Case No. 17043

ORIGINAL

October 2, 2003

BY HAND DELIVERY

Mr. Carl W. Wilson
Government of the District of Columbia
Department of Health
825 North Capitol Street, N.E., 3rd Floor
Washington, D.C. 20002

Re: CON Applications for New Hospital and New Nursing Center

Dear Mr. Wilson:

This is in response to your letter of September 25, 2003.

Thank you for the prompt attention given to the Notification that we submitted to you on September 15, 2003 to obtain a CON for New Hospital (defined below) and a CON for New Nursing Center (defined below).

We have carefully reviewed your September 25th letter and hereby submit this expedited response. Please note that to expedite your review of this response, we have restated each of your questions (in italicized, bold typeface) and immediately follow with our response (in unbolded, unitalicized typeface).

Please be aware that the bankruptcy orders in effect will require that the closing on the sale of the operations close on or before December 15, 2003. Accordingly, we appreciate your vigilance in assisting us in this process.

In addition, please note that the documents pertaining to that certain loan made by Healthcare Business Credit Corporation to Washington Healthcare Group have not been executed, as one of the conditions to closing on such loan is obtaining the CONs.

If you have any questions regarding our responses, please let us know as soon as possible.

BZA
Case No. 17043
Exhibit No. 95

Board of Zoning Adjustment
District of Columbia
CASE NO. 17043
EXHIBIT NO. 95

SHPDA QUESTIONS AND RESPONSES

1. ***Identify clearly who the Applicant(s) for the CON (sometimes hereinafter "buyer" or "Applicant") is and provide the following information.***

Response

- The Applicants for the CON that will be issued for the operations of New Hospital (defined below) are WHG (for New Hospital, as its parent) and New Hospital on its own behalf.

- The Applicants for the CON that will be issued for the operations of New Nursing Center (defined below) are WHG (for New Nursing Center, as its parent) and New Nursing Center on its own behalf.

- WHG is included because Applicants were advised by Mr. Selassie that WHG should be included as an applicant or sponsor.

(a) ***The names of the current owners(s) of the health care facility, including, as applicable, all partners, controlling shareholders or members, directors, trustees and officers;***

Response

- Capitol Hill Community Hospital d/b/a MedLink Hospital at Capitol Hill ("**Existing Hospital**").

    - Partners: None.
    - Shareholders: None.
    - Controlling member: Peter Shin.
    - Directors: Peter Shin, Henry Vaughn and James Gerrity.
    - Trustees: None.
    - Officers: Peter Shin, Henry Vaughn and James Gerrity.

- Capitol Hill HealthCare Group d/b/a Capitol Hill Nursing Center ("**Existing Nursing Center**").

    - Partners: None.
    - Shareholders: None.
    - Controlling member: Existing Hospital.
    - Directors: Peter Shin, Henry Vaughn and James Gerrity.
    - Trustees: None.
    - Officers: Peter Shin, Henry Vaughn and James Gerrity.

(b) ***The names of the Proposed Owner of the health care facility, including, as applicable, all partners, controlling shareholders or members, directors, trustees and officers;***

Response

- MedLINK Hospital of Washington ("**New Hospital**")
    - Partners: None.
    - Shareholders: None.
    - Controlling member: Washington Healthcare Group, Inc. ("**WHG**").
    - Directors: Henry Vaughn, Thomas Chang, Cindy Carter.
    - Trustees: None.
    - Officers: Henry Vaughn, Thomas Chang, Cindy Carter.
- MedLINK Nursing Center of Washington ("**New Nursing Center**")
    - Partners: None.
    - Shareholders: None.
    - Controlling member: WHG.
    - Directors: Henry Vaughn, Thomas Chang, Cindy Carter.
    - Trustees: None.
    - Officers: Henry Vaughn, Thomas Chang, Cindy Carter.

(c) ***The location(s) of the corporate office(s) of the Proposed Owner; and***

Response

- 700 Constitution Avenue, S.E., Washington, D.C. 20002 (the "**Real Property**")

(d) ***The proposed governance structure and, if investor-owned, a description of the mechanism for ensuring community involvement in policy matters.***

Response

- Business and operational decisions of New Hospital and New Nursing Center will be made by their respective directors and officers, with the input of professional employees and consultants, as warranted.

- Neither New Hospital nor New Nursing Center will be "investor owned." In addition, under the corporate structure, neither New Hospital nor New Nursing Center is permitted to make "distributions" to their members (recognizing that neither has shareholders). Nevertheless, New Hospital and New Nursing Center will invite members of the families of the community of the New Nursing Center and New Hospital (i.e. the patients and residents) and appropriate community groups to participate in quarterly meetings to discuss, among other things, the status and strategy of ongoing operations.

2. ***Please provide a complete list of all the assets (including rights, titles, interests, etc.) that the buyer is proposing to acquire from the seller.***

Response

- See Exhibit Q-2 submitted herewith.

3. ***Please provide a complete list of all the liabilities and obligations that the buyer will assume from the seller.***

Response

- See Exhibit Q-3 submitted herewith.

4. ***Provide a completed and fully executed lease agreement signed by a principal of each party to the lease along with a copy of any attachments and exhibits to the lease. The attachments and exhibits to the lease must also be fully executed, if that is applicable to complete the document or make the document enforceable.***

Response

- See Exhibit Q-4 submitted herewith.

5. ***Provide a complete copy of the articles of incorporation, by-laws and/or trust documents of the following entities: Washington Healthcare Group, MedLINK Hospital of Washington, MedLINK Nursing Center of Washington, Capitol Hill Community Hospital, Capitol Hill Healthcare Group, and BHS Management, Inc.***

Response

- See Exhibit Q-5 submitted herewith.

6. ***Provide a copy of all state and federal tax returns for each of the foregoing entities for the past three years.***

Response

- See Exhibit Q-6 submitted herewith (for Existing Hospital, Existing Nursing Center and BHS). The requested documents do not exist for WHG, New Hospital and New Nursing Center.

7. ***Provide any documents regarding any loans or debts owed to any of the foregoing entities (or their principals or members) by Dr. Shin.***

Response

- Dr. Shin is not indebted to Existing Hospital, Existing Nursing Center, New Hospital, New Nursing Center, WHG or BHS. Therefore no documents exist to produce in response to Question 7.

8. ***Provide any documents regarding any loans or debts owed by any of the foregoing entities (or their principals or members) to Dr. Shin (or which Dr. Shin may have guaranteed in any way).***

Response

- None of the following entities owe any debts to Dr. Shin: Existing Hospital, Existing Nursing Center, New Hospital, New Nursing Center, WHG or BHS. Therefore no documents exist to produce in response to Question 8.

- The Existing Hospital, Existing Nursing Center and BHS currently owe an aggregate debt of $260,000 to Dr. Shin (arising out of a liability that Dr. Shin satisfied for such entities). (Included in Exhibit Q-8). However, such debt will be extinguished without consideration to Dr. Shin at the closing of the sales to New Hospital and New Nursing Center. No other liabilities to Dr. Shin exist, but if they did, any such liabilities would similarly be extinguished without consideration to Dr. Shin.

