

From the base of net assets as of June 30, 1971, Hospital Operations of Jefferson Memorial Hospital continued. Receipts and disbursements related to Hospital Operations were effectively included within JMHC Statements of Income and within JMHC Balance Sheets for the years ended June 30, 1972 through 1982.

Statements of Income

JMHC Statements of Income for the fiscal years ended June 30, 1972 through June 30, 1982 (the date closest to the March 31, 1982 when Hospital Operations were relinquished to HGV, for which financial statements have been available) effectively included revenues and expenses related to Hospital Operations. JMHC Statements of Income included Hospital Operations and the operations of Jefferson Memorial Hospital Associates (JMHA), a partnership which owned the Hospital building and portions of the land, through July 1975.

JMHC Statements of Income adjusted to estimate Hospital Operations for the fiscal years ended June 30, 1972 through June 30, 1982 are summarized as follows:

JMHC Statements of Income

	Years Ended June 30,										
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Revenue from Services to Patients	\$ 4,454,092	4,749,445	5,337,784	6,303,817	6,951,598	7,673,657	8,594,874	9,584,189	11,281,157	14,054,093	11,916,758
Other Operating Income	47,768	45,115	44,891	46,046	34,992	5,814	16,967	9,632	27,094	34,000	38,328
Total Revenue	4,501,860	4,794,560	5,382,675	6,349,863	6,986,590	7,679,471	8,611,841	9,593,821	11,308,251	14,088,093	11,955,086
Deductions from Revenue	535,746	548,525	896,937	857,337	804,652	858,460	1,031,112	1,277,732	1,559,876	2,334,635	1,267,458
Net Operating Revenue	3,966,114	4,246,035	4,485,738	5,492,526	6,181,938	6,821,011	7,580,729	8,316,089	9,748,375	11,753,458	10,687,628
Operating Expenses											
Hospital Operating Expenses	3,586,124	3,774,403	4,241,784	5,047,324	5,571,363	6,245,457	6,893,440	7,650,414	8,907,099	10,809,340	9,070,778
Depreciation	39,930	41,410	72,394	84,948	59,241	64,363	65,618	73,577	84,180	93,593	80,687
Rent of Land	-	20,006	20,373	21,055	-	-	-	-	-	-	-
Rent of Land, Building and Equipment	19,844	-	-	-	150,305	159,073	171,691	200,073	340,349	535,089	437,138
Taxes - other than Payroll and Income	43,823	67,179	60,657	62,380	70,271	71,888	72,924	80,432	104,331	136,593	119,737
Total Operating Expenses	3,689,721	3,902,998	4,395,208	5,215,707	5,851,180	6,540,781	7,203,673	8,004,496	9,435,999	11,574,615	9,708,340
Net Operating Income	276,393	343,037	90,530	276,819	330,758	280,230	377,056	311,593	312,416	178,843	979,288
Other Income (Expense)											
Other Income	52,806	12,024	22,211	10,384	4,181	12,028	13,462	13,041	5,148	51,844	87,388
Other Expenses											
Interest	(93,872)	(76,560)	(76,423)	(71,404)	(57,670)	(65,545)	(63,588)	(64,252)	(61,500)	(61,096)	(81,298)
Amortization of Goodwill	(11,379)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	(11,484)	(11,377)	(11,377)	(11,377)	(11,377)
Loss on Disposal of Equipment	(994)	(307)	(1,645)	(6,731)	(13,643)	(1,896)	(20,532)	(10,916)	1,090	398	-
Miscellaneous	(2,176)	(2,010)	(7,559)	(482)	-	(1,135)	-	-	-	-	-
Loss from Partnership - Lost Creek	-	-	-	-	-	-	(170,623)	(50,718)	(26,355)	(29,148)	-
Loss on Disposal of Land and Building	-	-	-	-	(51,840)	-	-	-	-	-	-
Medical Educational Expenses	-	-	-	-	-	-	-	-	-	-	(35,549)
Contributions	-	-	-	-	-	-	-	-	-	-	(1,000)
Depreciation	-	-	-	-	-	-	-	-	-	-	(27,096)
Rent Land & Bldg. and Equip.	-	-	-	-	-	-	-	-	-	-	(25,774)
Taxes - other than Payroll and Income	-	-	-	-	-	-	-	-	-	-	(265)
Net Other Income (Expense)	(55,615)	(78,230)	(74,793)	(79,610)	(130,349)	(67,925)	(252,765)	(124,222)	(92,994)	(49,379)	(94,971)
Income Before Income Taxes	220,778	264,807	15,737	197,209	200,409	212,305	124,291	187,371	219,422	129,464	884,317
Income Taxes	12,769	124,833	5,349	74,795	87,382	97,177	48,034	60,230	62,540	33,685	419,605
Net Income	\$ 208,009	139,974	10,388	122,414	113,027	115,128	76,257	127,141	156,882	95,779	464,712
Hospital Operations Adjustments											
Income Before Income Taxes	\$ 220,778	264,807	15,737	197,209	200,409	212,305	124,291	187,371	219,422	129,464	884,317
Plus:											
Building Depreciation	32,214	32,214	32,214	32,214	-	-	-	-	-	-	-
Rent of Land	-	20,006	20,373	21,055	-	-	-	-	-	-	-
Rent of Land, Building and Equipment	19,844	-	-	-	-	-	-	-	-	-	-
Interest on Senior Debt (1)	34,949	32,738	30,316	27,895	-	-	-	-	-	-	-
Interest on Junior Debt (2)	3,838	3,450	3,025	2,599	-	-	-	-	-	-	-
Amortization of Goodwill	11,379	11,377	11,377	11,377	11,377	11,377	11,484	11,377	11,377	11,377	11,377
Building Lease	-	-	-	-	112,000	112,000	112,000	112,000	112,000	230,748	230,748
Land Lease #1	-	-	-	-	25,848	25,848	25,848	25,848	25,848	25,848	25,848
Land Lease #2	-	-	-	-	3,988	3,988	3,988	3,988	3,988	3,988	3,988
Loss on Disposal of Land and Building	-	-	-	-	51,840	-	-	-	-	-	-
Loss from Partnership - Lost Creek	-	-	-	-	-	-	170,623	50,718	26,355	29,148	-
Less:											
Lease Payment											
1966 Hospital Lease	(80,940)	(80,940)	(80,940)	(80,940)	(134,109)	(134,109)	(134,109)	(134,109)	(134,109)	(134,109)	(134,109)
1968 Hospital Addition	(11,232)	(11,232)	(11,232)	(11,232)	(18,610)	(18,610)	(18,610)	(18,610)	(18,610)	(18,610)	(18,610)
Land Lease #1	(15,600)	(15,600)	(15,600)	(15,600)	(25,848)	(25,848)	(25,848)	(25,848)	(25,848)	(25,848)	(25,848)
Land Lease #2	(2,407)	(2,407)	(2,407)	(2,407)	(3,988)	(3,988)	(3,988)	(3,988)	(3,988)	(3,988)	(3,988)
Subordinate Loan	-	-	(21,573)	(23,676)	(25,985)	(28,518)	(31,299)	(34,350)	(37,699)	(41,375)	(45,409)
Adjusted Income Before Income Taxes	212,823	254,413	(18,710)	158,494	196,922	154,445	234,380	174,397	178,736	206,643	928,314
Adjusted Income Taxes (3)	12,344	119,829	(6,361)	60,069	85,858	70,736	90,471	55,981	50,940	53,727	440,021
Hospital Operations Net Income	\$ 200,479	134,584	(12,349)	98,425	111,064	83,709	143,909	118,416	127,796	152,916	488,293

- (1) Senior Debt principal x 6 percent interest
- (2) Junior Debt principal x 6 percent interest
- (3) Adjusted income taxes have been estimated based on the ratio of reported income taxes to reported income before taxes. Net operating loss carry forwards were applied to income before income taxes for the year ended June 30, 1972.

Hospital Operations revenues and expenses and net income for the years ended June 30, 1972 through 1982 were estimated by adjusting JMHC Statements of Income for the years ended June 30, 1972 through 1982.

Hospital Operations adjustments began with JMHC Income Before Income Taxes. Building Depreciation, Interest on Senior Debt and on the Junior Debt relate to building and land ownership. JMHI did not own buildings or all of the land and, therefore, building and certain land ownership expenses have been excluded. (Annual Building Depreciation is reported on the JMHC Balance Sheet within Accumulated Depreciation. Senior Debt and Junior Debt ending balances and the related interest rate of six percent are reported in the notes to JMHC Financial Statements for the years ended June 30, 1972 through 1975.)

On July 1, 1975 JMHC entered an agreement with JMHIJV whereby all of the land and buildings owned by JMHC was acquired by JMHIJV. Concurrently, JMHC entered into a lease agreement with JMHIJV to rent facilities. Therefore, Statements of Income after July 1, 1975 do not include Building Depreciation and Rent of Land, and include lease payments of \$112,000 for fiscal years 1976 through 1980 and \$230,748 for fiscal years 1981 and 1982.

Rent of Land, Building and Equipment, as reported in supplemental schedules of the JMHC Financial Statements, and lease payments made by JMHC under a lease agreement for the building and parking facilities entered into with Jefferson Memorial Hospital Joint Venture and related to Land Leases has been excluded and replaced with lease payments, as set forth in the 1966 Hospital Lease and the 1966 Land Leases and as set forth in the notes to financial statements for the 1968 Hospital Lease. Interest expense related to untimely payment of leases has not been included.

Lease payments were calculated based on JMHI Leases, including increases in accordance with the terms of the respective leases. The 1966 Hospital Lease and Land Lease #1 called for rental increases each tenth anniversary based on fluctuations in the "Wholesale Price Index", All Commodities. (The "Wholesale Price Index" was effectively replaced with the "Producer Price Index".) Rental increases for the 1966 Hospital Lease, the 1968 Hospital Lease, Land Lease #1 and Land Lease #2 were calculated using Producer Price Indexes, Finished Consumer Goods Excluding Food.

Amortization of Goodwill, loss on disposal of land and building, and losses from Lost Creek Partnership do not relate to Hospital Operations and were excluded from Income Before Income Taxes.

Interest expense on the Subordinate Loan was calculated at 9.75 percent, based on then prevailing interest rates.

Adjusted income taxes have been estimated based on the ratio of reported income taxes to reported income before income taxes and subtracted from Adjusted Income Before Income Taxes.

Sub-Leasing from July 1, 1982 through December 31, 1992

Health Group of Virginia, Inc.

Health Group of Virginia, Inc. (HGV) leased the land, building and related equipment, furniture and fixtures and non-clinical replacement for a term of ten years and one month commencing April 1, 1982. The annual rent for the first five years was \$1,000,000. As of April 1, 1982, the building included significant additions to the Original Hospital Building and 1968 Addition. HGV also purchased all patient accounts receivable, certain moveable equipment, inventory and prepaid expenses, as of March 31, 1982. In addition, HGV was responsible for payment of taxes, insurance, repairs, maintenance costs, utilities, replacement of fixtures and equipment. HGV required construction of additional general-acute care space and additional Medical Office Building space.

Concurrent with the lease of the Hospital building to HGV, JMHC's lease agreement with JMHJV was amended to provide that the annual rent would increase to \$900,000 and in consideration JMHJV would build additional space, including general-acute care space, and assume other responsibilities. JMHI would not have had funds or debt capacity to finance construction of additional general-acute care space or a Medical Office Building.

Fairfax Hospital Association

On July 31, 1985 Fairfax Hospital Association (Inova) acquired all of the outstanding stock of Health Group of Virginia, Inc., which operated Jefferson Memorial Hospital. Fairfax Hospital Association leased the land, building (the main hospital building, the entire fourth floor of the nursing wing addition, and the space leased in the Medical Office Building which includes the third floor and suites (Unit 45 – December 1, 1986 and Unit 4G – November 30, 1992), all of

which were then utilized in the operation of Jefferson Memorial Hospital) and related equipment, furniture and fixtures for a term of twenty years and three months commencing July 31, 1985. The annual rent for fiscal years 1986 and 1987 was \$1,000,000 and for fiscal years 1988 through December 31, 1992 was \$1,200,000. In addition, the annual rent for the fourth floor addition was \$375,000. Fairfax Hospital Association was responsible for payment of taxes, insurance, repairs, maintenance costs, utilities and replacement of fixtures and equipment.

Allocation

The JMHI Leases (1966 Hospital Lease, 1968 Hospital Lease and Land Leases), the HGV Lease, and the Fairfax Lease included certain land and certain buildings summarized as follows:

	<u>JMHI Leases</u>	<u>HGV Lease</u>	<u>Fairfax Lease</u>
Land	X	X	X
Hospital Building	X	X	X
Hospital Addition	X	X	X
Intensive Care Unit		X	X
Georgetown Lab		X	X
Hospital Addition - Fourth Floor			X
Medical Office Building - Third Floor		X	X
Medical Office Building - Suites			X

Income Before Income Taxes (total rent paid by HGV and by Fairfax Hospital Association, less lease payments) has been allocated to JMHI based on payments and on buildings subject to lease summarized as follows:

	<u>HGV Lease</u>		<u>Fairfax Lease</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Lease Amount	\$ 1,000,000	100.0%	\$ 1,375,000	100.0%
Less:				
Third Floor (22,000 x \$20.83)	(458,260)	45.8	(458,260)	33.3
Fourth Floor	-		(375,000)	27.3
	<u>\$ 541,740</u>	<u>54.2</u>	<u>\$ 541,740</u>	<u>39.4</u>

The Third Floor, Auditorium and Office subject to lease included approximately 22,000 square feet. The estimated lease rate of \$20.83 per square foot is based on the Fourth Floor lease payment of \$375,000 divided by 18,000 square feet included on the Fourth Floor.

Income taxes have been estimated to be 35 percent of Allocated Income Before Income Taxes.

Net Income based on the hypothetical sublet of the 1966 Hospital Lease and other leases and participation in Income Before Income Taxes are summarized as follows:

	Years Ended June 30,										Six Months Ended December 31, 1992
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1992
Revenue											
Lease Agreement - HGV											
Rent	\$ 760,000	760,000	760,000	-	-	-	-	-	-	-	-
Additional Rent	240,000	240,000	240,000	-	-	-	-	-	-	-	-
Lease Agreement - Fairfax Hospital (Inova)											
Fourth Floor	-	-	-	375,000	375,000	375,000	375,000	375,000	375,000	375,000	187,500
Remainder of Premises	-	-	-	1,000,000	1,000,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	875,000
Total Revenue	1,000,000	1,000,000	1,000,000	1,375,000	1,375,000	1,625,000	1,625,000	1,625,000	1,625,000	1,625,000	1,062,500
Lease Payment	(900,000)	(900,000)	(900,000)	(1,237,500)	(1,237,500)	(1,462,500)	(1,462,500)	(1,462,500)	(1,462,500)	(1,462,500)	(956,250)
Income Before Income Taxes	100,000	100,000	100,000	137,500	137,500	162,500	162,500	162,500	162,500	162,500	106,250
Allocation Percent	54.2%	54.2%	54.2%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%
Allocated Income Before Income Taxes	54,200	54,200	54,200	54,175	54,175	64,025	64,025	64,025	64,025	64,025	41,863
Income Taxes	18,970	18,970	18,970	18,961	18,961	22,409	22,409	22,409	22,409	22,409	14,652
Net Income	\$ 35,230	35,230	35,230	35,214	35,214	41,616	41,616	41,616	41,616	41,616	27,211

Balance Sheets

Hospital Operations balance sheets were estimated by adjusting JMHC Balance Sheets as of June 30, 1972 through 1982 to estimate the assets and liabilities related to Hospital Operations and to include Hospital Operations Net Income. Hospital Operations balance sheets for the period June 30, 1983 through December 31, 1992 were estimated based on the hypothetical subleasing of the 1966 Hospital Lease and other leases. Hospital Operations Balance Sheets (JMHC Balance Sheet amounts are in bold) are summarized as follows:

June 30,
1975

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		June 30, 1976		June 30, 1977		June 30, 1978		June 30, 1979		June 30, 1980		June 30, 1981			
Debita	Credito	Debita	Credito	Debita	Credito	Debita	Credito	Debita	Credito	Debita	Credito	Debita	Credito	Debita	Credito
2,538	74,605	290,979	68,423	499,541	21,342	288,194	310,950	329,840	498,648	104,496	37,257	293,898	294,562	1,392,044	798,513
21,078	4,112		20,206		34,696	11,260		48,178	23,977		11,597	59,507	15,019	94,009	187,212
16,028	40,413		15,122		21,168	12,132		34,350	49,659		57,471	41,375	67,221	25,812	1,678
7,608	5,754		48,568		19,735	52,452		118,426	6,557		6,186	152,916	34,310	90,721	25,000
3,048	12,920		5,754		33,873	5,754			34,690		59,085	2,787	32,040	384,294	
14,287	48,117		21,000		31,299	49,000			53,983		21,000		42,300	48,409	
23,789	8,195		34,165		149,509	39,121			2,397		5,041			482,793	
57,862	42,500		42,500			42,500			16,000		42,300				
21,985									42,500						
111,064															
257,547	278,616		429,355	221,573	331,822	290,413		501,757	786,211		242,577	559,480	475,546	2,722,612	1,012,400
8,195	24,000			24,000											
74,605	1,834,539		166,110	878,479	288,194		1,158,623	498,648	1,455,371		37,257	1,492,578	294,562	1,977,890	1,392,044
	2,850														
6,112	34,258		2,456	31,802	11,260		43,062	21,977		67,809	11,597	79,826	15,013	94,009	
21,078	579,496		20,204	559,202		21,342	535,860	49,659		598,519	57,471	642,990	47,221	710,211	25,812
16,028	83,813		811	85,611	12,132		57,133	6,557		180,690	47,179	56,511	34,210	90,721	90,721
	2,001,064			2,045,973			2,165,629			2,318,013		2,399,682		2,399,682	

Liabilities and Shareholders Equity

Accounts Payable	\$ 209,913	77,653	307,576	34,905	332,671	50,757	383,428	241,914	180,350	476,394
Contract Payable	183,196	24,433	158,763	34,059	192,824	34,059	226,883	89,485	23,565	40,619
Accrued Expenses	142,791	74,256	64,445		106,190	32,432	73,758	11,211	64,949	
Income Taxes Payable	-	12,344	22,344		119,829	126,150	(6,361)		66,400	60,069
Provision for Contract Adjustments	200,111	48,847	351,364	101,075	330,189	122,606	7,493	7,493	-	-
Notes Payable	84,503	58,377	24,166	24,782	4,304		88,616	94,400	35,755	119,755
Notes Payable - Real Estate	-									
Lease Agreement Lease Agreement	200,000		200,000		200,000		25,612	200,000	200,000	200,000
Bank Payable	319,000	19,500	299,500		299,500	39,000	39,500	59,000	216,943	516,443
Advance Deposits	182,000	1,000	183,000	5,000	90,000	39,000			10,000	48,117
Funds Held in Escrow	2,075	599	4,034		1,309	4,143	4,143	-		
Subordinated Loans (Cash Infusion)	-		-		221,280	221,280	24,573	221,280	22,676	221,280
Interest Payable	-		-		-		21,572	21,572		43,249
Total Liabilities	1,495,212		1,581,872		1,710,292		1,450,014		1,926,514	
Shareholder Equity (Deficit)										
Preferred Capital	24,051		24,051		24,051		24,051		24,051	
Unrealized Gain on Investments	(411,613)		(212,140)		(77,559)		(92,207)		96,425	8,320
Operating Income (Deficit)	(972,550)		(192,092)		(37,593)		(69,354)		28,571	
Total Shareholder Equity (Deficit)	\$ 1,202,731	74,478	\$ 1,329,803	21,792	\$ 1,601,765	908,364	\$ 1,373,189	1,074,546	\$ 1,074,546	\$ 1,954,953

	7,608	477,902	68,423		489,479		34,496	443,975		329,843	773,818		50,964	824,802		293,895	1,118,697	798,513	
40,413		28,286	30,206		-			-			-			-			-		
	3,988	68,937		26,171	115,188		25,168	140,376		19,138	199,414		6,186	153,238		59,507	212,735	187,212	
	25,789	85,858	13,122		70,736		19,735	90,471	34,490		55,981		5,041	50,940		2,787	53,727	38	
	14,287	14,287		38,165	52,452	52,452		-			-			-			-		
	57,852	177,417	48,568		129,849		53,873	182,972	53,983		124,939		59,085	69,854	32,040		37,814	1,678	
42,500		237,500	42,500		195,000	42,500		152,500	42,500		110,000		42,500	67,500	42,500		25,000	25,000	
5,754		13,905	5,754		8,151	5,754		2,397	2,397		-			-			-		
12,920		503,523	21,000		482,523	49,000		433,523	16,000		417,523		23,000	394,523			394,523		
48,117		-		39,121	39,121	39,121		-			-			-			-		
		-			-			-			-			-			-		
		221,260			221,260			221,260			221,260			221,260			221,260		
25,985		71,234		28,518	99,752		31,299	131,051		34,330	165,401		37,699	203,100		41,375	244,475	43	
		<u>1,912,229</u>			<u>1,822,631</u>			<u>1,728,375</u>			<u>2,072,316</u>			<u>1,985,207</u>			<u>2,308,231</u>		
		28,851			28,851			28,851			28,851			28,851			28,851		
111,064		119,584		83,709	203,293		143,909	347,202		118,426	465,628		127,796	593,424		152,916	746,340	488	
		<u>139,635</u>			<u>223,344</u>			<u>367,253</u>			<u>485,672</u>			<u>613,475</u>			<u>766,321</u>		
<u>526,163</u>	<u>526,163</u>	<u>\$ 2,057,864</u>	<u>650,928</u>	<u>650,928</u>	<u>\$ 2,045,975</u>	<u>832,235</u>	<u>832,235</u>	<u>\$ 2,165,628</u>	<u>1,227,968</u>	<u>1,227,968</u>	<u>\$ 2,518,015</u>	<u>506,185</u>	<u>506,185</u>	<u>\$ 2,598,682</u>	<u>1,026,026</u>	<u>1,026,026</u>	<u>\$ 3,074,622</u>	<u>3,735,015</u>	<u>3,735</u>

[illegible]

Balance sheet accounts in bold type are amounts reported on the JMHI balance sheet as of June 30, 1971 and on JMHC balance sheets as of June 30, 1972 through 1982. Net changes in asset, liability and shareholders' deficit accounts are added to or subtracted from the ending cash balance for the prior year to calculate the estimated cash balance for the current year.

Adjusted Hospital Operations Net Income and Adjusted Income Taxes are reflected in Retained Deficit and Income Taxes Payable, respectively.

Plant and equipment, net, includes \$147,456 for all of the land, although as of June 30, 1973 JMHI owned only approximately twenty percent of the land. Twenty percent of the land indicates value of \$29,491 ($\$147,456 \times .20$). However, a land transaction prior to June 30, 1973 was based on the value of the land doubling, indicating value of \$58,982 ($\$147,456 \times .20 \times 2$). Inclusion of land of \$147,456 overstates Hospital Operations' assets.

Hospital Operations did not generate sufficient cash to maintain appropriate cash reserves (working capital, funded depreciation and debt service reserves) to fully compensate officers and professional administration and to make additions of building and certain equipment. (Payments to fully compensate officers and professional administration would have reduced Hospital Operations cash flow and may not have lead to additional revenue.) During the years ended June 30, 1972 through 1982 Hospital Operations did not make payments on certain Lease Agreements and during the years ended June 30, 1973 through 1982 Hospital Operations did not make payments on Bonds Payable.

Hospital Operations were supported by the physicians and staff of Jefferson Memorial Hospital and by a cash infusion of \$221,260 during the year ended June 30, 1973. (During fiscal

year 1973, JMHC sold 60,000 shares of its common stock for \$221,260.) The cash infusion has been considered as a subordinate loan to Hospital Operations.

As of March 31, 1982 (June 30, 1982), Hospital Operations are estimated to result in total assets of approximately \$2,982,215, total liabilities of approximately \$1,727,531 and total shareholders' equity of approximately \$1,254,684. Liquidation of the business of JMHI as of March 31, 1982 would be expected to have resulted in realization of cash in amounts less than reflected in the balance sheet accounts. Liquidation of the business of JMHI as of March 31, 1982 is estimated to result in net proceeds of approximately \$1,254,000.

JMHI net proceeds of \$1,254,000 (June 30, 1982 Shareholders' Equity) have been included in an Investments account included on the balance sheet. The \$1,254,000 Investment is estimated to generate an average annual rate of return of 13.35 percent and, alternatively, an average annual rate of 9.0 percent.

Therefore, the remaining balance sheet accounts are Cash, Investments, Unrealized Gain on Investments, Income Taxes Payable and Shareholders' Equity. The net income from Hospital Leasing is included in Shareholders' equity on the June 30, 1983 balance sheet.

Liquidation as of December 31, 1992

As of December 31, 1992, Hospital Operations and Hospital Leasing are estimated to result in total assets of approximately \$5,476,463, total liabilities of approximately \$14,652 and total shareholders' equity of approximately \$5,461,811. Liquidation of the business of JMHI as of December 31, 1992 is estimated to result in net proceeds of approximately \$5,461,811.

Balance as of September 30, 1999

Investment of \$5,461,811 from January 1, 1993 through September 30, 1999 at an average annual rate of return of 13.35 percent results in assets with a pretax value of

approximately \$12,744,000. The investment gain of \$11,098,000 ($\$12,744,000 - \$1,646,042$) would be subject to taxes, estimated to be \$2,885,000 ($\$11,098,000 \times 26.0$ percent). The balance as of September 30, 1999 is estimated to be \$9,859,000 ($\$11,098,000 - \$2,885,000$).

The balance as of September 30, 1999, based on an average annual rate of 9.0 percent, is estimated to be \$5,370,000.

Alternatively, we have prepared an accounting of the assets of JMHI for periods after March 31, 1982, based on JMHI receiving net proceeds of \$100,000 to buy out interests in the 1966 Hospital Lease and 1968 Hospital Lease.

JMHI's history of untimely lease payments, financial operations and failure to maintain pace with the hospital industry; the terms of the 1966 Hospital Lease; and the different land and buildings subject to the 1966 Hospital Lease, the HGV Lease and the Fairfax Lease: indicate that JMHI would not have had a sufficient bargaining position to participate in leasing (or sub-leasing) to HGV or to Fairfax Hospital Association or to negotiate payment of net proceeds of \$100,000.

Liquidation of the business of JMHI as of March 31, 1982 plus \$100,000 is estimated to result in net proceeds of approximately \$1,354,000. Investment of \$1,354,000 from April 1, 1982 through September 30, 1999 at an average annual rate of return of 13.35 percent results in assets with a pretax value of approximately \$12,031,000. The investment gain of \$10,677,000 ($\$12,031,000 - \$1,354,000$) would be subject to taxes, estimated to be \$2,776,000 ($\$10,677,000 \times 26.0$ percent). The balance as of September 30, 1999 is estimated to be \$9,255,000 ($\$12,031,000 - \$2,776,000$).

The balance as of September 30, 1999, based on an average annual rate of 9.0 percent, is estimated to be \$4,850,000.

Hospital Settlement Through September 30, 2005

We have prepared an accounting of the assets of JMHI 1) based on continuation of Hospital Operations (effectively investment of the net assets as of April 18, 1973 in Hospital Operations) through March 31, 1982 and on no longer participating in Hospital Operations to "wind up or liquidate the business" as of December 31, 1982, 2) based on JMHI participating in leasing or sub-leasing land, buildings and equipment to Health Group of Virginia, Inc. as of March 31, 1982 and to Fairfax Hospital Association as of July 31, 1985 through December 31, 1992, 3) based on JMHI participating in payments under the Letter Agreement and Settlement Agreement between Inova and JMHIJV through September 30, 1999, and 4) based on investing net assets through September 30, 1999 generating an average annual rate of return of 13.35 percent and, alternatively, at an annual rate of 9.0 percent.

JMHI operated Jefferson Memorial Hospital through June 30, 1971 and JMHC effectively operated Jefferson Memorial Hospital through March 31, 1982, when Hospital Operations were relinquished to Health Group of Virginia, Inc., from the base of net assets of JMHI. JMHI did not own the Hospital building, all of the land, or all of the equipment used in the Hospital Operations, but had leased the Original Hospital Building (the 1966 Hospital Lease) and the 1968 Addition (the 1968 Hospital Lease), certain land and certain equipment.

The 1966 Lease required JMHI "to use the Leased Premises for the conduct and operation of a hospital center..." and set forth "The Leasee (JMHI) may not sublet the Leased Premises, or any portion thereof, without the written consent of the Lessor (Jefferson Memorial Hospital Associates)."

JMHI did not use the Leased Premises for the conduct and operation of a hospital center upon JMHI's dissolution on or about April 18, 1973 or, when JMHC relinquished operations of Jefferson Memorial Hospital to HGV as of March 31, 1982.

As of April 1, 1982 Hospital Operations had not generated sufficient cash to make timely lease payments, to maintain appropriate cash reserves, to fully compensate officers and professional administration and to make additions of buildings and certain equipment. Further, Medical staff physicians did not maintain pace with the rapidly changing and increasingly sophisticated hospital industry. Therefore, Hospital Operations were appropriately relinquished to HGV. Thereby, JMHI would not be expected to participate in any payments at least after March 1982.

As a result of the historical lease payment arrearages, of not generating sufficient cash, and of not maintaining pace with the hospital industry, JMHI would not be expected to be able to continue the conduct and operation of a hospital center and would not be expected to participate in leasing or sub-leasing the Leased Premises. Further, there is no indication that JMHIJV (or JMHA or JMHC) would have permitted JMHI to sublet interests in the 1966 Hospital Lease or other leases. Therefore, JMHI would not be expected to participate in any payments at least after March 1982.

Beginning Net Assets - June 30, 1971

The accounting assets and liabilities as of June 30, 1971 related to Hospital Operations are set forth on the June 30, 1971 JMHI Balance Sheet. The Court found that JMHI "had value as a 'going concern' with growing revenues but an erratic pattern of net earnings", however, "the value of the corporation (JMHI) did not exceed its liabilities." Further, the Court found "the assets remained in JMHI until its dissolution" on or about April 18, 1973.

The accounting assets and liabilities related to Hospital Operations as of April 18, 1973 are estimated based on continued Hospital Operations through June 30, 1973 from the base of net assets of JMHI as of June 30, 1971. JMHI's Balance Sheet as of June 30, 1971 is summarized as follows:

<u>Assets</u>	
Cash	\$ 56,247
Notes Receivable	4,600
Accounts Receivable (Net)	741,431
Accrued Interest Receivable	7,239
Inventories	20,152
Plant and Equipment (Net)	
Land	\$ 147,456
Land Improvements	1,395
Fixed Equipment	88,213
Major Movable Equipment	<u>196,261</u>
Total Plant and Equipment (Net)	433,325
Other Assets	<u>29,757</u>
Total Assets	<u>\$ 1,292,751</u>
 <u>Liabilities and Shareholders' Deficit</u>	
Accounts Payable	\$ 289,913
Contract Payable	183,196
Accrued Expenses	142,701
Provision for Contractual Adjustments	280,111
Notes Payable	84,503
Lease Agreement	280,000
Bond Payable	319,000
Advance Deposits	102,000
Funds Held in Escrow	<u>3,895</u>
Total Liabilities	\$ 1,685,319
Shareholders' Equity (Deficit)	
Donated Capital	20,051
Retained Deficit	<u>(412,619)</u>
Total Shareholders' Deficit	<u>(392,568)</u>
Total Liabilities and Shareholders' Deficit	<u>\$ 1,292,751</u>

Total Liabilities exceeded Total Assets and exceeded the value of the corporation and JMHI reported Total Shareholders' Deficit of (\$392,568) as of June 30, 1971.

Land of \$147,456 includes all of the land at 4600 King Street, although as of June 30, 1971, JMHI owned only approximately twenty percent of the land. Twenty percent of the land indicates value of \$29,491 ($\$147,456 \times .20$). However, a land transaction prior to June 30, 1971 was based on the value of the land approximately doubling, indicating value of \$58,982 ($\$147,456 \times .20 \times 2$). Inclusion of land of \$147,456 overstates JMHI's assets.

Hospital Operations Through March 31, 1982

From the base of net assets as of June 30, 1971, Hospital Operations of Jefferson Memorial Hospital continued. Receipts and disbursements related to Hospital Operations were effectively included within JMHC Statements of Income and JMHC Balance Sheets for the years ended June 30, 1972 through 1982.

Statements of Income

JMHC Statements of Income for the fiscal years ended June 30, 1972 through June 30, 1982 (the date closest to the March 31, 1982 when Hospital Operations were relinquished to HGV, for which financial statements have been available) effectively included revenues and expenses related to Hospital Operations. JMHC Statements of Income included Hospital Operations and the operations of Jefferson Memorial Hospital Associates (JMHA), a partnership which owned the Hospital building and portion of the land, through July 1975.

