

West Penn Allegheny Oncology Network
Form 1023

EIN: 11-3683376

In the WPAHS structure, WPAHS, which has a community board, is the sole member of a group of the tax-exempt health care providers within WPAHS. Certain of those health care providers, such as WPH, are also sole shareholders of lower tier health care providers within WPAHS (e.g. WPAON). Accordingly, all of the tax-exempt health care providers in the WPAHS system are ultimately controlled by a common group of community representatives, such that they function as a commonly controlled group.

Pursuant to the WPAON By-Laws, WPH has the power, inter alia, to elect, appoint, fill vacancies in and remove, with or without cause, the Directors; and elect and remove, with or without cause, the Chair and Vice Chair of the Board of Directors of the Corporation and the Secretary and Treasurer of the Corporation. (See By-Laws at Exhibit II). Accordingly, the WPH board, and through the chain of sole membership, the community board of WPAHS (which controls all of the other health care providers in WPAHS), controls WPAON.

Accordingly, WPAON is entitled to status as an IRC § 509(a)(3) supporting organization because, it is

- a. Organized and is to be operated for the benefit of a class of organizations with common purpose.
- b. That class is the group of tax-exempt 501(c)(3) health care organizations within the WPAHS system that are operated by, supervised by, and controlled by the same group of individuals that control WPAON. Further, pursuant to the class designation, only those organizations that are publicly supported organizations under IRC § 509(a)(1) or IRC § 509(a)(2) are supported by WPAON. The class of supported organizations presently includes the following:

Alle-Kiski Medical Center

Alle-Kiski Paramedic Unit for Life Support Emergency Response

Allgeheny General Hospital

Allegheny Singer Research Institute
Suburban General Hospital
Forbes Regional Hospital
Canonsburg General Hospital
Canonsburg General Hospital Ambulance Service
Allegheny Medical Practice Network
Allegheny Specialty Practice Network
The Western Pennsylvania Hospital

And

- c. WPAON is not controlled directly or indirectly by one or more disqualified persons.

WPAON Operational Test

As indicated above, promotion of health is one of the purposes in the general law of charity that is deemed beneficial to the community as a whole even though the class of beneficiaries eligible to receive a direct benefit from its activities does not include all members of the community. The class must be sufficiently large, however, so that the community as a whole benefits. To distinguish itself from a for-profit health care venture, a charitable health care provider must demonstrate that it provides community benefit. Where an organization does not operate an emergency room, other factors are considered in determining whether an organization is engaged in the "promotion of health". Those factors include a board of directors drawn from the community, treatment of persons paying their bills with the aid of public programs like Medicare and Medicaid, and the application of any surplus to improving facilities, equipment, patient care, and medical training, education, and research, which indicate that the hospital is operating exclusively to benefit the community. WPAON clearly meets this standard.

WPAON's board is appointed by WPH, which is ultimately controlled by a community board via WPAHS. Accordingly, WPH has the ability to ensure that WPAON's charitable purposes are carried out.

Consisting primarily of hematology/oncology specialists, WPAON functions as the oncology network for WPH. WPAON will employ full-time oncology physicians, allied health professionals and support staff to provide clinical, education and research activities related to the treatment of cancer within the communities served.

WPAON will execute employment agreements with its physicians. (See Exhibit VI for Sample Physician Contract) Physicians will be compensated using a base compensation that is tied to the physician's experience and years of tenure. In addition, the physician is eligible for a "practice performance adjustment", which is based upon the change in practice "Net Income Available for Distribution", with a cap of 5% of base salary. However, in any event, compensation may not exceed reasonable compensation.

Consistent with the policy of the other WPAHS tax-exempt organizations, WPAON will accept Medicare and Medicaid patients. As with the other WPAHS organizations, it will also render services and treatment to patients without regard to their ability to pay and without discrimination. WPAON will adopt a charity care policy that is consistent with the WPH charity care policy. (See Exhibit X).

WPAON's oncological program will include the following focus areas:

- A. Maintaining and operating clinical programs, in order to diagnose, evaluate and treat complex cancer patients in a community based health care setting throughout western Pennsylvania.

The percentage of time spent on this activity will be approximately 85%. The major focus of WPAON is to provide patient access to community-based outpatient cancer treatment programs, in an affordable, high quality setting. These programs will be

located on WPH's premises and other freestanding clinic sites throughout Allegheny County and other counties within western Pennsylvania. WPAON now serves as the sole community cancer provider at Butler Memorial Hospital, Armstrong County Memorial Hospital, Citizens Ambulatory Care Center, Punxsutawney Area Hospital, Canonsburg General Hospital and Suburban General Hospital. Moreover, without WPAON, high quality, economic, and convenient cancer treatment would be virtually inaccessible to many patients within these communities. WPAON will provide chemotherapy and therapeutic treatments for nearly all types of cancers at each of its community office locations. This enables patients to remain in their community, closer to family and friends who can be invaluable sources of support for them, without having to endure the inconvenience of traveling to receive treatment at the nearest facility that provides oncological inpatient services in a higher cost setting.

The state of Pennsylvania ranks 19th highest overall in cancer mortality among the 50 states and Washington, D.C.¹ Even with all of the advances in cancer research over the past half century, cancer remains as the second leading cause of death in the United States. Carefully designed and constructed to serve each stage of the cancer patient's treatment cycle, initial consultation, diagnosis, treatment, and follow-up, WPAON provides patients with the highest quality cancer care, the most advanced technology, and specialized services by highly trained physicians and allied health professionals in western Pennsylvania.

WPAON's medical oncologists will offer referring physicians and their patients the full range of cancer evaluation and management services, including:

¹ American Cancer Society Facts and Figures, 2003.

- Evaluation for a suspected diagnosis of cancer of any type;
- Consultation for management of any type of cancer, with particular expertise in treating patients with unusual, recurrent, and other difficult malignancies;
- Treatment using the most up-to-date techniques for chemotherapy and biological response modifier therapy;
- Clinical trial participation for appropriate patients; and
- Drug education from its full-time staff pharmacist.

WPAON will provide services in twelve (12) locations in seven (7) counties throughout western Pennsylvania. Below are vital statistics on poverty levels, public assistance levels and incidence of cancer rates (cases per 100,000) in specific geographical areas served by WPAON are detailed below:

SITE	PERCENTAGE OF INDIVIDUALS IN POVERTY STATUS ¹	PERCENTAGE WITH PUBLIC ASSISTANCE INCOME ²	INCIDENCE OF CANCER (CASES PER 100,000) ³
Butler (city), PA (Butler County)	19.1%	5.6%	576.3
Canonsburg, PA (Washington County)	8.9%	2.3%	585.2
Kittanning Borough, PA (Armstrong County)	16.4%	7.0%	525.6
Monroeville Borough, PA (Allegheny County)	6.6%	1.3%	571.1

¹ U.S. Bureau of the Census 2000

² U.S. Bureau of the Census 2000

³ National Cancer Institute

New Castle, PA (Lawrence County)	20.8%	8.0%	623.6
New Kensington, PA (Westmoreland County)	13.7%	3.2%	535.5
Punxsutawney, PA (Jefferson County)	16.9%	4.1%	609.8
Bellevue Borough, PA (Allegheny County)	12.3%	3.3%	571.1
Pittsburgh, PA (Allegheny County)	20.4%	5.5%	571.1

B. Supporting and carrying on research and educational activities of the constituent hospitals and constituent corporations, related to the rendering of care to the sick, injured and disabled, the furthering of knowledge in the medical arts and in promotion of health

The percentage of time spent on this activity will be approximately 5%. The human body has an innate capacity for healing. Advances in medicine have expanded the healthcare options available today, and have improved and extended the lives of patients. WPAON, is committed to offering the highest quality of medical care, and is uniquely qualified and designed a variety of options that support the healing process, promoting wellness both physically and spiritually.

Acutely cognizant and prepared to recognize the physical and emotional tolls of this disease, WPAON provides support groups and a wellness course designed to provide guidance in the areas of stress reduction, relaxation, self-regulation and management of the patient's total health. One such particular support group HOPE (Hope, Optimism,

Peace and Education) meets monthly to provide assistance and encouragement to patients with cancer and their families.

WPAON's art therapy programs enable patients to find a creative outlet for expressing their innermost emotions about their illness, providing them with supplies and a venue that will bring their unique visualizations to life.

WPAON also provides social support groups and workshops for its patients' family and friends. These sessions provide compassionate life management counseling and practical tips to ensure that family caregivers are educated and prepared for the role of caregiving. In addition, WPAON will educate caregivers to manage multiple responsibilities so that they can provide their loved ones the best possible care while still finding time to care for themselves.

WPAON's Pathways to Wellness program gives patients access to individualized services provided by therapists with special training in:

- Biofeedback
- Voice Bioanalysis
- Therapeutic Touch
- Massage Therapy
- Imagery/Visualization
- Hypnosis
- Cognitive Retraining

Each specialist works in close collaboration with the patient's primary care physician to provide diagnostic and treatment services as close to the patient's home as possible. Multidisciplinary teams treat each patient and the patient's family to address the patient's psychosocial, emotional, physical and rehabilitation needs at each stage of illness.

WPAON will also be involved in cancer care research through clinical trials and cooperative group research initiatives. Nationally, these initiatives have led to many of the advances in cancer care treatment over the past twenty years. WPAON expects to be a leader in that effort, belonging to many of the National Cancer Institutes major clinical trials groups.

WPAON Physicians will be able to recommend patients for participation in industry-sponsored clinical trials. WPAON will be actively involved in clinical trials and research of various treatments for the seven major disease areas: leukemia, lymphoma, breast cancer, lung cancer, gastro-intestinal malignancies, genito-urinary malignancies and melanoma.

Trained research nurses in the protocol management office of WPH will assist physicians by pre-screening potential trial participants, handling protocol enrollment and compliance, providing patient and family education about the protocols and managing drugs provided for the studies. Much of the clinical trial research will be government-sponsored. In no event will research be carried on as incidental to commercial or industrial operations.

C. Assisting the Constituent Hospitals and Constituent Corporations in their residency training programs in various medical specialties and related teaching programs

The percentage of time spent on this activity will be approximately 5%. The physicians of WPAON will provide state-of-the-art hematology and oncology care in tertiary hospitals, community hospitals and suburban locations. Through its member hospital, WPH, WPAON will provide training and education to approximately 11 residents and 6 Hematology Oncology Fellows annually.

WPAON Physicians serve as Faculty at the University of Pittsburgh and Temple University. In addition, they serve as preceptors for first and second year medical student during office practice externships for the University of Pittsburgh School of Medicine and for the Cornell University Extern Program.

D. Fully Supporting the Charitable activities of its employees with respect to Cancer Prevention, Cancer Research, and other Charitable Health Care Efforts.

WPAON will fully endorse and support the charitable outreach activities of its employees who have provided, and continue to provide guidance and support to community organizations engaged in Cancer Prevention, Cancer Research and other charitable health care efforts. This endorsement will take the form of encouraging participation in these charitable activities, permitting participation during the work day, and providing financial support to the those charitable organizations with which the employees are associated. Percentage of time spent on these additional charitable activities is expected to be 5%.