9. ***Provide a complete and signed financial statement showing all assets, liabilities or outstanding obligations of the buyer and any other entities involved in the Asset Purchase Agreement.***

Response

- WHG, New Hospital and New Nursing Center are each newly-organized entities. Financial statements do not exist for these entities.

- For signed financial statements of Existing Hospital, Existing Nursing Center and BHS, please see Exhibit Q-9 submitted herewith. Please recognize that in accordance with applicable bankruptcy laws, the unsecured liabilities of these entities will not follow the assets being conveyed to New Hospital and New Nursing Center.

10. ***Provide a copy of all insurance policies for each of the entities affected by the Asset Purchase Agreement.***

Response

- See Exhibit Q-10 submitted herewith.

11. ***Provide a copy of all collective bargaining agreements (and any attachments and exhibits) for each of the entities affected by the Asset Purchase Agreement.***

Response

- No collective bargaining agreements exist for any of the entities affected by the Asset Purchase Agreement.

12. ***Please provide a copy of BHS, Inc.'s current management agreement with the MedLINK facilities (Hospital and Nursing Center) and any new management agreement under which the buyer plans to operate after the transfer of ownership.***

Response

- For a copy of the BHS management agreement, see Exhibit Q-12 submitted herewith.

- BHS currently has 53 employees. Applicants intend to move all but approximately 10 of such employees to the payrolls of either New Hospital or New Nursing Center. The remaining 10 employees will be moved to WHG, with whom the New Hospital and New Nursing Center will enter a new agreement on terms no worse to New Hospital and New Nursing Center that the terms reflected in Exhibit Q-12.

13. ***Please provide copies of minutes and reports prepared by the Board of Directors or Officers of MedLINK Hospital, MedLINK Nursing Center and BHS Management, Inc., or their parent companies, related to the transfer of assets, membership and/or stock from the current member to the buyer.***

Response

- See Exhibit Q-13 submitted herewith.

14. ***If BHS Management is currently providing management services to MedLINK Hospital and MedLINK Nursing Center, please describe these services. Please discuss whether BHS Management, Inc. will continue to provide any services to the Hospital and the Nursing Center after the transfer of ownership. Please discuss how the services currently provided by BHS Management are to be provided after the transfer of the Hospital and Nursing Center to the buyer.***

Response

- Primarily, BHS (a) provides staffing for services that are common to both the Existing Hospital and the Existing Nursing Center and (b) contracts with third parties for goods and services that are common to both the Existing Hospital and the Existing Nursing Center. In this way, BHS serves as a vehicle for properly allocating common costs and expenses between the Existing Hospital and Existing Nursing Center.

- BHS will not continue to provide any services to the Existing Hospital and Existing Nursing Center after the transfer of ownership.

- Most of the services currently provided by BHS will be performed by the New Hospital and New Nursing Center, respectively. See Response to Question 12 above. Some of the BHS services may, however, be provided by WHG.

15. ***What is the ownership structure of BHS (e.g., Dr. Shin's relationship to BHS)?***

Response

- Dr. Shin is the sole shareholder in, a director of and the president of BHS.

16. *What is the value of the outstanding stock, if any, being transferred to the buyer? Are any of the shares or classes of stock not being*

transferred? Are the shares pledged as security or otherwise encumbered? Please explain in detail.

Response

- Zero dollars. No stock is being transferred to the buyer.
- Existing Hospital and Existing Nursing Center do not have shares or stock but instead membership interests. BHS does have shares. All of the membership interest in Existing Hospital and Existing Nursing Center and all of the stock in BHS will be extinguished without consideration.
- No shares (or membership interests) are pledged as security or otherwise encumbered.

17. ***Please provide a copy of the completed Schedules to the Asset Purchase Agreement which are to list all of the assets and debts of the facilities.***

Response

See Exhibit Q-17 submitted herewith.

18. ***Has the buyer agreed to allow the right of forgiveness of any debt to survive the assignment of any loan?***

Response

- For a list of all liabilities being assumed by New Hospital and New Nursing Center, please see Exhibit Q-3.
- For a description of new financings, see e.g. Response to Question 33, below.
- Otherwise, the buyer has not agreed to allow the right of forgiveness of any debt to survive the assignment of any loan.

19. ***Please discuss [the] current understanding of the Medicare and/or Medicaid potential for claims for overpayments to the Hospital and/or Nursing Center.***

Response

- Generally, speaking all liabilities of Existing Hospital and Existing Nursing Center to Medicare and Medicaid will be assumed by the New Hospital and New Nursing Center, respectively. In turn, the receivables,

against which Medicare and Medicaid have these claims, will be assigned to New Hospital and New Nursing Center.

- With respect to Medicare.
    - The Existing Nursing Center has settled all matters through today, and the parties agree that $0 is owed to Medicare by the Existing Nursing Center (and vice versa).
    - The Existing Hospital has reached final agreement with Medicare on all cost report years through 2000, and the parties plan to reach agreement on years 2001 and 2002 by approximately October 15, 2003. The net result is that the Existing Hospital may have some liability.
- With respect to Medicaid.
    - The Existing Nursing Center has (or shortly will) settle all matters through today, with the parties agreeing that $0 is owed to Medicaid by the Existing Nursing Center; that in fact Medicaid has liability to the Existing Nursing Center.
    - Final audits for all years through 2002 are expected to be completed by October 31, 2003. The Existing Hospital believes that it owes $0 to Medicaid, although there is no guaranty that this result will be achieved.

20. ***Describe any conditions under which the lease may be terminated by the landlord for any reason? Can the lease be terminated for any reason so long as the termination is in writing?***

Response

- Prior to the end of the [third] year under a lease, landlord may not terminate unless there is a failure to pay, or other event of default.
- After the end of the [third] year, landlord may terminate on 120 days' notice.

21. ***Please provide copies of the governing documents of the Hospital, the Nursing Center and the Management Company.***

Response

- See Exhibit Q-5 submitted herewith.

22. ***Are there any pending notices of unpaid taxes to or pending tax audits by the IRS or any state government (including the District of Columbia) of any of the entities involved in the Asset Purchase Agreement?***

Response

- Yes.
- The IRS is owed approximately $43,000 by Existing Hospital, which is required to be paid at closing of the operations sales.
- The District of Columbia is owed approximately $153,000 by the Existing Center which is required to be paid at closing of the operations saless

23. ***Please provide copies of audited annual financials for the Hospital, Nursing Center and Management Company for the last three years. Please discuss if there was a dispute with auditors related to the completion of audits for any of the periods provided. Please discuss if the audit opinion for any period covered in the data submission has or would have had "going concern" statement.***

Response

- For internal financials, please see Exhibit Q-9 (current, not annual).
- Audited financials do not exist for any of the Applicants or for Existing Hospital, Existing Nursing Center or BHS (nor is there any legal requirement for said entities to obtain audited financials). As a result, there are no disputes with auditors and there are no audit opinions.