JMHC Statements of Income adjusted to estimate Hospital Operations for the fiscal years ended June 30, 1972 through June 30, 1982 are summarized as follows:

JMHC Statements of Income

Revenue from Services to Patients
Other Operating Income
Total Revenue

Deductions from Revenue
Net Operating Revenue

Operating Expenses

Hospital Operating Expenses
Depreciation
Rent of Land
Rent of Land, Building and Equipment
Taxes - other than Payroll and Income
Total Operating Expenses

Net Operating Income

Other Income (Expense)

Other Income
Other Expenses
Interest
Amortization of Goodwill
Loss on Disposal of Equipment
Miscellaneous
Loss from Partnership - Lost Creek
Loss on Disposal of Land and Building
Medical Educational Expenses
Contributions
Depreciation
Rent Land & Bldg. and Equip.
Taxes - other than Payroll and Income
Net Other Income (Expense)

Income Before Income Taxes

Income Taxes

Net Income

Hospital Operations Adjustments

Income Before Income Taxes

Plus:

Building Depreciation
Rent of Land
Rent of Land, Building and Equipment
Interest on Senior Debt (1)
Interest on Junior Debt (2)
Amortization of Goodwill
Building Lease
Land Lease #1
Land Lease #2
Loss on Disposal of Land and Building
Loss from Partnership - Lost Creek

Less:

Lease Payment

1966 Hospital Lease
1968 Hospital Addition
Land Lease #1
Land Lease #2
Subordinate Loan

Adjusted Income Before Income Taxes

Adjusted Income Taxes (3)

Hospital Operations Net Income

Years Ended June 30.

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Revenue from Services to Patients	\$ 4,454,092	4,749,445	5,337,784	6,303,817	6,951,598	7,673,657	8,594,874	9,584,189	11,281,157	14,054,093	11,916,758
Other Operating Income	47,768	45,115	44,891	46,046	34,992	5,814	16,967	9,632	27,094	34,000	38,378
Total Revenue	4,501,860	4,794,560	5,382,675	6,349,863	6,986,590	7,679,471	8,611,841	9,593,821	11,308,251	14,088,093	11,955,086
Deductions from Revenue	535,746	548,525	896,937	857,337	804,652	858,460	1,031,112	1,277,732	1,559,876	2,334,635	1,267,458
Net Operating Revenue	3,966,114	4,246,035	4,485,738	5,492,526	6,181,938	6,821,011	7,580,729	8,316,089	9,748,375	11,753,458	10,687,628
Operating Expenses											
Hospital Operating Expenses	3,586,124	3,774,403	4,241,784	5,047,324	5,571,363	6,245,457	6,893,440	7,650,414	8,507,099	10,809,340	9,070,778
Depreciation	39,930	41,410	72,394	84,948	59,241	64,363	65,618	73,577	84,180	93,593	80,687
Rent of Land	-	20,006	20,373	21,055	-	-	-	-	-	-	-
Rent of Land, Building and Equipment	19,844	-	-	-	150,305	159,073	171,691	200,073	340,349	535,089	437,138
Taxes - other than Payroll and Income	43,823	67,179	60,657	62,380	70,271	71,888	72,934	80,432	104,331	136,593	119,737
Total Operating Expenses	3,689,721	3,902,998	4,395,208	5,215,707	5,851,180	6,540,781	7,203,673	8,004,496	9,435,959	11,574,615	9,708,340
Net Operating Income	276,393	343,037	90,530	276,819	330,758	280,230	377,056	311,593	312,416	178,843	979,288
Other Income (Expense)											
Other Income	52,806	12,024	22,211	10,384	4,181	12,028	13,462	13,041	5,148	51,844	87,388
Other Expenses											
Interest	(93,872)	(76,560)	(76,423)	(71,404)	(57,670)	(65,545)	(63,588)	(64,252)	(61,500)	(61,096)	(81,298)
Amortization of Goodwill	(11,379)	(11,377)	(11,377)	(11,377)	(11,377)	(11,377)	(11,484)	(11,377)	(11,377)	(11,377)	(11,377)
Loss on Disposal of Equipment	(994)	(307)	(1,645)	(6,731)	(13,643)	(1,896)	(20,532)	(10,916)	1,090	398	-
Miscellaneous	(2,176)	(2,010)	(7,559)	(482)	-	(1,135)	-	-	-	-	-
Loss from Partnership - Lost Creek	-	-	-	-	-	-	(170,623)	(50,718)	(26,355)	(29,148)	-
Loss on Disposal of Land and Building	-	-	-	-	(51,840)	-	-	-	-	-	-
Medical Educational Expenses	-	-	-	-	-	-	-	-	-	-	(35,549)
Contributions	-	-	-	-	-	-	-	-	-	-	(1,000)
Depreciation	-	-	-	-	-	-	-	-	-	-	(27,096)
Rent Land & Bldg. and Equip.	-	-	-	-	-	-	-	-	-	-	(25,774)
Taxes - other than Payroll and Income	-	-	-	-	-	-	-	-	-	-	(265)
Net Other Income (Expense)	(55,615)	(78,230)	(74,793)	(79,610)	(130,349)	(67,925)	(252,765)	(124,222)	(92,994)	(49,379)	(94,971)
Income Before Income Taxes	220,778	264,807	15,737	197,209	200,409	212,305	124,291	187,371	219,422	129,464	884,317
Income Taxes	12,769	124,833	5,349	74,795	87,382	97,177	48,034	60,230	62,540	33,685	419,605
Net Income	\$ 208,009	139,974	10,388	122,414	113,027	115,128	76,257	127,141	156,882	95,779	464,712
Hospital Operations Adjustments											
Income Before Income Taxes	\$ 220,778	264,807	15,737	197,209	200,409	212,305	124,291	187,371	219,422	129,464	884,317
Plus:											
Building Depreciation	32,214	32,214	32,214	32,214	-	-	-	-	-	-	-
Rent of Land	-	20,006	20,373	21,055	-	-	-	-	-	-	-
Rent of Land, Building and Equipment	19,844	-	-	-	-	-	-	-	-	-	-
Interest on Senior Debt (1)	34,949	32,738	30,316	27,895	-	-	-	-	-	-	-
Interest on Junior Debt (2)	3,838	3,450	3,025	2,599	-	-	-	-	-	-	-
Amortization of Goodwill	11,379	11,377	11,377	11,377	11,377	11,377	11,484	11,377	11,377	11,377	11,377
Building Lease	-	-	-	-	112,000	112,000	112,000	112,000	112,000	230,748	230,748
Land Lease #1	-	-	-	-	25,848	25,848	25,848	25,848	25,848	25,848	25,848
Land Lease #2	-	-	-	-	3,988	3,988	3,988	3,988	3,988	3,988	3,988
Loss on Disposal of Land and Building	-	-	-	-	51,840	-	-	-	-	-	-
Loss from Partnership - Lost Creek	-	-	-	-	-	-	170,623	50,718	26,355	29,148	-
Less:											
Lease Payment											
1966 Hospital Lease	(80,940)	(80,940)	(80,940)	(80,940)	(134,109)	(134,109)	(134,109)	(134,109)	(134,109)	(134,109)	(134,109)
1968 Hospital Addition	(11,232)	(11,232)	(11,232)	(11,232)	(18,610)	(18,610)	(18,610)	(18,610)	(18,610)	(18,610)	(18,610)
Land Lease #1	(15,600)	(15,600)	(15,600)	(15,600)	(25,848)	(25,848)	(25,848)	(25,848)	(25,848)	(25,848)	(25,848)
Land Lease #2	(2,407)	(2,407)	(2,407)	(2,407)	(3,988)	(3,988)	(3,988)	(3,988)	(3,988)	(3,988)	(3,988)
Subordinate Loan	-	-	(21,573)	(23,676)	(25,985)	(28,518)	(31,299)	(34,350)	(37,699)	(41,375)	(45,409)
Adjusted Income Before Income Taxes	212,823	254,413	(18,710)	158,494	196,922	154,445	234,380	174,397	178,736	206,643	928,314
Adjusted Income Taxes (3)	12,344	119,829	(6,361)	60,069	85,858	70,736	90,471	55,981	50,940	53,727	440,021
Hospital Operations Net Income	\$ 200,479	134,584	(12,349)	98,425	111,064	83,709	143,909	118,416	127,796	152,916	488,293

- (1) Senior Debt principal x 6 percent interest
- (2) Junior Debt principal x 6 percent interest
- (3) Adjusted income taxes have been estimated based on the ratio of reported income taxes to reported income before taxes. Net operating loss carry forwards were applied to income before income taxes for the year ended June 30, 1972.

Hospital Operations revenues and expenses and net income for the years ended June 30, 1972 through 1982 were estimated by adjusting JMHC Statements of Income for the years ended June 30, 1972 through 1982.

Hospital Operations adjustments began with JMHC Income Before Income Taxes. Building Depreciation, Interest on Senior Debt and on the Junior Debt relate to building and land ownership. JMHI did not own buildings or all of the land and, therefore, building and certain land ownership expenses have been excluded from JMHC Income Before Income Taxes. (Annual Building Depreciation is reported on the JMHC Balance Sheet within Accumulated Depreciation. Senior Debt and Junior Debt ending balances and the related interest rate of six percent are reported in the notes to JMHC Financial Statements for the years ended June 30, 1972 through 1975.)

On July 1, 1975 JMHC entered an agreement with JMHIJV whereby all of the land and buildings owned by JMHC was acquired by JMHIJV. Concurrently, JMHC entered into lease agreements with JMHIJV to rent facilities. Therefore, JMHC Statements of Income after July 1, 1975 do not include Building Depreciation and Rent of Land, and include lease payments of \$112,000 for fiscal years 1976 through 1980 and \$230,748 for fiscal years 1981 and 1982.

Lease payments were calculated based on JMHI Leases including increases in accordance with the terms of the respective leases. The 1966 Hospital Lease and Land Lease #1 called for rental increases each tenth anniversary based on fluctuations in the "Wholesale Price Index", All Commodities. (The "Wholesale Price Index" was effectively replaced with the "Producer Price Index".) Rental increases for the 1966 Hospital Lease, the 1968 Hospital Lease, Land Lease #1 and Land Lease #2 were calculated using Produce Price Indexes, Finished Consumer Goods Excluding Food.

Rent of Land, Building and Equipment, as reported in supplemental schedules of the JMHC Financial Statements, and lease payments made by JMHC under a lease agreement for the building and parking facilities entered into with Jefferson Memorial Hospital Joint Venture and related to Land Leases has been excluded and replaced with lease payments, as set forth in the 1966 Hospital Lease and the 1966 Land Leases and as set forth in the notes to financial statements for the 1968 Hospital Lease.

Amortization of Goodwill, loss on disposal of land and building, and losses from Lost Creek Partnership do not relate to Hospital Operations and were excluded from Income Before Income Taxes.

Interest expense on the Subordinate Loan was calculated at 9.75 percent, based on then prevailing interest rates. Interest expense related to untimely payment of leases has not been included.

Adjusted income taxes have been estimated based on the ratio of reported income taxes to reported income before income taxes and subtracted from Adjusted Income Before Income Taxes.

Sub-Leasing from July 1, 1982 through December 31, 1992

Health Group of Virginia, Inc.

Health Group of Virginia, Inc. (HGV) leased the land, building and related equipment, furniture and fixtures and non-clinical replacement for a term of ten years and one month commencing April 1, 1982. The annual rent for the first five years was \$1,000,000. As of April 1, 1982, the building included significant additions to the Original Hospital Building and 1968 Addition. HGV also purchased all patient accounts receivable, certain moveable equipment, inventory and prepaid expenses, as of March 31, 1982. In addition, HGV was responsible for

payment of taxes, insurance, repairs, maintenance costs, utilities, replacement of fixtures and equipment. HGV required construction of additional general-acute care space and additional Medical Office Building space.

Concurrent with the lease of the Hospital building to HGV, JMHC's lease agreement with JMHJV was amended to provide that the annual rent would increase to \$900,000 and in consideration JMHJV would build additional space, including general-acute care space, and assume other responsibilities. JMHI would not have had funds or debt capacity to finance construction of additional general-acute care space or a Medical Office Building.

Fairfax Hospital Association

On July 31, 1985 Fairfax Hospital Association (Inova) acquired all of the outstanding stock of Health Group of Virginia, Inc., which operated Jefferson Memorial Hospital. Fairfax Hospital Association leased the land, building (the main hospital building, the entire fourth floor of the nursing wing addition, and the space leased in the Medical Office Building which includes the third floor and suites (Unit 45 – December 1, 1986 and Unit 4G – November 30, 1992), all of which were then utilized in the operation of Jefferson Memorial Hospital) and related equipment, furniture and fixtures for a term of twenty years and three months commencing July 31, 1985. The annual rent for fiscal years 1986 and 1987 was \$1,000,000 and for fiscal years 1988 through December 31, 1992 was \$1,200,000. In addition, the annual rent for the fourth floor addition was \$375,000. Fairfax Hospital Association was responsible for payment of taxes, insurance, repairs, maintenance costs, utilities and replacement of fixtures and equipment.

Allocation

The JMHI Leases (1966 Hospital Lease, 1968 Hospital Lease and Land Leases), the HGV Lease, and the Fairfax Lease included certain land and certain buildings summarized as follows:

	<u>JMHI Leases</u>	<u>HGV Lease</u>	<u>Fairfax Lease</u>
Land	X	X	X
Hospital Building	X	X	X
Hospital Addition	X	X	X
Intensive Care Unit		X	X
Georgetown Lab		X	X
Hospital Addition - Fourth Floor			X
Medical Office Building - Suites			X
Medical Office Building - Third Floor		X	X

Income Before Income Taxes (total rent paid by HGV and by Fairfax Hospital Association, less lease payments) has been allocated to JMHI based on payments and on buildings subject to lease summarized as follows:

	<u>HGV Lease</u>		<u>Fairfax Lease</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Lease Amount	\$ 1,000,000	100.0%	\$ 1,375,000	100.0%
Less:				
Third Floor (22,000 x \$20.83)	(458,260)	45.8	(458,260)	33.3
Fourth Floor	-		(375,000)	27.3
	<u>\$ 541,740</u>	<u>54.2</u>	<u>541,740</u>	<u>39.4</u>

The Third Floor, Auditorium and Office subject to lease included approximately 22,000 square feet. The estimated lease rate of \$20.83 per square foot is based on the Fourth Floor lease payment of \$375,000 divided by 18,000 square feet included on the Fourth Floor.

Income taxes have been estimated to be 35 percent of Allocated Income Before Income Taxes.

Net Income, based on the hypothetical sublet of the 1966 Hospital Lease and other leases and participation in Income Before Income Taxes, is summarized as follows:

	Years Ended June 30,										Six Months Ended December 31, 1992
	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1992
Revenue											
Lease Agreement - HGV											
Rent	\$ 760,000	760,000	760,000	-	-	-	-	-	-	-	-
Additional Rent	240,000	240,000	240,000	-	-	-	-	-	-	-	-
Lease Agreement - Fairfax Hospital (Inova)											
Fourth Floor	-	-	-	375,000	375,000	375,000	375,000	375,000	375,000	375,000	187,500
Remainder of Premises	-	-	-	1,000,000	1,000,000	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000	875,000
Total Revenue	1,000,000	1,000,000	1,000,000	1,375,000	1,375,000	1,625,000	1,625,000	1,625,000	1,625,000	1,625,000	1,062,500
Lease Payment	(900,000)	(900,000)	(900,000)	(1,237,500)	(1,237,500)	(1,462,500)	(1,462,500)	(1,462,500)	(1,462,500)	(1,462,500)	(956,250)
Income Before Income Taxes	100,000	100,000	100,000	137,500	137,500	162,500	162,500	162,500	162,500	162,500	106,250
Allocation Percent	54.2%	54.2%	54.2%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%
Allocated Income Before Income Taxes	54,200	54,200	54,200	54,175	54,175	64,025	64,025	64,025	64,025	64,025	41,863
Income Taxes	18,970	18,970	18,970	18,961	18,961	22,409	22,409	22,409	22,409	22,409	14,652
Net Income	\$ 35,230	35,230	35,230	35,214	35,214	41,616	41,616	41,616	41,616	41,616	27,211

Hospital Settlement Through September 30, 2005

Inova entered into a Letter Agreement dated October 14, 1992 and a Settlement Agreement dated July 11, 1994 with JMHSV (the Agreements). Under terms of the Agreements Inova would make payments to JMHSV, but Inova would not operate Jefferson Memorial Hospital.

Net Income, based on the hypothetical participation of JMHI in payments under the Letter Agreement and Settlement Agreement, is summarized as follows:

	Six Months Ended June 30, 1993	Years Ended June 30,						Three Months Ended September 30, 1999	Nine Months Ended June 30, 2000	Years Ended June 30,					Three Months Ended September 30, 2005
		1994	1995	1996	1997	1998	1999			2001	2002	2003	2004	2005	
Revenue															
Letter Agreement	\$ 1,025,000	2,050,000	-	-	-	-	-	-	1,593,750	2,125,000	2,125,000	2,562,500	2,562,500	2,562,500	640,625
Settlement Agreement	-	-	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	531,250	1,593,750	2,125,000	2,125,000	2,562,500	2,562,500	2,562,500	640,625
Total Revenue	1,025,000	2,050,000	2,125,000	2,125,000	2,125,000	2,125,000	2,125,000	531,250	1,593,750	2,125,000	2,125,000	2,562,500	2,562,500	2,562,500	640,625
Lease Payment	(922,500)	(1,845,000)	(1,912,500)	(1,912,500)	(1,912,500)	(1,912,500)	(1,912,500)	(478,125)	(1,434,375)	(1,912,500)	(1,912,500)	(2,306,250)	(2,306,250)	(2,306,250)	(576,563)
Income Before Income Taxes	102,500	205,000	212,500	212,500	212,500	212,500	212,500	53,125	159,375	212,500	212,500	256,250	256,250	256,250	64,062
Allocation Percent	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%	39.4%
Allocated Income Before Income Taxes	40,385	80,770	83,725	83,725	83,725	83,725	83,725	20,931	62,794	83,725	83,725	100,963	100,963	100,963	25,340
Income Taxes	14,135	28,270	29,304	29,304	29,304	29,304	29,304	7,326	21,978	29,304	29,304	35,337	35,337	35,337	8,814
Net Income	\$ 26,250	\$2,500	\$4,421	\$4,421	\$4,421	\$4,421	\$4,421	13,605	40,816	\$4,421	\$4,421	65,626	65,626	65,626	16,406

Balance Sheets

Hospital Operations balance sheets were estimated by adjusting JMHC Balance Sheets as of June 30, 1972 through 1982 to estimate the assets and liabilities related to Hospital Operations and to include Hospital Operations Net Income. Hospital Operations balance sheets for the period June 30, 1983 through September 30, 2005 were estimated based on the hypothetical subleasing of the 1966 Hospital Lease and other leases and on the hypothetical participation of JMHI in payments under the Letter Agreement and Settlement Agreement. Hospital Operations Balance Sheets (JMHC Balance Sheet amounts are in bold) are summarized as follows:

Empirical Operations

	June 30, 1971	Debit	Credit	June 30, 1972	Debit	Credit
Assets						
Cash	\$ 56,367	3,762	15,175	(83,667)	2,000	234C
		77,650	188,674		498	1.1
		12,344	1,465		1,978	34.9
		1,000	2,070		365	34.6
		939	4,704		37,285	101.0
		<u>201,679</u>			<u>107,465</u>	24.7
			34,433		1,389	3.0
			74,256		<u>221,260</u>	
			44,647		<u>19,594</u>	
			58,337			
			<u>19,500</u>			
Totals		296,167	408,261		306,144	423.6

Investments						
Unrealized Gain on Investments						
Notes Receivable	4,600	15,175		19,775		1.0
Accounts Receivable	741,431	189,614		908,965	224,059	
Accrued Interest Receivable	7,239	1,465		8,704		
Investments	28,152	2,070		22,222	1,191	
Plant and Equipment						
Land	508	Asst. Dist.				
Land Improvements	147,456	147,456				
	3,927	2,532		1,395		
Total Equipment	123,498	35,285		88,213		
Major Movable Equipment	305,807	109,546		196,261		
Total Plant and Equipment	<u>580,683</u>	<u>147,383</u>		<u>433,335</u>		
Other Assets						
	39,757	4,704		34,461		2
Total Assets	\$ 1,272,751			\$ 1,329,820		

Liabilities and Shareholders' Equity

Accounts Payable	\$ 289,913	77,653	367,576	34,905		
Contract Payable	182,196	34,433		158,763	34,639	
Accrued Expenses	142,781	74,256		68,445		37.24
Income Taxes Payable	-		12,344	12,344		107.48
Provision for Contract Adjustments	280,111	48,647		231,264	501,075	
Notes Payable	84,503	58,337		24,166	34,782	
Notes Payable - Real Estate	-					
Lease Agreement	290,800			290,000		
Lease Agreement						
Good Payable	319,408	19,500		339,250		
Advance Deposits	102,000		1,000	103,000	5,000	
Funds Held in Escrow	3,395		99	4,554		1.35
Subordinated Loans (Cash Infusion)	-					221.26
Interest Payable	-					
Total Liabilities	<u>1,485,312</u>			<u>1,531,872</u>		
Shareholders' Equity (Deficit)						
Preferred Capital	20,681			28,681		
Unrealized Gain on Investments						
Operating Income (Deficit)	<u>(412,612)</u>		200,679	<u>(212,440)</u>		124.94
Total Shareholders' Equity (Deficit)	<u>(391,931)</u>			<u>(187,092)</u>		
Total Liabilities and Shareholders' Equity	\$ 1,392,721	794,428	794,428	\$ 1,392,820	591,785	91.792

June 30, 1972	Debit	Credit	June 30, 1974	Debit	Credit	June 30, 1975	Debit	Credit	June 30, 1976	Debit	Credit	June 30, 1977	Debit	Credit
(5,356)	304,698	31,464	(30,734)	34,434	111,668	342,828	2,858	74,625	290,999	34,000	68,423	499,541	23,342	288,112
	548	712		4,800	4,021		21,678	4,112		166,110	20,206		34,496	11,112
	645	10,470		188,380	174,234		16,428	40,413		2,456	15,122		25,168	12,112
	88,616	50,757		11,211	57,574		7,608	5,754		30,294	48,568		19,735	52,112
	25,412	34,639		66,430	28,866		3,988	12,920		811	5,754		53,873	5,112
	21,573	32,452		29,755	7,493		14,287	48,117		26,171	21,000		31,299	49,112
		126,190		216,940	5,753		25,789	8,195		38,165	42,500		143,909	35,112
		122,696		23,676	10,883		57,852	42,500		39,121				42,112
		39,000		98,425			25,985			28,518				
		6,143					111,064			83,709				
		12,349												
	441,492	466,872		674,054	400,492		287,547	238,616		429,355	221,573		331,822	50,112
18,775	31,464		58,239		34,434	15,885	8,195		24,889		24,000			
1,154,944		304,698	850,246	111,668		961,934	74,625		1,036,539		166,110	878,429	288,194	
8,286		548	7,638		4,800	2,858		2,858						
23,413	712		24,125	4,021		28,146	6,112		34,258		2,456	31,802	11,260	
427,585		645	426,940	174,234		601,174		21,678	579,496		20,294	592,202		
34,196	10,470		44,666	57,574		182,240		16,428	85,812		811	85,891	12,132	
\$ 1,661,785			\$ 1,373,160			\$ 1,954,985			\$ 2,051,064			\$ 2,045,975		
332,671	50,757		281,914		188,380	478,294		7,608	477,682	68,423		489,479		
124,124	34,639		89,485	28,866		48,619	40,413		28,286	30,206				
196,198	32,452		23,738		11,211	84,949		3,988	88,937		26,171	115,106		
119,829	126,190		(6,361)		66,430	60,069		25,789	85,858	15,122		70,736		
138,189	122,696		7,493	7,493				14,287	14,287		38,165	52,453	52,452	
1,384		88,616	98,000		29,755	118,755		57,852	177,617	48,568		129,849		
280,000			280,000			280,000	42,500		237,500	42,500		195,000	42,500	
	25,412		25,412	5,753		19,639	5,754		13,985	5,754		8,151	5,754	
299,580			299,580		216,940	516,443	12,920		503,523	21,000		482,523	49,000	
98,808	39,000		59,808	10,883		48,117	48,117				39,121	39,121	39,121	
6,143	6,143													
221,260			221,260			221,260			221,260			221,260		
		21,573	21,573	23,676		45,349		25,985	71,234		28,518	99,752		
1,719,290			1,443,014			1,926,414			1,912,729			1,822,631		
28,851			28,851			28,851			28,851			28,851		
(77,556)	12,349		(85,205)	98,425		5,520		111,064	119,584		83,709	203,293		
(57,505)			(69,854)			28,571			139,635			223,344		
\$ 1,661,785	908,364	908,364	\$ 1,373,160	1,074,546	1,074,546	\$ 1,954,985	526,163	526,163	\$ 2,051,864	650,928	650,928	\$ 2,045,975	831,735	

June 30, 1978	Debit	Credit	June 30, 1979	Debit	Credit	June 30, 1980	Debit	Credit	June 30, 1981	Debit	Credit
330,950	329,843	496,648	106,496	47,179	57,571	127,627	293,895	284,562	302,561	1,972,044	798,513
	19,138	23,977		50,984	11,987		59,507	15,013		94,039	187,212
	34,350	49,659		37,699	57,471		41,375	67,221		25,812	1,678
	<u>118,426</u>	6,537		<u>127,796</u>	6,186		152,916	34,210		90,721	<u>25,000</u>
		34,490			59,085		<u>2,787</u>	32,040		386,294	
		53,983			23,000			<u>42,500</u>		45,409	
		2,397			5,041					<u>488,293</u>	
		16,000			<u>42,500</u>						
		<u>42,500</u>									
	501,757	726,211		363,658	242,527		550,480	475,546		2,722,612	1,012,403
1,154,623	496,648		1,455,371	37,257		1,692,528	284,562		1,977,890		1,592,044
43,862	23,977		47,839	11,987		79,026	15,013		94,839		94,039
535,260	49,659		583,519	57,471		642,990	67,221		710,211		25,812
<u>97,133</u>	6,537		<u>103,690</u>		47,179	<u>56,511</u>	34,210		<u>98,721</u>		90,721
<u>\$ 2,165,628</u>			<u>\$ 2,518,015</u>			<u>\$ 2,598,682</u>			<u>\$ 3,074,622</u>		
443,975		329,843	773,818		50,984	824,882		293,895	1,128,697		798,513
148,376		19,138	169,414	6,186		153,228		59,507	212,735		187,212
90,471	34,490		53,981	5,041		50,940		2,787	53,727		386,294
182,922	53,983		128,939	59,085		69,854	32,040		37,814		1,678
152,500	42,500		110,000	42,500		67,500	42,500		25,000		25,000
2,397	2,397										
433,523	16,000		417,523	23,000		394,523			394,523		
221,260			221,260			221,260			221,260		
<u>131,051</u>		34,350	<u>165,401</u>		37,699	<u>263,100</u>		41,375	<u>344,475</u>		45,409
<u>1,798,375</u>			<u>2,082,336</u>			<u>1,985,207</u>			<u>2,308,231</u>		
20,851			20,851			20,851			20,851		
<u>347,202</u>		118,426	<u>465,628</u>		127,796	<u>593,426</u>		152,916	<u>746,340</u>		488,293
<u>357,253</u>			<u>485</u>			<u>613,475</u>			<u>766,391</u>		
<u>\$ 2,165,628</u>	<u>1,227,968</u>	<u>1,227,968</u>	<u>\$ 2,518,015</u>	<u>506,185</u>	<u>506,185</u>	<u>\$ 2,598,682</u>	<u>1,026,026</u>	<u>1,026,026</u>	<u>\$ 3,074,622</u>	<u>3,735,015</u>	<u>3,735,015</u>

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June 30, 1987	Debit	Credit	June 30, 1988	Debit	Credit	June 30, 1989	Debit	Credit	June 30, 1990	Debit	Credit	June 30, 1991	Debit	Credit
54,175	41,616 1,448	35,214	64,025	41,616	41,616	64,025	41,616	41,616	64,025	41,616	41,616	64,025	41,616	41,616
1,395,588	35,214		1,400,802	41,616		1,472,418	41,616		1,514,034	41,616		1,555,650	41,616	
1,146,750	344,103		1,490,853	395,597		1,886,450	453,965		2,340,415	520,125		2,860,540	595,117	
-			-			-			-			-		
-			-			-			-			-		
-			-			-			-			-		
-			-			-			-			-		
-			-			-			-			-		
<u>2,596,513</u>			<u>2,985,680</u>			<u>3,422,893</u>			<u>3,918,474</u>			<u>4,480,215</u>		
-			-			-			-			-		
-			-			-			-			-		
-			-			-			-			-		
18,961		1,448	22,409			22,409			22,409			22,409		
-			-			-			-			-		
-			-			-			-			-		
-			-			-			-			-		
-			-			-			-			-		
-			-			-			-			-		
<u>18,961</u>			<u>22,409</u>			<u>22,409</u>			<u>22,409</u>			<u>22,409</u>		
20,051			20,051			20,051			20,051			20,051		
1,146,750		344,103	1,490,853		395,597	1,886,450		453,965	2,340,415		520,125	2,860,540		595,117
<u>1,410,751</u>		41,616	<u>1,452,367</u>		41,616	<u>1,473,963</u>		41,616	<u>1,535,599</u>		41,616	<u>1,577,215</u>		41,616
<u>2,577,552</u>			<u>2,953,271</u>			<u>3,400,484</u>			<u>3,896,055</u>			<u>4,457,805</u>		
<u>2,596,513</u>	<u>404,381</u>	<u>404,381</u>	<u>2,985,680</u>	<u>478,829</u>	<u>478,829</u>	<u>3,422,893</u>	<u>537,197</u>	<u>537,197</u>	<u>3,918,474</u>	<u>603,357</u>	<u>603,357</u>	<u>4,480,215</u>	<u>678,349</u>	<u>678,349</u>

June 30, 1972	Debit	Credit	December 31, 1972	Debit	Credit	June 30, 1972	Debit	Credit	June 30, 1974	Debit	Credit
64,025	27,211	41,616 7,757	41,863	26,250	27,211 517	40,385	52,500 14,135	26,250	80,770	54,421 1,034	52,500
1,597,266	41,616		1,638,882	27,211		1,666,093	26,250		1,692,343	52,500	
3,435,637	340,061		3,795,718	364,576		4,160,294	781,327		4,941,621	892,643	
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
<u>-</u>			<u>-</u>			<u>-</u>			<u>-</u>		
\$ 5,116,948			\$ 5,476,463			\$ 5,866,772			\$ 6,714,734		
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
22,409	7,757		14,652	517		14,135		14,135	28,220		1,034
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
<u>-</u>			<u>-</u>			<u>-</u>			<u>-</u>		
22,409			14,652			14,135			28,220		
20,051			20,051			20,051			20,051		
3,435,637		340,061	3,795,718		364,576	4,160,294		781,327	4,941,621		892,643
1,618,831		27,211	1,646,042		26,250	1,672,392		52,500	1,724,792		54,421
<u>5,094,532</u>			<u>5,463,211</u>			<u>5,852,637</u>			<u>6,685,464</u>		
\$ 5,116,948	416,645	416,645	\$ 5,476,463	418,534	418,534	\$ 5,866,772	874,212	874,212	\$ 6,714,734	1,000,598	1,000,598

June 30, 1972	Debit	Credit	June 30, 1976	Debit	Credit	June 30, 1977	Debit	Credit	June 30, 1978	Debit	Credit
83,725	54,421	54,421	83,725	54,421	54,421	83,725	54,421	54,421	83,725	54,421	54,421
1,744,840	54,421		1,799,264	54,421		1,853,685	54,421		1,908,106	54,421	
5,834,264	1,019,076		6,853,340	1,162,388		8,015,728	1,324,832		9,340,560	1,508,962	
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
<u>7,662,832</u>			<u>8,736,329</u>			<u>9,953,138</u>			<u>11,332,391</u>		
-			-			-			-		
-			-			-			-		
29,304			29,304			29,304			29,304		
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
<u>29,304</u>			<u>29,304</u>			<u>29,304</u>			<u>29,304</u>		
20,051			20,051			20,051			20,051		
5,834,264		1,019,076	6,853,340		1,162,388	8,015,728		1,324,832	9,340,560		1,508,962
<u>1,779,213</u>		54,421	<u>1,833,634</u>		54,421	<u>1,888,055</u>		54,421	<u>1,942,676</u>		54,421
<u>7,653,528</u>			<u>8,707,622</u>			<u>9,923,834</u>			<u>11,333,057</u>		
<u>\$ 7,662,832</u>	<u>1,127,918</u>	<u>1,127,918</u>	<u>\$ 8,736,329</u>	<u>1,271,230</u>	<u>1,271,230</u>	<u>\$ 9,953,138</u>	<u>1,433,614</u>	<u>1,433,614</u>	<u>\$ 11,332,391</u>	<u>1,617,804</u>	<u>1,617,804</u>