Charitable Efforts of employees of WPAON include the following:

Dr. Srodes:

- 12-year board member of the greater Pittsburgh Unit of the American Cancer Society
- 4-year member of the Pennsylvania Division of the American Cancer Society
- Volunteer of the Year: Pa. Division of the American Cancer Society 1992
- Volunteer of the Year Greater Pittsburgh Unit of the American Cancer Society 1986
- Volunteer Speaker Cancer Caring Center 2001-2003
- Medical Director of the Butler VNA Hospice 1993-1998
- Prostate Cancer screening volunteer Shadyside Hospital 1990-1991

Dr. Selvaggi:

- American Cancer Society – Board Member Armstrong Co. 1995-present (Past President)
- American Cancer Society Pennsylvania Division Board Member – 2000-2003
- Delegate American Cancer Society National Meeting 2002-2003
- National Award American Cancer Society – Lane Adams Award for Clinical Excellence 2000
- American Cancer Society Relay for Life – 8-year participant and fundraiser

- Initiator and organizer for Cow Patty Bingo 2002 & 2003 fundraiser for American Cancer Society
- Fundraiser for Make A Wish 1997-2003
- Breast Cancer Screening Volunteer – Armstrong County – 1993-present
- Prostate Cancer Screening – Armstrong County 1993–present
- Armstrong County Community Action: Food, Band, Clothes, Christmas Gifts – Ongoing

Dr. Petursson:

- 4-year President of the Greater Pittsburgh Unit of the American Cancer Society (Current President)
- Board Member Greater Pittsburgh Unit of the American Cancer Society – 12 years
- Founding Board member of the Camp Raising Spirit – A weekend retreat for patients and guests of patients who have or have had cancer
- Yearly physician volunteer at Camp Raising Spirits

Allen Jones, CRNP:

- Organizer of Golf event for the American Cancer Society Armstrong County 2001, 2002, 2003
- Participant and fundraiser in Relay for Life – 1998–present
- Cow Patty Bingo Planning Committee and Organizer – American Cancer Society 2002-2003

Gayle Jamison, CRNP

- Founding Board Member – Camp Raising Spirit
- Yearly planning committee for Camp Raising Spirit and volunteer staff for camp
- ONS outreach
- Board member of the Greater Pittsburgh Unit of the American Cancer Society
- American Leukemia Society

Margie Leslie, CRNP:

- Board Member Greater Pittsburgh Unit of the American Cancer Society 2001-present
- Certified Volunteer Instructor Basic Cardiac and Life Support 1994–present
- Relay For Life American Cancer Society – 1999–2003
- Daffodil Days – Organizer and Volunteer – American Cancer Society 2003

Suzanne Hroblak, MT:

- Camp Raising Spirit – Volunteer – 2000-present

Linda Hutchinson, RN:

- American Cancer Society: polar bear jump 2004, Relay for Life 1997–present
- Armstrong County Community Action: Collection of Food, Clothes and Christmas Gifts 1995-present

Diane Ashbaugh, MA

- Armstrong County Community Action: Collection of Food, Clothes and Christmas Gifts 1999-present

Robyn Best, RN:

- Cancer Support Group along with the Cancer Caring Center – Monthly meetings 2003-2004 at Shadyside Medical Office

WPAON:

As part of its effort to support the eleemosynary activities of its employees, WPAON expects to make financial contributions to Camp Raising Spirit, The Relay For Life, Cow Patty Bingo, ACS, American Leukemia Society.

Statement #2

Part II. Question 2: Sources of Financial Support

The WPAON budget projects 34,000 outpatient visits and 23,000 inpatient hospital visits annually with revenue of approximately \$33,388,000 from the provision of health care services.

WPAON will receive the majority of its financial support from patient service revenue generated from cancer treatment, consultation and evaluation. The majority of this revenue will be collected from governmental programs, fee-for-service or managed care contract arrangements. Additionally WPH will provide working capital and operating support to assist with its start-up. Included are services provided to patients on Medical Assistance from the Commonwealth of Pennsylvania. Anticipated reimbursement from the Medicaid program is projected to be \$2,000,000 annually, which is substantially less than the cost of the services provided.

WPAON will provide a reasonable amount of its services free or at a reduced charge to persons who cannot afford to pay for medical care in a manner similar with the policies and procedures of its member Hospital, WPH.

The anticipated sources of financial support will be the provision of:

- Physician services;
- Other operating and non-operating revenue; and
- A very limited amount of investment income.

Sources of Net Patient Service Revenue:

Governmental – Medicare	63%
Blue Cross and Blue Shield	22%
Other Commercial & Self Pay	8%
Governmental – Medicaid	7%
Miscellaneous	<1%

Statement #3

Part II. Question 3: Fundraising Activities

WPAON does not currently plan to solicit tax-deductible contributions as a source of income. However, there may be the potential for developing such a program for the sole benefit of its patients at some future date.

Statement #4

PART II. Question 4: Name, Addresses and Titles of Officers and Directors

NAMES AND ADDRESSES	TITLE	COMPENSATION
Jerry Fedele, Esq. 10145 Woodbury Drive Wexford, PA 15090	Chair	\$-0-
Charles H. Srodes, MD 425 Locust Street Pittsburgh, PA 15218	President and Chief Executive Officer	\$240,000
David A. Samuel 4046 Dickey Road Gibsonia, PA 15044	Treasurer	\$-0-
James M. Collins 1350 Navahoe Drive Pittsburgh, PA 15228	Director	\$-0-
James L. Rosenberg 4700 Ellsworth Avenue, Unit #2 Pittsburgh, PA 15213	Director	\$-0-
Connie M. Cibrone 117 Brandywine Drive McMurray, PA 15317	Director	\$-0-
Kathy J. Selvaggi, M.D. 133 Crestwood Drive Sarver, PA 16055	Director	\$240,000

Statement #5

Part II. Question 5: Organizational Control

WPAON was formed to assist, promote, and advance the clinical, research, educational and charitable purposes of WPH, its sole member. WPH as the sole member of WPAON elects, appoints, fills vacancies and removes, with or without cause, the directors; and elects and removes, with or without cause, the Chair and Vice-Chair of the Board of Directors of the Corporation, and the Secretary and Treasurer of the Corporation.

WPAON is an outgrowth of Medical Center Clinic, P.C. ("MCC, PC") a physician corporation controlled by West Penn Specialty MSO ("SMSO"). It was determined that the activities of SMSO could be more efficiently conducted in a tax exempt environment. Accordingly, the activities of MCC, PC were transitioned to WPAON. See Schedule I. for further information.

Statement #6

Part II. Question 7: Financial Accountability

WPAON will be required to provide financial statements and related financial information to WPH Board on a monthly basis.

Statement #7

Part II. Question 8: Assets

WPAON assets will consist primarily of cash, patient accounts receivable and chemotherapy pharmaceutical inventory generated in the performance of its exempt function. WPAON does not anticipate that it will hold any assets not used in furthering its exempt purpose.

WPAON plans to lease facilities in various community hospitals in which it will carry out its charitable mission. Specifically, WPAON plans to lease facilities at Allegheny Valley Hospital, Armstrong County Memorial Hospital, Citizens Ambulatory Care Center, Punxsatawney Area Hospital, Canonsburg General Hospital, Ohio Valley General Hospital, Jefferson Regional Medical Center and Suburban General Hospital. All of these leases will be contracted at fair market value rates.

The fixed assets required to equip the WPAON offices will be contributed to the organization by the Western Pennsylvania Hospital. Specialized medical equipment required for administering cancer treatment will be leased from various unrelated third parties at fair market value rates.

Certain intangible assets have been transferred from MCC, PC to WPAON, including patient charts, certain employment relationships and the organization's name, Medical Center Clinic.

Statement #8

Part II. Question 10: Contractual Agreement

WPAON will contract with WPH and its affiliates as well as with outside organizations to provide physical facilities, human resource services, legal, financial, and other administrative support to WPAON. WPH and its affiliates will:

- Provide payroll and group fringe benefit services for all eligible employees of WPAON;
- Provide financial and operational management, accounts payable, and accounting services to WPAON; and
- Provide medical and office space to WPAON.

(See Exhibit VII Master Agreement between WPAON and WPAHS)

WPAON plans to lease facilities in various community hospitals in which it will carry out its charitable mission. Specifically, WPAON plans to lease facilities at Allegheny Valley Hospital, Armstrong County Memorial Hospital, Citizens Ambulatory Care Center, Punxsatawney Area Hospital, Canonsburg General Hospital, Ohio Valley General Hospital, Jefferson Regional Medical Center and Suburban General Hospital. All of these leases will be contracted at fair market value rates.

Further, specialized medical equipment required for administering cancer treatment will be leased from various unrelated third parties at fair market value rates.

To date, no lease agreements are in place. WPAON is conducting business using assets that were formerly leased by SMSO from third parties. Although WPAON intends to formally execute lease arrangements with respect to those assets, it is currently operating under an informal sublease arrangement.

Statement #9

Part II. Question 12: Fee Schedule

Physician charges are market-based rates for the western Pennsylvania area; however, WPAON has a commitment to serve patients without regard to ability to pay, similar to its member hospital, WPH.

FORM 1023

PART IV, FINANCIAL DATA

DESCRIPTION	CURRENT	PROPOSED BUDGET FOR 2 YEARS			TOTAL
	TAX YEAR	(b)	(c)	(d)	(e)
	(a)	(b)	(c)	(d)	(e)
	3/17/2003 TO 6/30/2003	6-MOS ENDED 6/30/2004	12-MOS ENDED 6/30/2005	12-MOS ENDED 6/30/2006	
REVENUE					
LINE 9: GROSS RECEIPTS FROM ADMISSIONS, SALES OF MERCHANDISE OR SERVICES, OR FURNISHING OF FACILITIES IN ANY ACTIVITY THAT IS NOT AN UNRELATED BUSINESS WITHIN THE MEANING OF SECTION 513. INCLUDE RELATED COST OF SALES ON LINE 22	NONE	16,694,666	33,286,890	33,952,628	83,934,184
LINE 13: TOTAL REVENUE	NONE	16,694,666	33,286,890	33,952,628	83,934,184
EXPENSES					
LINE 18: OTHER SALARIES & WAGES	NONE	3,838,104	7,434,895	7,573,775	18,846,774
LINE 20: OCCUPANCY	NONE	477,870	965,298	974,951	2,418,119
LINE 21: DEPRECIATION & DEPLETION	NONE	30,997	62,614	63,240	156,851
LINE 22: OTHER (SEE STMT 11)	NONE	11,860,132	24,157,277	24,602,658	60,620,067
LINE 23: TOTAL EXPENSES	NONE	16,207,103	32,620,084	33,214,624	82,041,811
LINE 24: EXCESS OF REVENUE OVER EXPENSES	NONE	487,563	666,806	738,004	1,892,373

WEST PENN ONCOLOGY NETWORK
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STATEMENT 11

PART IV, LINE 22 - OTHER EXPENSES

DESCRIPTION	6-MOS ENDED 6/30/2004	12-MOS ENDED 6/30/2005	12-MOS ENDED 6/30/2006
FRINGE BENEFITS	664,043	1,341,367	1,354,781
PROFESSIONAL FEES	72,843	147,142	148,613
PURCHASED SERVICES	505,014	1,020,128	1,030,329
PATIENT CARE SUPPLIES (INCLUDING DRUGS)	10,240,995	20,886,623	21,299,298
NON-PATIENT CARE SUPPLIES	65,913	133,143	134,475
OTHER GENERAL EXPENSES	311,324	628,874	635,163
TOTAL OTHER EXPENSES	<u>11,860,132</u>	<u>24,157,277</u>	<u>24,602,659</u>

STATEMENT 11

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WEST PENN ONCOLOGY NETWORK
EIN: 11-3683376

FORM 1023

STATEMENT 12

PART IV. FINANCIAL DATA (CONTINUED) - BALANCE SHEET

<u>DESCRIPTION</u>	<u>CURRENT TAX YEAR 6/30/2003</u>	<u>PROPOSED TAX YEAR 6/30/2004</u>
<u>ASSETS</u>		
LINE 2: ACCOUNTS RECEIVABLE, NET	NONE	3,788,399
LINE 3: INVENTORIES	NONE	1,966,243
LINE 8: DEPRECIABLE & DEPLETABLE ASSETS		334,597
LINE 10: OTHER ASSETS:	NONE	
INTANGIBLE ASSETS		547,268
PREPAID AND OTHER		433,100
LINE 11: TOTAL ASSETS	<u>NONE</u>	<u>7,069,607</u>
<u>LIABILITIES</u>		
LINE 12: ACCOUNTS PAYABLE	NONE	464,116
LINE 14: MORTGAGES & NOTES PAYABLE	NONE	4,410,003
LINE 15: OTHER LIABILITES	<u>NONE</u>	<u>1,707,924</u>
LINE 16: TOTAL LIABILITIES	<u>NONE</u>	<u>6,582,043</u>
<u>FUND BALANCES OR NET ASSETS</u>		
LINE 17: TOTAL FUND BALANCES OR NET ASSETS	<u>NONE</u>	<u>487,564</u>
LINE 18: TOTAL LIABILITIES AND FUND BALANCES OR NET ASSETS	<u>NONE</u>	<u>7,069,607</u>