24. ***Do any of the entities involved in the Asset Purchase Agreement (MedLINK Nursing Center, MedLINK Hospital, BHS Management, Inc.) have any rated debt outstanding?***

Response

- None of the entities involved in the Asset Purchase Agreement have any rated debt outstanding.

25. ***Identify the principal financial officer of each entity involved in the Asset Purchase Agreement.***

Response

- Existing Hospital – Principal Financial Officer: Henry Vaughn.

- Existing Nursing Center – Principal Financial Officer: Henry Vaughn.
- WHG - Principal Financial Officer: Henry Vaughn.
- New Hospital – Principal Financial Officer: Henry Vaughn.
- New Nursing Center – Principal Financial Officer: Henry Vaughn.

26. ***Please provide a listing of the tangible assets of MedLINK Hospital, MedLINK Nursing Center and BHS Management, Inc. Please indicate which assets are the property of each division - the Hospital, Nursing Center and Management Company.***

Response

- See Exhibit Q-2.

27. ***Describe in detail the assumption and discharge of all assumed liabilities by the buyer.***

Response

- Liabilities assumed are described at Q-3.

- Otherwise, all other liabilities of Existing Hospital, Existing Nursing Center and BHS will be discharged at closing pursuant to applicable bankruptcy laws.

28. ***Is there another medical facility, business, activity, or service being operated in the building owned by or rented by MedLINK Hospital or MedLINK Nursing Center or the parent company which does not have a Certificate of Need?***

Response

- There are no other medical activities (whether they be operations, facilities, businesses, or services) being operated in the facility leased by Existing Hospital or the facility leased by Existing Nursing Center. No other entities lease the same facilities leased by Existing Hospital and Existing Nursing Center, therefore there can be no other such entities that do not have a Certificate of Need.

29. ***Please discuss the general state of employee relations at the MedLINK Hospital and MedLINK Nursing Center, respectively. Please provide the current number of employees at the Hospital and Nursing Center, respectively.***

Response

- The general state of employee relations at Existing Hospital and Existing Nursing Center is excellent.

- Existing Hospital: 223 employees.

- Existing Nursing Center: 256 employees.

30. ***Please discuss whether BHS Management has any employees. Is it anticipated that the BHS Management employees and/or officers are to become employees and/or officers of the buyer and/or the Hospital and/or the Nursing Center? Is it anticipated that the buyer, the Hospital and/or the Nursing Center will need to replace the functions currently performed by BHS Management's personnel?***

Response

- BHS: 53 employees.

- For the answers regarding the disposition of BHS employees and replacement of BHS, please see response to Question 12.

31. ***Please describe the corporate structure of WHG, MedLINK Hospital of Washington and MedLINK Nursing Center of Washington. If there are shareholders, name each shareholder and the percentage of shares held by each shareholder.***

Response

- WHG

  - WHG is a California non-profit mutual benefit corporation.

  - No shareholders.

  - Members (equally) are: Henry Vaughn, Cindy Carter and Thomas Chang.

- New Hospital

  - New Hospital is a California non-profit mutual benefit corporation.

  - No shareholders.

  - Member: Sole member is WHG.

- New Nursing Center

- WHG is a California non-profit mutual benefit corporation.
- No shareholders.
- Member: Sole member is WHG.

32. ***How much money have the Members of WHG, MedLINK Hospital of Washington and MedLINK Nursing Center of Washington raised for the proposed acquisition of the MedLINK facilities? Please list the names of the individuals and the amount that each contributed. Has any of the capital funds been pledged or committed for any other purpose other than as funds for working capital?***

Response

- The acquisition price is $1 million, which has been raised.
- No individuals have contributed any portion of the $1 million. A $1 million loan (for the acquisition) is being obtained to close the acquisition.
- At the closing of the acquisition, a $6 million credit facility to New Hospital and New Nursing Center (secured by accounts receivable, which will be transferred to New Hospital and New Nursing Center), will also close.
- The post closing funds of New Hospital and New Nursing Center have not been pledged or committed committed for any other purpose other than as funds for working capital.

33. ***Has the buyer been able to obtain a line of credit? Has the buyer been turned down for any loan request or line of credit? If so, when and by whom? Please produce all documents regarding the buyer's request for a loan or line of credit and any decisions on such requests.***

Response

- Yes. At the closing of the acquisition, a $6 million credit facility to New Hospital and New Nursing Center (secured by accounts receivable, which will be transferred to New Hospital and New Nursing Center), will also close. Please note that the documents pertaining to that credit facility have not been executed, as one of the conditions to closing on such loan is obtaining the CONs.
- New Hospital and New Nursing Center have not been turned down for any loan request or line of credit.

- See Exhibit Q-33.

34. ***What assets are available to the buyer to pledge as security for any loans?***

Response

- New Hospital
  - Accounts receivable. Approximately $5,187,333.
  - Equipment. Approximately $753,036.
- New Nursing Center
  - Accounts receivable. Approximately $1,340,360.
  - Equipment. Approximately $446,855.

35. ***Explain the measures that have been taken by the buyer or its principals or members (or legal representative) to conduct due diligence regarding the proposed transfer of ownership.***

Response

- Technical "due diligence" as such term is commonly referred to in a transaction where the buyer is unfamiliar with the seller's operations, has never been performed.
- Instead, the buyers are comprised of existing management, who have tremendous and complete knowledge of the day to day operations and performance of Existing Hospital and Existing Nursing Center.

36. ***Within the last five years have there been any malpractice claims or settled claims or lawsuits (or threatened claims for malpractice) based on the alleged conduct of any of the Members of the buyer?***

Response

- In the last five years there have been no malpractice claims or settled claims or lawsuits (or threatened claims for malpractice) based on the alleged conduct of any of the Members of the buyer.

37. *Are any Members of the buyer facing any pending or potential administrative or judicial proceeding which may impact on the person's ability to practice medicine or operate a business?*

Response

- No Members of the buyer are facing any pending or potential administrative or judicial proceeding which may impact on the person's ability to practice medicine or operate a business.

38. ***Has any Member of the buyer been the focus of a quality control or assurance study or peer review investigation regarding the quality of medical care which he or she provided? If yes, please give us the details on each such instance. What was the result of each review?***

Response

- No Member of the buyer has been the focus of a quality control or assurance study or peer review investigation regarding the quality of medical care which he or she provided.

39. ***Do any of the Members of the buyer hold or possess a valid medical license? If not, please identify each member of the buyer who does not have or possess a valid medical license. Have any of the Members of the buyer ever had their medical license revoked or suspended? If so, please provide specific details identifying the Member in question whose license was revoked or suspended, indicate the time period for such action, the jurisdiction which suspended or revoked the license, and the basis for such revocation or suspension. Please provide any and all documents regarding each such revocation or suspension.***

Response

- No Members of the buyer hold or possess a valid medical license (including, because none are physicians).

- The members of the buyer who do not have or possess a valid medical license are: Henry Vaughn, Cindy Carter and Thomas Chang.

- No Members of the buyer have ever had a medical license revoked or suspended.