June 30, 1977	Debit	Credit	September 30, 1977	Debit	Credit	June 30, 2080	Debit	Credit	June 30, 2001	Debit	Credit
83,725	13,605	54,421 21,978	20,951	40,816 14,632	13,605	62,794	54,421 7,326	40,816	83,725	54,421	54,4
1,962,527	54,421		2,016,948	13,605		2,030,553	40,816		2,071,369	54,421	
10,849,522	429,419		11,278,940	1,332,613		12,611,553	1,962,170		14,571,723	2,229,118	
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
<u>\$ 12,895,774</u>			<u>\$ 13,316,819</u>			<u>\$ 14,704,900</u>			<u>\$ 16,726,817</u>		
-			-			-			-		
-			-			-			-		
29,304	21,978		7,326			14,632	21,978	7,326	29,304		
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
<u>29,304</u>			<u>7,326</u>			<u>21,978</u>			<u>29,304</u>		
20,051			20,051			20,051			20,051		
10,849,522		429,419	11,278,940		1,332,613	12,611,553		1,962,170	14,571,723		2,229,
1,996,897		13,605	2,010,502		40,816	2,051,318		54,421	2,105,739		54,
<u>12,866,470</u>			<u>13,309,492</u>			<u>14,682,922</u>			<u>16,697,512</u>		
<u>\$ 12,895,774</u>	<u>519,423</u>	<u>519,423</u>	<u>\$ 13,316,819</u>	<u>1,401,685</u>	<u>1,401,685</u>	<u>14,704,900</u>	<u>2,062,733</u>	<u>2,062,733</u>	<u>\$ 16,726,817</u>	<u>2,337,960</u>	<u>2,337</u>

June 30, 2007	Debit	Credit	June 30, 2008	Debit	Credit	June 30, 2009	Debit	Credit	June 30, 2010	Debit	Credit
83,725	65,626 6,033	54,421	100,963	65,626	65,626	100,963	65,626	65,626	100,963	16,406	
2,125,790	54,421		2,180,211	65,626		2,345,837	65,626		2,311,463	65,626	
16,800,841	2,533,970		19,334,811	2,881,016		22,215,827	3,774,393		25,490,220	930,072	
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
<u>19,010,356</u>			<u>21,615,985</u>			<u>24,562,627</u>			<u>27,902,646</u>		
-			-			-			-		
-			-			-			-		
29,304		6,033	35,337			35,337			35,337	26,503	
-			-			-			-		
-			-			-			-		
-			-			-			-		
-			-			-			-		
<u>29,304</u>			<u>35,337</u>			<u>35,337</u>			<u>35,337</u>		
20,051			20,051			20,051			20,051		
16,800,841		2,533,970	19,334,811		2,881,016	22,215,827		3,774,393	25,490,220		
<u>2,160,160</u>	65,626		<u>2,725,786</u>	65,626		<u>2,291,412</u>	65,626		<u>2,357,038</u>		
<u>18,911,652</u>			<u>21,590,648</u>			<u>24,537,239</u>			<u>27,857,259</u>		
<u>\$ 19,010,356</u>	<u>2,660,000</u>	<u>2,660,000</u>	<u>\$ 21,615,985</u>	<u>3,012,268</u>	<u>3,012,268</u>	<u>\$ 24,562,627</u>	<u>3,405,645</u>	<u>3,405,645</u>	<u>\$ 27,902,646</u>	<u>1,038,607</u>	<u>1,038,607</u>

Answer

Couch

Investments

- **Short-Term Gain on Investments**
- **Note Receivable**
- **Accounts Receivable**
- **Accrued Interest Receivable**
- **Inventories**
- **Plant and Equipment**
 - **Land**
 - **Land Improvements**
 - **Fixed Equipment**
 - **Major Movable Equipment**
 - **Total Plant and Equipment**

Total Assets**Accounts Payable**

- Contract Payable
- Accrued Expenses
- Income Taxes Payable
- Provision for Contract Adjustments
- Notes Payable
- Notes Payable - Real Estate
- Lease Agreement
- Lease Agreement
- Bond Payable
- Advance Deposits
- Funds Held in Escrow
- Subordinate Loan (Cash Infusion)
- Interest Payable

Shareholder Equity (Deficit)

Unrealized Gain on Investments
Operating Income (Deficit)
Total Shareholder Equity (Deficit)

Total Liabilities and Shareholder Equity

Balance sheet accounts in bold type are amounts reported on the JMHI balance sheet as of June 30, 1971 and on JMHC balance sheets as of June 30, 1972 through 1982. Net changes in asset, liability and shareholders' equity deficit accounts are added to or subtracted from the ending cash balance for the prior year to calculate the estimated cash balance for the current year.

Adjusted Hospital Operations Net Income and Adjusted Income Taxes are reflected in Retained Deficit and Income Taxes Payable, respectively.

Plant and equipment, net, includes \$147,456 for all of the land, although as of June 30, 1973 JMHI owned only approximately twenty percent of the land. Twenty percent of the land indicates value of \$29,491 ($\$147,456 \times .20$). However, a land transaction prior to June 30, 1973 was based on the value of the land doubling, indicating value of \$58,982 ($\$147,456 \times .20 \times 2$). Inclusion of land of \$147,456 overstates Hospital Operations' assets.

Hospital Operations did not generate sufficient cash to maintain appropriate cash reserves (working capital, funded depreciation, and debt service reserves), to fully compensate officers and professional administration and to make additions buildings and certain equipment. (Payments to fully compensate officers and professional administration would have reduced Hospital Operations cash flow and may not have lead to additional revenue.) During the years ended June 30, 1972 through 1982 Hospital Operations did not make payments on certain Lease Agreements and during the years ended June 30, 1973 through 1982 Hospital Operations did not make payments on Bonds Payable.

Hospital Operations were supported by the physicians and staff of Jefferson Memorial Hospital a cash infusion of \$221,260 during the year ended June 30, 1973. (During fiscal year

1973, JMHC sold 60,000 shares of its common stock for \$221,260.) The cash infusion has been considered as a subordinate loan to Hospital Operations.

As of March 31, 1982 (June 30, 1982), Hospital Operations are estimated to result in total assets of approximately \$2,982,215, total liabilities of approximately \$1,727,531 and total shareholders' equity of approximately \$1,254,684. Liquidation of the business of JMHI as of March 31, 1982 would be expected to have resulted in realization of cash in amounts less than reflected in the balance sheet accounts. Liquidation of the business of JMHI as of March 31, 1982 is estimated to result in net proceeds of approximately \$1,254,000.

JMHI net proceeds of \$1,254,000 (June 30, 1982 Shareholders' Equity) have been included in an Investments account included on the balance sheet. The \$1,254,000 Investment is estimated to generate an average annual rate of return of 13.35 percent and, alternatively, an average annual rate of 9.0 percent.

Therefore, the remaining balance sheet accounts are Cash, Investments, Unrealized Gain on Investments, Income Taxes Payable and Shareholders' Equity. The net income from Hospital Leasing is included in Shareholders' equity on the June 30, 1983 balance sheet.

Liquidation as of September 30, 2005

As of September 30, 2005, Hospital Operations, Hospital Leasing and Hospital Settlement are estimated to result in total assets of approximately \$28,813,786, total liabilities of approximately \$6,869,276, and total shareholders' equity of approximately \$21,944,511. Liquidation of the business of JMHI as of September 30, 2005 is estimated to result in net proceeds of approximately \$21,044,511.

The total assets and total shareholders' equity balances do not include an amount related to the \$10,000,000 payment due from Inova on October 1, 2005 under the Settlement

Agreement. The \$10,000,000 payment is not included because the nature of the payment is unknown. The payment may be attributable, in whole or in part, to 1) rent, 2) exchange of Jefferson Memorial Hospital properties for the Cambridge Court property, 3) recognition by Inova of prospective losses of \$81,000,000 from continued operations of Jefferson Memorial Hospital under the Fairfax Lease, or 4) litigation concerns or exposure. We understand that the nature of the payment may be an issue for the Court's determination. If the Court determines that the payment is attributable to JMHI, the present value of the payment could be readily calculated.

Balance as of September 30, 1999

The balance as of September 30, 2005 is estimated to be \$21,944,511 and the present value as of September 30, 1999, at an average annual rate of return of 13.35 percent is estimated to be \$10,347,000.

The present value as of September 30, 1999, based on an annual rate of 9.0 percent, is estimated to be \$4,646,000.

Alternatively, we have prepared an accounting of the assets of JMHI for periods after March 31, 1982, based on JMHI receiving net proceeds of \$100,000 to buy out interests in the 1966 Hospital Lease and 1968 Hospital Lease.

JMHI's history of untimely lease payments, financial operations and failure to maintain pace with the hospital industry; the terms of the 1966 Hospital Lease; and the different land and buildings subject to the 1966 Hospital Lease, the HGV Lease and the Fairfax Lease: indicate that JMHI would not have had a sufficient bargaining position to participate in leasing (or sub-leasing) to HGV or to Fairfax Hospital Association or to negotiate payment of net proceeds of \$100,000.

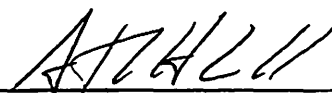
Liquidation of the business of JMHI as of March 31, 1982 plus \$100,000 is estimated to result in net proceeds of approximately \$1,354,000. Investment of \$1,354,000 from April 1, 1982 through September 30, 1999 at an average annual rate of return of 13.35 percent results in assets with a pretax value of approximately \$9,297,000. The investment gain of \$7,943,000 ($\$9,297,000 - \$1,354,000$) would be subject to taxes, estimated to be \$2,045,000 ($\$7,943,000 \times 26.0$ percent). The balance as of September 30, 1999 is estimated to be \$7,252,000 ($\$9,297,000 - \$2,045,000$).

QUALIFICATIONS

I am president of Cobb & Associates, Ltd., with offices at 4010 IDS Center, Minneapolis, Minnesota 55402, and have had primary responsibility for this engagement. Cobb & Associates, Ltd. practices in the areas of litigation support and capital finance.

Since 1973, I have been engaged in providing professional services in financial matters, with particular experience in the health care industry. I have conducted engagements regarding analysis of physician staffs, demand for services, competitive factors, financial operations and prospective operations of general-acute hospitals. I have analyzed the historical progress and development of general-acute facilities in various metropolitan areas. I have conducted economic feasibility studies, analysis of debt capacity and valuation of business. I have conducted engagements regarding and have made presentations regarding corporate organization and sales and leasing of healthcare facilities.

I made estimates of the fair market value of Jefferson Memorial Hospital, Inc. (JMHI) as of June 30, 1971, and of equity in Jefferson Memorial Hospital Corporation (JMHC) as of April 18, 1973 and January 29, 1975. The estimates included analysis of the operations and financing of Jefferson Memorial Hospital. My opinions regarding fair market value and the basis and reasons therefor were summarized in a report, dated June 18, 1996, and through testimony at trial before the Honorable Alfred D. Swersky.



Arthur H. Cobb
September 29, 1999

LIST OF EXHIBITS

<u>Exhibit Number</u>	<u>Exhibit</u>
1	Circuit Court of Alexandria, Virginia Decision in the matter of Commonwealth of Virginia, <u>ex rel</u> v. Tauber, <u>et al</u> , dated February 7, 1997
2	Supreme Court of Virginia Decision in the matter of Laszlo N. Tauber, et al. v. Commonwealth of Virginia, Etc., et al, dated April 17, 1998
3	Certain portions of <i>Fiduciary Accounting Guide Second Edition</i> by Robert Whitman of the University of Connecticut School of Law
4	Fiduciary information provided by the Clerk of Court
5	Lease by and between Jefferson Memorial Hospital Associates and Jefferson Memorial Hospital, Inc., dated January 1, 1966
6	Lease Cancellation, dated July 1, 1975
7	Lease Payment amounts for the 1966 Hospital Lease, 1968 Hospital Lease, Land Lease #1, and Land Lease #2; and the Producer Price Index, Finished Consumer Goods Excluding Food
8	Schedule of Fixed Assets
9	Jefferson Memorial Hospital financial statements for the period November 1, 1970 to June 30, 1971
10	Jefferson Memorial Hospital Corporation financial statements for the year ended June 30, 1972
11	Jefferson Memorial Hospital Corporation financial statements for the year ended June 30, 1973
12	Jefferson Memorial Hospital Corporation financial statements for the year ended June 30, 1974

**Exhibit
Number**

Exhibit

- | | |
|----|--|
| 13 | Jefferson Memorial Hospital Corporation financial statements for the year ended June 30, 1975 |
| 14 | Jefferson Memorial Hospital Corporation financial statements for the year ended June 30, 1976 |
| 15 | Jefferson Memorial Hospital Corporation financial statements for the year ended June 30, 1977 |
| 16 | Jefferson Memorial Hospital Corporation financial statements for the year ended June 30, 1978 |
| 17 | Jefferson Memorial Hospital Corporation financial statements for the year ended June 30, 1979 |
| 18 | Jefferson Memorial Hospital Corporation financial statements for the year ended June 30, 1980 |
| 19 | Jefferson Memorial Hospital Corporation financial statements for the year ended June 30, 1981 |
| 20 | Jefferson Corporation of Alexandria, formerly Jefferson Memorial Hospital Corporation, financial statements for the year ended June 30, 1982 |
| 21 | Bond yields and interest rates |
| 22 | Memorandum Agreement of Sale and Lease Back by and between Jefferson Memorial Hospital Corporation and Laszlo N. Tauber, Trustee for a partnership to be formed, dated December 24, 1974 |
| 23 | Minutes, Jefferson Memorial Hospital, Board of Directors Meeting, dated January 29, 1975 |
| 24 | Hospital Lease Agreement between Jefferson Memorial Hospital Corporation and Health Group of Virginia, Inc., dated February 11, 1982 |
| 25 | Jefferson Memorial Hospital, Inc., Return of Organization Exempt from Income Tax for the period July 31 through December 31, 1985 |

**Exhibit
Number**

Exhibit

- | | |
|----|---|
| 26 | Hospital Lease Agreement between Jefferson Corporation of Alexandria and Fairfax Hospital Association, dated July 3, 1985 |
| 27 | Jefferson Hospital, Inc., Return of Organization Exempt from Income Tax for 1992 |
| 28 | Proposal to acquire Jefferson Hospital Building and 120-bed Operating License, dated July 31, 1992 |
| 29 | Binding Letter Agreement of Jefferson Hospital, dated October 14, 1992 |
| 30 | Settlement Agreement by and between Inova Health System Foundation and Inova Health System Hospitals and Laszlo N. Tauber, Trustee and Jefferson Memorial Hospital Joint Venture, dated July 11, 1994 |
| 31 | S&P 500 Index and Lehman Brothers Intermediate Treasury Bond Index |
| 32 | Annual Salary Ranges of Hospital Administrators, 1980-1981 |
| 33 | Report of Arthur H. Cobb in the matter of Commonwealth of Virginia, <u>ex rel</u> v. Laszlo N. Tauber, et al, dated June 18, 1996 |
| 34 | Zoning Tabulation |
| 35 | Hospital Operations Balance Sheets based on 9 percent annual rate |

Legal and Related Fees
Inova Issues and Litigation

	Fiscal Year Ended June 30,				
	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	Total
Shaw Pitman Potts & Trowbr	-	-	300,000	-	
Murphy McGettigan Richards	-	-	63,964	2,500	
Murphy McGettigan	-	-	19,131	-	
Murphy McGettigan Richards	65,000	73,197	120,000	-	
Margolius Mallios Davis	-	30,000	38,553	-	
Margolius Mallios Davis	-	-	69,120	-	
Howrey & Simon	-	145,594	302,047	-	
Howrey & Simon	-	-	129,510	89,817	
Price Waterhouse	-	23,368	-	-	
Price Waterhouse	-	-	21,638	-	
First Chesapeake Group	-	-	63,582	-	
Haas & Dennis	-	-	27,020	-	
Cardinal Title	-	-	20,000	-	
Haas & Dennis	-	14,662	20,000	-	
Total	<u>\$ 65,000</u>	<u>286,821</u>	<u>1,194,565</u>	<u>92,317</u>	<u>\$ 1,638,703</u>

Ex. W
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OF COUNSEL
ATTORNEY WORK
PRODUCT

JMHJV 1st Nat.

Transaction Report by Payee

1/1/93 Through 7/21/99

7/21/99

Page 1

Date	Num	Description	Memo	Category	Clr	Amount
9/9/94		-Shaw Pittman Potts & Trowbr...	Payment per settlement ag...	LEGAL	R	-100,000.00
11/1/94	3048	Shaw Pittman Potts & Trowbr...	Payment per settlement ag...	LEGAL	R	-100,000.00
12/1/94	3067	Shaw Pittman Potts & Trowbr...	Payment per settlement ag...	LEGAL	R	-100,000.00
TOTAL Shaw Pittman Potts & Trowbridge						-300,000.00

FYE 6-30-95

JMHJV 1st Nat.

7/21/99

Transaction Report

1/1/94 Through 7/21/99

Date	Num	Description	Memo	Category	Clr	Amount	Page
11/1/94	3047	Murphy McGettigan Richard...	Re: Inova	LEGAL	R (B)	-60,000.00	
5/1/95	3208	Murphy McGettigan Richard...	Transaction w/ Inova	LEGAL	R (B)	-3,963.73	
8/4/95	3274	Murphy McGettigan Richard...	Bill 11630 partial pymt	LEGAL	R (B)	-2,500.00	
TOTAL 1/1/94 - 7/21/99						-66,463.73	
TOTAL INFLOWS						0.00	
TOTAL OUTFLOWS						-66,463.73	
NET TOTAL						-66,463.73	

FY 6-30-95 (B) 63,914

FY 6-30-96 (B) 2,500

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JMHJV 1st Nat.

7/21/99

Transaction Report
1/1/94 Through 7/21/99

Page 1

Date	Num	Description	Memo	Category	Clr	Amount
11/4/96	3455	RICHARD McGettigan Reilly	Transaction with INOVA	LEGAL	R	-5,075.05
TOTAL 1/1/94 - 7/21/99						-5,075.05
TOTAL INFLOWS						0.00
TOTAL OUTFLOWS						-5,075.05
NET TOTAL						-5,075.05

FY 6-30-97

J M H J.V. FNB

Transaction Report
1/1/94 Through 7/21/99

7/2/99

Page

Date	Num	Description	Memo	Category	Clr	Amount
7/13/94		MURPHY MC GETTIGAN R...	BILL 11009 & 11010	LEGAL	R	-19,130.85
TOTAL 1/1/94 - 7/21/99						-19,130.85
TOTAL INFLOWS						0.00
TOTAL OUTFLOWS						-19,130.85
NET TOTAL						-19,130.85

Fyc 6-30-95

JEFFERSON HOSP

Transaction Report
1/1/92 Through 7/21/99

7/21/99

Page

Date	Num	Description	Memo	Category	Clr	Amount
12/31/92	1548	MURPHY MCGETTIGAN RI...	FILE 006143	LEGAL	R (A)	-15,000.00
2/25/93	1967	MURPHY MCGETTIGAN RI...	FILE 006143	LEGAL	R	-10,000.00
4/2/93	1970	MURPHY MCGETTIGAN RI...	FILE 006143	LEGAL	R	-10,000.00
5/1/93	1794	MURPHY MCGETTIGAN RI...	FILE 006143	LEGAL	R	-10,000.00
6/9/93	1972	MURPHY MCGETTIGAN RI...	FILE 006143	LEGAL	R	-20,000.00
7/12/93	1939	MURPHY MCGETTIGAN RI...	FILE 008143	LEGAL	R (A)	-10,000.00
8/4/93	2051	MURPHY MCGETTIGAN RI...	LEGAL INOVA	LEGAL	R	-40,000.00
10/1/93	2145	MURPHY MCGETTIGAN RI...	LEGAL INOVA	LEGAL	R	-20,000.00
6/22/94	2533	Murphy McGettigan Richards...	INOVA Litigation	LEGAL	R	-3,196.91
9/2/94	2562	Murphy McGettigan Richards...	Inova V JMHJV	LEGAL	R (C)	-60,000.00
10/1/94	2763	Murphy McGettigan Richards...	Inova V JMHJV	LEGAL	R	-60,000.00
TOTAL 1/1/92 - 7/21/99						-258,196.91
TOTAL INFLOWS						0.00
TOTAL OUTFLOWS						-258,196.91
NET TOTAL						-258,196.91

FY 6-30-93 \$ 65,000
FY 6-30-94 \$ 73,197
FY 6-30-95 \$ 120,000

J M H J.V. FNB

7/21/99

Transaction Report
1/1/94 Through 7/21/99

Page 1

Date	Num	Description	Memo	Category	Clr	Amount
6/29/94		MARGOLIUS MALLIOS DA.....	BILL 9700-00000-013-RAW	LEGAL FYE 6-30-94	R	-30,000.00
7/22/94		MARGOLIUS MALLIOS DA...	BILL 9700-00000-014-RAW	LEGAL FYE 6-30-95	R	-38,553.15
TOTAL 1/1/94 - 7/21/99						-68,553.15
TOTAL INFLOWS						0.00
TOTAL OUTFLOWS						-68,553.15
NET TOTAL						-68,553.15

JMHJV 1st Nat.

Transaction Report
1/1/94 Through 11/1/94

7/21/

Date	Num	Description	Memo	Category	Clr	Page	Amount
11/1/94	3053	Margolius Mallios Davis Rid...	Bill 9700-00000-016 BAW	LEGAL	R		-69,119.7
TOTAL 1/1/94 - 11/1/94							-69,119.7
TOTAL INFLOWS							0.00
TOTAL OUTFLOWS							-69,119.74
NET TOTAL							-69,119.74

Fyd 6-30-95

J M H J.V. FNB

7/21/99

Transaction Report

1/1/94 Through 7/21/99

Page 1

Date	Num	Description	Memo	Category	Clr	Amount
6/29/94		HOWREY & SIMON	TAUBER/INOVA	LEGAL	R	-145,594.18
7/22/94		HOWREY & SIMON	INOVA (ANTRITRUST) & ...	LEGAL	R	-35,856.10
7/22/94		HOWREY & SIMON	INOVA LITIGATION	LEGAL	R	-161,191.02
8/17/94		HOWREY & SIMON	INOVA LITIGATION & QUIL...	LEGAL	R	-105,000.00
TOTAL 1/1/94 - 7/21/99						-447,641.30
TOTAL INFLOWS						0.00
TOTAL OUTFLOWS						-447,641.30
NET TOTAL						-447,641.30

FVE 6-30-94 145,594

FVE 6-30-95 302,047

JMHJV 1st Nat.

Transaction Report

11/1/94 Through 7/21/99

7/21/99

Page 1

Date	Num	Description	Memo	Category	Clr	Amount
11/1/94	3055	Howrey & Simon	Inova Litigation	LEGAL	R	-129,509.65
7/5/95	3252	HOWREY & SIMON	SHAW PITTMAN POTTS	LEGAL	R	-29,325.00
8/9/95	3278	HOWREY & SIMON	Tauber/Quiet Title & Jeffer...	LEGAL	R	-60,491.73
9/22/95	3301	HOWREY & SIMON	inv 273162,266623,269850	LEGAL	R	-20,000.00
11/8/95	3319	HOWREY & SIMON	inv 273162,273163,273164	LEGAL	R	-20,000.00
12/11/95	3340	HOWREY & SIMON	legal fees on account	LEGAL	R	-30,000.00
2/14/96	3374	HOWREY & SIMON	legal fees on account	LEGAL	R	-40,000.00
3/20/96	3384	HOWREY & SIMON	legal fees on account	LEGAL	R	-20,000.00
4/10/96	3389	HOWREY & SIMON	legal fees on account	LEGAL	R	-20,000.00
9/9/96	3436	Howrey & Simon	on account	LEGAL	R	-10,000.00
10/2/96	5981	Howrey & Simon	on account	LEGAL	R	-10,000.00
11/1/96	3450	Howrey & Simon	on account	LEGAL	R	-10,000.00
12/9/96	3458	Howrey & Simon	on account	LEGAL	R	-10,000.00
1/2/97	6052	Howrey & Simon	on account	LEGAL	R	-10,000.00
2/14/97	6082	Howrey & Simon	on account	LEGAL	R	-10,000.00
3/3/97	6106	Howrey & Simon	on account	LEGAL	R	-10,000.00
4/3/97	6129	Howrey & Simon	on account	LEGAL	R	-10,000.00
5/1/97	3504	Howrey & Simon	on account	LEGAL	R	-10,000.00
6/4/97	3518	Howrey & Simon	on account	LEGAL	R	-10,000.00
7/3/97	6198	Howrey & Simon	on account	LEGAL	R	-10,000.00
8/3/97	6193	Howrey & Simon	on account	LEGAL	R	-10,000.00
9/3/97	6247	HOWREY & SIMON	on account	LEGAL	R	-10,000.00
10/3/97	6269	HOWREY & SIMON	on account	LEGAL	R	-10,000.00
11/3/97	6310	HOWREY & SIMON	on account	LEGAL	R	-30,000.00
12/3/97	6313	HOWREY & SIMON	on account	LEGAL	R	-30,000.00
1/2/98	6341	HOWREY & SIMON	on account	LEGAL	R	-30,000.00
2/2/98	6371	HOWREY & SIMON	on account	LEGAL	R	-30,000.00
3/2/98	6424	HOWREY & SIMON	on account	LEGAL	R	-30,000.00
4/3/98	6450	HOWREY & SIMON	on account	LEGAL	R	-30,000.00
5/1/98	6477	HOWREY & SIMON	on account	LEGAL	R	-30,000.00
6/2/98	6505	HOWREY & SIMON	on account	LEGAL	R	-30,000.00
7/3/98	6533	HOWREY & SIMON	on account	LEGAL	R	-30,000.00
8/1/98	6569	HOWREY & SIMON	full & final payment	LEGAL	R	-36,730.27

TOTAL 11/1/94 - 7/21/99

-816,056.65

TOTAL INFLOWS

0.00

TOTAL OUTFLOWS

-816,056.65

NET TOTAL

-816,056.65

attempting to segregate
legal fees -
not just go w/dates -
but description
consistent
w/dates -

FYC 6-30-95 \$ (A) 129,510

FYC 6-30-96 \$ (B) 89,817

AS - includes
N.S. per conversation
with Rich Zuber 1/17/2000

JEFFERSON HOSP

7/21/

Transaction Report
3/30/94 Through 7/21/99

Date	Num	Description	Memo	Category	Clr	Amount	Page
3/30/94	1992	PRICE WATERHOUSE	INV 437930 JMH VS INOVA	LEGAL	R	-4,769.50	
4/22/94	2002	PRICE WATERHOUSE	INV 438334 JMH VS INOVA	LEGAL	R	-8,515.00	
5/25/94	2525	PRICE WATERHOUSE	INV 437930 JMH VS INOVA	LEGAL	R	-10,144.00	
TOTAL 3/30/94 - 7/21/99						-23,368.50	
TOTAL INFLOWS						0.00	
TOTAL OUTFLOWS						-23,368.50	
NET TOTAL						-23,368.50	

JMHJV 1st Nat.

Transaction Report

1/1/94 Through 3/3/99

7/21/88

Page 1

Date	Num	Description	Memo	Category	Clr	Amount
11/1/94	3058	Price Waterhouse	JMH vs Inova	LEGAL	R (A)	-15,000.00
2/16/95	5088	Price Waterhouse	JMH v Inova	LEGAL	R (A)	-6,637.78
10/2/96	5983	Price Waterhouse		LEGAL	R	-20,000.00
12/9/96	3463	Price Waterhouse		LEGAL	R	-10,000.00
1/2/97	6051	Price Waterhouse	expert witness fees Gilmor...	LEGAL	R	-30,924.00
3/12/97	3485	Price Waterhouse	expert witness fees Gilmor...	LEGAL	R	-10,000.00
4/9/97	3498	Price Waterhouse	expert witness fees Gilmor...	LEGAL	R	-10,000.00
5/5/97	3511	Price Waterhouse	expert witness fees Gilmor...	LEGAL	R	-10,000.00
6/6/97	3526	Price Waterhouse	expert witness fees Gilmor...	LEGAL	R	-10,000.00
7/3/97	3530	Price Waterhouse	expert witness fees Gilmor...	LEGAL	R	-10,000.00
8/3/97	6194	Price Waterhouse	on account	LEGAL	R	-10,000.00
9/3/97	6248	PRICE WATERHOUSE	on account	LEGAL	R	-10,000.00
10/3/97	6272	PRICE WATERHOUSE	on account	LEGAL	R	-10,000.00
1/2/98	6369	PRICE WATERHOUSE	on account	LEGAL	R	-5,520.57
2/2/98	3561	PRICE WATERHOUSE	on account	LEGAL	R	-5,000.00

TOTAL 1/1/94 - 3/3/99

-173,082.35

TOTAL INFLOWS
TOTAL OUTFLOWS

0.00

-173,082.35

NET TOTAL

-173,082.35

FYE 6-30-95 21,638

JMHJV 1st Nat.

Transaction Report
1/1/94 Through 2/28/95

7/21/99

Page 1

Date	Num	Description	Memo	Category	Clr	Amount
11/1/94	3059	FIRST Chesapeake Group	JMHJV vs Inova	LEGAL	R	-25,000.00
2/16/95	3175	FIRST Chesapeake Group	Anti-Trust Litigation	LEGAL	R	-13,581.80
2/16/95	5091	FIRST Chesapeake Group	JMHJV Contract Litigation	LEGAL	R	-25,000.00
TOTAL 1/1/94 - 2/28/95						-63,581.80
TOTAL INFLOWS						0.00
TOTAL OUTFLOWS						-63,581.80
NET TOTAL						FY 6-30-95 -63,581.80

JMHJV 1st Nat.

7/21/99

Transaction Report
1/1/94 Through 7/1/95

Page 1

Date	Num	Description	Memo	Category	Clr	Amount
11/1/94	3057	Haas & Dennis	Inova vs JMHJV	LEGAL	R	-15,000.00
2/16/95	5089	Haas & Dennis	Inova v JMHJV	LEGAL	R	-8,612.50
6/12/95	3225	Haas & Dennis	file 9026-01 INOVA V JMHJV	LEGAL	R	-3,407.25
TOTAL 1/1/94 - 7/1/95						-27,019.75
TOTAL INFLOWS						0.00
TOTAL OUTFLOWS						-27,019.75
NET TOTAL						-27,019.75

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JEFFERSON HOSP

Transaction Report
1/1/94 Through 7/21/99

7/21/99

Page 1

Date	Num	Description	Memo	Category	Clr	Amount
7/15/94	2544	Cardinal Title/1st American ...	Title insurance Inova Litigatio	LEGAL	R	-20,000.00
TOTAL 1/1/94 - 7/21/99						-20,000.00
TOTAL INFLOWS						0.00
TOTAL OUTFLOWS						-20,000.00
NET TOTAL						-20,000.00

JEFFERSON HOSP

Transaction Report
1/1/94 Through 7/21/99

7/21/99

Page 1

Date	Num	Description	Memo	Category	Clr	Amount
6/7/94	2528	Haas & Dennis	expert retainer roger hayden	LEGAL	R ④	-5,000.00
6/22/94	2535	Haas & Dennis PC	INOVA LITIGATION	LEGAL	R ①	-9,662.50
10/1/94	2765	Haas & Dennis PC	Inova v JMHJV	LEGAL	R ③	-20,000.00
TOTAL 1/1/94 - 7/21/99						-34,662.50
TOTAL INFLOWS						0.00
TOTAL OUTFLOWS						-34,662.50
NET TOTAL						-34,662.50

FYE 6-30-94 ② 14,662
FYE 6-30-95 ③ 20,000

LEASE

THIS LEASE, made as of this 1st day of JANUARY, 1966, by and between JEFFERSON MEMORIAL HOSPITAL ASSOCIATES, a joint venture duly formed and operating under the laws of the Commonwealth of Virginia and hereinafter referred to as the "Lessor", and JEFFERSON MEMORIAL HOSPITAL, INC., a Maryland corporation hereinafter referred to as the "Lessee".