STATEMENT 12

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Statement #13

Schedule D. Question 1a: Names and addresses of Supported Organizations

Organization Name	Ruling that not private Foundation pursuant to IRC § 509(a)(1) or IRC § 509(a)(2)	6/30/03 Change in Fund Balance Per Form 990
Allegheny General Hospital 320 East North Avenue Pittsburgh, PA 15212	Yes	(\$64,438,348)
Alle-Kiski Medical Center 320 East North Avenue Pittsburgh, PA 15212	Yes	(\$9,092,743)
Alle-Kiski Paramedic Unit for Life Support Emergency Response 320 East North Avenue Pittsburgh, PA 15212	Yes	(\$916,726)
Allegheny Singer Research Institute 320 East North Avenue Pittsburgh, PA 15212	Yes	(\$2,653,624)
Suburban General Hospital 320 East North Avenue Pittsburgh, PA 15212	Yes	(4,700,850)

Statement #13 (continued)

Schedule D. Question 1a: Names and addresses of Supported Organizations

Organization Name	Ruling that not private Foundation pursuant to IRC § 509(a)(1) or IRC § 509(a)(2)	6/30/03 Change in Fund Balance Per Form 990
Forbes Regional Hospital 320 East North Avenue Pittsburgh, PA 15212	Yes	(11,162,811)
Canonsburg General Hospital 320 East North Avenue Pittsburgh, PA 15212	Yes	(\$3,704,136)
Canonsburg General Hospital Ambulance Service 320 East North Avenue Pittsburgh, PA 15212	Yes	\$122,825
Allegheny Medical Practice Network 320 East North Avenue Pittsburgh, PA 15212	Yes	(\$2,629,155)
Allegheny Specialty Practice Network 320 East North Avenue Pittsburgh, PA 15212	Yes	(\$6,899,163)
The Western Pennsylvania Hospital 4800 Friendship Avenue Pittsburgh, PA 15224	Yes	(25,484,363)

Statement #14

Schedule I. Relationship between Predecessor and Applicant

Medical Center Clinic, P.C. was a captive P.C. owned by West Penn Specialty MSO, Inc., (SMSO) a for-profit subsidiary of West Penn Hospital. The stock of MCC, P.C., while owned nominally by a physician member of MCC, P.C. was held in beneficial title by SMSO, Inc., its parent.

Although former principal employees of MCC, P.C. currently act as officers, board members, or principal employees of WPAON, the officers and board members serve at the pleasure of the West Penn Hospital, and can be removed at any time, with or without cause.

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Entity Details

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Basic Entity Information

Entity Type PENNSYLVANIA NON-STOCK NON-PROFIT CORPORATION
 Entity Name WEST PENN ALLEGHENY ONCOLOGY NETWORK
 Entity No. 3130977
 Filing Date 03/19/2003 Letter of Consent No
 Address 4800 FRIENDSHIP AVE
 PITTSBURGH Pennsylvania USA 15224
 County Allegheny Jurisdiction PA
 Purpose MEDICAL SERVICES
 Limited Authority No

Corporate Officers

Updated Date 04/12/2003
 President UNKNOWN
 Secretary -
 Treasurer -
 Vice-President -

Instrument History

Doc Type	Microfilm#	Micro# Start	Micro# End	Filing Date	Comm
ARTICLES OF INCORPORATION-NON-PROFIT	2003022	1463	1466	03/19/2003	

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Filed in the Department of
State on MAR. 17 2003

Stephen Raus
Secretary of the Commonwealth

ACTING

3130977

ARTICLES OF INCORPORATION

OF

WEST PENN ALLEGHENY ONCOLOGY NETWORK

In compliance with the requirements of 15 Pa. C.S. §5306, the undersigned, being of full age and desiring to incorporate a nonprofit corporation, hereby certifies as follows:

FIRST: The name of the corporation is West Penn Allegheny Oncology Network (hereinafter the "Corporation").

SECOND: The address of the Corporation's initial registered office in this Commonwealth is c/o Jerry J. Fedele, 4800 Friendship Avenue, Pittsburgh, PA 15224, located in the County of Allegheny.

THIRD: The Corporation is incorporated under the Pennsylvania Nonprofit Corporation Law of 1988.

FOURTH: The Corporation is formed and is to be operated exclusively for the following charitable, scientific and educational purposes, within the meaning of section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"): supporting, benefitting and carrying out the functions of a regional health care system, comprised of corporations, each of which (x) has a sole corporate member that maintains governance control and oversight of the Corporation, (y) either (i) operates, raises funds for, or conducts activities otherwise ancillary to the operation of, health care facilities in Western Pennsylvania without regard to age, sex, race, religion, national origin or sexual orientation, or (ii) carries on scientific research related to the causes, diagnosis, treatment, prevention or control of physical or mental diseases and impairments of persons, and (z) is described in sections 501(c)(3) and either 509(a)(1) or 509(a)(2) of the Code (all health care facilities operated by such corporations are referred to herein as the "Constituent Hospitals," and such corporations are referred to herein as the "Constituent Corporations") by:

- (a) maintaining and operating programs rendering diagnostic and clinical and other health care services and health related services in support of clinical programs, education and research in the Western Pennsylvania community;

WPAHS-001782

- (b) providing health care for sick, injured, disabled, indigent or infirm persons in the Western Pennsylvania community;
- (c) supporting or carrying on research and educational activities of the Constituent Hospitals and Constituent Corporations, related to the rendering of care to the sick, injured and disabled, the furthering of knowledge in the medical arts and in promotion of health;
- (d) assisting the Constituent Hospitals and Constituent Corporations in their residency training programs in various medical specialties and related teaching programs; and
- (e) exercising such powers in furtherance of the foregoing purposes as are now or may be granted hereafter by the Nonprofit Corporation Law of the Commonwealth of Pennsylvania, as amended from time to time, or any successor legislation.

FIFTH: Corporation does not contemplate pecuniary gain or profit, incidental or otherwise.

SIXTH: The Corporation is organized upon a nonstock basis.

SEVENTH: The Western Pennsylvania Hospital shall be the Member of the Corporation. As such, The Western Pennsylvania Hospital shall have all of the rights and privileges conferred upon nonprofit corporate members under the laws of the Commonwealth of Pennsylvania, except as otherwise specified in the Bylaws of the Corporation, as well as such additional rights and privileges as shall be specified in the Bylaws of the Corporation.

EIGHTH: The name and address of the incorporator is:

Jerry J. Fedele
4800 Friendship Avenue
Pittsburgh, PA 15224

NINTH: Notwithstanding any other provision herein, the Corporation is organized and is to be operated exclusively for one or more of the purposes specified in section 501(c)(3) of the Code and shall neither have nor exercise any power, nor shall it engage directly or indirectly in any activity, that would invalidate (i) its status as a corporation which is exempt from Federal income taxation under section 501(a) of the Code, as an organization described in section 501(c)(3) of the Code, (ii) its status as a public charity under section 509(a)(3) of the Code, or (iii) its status as an organization, contributions to which are deductible under sections 170(c)(2), 2055(a)(2) and 2522(a)(2) of the Code.

TENTH: No part of the net earnings of the Corporation shall inure to the benefit of any trustee, director or officer of the Corporation or any private individual, firm, corporation or association, except that reasonable compensation may be paid for services rendered and payments and distributions may be made in furtherance of the purposes set forth in Article FOURTH hereof, and no trustee, director or officer of the Corporation, nor any private individual, firm, corporation or association, shall be entitled to share in the distribution of any of the corporate assets on dissolution of the Corporation.

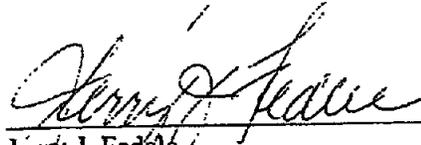
ELEVENTH: In the event of dissolution of the Corporation, its Board of Directors, after making provision for the payment of all of the liabilities of the Corporation, and subject to providing prior notice to the Attorney General, obtaining the approval of the Court of Common Pleas, Orphans' Court Division of the Commonwealth of Pennsylvania, and compliance with the laws of the Commonwealth of Pennsylvania, shall arrange for either the direct distribution of all of the assets of the Corporation to The Western Pennsylvania Hospital or one or more organizations (i) which qualify for exemption under the provisions of section 501(a) of the Code as an organization described in section 501(c)(3) of the Code and classified as a public charity pursuant to section 509(a) of the Code and the Treasury Regulations promulgated thereunder, and (ii) contributions to which then are deductible under sections 170(c)(2), 2055(a)(2) and 2522(a)(2) of the Code.

TWELFTH: No substantial part of the activities of the Corporation shall be carrying on propaganda, or otherwise attempting to influence legislation, except as may otherwise be permitted by section 501(h) of the Code. No part of the activities of the Corporation shall be participating in, or intervening in, any political campaign on behalf of or in opposition to any candidate for public office (including the publishing or distributing of statements).

THIRTEENTH: The Member may alter or amend these Articles provided that any such alteration or amendment shall be consistent with the Corporation's status as (i) a corporation which is exempt from Federal income taxation under section 501(a) of the Code, as an organization described in section 501(c)(3) of the Code, (ii) a public charity under section 509(a)(3) of the Code, and (iii) a corporation, contributions to which are deductible under sections 170(c)(2), 2055(a)(2) and 2522(a)(2) of the Code.

FOURTEENTH: References in these Articles to sections of the "Code" shall be deemed to include corresponding provisions of any future United States Internal Revenue law.

IN TESTIMONY WHEREOF, the incorporator has signed these Articles of
Incorporation this 14 day of March, 2003.



Jerry J. Fedele
4800 Friendship Avenue
Pittsburgh, PA 15224

S:\LAWSUIT\Misc\West Penn Allegheny Oncology Network (Articles of Incorporation) 2-5-03.wpd

WPAHS-001785

BYLAWS
OF
WEST PENN ALLEGHENY ONCOLOGY NETWORK

ARTICLE I

NAME AND LOCATION

Section 1. Name. The name of the Corporation is West Penn Allegheny Oncology Network.

Section 2. Principal Office. The principal office of the Corporation shall be located at 4800 Friendship Avenue, Pittsburgh, PA 15224, or at such other address as the Board of Directors shall determine.

ARTICLE II

PURPOSE; PARTICIPATION IN SYSTEM

Section 1. Purpose. The Corporation is formed and is to be operated exclusively for the following charitable, scientific and educational purposes, within the meaning of section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"): supporting, benefitting and carrying out the functions of a regional health care system, comprised of corporations, each of which (x) has a sole corporate member that maintains governance control and oversight of the Corporation, (y) either (i) operates, raises funds for, or conducts activities otherwise ancillary to the operation of, health care facilities in Western Pennsylvania without regard to age, sex, race, religion, national origin or sexual orientation, or (ii) carries on scientific research related to the causes, diagnosis, treatment, prevention or control of physical or mental diseases and impairments of persons, and (z) is described in sections 501(c)(3) and either 509(a)(1) or 509(a)(2) of the Code (all health care facilities operated by such corporations are referred to herein as the "Constituent Hospitals," and such corporations are referred to herein as the Constituent Corporations") by:

- (1) maintaining and operating programs rendering diagnostic and clinical and other health care services and health related services in support of clinical programs, education and research in the Western Pennsylvania community;
- (2) providing health care for sick, injured, disabled, indigent or infirm persons in the Western Pennsylvania community;
- (3) supporting or carrying on research and educational activities of the Constituent Hospitals and Constituent Corporations, related to the rendering of care to the sick, injured and disabled, the furthering of knowledge in the medical arts and in promotion of health;

(4) assisting the Constituent Hospitals and Constituent Corporations in their residency training programs in various medical specialties and related teaching programs; and

(5) exercising such powers in furtherance of the foregoing purposes as are now or may be granted hereafter by the Nonprofit Corporation Law of the Commonwealth of Pennsylvania, as amended from time to time, or any successor legislation.

ARTICLE III

MEMBER

Section 1. Member. The sole voting member of the Corporation shall be The Western Pennsylvania Hospital (the "Member"), acting through its Board of Directors (the "Member Board"), or through its Executive Committee (the "Member Executive Committee") or designated officers of the Member (the "Designated Representatives") to the extent that the Member has, pursuant to its Bylaws or by resolution duly adopted by the Member Board, delegated its authority herein to the Member Executive Committee or to a Designated Representative; provided, however, that neither the Member Executive Committee nor any Designated Representative shall have the authority to act on behalf of the Member with respect to any of the actions identified in Section 2.B of this Article III.