40. ***WHG, MedLINK Hospital of Washington, MedLINK Nursing Center of Washington as well as Capitol Hill Community Hospital, and Capitol Hill Healthcare Group are organized as California not-for-profit taxable mutual benefit corporations. Please discuss in detail the differences between a California not-for-profit taxable mutual benefit corporation and a more traditional not-for-profit hospital and/or nursing home ownership structure. Also explain why the corporations were not***

established in the District of Columbia, and the legal authority of the corporations to operate in the District of Columbia.

Response

- We are not attorneys, so we are unable to describe in detail the differences between corporations organized under different laws.
- The Existing Hospital and Existing Nursing Center were organized and operated as California non-profit mutual benefit corporations.
- WHG, New Hospital and New Nursing Center were organized pursuant to advice of counsel. This advice is subject to the attorney-client privilege, which would be waived if we were to convey our communications with counsel to you.
- That having been said, and without waiving the attorney-client privilege, since we were buying the assets of such companies out of chapter 11 proceedings, we believed that it would be easiest if the new operators mirrored (from a corporate structure standpoint) the existing operators.
- We are unaware of any material impact on patients or the relevant government and government agencies resulting from the use of California non-profit mutual benefit corporations as rather than pursuant to a "traditional not-for-profit hospital and/or nursing home ownership structure."
- Each of Applicants have been registered to operate as foreign corporations in the District of Columbia. See Exhibit Q-40.

41. ***Has the buyer filed for a charitable trust review with the D.C. Office of Corporation Counsel? If not, why not? If yes, please produce copy of decision.***

Response

- WHG, New Hospital and New Nursing Center, which are not 501(c)(3) corporations (i.e. not tax exempt), have not filed charitable trust reviews with the D.C. Office of Corporation counsel. No such filings have occurred because they are not required by law.

42. ***Please discuss the total consideration Dr. Shin is to receive or has received for the transfer of his sole membership interest in the entities involved in the transaction.***

Response

- Zero dollars have been received by Dr. Shin and zero dollars will be received. Dr. Shin is not transferring his sole membership in the entities involved in the transaction. Dr. Shin's membership interests are being extinguished in the bankruptcy cases of the Existing Hospital and Existing Nursing Center without any corresponding financial consideration to Dr. Shin.

43. ***Please discuss each contractual and/or financial arrangement between the buyer and/or the proposed transferred entities in which Dr. Shin has or may in the future have a beneficial interest. Please discuss the potential range of benefits to Dr. Shin associated with each of those contracts and/or financial arrangements.***

Response

- We understand your question to be: Please discuss each contractual and/or financial arrangement between or among WHG, New Hospital and New Nursing Center in which Dr. Shin has or may have in the future a beneficial interest.

- The answer is no such contractual or financial arrangements exist.

- Also, no contracts or financial arrangements will exist with Existing Hospital and/or Existing Nursing Center in which Dr. Shin has or may have in the future a beneficial interest. After the operating assets of Existing Hospital and Existing Nursing Center are conveyed, said entities will be dissolved.

- The only contractual arrangements involving Dr. Shin (which is not implicated by Question 43), are the leases between New Hospital and the owner of the Real Property and between New Nursing Center and the owner of the Real Property. Dr. Shin is the sole member in the owner of the Real Property.

    - The leases have been submitted to SHPDA. See Exhibit Q-4.

    - The economic terms of the leases with New Hospital and New Nursing Center are the same as the economic terms of the leases (which have been in place for several years, and which have been reviewed by the Bankruptcy Court) with Existing Hospital and Existing Nursing Center.

44. *Please discuss the current expectations for the time frame (post closing) for the buyer causing Capitol Hill Community Hospital and Capitol Hill*

Healthcare Group to transfer operations of the Hospital and Nursing Home, respectively, directly to the buyer.

Response

- The operations of the Existing Hospital will be transferred to New Hospital at (not post) closing.
- The operations of the Existing Nursing Center will be transferred to New Nursing Center at (not post) closing.
- All of this must occur on or before December 15, 2003.

45. ***Please discuss in detail the ownership structure of WHG, MedLINK Hospital of Washington and MedLINK Nursing Center of Washington providing a breakdown of both economic interest and voting interest in percentages for each of the current members of WHG. Please discuss the process for new owners being brought into the ownership of the limited liability company. Please provide copies of the solicitation materials utilized to invite new participants as members. Please discuss the processes and procedures to ensure that the introduction of new members to the ownership of the buyer will not result in a change in control of the buyer for the listed owners prior to a CON approved transfer of control.***

Response

- WHG
  - WHG is a California non-profit mutual benefit corporation.
  - No shareholders.
  - Members (equally) are: Henry Vaughn, Cindy Carter and Thomas Chang. Each will have an equal vote.
  - Not a "limited liability company."
  - There is no pre-established process for "new owners" being brought into "the ownership."
  - No solicitation materials were utilized to invite new participants as members.
  - There is no intention to introduce new members to "the ownership" that will result in a change in control prior to a CON approved

transfer of control. If applicable law prohibits such an introduction, then any such introduction would be in violation of the law. Organization documents submitted herewith require compliance with applicable law.

- New Hospital
    - New Hospital is a California non-profit mutual benefit corporation.
    - No shareholders.
    - Member: Sole member is WHG.
    - Board members: Henry Vaughn, Cindy Carter and Thomas Chang. Each will have an equal vote.
    - Not a "limited liability company."
    - There is no pre-established process for "new owners" being brought into "the ownership."
    - No solicitation materials were utilized to invite new participants as members.
    - There is no intention to introduce new members to "the ownership" that will result in a change in control prior to a CON approved transfer of control. If applicable law prohibits such an introduction, then any such introduction would be in violation of the law. Organization documents submitted herewith require compliance with applicable law.
- New Nursing Center
    - WHG is a California non-profit mutual benefit corporation.
    - No shareholders.
    - Member: sole member is WHG.
    - Board Members: Henry Vaughn, Cindy Carter and Thomas Chang. Each will have an equal vote.
    - Not a "limited liability company."
    - There is no pre-established process for "new owners" being brought into "the ownership."

- No solicitation materials were utilized to invite new participants as members.

- There is no intention to introduce new members to "the ownership" that will result in a change in control prior to a CON approved transfer of control. If applicable law prohibits such an introduction, then any such introduction would be in violation of the law. Organization documents submitted herewith require compliance with applicable law.

46. ***Please provide information on by-law provisions governing service of Board of Directors of WHG, MedLINK Hospital of Washington and MedLINK Nursing Center of Washington.***

Response

- For terms and duties of directors, see Article III of the by-laws of the respective entities (attached as Exhibit Q- 5).

- With respect to directors, see Article III

47. ***Please provide a listing of the assets and liabilities for MedLINK Hospital, MedLINK Nursing Center and BHS Management, Inc. as currently constituted. Please also provide for each, MedLINK Hospital, MedLINK Nursing Center and BHS Management, Inc. respectively, a listing of the assets and liabilities to be transferred to the buyer through this transaction.***

Response

- See Exhibit Q-2 submitted herewith.