WITNESSETH:

That in consideration of the mutual covenants, promises and agreements herein contained the said parties hereto do hereby agree as follows:

FIRST: (b) The Lessor hereby leases to the Lessee and the Lessee hereby hires from the Lessor, the hospital building located at 4600 King Street, Alexandria, Virginia on land more specifically described on Schedule A, which is attached hereto and made a part hereof. Said hospital building is hereinafter referred to as the "Leased Premises".

(b) The Lessor hereby leases to the Lessee not only the premises just described but also all rights appurtenant thereto, including all right and interest, if any, of the Lessor, in and to the land lying between the streets and sidewalks adjoining said premises, to the center line of such streets and including easements and rights in respect of all adjacent

J.APP. 5771

Ex. 2



All references herein to the Lease Term shall include the Original Lease Term plus any additional term for an option duly exercised hereunder.

SECOND: (a) The Lessee does hereby agree to operate the Leased Premises only as a hospital center and to pay the Lessor an Annual Rental for each Lease Year of Eighty Thousand Nine Hundred Forty Dollars (\$80,940). Such Annual Rental shall be paid in equal monthly installments on or in advance of the first day of each month during the Lease Term. The term "Lease Year", as used in this Lease, shall mean a full twelve (12) month period beginning with the first Lease Year, which shall commence as of January 1, 1966 (the "Lease Commencement Date").

(b) The formula for increases and subsequent decreases, if any, of the Annual Rental, shall be based on the fluctuations in the "Wholesale Price Index, All Commodities (1957-59 Cost Equals 100)" of the United States Department of Labor's Bureau of Labor Statistics, hereinafter called the Cost of Living Index (C.L.I.). On each tenth (10th) anniversary of the Lease Commencement Date the Annual Rental for the next ten (10) Lease Years shall be recomputed by multiplying the Annual Rental specified in paragraph (a) above by a fraction, the denominator of which shall be the C.L.I. for the month in which the Lease Commencement Date occurs, and the numerator of which

shall be the C. L. I. for the month in which said tenth (10th) anniversary of the Lease Commencement Date occurs, except that in no event will the Annual Basic Rental be less than the amount specified in said paragraph (a).

(c) As part of the consideration for this Lease and as additional rent and subject to all of the provisions hereof, the Lessee covenants and agrees, commencing as of January 1, 1966, and at all times during the Lease Term, at the Lessee's own cost and expense to pay, as the same become due and payable and before any fine, penalty, interest or other charge which may be added thereto for the nonpayment thereof, all taxes, license and permit fees, charges for public utilities of any kind, and obligations for any and all other governmental charges, general and special, ordinary and extraordinary, unforeseen as well as foreseen, of any kind and nature whatsoever, including, but not limited to, assessments for sidewalks, streets, sewers, water, or any other public improvements, and any other improvements or benefits which shall, during the Lease Term, be made, assessed, levied, or imposed upon, or become due and payable in connection with, or a lien upon, the Leased Premises, or any part thereof, or improvements thereon, or upon this Lease (all of such items being herein referred to as an "Imposition"), except that any such amounts properly allocable to periods before or after the Lease Term

shall not be payable by the Lessee and shall be equitably apportioned between the Lessor and the Lessee. The Lessor agrees promptly to send to the Lessee copies of any notices in respect of any such Imposition. The Lessee covenants to furnish to the Lessor, upon specific request in each instance, official receipts of the proper taxing of other governmental authorities or other proof satisfactory to the Lessor, evidencing the full payment of any and all such Imposition. If, by law, any Imposition may be paid, at the option of the taxpayer, in installments (whether or not interest accrues thereon) the Lessee may pay the same in installments.

(d) The provisions of this Lease shall not be deemed to require the Lessee to pay any tax on the rental paid to the Lessor or any inheritance, estate, succession or transfer taxes under any existing or future laws of the United States of America, or of any other country, or of any jurisdiction therein, that may be payable by reason of the devolution by descent or testamentary provision of the Lessor's estate in the Leased Premises, and the Lessee shall not be required to pay any income gift or capital levy or excess profits tax that may be payable by the Lessor under any existing or future tax law of the United States or of any jurisdiction therein.

(e) The Lessee shall have the right, if the Lessee disputes the amount or validity of any Imposition upon the Leased Premises and improvements thereon (whether in respect of the amount of tax assessment or otherwise) to contest and defend against the same, and in good faith diligently conduct any necessary proceedings to prevent and avoid the same.

provided, however, that such contest shall be prosecuted to a final conclusion as speedily as is reasonably possible. Any rebate made on account of any Imposition paid by the Lessee, shall be long and be paid to the Lessee. Lessor agrees to render to the Lessee all reasonable assistance, at no expense to the Lessor, in contesting the validity or amount of any Imposition including joining in the execution of any documents, or the signing of any protests or pleadings, which the Lessee may file. During any such contest the Lessee shall (by payment of such disputed Imposition, if necessary) prevent any foreclosure of, or any divesting thereby, of the Lessor's interest in or to the Leased Premises, and will further (by the payment of such disputed Imposition, if necessary) prevent the public sale or enforcement of any lien for any such Imposition.

THIRD: The Lessee agrees that during the Lease Term as part of its obligations under Article SECOND hereof it will pay all charges for electricity, water, sewer, gas and telephone service used on the Leased Premises.

FOURTH: The Lessee shall have the privilege of installing air conditioning, furniture, fixtures and machinery and equipment necessary to the conduct of its business and the same shall remain the property of the Lessee, provided such property is removed by the Lessee before the expiration of the Lease Term, and further provided that in the event any damage is done to the Leased Premises in the removal of said air conditioning, furniture, fixtures or machinery and equipment, the Lessee will promptly reimburse the Lessor for the cost of such repairs as are necessary to restore the Leased Premises to their condition at the commencement of this Lease. In the event of failure of the Lessee

to remove said air conditioning, furniture, fixtures, or machinery and equipment from the Leased Premises before expiration of this Lease (or any extension thereof) as provided for above, it is agreed that the Lessee is abandoning said air conditioning, furniture, fixtures, or machinery and equipment and such property shall become the property of the Lessor shall have the right to use, remove or dispose of said air conditioning, furniture, fixtures and machinery and equipment, all at the expense, if any, to the Lessee.

FIFTH: (a) During the Lease Term the Lessee will, at its own expense, make all repairs and replacements necessary to keep the Leased Premises and the plumbing, heating, electrical and other equipment thereof, in good repair and in proper sanitary condition, including repairs to the roof and exterior walls of the Leased Premises. At the expiration or termination of the Lease (or any extension thereof) the Lessee shall leave the Leased Premises in good condition, allowance being made for ordinary wear and tear and damage by fire, or by the elements, or by tornado, or by act of God or by public enemy being excepted.

(b) The Lessor reserves the right to enter upon the Leased Premises at any time during reasonable and usual business hours to inspect the same; and, in the case of emergency, the Lessor may enter upon the Leased Premises at any time to protect and preserve the Leased Premises or people thereon. The Lessee agrees that it will indemnify and save the Lessor harmless from any and all liability, damage expenses, cause of action, suits, claims or judgments arising from injury to person or property on the Leased Premises, or upon the adjoining sidewalks, or

parking lot, which arise out of the act, failure to act, or negligence of the Lessee, its agents or employees. In order to assure such indemnity, the Lessee agrees to carry and keep in full force and effect at all times during the Lease Term, for the protection of the Lessor and Lessee herei public liability insurance with limits of \$500,000/1,000,000 and fire and extended coverage on the Leased Premises, with a good and responsible insurance company, and to deliver to the Lessor a copy of said policies or certificates showing the same to be in force and effect. The Lessee covenants and agrees to carry adequate insurance on all plate glass in the Leased Premises and to cause said plate glass to be replaced if broke. In the event the Lessee shall fail to keep in force and maintain any of such policies of public liability, fire and extended coverage on the Leased Premises, and plate glass insurance, the Lessor shall have the privilege, at its option, to obtain such policies of insurance and to pay the premiums thereon, and the amount so paid, with interest thereon at the highest legal rate, shall, at the option of the Lessor, be added to the next installment of the Annual Rental payable under the provisions of this Lease.

SIXTH: The Lessee may not sublet the Leased Premises, any portion thereof, without the written consent of the Lessor.

SEVENTH: The Lessee covenants and agrees to use the Leased Premises for the conduct and operation of a hospital center and will use said premises for no other purpose whatsoever without the prior written consent of the Lessor.

EIGHTH: (a) The Lessee covenants and agrees not to make any structural alterations or changes to any part of the Leased Premises without first having obtained the written consent of the Lessor.

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(b) In the event of any such approved structural alterations or changes to any part of the Leased Premises, the Lessee agrees that it will make such additions, improvements, alterations and/or installations at its own expense. Request for consent to make any structural alterations or changes addressed to the Lessor shall be accompanied by plans and a letter from the Lessee stating in detail precisely what is to be done. The Lessee agrees that in making any such additions, improvements, alterations and/or installations in or to said premises, it will comply with the building codes, regulations and laws now or hereafter to be made or enforced in the municipality in which the Leased Premises are located and which pertain to such work; it being further agreed that any additions, improvements, alterations and/or installations made by the Lessee (except only movable store and office furniture and fixtures) shall become and remain a part of the Leased Premises and be and remain the property of the Lessor upon the termination of this Lease (or any extension thereof) or the Lessee's occupancy of the Leased Premises; provided, however, that if the Lessor gives written notice to the Lessee at the expiration or prior termination of this Lease to such effect, it may require the Lessee to restore the Leased Premises to its condition at the commencement of this Lease. The Lessee agrees that it will save harmless the Lessor from and against all expenses, including additional real estate taxes, liens, claims or damages to either property or person which may or might arise by reason of the making of any such additions, improvements, alterations and/or installations.

NINTH: The Lessee covenants that it will, at its own cost, promptly comply with and carry out all orders, requirements or conditions now or hereafter imposed upon it by the ordinances, laws and/or regulations of the government of the City of Alexandria and the Commonwealth of Virginia which the Leased Premises are located, or of any of its various departments during the Lease Term, whether such orders, requirements or conditions are required of the Lessor or otherwise, to be done or performed during the Lease Term insofar as they are occasioned by or required in the conduct of the business of the Lessee, and the Lessee will indemnify and save harmless the Lessor from all penalties, claims and demands resulting from Lessee's failure or negligence in this respect.

TENTH: The Lessee agrees that this Lease shall be subject and subordinate to the lien of any bona fide mortgages or deeds of trust that may now or at any time hereafter be placed against the Leased Premises by the Lessor to secure money borrowed from any insurance company or recognized financial institution. The Lessee further agrees, at any time hereafter, on demand, to execute any instrument, releases or other documents that may be required by the Lessor for the purpose of subjecting and subordinating this Lease to the lien of any first mortgage or deed of trust, whether original or substituted.

ELEVENTH: The Lessee agrees that it will keep the Leased Premises free of trash and dirt accumulations and shall furnish adequate and proper receptacles for trash and garbage, and shall remove trash, snow and ice.

TWELFTH: In the event the Lessee shall be adjudicated a bankrupt and a receiver or trustee shall be appointed by an appropriate court of its property and assets after the Lessee has exhausted its legal remedies in opposing such receivership, or if the Lessee shall make an assignment or other conveyance in trust for the benefit of its creditors, or if the Lessee shall suffer or permit a final judgment or decree for the payment of money to be entered against it and execution to issue thereon and be levied upon its interest in this Lease, and such execution and levy be not dismissed within ten (10) days after the date of such execution and levy, then, upon the happening of any such event, this Lease shall, at the option of the Lessor, cease and determine.

THIRTEENTH: In the case of fire, the Lessee shall give immediate notice thereof to the Lessor. If the Leased Premises shall be partially damaged by fire or other casualty, and the Lessee can reasonably carry on its business in the Leased Premises, the same shall be repaired or restored by the Lessor as it was immediately prior to such fire or other casualty, at the Lessor's expense, as speedily as practicable, due allowance being made for the time taken for the settlement of insurance claims, and until the repairs shall be made the annual rent shall be reduced in proportion to the portion of the Leased Premises that are unusable. In the event, during the Original Lease Term, and while ten (10) or more years of such term remain, that any portion of the Leased Premises is rendered unusable by fire or other cause covered by insurance, the Lessor agrees to restore the same promptly in accordance with the provisions hereof; but in the event the Leased Premises are so damaged to the extent that seventy-five percent (75%) thereof (or more) is rendered unusable, and such damage occurs after the expiration of the Original Lease Term or during the final ten (10) years of such term, the Lessor, at its op

may cancel and terminate this Lease upon notice to the Lessee at any time within sixty (60) days after the date of such damage, unless within thirty (30) days of the giving of such notice by the Lessor, the Lessee shall agree to a new lease of all terms hereof for a term of forty (40) years beginning on the date of the restoration of the Leased Premises. In the event of damage to the Leased Premises by fire or other cause, the question of whether or not seventy-five percent (75%) of the remaining portion of the premises can reasonably be used shall be determined by agreement between the Lessor and the Lessee.

FOURTEENTH: (a) If the Lessee shall fail timely to pay the rent called for herein as aforesaid, or breaks or violates any of the within covenants, conditions or agreements, and if such breach be not corrected within ten (10) days after notice by the Lessor to the Lessee of the existence of such breach, then and in any of the said events, this Lease and all things herein contained shall, at the option of the Lessor, cease and determine and shall operate as a notice to quit, the thirty (30) days' written notice to quit being hereby expressly waived; and the Lessor may proceed to recover possession of the Leased Premises under and by virtue of the provisions of the Code of the City of Alexandria and the Commonwealth of Virginia, or by such legal process as may at the time be in operation and force in like cases relating to proceedings between lessors and lessees. and when such possession is obtained, Lessor may re-rent the Leased Premises at the risk and cost of the defaulting Lessee, whose default in no instance shall relieve it of liability for the difference between the rent herein reserved and the rent actually received by Lessor during the term remaining after such default occurs.

(b) If a summons or other notice shall at any time be served upon the Lessee by the Lessor as aforesaid, and compromise or settlement shall be effected either before or after judgment or decree whereby the Lessee shall be allowed or permitted to retain possession of the Leased Premises, then said proceeding shall not constitute a waiver of any covenant or agreement herein contained, or this Lease itself, or of any subsequent breach or violation of any of its conditions, covenants or agreements.

FIFTEENTH: It is understood and agreed that all personal property, goods, wares, and merchandise in the Leased Premises shall be and remain at the Lessee's sole risk and the Lessor shall not be liable for any damage to or loss of such personal property, goods, and merchandise arising from the bursting, overflowing, or leaking of the roof or of water, sewer, or steam pipes, or from heating or plumbing fixtures or from the handling of electric wire or fixtures or from any other cause whatsoever, unless said damages are caused through the negligence of the Lessor.

SIXTEENTH: Any notices required or given hereunder by the Lessor to the Lessee shall be deemed to have been given if mailed, postage prepaid, to Lessee addressed to the Leased Premises; and any notices required or given hereunder by the Lessee to the Lessor, shall be deemed to have been given if mailed, postage prepaid, to Laszlo N. Tauber, Trustee, 5300 Westbard Avenue, Bethesda, Maryland, and to Leslie Gondor, 3541 West Braddock Road, Alexandria, Virginia.

SEVENTEENTH: The terms, conditions and agreements herein contained shall be kept and performed by the respective parties

hereto and will be binding upon them and each of their successors and assigns, and no waiver of any breach of any agreement, condition or covenant herein contained shall be construed to be a waiver of the said condition, covenant or agreement itself or of any subsequent breach thereof or of this agreement.

EIGHTEENTH: If the Leased Premises or any part thereof shall be taken by any governmental or quasi-governmental authority pursuant to the power of eminent domain, the Lessee agrees to make no claim for compensation in the proceedings, and hereby assigns to the lessor any rights which the Lessee may have to any portion of any award made as a result of such taking, and this Lease shall terminate as to the portion of the Leased Premises taken when title to that portion of the Leased Premises is taken by the condemning authority.

NINETEENTH: The Lessor covenants and agrees that the Lessee, upon paying the rental herein reserved and performing the covenants on its part herein required to be performed shall and may peaceably and quietly have, hold and enjoy the Leased Premises for the Lease Term.

IN WITNESS WHEREOF, the JEFFERSON MEMORIAL HOSPITAL ASSOCIATES, by Laszlo N. Tauber, Trustee, has signed and sealed this Lease for the Lessor, and the JEFFERSON MEMORIAL

HOSPITAL, INC., has caused its corporate name to be signed by its

_____ and duly attested by _____,

its _____, and its corporate seal hereunto affixed.

JEFFERSON MEMORIAL HOSPITAL ASSOCIAT:
LESSOR

Witness By L. N. Tauber, Trustee
Lasslo N. Tauber, Trustee

JEFFERSON MEMORIAL HOSPITAL, INC.
LESSEE

ATTEST:

L. N. Tauber, Trustee BY L. N. Tauber, Trustee

[Corporate Seal]

STATE OF Virginia
~~City~~ OF Alexandria, to wit:

I hereby certify that on this 21st day of October
1966, before me, a Notary Public in and for the ~~County~~ ^{City} of Alexandria
State of Virginia, personally appeared Lazlo N. Tauber
President of JEFFERSON MEMORIAL HOSPIT.
INC., in the above Lease, and being personally well known to me, did
acknowledge the foregoing Lease to be the act and deed of said corporation.

Mary C. James
Notary Public
My commission expires: Sept 9, 1971

STATE OF Virginia
~~City~~ OF Alexandria, to wit:

I hereby certify that on this 21st day of October
1966, before me, a Notary Public in and for the ~~County~~ ^{City} of Alexandria
State of Virginia, personally appeared Lazzlo N. Tauber
Trustee, he being personally well known to me, acknowledged the foregoing
Lease to be the act and deed of the JEFFERSON MEMORIAL HOSPITAL
ASSOCIATES.

Mary C. James
Notary Public
My commission expires: Sept 9, 1971

*Reportant note:
Jefferson Memorial Hospital Inc. was a DC*

LEASE

THIS LEASE, made as of this 1st day of January, 1966, by and between JEFFERSON MEMORIAL HOSPITAL ASSOCIATES, a joint venture duly formed and operating under the laws of the Commonwealth of Virginia and hereinafter referred to as the "Lessor", and JEFFERSON MEMORIAL HOSPITAL, INC., a Maryland corporation hereinafter referred to as the "Lessee".

WITNESSETH:

That in consideration of the mutual covenants, promises and agreements herein contained the said parties hereto do hereby agree as follows:

FIRST: (b) The Lessor hereby leases to the Lessee and the Lessee hereby hires from the Lessor, the hospital building located at 4600 King Street, Alexandria, Virginia on land more specifically described on Schedule A, which is attached hereto and made a part hereof. Said hospital building is hereinafter referred to as the "Leased Premises".

(b) The Lessor hereby leases to the Lessee not only the premises just described but also all rights appurtenant thereto, including all right and interest, if any, of the Lessor, in and to the land lying in the streets and sidewalks adjoining said premises, to the center line of such streets and including easements and rights in respect of all adjoining

TAUBER 19613

Trial Exhibit
No. 292.

J.APP. 5786

public space, including vault space, it being intended hereby that all rights of the Lessor in respect of the Leased Premises or rights relating to the Leased Premises are hereby granted to the Lessee during the Lease Term, but subject to all requirements and limitations, from time to time, of governmental authorities, it being understood that if governmental authorities terminate or restrict any rights to use areas described in paragraph (a) above which extend beyond the premises described in said paragraph (a), the Lessor shall have no liability to the Lessee by reason thereof and that the Lessee will pay all charges with respect thereto.

(c) This Lease shall be at the rental and upon the terms and conditions herein stated. The Original Lease Term shall be for a period of forty (40) years and shall commence as of January 1, 1966. If the Lessee duly remains the lessee of the Leased Premises for the duration of the Original Lease Term, the Lessee shall have the option to renew this Lease for an additional period of forty (40) years (the "First Option Term") upon termination of the Original Lease Term. If the Lessee duly remains the lessee of the Leased Premises for the duration of the First Option Term, the Lessee shall have a second option to renew this Lease for an additional period of nineteen (19) years (the "Second Option Term") upon termination of the First Option Term. Each of the aforesaid options of the Lessee shall be on the same terms and conditions as are contained in the Lease, except as otherwise expressly provided herein, and each of the aforesaid options may be exercised by the Lessee only by giving written notice thereof to the Lessor at least six (6) months prior to the expiration of the Lease term preceding the applicable option period.

All references herein to the Lease Term shall include the Original Lease Term plus any additional term for an option duly exercised hereunder.

SECOND: (a) The Lessee does hereby agree to operate the Leased Premises only as a hospital center and to pay the Lessor an Annual Rental for each Lease Year of Eighty Thousand Nine Hundred Forty Dollars (\$80,940). Such Annual Rental shall be paid in equal monthly installments on or in advance of the first day of each month during the Lease Term. The term "Lease Year", as used in this Lease, shall mean a full twelve (12) month period beginning with the first Lease Year, which shall commence as of January 1, 1966 (the "Lease Commencement Date").

(b) The formula for increases and subsequent decreases, if any, of the Annual Rental, shall be based on the fluctuations in the "Wholesale Price Index, All Commodities (1957-59 Cost Equals 100)" of the United States Department of Labor's Bureau of Labor Statistics, hereinafter called the Cost of Living Index (C.L.I.). On each tenth (10th) anniversary of the Lease Commencement Date the Annual Rental for the next ten (10) Lease Years shall be recomputed by multiplying the Annual Rental specified in paragraph (a) above by a fraction, the denominator of which shall be the C.L.I. for the month in which the Lease Commencement Date occurs, and the numerator of which

to remove said air conditioning, furniture, fixtures, or machinery and equipment from the Leased Premises before expiration of this Lease (or any extension thereof) as provided for above, it is agreed that the Lessee is abandoning said air conditioning, furniture, fixtures, or machinery and equipment and such property shall become the property of the Lessor, who shall have the right to use, remove or dispose of said air conditioning, furniture, fixtures and machinery and equipment, all at the expense, if any, to the Lessee.

FIFTH: (a) During the Lease Term the Lessee will, at its own expense, make all repairs and replacements necessary to keep the Leased Premises and the plumbing, heating, electrical and other equipment thereof, in good repair and in proper sanitary condition, including repairs to the roof and exterior walls of the Leased Premises. At the expiration or termination of the Lease (or any extension thereof) the Lessee shall leave the Leased Premises in good condition, allowance being made for ordinary wear and tear and damage by fire, or by the elements, or by tornado, or by act of God or by public enemy being excepted.

(b) The Lessor reserves the right to enter upon the Leased Premises at any time during reasonable and usual business hours to inspect the same; and, in the case of emergency, the Lessor may enter upon the Leased Premises at any time to protect and preserve the Leased Premises or people thereon. The Lessee agrees that it will indemnify and save the Lessor harmless from any and all liability, damage, expense, cause of action, suits, claims or judgments arising from injury to person or property on the Leased Premises, or upon the adjoining sidewalks or

parking lot, which arise out of the act, failure to act, or negligence of the Lessee, its agents or employees. In order to assure such indemnity, the Lessee agrees to carry and keep in full force and effect at all times during the Lease Term, for the protection of the Lessor and Lessee herein, public liability insurance with limits of \$500,000/1,000,000 and fire and extended coverage on the Leased Premises, with a good and responsible insurance company, and to deliver to the Lessor a copy of said policies or certificates showing the same to be in force and effect. The Lessee covenants and agrees to carry adequate insurance on all plate glass in the Leased Premises and to cause said plate glass to be replaced if broken. In the event the Lessee shall fail to keep in force and maintain any of such policies of public liability, fire and extended coverage on the Leased Premises, and plate glass insurance, the Lessor shall have the privilege, at its option, to obtain such policies of insurance and to pay the premiums thereon, and the amount so paid, with interest thereon at the highest legal rate, shall, at the option of the Lessor, be added to the next installment of the Annual Rental payable under the provisions of this Lease.

SIXTH: The Lessee may not sublet the Leased Premises, or any portion thereof, without the written consent of the Lessor.

SEVENTH: The Lessee covenants and agrees to use the Leased Premises for the conduct and operation of a hospital center and will use said premises for no other purpose whatsoever without the prior written consent of the Lessor.

EIGHTH (a) The Lessee covenants and agrees not to make any structural alterations or changes to any part of the Leased Premises without first having obtained the written consent of the Lessor.

NINTH: The Lessee covenants that it will, at its own cost, promptly comply with and carry out all orders, requirements or conditions now or hereafter imposed upon it by the ordinances, laws and/or regulations of the government of the City of Alexandria and the Commonwealth of Virginia in which the Leased Premises are located, or of any of its various departments during the Lease Term, whether such orders, requirements or conditions are required of the Lessor or otherwise, to be done or performed during the Lease Term insofar as they are occasioned by or required in the conduct of the business of the Lessee, and the Lessee will indemnify and save harmless the Lessor from all penalties, claims and demands resulting from Lessee's failure or negligence in this respect.

TENTH: The Lessee agrees that this Lease shall be subject and subordinate to the lien of any bona fide mortgages or deeds of trust that may now or at any time hereafter be placed against the Leased Premises by the Lessor to secure money borrowed from any insurance company or recognized financial institution. The Lessee further agrees, at any time hereafter, on demand, to execute any instrument, releases or other documents that may be required by the Lessor for the purpose of subjecting and subordinating this Lease to the lien of any first mortgage or deed of trust, whether original or substituted.

ELEVENTH: The Lessee agrees that it will keep the Leased Premises free of trash and dirt accumulations and shall furnish adequate and proper receptacles for trash and garbage, and shall remove trash, snow and ice.

hereto and will be binding upon them and each of their successors and assigns, and no waiver of any breach of any agreement, condition or covenant herein contained shall be construed to be a waiver of the said condition, covenant or agreement itself or of any subsequent breach thereof or of this agreement.

EIGHTEENTH: If the Leased Premises or any part thereof shall be taken by any governmental or quasi-governmental authority pursuant to the power of eminent domain, the Lessee agrees to make no claim for compensation in the proceedings, and hereby assigns to the lessor any rights which the Lessee may have to any portion of any award made as a result of such taking, and this Lease shall terminate as to the portion of the Leased Premises taken when title to that portion of the Leased Premises is taken by the condemning authority.

NINETEENTH: The Lessor covenants and agrees that the Lessee, upon paying the rental herein reserved and performing the covenants on its part herein required to be performed shall and may peaceably and quietly have, hold and enjoy the Leased Premises for the Lease Term.

IN WITNESS WHEREOF, the JEFFERSON MEMORIAL HOSPITAL ASSOCIATES, by Lazzle N. Tauber, Trustee, has signed and sealed this Lease for the Lessor, and the JEFFERSON MEMORIAL

SCHEDULE A

The Leased Premises referred to in the attached Lease Agreement are located at 4600 King Street, Alexandria, Virginia, and are described as follows:

All those certain lots or parcels of ground located in the City of Alexandria, Virginia, and more particularly described as follows, to-wit:-

PARCEL ONE:

BEGINNING at an iron pipe in the West side of Leesburg-Alexandria Turn Pike a corner to the lot of Mrs. Julia T. Klock; thence with the line of Mrs. Klock S. $23^{\circ} 51' W$. 74.4 feet to an iron pipe; thence with another line of Mrs. Klock and the same line continued with Dove N. $77^{\circ} 43' W$. 384.4 feet to an iron pipe set in the E. side of a 12 foot outlet road; a corner to Dove; thence crossing said 12 foot outlet road N. $77^{\circ} 01' W$ 12' to an iron pipe in the line of the Green Tract; thence with the line of the Green Tract S. $12^{\circ} 46' W$. 171.18 feet to an iron pipe set in said line a corner to the land of Finisecy; thence with the line of Finisecy S. $58^{\circ} 22' E$. 425.9 feet to an iron pipe set in said line a corner to the lot of W. P. Daniels, Jr.; thence with the line of said Daniels N. $25^{\circ} 19' E$. 325.7 feet to an iron pipe in the west side of Leesburg-Alexandria Turn Pike, a corner to W. O. Daniels, Sr.; thence with the west side of said Turn Pike N. $30^{\circ} 22' W$. 34.3 feet to beginning, the said land being hereby conveyed being more particularly described in accordance with a survey made by Edward S. Holland, C.L.S., dated August 6, 1962, as follows:

TAUBER 19629

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HOSPITAL LEASE AGREEMENT

THIS LEASE AGREEMENT is entered into at Alexandria, Virginia this 11th day of February, 1982, between JEFFERSON MEMORIAL HOSPITAL CORPORATION, a Delaware corporation, ("Lessor") and HEALTH GROUP OF VIRGINIA, INC., a Tennessee corporation ("Lessee").

1. Premises. Lessor hereby leases to Lessee and Lessee hereby leases from Lessor, for and in consideration of the sums hereinafter payable and also in consideration of the mutual promises and covenants of the parties hereinafter set forth, the real estate located in the City of Alexandria, Virginia, which is described in Exhibit A, and the related equipment, furniture and fixtures which are described in Exhibit B and nonclinical replacements. The real estate and equipment, furniture and fixtures and nonclinical replacements leased hereunder shall be referred to as the "Premises", and shall include the land, the main hospital building, and the space leased in the medical office building which is currently being utilized in the operations of Jefferson Memorial Hospital ("Hospital").

2. Warranty of Title. Lessor warrants that it has authority to enter into and perform this Lease. All mortgages, liens and encumbrances applicable to the Premises are set forth on Exhibit C. Lessor assures quiet and peaceful enjoyment of the Premises to Lessee. Lessor has obtained the consent of the respective landlords of the leased portions of the Premises to sublease those portions to Lessee. Lessee may at its election and at its cost obtain leasehold title insurance from a reputable company in an amount to be determined by Lessee and insuring the leasehold interest free of encumbrance, except as described in Exhibit C.

3. Term. Lessor leases the Premises to Lessee for a term of ten (10) years and one month, commencing on the "Effective Date", which shall be April 1, 1982; provided Lessee can lawfully operate the Hospital. If by September 1, 1982, after the exercise of due diligence, the Lessee has been unable to obtain all licenses, a Certificate of Public Need, if required, and the granting of all other federal and state approvals, if required, allowing Lessee to lease and operate the Premises as a 120-bed acute-care general hospital, then Lessee may at its election terminate the Lease. Immediately prior to the commencement of this Lease, Lessor shall update as of the Effective Date the representations and warranties of Section 17, which update shall not include any material adverse changes. If there are material changes from the date hereof to the Effective Date, the Lessor may cure (cure to be made on or before April 1, 1982) or elect to terminate the Lease.

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(h) All maintenance costs;

(i) All equipment leases and other contracts identified in Exhibit G and as provided in Paragraph 23 hereof;

(j) A monthly payment equal to Lessor's lease payments (not to exceed \$20,000.00 per month) under the real property leases for portions of the Premises, which leases have heretofore been delivered to the Lessee and which are identified in Exhibit D attached hereto. Lessee's annual base rent under this subparagraph will not exceed \$240,000.00. Lessor will remain responsible for the balance of the rent and its other obligations for those real property leases. In addition to its base rent Lessee shall be responsible for the other costs, expenses and obligations of those leased premises to the extent otherwise required by subparagraphs (a) through (i) above.

6. Additional Beds. If approval from all necessary governmental agencies is obtained to add additional beds in a Psychiatric Unit, and the number of beds is actually increased, then the rental figures set forth in Sections 4 and 5 shall be increased by 1/120th for each additional bed, and the current and all future rent shall be calculated and paid in accordance with the new figures. If the parties hereto desire to seek and obtain increases in bed capacity other than in the Psychiatric Unit, then the parties agree to negotiate in good faith as to the terms, conditions and desirability of such increases.

7. Use. Lessee shall use the Premises solely as a hospital with its related activities. Lessee shall comply with all governmental requirements and regulations, including health, police and fire regulations respecting the Premises.

8. Sublet. Lessee shall not assign its leasehold interest or sublet the leased premises in whole or in part without the prior written approval of the Lessor, which approval shall not be unreasonably withheld.

9. Insurance and Condemnation. During the term hereof, the Lessee at its own cost and expense and as additional rent shall:

(a) Keep all buildings and improvements, equipment, furniture and fixtures on, in and appurtenant to the Premises including all alterations, additions and improvements to the Premises insured against loss or damage by fire, and other casualties, and shall maintain all standard extended coverages with such companies as the Lessee may select for the full replacement value.