Section 2. Powers and Rights of Member.

A. The Member shall have such powers and rights as are set forth in the PNCL and the Articles of Incorporation of the Corporation. Without limiting and in addition to such powers and rights, the Member shall have the exclusive authority to exercise the following powers:

(1) Adopt and/or approve and interpret the statement of mission and philosophy of the Corporation, and require the Corporation to operate in conformance with its statement of mission and philosophy;

(2) Adopt and/or approve amendments or restatements of the bylaws and Articles of Incorporation of the Corporation;

(3) Elect, appoint, fill vacancies in and remove, with or without cause, the Directors; and elect and remove, with or without cause, the Chair and Vice Chair of the Board of Directors of the Corporation, and the Secretary and Treasurer of the Corporation;

(4) Elect and remove, with or without cause, the President and Chief Executive Officer and all vice presidents and other officers of the Corporation;

(5) Cause or approve any merger, consolidation, division, conversion, or dissolution of the Corporation, or the filing of a petition in bankruptcy or execution of a deed of assignment for the benefit of creditors;

(6) Approve and/or cause the Corporation to undertake or engage itself in respect of any bond issuance or any other indebtedness for borrowed money of the Corporation, or any lending of funds by the Corporation to an unrelated person, corporation or other legal entity, including without limitation any capital leases (other than indebtedness to provide funds for expenditures necessary in order for the Corporation to be in compliance with applicable laws, rules and regulations, and state licensing and accreditation requirements, to the extent such funds are not otherwise reasonably available), representing obligations of the Corporation in excess of an amount per annum in the aggregate established from time to time by the Member;

(7) Approve and/or cause any corporate reorganization of the Corporation or the establishment or dissolution of any subsidiary organizations, including corporations, partnerships or other entities, of the Corporation; and

(8) Approve or direct the taking of any other action outside of ordinary course of business and such matters as are required to be submitted to corporate members of a Pennsylvania nonprofit corporation.

Except as otherwise required by the PNCL, the action of the Member with respect to each of the foregoing actions shall be sufficient to approve such actions, no action by the Board of Directors of the Corporation shall be required with respect to any such actions, and, to the full extent permitted by law, no action of the Board of Directors with respect to any such actions shall be effective for any purpose without the approval of the Member.

B. Each of the following actions may be approved by the Member only through action of the Member Board, and not through action of the Member Executive Committee or any Designated Representative:

(1) The adoption or approval of a statement of mission and philosophy of the Corporation;

(2) The adoption or approval of any amendments of the Bylaws or Articles of Incorporation of the Corporation;

(3) The approval of any merger, consolidation, division, conversion, or dissolution of the Corporation, or the filing of a petition in bankruptcy or execution of a deed of assignment for the benefit of creditors, or the sale or other disposition of all or substantially all of the assets of the Corporation;

(4) The election, appointment and removal of the Directors, the Chair and Vice Chair of the Board of Directors of the Corporation, the President and Chief Executive Officer, and the Secretary and Treasurer of the Corporation; and

(5) The approval of any bond issuance or incurrence of any other indebtedness for borrowed money of the Corporation, or any lending of funds by the Corporation to an unrelated person, corporation or other legal entity, including without limitation any capital leases.

Section 3. Operating Reports. The Board of Directors of the Corporation shall submit operating reports to the Member in such form and on such schedule as shall be established by the Member. Such operating reports shall reflect the results of operations of the Corporation and of any affiliates of the Corporation that are controlled by the Corporation.

ARTICLE IV

THE BOARD OF DIRECTORS

Section 1. Powers and Responsibility. Subject to Article III hereof and to the other rights and powers of the Member specified herein, in the Articles of Incorporation or by law, the Board of Directors shall have charge, control, and management of the administrative affairs, property and funds of the Corporation and shall have the power and authority to do and perform all acts and functions not inconsistent with these Bylaws, the Articles of Incorporation, and applicable law, in each case as amended from time to time.

Section 2. Composition of the Board; Appointment Qualifications. The Board of Directors shall be composed of six voting members. Directors shall generally be appointed at the annual meeting of the Member, but may be appointed at any regular or special meeting of the Member, provided that two members of the Board shall be composed of physicians engaged in active clinical practice on behalf of the Corporation. Each Director of the Corporation shall be a natural person between eighteen and seventy years of age, of good moral character and who enjoys a good reputation in the community, and who, by his or her experience, community interest, or prior action, demonstrates a willingness to devote time and talent to the affairs of the Corporation and to exercise his or her judgment with undivided loyalty to the Corporation. Each Director shall further satisfy the requirements set forth in Section 7 of this Article IV.

Section 3. Term of Office. Subject to Section 4 of this Article IV, Directors, shall serve for one year terms. Each Director shall retain his or her position as Director until his or her successor shall be duly appointed and qualified or until his or her earlier death, resignation or removal. Directors may be re-elected for unlimited successor terms.

Section 4. Removal, Resignation, Vacancies.

A. The Member may, in its discretion, remove any Director at any time, with or without cause.

B. Any Director may resign from office with or without cause, by delivering a written statement of resignation to the Secretary of the Corporation. Any such resignation shall take effect immediately upon its receipt by the Secretary of the Corporation, unless a later effective time or date for the resignation is specified in the notice of resignation.

C. Any person appointed to fill a vacancy on the Board of Directors shall be appointed for the unexpired term of the Director whose death, resignation, or removal gave rise to the applicable vacancy.

Section 5. No Compensation. No Director shall receive any compensation for acting as a Director. Directors who are officers or employees of the Corporation may receive compensation for those duties.

Section 6. Review of Bylaws. The Board of Directors shall review these Bylaws of the Corporation annually, and based on such review, may propose amendments to these Bylaws to the Member of the Corporation.

Section 7. Conflict of Interest. Directors shall exercise good faith in all transactions touching upon their duties at the Corporation and its property. No director shall use his or her position, or knowledge gained therefrom, in any way that might give rise to a conflict between the interest of the Corporation and that of the individual Director. The Board of Directors shall adopt a conflict of interest policy, and each Director and officer of the Corporation shall agree in writing to be bound thereby as a prerequisite to his or her qualification as a Director or officer, as the case may be.

ARTICLE V

MEETINGS OF THE BOARD OF DIRECTORS

Section 1. Regular and Annual Meetings of the Board of Directors. The Board of Directors shall hold regular meetings at such time and place as determined by the Board or the Chair. The Annual Meeting of the Board of Directors shall be held in March of each year. At each annual meeting, the Boards of Directors shall submit its recommendations to the Member regarding the appointment of all Members of the Board of Directors and Officers of the Corporation for the upcoming fiscal year of the Corporation. Notice of any meeting shall be mailed, personally delivered or faxed to each Director entitled to vote at least 5 days prior to the meeting to the Director's address (or fax number) on the books of the Corporation. Voting by proxy shall not be permitted at any meeting.

Section 2. Special Meetings. Special meetings may be held at any time upon call of the Member or the Chair or upon receipt by the President and Chief Executive Officer of the written request of at least two Directors.

Section 3. Quorum. A majority of the entire Board of Directors shall constitute a quorum at any regular meeting; provided that a quorum shall not be present at any meeting unless a majority of those Directors present are not physicians engaged in active clinical practice on behalf of the Corporation. Once a quorum is established, subsequent withdrawal of individuals to less than a quorum shall not affect the validity of any subsequent action taken at the meeting. Except as otherwise required by the PNCL, approval of any matter before the Board of Directors by a majority of the Directors entitled to vote and present at a meeting shall constitute approval of the applicable matter by the Board.

Section 4. Action Without a Meeting. Any action which may be taken at a meeting of the Board or any committee thereof may be taken without a meeting if consent in writing setting forth such action is signed by all of the Directors entitled to vote or members of the committee, and is filed in the minutes of the proceedings of the Board or of the committee.

Section 5. Rules of Conduct. Meetings of the Board of Directors and Committees of the Board of Directors will be conducted in accordance with such rules as may be established by the Board of Directors.

Section 6. Participation by Conference Telephone. One or more Directors or members of a Committee established pursuant hereto may participate in a meeting of the Board of Directors or such Committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this subsection shall constitute presence in person at such meeting.

Section 7. Waiver of Notice. Whenever any written notice is required to be given under the provisions of these bylaws or the PNCL, such notice need not be given to any Director who submits a signed waiver of notice whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such Director.

ARTICLE VI

OFFICERS

Section 1. Officers Generally. The officers shall be a Chair, a Secretary, a Treasurer, a President and Chief Executive Officer, and such Vice Presidents and other subordinate officers as the Board of Directors shall designate, subject to the approval of the Member. All officers need not, but may, be selected from among such elected members of the Board of Directors.

Section 2. Appointment of Officers. The officers shall be appointed by the Member, after consultation with the Board of Directors of the Corporation, at the Annual Meeting of the Member each year and shall hold office for terms of one year and until their successors are duly installed, subject in each case to an officer's earlier death, resignation or removal. Vacancies in any office may be filled by action of the Member after consultation with the Board of Directors of the Corporation.

Section 3. Chair. The Chair shall preside at all meetings of the Board of Directors. The Chair shall have such authority, and shall perform all duties, ordinarily required of an officer in like position, and such other authority and duties as may be assigned by the Member.

Section 4. President and Chief Executive Officer. The President and Chief Executive Officer of the Corporation shall be an *ex officio* member of the Board and each committee of the Board. The President and Chief Executive Officer shall have all authority and responsibility necessary to operate the Corporation in all its activities, subject, however, to the policies and directives of the Member and of the Board of Directors with regard to the matters as to which the Board of Directors is responsible, and to the provisions of the Corporation's Articles of Incorporation and Bylaws.

Section 5. Secretary. The Secretary shall keep and properly record the minutes of the proceedings of the Board of Directors, notify officers of their election and committee members of their appointment, give notice of all meetings of the Board of Directors, have custody of the

corporate seal and of all books and papers pertaining to the office, and generally shall have such authority, and shall perform all duties, ordinarily required of an officer in like position.

Section 6. Treasurer. The Treasurer shall receive and have custody of all funds, money, and income of the Corporation and shall deposit the same in such depository or depositories as the Board shall designate. The Treasurer shall have such authority, and shall perform all duties, ordinarily required of an officer in like position, and such other authority and duties as may be assigned by the Member.

Section 7. Resignation. Any officer may resign at any time by giving written notice thereof to the Chair, the President and Chief Executive Officer or the Secretary of the Corporation. Any such resignation shall take effect on the date of receipt of such notice by one of the above-specified officers, or at such later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 8. Removal. Any officer of the Corporation may be removed, with or without cause, by the Board of Directors or the Member whenever in the judgment of the Board of Directors or the Member the best interests of the Corporation will be served thereby.

ARTICLE VII

COMMITTEES OF THE BOARD OF DIRECTORS

Section 1. Committees Generally. The Board of Directors shall establish an Operating Committee as set forth in these Bylaws and may establish such other committees (standing or special) as the Board of Directors shall determine appropriate or necessary, with such authority and composition as the Board of Directors shall designate (subject to the rights and powers of the Member as set forth in the PNCL, the Articles of Incorporation, and these Bylaws, and the limitations on delegation of the Board's authority pursuant to the PNCL).

Section 2. Operating Committee. The Operating Committee shall be comprised of six members appointed by the Board of Directors, three of which shall be physicians engaged in active clinical practice on behalf of the Corporation and three of which shall be designated by the Member. Additionally, the Practice Director of the Corporation shall serve as an ex-officio member of the Operating Committee, without vote. The Operating Committee shall have responsibility to oversee the day-to-day operations of the Corporation consistent with the provisions of the Master Agreement between the Corporation and West Penn Allegheny Health System dated July 15, 2003, establish strategic and operating plans for the Corporation, and develop annual capital and operating budgets of the Corporation subject to approval of the Member.

Section 3. Appointment of Committees. The members of any standing or special Committee shall be appointed by the Board of Directors. Each Committee shall include at least two Directors, and may include such other interested individuals as determined appropriate by the Board of Directors. Each member of a committee shall serve for a term of one year and until his or her successor has been appointed, subject to his or her earlier death, resignation or removal.