48. ***Please provide background materials supporting the buyer's assessment of the fair market value of the proposed acquisition of MedLINK Hospital, MedLINK Nursing Center and BHS Management, Inc. particularly in light of the assets and liabilities to be transferred to the buyer's control.***

Response

- No such documents exist beyond the documents submitted herewith.

- Buyer, based on the knowledge of the operations (see Response to Question 35), bid $1 million for the operations (in part based upon the advice of counsel, which advice is privileged). This was done in the context of bankruptcy-approved bid and auction procedures. Buyer made

the highest and best bid for the subject assets, and was not required, by the bankruptcy court or otherwise, to pay more than $1 million for the assets.

49. ***Please provide the buyer's assessment of the fair market value of the leasing agreement under which the MedLINK Hospital and MedLINK Nursing Center will continue to operate in the current locations.***

Response

- It is New Hospital's assessment that it will be paying market rent. New Hospital will be paying the same rate of rent that Existing Hospital was contractually required to pay, which rate of rent was reviewed by the Bankruptcy Court in the chapter 11 bankruptcy case of Existing Hospital.

- It is New Nursing Center's assessment that it will be paying market rent. New Nursing Center will be paying the same rate of rent that Existing Nursing Center was contractually required to pay, which rate of rent was reviewed by the Bankruptcy Court in the chapter 11 bankruptcy case of Existing Nursing Center.

50. ***It is our understanding that the Capitol Hill Healthcare Group and Capitol Hill Group are the entities issued the Certificate of Need to operate MedLINK Hospital and MedLINK Nursing Center. Please discuss the process and provide the time frames by which Capitol Hill Community Hospital became the successor entity.***

Response

- Existing Nursing Center (i.e. Capitol Hill Healthcare Group) was issued a CON and continues to operate under said CON.

- Capitol Hill Group has never conducted the operations of the Existing Hospital, or the operations of any other healthcare provider.

- A CON (the "Med/Surg CON") was issued to Capitol Hill Group in approximately 1992, in order to operate a general "med/surg" hospital. No such operation ever occurred.

- In 1995, Capitol Hill Community Hospital (Existing Hospital) was formed to operate a long-term acute care ("LTAC") hospital. Its principals were instructed by the licensing agency (DCRA) that a new CON (i.e. one other than the Med/Surg CON) would be required to operate the LTAC hospital. Subsequently, the officials at the Department of Health informed Existing Hospital's principals that due to funding difficulties, the CON office was no longer in operation, and that a window of opportunity to begin operating the LTAC hospital without the requirement or need for a CON

existed. Existing Hospital commenced LTAC operations in July 1995, and has been operating as such since that time.

51. ***Please discuss the anticipated rate of return to the buyer and its members annually over the next three years.***

Response

- WHG, New Hospital and New Nursing Center, each California non-profit mutual benefit corporations, are prohibited from making distributions. Therefore, the answer to the question is zero.

- It is anticipated that any excess revenues over expenses will be invested in operations.

52. ***Please provide the percentage and amount of uncompensated care that the MedLINK Hospital and MedLINK Nursing Center respectively have individually provided for each of the last five years. Please provide percentages separately for "charity care" and "bad debt."***

Response

- Existing Hospital

Fiscal Year	% Of Charity Care	Amount Of Charity Care	% Of Bad Debt	Amount Of Bad Debt
2002	1.00%	$351,750	1.30%	$422,100
2001	1.00%	$384,288	1.30%	$499,574
2000	1.00%	$292,679	1.20%	$351,215
1999	1.00%	$105,895	1.20%	$127,074
1998	1.00%	$118,995	1.20%	$142,793

- Existing Nursing Center

Fiscal Year	% Of Charity Care	Amount Of Charity Care	% Of Bad Debt	Amount Of Bad Debt
2002	1.00%	$257,760	1.20%	$283,316
2001	1.00%	$262,138	1.20%	$314,566
2000	1.00%	$202,270	1.10%	$222,497
1999	1.00%	$117,633	1.20%	$141,160
1998	1.00%	$135,899	1.20%	$163,079

53. *Please describe in detail the track record and experience of the buyer or its members in the management and operation of a hospital or a nursing facility.*

Response

- Please see Exhibit Q-89.

54. ***Please describe any liens, judgments or the basis for impositions of any liens, judgments or any other encumbrances on any of the assets of the companies.***

Response

- WHG
    - No judgments or involuntary liens and no basis for imposition of same.
    - To obtain the aforementioned $6 million receivable loan and the $1 million loan to close the acquisition, all assets will be voluntarily pledged.
- New Hospital
    - No judgments or involuntary liens and no basis for imposition of same.
    - To obtain the aforementioned $6 million receivable loan and the $1 million loan to close the acquisition, all assets will be voluntarily pledged.
- New Nursing Center
    - No judgments or involuntary liens and no basis for imposition of same.
    - To obtain the aforementioned $6 million receivable loan and the $1 million loan to close the acquisition, all assets will be voluntarily pledged.

55. ***Please explain in detail how the employee benefit plan will be continued.***

Response

- The employee benefit plan (a single plan for the employees of all entities) will be continued.

- An amendment to the plan is required. Applicants have already begun the processes required for continuation with ADP, the entity responsible for administering the plan.

56. ***Please explain if there are any collective bargaining issues that may have an impact on the operations of the MedLINK Hospital or MedLINK Nursing Center after the buyer assumes control of both facilities.***

Response

- There are no collective bargaining issues that will have an impact on the post-closing operations of the MedLINK Hospital.
- There are no collective bargaining issues that will have an impact on the post-closing operations of the MedLINK Nursing Center.

57. ***Please explain if there are any environmental issues that may negatively affect the operation of the facility.***

Response

- There are no environmental issues that will negatively affect the operation of the facility

58. ***How many patient care beds is each facility (the hospital and the nursing center) licensed for and how many beds are operational at each facility?***

Response

- Existing Hospital
  - Number of licensed beds: 125
  - Number of bed operational: 60
- Existing Nursing Center
  - Number of licensed beds: 162
  - Number of bed operational: 117

59. *Please provide the utilization rates of MedLINK Hospital and MedLINK Nursing Center for each of the last three years.*

Response

- Please see Exhibit Q-59 submitted herewith.

60. ***Please identify separately the percentage of Medicaid, Medicare, managed care, HMO, and free care and other patients in the nursing facility and hospital for each of the past three years.***

Response

- Please see Exhibit Q-59 submitted herewith.

61. ***Please provide a detailed description of the area (physical space) of the building that the Applicant proposes to lease.***

Response

- New Hospital: See Exhibit Q-61.
- New Nursing Center: See Exhibit Q-61.

62. ***If the leased space being assumed by the buyer is less that 100% of the space of the buildings owned by the seller, please identify how the remaining space will be utilized by either the buyer or any other parties.***

Response

- Applicants believe that most of such unused space is vacant and being used for no purposes whatsoever.
- Applicants have no ability to control how the owner of the Property uses portions of the property that are not leased to New Hospital and New Nursing Center.
- Applicants believe that other non-vacant space that is not being leased to New Hospital and New Nursing Center is being used for purposes that supplement their operations (e.g. gift shop).