The policies for such insurance shall be secured in the name of the Lessor and Lessee with loss thereunder payable to the Lessor. Lessor shall

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promptly replace any of the Premises which are partially or totally destroyed by fire or other casualty, or are taken in any condemnation proceeding, to the extent of insurance proceeds or condemnation awards;

(b) Provide and keep in force in such form as Lessor shall reasonably require public liability, elevator and boiler insurance coverage protecting the Lessor against any and all liability in the amount of not less than \$3,000,000.00 for any one accident or disaster and in the amount of not less than \$1,000,000.00 for injuries to any one person; and

(c) Provide and keep in force malpractice insurance covering both Lessor and Lessee as insureds (but not individuals) in an amount no less than the malpractice insurance maintained by Lessor as of January 15, 1982. The Lessee shall maintain malpractice insurance through the Virginia Hospital Reciprocal on a "claims made" basis throughout the term of the Lease. Furthermore, said insurance shall effectively cover the Lessor and Lessee against risk of loss for claims made after the Effective Date arising from occurrences prior to the Effective Date. At termination of the Lease, Lessor shall either continue the above insurance or the Lessor shall in insurance parlance "buy out the tail" so that the Lessee and Lessor will be fully protected from any risk of loss for claims made after the termination date arising from occurrences prior to the termination date. If either party should terminate the present coverage, it shall "buy out the tail" sufficient to fully protect each from all prior occurrences. The Lessee shall obtain an endorsement to the malpractice insurance policy to be delivered to the Lessor on or before the Effective Date and annually during the term of this Lease in which the insurer states that it is aware of the provisions of this paragraph, and agrees that both the Lessor and Lessee are protected as insureds from all claims referred to in this subparagraph. After termination, Lessor shall obtain the endorsements and deliver them to Lessee as provided in the preceding sentence so long as Lessee is at risk for any claims.

On January 15, 1984, 1986, 1988 and 1990, during the term of this Lease, the Lessee shall cause the aforesaid malpractice insurance coverage to be increased, if necessary, so that the coverage amounts for the next succeeding two years are not less than the average of those coverage amounts then maintained by hospitals in the Northern Virginia area.

(d) Lessee shall furnish Lessor with duplicate originals or copies certified by the insurance companies of all policies of insurance for all insurance

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coverage referred to in subparagraphs 9(a), 9(b), and 9(c). All insurance referred to in the aforesaid subparagraphs must be approved by the Lessor, but such approval shall not be unreasonably withheld; provided, the insurance to be obtained by Lessor at termination shall be subject to the approval of Lessee which approval shall not be unreasonably withheld.

18. Items to be Purchased.

(a) By Lessee. As of Effective Date, Lessee shall purchase from Lessor and Lessor shall sell to Lessee total of all patient accounts receivables, each of the movable equipment items listed on Exhibit B, all inventory, and all prepaid expenses existing as of Effective Date and as reflected on the Lessor's Balance Sheet as of March 31, 1982 and Exhibit B. The Purchase Price shall be the sum of the following values as of January 31, 1982.

- (1) Eighty percent (80%) of patient accounts receivable;
- (2) Plus one hundred percent (100%) of the book value of the equipment purchased;
- (3) Plus one hundred percent (100%) of the cost of inventory of usable expendable supplies on hand for Hospital operations and purchased by Lessee;
- (4) Plus one hundred percent (100%) of prepaid expenses;
- (5) Less one hundred percent (100%) of trade accounts payable;
- (6) Less one hundred percent (100%) of all accrued expenses assumed by Lessee;
- (7) Plus fifteen percent (15%) of the sum of items (1), (2), (3), (4), (5), and (6) above.

At the execution of this Lease, the Lessee shall pay to Lessor the sum of \$180,000.00 to be held in escrow and then to be applied on March 1, 1982, to the purchase price of the items referred to in this subparagraph. The balance of the purchase price will be paid by the Lessee to the Lessor on or before March 1, 1982. As of March 31, 1982 the sum of items 1 through 7 hereof will be recalculated and the purchase price paid on March 1, 1982 will be adjusted with the difference to be due and payable on May 1, 1982. On the Effective Date, Lessor shall execute and deliver all documents necessary to convey fee simple title to the above assets free and clear of all encumbrances.

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leased premises. At the termination of this Lease, Lessee shall execute any documents necessary to release the name.

13. Termination. This Lease may be terminated:

(a) By Lessor:

- (1) To the extent permitted by applicable bankruptcy law, if Lessee shall apply for or consent to the appointment of a receiver, trustee or liquidator of all or a substantial part of Lessee's assets, file a voluntary petition in bankruptcy, make a general assignment for the benefit of creditors or take advantage of any insolvency law, or if an order, judgment or decree shall be entered by a court of competent jurisdiction, on the application of a creditor, adjudicating Lessee a bankrupt or insolvent, or approving a petition seeking reorganization of Lessee, or appointing a receiver, trustee or liquidator of all or a substantial part of Lessee's assets; or
- (2) If Lessee shall default in the performance of any covenant, agreement, term or provisions of this Lease and such default shall continue for a period of thirty (30) days after written notice (ten days after written notice in the case of rental payments) to Lessee from Lessor stating in detail the default.

(b) By Lessee:

If Lessor shall default in the performance of any covenant, agreement, term or provision of this Lease and such default shall continue for a period of thirty (30) days after written notice to Lessor from Lessee stating in detail the default; or in the event of a material misrepresentation in any of Lessor's warranties and representations.

14. Good Faith. Lessor and Lessee agree that they will each exercise due diligence and good faith in performing their respective obligations under this Lease.

15. Return of Premises to Lessor at Termination of Lease. At the termination of this Lease, Lessee shall give possession of the Premises to Lessor, in good condition, ordinary wear and tear excepted. Lessee shall cooperate with

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Lessor in the transfer of transferrable licenses and permits for the operation of the Hospital.

16. Rights and Remedies on Default. Either party shall be in default ^{in the performance of any covenant, agreement, term or} hereunder if such party has defaulted provision of this Lease and fails to cure such breach within thirty (30) days of written notice (ten days of written notice in the case of rental payment). The parties shall have the following rights and remedies on default of the other whether or not there is a termination of this Lease as a result thereof, which shall be cumulative and shall not exclude any other right or remedy allowed by this Lease or by law. L.D.T. 7

(a) Lessor shall be entitled to recover possession of the Premises and all damages which Lessor may have suffered or may in the future suffer as a result of the Lessee's default; and Lessee shall pay all of Lessor's reasonable collection costs, including without limitation, costs and reasonable attorney's fees which are incurred by Lessor.

(b) In the event of default by Lessor, Lessee shall be entitled to recover all damages which Lessee may have suffered or may in the future suffer, as a result of the Lessor's default and Lessor shall pay all of Lessee's reasonable collection costs, including without limitation, costs and reasonable attorney's fees which are incurred by Lessee.

17. Representations and Warranties of Lessor.

(a) Organization. Lessor is a corporation duly organized and validly existing and is in good standing under the laws of the State of Delaware and is authorized by the Virginia State Corporation Commission to do business in Virginia. Lessor has the corporate power and authority to enter into and perform the terms of this Lease. The execution, delivery and performance of this Lease have been duly authorized by all necessary corporate actions including, without limitation, approval of the directors and shareholders of Lessor.

(b) Absence of Conflict. Execution and delivery of this Lease and the performance and compliance with the terms hereof by Lessor will not conflict with, or result in the breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation of any lien, charge or encumbrance upon the Premises, pursuant to its certificate of incorporation or bylaws, or any trust agreement, indenture, mortgage, lease, agreement, or any other instrument or any order, law, rule, regulation, judgment or decree to which it is a party or by which it, or any of its affiliates, or any of its properties are bound.

(c) No Hill-Burton Lien. No funds were received to construct, improve or acquire the Premises under the "Hill-Burton" Act.

(d) Licenses and Permits. Lessor has all necessary licenses and permits to occupy and operate the Premises, including, without limitation, licenses, Certificate of Public Need and permits issued by the Virginia Department of Public Health, the Virginia Health and Planning Commission and all local governmental authorities, as required under applicable laws, rules and regulations.

(e) Accreditations and Approvals. The Premises are accredited by the Department of Health & Human Services, Division of Survey and Certification; and it is a provider of health care services eligible for reimbursement under Medicare (USC Title 18), Blue Cross and similar insurance programs and under Medicaid (USC Title 19) and under similar contractual programs. True and correct copies of all reports and correspondence concerning the most recent Medicare and Medicaid reviews have been furnished to Lessee. Lessor and Lessee shall cooperate in maintaining JCAH accreditation, at no cost to Lessor.

(f) Zoning and Land Use. Lessor and the Premises are not in violation of any zoning, land use, building code or other law applicable to the Premises.

(g) Financial Reports. Lessor's Financial Statements for the years ending June 30, 1979, 1980 and 1981 and the unaudited financial statements certified by an officer of Lessor dated as of December 31, 1981, all of which have been delivered previously to Lessee, and the unaudited financial statements dated as of January 31, 1982, February 28, 1982, and March 31, 1982 shall be certified by an officer of Lessor and promptly delivered to Lessee. Each and every one of the financial statements referenced in the preceding sentence shall present fairly the financial position of Lessor as of the dates indicated and the results of its operations for the periods specified, on the accrual basis of accounting, and have been (or will have been, as the case may be) prepared in conformity with generally accepted accounting principles. The Financial Statements which have been and which will be furnished by Lessor are true and correct to the best of Lessor's knowledge. To the best of Lessor's knowledge, there is no fact relating to Lessor's financial disclosures which Lessor has not disclosed to Lessee in writing which materially adversely affects, or which could reasonably materially adversely affect the Premises prior to, at or after the Effective Date or which could affect Lessee's ability to perform its obligations under this Lease.

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(b) Absence of Undisclosed Liabilities. Except as otherwise disclosed in writing, as of the Effective Date, Lessor shall have no liabilities or obligations of any nature whether absolute, accrued, contingent or otherwise, whether due or to become due, as principal or guarantor, which are not reflected in the Financial Statements or in the notes thereto or in Exhibit F hereto, except for accounts payable incurred since the dates thereof in the ordinary course of business and any accrued taxes, which, individually or in the aggregate, are material to the Premises or the ability of Lessor to fully perform its obligations hereunder.

(c) Absence of Material Change. Since June 30, 1981, Lessor has conducted business operations in the ordinary course other than as disclosed by Lessor and has not:

- (1) incurred any material adverse change in the financial condition or in the operations of the business of the Premises; or
- (2) incurred any obligation or liability (absolute or contingent), except current liabilities incurred and agreements and contracts entered into in the ordinary course of business; or
- (3) sold, assigned, or transferred any of its assets or cancelled any debts or claims other than in the ordinary course of business; or
- (4) sold, assigned, transferred or terminated voluntarily or otherwise, any governmental or private licenses, permits, accreditations, or approvals referred to in subsections (d) and (e) above or any other similar assets; or
- (5) mortgaged, pledged or subjected to any lien, charge or any encumbrance or other imperfections of title, the Premises, or any portion thereof; or
- (6) waived any rights of substantial value, contractual or otherwise, whether or not in the ordinary course of business; or
- (7) suffered any material damage, destruction or loss; or

- (8) made or suffered any amendment or termination of any contract or agreement which adversely affects its business or the Premises; or
- (9) entered into any agreement to do any of the foregoing in the future.

(j) Assets Employed. Lessor has no clinically related assets other than as referred to on the Exhibits hereto and the Premises constitute all the assets necessary to, and which are used by and employed in the business and operations of Lessor as currently conducted.

(k) Condition of Premises. Lessee shall have the right to inspect the Premises prior to the Effective Date to assure that the Premises are in a good state of maintenance and repair. Lessor warrants that the Premises conform in all material aspects to applicable laws, ordinances, and regulations governing the operation thereof as a hospital and as otherwise being presently used.

(l) Contracts and Commitments. Included as Exhibit G hereto is a list as of the date hereof of each contract, lease, and agreement relating in any way to the Premises, the related assets and the operation and use thereof as a hospital, including, without limitation, approvals, accreditations and licenses from governmental authorities, Blue Cross and equivalent insurance programs, Medicaid and Medicare and other contractual programs and all agreements with or relating to employees, staff members and medical specialists. There has been no breach or default of any provisions of any contract, agreement, lease or license listed in said Exhibit (or otherwise) by Lessor which has not been previously cured, or to the knowledge of Lessor, by any other party thereto, and nothing has occurred which with lapse of time or the giving of notice or both would constitute a breach or default by Lessor, or to the knowledge of Lessor, by any other party thereto, with respect to any such contract, license, agreement or lease. Lessee has been furnished with true and complete copies of all contracts, agreements, leases and licenses listed in said Exhibit.

(m) Litigation. Except as may be described in Exhibit H, there is no administrative, judicial, private or other action, suit, proceeding, inquiry or investigation of law, or in equity, before or by any public board or body or otherwise pending (or, to the knowledge of Lessor, threatened against or affecting Lessor) or to the knowledge of Lessor, any meritorious basis therefor, wherein any unfavorable decision, ruling or finding would have a material adverse effect on (i)

the operation of the Premises, (II) the status of any licenses or permits referred to in Section 17(d), (III) the status of any accreditations and approvals referred to in Section 17(e) or (iv) this Lease. There exists no threatened or pending disciplinary actions or other actions against or relating to any member of the Hospital staff.

(n) Lessor's Employees. Exhibit I hereto sets forth a complete list of all of Lessor's executive employees, their job titles and rates of pay, together with copies of any and all fringe benefits and personnel policies. The delivery of the Schedule shall not imply or impose any obligation on Lessee to assume or be bound by such terms of employment. There exist no contracts or agreements between the Lessor and any employee or staff member providing for bonuses or terms of employment except as set forth in such Exhibit. This list will be held in confidence by Lessee.

(o) Employees' Fringe Benefit. Lessee shall be responsible for normal and reasonable fringe benefits due Lessor's employees accrued and unpaid prior to Effective Date, except that all payroll expenses due as aforesaid shall be the responsibility of Lessor prior to Effective Date. Lessee shall be responsible for all sick leave and vacation time accrued and unused by Lessor's employees prior to Effective Date. Lessor shall be responsible for normal and reasonable fringe benefits due Lessee's employees at Hospital accrued and unpaid as of the termination date of the Lease, except that Lessee shall be responsible for all payroll expenses due as aforesaid. Lessor shall be responsible for all sick leave and vacation time accrued and unused by Lessee's employees as of the termination date of the Lease.

(p) Labor Relations. There are no labor contracts to which Lessor is a party and there is no request for an election pending at the date hereof.

(q) No Violations of Law. To the best of Lessor's knowledge, Lessor is not conducting its business in violation of any federal, state or local laws, rules, regulations or ordinances currently in effect to which it is subject including, without limitation, laws and regulations relating to health care providers, land use, environmental protection, occupational safety or health, prices, wages, hours, taxes and employment practices, and at the Effective Date, the Premises, as constructed and operated, will violate no applicable law, order, rule or regulation relating to the use or occupancy thereof.

(r) Consents. No consents of other persons or entities shall be required to be obtained in order for Lessor to enter into this Lease, to execute and

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deliver all documents contemplated hereby and to perform all of Lessor's obligations hereunder except those listed on Exhibit E attached hereto, which consents shall be obtained prior to the Effective Date by Lessor.

(a) Full Disclosure. The information provided Lessee relating to the Premises and its operation has been and shall be true and correct in all respects on the date hereof and on the Effective Date, and Lessor shall have not failed to advise Lessee of any information which Lessor, through the exercise of prudence, could reasonably expect would be material to the operation of the Premises and to Lessee's leasing thereof.

(t) Conformity with Omnibus Reconciliation Act. All contracts assumed by Lessee hereunder shall be in conformity with Section 932 of the Omnibus Reconciliation Act of 1980, P.L. 96-499, providing for the access to the books and records of subcontractors of Medicare providers, by the Secretary of the Department of Health and Human Services.

(u) Primary Lease. The real estate included in the Premises is comprised of _____ primary leases, under all of which Lessor is either the lessee or sublessee. Lessor warrants and represents that it is current in the performance of all its obligations under each of the leases and has or shall have by the Effective Date, the authority and power to enter into this Lease and fully perform each of its obligations hereunder.

18. Representations and Warranties of Lessee.

(a) Organization. Lessee is a corporation duly organized and validly existing in good standing under the laws of the State of Tennessee with full corporate power to carry on its business as now conducted. True and correct copies of the Articles of Incorporation of the Lessee and Health Group Inc., certified by the Secretary of State of Tennessee, will be delivered to the Lessor prior to the Effective Date.

(b) Authority. The Lessee is authorized to perform the obligations hereunder and the approval of this Lease or the transactions contemplated hereby by the stockholders of the Lessee is not required by any provisions of its Articles of Incorporation, Bylaws or by any rule or regulation of the New York Stock Exchange.

(c) Consents. The execution and performance of this Lease will not violate any provision of, result in the breach of, or constitute a default under any order, writ, injunction, decree of court, governmental agency, or arbitration

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With respect to capital additions to the Premises, either Lessor or Lessee may propose, in written documents delivered to the other party, such additions to the Premises as the proposing party may deem necessary or appropriate. Every reasonable effort shall be made to make such proposal at least ninety (90) days prior to the fiscal year end of the Hospital, for inclusion in an annual capital budget. In the event that there are additions to the Hospital, any additional rental due therefor shall be negotiated in good faith between the parties.

23. Furniture, Fixtures and Equipment. All furniture, fixtures, machinery, equipment and items of personalty (referred to herein as "FF&E") shall be dealt with as follows:

(a) FF&E Owned by Lessor and Purchased by Lessee. FF&E owned by Lessor which was purchased by the Lessee pursuant to paragraph 19 which requires replacement during the term hereof, shall be replaced by Lessee and at termination of the Lease, all such original FF&E and replacements thereof shall be purchased by Lessor at book value as of the termination of this Lease.

(b) FF&E Owned by Lessor but not Purchased by Lessee. All FF&E owned by Lessor but not purchased on March 1, 1982 by Lessee shall remain the property of the Lessor and may be used by the Lessee during the term of this Lease. Any such FF&E which requires replacement during the term hereof, shall be replaced by Lessee and purchased by Lessor at book value as of termination of the Lease and all such FF&E shall become the property of the Lessor.

(c) FF&E Leased by Lessor as of the Effective Date. Lessor shall assign to Lessee all rights under such leases (including the right to purchase) and Lessee shall assume the obligations accruing after Effective Date with respect to these leases. Lessor shall obtain all necessary consents required for such assignments. All leased FF&E which requires replacement during the term of this Lease shall be replaced by Lessee. If Lessee leases the replacements, and said replacements are still being leased as of the termination of this Lease, Lessor shall assume any or all of such leases, and Lessee shall assign to Lessor those leases (including the right to purchase), and Lessor shall assume the obligations accruing after the termination of this Lease with respect to those FF&E leases. Lessee shall obtain all necessary consents required for such assignments. If Lessee purchases such replacements, Lessor shall purchase any or all of this FF&E at its book value as of the termination of this Lease.

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aggregate total \$1,250,000.00. Furthermore, on or before April 1, 1982, Lessee shall execute a security agreement and financing statement in which Lessee shall grant to Lessor a security interest in the aforesaid patient accounts receivable, and shall promptly execute any documents submitted by Lessor as further evidence of its assignment and granting of a security interest in the aforesaid patient accounts receivable necessary to keep the assignment and security interest in full force and effect during the term of this Lease. Lessee unconditionally agrees that it will pay all accounts incurred in its operation of the Hospital within forty-five (45) days of the date said account is incurred.

28. No Partnership. Lessor does not by this Lease, in any way or for any purpose, become a partner of Lessee in the conduct of its business or otherwise, or a joint venturer or a member of a joint enterprise with Lessee.

29. Indemnification of Lessor. Lessee will at all times during the terms of this Lease and thereafter indemnify and hold harmless Lessor, its stockholders, officers, agents and employees, from and against any and all claims, actions, damages, liability and expense, including attorney's fees, arising from or out of (1) any occurrence in, upon or at the leased Premises, or (2) the occupancy or use by Lessee of the leased Premises or any part thereof, or (3) occasioned wholly or in part by any act or omission of Lessee, its agents, contractors, employees, servants, invitees, lessees, or concessionaires, provided that such occurrence was not caused by the fault or negligence of Lessor or its agents, employees, or representatives.

30. New Building and Proposed New Building. During the term of this Lease, Lessee agrees that all persons using the new office building or proposed office building shall have unlimited rights of ingress and egress to such buildings. Furthermore, all such persons shall have equal access to all surface parking located on the Premises in the same manner and at the same costs, if any, as persons using the Hospital.

Lessee agrees that the aforesaid two buildings may be used by doctors and others as offices and for other purposes and said uses shall not be considered in violation of any non-competition agreements which are connected with the Lease. Said building shall not be used as a surgicenter nor for overnight patient observation. All income received from parking shall belong to Lessee during the terms of this Lease, except that income which is derived from parking located under the present building, and which will be located in the new building to be constructed.

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31. Lessor's Access to Information. Lessee shall make available to Lessor such of its records as shall be necessary to assure Lessor that Lessee is fully performing its duties under this Lease and is current in discharging its obligations with respect to the payment of its creditors. Lessor shall notify Lessee in writing of any nonconformity or irregularity and specify to Lessee what actions Lessee should take to correct the situation.

32. Property Loss, Damage, Reimbursement. Lessor shall not be liable for any damage to property of Lessee or of others on the leased Premises, nor for the loss or damage to any property of Lessee or others by theft or otherwise. Lessor shall not be liable for any injury or damages to persons or property resulting from fire, explosion, falling plaster, steam, glass, electricity, water, rain or snow leaks from any part of said Premises, or from the pipes, appliances or plumbing works or from the roof, street or subsurface or from any other place or by dampness or by any other cause of whatsoever nature, unless caused by or due to the negligence or fault of Lessor, its agents, servants or employees.

33. Lessor's Rights to Perform Lessee's Covenants. If Lessee shall at any time fail to pay any taxes, or fail to secure or pay for, or to maintain and deliver any of the insurance policies provided for herein, or shall fail to make any other payment or perform any other act required or to be performed in accordance with any terms or provisions of this Lease, then Lessor, after fifteen (15) days written notice to Lessee (or without notice in case of a bona fide emergency) and without waiving, or releasing Lessee from any obligations to make any of such payments or perform any other act on Lessee's part required or to be performed in this Lease, may enter upon the demised Premises for any such purpose, and take all such action thereon, as may be reasonably necessary.

All sums so paid by Lessor and all costs and expenses, including reasonable attorney's fees, incurred by Lessor in connection with the performance of any such act, together with interest thereon at the rate of sixteen percent (16%) per annum from the respective dates of Lessor's obligation and/or payment shall be paid by Lessee to Lessor on demand, and Lessor shall not be limited in the proof of any damages which Lessor may claim against Lessee arising out of or by reason of Lessee's failure to provide and keep in force insurance as aforesaid, to the amount of the insurance premium or premiums not paid or incurred by Lessee, but Lessor shall also be entitled to recover damages for such breach including the uninsured amount of any loss to the extent of any deficiency in the insurance required by the

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HOSPITAL LEASE AGREEMENT

THIS LEASE AGREEMENT is entered into at Alexandria, Virg. this 3rd day of July, 1985 between JEFFERSON CORPORATION ALEXANDRIA, a Delaware corporation ("Lessor"), and FAIRP HOSPITAL ASSOCIATION, a Virginia corporation ("Lessee").

1. **Premises.** For and in consideration of the sum hereinafter payable and also in consideration of the mutual promises and covenants of the parties hereinafter set forth, Lessor hereby leases to Lessee and Lessee hereby leases from Lessor the real estate located in the City of Alexandria, Virginia, which is described in Exhibit A, and the related equipment, furniture and fixtures which are described in Exhibit B and nonclinical replacements. The real estate and equipment, furniture and fixtures and nonclinical replacements leased hereunder shall be referred to as the "Premises", and shall include the land, the main hospital building, the entire fourth floor of the main hospital building, also known as the nursing wing addition, and the space leased in the Medical Office Building which includes the third floor and suites _____, all of which are currently utilized in the operation of Jefferson Memorial Hospital ("Hospital"). Lessee acknowledges that the fourth floor of the main hospital building ("Fourth Floor") is a shell and accepts said Fourth Floor in its present "as is" condition without any warranty from Lessor as to its condition or fitness for a particular use. Lessee shall have the right at its sole expense to make improvements within the Fourth Floor. Furthermore, Lessee agrees to take the entire Premises in their "as is"



condition and Lessee shall indemnify and hold harmless the Lessor from and against any and all claims arising from the condition of the Premises.

2. Warranty of Title. Lessor warrants that it has authority to enter into and perform this Lease. All mortgages, liens and encumbrances applicable to the Premises are set forth on Exhibit C. Lessor assures quiet and peaceful enjoyment of the Premises to Lessee. Lessor has obtained, where necessary, the consent of the respective landlords of the leased portions of the Premises to sublease those portions to Lessee. Lessee may at its election and at its cost obtain leasehold title insurance from a reputable company in an amount to be determined by Lessee and insuring the leasehold interest free of encumbrances, except as described in Exhibit C.

3. Term. Lessor leases the Premises to Lessee for a term of twenty (20) years and three (3) months, commencing on July 3, 1985. As of the date of settlement of the buy-out of Health Group of Virginia, Inc. stock or August 31, 1985, whichever is earlier, Lessor shall update the representations and warranties of Paragraph 17, which update shall not include any material adverse changes. If there are material adverse changes from the date hereof to the Effective Date, the Lessor may cure within three (3) months from the date hereof or elect to terminate the Lease. If Lessor elects to terminate rather than cure, it shall do so only by giving at least ten (10) days written notice to the Lessee prior to the Effective Date; provided, however, Lessee shall have the option to accept the Lease without the material adverse changes being cured, and thereafter Lessor shall not be liable for the

particular deficiencies disclosed by it in writing to Lessee prior to the Effective Date.

4. Effective Date. The Effective Date as to the Fourth Floor shall be July 1, 1985 and the Effective Date as to the remainder of the Premises shall be the date of termination of the Prior Lease, or the date of closing of the Stock Purchase Agreement whereby PFA purchases all of the capital stock of Health Group of Virginia, Inc. ("HGOV"), whichever first occurs.

5. Rent. For each month of the term hereof, Lessee shall pay Lessor beginning the Effective Date as follows:

(A) For the Fourth Floor, \$31,250.00 per month from October 1, 1985 through June 30, 2002.

(B) For the remainder of the Premises:

(1) If the Effective Date occurs between July 3, 1985 and June 30, 1987, then the monthly rent shall be \$83,333.33 though June 30, 1987;

(2) If the Effective Date occurs between July 1, 1987 and April 30, 1992, then the monthly rent shall be \$104,166.67 through June 30, 1992;

(3) For the period July 1, 1992 through June 30, 2002, the monthly rent shall be \$145,833.33.

(C) For the entire leased Premises (including the Fourth Floor): For the period July 1, 2002 through September 30, 2005, the monthly rent shall be determined by dividing the following by twelve: \$2,000,000.00 plus an amount equal to \$2,000,000.00 multiplied by one-half of the percentage increase in the "cost of living" as measured by the Consumer Price Index,

1967=100 of the U. S. Department of Labor, from July 1985 to March of the year of the rent adjustment plus \$125,000.00;

(D) In the event the Lessee places acute care beds in the Fourth Floor, or because of the use made of the Fourth Floor, Lessee is able to increase the number of acute care beds on the Premises, then the annual rent as determined under each of the subparagraphs above shall be increased by \$8,000.00 per year for each acute care bed on the Premises in excess of 166.

(E) Monthly rent hereunder shall be paid in advance on the first of each month.

(F) In the event publication of the Consumer Price Index of the United States Department of Labor, Bureau of Labor Statistics, is discontinued, the parties shall thereafter accept comparable statistics published by any successor federal government agency. If there is no such successor, then the parties shall thereafter accept comparable statistics published by a responsible financial periodical of recognized authority then chosen by the parties, or in the event they cannot agree, the matter shall be determined by arbitration before the American Arbitration Association, in accordance with the rules and regulations of the Association at that time.

6. Additional Rent. Except as otherwise provided in this Lease and in addition to the annual rental described in Paragraph 5 hereof, Lessee shall pay as additional rent the costs, ~~expenses, and obligations~~ of the Premises beginning the Effective Date including:

(a) All repairs: external or internal, structural or

non-structural, ordinary or extraordinary;

(b) All costs of replacement and/or leasing of all fixtures and equipment, machinery and items of personalty as provided in Paragraph 24 hereof;

(c) All utilities, which accounts are to be in the name of Lessee;

(d) All physician's service contracts;

(e) All taxes;

(f) All insurance;

(g) All license fees;

(h) All maintenance costs;

(i) All equipment leases and other contracts identified in Exhibit G and as provided in Paragraph 24 hereof, as the same have been duly modified and except as they have been terminated.

6A. Upon the Effective Date of the Lease of the Premises other than the Fourth Floor and the purchase of the HGOV stock by PHA, PHA may assign the entire Lease to HGOV, provided PHA guaranties all of HGOV's obligations pursuant to Guaranty Agreement attached hereto and made a part hereof.

7. Use. The portion of the Premises presently used as the acute care hospital shall be used primarily for an acute care hospital including inpatient and outpatient diagnostic and treatment facilities, emergency treatment facilities, related educational activities and such other functions as are from time to time customary in an acute care hospital, and administrative functions related to operations of the hospital. Lessee will never take action either direct or indirect which shall result in

the reduction of the number of licensed medical and surgical acute care beds permitted as of July 3, 1985 under any licensure and Certificate of Need laws at the Premises. Furthermore, at the termination hereof the number of licensed beds at the Premises will not be below the highest number of beds ever licensed at any one time at the Premises during the term of the Lease. Lessee shall never take any action (including increasing the number of beds) in any other institution or medical care facility which it operates or controls which shall result in any private or public body requiring that the number of beds used at the Hospital be reduced. Lessee shall comply with all governmental requirements and regulations, including health, police and fire regulations respecting the Premises.

8. Sublet or Assignment.

(a) Lessee shall not assign its leasehold interest or sublet the leased premises in whole or in part without the prior written approval of the Lessor, which approval shall not be unreasonably withheld, provided that the Lessee may assign or sublease the Premises to a corporation which it controls or which controls it. In such event the Lessee will remain liable on this Lease.

(b) Lessor shall have the right in its sole discretion to assign this Lease to anyone or any entity.

9. Insurance and Condemnation. At all times during the term hereof, the Lessee at its own cost and expense and as additional rent shall:

(a) Keep all buildings and improvements, equipment,

furniture and fixtures on, in and appurtenant to the Premises including all alterations, additions and improvements to the Premises fully insured against loss or damage by fire, and other casualties, and shall maintain all standard extended coverages with such companies as the Lessee may select for the full replacement value.

The policies for such insurance shall be secured in the name of the Lessor and Lessee with loss thereunder payable to the Lessor. Lessor shall promptly replace to the extent possible any of the Premises which are partially or totally destroyed by fire or other casualty, or are taken in any condemnation proceeding, to the extent of insurance proceeds or condemnation awards;

(b) Provide and keep in force in such form as Lessor shall reasonably require public liability, elevator and boiler insurance coverage protecting the Lessor against any and all liability in the amount of not less than \$3,000,000.00 for any one accident or disaster and in the amount of not less than \$1,000,000.00 for injuries to any one person. The foregoing liability limits shall be increased at least every five years to keep pace with inflation; and

(c) Provide and keep in force malpractice insurance covering both Lessor and Lessee as insureds (but not individuals) in an amount not less than the average of the coverage amounts according to the Virginia Hospital Insurance Reciprocal then being maintained by hospitals in the Northern Virginia area. The Lessee shall maintain malpractice insurance through the Virginia Hospital Insurance Reciprocal or such other insurance carrier of

at least the same financial standing on a "claims made" basis throughout the term of the Lease. Furthermore, said insurance shall effectively cover the Lessor and Lessee against risk of loss for claims made after the Effective Date arising from occurrences prior to the Effective Date. At termination of the Lease and as long as Lessee is not in default under this Lease, Lessor shall either continue the above insurance or the Lessor shall in insurance parlance "buy out the tail" so that the Lessee and Lessor will be fully protected from any risk or loss for claims made after the termination date arising from occurrences prior to the termination date. If either party should terminate the present coverage, it shall "buy out the tail" sufficiently to fully protect each from all prior occurrences. The Lessee shall obtain an endorsement to the malpractice insurance policy to be delivered to the Lessor on or before the Effective Date and annually during the term of this Lease in which the insurer states that it is aware of the provisions of this paragraph, and agrees that both the Lessor and Lessee are protected as insureds from all claims referred to in this subparagraph. After termination, Lessor shall obtain the endorsements and deliver them to Lessee as provided in the preceding sentence so long as Lessee is at risk for any claims and not in default under this Lease.

On the Effective Date and on each anniversary thereof during the term of this Lease, the Lessee shall cause the aforesaid malpractice insurance coverage to be increased, if necessary, so that the coverage amounts for the next succeeding

year are not less than the average of those coverage amounts according to the Virginia Hospital Insurance Reciprocal then being maintained by hospitals in the Northern Virginia area.