Section 4. Meetings of Committees. All standing Committees shall function under the direction of the Board of Directors and shall meet as often as necessary to transact their business and shall make such reports as they may deem necessary or which may be specifically required of them. Minutes shall be kept of each meeting of each Committee and such minutes shall be disseminated to all members of the Board of Directors, and to the Member.

Section 5. Quorum; Act of Committee. Four members of a Committee shall constitute a quorum for the transaction of business. Once a quorum has been established, subsequent withdrawal of committee members so as to reduce the number of members present to less than a quorum shall not affect the validity of any subsequent action taken at the meeting. Approval of any matter before any Committee by a majority of those present at a meeting of a Committee where a quorum is present shall constitute approval of the applicable matter by the applicable Committee.

Section 6. Resignation. Any Committee member may resign at any time by giving written notice thereof to the Chair, the President and Chief Executive Officer or the Secretary of the Corporation. Any such resignation shall take effect on the date of receipt of such notice by one of the above-specified officers, or at such later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 7. Removal. Any Committee member may be removed, with or without cause, by the Board of Directors or the Member whenever in the judgment of the Board of Directors or the Member the best interests of the Corporation will be served thereby.

ARTICLE VIII

FISCAL YEAR

Section 1. Fiscal Year. The Fiscal Year of the Corporation shall be begin on the first day of July of each year and end on the last day of June of the succeeding year.

ARTICLE IX

SEAL

Section 1. Seal. The seal of the Corporation shall be in such form as may be approved by the Board of Directors.

ARTICLE X

LIABILITY OF DIRECTORS

Section 1. Standard of Care and Fiduciary Duty. Each Director shall stand in a fiduciary relation to this Corporation and shall perform his or her duties as a Director, including

his or her duties as a member of any committee of the Board upon which the Director may serve, in good faith, in a manner the Director reasonably believes to be in the best interests of this Corporation, and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. In performing his or her duties, each Director shall be entitled to rely in good faith on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by any of the following:

- (a) one or more officers or employees of this Corporation whom the Director reasonably believes to be reliable and competent in the matters presented;
- (b) counsel, public accountants or other persons as to matters which the Director reasonably believes to be within the professional or expert competence of such persons; and
- (c) a committee of the Board of this Corporation upon which the Director does not serve, as to matters within its designated authority, which committee the Director reasonably believes to merit confidence.

A Director shall not be considered to be acting in good faith if the Director has knowledge concerning the matter in question that would cause his reliance to be unwarranted.

Section 2. Limitation on Liability. No Director of the Corporation shall be personally liable for monetary damages for any action taken, or any failure to take any action, provided however, that this provision shall not eliminate or limit the liability of or any Director to the extent that such elimination or limitation of liability is expressly prohibited by, Section 5713 of the PNCL, as in effect at the time of the alleged action or failure to take action by such Director.

Section 3. Preservation of Rights. Any repeal or modification of this Article shall not adversely affect any right or protection existing at the time of such repeal or modification to which any Director or former Director may be entitled under this Article. The rights conferred by this Article shall continue as to any person who has ceased to be a Director of the Corporation and shall inure to the benefit of the successors, heirs, executors, and administrators of such person.

ARTICLE XI

INDEMNIFICATION

Section 1. Mandatory Indemnification of Directors and Officers. The Corporation shall indemnify, to the fullest extent now or hereafter permitted by law, each Director and officer (including each former Director or officer) of the Corporation who was or is or is threatened to be made a party to or a witness in any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that the Director or officer is or was an authorized representative of the Corporation, or is or was serving at the written request of the Corporation as a representative of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust or other enterprise, against all

expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Director or officer in connection with such action, suit or proceeding if such Director or officer acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interest of the Corporation and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Section 2. Mandatory Advancement of Expenses to Directors and Officers. The Corporation shall pay expenses (including attorneys' fees) incurred by a Director or officer of the Corporation referred to in Section 1 of this Article XI in defending or appearing as a witness in any civil or criminal action, suit or proceeding described in Section 1 of this Article XI in advance of the final disposition of such action, suit or proceeding. The expenses incurred by such Director or officer shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding only upon receipt of an undertaking by or on behalf of such Director or officer to repay all amounts advanced if it shall ultimately be determined that the Director or officer is not entitled to be indemnified by the Corporation as provided in Section 4 of this Article XI.

Section 3. Permissive Indemnification and Advancement of Expenses. The Corporation may, as determined by the Board of Directors from time to time, indemnify, in full or in part, to the fullest extent now or hereafter permitted by law, any person who was or is or is threatened to be made a party to or a witness in, or is otherwise involved in, any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was an authorized representative of the Corporation or is or was serving at the request of the Corporation as a representative of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust or other enterprise, both as to action in his official capacity and as to action in another capacity while holding such office or position, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in conjunction with such action, suit or proceeding if such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interest of the Corporation and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The Corporation may, as determined by the Board of Directors from time to time, pay expenses incurred by any such person by reason of such person's participation in an action, suit or proceeding referred to in this Section 3 in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such person to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as provided in Section 4 of this Article XI.

Section 4. Scope of Indemnification. Indemnification under this article shall not be made by the Corporation in any case where a court determines that the alleged act or failure to act giving rise to the claim for indemnification is expressly prohibited by Chapter 57, Subchapter D of the PNCL or any successor statute as in effect at the time of such alleged action or failure to take action.

Section 5. Miscellaneous. Each Director and officer of the Corporation shall be deemed to act in such capacity in reliance upon such rights of indemnification and advancement of expenses as are provided in this Article. The rights of indemnification and advancement of

expenses provided by this Article shall not be deemed exclusive of any other rights to which any person seeking indemnification or advancement of expenses may be entitled under any agreement, vote of members (if any), disinterested Directors, statute or otherwise, both as to action in such person's official capacity and as to action in another capacity while holding such office or position, and shall continue as to a person who has ceased to be an authorized representative of the Corporation and shall inure to the benefit of the heirs, executors and administrators of such person. Any repeal or modification of this Article by the members (if any) or the Board of Directors of the Corporation shall not adversely affect any right or protection existing at the time of such appeal or modification to which any person may be entitled under this Article.

Section 6. Definition of Authorized Representative. For the purposes of this Article, the term, "authorized representative" shall mean a director, officer (including a former director or officer), or employee of the Corporation or of any corporation controlled by the Corporation, or a trustee, custodian, administrator, committeeman or fiduciary of any employee benefit plan established and maintained by the Corporation or by any corporation controlled by the Corporation, or person serving another corporation, partnership, joint venture, trust or other enterprise in any of the foregoing capacities at the written request of the Corporation. The term "authorized representative" shall not include money managers or investment advisors (or any employees thereof) hired by the Corporation, and shall not include (i) agents of the Corporation unless indemnification thereof is expressly approved by the Board of Directors, or (ii) any Medical Staff appointee serving in his or her teaching or clinical capacity.

Section 7. Funding to Meet Indemnification Obligations. Subject to the approval of the Member, the Board of Directors shall have the power to borrow money on behalf of the Corporation, including the power to pledge the assets of the Corporation, from time to time to discharge the Corporation's obligations with respect to indemnification, the advancement and reimbursement of expenses, and the purchase and maintenance of insurance for the benefit of the Corporation and any person indemnified pursuant hereto. Upon the approval of the Member, the Corporation may, in lieu of or in addition to the purchase and maintenance of insurance, establish and maintain a fund of any nature or otherwise secure or insure in any manner its indemnification obligations, whether arising pursuant to this Article or otherwise.

ARTICLE XII

AMENDMENTS OF THESE BYLAWS AND/OR THE ARTICLES OF INCORPORATION OF THE CORPORATION

The power to amend, modify, alter or repeal these Bylaws or the Articles of Incorporation, is hereby exclusively vested in the Member.

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Date: JAN 18 2000

West Penn Allegheny Health System, Inc.
c/o Jerry D. Fedele
10145 Woodbury Drive
Wexford, PA 15090

Employer Identification Number:
25-1848306
Issuing Specialist:
Steve Jankowitz-ID No. 50-03610
Toll Free Customer Service Number:
877-829-5500
Accounting Period Ending:
June 30
Foundation Status Classification:
509(a)(3)
Form 990 Required:
Yes

Dear Applicant:

Based on the information supplied, and assuming your operations will be as stated in your application for recognition of exemption, we have determined you are exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in section 501(c)(3).

We have further determined that you are not a private foundation within the meaning of section 509(a) of the Code, because you are an organization described in the section(s) indicated above.

Please notify the Ohio Tax Exempt and Government Entities (TE/GE) Customer Service office if there is any change in your name, address, sources of support, purposes, or method of operation. If you amend your organizational document or bylaws, please send a copy of the amendment to the Ohio TE/GE Customer Service office. The mailing address for that office is: Internal Revenue Service, TE/GE Customer Service, P.O. Box 2508, Cincinnati, OH 45201.

You are liable for taxes under the Federal Insurance Contributions Act (social security taxes) on remuneration of \$100 or more you pay to each of your employees during a calendar year. You are not liable for the tax imposed under the Federal Unemployment Tax Act.

If you are involved in an excess benefit transaction, that transaction might be subject to the excise taxes of section 4958 of the Code. In this letter we are not determining whether any of your present or proposed arrangements would be considered an excess benefit transaction resulting in tax under section 4958. Additionally, you are not automatically exempt from other federal excise taxes.

Donors may deduct contributions to you as provided in section 170 of the Code. Bequests, legacies, devises, transfers, or gifts to you or for your use are deductible for federal estate and gift tax purposes if they meet the applicable provisions of Code sections 2055, 2106, and 2522.

Donors (including private foundations) may rely on this ruling unless the Internal Revenue Service publishes notice to the contrary. However, if you lose your 509(a) status as indicated above, donors (other than private foundations) may not rely on the classification indicated above if they were in part responsible for, or were aware of, the act that resulted in your loss of such status, or they acquired knowledge that the Internal Revenue Service had given notice that you

WPAHS-001799

West Penn Allegheny Health System, Inc.

would be removed from that classification. Private foundations may rely on the classification as long as you were not directly or indirectly controlled by them or by disqualified persons with respect to them. However, private foundations may not rely on the classification indicated above if they acquired knowledge that the Internal Revenue Service had given notice that you would be removed from that classification.

Contribution deductions are allowable to donors only to the extent that their contributions are gifts, with no consideration received. Ticket purchases and similar payments in conjunction with fund-raising events may not necessarily qualify as fully deductible contributions, depending on the circumstances. If your organization conducts fund-raising events such as benefit dinners, shows, membership drives, etc., where something of value is received in return for payments, you are required to provide a written disclosure statement informing the donor of the fair market value of the specific items or services being provided. To do this you should, in advance of the event, determine the fair market value of the benefit received and state it in your fund-raising materials such as solicitations, tickets, and receipts in such a way that the donor can determine how much is deductible and how much is not. Your disclosure statement should be made, at the latest, at the time payment is received. Subject to certain exceptions, your disclosure responsibility applies to any fund-raising circumstance where each complete payment, including the contribution portion, exceeds \$75. In addition, donors must have written substantiation from the charity for any charitable contribution of \$250 or more. For further details regarding these substantiation and disclosure requirements, see the enclosed copy of Publication 1771. For additional guidance in this area, see Publication 1391, Deductibility of Payments Made to Organizations Conducting Fund-Raising Events, which is available at many IRS offices or by calling 1-800-TAX-FORM (1-800-829-3676).

In the heading of this letter we have indicated whether you must file Form 990, Return of Organization Exempt from Income Tax. If "Yes" is indicated, you are required to file Form 990 only if your gross receipts each year are normally more than \$25,000. If your gross receipts each year are not normally more than \$25,000, we ask that you establish that you are not required to file Form 990 by completing Part I of that Form for your first year. Thereafter, you will not be required to file a return until your gross receipts exceed the \$25,000 minimum. For guidance in determining if your gross receipts are "normally" not more than the \$25,000 limit, see the instructions for the Form 990. If a return is required, it must be filed by the 15th day of the fifth month after the end of your annual accounting period. A penalty of \$20 a day is charged when a return is filed late, unless there is reasonable cause for the delay. The maximum penalty charged cannot exceed \$10,000 or 5 percent of your gross receipts for the year, whichever is less. For organizations with gross receipts exceeding \$1,000,000 in any year, the penalty is \$100 per day per return, unless there is reasonable cause for the delay. The maximum penalty for an organization with gross receipts exceeding \$1,000,000 shall not exceed \$50,000. This penalty may also be charged if a return is not complete, so please be sure your return is complete before you file it. Form 990 should be filed with the Ogden Service Center, Ogden, UT 84201-0027.