63. ***If the facilities (hospital and nursing center) need more funds, what are the requirements on the Members or the buyer to provide additional funds and who determines whether and how much additional money is required?***

Response

- The accounts receivable credit facility is in the total amount of $6 million. However, Applicants plan to draw down only $4 million on this facility. It is expected that additional funds would be obtained via this credit facility.

- There is no requirement that Members provide additional funds. Please note that there is no such requirement today with respect to Existing Hospital and Existing Nursing Center.

- The decision makers with respect to additional money requirements will be the officers and directors (i.e., Mr. Vaughn, Ms. Carter and Mr. Chang), in consultation with high level employees with knowledge of the needs of the operations.

64. ***Please discuss how the Applicant plans to raise funds that are adequate to support the operation of the hospital and nursing center and to ensure their financial viability.***

Response

- The primary sources of funds for operations are (i) $6 million credit facility previously mentioned and (ii) funds from operations.

- Please note that these are the same sources that have been used by the Existing Hospital and Existing Nursing Center, neither of which has been operating at a loss since before February 2002.

65. ***Please identify any changes in service, if any, that are proposed or anticipated to take place after the proposed transfer of ownership of the facilities to the buyer.***

Response

- New Hospital. There will be no changes in service after the proposed transfer of ownership.

- New Nursing Center.. There will be no changes in service after the proposed transfer of ownership

66. ***Please provide a listing of any information, documents and instruments, if any, for which applicant is requesting confidential treatment.***

Response

- Unless disclosure to another party or entity is, for some reason, required in order to obtain the CON approvals, Applicants request that all information and documents provided, especially documents relating to transactions that have not yet closed, be kept confidential.

- Applicants are reasonable. If disclosure is required, please contact us and we can discuss the matter.

67. ***Mr. Henry J. Vaughn is a member of the Board of Directors of Capitol Hill Community Hospital, one of the entities for sale, and incorporator of Washington Healthcare Group, MedLINK Hospital of Washington and MedLINK Nursing Center of Washington.***

Please discuss and explain any real and/or perceived conflict of interest issues regarding this matter. Are there any other Directors that pose conflict of interest issues?

Response

- There are no real and/or perceived conflict of interest issues regarding this matter. Mr. Vaughn's role in this transaction has been fully disclosed to the Bankruptcy Court, which (after full blown public hearings) approved the subject sale of the operations to New Hospital and New Nursing Center.

- There are no Directors that pose conflict of interest issues.

68. ***Did the Proposed Owner(s) provide notice to SHPDA at least 60 days before the completion of the transaction? When is the proposed closing date?***

Response

- Yes.

- No date certain has been set. It is anticipated that closing will occur between November 15, 2003 and December 31, 2003.

69. ***Has the transaction, which is the subject of this CON review, been completed yet?***

Response

- No.

70. ***Which entity has operated MedLINK Hospital from July 15, 2003 to present?***

Response

- Existing Hospital, in operation since July 1995, continues to operate its business and will do so through closing of the sale to New Hospital.
- New Hospital has not begun operations, and will not do so until the sale of the operations of Existing Hospital close.

71. ***Which entity has operated Capitol Hill Nursing Center from July 15, 2003 to present?***

Response

- Existing Nursing Center, in operation since, opening in December 1992, continues to operate its business and will do so through closing of the sale to New Nursing Center.
- New Nursing Center has not begun operations, and will not do so until the sale of the operations of Existing Nursing Center close.

72. ***What is the role of Washington Healthcare Group in the proposed transaction?***

Response

- Washington Healthcare Group (WHG) is, in effect, the parent company of New Hospital and New Nursing Center.
- WHG is the contract party under the purchase agreement governing the sale of the medical operations from Existing Hospital and Existing Nursing Center.
- WHG will assign/contribute the hospital operations (or the right to acquire the same) to New Hospital and it will assign/contribute the nursing center operations (or the right to acquire the same) to New Hospital.
- WHG will replace BHS with respect to certain of the common service and expense manager functions. As indicated above, others will be shifted directly to the hospital and nursing center, as appropriate.

73. *What is the role of MedLINK Hospital of Washington in the proposed transaction?*

Response

- MedLINK Hospital of Washington (New Hospital) will replace Existing Hospital as the operator of the hospital operations.

74. ***What is the role of Capitol Hill Community Hospital d/b/a MedLINK Hospital at Capitol Hill in the proposed transaction?***

Response

- Capitol Hill Community Hospital d/b/a MedLINK Hospital at Capitol Hill (Existing Hospital) is the seller of the hospital operations to New Hospital (MedLINK Hospital of Washington).

75. ***What is the role of Capitol Hill Healthcare Group d/b/a Capitol Hill Nursing Center in the proposed transaction?***

Response

- Capitol Hill Healthcare Group d/b/a Capitol Hill Nursing Center (Existing Nursing Center) is the seller of the nursing center operations to New Nursing Center (MedLINK Nursing Center of Washington).

76. ***What is the role of BHS Management, Inc. in the proposed transaction?***

Response

- BHS Management, Inc. has no material role in the proposed transaction.

- With respect to certain functions, WHG will substitute for BHS post-closing, and BHS will be wound down, with its shares extinguished.

77. ***What is the role of the United States Bankruptcy Court for the District of Columbia in the proposed transaction?***

Response

- The United States Bankruptcy Court for the District of Columbia (the "**Bankruptcy Court**"), approved the procedures pursuant to which the assets of Existing Hospital and Existing Nursing Center were put up for auction.

- After the subject assets were advertised nationally for auction, and after an opportunity for auction was provided in accordance with court order, the Bankruptcy Court, after notice and a hearing, approved the sale of

Existing Hospital to New Hospital (via WHG) and Existing Nursing Center to New Nursing Center (via WHG).

- The Bankruptcy Court confirmed (approved) chapter 11 reorganization plans of Existing Hospital and Existing Nursing Center.

78. ***What is the role of MedLINK Nursing Center of Washington in the proposed transaction?***

Response

- MedLINK Nursing Center of Washington (New Nursing Center) will replace Existing Nursing Center as the operator of the nursing center operations.

79. ***What is the role of Capitol Hill Healthcare Group d/b/a Capitol Hill Nursing Center in the proposed transaction?***

Response

- Capitol Hill Healthcare Group d/b/a Capitol Hill Nursing Center (Existing Nursing Center) is the seller of the nursing center operations to New Nursing Center (MedLINK Nursing Center of Washington).

- Please note that this is the same question and answer as set forth in Question 75 above.

80. ***Summarize the proposed transaction, including all relevant history and the U.S. Bankruptcy Court actions.***

Response

- The Hospital and Nursing Center commenced separate chapter 11 cases in February of 2002.

- In March of 2003, the Hospital and Nursing Center requested that the Bankruptcy Court approve procedures for advertising for sale, auctioning and selling their respective assets.