(d) Lessee shall furnish Lessor with duplicate originals or copies certified by the insurance companies of all policies of insurance for all insurance coverage referred to in Subparagraphs 9(a), 9(b) and 9(c). All insurance referred to in the aforesaid subparagraphs must be approved by the Lessor, but such approval shall not be unreasonably withheld; provided, the insurance to be obtained by Lessor at termination shall be subject to the approval of Lessee which approval shall not be unreasonably withheld.

10. Purchase By Lessor Upon Termination. At termination of this Lease, Lessee shall sell to Lessor and provided all defaults of Lessee, if any, have been cured and provided that the Premises are still being operated as a hospital, then Lessor shall purchase from Lessee all of Lessee's total patient accounts receivable which are not more than 180 days old, each of the Lessee's movable items of equipment (except as set forth in Paragraph 24 hereof) all inventory and all prepaid expenses existing as of the date of termination. The purchase price shall be calculated as of the termination date as follows:

(a) Eighty percent (80%) of Lessee's total patient accounts receivable which are no more than 180 days old. (A patient account receivable is one day old at the end of the first day immediately following the date of the final bill);

(b) Plus one hundred percent (100%) of the book value of the equipment purchased;

(c) Plus one hundred percent (100%) of the cost of inventory of usable expendable supplies on hand for Hospital operations purchased by Lessee;

(d) Plus one hundred percent (100%) of prepaid expenses;

(e) Less one hundred percent (100%) of trade accounts payable which are no more than 45 days old (a trade account payable is one day old at the end of the first day immediately following the date of the final bill). Lessor shall assume and pay those trade accounts payable of Lessee which are no more than 45 days old. Lessee shall be responsible for and shall pay forthwith all trade accounts payable which Lessor is not given credit for under this formula and which Lessor does not assume.

(f) Less one hundred percent (100%) of accrued expenses.

Lessee shall maintain its finances so that at all times during the term hereof the sum of one hundred percent (100%) of all items (a) through (f) described above shall not be a negative number. For the purpose of this Paragraph 10, the book value of equipment and methods of booking prepaid and accrued expenses will be derived from the use of valuation and accounting procedures used by Lessor during the year immediately preceding the effective date of the Lease dated February 11, 1982 between Lessee and Lessor ("Prior Lease"). Lessee agrees to maintain records necessary to the computation of the purchase price. Lessor shall pay Lessee the purchase price within thirty (30)

days of resumption of operation of the Hospital by Lessor. Upon termination of the Lease, Lessee shall execute and deliver all documents necessary to convey fee simple title to the above assets free and clear of all encumbrances.

11. Indemnification.

(a) Lessor. Lessor hereby agrees to indemnify and hold harmless Lessee, its stockholders, officers, agents and employees, against any and all claims, damages or liabilities including malpractice, and those arising out of Medicare, Medicaid, Blue Cross, taxes of all kinds, EEOC and ERISA, and including reasonable attorney's fees, expenses and costs of litigation, incurred in connection with the operation of the Hospital by Lessor prior to the Effective Date of the Prior Lease, and for Lessor's, its agents', and employees' actions, omissions and responsibilities which cause such liability after the Effective Date and which is not covered by Lessee's malpractice policy.

(b) Lessee. Lessee hereby agrees to indemnify and hold harmless Lessor, its stockholders, officers, agents and employees, against any and all claims, damages or liabilities including malpractice, and those arising out of Medicare, Medicaid, Blue Cross, taxes of all kinds, EEOC and ERISA, and including reasonable attorney's fees, expenses and costs of litigation, incurred in connection with the operation of the Hospital and Premises by Lessee after the Effective Date of this Lease, and for Lessee's, its agents', and employees' actions, omissions and responsibilities which cause such liability after the Effective Date and which is not covered by Lessor's

malpractice policy.

12. Right to Use Of Name. During the term of this Lease, Lessee shall have the right, power, authority and permission to use the name "Jefferson Memorial Hospital" and the related "logo" in connection with the operation of the leased Premises. Lessee may change the name and "logo" of the Hospital as long as "Jefferson" is always used as a part of the name and "logo". At the termination of this Lease, Lessee shall execute any documents necessary to release the name and logo and transfer the use of same to the Lessor.

13. Termination. This Lease may be terminated:

(a) By Lessor:

(1) To the extent permitted by applicable bankruptcy law, if Lessee shall apply for or consent to the appointment of a receiver, trustee or liquidator of all or a substantial part of Lessee's assets, file a voluntary petition in bankruptcy, make a general assignment for the benefit of creditors or take advantage of any insolvency law, or if an order, judgment or decree shall be entered by a court of competent jurisdiction, on the application of a creditor, adjudicating Lessee a bankrupt or insolvent, or approving a petition seeking reorganization of Lessee, or appointing a receiver, trustee or liquidator of all or a substantial part of Lessee's assets; or

(2) If Lessee shall default in the performance of any covenant, agreement, term or provision of this Lease and such default shall continue for a period of thirty (30) days after

written notice (ten days after written notice in the case of rental payments) to Lessee from Lessor stating in detail the default.

(b) By Lessee:

If Lessor shall default in the performance of any covenant, agreement, term or provision of this Lease and such default shall continue for a period of thirty (30) days after written notice to Lessor from Lessee stating in detail the default; or in the event of a material misrepresentation in any of Lessor's warranties and representations.

14. Good Faith. Lessor and Lessee agree that they will each exercise due diligence and good faith in performing their respective obligations under this Lease.

15. Return of Premises and Transfer of Licenses and Permits to Lessor at Termination of Lease.

At the termination of this Lease, Lessee shall give possession of the Premises to Lessor free and clear of all liens except those which may be placed thereon by Lessor, in good condition, ordinary wear and tear excepted. At termination of the Lease, Lessee shall transfer to Lessor all licenses, certificates and permits for the operation of the Hospital and for any and all types of medical care offered at the Premises and for any and all businesses carried on at the Premises by the Lessee. If any of the foregoing licenses, certificates or permits cannot be transferred, Lessee shall transfer to the Lessor the entity having the license, certificate or permit at no additional cost to Lessor required over that paid pursuant to Paragraph 10 hereof in order that Lessor shall then effectively

control the license, certificate or permit so that Lessor may immediately continue operation of the Premises without interruption.

16. Rights and Remedies on Default. Either party shall be in default hereunder if such party has defaulted in the performance of any covenant, agreement, term or provision of this Lease and fails to cure such breach within thirty (30) days of written notice (within ten days of written notice in the case of rental payments). The parties shall have the following rights and remedies on default of the other whether or not there is a termination of this Lease as a result thereof, which shall be cumulative and shall not exclude any other right or remedy allowed by this Lease or by law:

(a) Lessor shall be entitled to recover possession of the Premises and all damages which Lessor may have suffered or may in the future suffer as a result of the Lessee's default; and Lessee shall pay all of Lessor's reasonable expenses, including without limitation, all costs and reasonable attorney's fees which are incurred by Lessor.

(b) In the event of default by Lessor, Lessee shall be entitled to recover all damages which Lessee may have suffered or may in the future suffer, as a result of the Lessor's default and Lessor shall pay all of Lessee's reasonable expenses, including without limitation, all costs and reasonable attorney's fees which are incurred by Lessee.

17. Representations and Warranties of Lessor.

(a) Organization. Lessor is a corporation duly organized and validly existing and is in good standing under the

laws of the State of Delaware and is authorized by the Virginia State Corporation Commission to do business in Virginia. Lessor has the corporate power and authority to enter into and perform the terms of this Lease. The execution, delivery and performance of this Lease have been duly authorized by all necessary corporate actions including, without limitation, approval of the directors and shareholders of Lessor.

(b) Absence of Conflict. Execution and delivery of this Lease and the performance and compliance with the terms hereof by Lessor will not conflict with, or result in the breach of any of the terms, conditions or provisions of, or constitute a default under, or result in the creation of any lien, charge or encumbrance upon the Premises, pursuant to its certificate of incorporation or bylaws, or any trust agreement, indenture, mortgage, lease, agreement, or any other instrument or any order, law, rule, regulation, judgment or decree to which it is a party or by which it, or any of its affiliates, or any of its properties are bound.

(c) No Hill-Burton Lien. No funds were received to construct, improve or acquire the Premises under the "Hill-Burton" Act.

(d) Accreditations and Approvals. During the period in which Lessor operated Jefferson Memorial Hospital, the Premises were accredited by the Department of Health & Human Services, Division of Survey and Certification; and the Hospital was a provider of health care services eligible for reimbursement under Medicare (USC Title 18), Blue Cross and similar contractual

programs and under Medicaid (USC Title 19) and under similar contractual programs. True and correct copies of all reports and correspondence concerning the Medicare and Medicaid reviews applicable to such period have been furnished to Lessee of the Prior Lease. Lessor and Lessee shall cooperate in maintaining JCAH accreditation, at no cost to Lessor.

(e) Zoning and Land Use. As of July 3, 1985, Lessor and the Premises were not in violation of any City of Alexandria zoning or land use law applicable to the Premises.

(f) Contracts and Commitments. Each contract, lease, and agreement relating in any way to the Premises, the related assets and the operation and use thereof as a hospital, including, without limitation, approvals, accreditations and licenses from governmental authorities, Blue Cross and equivalent insurance programs, Medicaid and Medicare and other contractual programs and all agreements with or relating to employees, staff members and medical specialists, all as of the Effective Date of the Prior Lease have been delivered to Lessee of the Prior Lease. During the period of operation of the Hospital by Lessor there was no breach or default of any provision of any contract, agreement, lease or license listed in Exhibit G of the Prior Lease by Lessor which has not been previously cured, or to the knowledge of Lessor, by any other party thereto, and nothing has occurred which with lapse of time or the giving of notice or both would constitute a breach or default by Lessor, or to the knowledge of Lessor, by any other party thereto, with respect to any such contract, license, agreement or lease.

(g) Litigation. Except as may be described in Exhibit

E, on the Effective Date of the Prior Lease there was no administrative, judicial, private or other action, suit, proceeding, inquiry or investigation at law, or in equity, before or by any public board or body or otherwise pending (or, to the knowledge of Lessor, threatened) against or affecting Lessor or the Hospital operation, or to the knowledge of Lessor, any meritorious basis thereof, wherein any unfavorable decision, ruling or finding would have a material adverse affect on (i) the operation of the Premises, (ii) the status of any accreditations and approvals referred to in Paragraph 17(d), or (iii) this Lease, and there existed no threatened or pending disciplinary actions or other actions against or relating to any member of the Hospital staff. As of the date of execution hereof, there is no administrative, judicial, private or other action, suit, proceeding, inquiry or investigation at law or in "equity" before or by any public board or body or otherwise pending or (to the knowledge of the Lessor, threatened) affecting the Lessor's title to the Leased Premises or its right to lease the same.

(h) No Violations of Law. To the best of Lessor's knowledge, Lessor did not conduct the operation of the Hospital in violation of any federal, state or local laws, rules, regulations or ordinances then in effect to which it was subject including, without limitation, laws and regulations relating to health care providers, land use, environmental protection, occupational safety or health, prices, wages, hours, taxes and employment practices.

(i) Consents. As of the date of settlement of the

buy-out of Health Group of Virginia, Inc. stock or August 31, 1985, whichever is earlier, the Lessor shall have obtained consents from all entities with which it has contracts necessary for it to enter into this Lease. Lessor shall not be responsible for obtaining any Certificate of Public Need or any other consent or approval which may be required from any state or federal body for Lessee to operate the Premises.

(j) Conformity with Omnibus Reconciliation Act. All contracts assumed by Lessee of the Prior Lease from Lessor under the Prior Lease hereunder were in conformity with Section 952 of the Omnibus Reconciliation Act of 1980, PL96-499, providing for the access to the books and records of subcontractors of Medicare providers, by the Secretary of the Department of Health and Human Services.

(k) Primary Leases. The real estate included in the Premises is comprised of certain primary leases, under all of which Lessor is either the lessee or sublessee. Lessor warrants and represents that it is current in the performance of all its obligations under each of the leases and has or shall have by the Effective Date, the authority and power to enter into this Lease and fully perform each of its obligations hereunder.

18. Representations and Warranties of Lessee.

(a) Organization. Fairfax Hospital Association is a corporation duly organized and validly existing in good standing under the laws of the State of Virginia with full corporate power to carry on its business as now conducted. Health Group of Virginia, Inc. is a corporation duly organized and validly existing in good standing under the laws of the State of Tennessee with full corporate power to carry on its business as now conducted. True and correct copies of the Articles of

Incorporation for the Lessee will be delivered to the Lessor prior to the Effective Date.

(b) Authority. The Lessee is authorized to perform its obligations hereunder.

(c) Consents. The execution and performance of this Lease will not violate any provision of, result in the breach of, or constitute a default under any order, writ, injunction, decree of court, governmental agency, or arbitration tribunal, or any contract, agreement or instrument by which the Lessee or its assets and properties may be bound nor is any consent not obtained by Effective Date for the actions herein required under or by any of the above.

(d) Confidentiality. Lessee and its representatives shall hold in strict confidence all data and information obtained with respect to the Lessor's activities or businesses, and shall not use such data or information or disclose the same to others except such data or information as is published as a matter of public record or is required to be disclosed to governmental or health care agencies.

(e) Licenses and Permits. Lessee has or shall obtain all necessary licenses and permits to occupy and operate the Premises, including, without limitation, licenses, Certificate of Public Need and permits issued by the Virginia Department of Health, the Virginia Health and Planning Commission, and all local governmental authorities, as required under applicable laws, rules and regulations.

19. Survey. Lessor has furnished to Lessee of the Prior

Lease before the Effective Date of the Prior Lease a survey of all the Premises showing the boundaries of each of the leases and the improvements thereon. Except as otherwise disclosed, no change has occurred in the matters shown by such survey.

20. Subordination and Attornment. Lessee agrees to subordinate its rights hereunder to the lien resulting from any future mortgage or mortgages on the Premises. This subordination is upon the express condition that the instrument creating such lien of mortgage or mortgages or other liens shall contain a clause agreeing that in the event of foreclosure or deed in lieu thereof, to Lessee's quiet enjoyment of the Premises, so long as Lessee is not in default of the terms and conditions of this Lease. Lessee shall promptly execute any documents submitted by Lessor as further evidence of this subordination, provided such documents do not impair Lessee's quiet enjoyment of the Premises, so long as it is not in default of the Lease.

Lessee shall, in the event of foreclosure or deed in lieu thereof under any mortgage made by the Lessor covering the Premises, attorn to the purchaser at any foreclosure sale or grantee of any deed in lieu thereof and recognize such purchaser or grantee as the Lessor under this Lease. Lessee shall promptly execute any documents submitted by Lessor to effect this provision.

21. Repairs, Alterations and Additions. Lessee will maintain all improvements and buildings on the Premises (and all later alterations and additions) in a good state of repair. Lessee shall make all repairs, external and internal, structural or nonstructural, ordinary or extraordinary and be responsible

for all replacements of any broken or worn out equipment, machinery and personal property. Lessee shall permit Lessor to inspect (but Lessor shall not be required to inspect) the Premises at all reasonable times for the purpose of monitoring the maintenance of plant, equipment, machinery and personal property, alterations and additions.

With respect to capital additions to the Premises, either Lessor or Lessee may propose, in written documents delivered to the other party, such additions to the Premises as the proposing party may deem necessary or appropriate. Every reasonable effort shall be made to make such proposal at least ninety (90) days prior to the fiscal year end of the Lessee, for inclusion in an annual capital budget. In the event that there are additions to the Premises which are not covered by the Lease as presently drawn, any additional rental due therefor shall be negotiated in good faith between the parties. At termination of this Lease all additions and improvements made to the Premises shall become the property of the Lessor.

22. Parking Garage. Lessee shall have the right to build at its expense an income producing parking garage building on the Premises provided that the same is compatible with the Hospital from architectural and use standpoints and complies with all applicable laws. Lessee shall not mortgage more than 75% of the cost of the parking garage and said mortgage shall be amortized in twenty years or less. The parties agree that they shall share equally in the revenue from the parking garage in one of the two methods set forth below. Prior to the time revenue is generated,

Lessee shall decide which of the methods shall be used:

(a) Lessee shall be entitled to all Net Operating Income from the parking garage until Lessee has recovered an amount sufficient to cover its Construction Costs and thereafter Lessor and Lessee shall share equally on a monthly basis the Net Operating Income.

(b) After determining Net Operating Income, Lessee shall be entitled to subtract the interest on the amortized mortgage and then the balance of income shall be split equally between Lessor and Lessee on a monthly basis.

For the purposes of this Paragraph 22, Net Operating Income shall be gross revenues less operating expenses such as parking attendant compensation, utilities and maintenance. Construction Costs shall include only Lessee's hard costs and shall not be comprised of soft costs including but not limited to any points, interest, title insurance premiums, architectural fees and legal fees. At no time shall Lessee's soft costs be considered as operating expenses when determining Net Operating Income.

23. Employee's Fringe Benefits. Lessee shall be responsible for normal and reasonable fringe benefits due Lessor's employees accrued and unpaid prior to the Effective Date of the Prior Lease except that all payroll expenses due prior to such date shall be the responsibility of Lessor. Lessee shall be responsible for all sick leave and vacation time accrued and unused by Lessor's employees prior to Effective Date. Lessor shall be responsible for normal and reasonable fringe benefits due Lessee's employees at Hospital accrued and unpaid as of the

termination date of the Lease , but only if the Premises are still operated as a hospital as of that date, except that Lessee shall be responsible for all payroll expenses due prior to the termination date. Lessor shall be responsible for all sick leave and vacation time accrued and unused by Lessee's Hospital employees as of the termination date of the Lease.

24. Furniture, Fixtures and Equipment. All furniture, fixtures, machinery, equipment and items of personalty (referred to herein as "FF&E") shall be dealt with as follows:

(a) FF&E Owned by Lessor and Purchased by Lessee.

FF&E owned by Lessor which was purchased by the Lessee of the Prior Lease pursuant to the Prior Lease which requires replacement during the term hereof, shall be replaced by Lessee and at termination of the Lease, all such original FF&E and replacements thereof shall be purchased by Lessor at book value as of the termination of this Lease.

(b) FF&E Owned by Lessor but not Purchased by Lessee.

All FF&E owned by Lessor but not purchased on the Effective Date of the Prior Lease by Lessee shall remain the property of the Lessor and may be used by the Lessee during the term of this Lease. Any such FF&E which requires replacement during the term hereof, shall be replaced by Lessee and purchased by Lessor at book value as of termination of this Lease and all such FF&E shall become the property of the Lessor.

(c) FF&E Leased by Lessor as of the Effective Date.

As of the Effective Date of the Prior Lease, Lessor assigned to Lessee of the Prior Lease all rights under the equipment leases

(including the right to purchase) and Lessee assumed the obligations accruing after the Effective Date of the Prior Lease with respect to those leases. All leased FF&E which requires replacement during the term of this Lease shall be replaced by Lessee. If Lessee leases the replacements, and said replacements are still being leased as of the termination of this Lease, Lessor shall assume any or all of such leases which are not in default, and Lessee shall assign to Lessor all equipment leases (including the right to purchase). Lessee shall make all equipment lease payments when due. Lessee shall obtain all necessary consents required for such assignments. If Lessee purchases such replacements, Lessor shall purchase any or all of this FF&E at its book value as of the termination of this Lease.

(d) New FF&E. It shall be Lessee's responsibility to obtain new FF&E for use in the Hospital, as Lessee may determine. Lessee shall consult appropriate medical staff chiefs of the Hospital in determining equipment needs of the Hospital, from time to time. If Lessee purchases additional FF&E, it shall be the property of Lessee at termination provided Lessor shall have the right to purchase any or all such FF&E at book value at the termination of this Lease. If the aforesaid new FF&E is leased, all such leases shall remain the responsibility of the Lessee, provided Lessor at termination shall have the right to assume any or all of the leases and Lessee shall assign to Lessor all rights under such leases (including right to purchase) and Lessor shall assume the obligations accruing after termination of this Lease with respect to those FF&E leases. Lessee shall obtain all necessary consents required for such assignments. If Lessor does

not elect to purchase any or all of such FF&E or assume any or all of the leases for such FF&E, that FF&E shall be removed by Lessee at the termination of this Lease.

25. No Subordination of the Fee. At no time shall the fee to the land which is part of the Premises be subordinated to any lien or encumbrance, including mortgage, deed of trust or otherwise, which arises because of action or inaction by the Lessee.

26. Offset. The obligations of Lessee hereunder may be offset to cover any loss suffered by Lessee by virtue of default in any of the provisions hereof by Lessor. In the event of a dispute concerning the validity of any such offset, the dispute shall be submitted for resolution by the Circuit Court for the City of Alexandria. In the event that a determination is made that the offset was improper, then Lessee shall pay to Lessor the sums improperly offset and Lessor shall be entitled to a judgment for the sum improperly offset plus interest thereon at the judgment rate from the date improperly offset plus a penalty of ten percent (10%) of the sums improperly offset, plus reasonable attorney's fees.

27. Successors. All rights and liabilities herein given to, or imposed upon, the respective parties hereto shall extend to and bind the several respective successors and assigns of the said parties; and Lessee shall be bound jointly and severally by the terms, covenants and agreements herein. No rights, however, shall inure to the benefit of any assignee of Lessee unless the assignment to such assignee has been approved by Lessor in

writing as provided herein.

28. No Partnership. Lessor does not by this Lease, in any way or for any purpose, become a partner of Lessee in the conduct of its business or otherwise, or a joint venturer or a member of a joint enterprise with Lessee.

29. Indemnification of Lessor. Lessee will at all times during the term of this Lease and thereafter indemnify and hold harmless Lessor, its stockholders, officers, agents and employees, from and against any and all claims, actions, damages, liability and expense, including attorney's fees, arising from or out of (1) any occurrence in, upon or at the leased Premises, or (2) the occupancy or use by Lessee of the leased Premises or any part thereof, or (3) occasioned wholly or in part by any act or omission of Lessee, its agents, contractors, employees, servants, invitees, lessees, or concessionaires, provided that such occurrence was not caused by the fault or negligence of Lessor or its agents, employees, or representatives.

30. Office Buildings Not Under Lease. During the term of this Lease, the parties agree that all persons using (1) the medical office building contiguous to and part of the Hospital ("Medical Office Building"), (2) the new medical office building containing a parking garage at 3450 North Beauregard Street ("Beauregard Building"), and/or (3) the parking garage to be constructed by Lessee ("Lessee Parking Garage"), shall have unlimited rights to ingress and egress to such buildings. Furthermore, all persons using the Medical Office Building and Beauregard Building shall have equal access to all surface parking located on the Premises in the same manner and at the

same costs, if any, as persons using the Hospital. Lessee agrees that the Medical Office Building and the Beauregard Building may be used by doctors and others as offices, but shall not be used for uses not ordinarily carried out in a physician's office for the care of his own patients. The buildings may be added to at the sole option of the Lessor.

31. Lessor's Access to Information. Lessee shall make available to Lessor such of its records as shall be necessary to assure Lessor that Lessee is fully performing its duties under this Lease and is current in discharging its obligations under the Lease and with respect to the payment of its creditors. Lessor shall notify Lessee in writing of any nonconformity or irregularity and specify to Lessee what actions Lessee should take to correct the situation. Lessee shall keep its records concerning the patient accounts receivable and all other accounts of the Lessee, including but not limited to accounts payable, at the business office of the Premises at all time during the term of the Lease, and will permit representatives of the Lessor at any time during normal business hours to inspect and make abstracts from such records. The Lessee will furnish to the Lessor such information and reports regarding all of its accounts and obligations of every kind to the Lessor as the Lessor may from time to time reasonably request.

32. Property Loss, Damage, Reimbursement. Lessor shall not be liable for any damage to property of Lessee or of others on the leased Premises, nor for the loss or damage to any property of Lessee or others by theft or otherwise. Lessor shall not be

liable for any injury or damages to persons or property resulting from fire, explosion, falling plaster, steam, glass, electricity, water, rain or snow leaks from any part of said Premises, or from the pipes, appliances or plumbing works or from the roof, street or subsurface or from any other place or by dampness or by any other cause of whatsoever nature, unless caused by or due to the negligence or fault of Lessor, its agents, servants or employees.

33. Lessor's Rights to Perform Lessee's Covenants. If Lessee shall at any time fail to pay any taxes, or fail to secure or pay for, or to maintain and deliver any of the insurance policies provided for herein, or shall fail to make any other payment or perform any other act required or to be performed in accordance with any terms or provisions of this Lease, then Lessor, after fifteen (15) days written notice to Lessee (or without notice in case of a bona fide emergency) and without waiving, or releasing Lessee from any obligations to make any of such payments or perform any other act on Lessee's part required or to be performed in this Lease, may enter upon the leased Premises for any such purpose, and take all such action thereon, as may be reasonably necessary.

All sums to be paid by Lessor and all costs and expenses, including reasonable attorney's fees, incurred by Lessor in connection with the performance of any such act, together with interest thereon at the rate of sixteen percent (16%) per annum from the respective dates of Lessor's obligation to pay and/or payment shall be paid by Lessee to Lessor on demand, and Lessor shall not be limited in the proof of any damages which Lessor may claim against Lessee arising out of or

by reason of Lessee's failure to provide and keep in force insurance as aforesaid, to the amount of the insurance premium or premiums not paid or incurred by Lessee, but Lessor shall also be entitled to recover damages for such breach including the uninsured amount of any loss to the extent of any deficiency in the insurance required by the provisions of this Lease, damages, costs and expenses of suit, including attorney's fees, suffered or incurred by reason of damage to, or destruction of, the leased Premises, or any part thereof, occurring during any period when Lessee shall have failed or neglected to provide insurance as aforesaid.

Under no circumstances shall either the exercise by Lessor of the right granted in this section to enter upon the demised Premises for any purposes specified herein and take all such action thereon as may be necessary therefor, or the exercise of any other right or remedy granted to Lessor under any other provision of this Lease to cure, prevent or take any other action with respect to any default by Lessee, constitute an eviction of Lessee, result in a termination of this Lease, or in any manner whatsoever relieve Lessee from liability to pay net rent and additional rent as provided herein or from the keeping, observance and performance of any other covenant, condition and agreement on the part of Lessee to be kept, observed and performed under this Lease.

The provisions of this section shall have no application to the Lessor's right to terminate this Lease or to Lessor's right to enter, re-enter or to obtain possession of the

demised Premises following termination of this Lease in accordance with the provisions hereof.

In taking action under this Paragraph 33, Lessor shall act with diligence, in good faith, and with a view toward mitigation of Lessee's liability hereunder.

34. Notices. Any notice or other communication by either party to the other shall be in writing, and shall be given, and be deemed to have been given, either when delivered personally or as of the date mailed, if mailed postage prepaid, registered or certified mail addressed as follows:

To Lessor: Jefferson Corporation of Alexandria
 4600 King Street
 Alexandria, Virginia 22302
 Attention: Chairman of the Board
 and President

With copy to:

Ross, Marsh & Foster
117 South Fairfax Street
Alexandria, Virginia 22314

To Lessee: Fairfax Hospital Association
 and
 Health Group of Virginia, Inc.
 c/o Fairfax Hospital Association
 8001 Braddock Road
 Springfield, Virginia 22151
 Attention: President

With copy to:

Miles & Stockbridge
114 North West Street
Easton, Maryland 21601

35. Governing Law. This Lease shall be governed by Virginia law.

36. Severability. If any provision hereof is deemed by a court to be invalid, then it shall be stricken and the remaining portions hereof shall continue to be operative.

37. Effect of Waiver. No waiver by either party of any default or breach of any covenant, condition or stipulation herein contained shall be treated as a waiver of any subsequent default or breach of the same or any other covenant, condition or stipulation hereof.

38. Book Value Defined. As used in this Agreement, "book value" shall be the original historic cost less depreciation according to IRS guidelines.

38A. Termination of Prior Lease. Upon the purchase of the EGOV stock by FHA, the Prior Lease and all other agreements related thereto, shall be terminated.

39. Holding Over. Any holding over after the expiration of the term hereof, with the consent of the Lessor, shall be construed to be a tenancy from month-to-month and the rent specified in Paragraph 5(e) shall be tripled and prorated on a monthly basis and such month-to-month tenancy shall be governed by all of the other terms and conditions of the Lease. If Lessee holds over with Lessor's consent and pays the rent as aforesaid, Lessee shall vacate the Premises on receipt of thirty (30) days notice in writing from Lessor. Any holding over without the consent of Lessor shall constitute Lessee a tenant by sufferance and liable to summary eviction without notice.

40. Exhibits. Lessor shall fully complete and provide Lessee the Exhibits hereto as described in the forms attached hereto plus the survey and description of real property by July 15, 1985 and if they are not provided within such time period or if they contain material adverse information of which Lessee has

not been previously advised then Lessee may terminate this Lease if it so notifies Lessor within five (5) days of Lessee's receipt of the Exhibits or on non-receipt of the Exhibits.

IN WITNESS WHEREOF, the parties have executed this Lease on this 11th day of July, 1985.

"LESSOR"

JEFFERSON CORPORATION OF ALEXANDRIA

By: Leslie L. Peters (SEAL)

"LESSEE"

FAIRFAX HOSPITAL ASSOCIATION

By: [Signature] (SEAL)

STATE OF VIRGINIA,
CITY OF ALEXANDRIA, to-wit:

Before me, the undersigned Notary Public in and for said City and State, personally appeared Leslie L. Peters, who acknowledged himself to be the President of the Jefferson Corporation of Alexandria and who, as such officer, being duly authorized to do so, executed the foregoing instrument on behalf of the corporation for the purposes contained therein.

WITNESS my hand and official seal at Alexandria, Virginia this 2nd day of July, 1985.

[Signature]
Notary Public

My Commission Expires:

7/28/87

Notary H. Carlin
STATE OF VIRGINIA,
CITY OF ALEXANDRIA, to-wit:

Before me, the undersigned Notary Public in and for said City and State, personally appeared J. KNEA SINGLETEN, who acknowledged himself to be the PRESIDENT of the Fairfax Hospital Association and who, as such officer, being duly authorized to do so, executed the foregoing instrument on behalf of the corporation for the purposes contained therein.

WITNESS my hand and official seal at Alexandria, Virginia this 11 day of July, 1955.

Henry S. Brown
Notary Public

My Commission Expires:

6-14-89

STOCK PURCHASE AGREEMENT

Dated: July 17, 1985

By and Among:

Health Group Inc.

and

Health Group of Virginia, Inc.

and

Fairfax Hospital Association

jem/RML7/FHA

J.APP. 5841



STOCK PURCHASE AGREEMENT

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STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT is made as of July 17, 1985, by and among Health Group Inc., a Tennessee corporation, (the "Seller"), Health Group of Virginia, Inc., a Tennessee corporation (the "Company"), and Fairfax Hospital Association, a non-stock Virginia corporation (the "Buyer").

WHEREAS, Seller owns all of the issued and outstanding capital stock of the Company;

WHEREAS, Buyer desires to purchase, in accordance with the terms and conditions of this Agreement, from Seller 500 issued and outstanding shares of the Company's capital stock, which shares are all of the issued and outstanding capital stock of the Company, and Seller desires to make such sale.

NOW, THEREFORE, in consideration of the mutual promises, covenants and agreements of the parties contained herein, the parties hereby agree as follows:

1. Closing Date. This transaction shall be closed pursuant to the terms and conditions of this Agreement at 10:00 a.m., on Wednesday, July 31, 1985, at the offices of HGI, Nashville, TN. PSH, or if all of the conditions to Closing set forth in Sections 7 and 8 hereof have not then been satisfied or waived, the Closing shall occur on the first business day of the month following the month in which all of such conditions have been satisfied or waived; provided, however, that if all of such conditions have not been satisfied or waived and the transactions contemplated herein have not been

consummated on or prior to August 31, 1985 then either the Seller, on the one hand, or Buyer, on the other, may terminate all of their remaining obligations hereunder, and upon such termination neither Buyer on the one hand nor Seller, on the other, nor their respective shareholders, directors, officers or employees, shall have any further liability or obligation to the other hereunder except as set forth in Section 12.1 hereof. The date of closing of this transaction is herein called the "Closing Date." The actions outlined in Section 3 and Section 9, which are to take place on the Closing Date, are herein called the "Closing."

2. Definitions. Except as otherwise specifically provided herein, as used in this Agreement, the following terms shall have the following meanings:

2.1. "Assets." The term "Assets" means all of the assets, business and property of the Company, of every kind and description, tangible and intangible, real, personal and mixed, and wherever located, whether or not carried and reflected on the books of the Company or on the Company's 1984 Financial Statements (as such term is defined below), whether existing on the date hereof or hereafter acquired on or prior to the Closing Date, and including, without limitation, the following:

2.1.1. Financial Statements Assets. All assets reflected on the Company's 1984 Financial Statements and all assets thereafter acquired by or for the Company, except such assets as are disposed of prior to the Closing Date, either in

the ordinary course of business or in accordance with the terms hereof.