The law requires you to make your annual return available for public inspection without charge and to provide copies upon request for three years after the due date of the return. You are also required to make available for public inspection and to provide copies of your exemption application, any supporting documents, and this exemption letter to any individual who requests such documents in person or in writing. You can charge only a reasonable fee for reproduction and actual postage costs for the copied materials. The law does not require you to provide copies of public inspection documents that are made widely available, such as by posting them on the

West Penn Allegheny Health System, Inc.

Internet (World Wide Web). You may be liable for a penalty of \$20 for each day you do not make these documents available for public inspection or provide requested copies (up to a maximum of \$10,000 in the case of an annual return).

You are not required to file federal income tax returns unless you are subject to the tax on unrelated business income under section 511 of the Code. If you are subject to this tax, you must file an income tax return on Form 990-T, Exempt Organization Business Income Tax Return. In this letter we are not determining whether any of your present or proposed activities are unrelated trade or business as defined in section 513 of the Code.

Please use the employer identification number indicated in the heading of this letter on all returns you file and in all correspondence with the Internal Revenue Service. Because this letter could help resolve any questions about your exempt status, you should keep it in your permanent records. If you have any questions about this letter, or about filing requirements, excise, employment, or other federal taxes, please contact the Ohio TE/GE Customer Service office at 877-829-5500 (a toll free number) or correspond with that office using the address indicated above.

Sincerely,

Marvin Friedlander

Marvin Friedlander
Manager, Exempt Organizations
Technical Group 1

Enclosure:
Pub. 1771

May 12, 1936

IT:E:RR
HVRThe Western Pennsylvania Hospital
Pittsburgh, Pennsylvania

Sirs:

Reference is made to the evidence submitted by you for use in determining your status for the purpose of Federal income taxation.

The evidence discloses that you were incorporated by an Act of the General Assembly of the Commonwealth of Pennsylvania, approved March 18, 1848, P.L. 248, "for the purpose of establishing, maintaining and managing a hospital for the reception and care of the insane and afflicted as well as the sick, infirm and helpless." Under the powers conferred by the act by which you were incorporated two institutions were developed, namely, a hospital for the insane and a general medical and surgical hospital. In 1907 by decree of the Court of Common Pleas No. 2 of Allegheny County, Pennsylvania, the two institutions were separated, your corporation continuing the name of The Western Pennsylvania Hospital. Your purpose as set forth in the decree referred to is the maintenance of a public hospital for the reception and care of the sick and persons needing surgical treatment.

It appears further that you maintain and operate a general hospital and training school for nurses; that you accept nonpay patients; that your income is derived from donations, bequests, endowment and trust funds, patients, appropriations from the Commonwealth of Pennsylvania, and miscellaneous sources; that your income is used for maintenance and operating expenses; and that none of your income inures to the benefit of any private shareholder or individual.

Based upon the facts presented it is held that you are entitled to exemption under the provisions of section 101(6) of the Revenue Act of 1934, and the corresponding provisions of prior revenue acts. You are not, therefore, required to file returns for 1935 and prior years, and future returns will not be required so long as there is no change in your organization, your purposes or method of operation.

Act 101(6) of the Revenue Act of 1934 was the predecessor of Section 501(c)(3) of the Internal Revenue Code

The Western Pennsylvania Hospital.

Any changes in your form of organization or method of operation, as shown by the evidence submitted, must be immediately reported to the collector of internal revenue for your district, in order that the effect of such changes upon your present exempt status may be determined.

The exemption granted in this letter does not apply to taxes levied under other titles or provisions of the respective revenue acts, except insofar as exemption is granted expressly under those provisions to organizations enumerated in section 101 of the Revenue Act of 1934 and the corresponding provisions of prior revenue acts.

Contributions to your organization by individual donors are deductible by such individuals in arriving at their taxable net income in the manner and to the extent provided by section 23(o) of the Revenue Act of 1934 and the corresponding provisions of prior revenue acts. The deductibility of contributions by corporations is governed by sections 102 and 107 of the Revenue Act of 1935.

It is also held that you are exempt from the payment of the excise tax imposed by section 901 of the Social Security Act, approved August 14, 1935, inasmuch as you come within the exception provided in section 907(c)(7) of that Act.

A copy of this letter is being transmitted to the collector of internal revenue for your district.

By direction of the Commissioner.

Respectfully,

(Signed Chas T. Russell

Deputy Commissioner.

HVH/mcf-1

SAMPLE
Physician Agreement

SENIOR PARTICIPATING PHYSICIAN EMPLOYMENT AGREEMENT

THIS AGREEMENT is entered into this ____ day of July 2003, by and between West Penn Allegheny Oncology Network, a Pennsylvania not-for-profit corporation, doing business as Medical Center Clinic (the "Employer"), with its principal office at 4800 Friendship Avenue, Pittsburgh, Pennsylvania, and _____, M.D., (the "Physician"), an individual residing at _____.

WITNESSETH THAT:

WHEREAS, West Penn Specialty MSO Inc. ("MSO") provides management services to the Employer; and

WHEREAS, the Employer wishes to employ the Physician for the period provided in this Agreement, and the Physician is willing to serve in the employ of the Employer for said period.

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **Employment.** The Employer agrees to employ the Physician and the Physician agrees to remain in such employ of the Employer on a full-time basis as a medical doctor to perform duties substantially similar and equivalent to the medical practice maintained by the Physician during the year immediately preceding the term of this Agreement, for the Term of this Agreement upon the terms and conditions herein provided. Physician shall provide professional medical services, including without limitation those services that are customarily performed in physicians' offices and other similar oncology medical practice settings by physicians in Physician's practice area. The performance of such services shall be in accordance with the laws of the Commonwealth of Pennsylvania; Employer's policies, standards and regulations; and with generally accepted ethical precepts and professional standards for such services in physicians' offices and other similar medical practice settings; each as they may be amended from time to time.

Physician acknowledges that Carl H. Srodes, M.D. is the representative ("Representative") responsible for coordination of clinical activities and communication by and among Employer, Physician, and other physicians employed by the Employer.

2. **Term.** Unless terminated or renewed as hereinafter provided, the period of the Physician's employment under this Agreement shall commence on January 1, 2004, and shall terminate on December 31, 2008 ("Initial Term"). Upon the expiration of the Initial Term and each applicable Renewal Term (hereinafter defined), this Agreement shall renew for an additional one year period ("Renewal Term"), unless at least one hundred eighty (180) days prior to the expiration of the

7/10/03

WPAHS-001804

Initial Term or the applicable Renewal Term, as the case may be, either party shall have notified the other in writing that it does not intend to renew the Agreement. (The Initial Term together with any and all Renewal Terms is referred to herein as the "Term").

3. Duties.

(a) Professional Services. During the period of the Physician's employment hereunder, the Physician shall devote all the Physician's professional time, attention, skill, and efforts to the faithful performance and rendering of professional services on a full-time basis in the practice of medicine on behalf of the Employer and shall render such services with competence, efficiency and fidelity.

(b) Administrative Duties. Upon request, the Physician agrees to serve as an officer, director, or committee member of the Employer and in such capacity will share responsibility for clinical decisions and clinical management of the Employer. The Physician further agrees to perform such clinical management duties and engage in quality and resource utilization initiatives as are either necessitated by the nature of the practice or required by the Employer.

(c) Promotion of Employer and West Penn Allegheny Health System. During the Term of this Agreement, Physician shall exert Physician's best efforts to promote the business, interests, and affairs of Employer and West Penn Allegheny Health System ("WPAHS"). Such efforts shall include, but not be limited to the development of WPAHS as a regional provider of high quality oncology programs with tertiary and quaternary services available at Allegheny General Hospital and The Western Pennsylvania Hospital, and community based oncology services available at those hospitals in addition to Forbes Regional Hospital, AlleKiski Medical Center, Canonsburg General Hospital, and Suburban General Hospital; cooperation and coordination with other oncology and other service providers within WPAHS; the development by Employer and WPAHS of a regional network of oncology providers, including the development of the Cancer Care Partnership or similar networks; maintenance and enhancement of Physician's education and training commensurate with the WPAHS oncology programs and services; and active participation in WPAHS and constituent hospital initiatives relative to quality, utilization, costs, and reimbursement of health care services. Physician shall be responsible for cooperating in the recruitment of associates into the medical practice at the Employer's discretion.

(d) Supervision of Allied Health Professionals. Physician agrees to supervise and oversee in a manner required by law and/or payers allied health professionals (such as nurses, nurse practitioners and physician assistants) performing services for Employer. Physician agrees to control and direct such allied health professionals not only as to the result to be accomplished, but also as to the details and means by which the result is accomplished. Physician acknowledges his or her duty to perform such supervision and oversight and to share with the Employer any concerns Physician may have regarding particular allied health professionals and/or policies or procedures employed by allied health professionals.

(e) Participation as a Health Care Provider. To the extent participation is available to Physician, Physician shall participate in Medicare, Pennsylvania Medical Assistance,

Highmark Blue Cross/Blue Shield, HealthAmerica, U.S. Healthcare, Gateway Health Plan, all products of each of the foregoing, and such other insurance programs, managed care programs, employer and other third party health care programs, and other governmental health care programs as designated by WPAHS from time-to-time.

(f) Scheduling. The assignment and scheduling of medical and administrative duties, office hours (including evening coverage and weekend hours), and location shall be mutually determined by Employer and Physician, provided that Physician agrees to work a full-time clinical schedule of no less than the office hours and other professional duties and responsibilities maintained by Physician during fiscal year 2002.

4. Compensation, Benefits, and Reimbursement of Expenses.

(a) Compensation. For all services rendered by the Physician in any capacity during the Physician's employment under this Agreement, including, without limitation, all clinical services and services as an executive, officer, director, or member of any committee of the Employer, the Employer shall, subject to the provisions for termination set forth in Section 6 of this Agreement, pay the Physician compensation calculated as set forth the Medical Center Clinic, Economic Appendix dated July 1, 2002 ("Economic Appendix"). Base Compensation shall be payable in installments in accordance with the customary payroll practices of the Employer. Incentive Compensation, if any, shall be paid as provided in the Economic Appendix. In no event shall the Physician be entitled to Incentive Compensation upon the termination or expiration of this Agreement, regardless of the reason for such termination or expiration.

(b) Benefits. During the term of this Agreement, the Physician shall be entitled to participate in the Employer's fringe benefit programs which are or become available to all or substantially all of the WPAHS' other physician-employees on the same terms and conditions as made available to such physician-employees. As part of and not in addition to such benefits, the Physician will be entitled to thirty (30) days of vacation per year during the term of this Agreement and five (5) days to be used for attendance at professional meetings and seminars. Such time off for vacations and seminars shall be scheduled by Physician based upon consultation with Employer. Only five (5) vacation days may be carried-over from any calendar year to the following calendar year. The costs of all such fringe benefits shall be paid as provided in the Economic Appendix.

(c) Reimbursement of Expenses. The Employer shall reimburse the Physician for bona fide business expenses incurred in accordance with a budget established by the Employer and as outlined in the Economic Appendix. In all cases, the Physician must submit an itemized accounting of and receipts for expenses to qualify for reimbursement.

(d) Reasonable Compensation. All compensation received by Physician from Employer, including but not limited to Base Compensation, Incentive Compensation, or any other compensation, benefits, or reimbursement of expenses of any nature, shall at all times be subject to determination by the Employer Board of Directors (without participation by physician employees of Employer) and WPAHS Board of Directors to be reasonable and not deemed to be excessive compensation, private inurement, or private benefit as determined by such Boards of Directors pursuant to Internal Revenue Service guidelines as may be in effect from time to time and subject to

reduction in order to satisfy such standards. In no event will total compensation for any MCC Physician, including Base Salary and Incentive Compensation, exceed the 90th percentile of market compensation for similar specialty physicians according to the most recently available compensation study by the Medical Group Management Association or such alternative market compensation study determined applicable by the MCC Board of Directors without participation by any MCC Physician.