- In May of 2003 the Bankruptcy Court approved the procedures pursuant to which the assets of Existing Hospital and Existing Nursing Center were put up for auction.

- After the subject assets were advertised nationally for auction, after an opportunity for auction was provided in accordance with the procedures approved by the Bankruptcy Court, and after notice and a hearing, the

Bankruptcy Court approved the sale of Existing Hospital to New Hospital (via WHG) and the Existing Nursing Center to New Nursing Center (via WHG).

- The Bankruptcy Court confirmed (approved) chapter 11 reorganization plans for Existing Hospital and Existing Nursing Center.

- New Hospital and New Nursing Center have negotiated the $6 million receivable facility, which will close upon the closing of the asset sales to New Hospital and New Nursing Center. New Hospital and New Nursing Center will receive the funds to consummate the acquisition at the closing.

- New Hospital and New Nursing Center have negotiated leases with the owner of the Property on economic terms that are materially the same as the economic terms of the existing leases between Existing Hospital and Existing Nursing Center and the owner of the Property.

- Upon closing Existing Hospital, Existing Nursing Center and BHS will be wound down and the membership interests and stock extinguished without consideration to the holder thereof - - all done pursuant to the reorganization plan approved by the Bankruptcy Court.

- Thereafter, New Hospital and New Nursing Center will continue the operations of the hospital and nursing center, respectively. WHG will replace BHS.

81. ***Provide a copy of all schedules, exhibits, attachments, addendums and amendments to the Asset Purchase Agreement dated June 6, 2003.***

Response

- See Exhibit Q-17 submitted herewith.

82. ***State the effective date of the Asset Purchase Agreement dated June 6, 2003.***

Response

- The Asset Purchase Agreement was effective (that is, enforceable, subject to Bankruptcy Court approval), on or about June 6, 2003, when the agreement was fully executed.

- The Asset Purchase Agreement was approved by the Court from the bench on July 15, 2003.

- Closing under the Asset Purchase Agreement is expected to occur between November 15, 2003 and December 31, 2003.

83. ***What will be the involvement of Dr. Peter C. Shin in Washington Healthcare Group, MedLINK Hospital of Washington and MedLINK Nursing Center of Washington?***

Response

- It is currently anticipated that Dr. Shin will have no involvement in these entities as an owner, officer, or director.

- Because Dr. Shin is the individual with the most knowledge of the hospital and nursing center operations, he will, if available, agree to provide any requested services, purely as a consultant. Currently, however, no such consultancy relationship has been established or materially discussed.

84. ***If the Proposed Owner asserts that federal bankruptcy law trumps SHPDA CON law, please provide the supporting analysis from a member of the District of Columbia Bar?***

Response

- We are not attorneys and do not know whether, as a matter of law, one law "trumps" another; although we do know that the bankruptcy laws are federal/national laws.

- We advise you that as of this filing, we are unaware of any statement that we have made (or any statement made on our behalf) to the effect that federal bankruptcy law trumps SHPDA CON law.

- Nothing contained in this application shall be deemed a waiver of any rights, including any rights under federal bankruptcy law.

85. ***Explain the costs and financing of the proposed Asset Purchase Agreement, including the projected impact of the transaction on charges of services to be provided.***

Response

- The $1 million purchase price is being borrowed on an unsecured basis.

- Financial projections of the operations (previously submitted to SHPDA), indicate that sufficient revenue, after payment of ongoing charges and expenses, will be available to satisfy the debt service on the $1 million loan.

86. ***Provide certification from the Proposed Owner(s) pursuant to D.C. Official Code § 44-406(b)(2)(A),(B), and (C) regarding uncompensated care (bad debt and charity care), compliance with terms of CONs if transferred, and existing financial and admissions policies.***

Response

- Please see Exhibit Q-86 submitted herewith.

87. ***Identify the Chief Executive Officer, Chief Financial Officer, Medical Director, Staff Cardiologist, and Director of Nursing of the Nursing Center and the Hospital and explain their relationship with the buyer. Do they have an ownership interest in the buyer? If so, describe the ownership structure.***

Response

- Please see Exhibit Q-87 submitted herewith. Each individual listed on Exhibit Q-87 will be employed by either the New Hospital or the New Nursing Center.

88. ***Provide a copy of the documents that were filed by MedLINK to the court that oversees the Chapter 11 bankruptcy filing.***

Response

- Attached at Exhibit Q-88 submitted herewith is the docket sheet reflecting all documents filed in the cases of Existing Hospital, Existing Nursing Center and BHS. The cases for Existing Hospital, Existing Nursing Center and BHS were consolidated under the Existing Hospital case. We are submitting the docket sheet for the consolidated case, in addition, we are submitting the dockets for the cases of BHS and Existing Nursing Center.

- Literally thousands of pages of documents have been filed with the bankruptcy court, most of which have nothing to do with this process. It would be unnecessarily expensive, burdensome and time-consuming to reproduce all of the documents filed in these cases.

- While all of the documents are available either on-line or at the courthouse, Applicants will promptly produce any of the documents from the docket sheet (Exhibit Q-88) requested by SHPDA .

89. *Please provide the resumes of the owners and executive team of the buyer.*

Response

- See Exhibit Q-89 submitted herewith.

90. ***Provide documentation to show if the proposed transaction has been approved by the U.S. Bankruptcy Court.***

Response

- See Exhibit Q-90 submitted herewith. The proposed transaction was approved by the Bankruptcy Court on July 15, 2003. The orders have been submitted to the bankruptcy court, however, they have not been signed yet. We will promptly submit signed copies as soon as they are entered by the Bankruptcy Court.

91. ***Provide documentation to show how you determined the fair market value of the various classes of assets and other rights and benefits.***

Response

- See Responses to Questions 48 and 49.

92. ***Given the fact that the entities are in bankruptcy, provide documentation to show that the seller has complete and unrestricted power and the unqualified right to sell the facilities and assets to the buyer.***

Response

- See Exhibit Q-90 submitted herewith.

93. ***Provide documentation to show that the buyer has the resources to 1) acquire the assets of the Hospital and the Nursing Home, and 2) operate the facility for at least 6 to 8 months until reimbursement begins to come in.***

Response

- See Exhibit Q-33 submitted herewith.

- There will be no 6 to 8 month day in reimbursements. Reimbursement will be seamless because the accounts of Existing Hospital and Existing Nursing Center will be assigned to New Hospital and New Nursing Center.

94. *Describe any covenants or restrictions that prevent or limit the consummation of the proposed transaction.*

Response

- All contractual covenants in the Asset Purchase Agreement have been satisfied, and therefore none prevent or limit the consummation of the proposed transaction.

- CON approvals are required, and closing cannot occur until such approvals are obtained.