2.1.2. Know-How and Rights. All know-how and rights of the Company, including, but not limited to, all processes, methods, techniques, inventions, patents, patent rights, trade names, trademarks and all records, documents and data pertaining thereto, except the name "Health Group". Upon the closing, Purchaser shall change the name of Health Group of Virginia, Inc. to a name not confusingly similar thereto.

2.1.3. Leases, Licenses and Contracts. All leases, leasehold estates and any other interests in real property, all licenses for any Rights or Know-How, and all contracts and commitments (and the rights of the Company thereunder) of the Company or as to which the Company has an interest.

2.1.4. Records. All books of account, patient and other records, files, invoices, correspondence and memoranda, customer and supplier lists, engineering, production and other technical drawings, data, specifications and records of the Company relating to the business or Assets of the Company.

2.1.5. Other Rights and Assets. All other rights and assets, tangible or intangible, legal or equitable, contingent or matured, express or implied, owned by the Company or in which the Company may own any right or interest, whether or not shown or reflected on the 1984 Financial Statements, including any rights to tax refunds, tax benefits, and good will. Seller acknowledges that that claim against Harvey Construction

Company and others, made in the name of Seller is a right of the Company included in this provision, provided that the Company assume the expense of proceeding with this claim.

2.2. "1984 Financial Statements." The term "1984 Financial Statements" means the balance sheet of the Company as at December 31, 1984, and the related Statement of Income for the period of twelve (12) months then ended, together with all notes thereto.

2.3. "Material." The term "material" when used with reference to an amount means an amount of \$10,000 or more, and when used with reference to a course of action or decision-making process shall have a meaning as defined in Rule 405 issued by the Securities and Exchange Commission under the Securities Act of 1933, as amended.

2.4. "Stock". The term "Stock" means all of the issued and outstanding shares of capital stock of the Company owned by Seller and which are to be purchased by Buyer pursuant to this Agreement.

3. Closing. At the Closing, the parties shall take the actions provided for in Sections 3.1 through 3.4 to effectuate the sale of the Stock to Buyer.

3.1. Transfer of Stock. At the Closing, Seller shall sell, transfer, assign, and deliver to Buyer all the Stock (all of which shall be issued and outstanding as of the Closing Date) upon the terms and subject to the conditions set forth in this Agreement. When delivered to Buyer, all certificates representing the Stock shall be duly endorsed in form satisfactory to

Buyer for transfer by delivery or accompanied by appropriate stock powers. Seller and the Company represent and warrant that upon such transfer of the Stock to Buyer at Closing, Buyer shall have complete, absolute, and unencumbered right, title, and interest in and to the Stock, free and clear of all liens, rights, and claims of any other person, corporation or entity.

3.2. Corporate Actions. At the Closing immediately after transfer of the Stock to Buyer pursuant to Section 3.1, Seller and the Company shall deliver to Buyer the written resignations, effective immediately, of such directors and such officers of the Company as Buyer may request. Seller and the Company also shall deliver to Buyer the written resignations, effective immediately, of such Trustees and members of the administrative committee of the Company [Employee Benefit] Plan[s] listed in Exhibit I hereto as Buyer may request.

3.3. Purchase Price for Stock. The entire consideration to be paid by Buyer in exchange for the sale, transfer, assignment and delivery to Buyer of the Stock (the "Purchase Price"), subject to adjustment as provided below, shall be \$5,825,000 plus (or minus in the case of deficit) an amount equal to the Company's Net Working Capital and minus an amount equal to the unamortized portion (including the current portion thereof) of the Company's Capitalized Lease Obligations (as such terms are defined below).

3.4. Payment of Purchase Price.

3.4.1. Method of Payment. That portion of the Purchase Price to be paid by Buyer to Seller at Closing shall be

paid, after transfer of the Stock to Buyer, by bank wire transfer of funds to an account designated in writing by Seller. Any additional payments required to be made pursuant to this Section 3 by Buyer or Seller shall be made by wire transfer of funds to an account designated in writing by the receiving party.

3.4.2. Payment to be Made at Closing. At Closing, Buyer shall pay to Seller the sum of \$5,575,000 (\$5,825,000 less that sum which is to be placed in escrow pursuant to Section 10.5 hereof), plus (or minus in the case of a deficit) ninety percent (90%) of the excess, if any, (or, in the case of a deficit, minus one hundred and ten percent (110%) of such deficit) of the Company's Current Assets over its Current Liabilities (as such terms are defined below), the amounts of the Company's Current Assets and Current Liabilities to be agreed upon by Buyer and Seller and based upon the Company's Updated Financials to be prepared pursuant to Section 3.4.5.6.(f) hereof, and minus an amount equal to the unamortized portion (including the current portion thereof), based upon the Updated Financials and agreed to by the parties hereto, of the Company's lease obligations under the Equipment Lease dated November 1, 1983 by and between the Company and American Medical Leasing Corp. and the Lease dated December 13, 1982 by and between the Company and Citizens Fidelity Leasing Corporation (the "Capitalized Lease Obligations"). In the event that Buyer and Seller cannot agree upon the amounts of the Current Assets or Current Liabilities or the Capitalized Lease Obligations as contemplated by this Section 3.4.2. prior to the Closing Date, either party may terminate this

Agreement by notice to that effect in writing to the other parties at or prior to the Closing. The amounts paid (or deducted, as the case may be) at Closing with respect to Net Working Capital and deducted with respect to the Capitalized Lease Obligations shall be adjusted subsequent to Closing as provided in Section 3.4.3.

3.4.3. Post-Closing Adjustments.

3.4.3.1. First Post-Closing Adjustment.

Not later than thirty (30) days after the Closing Date, Buyer and Seller shall make an initial adjustment to the Purchase Price by (i) determining the excess (or deficit, as the case may be), if any, of Current Assets over Current Liabilities as of midnight on the day immediately preceding the Closing Date, and (ii) making an appropriate payment (the "First Post-Closing Adjustment") (Seller to Buyer, or Buyer to Seller, as the case may be, such payment to be deemed an adjustment in the amount paid or deducted at Closing with respect to Net Working Capital) such that the amount paid (or deducted, as the case may be) at Closing with respect to Net Working Capital and the amount paid, if any, pursuant to the First Post-Closing Adjustment shall together equal ninety percent (90%) of the excess (or one hundred and ten percent (110%) of the deficit, as the case may be) of Current Assets over Current Liabilities as of midnight on the day immediately preceding the Closing Date. Concurrently with the First Post-Closing Adjustment, Buyer and Seller shall determine, as of midnight on the day immediately preceding the Closing Date, the unamortized portion (including the current portion thereof)

of the Capitalized Lease Obligations and, to the extent such amount varies from the amount deducted at Closing with respect to the Capitalized Lease Obligations, Buyer or Seller, as the case may be, shall pay the amount of such variance to the other.

3.4.3.2. Second Post-Closing Adjustment. One hundred and twenty (120) days after the Closing Date, Buyer and Seller shall make a second post-closing adjustment to the Purchase Price (the "Second Post-Closing Adjustment") so that the sum of the amount paid or deducted, as the case may be, with respect to Net Working Capital, at the Closing, the First Post-Closing Adjustment and the Second Post-Closing Adjustment equals the net working capital as of midnight on the day immediately preceding the Closing Date. If Buyer and Seller are unable to agree upon the amounts of the Net Working Capital or have not agreed upon the amount of the Capitalized Lease Obligations, they shall appoint a firm of independent public accountants of recognized national standing to make such determinations, which determinations shall be final and binding on the parties hereto for purposes of this Agreement and they shall share equally the expense of such public accountants.

3.4.4. Intercompany Accounts. Intercompany accounts of Seller and the Company shall be not be included in determination of Current Assets and Current Liabilities and shall be deemed cancelled as of the Closing Date.

3.4.5. Definitions of Current Assets and Current Liabilities. For purposes of Section 3 of this Agreement, the following terms shall have the following meanings:

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3.4.5.1. Receivables. The term

"Receivables" means the accounts and notes receivable of the Company as the same exist on the Closing Date, which accounts receivable shall be all the uncollected accounts receivable of the Company on the Closing Date exclusive of any amounts receivable by the Company from Seller. Such accounts receivable shall include charges for services rendered to patients up to the Closing Date but not yet billed. Such accounts receivable shall include all accounts receivable relating to Medicare, Medicaid and other governmental and private insurance and reimbursement programs and any retroactive adjustments thereto resulting from agency actions and court or administrative decisions. Such accounts receivable shall include receivables from employees, physicians and others arising in the ordinary course of business of the Company.

3.4.5.2. Inventories. The term

"Inventories" means the inventories of supplies, drugs, food and other disposables and consumables of the Company on the Closing Date.

3.4.5.3. Liquid Assets. The term "Liquid

Assets" means and includes, but is not limited to, cash on hand (such as petty cash funds), emergency room funds, cash in banks and bank accounts, certificates of deposit, cash equivalents and money market instruments, funds held by trustees in bond funds (principal and interest) or other debt service funds such as depreciation reserve funds, all as the same exist on the Closing

Date. "Liquid Assets" does not include funds held by trustees for construction.

3.4.5.4. Current Assets. The term

"Current Assets" means:

- (a) Liquid Assets;
- (b) Receivables, net of an allowance for doubtful accounts and contractual allowances determined pursuant to Section 3.4.5.6.;
- (c) Inventories, valued at lower of cost (first in, first out) or market;
- (d) Prepaid assets; and
- (e) Refundable deposits under any lease or contract if the deposit is refundable within five years after the Closing Date.

3.4.5.5. Current Liabilities. The term

"Current Liabilities" means:

- (a) Trade and other accounts payable of the Company, including, but not limited to accrued utilities, amounts accrued under service contracts, liabilities for patient deposits and refunds, trade payables for goods and services delivered or provided, accrued property taxes, accrued interest on long-term debt and capitalized lease obligations, and any other accrued liabilities but excluding accounts payable by the Company to the Seller;
- (b) Liabilities relating to the Company's employees, including, but not limited to, salaries, wages, contractually obligated bonuses, vacation days, sick leave (if the same is

required to be accrued under generally accepted accounting principles), payroll taxes, withholding taxes and other withholdings from employees and employee benefit costs; and

(c) Amounts due to insurance companies, Medicare, Medicaid and other third-party payors for or relating to cost report settlements, rebates, overpayments, set-offs against accounts receivable and similar items.

3.4.5.6. Net Working Capital. The term "Net Working Capital" means Current Assets minus Current Liabilities. With respect to any determination of Current Assets, Current Liabilities and Net Working Capital:

(a) Deductions from the face amount of Receivables for bad debts and contractual allowances shall be determined by mutual agreement of Buyer and the Seller.

(b) Components of Current Assets and Current Liabilities shall be determined in accordance with generally accepted accounting principles applied on a basis consistent with the 1984 Financial Statements, except as otherwise specifically provided, [and except that the parties hereto understand and acknowledge that some amounts including but not limited to certain third-party reimbursement program reserves, have been accounted for in Seller's corporate accounting and that appropriate amounts, to be agreed upon by Buyer and Seller, will be allocated to the Company.]

(c) Current liabilities shall not include any principal due on long term debt or Capitalized Lease Obligations of the Company.

(d) With respect to Section 3.4.5.5(c) and Receivables relating to insurance companies, Medicare, Medicaid and other third-party payors, Buyer and Seller shall determine such amounts by mutual agreement.

(e) At least seven (7) days prior to the Closing Date, the Company shall deliver to Buyer an unaudited balance sheet and income statement of the Company as of June 30, 1985 or such later date as is available (the "Updated Financials"), such Updated Financials to be prepared consistent with the provisions of Section 3 of this Agreement and in the form of Exhibit A-1. (Schedule 3.3)

4. Representations and Warranties of the Company and Seller. The Company and Seller, jointly and severally, represent and warrant to Buyer that the statements contained in Sections 4.1 through 4.29 are true and correct on the date hereof and will be true and correct on and as of the Closing Date.

4.1. Corporate Standing. Seller and the Company are corporations duly organized, validly existing, and in good standing under the laws of the State of Tennessee, and each has full power and authority to enter into this Agreement and to carry out the transactions contemplated hereby. Seller and the Company each have full power and authority to carry on its business as it is now being conducted and to own or lease its Assets. Seller and the Company are each duly qualified to transact business in each jurisdiction where the nature of its business or its ownership or leasing of property requires it to be so qualified. The execution and delivery of this Agreement by

the Company and Seller do not, and the consummation of the transactions contemplated hereby will not, violate or result in a breach of any provision of Seller's or the Company's Charter or By-Laws, or violate any provision of, constitute a default under, result in the acceleration of any obligation under, or result in the creation or imposition of any security interest, mortgage, lien or other encumbrance upon the Assets of the Company under, any mortgage, lien, lease, agreement, indenture, order, arbitration award, judgment or decree to which the Company or the Seller is a party or by which either of them is bound, and will not violate any other restriction of any kind or character to which the Company or the Seller is subject. The copies of Seller's and the Company's Charter and By-Laws, as heretofore delivered to Buyer, are complete and correct, have not been amended or repealed since delivery to Buyer and are in full force and effect. Except as set forth in Exhibit A attached hereto and made a part hereof, the Company possesses all required licenses, permits, registrations, certificates and accreditations necessary to allow it lawfully to operate Jefferson Memorial Hospital ("JMH"), and to participate in the Medicare and Medicaid reimbursement programs, including, but not limited to state hospital licenses, certificates of need and Section 1122 approvals, waivers or exemptions therefrom, and accreditation by the Joint Commission on Accreditation of Hospitals ("JCAH"). Exhibit A also lists all such licenses, permits, registrations, certificates, accreditations, certificates of need, approvals, waivers or exemptions, and Section 1122 approvals or exemptions.

Seller has previously delivered to Buyer true and complete copies of the two most recent JCAH accreditation survey reports and deficiency lists, if any, and the most recent state licensing report received with respect to JMH. Exhibit A also describes any notices received by the Company with respect to threatened, pending, or possible revocation, termination, suspension or material limitation of the licenses and permits described herein, or with respect to any challenges, appeals or investigations in respect thereto, except for any such notices which have been cured by appropriate remedial action by Seller or the Company.

4.2. Capital Stock. The authorized capital stock of the Company consists of 1000 shares of capital stock, par value \$.10 per share, 500 of which have been validly issued and are outstanding, fully paid and nonassessable. No shares of the Company's capital stock are held by the Company in treasury. There are no other issued or outstanding equity securities of the Company and there are no other issued or outstanding securities of the Company convertible at any time into equity securities of the Company. The Company is subject to no commitment or obligation which would require the issuance or sale of additional shares of the Company's capital stock at any time under options, subscriptions, warrants, rights, calls, preemptive rights, convertible obligations or any other fixed or contingent obligations.

4.3. Authority. Seller and the Company have full power and authority to enter into this Agreement and have taken all action or will use their best efforts to take all action,

corporate and otherwise, necessary to authorize the execution, delivery and performance of this Agreement, the completion of the transactions contemplated hereby and the execution and delivery on behalf of Seller and the Company of any and all instruments necessary or appropriate in order to effectuate fully the terms and conditions of this Agreement. No consent or approval of any court, governmental agency or other public authority, or of any other person, corporation or entity with any actual or alleged interest in the assets of the Company is required as a condition to (a) the validity or enforceability of this Agreement or any other instruments to be executed by Seller or the Company to effectuate this Agreement, or (b) the completion or validity of any of the transactions contemplated by this Agreement. This Agreement has been properly executed and delivered by the duly authorized officers of Seller and the Company, and constitutes the valid and legally binding joint and several agreement of Seller and the Company and is enforceable against Seller and the Company in accordance with its terms.

4.4. Stock Ownership. Seller is the sole beneficial and record owner of the Stock. All of the Stock is validly issued and outstanding, fully paid and nonassessable. All shares of the Stock are free of any lien, security interest, charge, encumbrance or claim, of any nature whatsoever, and Seller has the right to transfer to Buyer complete and unencumbered legal and equitable title to the Stock.

4.5. Financial Statements. Seller has previously furnished Buyer with true and complete copies of the 1984

Financial Statements and those financial statements of the Company most recently available as of the date of this Agreement (the "Interim Financials"). The 1984 Financial Statements and the Interim Financials were prepared in accordance with generally accepted accounting principles, consistently applied, and accurately, correctly and fairly reflect and present, the financial condition and position of the Company (a) as at December 31, 1984 and the results of operations of the Company at that date for the twelve (12) month period then ended, and (b) as at the date of the Interim Financials and the results of operations of the Company at that date for the period between December 31, 1984 and the date of the Interim Financials, respectively. There has been no material adverse change in, material loss or destruction of, or material amount of damage to, the Assets taken as a whole or the financial condition or business of the Company since December 31, 1984, whether or not arising from transactions in the ordinary course of business. The regular books of account of the Company fairly and accurately reflect all transactions since December 31, 1984, are true, correct and complete, and are maintained and kept in accordance with generally accepted accounting principles, consistently applied. The Company has no liabilities or obligations, whether accrued, absolute, contingent or otherwise, which would materially and adversely affect the condition (financial or otherwise) of the Company, except as and to the extent reflected or reserved against in the balance sheets included in the 1984 Financial Statements or the Interim Financials. No dividends are due or

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unpaid by the Company. The Company owns no interest, directly or indirectly, in any business entity.

4.6. Lawsuits and Proceedings. Except as disclosed in a schedule heretofore furnished to Buyer and attached hereto as Exhibit B and made a part hereof, to the best of the Seller's knowledge there is no action at law or in equity, arbitration proceeding, governmental proceeding or investigation pending or threatened against the Company or against or with respect to the business or Assets of the Company, and the Company is not in material default with respect to any decree, injunction or other order of any court or governmental authority. The Company is in substantial compliance with all (and has not received any notice of any claimed violation of any) applicable federal, state, county or municipal laws, ordinances and regulations. There is no action at law or in equity, arbitration proceeding, governmental proceeding or investigation pending or threatened against Seller or against or with respect to Seller's assets, and there is no action at law or in equity, arbitration proceeding, governmental proceeding or investigation, or motion or request to any court, pending or threatened, against or with respect to the Seller or the Company with respect to this Agreement or any of the transactions contemplated hereby. No notice from any authority with respect to the suspension, revocation or termination of any permit, license, certificate, certificate of need, accreditation or participation has been issued or given nor is the Company or Seller aware of the proposed or threatened issuance of any such notice. There is no basis known to the

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Company or the Seller for any such action which would have a material adverse effect upon the Assets, liabilities, financial condition, results of operation, business or prospects of the Company or its right to conduct its business as presently conducted.

4.7. Assets - Good Title. Except as may be disclosed in the 1984 Financial Statements, the Interim Financials or a schedule heretofore furnished to Buyer and attached hereto as Exhibit C and made a part hereof, the Company has a valid leasehold interest in the real property and improvements on which JMH is operated and good and marketable title to, and owns outright, all of its other Assets free and clear of all liens, security interests, charges, encumbrances, claims, equities of others and restrictions of any kind or character whatsoever. The Assets are in the possession (subject to such goods as are normally in transit) or control of the Company, except for such Assets as have been disposed of in the ordinary course of business. Except to the extent set forth in Exhibit C or in this Section 4.7, there is no real or personal property in any material way used by the Company in its business in and to which the Company does not have full right, title, and interest. The tangible Assets of the Company (whether owned or held under lease) are in good operating condition and repair, normal wear and tear excepted, free from material defects, and usable in the ordinary course of business and to the date hereof have been, and to the Closing Date, will be, repaired and maintained consistently with the past practices of the Company.

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4.8. Zoning. Except as disclosed by written notice to Buyer prior to execution of this Agreement, all structures and equipment owned, leased or used by the Company conform with all applicable ordinances and regulations (including, without limitation, all fire, health, safety and OSHA regulations) and building and zoning laws. No easement, license, grant, zoning or building ordinance or law, administrative regulation or any other impediment of any kind prohibits, interferes with, limits or impairs, or would prohibit, interfere with, limit or impair the use, operation or maintenance of the Assets of the Company or the conduct of the business of the Company as currently conducted.

4.9. Insurance.

4.9.1. The Company has furnished to Buyer a schedule, attached hereto as Exhibit D and made a part hereof, setting forth a description of all policies of fire, casualty, liability (including, without limitation, product liability and medical malpractice), worker's compensation, life and other forms of insurance carried by the Company currently, including with respect to each policy a description of the types and limits of the coverage, the amount of premiums, the name of the carrier, the policy number, the expiration date of the current premium period and the nature and amount of any claims pending thereunder. The Company is not in default with respect to any provision contained in any of such insurance policies which might cause a loss of coverage under any such insurance policy nor has the Company failed to give any notice or present any claim thereunder in due and timely fashion. The Company has currently,

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and during each of its two past fiscal years has had, in full force and effect all insurance coverages required by applicable law.

4.9.2. Buyer shall cause Seller to be added as a named insured to all liability insurance policies to be carried by teh Company.

Seller shall purchase a
4.9.3. ~~Buyer shall cause the Company to obtain~~ *reporting from and/or secure (tail coverage) for*
~~professional liability insurance coverage with at least the same~~
~~limits of coverage as the policies currently in effect and which~~
~~will cover all occurrences since the Effective Date of the~~
~~HCOV as a named insured. The Buyer shall~~
~~Hospital Lease Agreement dated February 11, 1982 between~~
~~Jefferson Corporation of Alexandria (formerly Jefferson Memorial~~
~~Hospital Corporation) and Seller.~~
pay one-half the premium therefor up to
a maximum of \$24,000.

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832

4.10. Major Agreements. The Company has furnished to Buyer a schedule, attached hereto as Exhibit E and made a part hereof, of the instruments or documents (and a copy of each), if any, embodying or evidencing (or if there are no such instruments or documents, a brief description of) each of the following transactions to which the Company is a party or by which the Company is obligated, and except for such transactions, the Company is not a party to any transaction (whether written or oral) hereinafter listed: (i) contract for the employment of any officer or individual employee; (ii) agreement with any labor union; (iii) any single contract for the purchase or sale of supplies, materials or personal property or for the furnishing or receipt of services, which contract calls for performance over a period of more than 90 days or involves more than the sum of

\$10,000; (iv) distributor or sales agency contracts; (v) lease or letting of real or personal property wherein the Company is lessor or lessee; (vi) option, preferential right of purchase, real estate mortgage, chattel mortgage, deed of trust, security agreement, conditional sales agreement or other encumbrance affecting the title to, or use of, any Assets of the Company; (vii) bond, loan agreement, promissory note or other obligation to pay money, arrangement for the factoring or assignment of accounts receivable, guarantee, indemnification agreement or any obligation with respect to the undertaking of another (except for indorsement of checks in the ordinary course of business); (viii) license agreement wherein the Company is a licensor or licensee; (ix) advertising contract, consulting agreement, and any other agreement that continues in force after the Closing Date with respect to employment or retention of consultants, legal counsel, accountants or anyone else who is not an employee; (x) power of attorney or other similar authorization to do and perform any acts for or on behalf of the Company or with respect to Assets of the Company; (xi) contract for the construction of any plants, equipment, facilities, buildings, structures or other capital improvements involving a sum greater than \$10,000; (xii) government contract which is subject to renegotiation; (xiii) stock purchase, group insurance, bonus, stock option, executive compensation, pension, profit sharing, medical or other employee benefit contract or plan or arrangement, whether established by custom or course of dealing, oral or written agreement; (xiv) contract for the provision of medical or other health-related

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services; and (xv) any other material contract or any instrument not made in the ordinary course of business. The Company is not in material default, nor has any event occurred which, with the passage of time or the giving of notice or both, would constitute a default, under any contract, agreement, lease, document or other arrangement to which it is a party, has not waived any material rights under or with respect thereto, and has no knowledge or notice that any party with whom the Company has contractual arrangements, written or oral, is in default in any material respect under any such contractual arrangements. No consent or approval of any party with whom the Company has any such contractual arrangements, written or oral, is required as a condition to (a) the validity or enforceability of this Agreement or any other instruments to be executed by Seller or the Company to consummate the transactions contemplated by this Agreement, or (b) the consummation or validity of any of those transactions.

4.11. Taxes.

4.11.1. The Company has exercised due diligence in the preparation of and has duly and timely filed, or will have filed by the Closing Date, all federal and applicable state and local returns, declarations or statements with respect to all federal, state and local income, property, sales, use, profits, occupancy, employment, excise, withholding, customs duties or other taxes of any nature whatsoever, including, without limitation, penalties and interest thereon, (respectively, "Returns" and "Taxes") required to be filed up to and including the date hereof and thereof. All Taxes shown on the Returns or

4.13. Claims of Directors, Officers, etc. Except as set forth in Exhibit G attached hereto and made a part hereof, no employee, director or officer (or any current or former family member thereof) of the Company, either individually or in any other capacity, has a claim of any kind whatsoever (including, without limitation, loans to the Company) against the Company, except the right to his current salary or wages, any accrued vacation pay, and any reimbursable expenses arising in the ordinary course of business. Except as noted in the immediately preceding sentence, the Company has no obligation to any such person that has not been fully performed.

4.14. Officer and Director Loans. Except as set forth in Exhibit H attached hereto and made a part hereof, there are no outstanding loans; obligations or open account advances payable to the Company by the Seller or any current or former officer, director or employee (or any current or former family member thereof) of the Company.

4.15 Rights and Know-How - Ownership. The Company owns its Rights and Know-How free of any rights or claims of any officers, directors, stockholders or employees of the Company, or of any other persons, corporations or entities.

4.16 Extraordinary Transactions. Except as set forth in Exhibit E, since December 31, 1984, the Company has not (i) mortgaged, pledged or subjected to lien, charge or any other encumbrance any of its Assets; (ii) cancelled any claim of or debts owed to it, or, except in each case in the ordinary course of business, sold or transferred any of its Assets; (iii) sold,

assigned or transferred any of its Know-How or Rights; (iv) waived any rights; (v) entered into any material transaction other than in the ordinary course of business; (vi) made any management decisions involving any material change in its policies with regard to the provision of services, sales, purchasing or other business, financial, accounting (including reserves and the amounts thereof) or tax policies or practices; or (vii) declared or paid any dividends on or made any distributions in respect of any outstanding shares of capital stock of the Company.

4.17. Accounts Receivable - Inventories.

4.17.1. All information set forth in the 1984 Financial Statements with respect to accounts receivable of the Company is true, accurate and complete as at December 31, 1984, and since that date to the Closing Date there has been no material adverse change with respect to the amount, validity, or collectibility of accounts receivable of the Company, except for decreases in the amount of accounts receivable due to collection in the ordinary course of business since December 31, 1984. Such accounts receivable are, and at the Closing Date, to the extent not theretofore collected, will be, valid and existing and evidence of monies due for services performed or goods sold, and are and will be good and collectible in amounts equal to the aggregate face amounts thereof after giving effect to any deductions from face amounts for bad debts and contractual allowances as determined by mutual agreement of Buyer and Seller under Section 3.4.5.6. hereof.

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4.17.2. The items included in the inventories of the Company as shown on the 1984 Financial Statements (except for any of such items which may have been sold, used or otherwise consumed in the ordinary course of business subsequent to December 31, 1984) are, and any items of inventory acquired thereafter and not sold, used or otherwise consumed in the ordinary course of business to the Closing Date shall be suitable as supplies regularly used in the business of the Company and such items are of a quality and quantity usable or salable in the ordinary course of business. Such items of inventory are valued on the 1984 Financial Statements and the Interim Financials at the lower of cost or market, on a first-in, first-out basis, with an appropriate reserve for obsolescence.

4.18. Broker and Finder Fees. Neither Seller nor the Company has engaged any broker or finder in connection with this transaction, and no action by Seller or the Company will cause or support any claim to be asserted against Buyer by any broker, finder or intermediary in connection with this transaction.

4.19. Adverse Circumstances. To the best of the Seller's knowledge, there are no facts, developments or circumstances, existing or threatened, of a special or unusual nature that may be materially adverse to the Assets, business, financial condition or future prospects of the Company.

4.20. Liabilities. The Company has no material liabilities of any nature, whether accrued, absolute, contingent or otherwise, existing, or which may hereafter arise out of any transaction entered into prior to the Closing Date or out of any

act or failure to act on the part of the Company or any of its employees or agents prior to the Closing Date, except (i) as and to the extent and in the amounts reflected or reserved against in the 1984 Financial Statements or the Interim Financials, (ii) current liabilities incurred in the ordinary course of business since December 31, 1984, and (iii) as set forth in the Exhibits attached hereto.

4.21. Accounts Payable. All information set forth in the 1984 Financial Statements, the Interim Financials and the books and records of the Company with respect to the accounts payable of the Company for all periods up to and as at the Closing Date are true, accurate and complete, and no supplier of the Company has any right to demand return of any of the Assets of the Company for nonpayment of any account payable. The aggregate amount of all legal and accounting fees and expenses payable by the Company, if any, (including, without limitation, all fees and expenses not yet billed) which are unpaid and outstanding as of the date on which this Agreement is executed by the Company and as of the Closing Date does not and will not exceed \$_____ in the case of legal fees and expenses and \$_____ in the case of accounting fees and expenses.

4.22. Employee Benefit Plans.

4.22.1. All "employee benefit plans," as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), sponsored by the Company or to which the Company contributes (the "Plans") are listed in Exhibit I attached hereto and made a part hereof. The Company has

turned complete copies of each of the Plans to Buyer, and the Company has not previously sponsored or contributed to any employee benefit plans other than the Plans. None of the Plans is a "defined benefit plan" within the meaning of Section 3(35) of ERISA. The financial statements furnished by the Company to Buyer with respect to the Plans (which financial statements are listed in Exhibit I attached hereto and made a part hereof, and which are hereinafter referred to as the "Plan Financial Statements") were prepared in accordance with generally accepted accounting principles, consistently applied, and each accurately, correctly and fairly reflects and presents the financial condition of the Plan to which it relates as of the date of that Financial Statement. All contributions and premiums due and payable by the Company to any of the Plans on or prior to the Closing Date have been paid in full.

4.22.2. Each of the Plans (as in effect on the Closing Date) which constitutes an "employee pension benefit plan" within the meaning of Section 3(2) of ERISA has been determined by the Internal Revenue Service, as to form, to satisfy the requirements of Section 401 or Section 403(a) of the Internal Revenue Code of 1954, as amended (the "Code"), and there are no developments or circumstances, to the best of the Sellers' knowledge, existing or threatened, that may disqualify that Plan under Section 401 or Section 403(a) of the Code. With respect to each of the Plans, all applicable reporting and disclosure requirements under Title I of ERISA have been satisfied on a timely basis and all information reported or disclosed in

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connection with those reporting and disclosure requirements is true, correct and complete. No "fiduciary" (as defined in Section 3(21) of ERISA) of any of the Plans (each such fiduciary being hereinafter referred to as a "Plan Fiduciary"), including the Company, has agreed or undertaken to make any amendment to the Plans. There are no actions, suits, proceedings, investigations or hearings pending, or any claims threatened, against or with respect to any of the Plans, any Plan Fiduciary or the assets of any Plan, and there are no facts which could reasonably give rise to any such actions, suits, proceedings, investigations, hearings or claims.

4.22.3. There are no material liabilities of any of the Plans of any nature, whether accrued, absolute, contingent or otherwise, existing, or which may hereafter arise out of any event occurring on or prior to the Closing Date or out of any act or failure to act on the part of the Company, any Plan Fiduciary or any employee or other agent of either of them on or prior to the Closing Date, except (a) as and to the extent and in the amounts reflected in the Plan Financial Statements and the Actuarial Reports and the notes thereto, and (b) current liabilities for benefits and expenses under the Plans incurred in the normal course of operation and administration of the Plans. There are no developments or circumstances of a special or unusual nature, existing or threatened, that may be materially adverse to the financial condition, operation, administration or actuarial position of any of the Plans. The Plans have been maintained and administered in substantial compliance with all

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(and neither the Company nor any Plan Fiduciary has received notice of any claimed violation of any) applicable federal, state, county and municipal laws, ordinances and regulations.

4.23. Employee Relations. Except as described in Exhibit _____, no complaint or labor grievance has been filed or been threatened to be filed by an employee of the Company or by any other person with any federal, state or local labor relations, equal employment opportunity, civil rights or other authority in regard to employment or hiring practices of the Company or in regard to any other conduct of the Company, and the Company does not know (including the knowledge of any of its current officers and directors) of any state of facts which could lead to such a filing, nor have there been any strikes, pickets, or labor disputes directed against or in regard to the Company or any of its operations. The Company is not a party to or bound by any collective bargaining agreement or other union contracts, and it has not been requested to enter into or be bound by any such agreement or contract. There are not currently any official or unofficial organizing drives or campaigns by any union among all or any part of the employees of the Company, and no petition to organize such a drive or for union election among all or any part of those employees is currently pending before any federal or state labor relations agency. The Company is in substantial compliance with all laws respecting employment and employment practices, terms and conditions of employment and wages and hours, and is not, to its knowledge, engaged in any unfair labor practice.