5. **Facilities.** The Employer shall provide the Physician with an office, clerical, and technical assistance and such other facilities, equipment, services, and supplies as are required by the Physician's practice and which are commensurate with the Physician's practice and other duties under this Agreement.

6. Termination of Employment and Compensation Upon Termination.

(a) **Automatic.** This Agreement shall terminate automatically without notice upon the death of the Physician.

(b) **By Employer.** This Agreement may be unilaterally terminated by the Employer by written notice to the Physician in the event:

(1) of the Substantial Disability of the Physician for a period of ninety (90) days in any period of twelve (12) consecutive months. "Substantial Disability" shall mean the Physician's physical and/or mental inability to perform on a full time basis the normal duties of the Physician's profession and/or the normal duties as an employee as required by this Agreement. If the Physician having once had a Substantial Disability shall again have a Substantial Disability for a succeeding period or periods, the succeeding period or periods of disability shall be considered as continuations of the first. This rule shall not apply, however, if:

(A) the Physician returns to full-time duty for three (3) consecutive months between two (2) consecutive periods of disability, or

(B) an independent physician acceptable to the Employer and the Physician certifies in writing that the two (2) consecutive Substantial Disabilities are unrelated; or

(2) the Physician breaches this Agreement.

(c) **By Physician.** This Agreement may be unilaterally terminated by Physician by written notice to the Employer in the event that the Employer breaches this Agreement.

(d) **Notice and Cure.** Prior to termination of this Agreement by Employer pursuant to Article 6(b)(2) or by Physician pursuant to Article 6(c), the party seeking termination of this Agreement shall provide written notice to the other party ("Breaching Party") specifying the alleged breach of this Agreement by the Breaching Party. The Breaching Party shall have thirty (30) days from such notice to (i) effect a cure of the breach or (ii) in the event cure reasonably takes

longer than thirty (30) days to promptly initiate and continuously and diligently thereafter pursue cure to achievement within a reasonable time, whereupon this Agreement shall not terminate, but shall continue in full force and effect. In the event the Breaching Party fails to effect cure of any breach of this Agreement in accordance with this Article, the party seeking termination of this Agreement may terminate this Agreement immediately upon written notice to the Breaching Party.

(e) **Disability.** If the Physician shall develop a Substantial Disability, the Employer shall pay the Physician in accordance with Paragraph 4 hereof for the first ninety (90) days of such Substantial Disability, after which time all payments shall cease and this Agreement shall terminate. Any disability insurance payments funded by the Employer, which the Physician receives as a result of disability while the Physician is receiving salary pursuant to this Agreement, shall reduce the Employer's obligation to pay that Physician's salary during the Physician's disability by the amount of the insurance payments received. The Employer agrees that any such insurance payments shall be the property of the Physician, even after the Physician's right to a salary under this Agreement shall have terminated. If Physician, in the opinion of an independent physician selected by the Employer, is less than totally disabled and is able to perform a portion of Physician's duties hereunder, Employer may elect to offer to adjust Physician's duties and compensation, pro rata, and, subject to Physician's agreement, continue Physician's employment hereunder notwithstanding Paragraph 6(b) hereof. In such a case Physician's compensation shall be adjusted to reflect the reduced hours of service.

7. **Billings and Fees Earned.** Physician hereby recognizes that Employer shall bill for, collect, and retain all reimbursement for all professional services performed by the Physician hereunder under a billing number assigned to the Employer and Physician agrees that all fees, when accrued or paid are the sole property of the Employer and that Physician has no interest whatsoever in any such fees. Physician agrees at no time to charge any patient or payer or any other person with respect to professional medical services rendered by Physician hereunder. To the extent requested by Employer, Physician agrees to accept assignment of benefits and respect the terms thereof for all professional services furnished to Medicare and Medicaid beneficiaries and for any other third party payment program designated by Employer. Further, all compensation for professional services rendered by the Physician shall be paid to the Employer, including without limitation all compensation for services and activities by, on behalf of or under the supervision of Physician, including but not limited to all fees related to office visits; diagnostic studies; therapeutic intervention and treatment; inpatient and outpatient hospital and nursing home visits; consultations and care; medical director and clerical/administrative services; publications; and research: including all commercial, clinical trial organizations, or cooperative groups' revenues, whether approved by a WPAHS or an external Institutional Review Board, (whether paid to Physician or an entity to which Physician has assigned his right to payment). The Physician agrees, upon request of the Employer from time to time, to execute such documents and take such actions as may be necessary to assign said fees to the Employer. Physician shall cooperate in the billing and collection activities by, *inter alia*, maintaining charts and records in accordance with applicable legal and professional standards and in accordance with Employee policies and payor requirements, by providing support and explanation for billing and claims to third party payors, and by employing codes and other information to properly identify the service, which will be billed by Employer. Physician's failure to properly discharge this function shall constitute a material breach of this Agreement.

8. **Authority.** The Physician shall have no authority to contract for or obligate the Employer in any way unless the Employer's Board of Directors shall specifically confer such authority on the Physician. Upon request of the Employer, the Physician shall, from time to time, execute such documents as Employer may deem necessary in connection with the participation of the Physician and/or the Employer in Medicare, Pennsylvania Medical Assistance, Highmark Blue Cross/Blue Shield, Keystone Health Plan, HealthAmerica, U.S. Healthcare, Gateway Health Plan and such other insurance programs, managed care programs, employer and other third party health care programs, and other governmental health care programs as designated by Employer from time-to-time.

9. **Patient and Business Records.** Physician shall cause charts, records, and reports of all examinations, procedures, and other professional services rendered by Physician to be promptly prepared and filed in accordance with the laws of the Commonwealth of Pennsylvania, generally accepted medical practice and such directions as the Employer shall from time to time give. The ownership and right of control of all reports, records, and supporting documents prepared in connection with this Agreement shall vest exclusively in Employer, provided, however, that Physician shall have right of access to such reports, records, and supporting documentation as shall be provided by law to permit Physician to perform his or her duties under this Agreement, and as may be necessary in matters arising from Physician's services hereunder and involving professional liability, professional licensure, governmental action, or other similar matters. Upon termination of this Agreement, the Physician may take the originals or copies, at the Employer's option, of those files regarding patients that elect to be served by the departing Physician, provided that the patient or client requests the release of said records to the Physician in a writing acceptable to the Employer. All other medical records, business records, documents, or files of any nature shall remain the property of the Employer or the MSO.

10. **Loyalty and Non-competition.**

(a) During the Term of this Agreement and any renewals or extensions hereof or replacements hereof, the Physician shall not at any time or place or to any extent whatsoever, directly or indirectly, without the express prior written consent of WPAHS, engage in professional practice, management, or administration, or in any activity competitive with or adverse to the business, practice, management, administration, or affairs of the Employer, WPAHS, or any WPAHS affiliate. Prohibited activities include, but are not limited to the copying or use of patient files, names, or address lists; the establishment of a separate office or arrangements to establish a separate office in the future; and the solicitation or recruitment of patients or employees of the Employer, WPAHS, or any affiliate of either.

(b) During the Term of this Agreement and any renewals or extensions hereof or replacements hereof, and for a period of one (1) year thereafter, Physician shall not, directly or indirectly, (i) within a radius of ten (10) miles of any office of the Employer located within Allegheny County, Pennsylvania and a radius of fifteen (15) miles of any office of Employer located outside of Allegheny County, Pennsylvania, whether existing at the time of execution of this Agreement or subsequently established, engage in the practice of medicine, or (ii) within Allegheny County, Pennsylvania and each contiguous county thereto, engage in the business of managing or administering medical practices or medical services, the development or assembling of

a physician network, the solicitation or recruitment of patients or employees of Employer, WPAHS, or the affiliates of either, or the disruption of any clinical or business relationship between Employer, WPAHS, or the affiliates of either with any third party. The covenant set forth in Paragraph 10(b) shall not apply to the Physician in the event the Physician terminates this Agreement due to a material breach of this Agreement by the Employer and the Physician was not in breach of this Agreement at the time of termination.

(c) The Physician acknowledges and warrants that Physician will be fully able to earn an adequate livelihood if this Agreement is enforced against him or her. The Physician further agrees and warrants that the covenants contained herein are reasonable, that valid consideration has been and will be received therefor and that the agreements set forth herein are the result of arms length negotiation between the parties hereto.

(d) If any of the provisions or covenants contained in this Paragraph 10 are hereafter held by any court or governmental authority of competent jurisdiction to be invalid and/or unenforceable in any jurisdiction because of the duration, breadth, or scope thereof, such provision or covenant shall be deemed to be reduced in duration, breadth, or scope, as the case may be, to the extent required to make it valid and enforceable and in its revised form, such provision shall remain in full force and effect; provided, however, that the determination of such court or governmental authority shall not affect the validity or enforceability of such provision or covenant in any other jurisdiction. This Paragraph 10 shall survive the termination of this Agreement.

11. **Confidential Information.** Physician shall maintain the confidentiality of patient information acquired by virtue of, arising out of, or in connection with this Agreement. Physician shall not disclose or reveal to any unauthorized person any Confidential Information relating to Employer, WPAHS, or their affiliates. Physician agrees to use Confidential Information solely to fulfill Physician's obligations pursuant to this Agreement and for no other purpose. Physician agrees not to use Confidential Information for Physician's own benefit or the benefit of any third party. "**Confidential Information**" includes all information contained in any form of or relating to Employer, WPAHS, and their affiliates, including without limitation (i) all medical records of patients whether developed prior, during, or subsequent to the Term of this Agreement, (ii) all financial records and compilations including, but not limited to all budgets, forecasts, financial statements, and summaries and aggregations of any of the foregoing, (iii) all corporate records, (iv) all marketing, strategic, financial, and other plans, strategies, and initiatives (v) all lists and other compilations of patients names, addresses, and other patient demographic information, (vi) all supplier, payer, and employee lists and information, (vii) the terms of all relationships with payers, managed care companies, and any other contracting parties, and (viii) any other information deemed to be important to operations, performance, financial, competitive, or strategic position of Employer, WPAHS, and their affiliates. Upon the termination or expiration of this Agreement for any reason, Physician shall refrain from taking any action to disparage or to the detriment of Employer, WPAHS, and their affiliates in any way including, but not limited to supporting, encouraging, or facilitating any patient, third party payer, employee, or any other party maintaining a relationship with Employer, WPAHS, and their affiliates from terminating or modifying such relationship in any way.

12. Employer's Remedies Upon Breach. Physician acknowledges that damages alone shall not be an adequate remedy for any breach by Physician of the covenants contained in Paragraph 10 or 11 of this Agreement. Physician agrees that in addition to any other remedies that Employer may have, Employer shall be entitled to injunctive relief in any court of competent jurisdiction for any breach or threatened breach of any such covenant by Physician and to any other equitable remedies that a court may award, including without limitation an extension of the period of restriction equal to the period during which any such violation occurs.

13. Tax Withholding. The Employer shall withhold from any salary and/or benefits payable under this Agreement all federal, state, and other taxes as shall be required pursuant to any law or governmental regulation or ruling, or as is customary.

14. Physician's Representations, Warranties and Covenants. The Physician represents, warrants, and covenants to the Employer that:

(a) The Physician holds, and throughout the Term of this Agreement shall maintain a valid and unrestricted license to practice medicine in the Commonwealth of Pennsylvania, and all necessary and customary narcotics and controlled substances licenses and numbers.

(b) To the extent participation is available to Physician, Physician will enroll and throughout the Term of this Agreement to remain a participant in Medicare, Pennsylvania Medical Assistance, Highmark Blue Cross/Blue Shield, HealthAmerica, U.S. Healthcare, Gateway Health Plan, all products of each of the foregoing, and such other insurance programs, managed care programs, employer and other third party health care programs, and other governmental health care programs as designated by WPAHS from time-to-time.

(c) The Physician holds, and will continue throughout the Term of this Agreement to hold, all other licenses, permits, and authorizations necessary or useful to the practice of medicine in Pennsylvania.