95. ***Information submitted with the Notification states that "MedLINK Hospital of Washington has entered into an agreement to purchase MedLINK Hospital out of Chapter 11 Bankruptcy. The Asset Purchase Agreement as [sic] been submitted and approved by the U.S. Bankruptcy Court on July 15, 2003". If this is true, explain how the buyer will be able to acquire the Hospital. Also, provide a copy of the court approval.***

Response

- The substance of the "information" to which you refer remains correct. Technically, WHG (not New Hospital or New Nursing Center) is the "buyer" or "purchaser" under the Asset Purchase Agreement. However, as the buyer, it has the right to convey or contribute the assets (or the right to acquire the assets) that it purchases to the New Hospital and New Nursing Center, respectively (in effect WHG's subsidiaries); which it plans to do.

- Also, please see Response to Question 100.

96. ***Information provided in the application states that "MedLINK Nursing Center of Washington has entered into an agreement to purchase MedLINK Nursing Center out of Chapter 11 Bankruptcy. The Asset Purchase Agreement has been submitted and approved by the U.S. Bankruptcy Court on July 15, 2003". Given this information, explain how the buyer will be able to acquire the Skilled Nursing Center. Also, please provide a copy of the court approval.***

Response

- The substance of the "information" to which you refer remains correct. Technically, WHG (not New Hospital or New Nursing Center) is the "buyer" or "purchaser" under the Asset Purchase Agreement. However, as the buyer, it has the right to convey or contribute the assets (or the right to acquire the assets) that it purchases to the New Hospital and New Nursing Center, respectively (in effect WHG's subsidiaries); which it plans to do.

- Also, please see Response to Question 100.

97. ***Please identify all the liabilities that the buyer will assume with the purchase of the Hospital and the Nursing Center.***

Response

- See Exhibit Q-3 submitted herewith.

98. ***Please provide the details of the assumptions used in making the financial projections for the Hospital and the Nursing Facility.***

Response

- Please see Exhibit Q-98 submitted herewith.

99. ***What assurance is there that the buyer will improve the clinical, operational and financial performance of the Hospital and the Nursing Facility? Please discuss.***

Response

- The assurances are evidenced by the performance of the existing management team (minus Dr. Shin), which has caused substantial improvements to occur in these and other areas over the course of the last 20 months. Examples:
    - Clinical. In early 2003, the Department of Health increased the number of hospital beds from 35 to 60.
    - Clinical. Two hospital surveys and one nursing home survey, each by DCRA, were passed with flying colors.
    - Financial. Prior to chapter 11, unsecured debt was increasing and accruing. Now, with such indebtedness discharged, and with the continued improvement in operations, the hospital and nursing home have received a commitment for a $6 million receivables loan.
    - See Response to Question 19.
    - The creditors of the Existing Hospital and Existing Nursing Center supported (i.e. voted in favor of) the reorganization of the operations and continuation of the same by New Hospital and New Nursing Center; and the same was approved by the Bankruptcy Court.

100. While the asset purchase agreement was signed on June 6, 2003, WHG was incorporated on July 23, 2003. How did WHG enter into an agreement before it came into existence? Is the Asset Purchase Agreement valid? Similarly, MedLINK Hospital of Washington and MedLINK Nursing Center of Washington were incorporated on June 27, 2003. Please explain.

Response

- Existing Hospital and Existing Nursing Center entered into the Asset Purchase Agreement to sell all of their operational assets to an entity to be formed by Mr. Vaughn, Ms. Carter and Mr. Change (the "Management Team").

- Initially, the purchaser under the Asset Purchase Agreement (formed by the Management Team) was identified as Washington Medical Group, Inc. (formed prior to July 15, 2003). This was the technical name of the buyer under the Asset Purchase Agreement at the time said agreement was approved by the Bankruptcy Court on July 15, 2003. The agreement was not fully effective until approved by the Bankruptcy Court on July 15, 2003.

- Subsequently, it was learned that the name Washington Medical Group, Inc. had already been taken in the District of Columbia, although it was not taken in California, where Washington Medical Group, Inc. was formed.

- Accordingly, the Management Team determined that they needed to take title to the assets under the Asset Purchase Agreement in a name different than Washington Medical Group, Inc.; and, they formed WHG on or about July 23, 2003.

- WHG has succeeded to all of the rights of Washington Medical Group, Inc. under the Asset Purchase Agreement. This was permitted by the terms of the agreement. In addition, the parties to the agreement have assented to the same inasmuch as all that has really occurred is the change of the name of the purchaser.

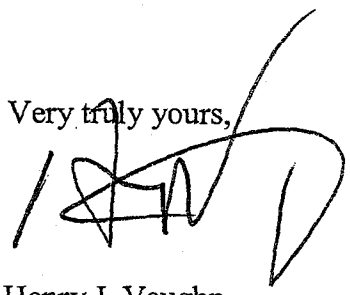
Conclusion

We sincerely hope that the foregoing, together with the Exhibits we are submitting, answer all of the questions that you may have, and we look forward to the issuance of CONs for the New Hospital and the New Nursing Center. Please keep in mind that the sales of the operations must close no later than December 15, 2003, and it

would be much appreciated if the CON process was concluded on or before November 15, 2003. Finally, please note that the documents pertaining to that certain loan made by Healthcare Business Credit Corporation to WHG have not been executed, as one of the conditions to closing on such loan is obtaining the CONs.

In the meantime, if you have any additional questions or requests, please let us know and we will provide you with a prompt response. Also, we are available to meet with you at a mutually convenient time, as your office may require.

Very truly yours,



Henry J. Vaughn

cc: The Honorable Carolyn Graham
The Honorable Harold Brazil
The Honorable Vincent Orange

Document #: 1353039 v.2

EXHIBIT LIST

DOCUMENTS REQUESTED BY SHPDA

Question Number / Exhibit Label	Volume(s)	Description of Documents Requested
Q-2	1	List of assets being conveyed.
Q-3	1	List of liabilities buyer will assume.
Q-4	1	Lease agreements.
Q-5	1	Articles of incorporation and by-laws.
Q-6	2	State and federal tax returns for all entities for the past 3 years.
Q-8	2	Liabilities owed to Dr. Shin (extinguished).
Q-9	2	Signed financial statements.
Q-10	2	Insurance policies for all entities.
Q-11	2	Collective bargaining agreements – none exist.
Q-12	2	Management agreement with BHS Management, Inc.
Q-13	2	Board minutes and resolutions authorizing the sale.
Q-17	3 & 4	All schedules to the asset purchase agreement.
Q-33	5	All documents regarding the request for a loan.
Q-40	5	Registrations to operate as a foreign corporation in the District of Columbia.
Q-59	5	Utilization rates and Medicare / Medicaid percentages.
Q-61	5	Description and maps of areas to be leased by each entity.
Q-86	5	Certificates for the Nursing Center and the Hospital.
Q-87	5	Names and resumes for the Chief Executive Officer, Chief Financial Officer, Medical Director, Staff Cardiologist and Director of Nursing.
Q-88	5	Docket reports from the Bankruptcy Court.
Q-89	5	Resumes for owners and executive team of buyer.
Q-90	5	Documents regarding the approval of the sale by Bankruptcy Court.
Q- 98	5	Assumptions used for financial projections.