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4.24. Payment Programs. Except as set forth in Exhibit attached hereto and made a part hereof, JMH is certified for participation in the Medicare and Medicaid programs, and is party to valid participation agreements for payment by the Medicare, Medicaid and Blue Cross programs (the "Programs") and to a valid memorandum of understanding with JMH's peer review organization, a copy of each such agreement and memorandum of understanding having been previously delivered to Buyer. The status of all cost reports for the Programs for the last three fiscal years of JMH is described in Exhibit J, and there are no pending appeals, adjustments, challenges, audits, litigation, notices of intent to reopen or open cost reports with respect to the Programs except as set forth in Exhibit J. JMH has not been subject to or threatened with loss of waiver of liability for utilization review denials with respect to the Programs during the twelve (12) month period terminating on the Closing Date and has not received notice of pending or threatened investigations by or loss of participation in any of the Programs except as set forth in Exhibit J. Seller has previously delivered to Buyer copies of all current participation agreements with health maintenance organizations, insurance programs and preferred provider organizations and the Company is not in material breach of any of such agreements.

4.25. Medical Staff; Hill-Burton Act. Seller has previously delivered or made available to Buyer with respect to JMH a true and complete copy of medical staff privilege and membership application forms, medical staff bylaws, rules and

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regulations, and credentials and appeals procedures not incorporated therein, and of all contracts, oral or written, with physicians or physician groups, and there are no pending or threatened appeals, challenges, or disputes in respect thereto or arising therefrom except as set forth in Exhibit K attached hereto and made a part hereof. There has been neither the receipt of loans, grants or loan guarantees pursuant to the Hill-Burton Act, nor the performance of any experimental or research procedures or studies involving patients in or by JMH except as set forth in Exhibit K.

4.26. Trademarks and Patents. All trademarks, trade names, copyrights and patents and applications therefore owned or used by the Company in its business are listed and described in Exhibit L attached hereto and made a part hereof. No proceedings have been instituted or are pending or, to the knowledge of the Company or Seller, threatened, which challenge the validity of the ownership by the Company of such trademarks, trade names, copyrights, patents and applications. The Company has not licensed anyone to use such trademarks, trade names, copyrights, patents and applications and the Company has no knowledge of the use or the infringement of any of such trademarks, trade names, copyrights, patents and applications by any other person. The Company owns (or possesses adequate and enforceable licenses or other rights to use) all trademarks, trade names, copyrights, patents, inventions and processes now used in the conduct of JMH, and neither such use nor any other practice of the Company conflicts with the rights of others, except that with respect to

trade names only, Seller, merely has no knowledge that such use or other practice conflicts with the rights of others.

4.27. Conflicts of Interest. Except as set forth in Exhibit M attached hereto and made a part hereof, and except for transactions involving less than \$5,000, to the knowledge of the Seller, no director, officer or affiliate of the Company controls or is an affiliate, employee, officer or director of any corporation, firm, association, partnership or other business entity which is a competitor, supplier or customer of the Company in its business.

4.28. Certain Payments. The Company has not, directly or indirectly, paid or delivered or agreed to pay or deliver, any fee, commission, or other sum of money or item of property, however characterized, to any person, government official or other party which is in any manner related to business of JMH or the Company and which the Company knows or has reason to believe to have been illegal under any federal, state or local law.

4.29. No Misleading Statements. The warranties, representations and Exhibits of Seller and the Company contained in or attached to this Agreement do not contain any untrue statements of fact and do not omit the disclosure therein of any fact to Buyer, with the purpose or effect of making any statement contained herein or in the Exhibits misleading, or which might be reasonably expected to affect adversely the Assets, business, financial condition or future prospects of the Company. Copies of all documents referred to in this Agreement or on any exhibit hereto have been delivered or made available to Buyer and

constitute true, correct and complete copies thereof and include all amendments, supplements or modifications thereto or waivers thereunder.

5. Representations and Warranties of Buyer. Buyer represents and warrants to Seller that the statements contained in Sections 5.1 and 5.2 are true and correct in all material respects on the date hereof and will be true and correct on and as of the Closing Date.

5.1. Corporate Authority - Good Standing. Buyer is a non-stock corporation duly organized, validly existing, and in good standing under the laws of the State of Virginia, and has full power and authority to enter into this Agreement and to carry out the transactions contemplated hereby. All requisite corporate and other action has been taken to authorize the execution, delivery and performance of this Agreement, and the completion of the transactions contemplated hereby. This Agreement constitutes the valid and legally binding obligation of Buyer.

5.2. Broker and Finder Fees. No broker, finder or intermediary engaged by Buyer in connection with this transaction will assert any claim or make any demand upon Seller based upon any dealings of such broker, finder or intermediary in connection with this transaction.

6. Covenants and Agreements of Seller and the Company. Seller and the Company, jointly and severally, hereby covenant and agree as follows:

6.1. Corporate Action. Seller and the Company each shall duly take all action, corporate or otherwise, necessary or appropriate to authorize the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby.

6.2. Conduct of Business to Closing. The Company shall conduct its business with diligence and in the normal and regular manner as heretofore conducted from the date hereof to and including the Closing Date and so that, among other things, the representations and warranties contained in Sections 3 and 4 and in the Exhibits hereto will be true and correct at and as of the Closing Date, and the conditions to be satisfied by the Company on or prior to the Closing Date shall have been satisfied. Between the date hereof and the Closing Date, the Company specifically agrees to use its best efforts to act as follows:

(a) Preserve Business. To preserve intact its business organization and goodwill and retain the services, business and goodwill of its officers, employees, suppliers, customers, and representatives and of others with whom it has contractual and commercial relationships, and to keep in effect and undiminished the insurance coverages now in effect upon its business and Assets;

(b) Extraordinary Transactions. Not to encumber any of the Assets, not to dispose of any of the Assets except in the ordinary course of business, and except in the ordinary course of business for the replacement of inventory, not to (1) enter into

any transaction or make any commitment relating to its Assets or business (including, without limitation, any commitment or payment resulting from or related to any investigation or audit of its books and records which may be conducted by any tax or other governmental agency), or (2) commit for any single expenditure in excess of \$10,000, without the prior written consent of Buyer, which shall not be unreasonably withheld;

(c) Major Management Decisions. To consult with Buyer with respect to each management decision of the Company involving any material change in its policies regarding services, sales, purchasing, or other business, financial, accounting (including the amount of reserves) or tax policies and practices, and not to make any such material change of policy without the prior written approval of Buyer, which shall not be unreasonably withheld;

(d) Buyer's Access - Records. To permit employees, accountants, attorneys and other representatives of Buyer to have reasonable access to its facilities, properties, corporate records, books of account, contracts, tax returns and other documents, data and records, and to furnish to Buyer all information with respect to its affairs, and copies of any such records and documents as Buyer may reasonably request;

(e) Impairment - Representations and Warranties. Not to take any action or fail to take any action without the prior written approval of Buyer, which would or might cause any representation or warranty of the Company or Seller made herein not to be true on the Closing Date or impair the Company's ability to carry out its obligations under this Agreement;

(f) Dividends and Redemptions. Not to declare, set aside or pay any dividend or make any other distribution in respect of its capital stock without Buyer's prior written consent, redeem or otherwise acquire any shares of its capital stock, issue any equity securities or options or warrants to acquire any equity securities issue any debt securities or make any other change in its capital structure;

(g) Employment Contracts and Compensation. Not to enter into any employment contract with any present or new employee for a term of more than 30 days; not to hire any new employee except as necessary in connection with its ordinary business operations; not to increase the salary or other compensation of, or make any loans or extend any credit to, any officer, director, employee or stockholder; not to increase the salary or other compensation of any other employee except for reasonable merit increases in accordance with its customary and established compensation practices; not to enter into any consulting agreement; and not to enter into any agreement with any labor union, or any other collective bargaining agreement;

(h) Indebtedness. Not to create, incur, assume, guarantee or otherwise become liable or obligated with respect to any indebtedness for borrowed money, or make any loan or advance to, or any investment in, any person or entity which might result in any lien or other encumbrance upon the Assets;

(i) Compliance with Laws, Contracts, etc. To duly comply in all material respects with all applicable statutes, laws, ordinances and regulations; to keep, hold and maintain all

certificates, certificates of need, accreditations, participations, licenses and other permits necessary for the conduct of its business; to do no act or omit to do an act which would cause a material breach of or violation or default under any contract, agreement or other commitment; to pay all taxes and other assessments upon its Assets and businesses as they may become due (other than those taxes which may be contested in good faith in accordance with all prescribed procedures); to use its best efforts to obtain all consents, approvals and authorizations of third parties, whether governmental or private, to make all filings, and give all notices which may be necessary or desirable on its part under all applicable laws and under its contracts, agreements and commitments in order to consummate the transactions contemplated by this Agreement; and to use its best efforts to consummate the transactions provided for herein as soon as is practicable;

(j) No Merger or Consolidation. Not to merge or consolidate with, or acquire any of the assets of, any other corporation, business or person; through September 1, 1985, not to solicit from any corporation, business or person, nor entertain any inquiries, proposals or offers relating to the disposition of JMH, or the acquisition of shares of its capital stock, or the merger or consolidation of it with any corporation (and to promptly notify Buyer orally, and confirm in writing, of all relevant details relating to inquiries or proposals which it may receive relating to any of the matters referred to in this Section 6.2(j)); and

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(k) Medical Staff. To maintain its current relationships with and its policies with respect to the members of its medical staff.

6.3. No Liability. Neither Buyer nor any representative of Buyer shall be liable for any loss or damage arising from the approval or withholding of approval of matters specified in Section 6.2, except for any loss or damage caused by the gross negligence or willful misconduct of Buyer in withholding approval of any such matters when requested by the Company.

6.4. Pre-Closing Audit. Buyer and its employees, accountants, attorneys and other representatives shall have the right to conduct financial, accounting, business and legal audits of the Company prior to Closing, and Seller and the Company, including all of its officers, directors, employees and stockholders, shall cooperate fully with the representatives of Buyer in such audits and furnish promptly all requested documents and information, provided that such audit shall not be conducted in a manner as to unreasonably interfere with the operation of the Company's business. Facilities, information and other material of the Company shall be made available at least during normal business hours. If requested, Seller and the Company shall provide Buyer prior to the Closing with copies of any existing title insurance policies, binders and certificates covering real property owned or leased by the Company, and copies of any existing surveys covering such real property.

6.5. No Encumbrances Upon the Stock. All amounts (if any) payable by Seller to the Company on account of subscriptions

for capital stock of the Company shall be paid in full prior to the transfer of the Stock to Buyer, so that at the time the Stock is transferred to Buyer, it shall be fully paid and nonassessable, free of all escrow arrangements, restrictions, and any claims of the Company of any nature whatsoever. Prior to the transfer of the Stock to Buyer, Seller shall deliver to Buyer all documents and instruments (executed by the Company or otherwise) requested by Buyer to confirm the release of all of the Stock from all escrow arrangements, pledges, liens and restrictions, and the payment in full of all subscription obligations therefor.

6.6. Notice of Change. Seller shall promptly give notice to Buyer of the occurrence of any event or the failure of any event to occur which results in a breach of any representation or warranty of Seller or the Company, or of a failure by it or the Company to comply with any covenant, condition or agreement contained herein.

6.7 Cost Reports. The Company shall file in a timely manner all Medicare and Medicaid cost reports with respect to JMH up to the Closing Date. The Company shall forward to Buyer copies of such cost reports promptly after the filing thereof.

6.8 Management Contracts. Seller covenants and agrees with Buyer that Seller shall cause the Company to cancel and terminate any management or similar agreements between Seller and the Company, which cancellation and termination shall be without penalty to the Company or premium to Seller.

6.9 Retirement of Debt. Prior to the Closing Date, the Company shall have been relieved of liability on all of its

long term debt (and current portions thereof), if any, and interest accrued and unpaid thereon, including, but not limited to, that which is reflected on the 1984 Financial Statements or the Interim Financials, other than the Capitalized Lease Obligations, and shall have terminated (and shall have produced written evidence of such termination satisfactory to Buyer) any and all of its obligations, contingent, fixed or otherwise, under the Guaranty Agreement dated July 7, 1982 by and between the company and Citibank, N.A., as amended August 23, 1982, the Guaranty Agreement dated February 17, 1983 by and between the Company and Citibank, N.A., and the Leasehold Deed of Trust dated February 17, 1983 by and among the Company, Citibank, N.A. and Courtland L. Traver, Trustee.

7. Conditions of Buyer's Obligations to Close. The obligations of Buyer to close this transaction and to perform its other covenants and agreements pursuant to the terms and conditions of this Agreement are subject to the fulfillment as of the Closing Date of each of the following conditions precedent, any or all of which may be waived in writing by Buyer.

7.1. No Material Adverse Condition or Change. There shall exist no state of facts or condition which materially and adversely affects the business, Assets or financial condition of the Company, which is not disclosed in the 1984 Financial Statements, and there shall have occurred no material adverse change in the business, Assets or financial condition of the Company between the date hereof and the Closing Date.

7.2. True Representations and Warranties. Each of the representations and warranties of Seller and the Company contained in this Agreement or the Exhibits hereto shall have been true in all material respects on the date hereof, and shall be true in all material respects as of the Closing Date as though made on and as of the Closing Date.

7.3. No Default - Covenants and Agreements. Neither Seller nor the Company shall be in material default with respect to any obligation under this Agreement, and Seller and the Company shall have performed or complied with all covenants, agreements and conditions to be performed or complied with by either of them prior to or at the Closing.

7.4. Opinion of Counsel for Seller and the Company. Buyer shall have received from Harwell, Barr, Martin & Stegall, P.C., counsel for Seller and the Company, the favorable opinion of that counsel, dated the Closing Date, substantially in the form attached hereto as Exhibit N.

7.5. Stock. Seller shall be ready, willing and able to convey the shares of the Stock to Buyer in accordance with the terms and conditions of this Agreement; provided, however, that this condition precedent shall not be interpreted to permit Seller to refuse to convey the Stock except upon termination of this Agreement pursuant to Section 11.

7.6. Corporate Proceedings of Seller and the Company. All corporate and other proceedings of Seller and the Company in connection with the execution, delivery and performance of this Agreement, the consummation of the transactions contemplated

hereby and the transfer of the Stock, and all documents and instruments incident thereto, shall be satisfactory in form and substance to Buyer, and Buyer shall have received all such documents and instruments, or copies thereof (certified if requested), as may be reasonably requested.

7.7 Execution of New Lease. The Company or Buyer shall have entered into a new lease agreement, satisfactory in form and content to Buyer, with the lessor of the premises at which the Jefferson Memorial Hospital is currently located and in operation.

7.8 Approval of Transaction by Regulatory Authorities. The appropriate regulatory agencies and authorities with respect to Buyer, Seller and the Company shall have been notified of, and shall have approved or irrevocably waived their right to object to, the transactions contemplated by this Agreement; all statutory requirements shall have been met and no legal prohibition or injunction against the transactions contemplated hereby shall be in effect. JMH shall be a party to a standard Blue Cross agreement with the appropriate Blue Cross Plan, and such agreements shall be effective after the Closing Date or the Buyer shall have received assurances reasonably satisfactory to Buyer that such agreements will be entered into with Buyer promptly after the Closing. The Joint Commission on Accreditation of Hospitals shall have determined that the change in control of the Company does not require a new survey.

7.9. Delivery of Stock. Buyer shall have received from Seller duly endorsed certificates, with signatures properly

guaranteed, of all certificates representing the outstanding capital stock of the Company, all in form and substance reasonably satisfactory to Buyer, so as to transfer good and marketable title to the Stock free and clear of all security interests, mortgages, claims, liens, charges or other encumbrances of any nature whatsoever. If any lien exists with respect to any of the Assets of the Company, Buyer at its option and after consultation with Seller may discharge such lien by paying the obligation secured thereby and deducting the amount paid from the Purchase Price.

7.10. No Long Term Debt. At the Closing Date, the Company shall have previously been relieved of all of its long term debt (including the current portion thereof) and all interest accrued thereon, with the exception of the debts represented by the Capitalized Lease Obligations, and shall not be obligated for, or be a guarantor with respect to, the payment of any long term debt (or current portions thereof) or any interest with respect thereto, whether any such amounts are fixed or contingent, currently due or to become due in the future, other than the Capitalized Lease Obligations.

8. Conditions of Seller's Obligation to Close. The obligation of Seller to close this transaction and transfer and deliver to Buyer the Stock and to perform its obligations pursuant to the terms and conditions of this Agreement are subject to the fulfillment as of the Closing Date of each of the following conditions precedent, any or all of which may be waived in writing by the Seller.

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8.1. True Representations and Warranties. Each of the representations and warranties of Buyer contained in Section 5 shall have been true in all material respects on the date hereof, and shall be true in all material respects as of the Closing Date as though made on and as of the Closing Date.

8.2. Payment of Purchase Price. Buyer shall be ready, willing and able at Closing to pay the portion of the Purchase Price due at Closing; provided, however, that this condition precedent shall not be interpreted to permit Buyer to refuse to perform its obligations in accordance with Section 3 except upon termination of this Agreement pursuant to Section 11.

8.3. Approval of Transaction by Regulatory Authorities. The appropriate regulatory agencies and authorities with respect to Buyer, Seller and the Company shall have been notified of, and shall have approved or irrevocably waived their right to object to, the transactions contemplated by this Agreement, all statutory requirements shall have been met and no legal prohibition or injunction against the transactions contemplated hereby shall be in effect.

9. Delivery of Documents. At the Closing, and in addition to all other documents and instruments which Seller or the Company is required to deliver pursuant to this Agreement, Seller and the Company shall deliver to Buyer the following documents duly executed by the Company or, where appropriate, by Seller, the directors, officers, or employees of or counsel to Seller or the Company, or appropriate governmental officials, in form and substance satisfactory to Buyer and its counsel.

9.1. Good Standing Certificate. Certificates of the Secretary of State of Tennessee, dated not more than 30 days prior to the Closing Date, as to the good standing of Seller and the Company, respectively.

9.2. Compliance Certificates. Certificates, in form and content satisfactory to Buyer, dated the Closing Date, signed by the chief executive officers of Seller and the Company, respectively, certifying to full compliance with the conditions precedent specified in Sections 7.1, 7.2, 7.3 and 7.10.

9.3. Other Documents. Such other documents, certificates and instruments relating to the transactions contemplated by this Agreement as Buyer or its counsel may reasonably request or deem necessary.

10. Indemnification.

10.1. Indemnity. Seller covenants and agrees that it shall reimburse and indemnify and hold Buyer harmless from, against and in respect of any claim, damage, liability, loss, cost, expense or deficiency, including, without limitation, interest expenses and attorneys' fees and expenses (to the extent not paid for by insurance and net of any net tax benefit actually realized by Buyer on account of such claim, damage, liability, loss, cost, expense or deficiency) arising out of:

(a) any misrepresentation, omission or breach of warranty or any nonfulfillment of any covenant or agreement of Seller made under or pursuant to this Agreement or the Exhibits hereto (including, without limitation, any failure of Seller or

the Company to cause the fulfillment of the conditions precedent specified in Sections 7.2 through 7.10.);

(b) any provision by Seller of actual or alleged defective or improper services or products including any alleged negligence or malpractice;

(c) any claim, liability, penalty, interest charge, demand, or set-off whatsoever imposed by a Program, as defined in Section 4.24 hereof, net of any upward adjustments by a Program not previously credited to the Seller in the determination of Net Working Capital, with respect to any cost reporting period or partial period terminating on or before the Closing Date, or with respect to any services rendered on or prior to the Closing Date, including, but not limited to, retroactive settlement of or adjustments to the cost reports filed in connection with such periods or services;

(d) any expense incurred by Buyer with respect to JMH for the purpose of correcting any deficiency which deficiency is (i) in existence at the Closing, and (ii) prior thereto cited in any accreditation report issued by JCAH, or cited in any state licensing survey with respect to JMH which deficiency, if not corrected, would result in a loss of accreditation or licensure, or which under Seller's operation of JMH was not waived, provided that any claim by Buyer under this Section 10.1(d) shall be made by the earlier of the expiration of the Claims Period (as hereinafter defined) or 30 days after the receipt by Buyer of the first JCAH report or first state licensing survey report made after the Closing Date with respect to JMH for which indemnification is

claimed; and provided further that no claims by Buyer shall be made under this Section 10.1(d) if the facts providing the basis for such claim were disclosed to Buyer in Exhibit A hereto.

(e) any other commitments, agreements, liabilities or obligations of the Company or Seller (including, without limitation, any federal and state income or other tax liabilities), whether accrued, absolute, contingent or otherwise or whether arising out of the conduct of the business of the Company either before or after the Closing, not expressly assumed by Buyer hereunder; and

(f) any and all actions, suits, claims, proceedings, investigations, audits, demands, assessments, fines, judgments, awards, costs and other expenses (including, without limitation, reasonable accountants' and attorneys' fees and expenses) incident to any of the foregoing.

10.1.1. Seller's indemnification obligations under Section 10.1 shall not apply until any claims, damages, liabilities or losses thereunder aggregate \$25,000, but thereafter shall apply to all claims, damages, liabilities or losses in excess thereof. No claims for indemnification may be made by Buyer hereunder after the day which is 180 days following the Closing (such date being referred to herein as the "Claims Expiration Date"). The indemnification under Section 10.1 shall be the exclusive remedy for Buyer with respect to any matters related to this Agreement and the transactions hereunder and the exclusive method of asserting indemnification claims against Seller is set forth in Section 10.4 hereof. This indemnification

shall not relate to or cover any consequential damages of Buyer. Buyer shall have a duty to mitigate damages. Seller shall have no liability for breach of any representation or warranty hereunder which does not result in damage to Buyer.

10.2 Cooperation With Respect to Indemnification.

Buyer will give prompt written notice to Seller pursuant to the terms of the Escrow Agreement (as such term is defined below) of any claims which it discovers or of which it receives notice after the Closing and which might give rise to a claim by Buyer against Seller under Section 10.1 hereof, stating the nature, basis and amount hereof. In case of any claim or suit by a third party or by any governmental body, or any legal, administrative or arbitration proceeding with respect to which Seller may have liability under its indemnity agreements contained in Section 10.1 hereof, Seller shall be entitled to participate therein, and, to the extent desired by Seller, to assume the defense thereof, and after notice from Seller, of the election so to assume the defense thereof, the Seller will not be liable for any legal or other expenses subsequently incurred by Buyer in connection with the defense thereof, other than reasonable costs of investigation, unless Seller does not actually assume the defense thereof following notice of such election. Each party hereto shall make available to the others and their attorneys and accountants, at all reasonable times, all books and records relating to such suit, claim or proceeding, and each party will render to the others such assistance as may reasonably be required in order to insure proper and adequate defense of any

such suit, claim or proceeding. Buyer will not make any settlement of any claim which might give rise to liability of Seller under the indemnity agreements contained in Section 10.1 hereof without the written consent of Seller, which consent shall not be unreasonably withheld. If Seller shall desire to effect a bona fide compromise or settlement of any such suit, claim, or proceedings and Buyer shall unreasonably refuse to consent to such compromise or settlement, then Seller's liability under Section 10.1 hereof with respect to such suit, claim or proceeding shall be limited to the amounts so offered in compromise or settlement together with all legal and other expenses which may have been accrued prior to the date on which the other has refused to consent to such compromise or settlement.

10.4 Satisfaction of Indemnification Claims. Any amounts which are claimed by Buyer under Section 10.1 hereof ("Claim") may be satisfied against the escrow amount described in Section 10.5 hereof pursuant to the procedures set forth in the Escrow Agreement (as such term is defined below).

10.5. Escrow Account. In order to provide in part for the prompt payment of any sums due Buyer pursuant to this Section 10, Seller agrees that Buyer shall be permitted at the Closing to deliver to Commerce Union Bank, Nashville, Tennessee, a portion of the Purchase Price equal to \$250,000, such funds to be held in escrow for one hundred and eighty-five (185) days following the Closing Date (the "Claims Period") pursuant to the terms of an escrow agreement by and among Buyer, Seller and such escrow agent

(the "Escrow Agreement"). The Escrow Agreement shall be substantially in the form of Exhibit O attached hereto and made a part hereof. Buyer and Seller shall execute and deliver the Escrow Agreement at the Closing.

11. Further Assurances, Assistance & Cooperation; Access.

At or following the Closing, each of the parties hereto will take such further actions and execute and deliver such additional documents and instruments as may be reasonably requested by any other party in order to perfect and complete the transaction as set forth herein. After the Closing, Buyer shall cause the Company to keep and preserve all medical records and other records of JMH existing as of the Closing and which are required to be kept and preserved (i) by any applicable Federal or state law or regulation or (ii) in connection with any claim or controversy still pending involving Seller. After the Closing, upon reasonable written notice by Seller to the Company, Seller or its agents shall be entitled, during regular business hours, to have access to and make copies of all records pertaining to the operation of JMH (other than medical records which shall be governed by the provisions of the following paragraph) or any of the Real Property prior to the Closing as may be necessary for the Seller's use in any such claim or controversy.

12. Termination of Agreement. This Agreement and the transactions contemplated hereby may be terminated by Buyer without liability of any kind of Buyer to Seller or the Company (subject to the obligations of the parties under Section 12.2) by written instrument, signed by Buyer and delivered to Seller at

any time on or prior to the Closing Date, giving notice of termination, if:

(a) There has been a material misrepresentation or material breach of warranty on the part of Seller or the Company in the representations and warranties set forth herein or in any Exhibit hereto or in any certificate delivered pursuant hereto, or Seller or the Company shall have failed to perform or comply with in any material respect any covenant, agreement or condition to be performed or complied with by either of them prior to or at Closing, or Closing shall have failed to occur on or before August 31, 1985;

(b) In the reasonable judgment of Buyer the transactions contemplated by this Agreement have become inadvisable or impracticable by reason of (i) the enactment of new federal, state or local legislation since the date of this Agreement, or (ii) the announcement, written advice or threat of intended institution or the institution by federal, state or local authorities of an investigation of or litigation or proceedings against the Company or Seller which may have a material and adverse effect on the Company or the transactions contemplated hereby, or (iii) the institution since the date of this Agreement by any other person, corporation or entity of litigation or proceedings against or in regard to the Company or Seller which may have a material and adverse effect on the Company, or which may materially and adversely affect the authority or ability of Seller or the Company to consummate the transactions contemplated hereby; or

(c) The business, Assets, results of operations, financial condition or future prospects of the Company have been significantly and adversely affected by reason of changes or developments in operations, otherwise than in the ordinary course of business, since December 31, 1984; or

(d) The Buyer and Seller cannot agree upon the amounts of the Company's Current Assets or Current Liabilities or Capitalized Lease Obligations as contemplated in Section 3.4.2. hereof.

13. Effect of Termination; Confidentiality.

13.1. Scope of Liability. In the event that this Agreement shall be terminated for any reason other than breach or default by any party in accordance with the provisions of this Agreement, then all further obligations of Buyer, Seller and the Company under this Agreement shall terminate without further liability of any one party to the others, except for the obligations of the parties under Section 13.2.

13.2. Confidentiality. In the event of termination of this Agreement, all information received by any party from any other party pursuant to this Agreement shall not thereafter be used by such party for any purpose or disclosed by such party to third persons, and all documents, schedules, writings, work papers or other materials submitted by any party to any other party pursuant to this Agreement and all copies thereof shall be returned to the submitting party within 10 days of such termination; provided, however, the foregoing restrictions on use or disclosure shall not apply to any information which was in any

party's possession prior to the receipt thereof from another party.

14. Expenses. All legal, accounting and other costs and fees incurred by Seller in connection with the transactions contemplated by this Agreement shall be borne and paid for by Seller. All legal, accounting and other costs and fees incurred by Buyer in connection with the transactions contemplated by this Agreement shall be borne and paid for by Buyer.

15. Investment Representation. Buyer is acquiring the Stock for investment, solely for its own account, and not for the account of any other person, and not for distribution, assignment or resale to others. Buyer acknowledges that the securities have not been registered under applicable federal or state securities laws. Buyer agrees that the Stock purchased by it shall not be sold, offered for sale, pledged, assigned, hypothecated or otherwise transferred (with or without consideration), unless pursuant to an effective registration statement, or unless in the opinion of counsel to the Company, the proposed transfer may be made pursuant to a valid exemption from the registration provisions of applicable federal and state securities laws.

16. Miscellaneous Provisions.

16.1. Survival of Representations, Warranties and Covenants. The representations, warranties, covenants and agreements made in this Agreement by Seller, the Company and Buyer, respectively, shall survive for a period of one hundred eighty (180) days from the Closing Date. The respective representations and warranties of each party hereto contained herein

or in any Exhibits hereto or certificates delivered pursuant hereto shall not be deemed to be waived or otherwise affected by any investigation or audit made by any other party hereto or by any action taken by any party at the request of any other party hereto. All statements made by Seller, the Company or Buyer herein, in any of the Exhibits hereto, or in any other document delivered pursuant hereto, shall be deemed representations and warranties.

16.2. Assignment. Neither Buyer, nor Seller, nor the Company may assign this Agreement or any rights or obligations hereunder, in whole or in part, without the prior written consent of the other parties hereto.

16.3. Notices. Any notice, request, instruction or other document or communication required or permitted to be given under this Agreement shall be in writing and shall be deemed given upon delivery in person or upon being deposited in the mail, postage prepaid, for mailing by certified or registered mail, as follows:

If to Buyer, delivered or mailed to:

Fairfax Hospital Association
8001 Braddock Road
Springfield, Virginia 22151
Attention: J. Knox Singleton,
President

with a copy delivered or mailed to:

William C. Bauknight, Esquire
Miles & Stockbridge
114 North West Street
Easton, Maryland 21601

If to the Company or Sellers, delivered or mailed to:

Health Group, Inc.
Ninth Floor
One Commerce Place
Nashville, Tennessee 37239
Attention: J. George Harris,
President

with a copy delivered or mailed to:

[To Be Supplied]

or to such other address or addresses as may be specified in writing from time to time by any party to the other parties.

16.4. Section Headings. Section headings are for convenience only and shall not limit or otherwise affect any of the provisions of this Agreement.

16.5. Entire Agreement. This Agreement and the Exhibits hereto constitute the entire agreement and understanding of the parties hereto with respect to the matters herein set forth, and all prior negotiations, writings and understandings relating to the subject matter of this Agreement are merged herein and are superseded and cancelled by this Agreement.

16.6. Waivers - Amendments. Any of the terms or conditions of this Agreement may be waived but only in writing by the party which is entitled to the benefit thereof, and this Agreement may be amended or modified in whole or in part only by an agreement in writing, executed by all the parties to this Agreement.

16.7. Binding Nature of Agreement. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their successors and permitted assigns. As used herein, any reference to the masculine, feminine or neuter gender

shall include all genders; the plural shall include the singular, and the singular shall include the plural.

16.8. Governing Law. This Agreement shall be construed and enforced in accordance with the laws of the State of Virginia.

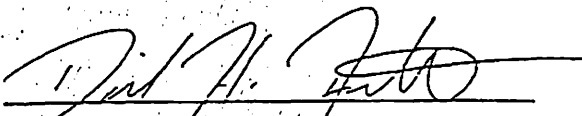
16.9. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, this Agreement has been executed under seal by the duly authorized officers of Buyer, Seller and the Company as of the date first above written.

ATTEST:

"SELLER":

HEALTH GROUP INC.



ASSISTANT SECRETARY

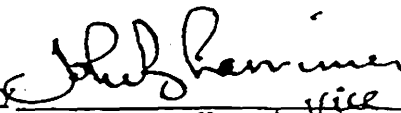
By:  (SEAL)
J. George Harris, President

THE "COMPANY":

HEALTH GROUP OF VIRGINIA, INC.

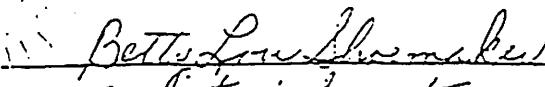
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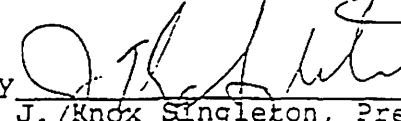

ASSISTANT SECRETARY

By:  (SEAL)
J. George Harris, President
THE "BUYER" John B. Larrimer

FAIRFAX HOSPITAL ASSOCIATION

ATTEST:


Betty Lou Shumaker
Assistant Secretary

By:  (SEAL)
J. Knox Singleton, President