(d) All licenses, permits, and authorizations described in (a), (b), and (c) above are in full force and effect and there are no pending or threatened proceedings to revoke, modify, or substantially limit any such license, permit or authorization.

(e) The Physician will treat all patients presented for care without regard to race, sex, national origin, religion, insurance status, or lack of insurance or ability or inability to pay for the services.

(f) The Physician holds, and throughout the Term of this Agreement shall maintain, appropriate unrestricted medical staff privileges at such WPAHS hospitals as designated by WPAHS from time to time with clinical privileges sufficient to permit the Physician to perform all services required under this Agreement. Nothing herein shall be construed to grant a right to hospital medical staff membership and all appointments and reappointments shall be processed and shall expire in accordance with the procedures of the hospitals and their medical staffs, as amended from time to time, WPAHS shall be a third party beneficiary of this provision. Physician will not

hold or maintain medical staff membership or clinical privileges or provide professional or clinical services at any hospital or other clinical treatment site without the written approval of WPAHS.

15. Effect of Prior Agreements. Effective January 1, 2004, this Agreement contains the entire understanding between the parties hereto and supersedes any prior agreement, oral or written, between the Employer or any predecessor of the Employer and the Physician. In particular, effective January 1, 2004, the Management Agreement by and between Employer and West Penn Specialty MSO, Inc. dated April 22, 1997, is terminated; the Employment Agreement between Employer and Physician dated April 22, 1997, is terminated; and the Repurchase Option set forth in Article 7.5 of the Asset Purchase Agreement by and between Employer, Physician, and other parties dated April 22, 1997, as may have been modified in the Amendment to Asset Purchase Agreement dated January 1, 2000, including Article 2 of such Amendment to Asset Purchase Agreement, is terminated to the limited extent of the Repurchase Option only.

16. Assignment. This Agreement and all rights, duties, obligations, responsibilities, benefits, and interests hereunder are personal to the Physician and neither this Agreement nor any right, duty, obligation, responsibility, benefit, or interest of the Physician herein or arising hereunder shall be voluntarily or involuntarily sold, subcontracted, transferred, or assigned by the Physician. Any such attempted sale, subcontract, transfer, or assignment shall be null and void. Employer may assign this agreement to any affiliate of WPAHS, subject to Employer and such WPAHS affiliate being jointly and severally bound to fulfill all obligations to Physician pursuant this Agreement, and provided that any such assignment will not have the effect of combining distinct Medical Center Clinic management, operations, or clinical practice with any other medical practice.

17. No Attachment. Except as required by law, no right to receive payments under this Agreement shall be subject to anticipation, commutation, alienation, sale, assignment, encumbrance, charge, pledge, or hypothecation or to execution, attachment, levy, or similar process or assignment by operation of law, and any attempt, voluntary or involuntary, to effect any such action shall be null, void, and of no effect.

18. Binding Agreement. This Agreement shall be binding upon, and inure to the benefit of, the Physician and the Employer and their respective permitted successors and assigns, subject to the provisions of Paragraph 16 hereof.

19. Amendment of Agreement. This Agreement may not be modified or amended except by an instrument in writing signed by the parties hereto.

20. Waiver. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

21. Savings Clause. This Agreement is intended not to constitute a "financial relationship" within the meaning of 42 U.S.C. § 1395m because it qualifies for the exception set

forth in 42 U.S.C. § 1395nn (e)(2). Should this Agreement ever cease to so qualify, otherwise be deemed to be in violation of law (including without limitation any statute, regulation, or other law prohibiting remuneration for referrals), or threaten the tax exempt status of WPAHS or any affiliate, upon the written request of either party ("Savings Notice") the parties agree to renegotiate the Agreement in a manner that will cure said violation or failure to qualify. If the parties are unable to agree upon an alternative solution within 90 days of the date of the Savings Notice then for a period of 30 days following said 90-day period, either party may terminate this Agreement by so advising the other in writing. If neither party so terminates this Agreement within said 30-day period, then this Agreement shall continue and the right to terminate it under this paragraph shall lapse with respect to said Savings Notice. Time is of the essence with respect to this Paragraph 21. The parties, or either of them, may invoke this Paragraph 21 more than once and it shall not be deemed to have been exhausted by one invocation thereof or to have been waived by a past failure to invoke it; provided, however, that no party may invoke this Paragraph 21 more than once for the same facts and circumstances.

22. **Notice.** Notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered in person or by United States Certified Mail - Return Receipt Requested and postage prepaid, addressed as follows:

Employer:

Medical Center Clinic
4800 Friendship Avenue
Pittsburgh, PA 15224
Attention: Charles H. Srodes, President

With a copies to:

The Western Pennsylvania Hospital
4800 Friendship Avenue
Pittsburgh, PA 15224
Attention: James M. Collins, President and Chief Executive Officer

West Penn Allegheny Health System
320 E. North Avenue
Pittsburgh, PA 15212
Attention: Jerry J. Fedele, Esq., Sr. VP & General Counsel

West Penn Allegheny Health System
4800 Friendship Avenue
Pittsburgh, PA 15224
Attention: Charles M. O'Brien, President and Chief Executive Officer

Physician:

With a copy to:

Anne D. Mullaney, Esq.
Thorp, Reed & Armstrong
14th Floor
One Oxford Centre
Pittsburgh, PA 15219

Either party may change its address for receipt of notices pursuant to this Agreement by providing written notice of such change to the other party pursuant to the provisions hereof.

23. Severability. If, for any reason, any provision of this Agreement is held invalid, such invalidity shall not affect any other provision of this Agreement not held so invalid, and each such other provision shall to the full extent consistent with law continue in full force and effect. If any provision of this Agreement shall be held invalid in part, such invalidity shall in no way affect the rest of such provision which, together with all other provisions of this Agreement, shall to the full extent consistent with law continue in full force and effect.

24. Headings. The headings of paragraphs herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

25. Governing Law. This Agreement has been executed and delivered in the Commonwealth of Pennsylvania and its validity, interpretation, performance, and enforcement shall be governed by the laws of said Commonwealth. The parties agree that the Federal and State courts situate in Allegheny County, Pennsylvania shall be the sole and exclusive forum relative to any and all disputes among them. The parties hereto by execution of this Agreement submit to the in personam jurisdiction of the Federal and State courts situate in Allegheny County, Pennsylvania.

26. Federal Access to Books and Documents. Physician agrees that he will perform the obligations which may from time to time be applicable to Physician, as specified in Social Security Act 1861(v)(1)(I) and the regulations promulgated in implementation thereof (initially codified at 42 C.F.R. 420, Subpart D).

In the event any request for Physician's or a related subcontractor's books, documents, and records is made pursuant to Social Security Act 1861(v)(1)(I) and 42 C.F.R. 420, Subpart D, Physician or any subcontractor related to Physician shall promptly give notice of such request to Employer and provide Employer with a copy of such request, and thereafter consult and cooperate with the Employer concerning the proper response to such request. Additionally, Physician or any subcontractor related to Physician shall provide Employer with a copy of each book, document, and record made available to one or more of the persons and agencies above or shall identify each such book, document, and record to Employer and shall grant Employer access thereto for review and copying.

In addition, Physician agrees to make available to the Employer such information and records as Employer may reasonably request to facilitate Employer and/or Hospital's compliance with the requirements of the Medicare Conditions of Participation and the Medicaid State Plan and to facilitate Employer and Hospital's substantiation of its reasonable costs or other claim for reimbursement in accordance with the requirements applicable to Employer and Hospital pursuant to the Medicare and Medicaid programs including, without limitation, the requirements contained in 42 C.F.R. 405, Subpart D, 42 C.F.R. 420, Subpart C, and 42 C.F.R. 455, Subpart B; and any other information required by any third party payment program or private payment entity from which Employer or Hospital may seek payment.

IN WITNESS WHEREOF, the Employer has caused this Agreement to be executed and its seal to be affixed hereunto by its officers thereunto duly authorized, and the Physician has signed this Agreement, all as of the day and year first above written.

WEST PENN ALLEGHENY ONCOLOGY NETWORK

By: _____

Title: _____

PHYSICIAN

_____, M.D.

(Srodes Charles.com)

Medical Center Clinic
Economic Appendix
July 1, 2002

The economic terms of the relationship among West Penn Allegheny Oncology Network d/b/a Medical Center Clinic ("MCC"), Medical Center Clinic, P.C., The Western Pennsylvania Hospital ("WPH"), West Penn Specialty Management Services Organization ("WP SMSO"), and West Penn Allegheny Health System ("WPAHS") and its affiliates as set forth herein shall be for a period of six (6) years and six (6) months, effective July 1, 2002 and ending December 31, 2008 ("Term"). Effective July 1, 2002, this Economic Appendix shall apply to the relationship between Medical Center Clinic, P.C. and WPAHS and its affiliates. Effective January 1, 2004, the employment of the Medical Center Clinic, P.C. physicians will transition to West Penn Allegheny Oncology Network and this Economic Appendix will continue to apply to the relationship between West Penn Allegheny Oncology Network and WPAHS and its affiliates in a seamless fashion as if there were no transition in the legal employment relationship of the Medical Center Clinic, P.C. physicians.

1. Base Salary

The Base Salary for any newly or currently employed physicians of MCC will be determined based upon the years of tenure with MCC. Clinical experience, market capabilities, or other special circumstances as they relate to a physician or group of physicians may merit compensation at a Base Salary tier different than determined based upon years of tenure with MCC. The MCC Board of Directors will determine such exceptions and in no case shall the Base Salary exceed the Base Salary of the Senior Physicians unless approved by the MCC Board of Directors. Based upon years of tenure, the following Base Salary tiers shall apply during the Term.

<u>Tenure with MCC</u>	<u>Base Salary (as defined)</u>
Year 1 Tier:	\$180,000 (One Hundred Eighty Thousand Dollars)
Year 2 Tier:	\$200,000 (Two Hundred Thousand Dollars)
Year 3 Tier:	\$220,000 (Two Hundred Twenty Thousand Dollars)
Year 4 Tier and above:	\$240,000 (Two Hundred Forty Thousand Dollars)

For the Senior Physicians, Base Salary will be set at Two Hundred Forty Thousand Dollars per annum (\$240,000) during the Term.

2. Productivity

All MCC Physicians will perform duties consistent with an active and thriving medical and hematology oncology practice during each year or partial year of the Term and shall maintain in the aggregate levels of productivity at least equivalent to the levels produced during

the fiscal year July 1, 2001 to June 30, 2002 adjusted for the number of full time equivalent ("FTE") Physicians.

3. Base Compensation Pool Adjustments

The Base Compensation Pool is subject to increase or decrease, (i) at any time based upon changes in the number of FTE Physicians, (ii) at any time based upon changes in Physician Base Salary, as described in Section 1, and (iii) at the beginning of any Contract Year as a result of the MCC Practice Performance Adjustment. The adjustment pursuant to 3(i) will be the product of the respective Physician Base Compensation ("PBC"), as defined herein under Section 7, times the change in the respective Physician FTE complement as may occur at any time during the Contract Year. The adjustment pursuant to 3(ii), the "Practice Performance Adjustment", shall be defined as the lesser of, (i). the most recently concluded Contract Year Net Income Available for Distribution minus the immediately preceding concluded Contract Year Net Income Available for Distribution or, (ii). five percent (5%) of the most recently concluded Contract Year Base Compensation Pool, in all cases applied to the subsequent year Base Compensation Pool. The subsequent year Base Compensation Pool shall be increased or decreased up to a maximum adjustment of five percent (5%) in any Contract Year based upon the Practice Performance Adjustment, but only after all other adjustments have been made pursuant to paragraph 3(i) and 3(ii). Finally, the Base Compensation Pool shall in no case be reduced as a result of the Practice Performance Adjustment pursuant to paragraph 3(iii) below the first Contract Year Base Compensation Pool of \$3,353,000 adjusted pursuant to paragraphs 3(i) and 3(ii).

Example 1: Base Compensation Pool Adjustment per 3 (iii). Practice Performance Adjustment

	NIAD Preceding Contract Year	NIAD Current Contract Year	NIAD Change	Maximum Adjustment = 5%	Base Compensation Pool Current Year -	Base Compensation Pool Subsequent Year	Practice Performance Adjustment
Decrease	\$ 2,345,000	\$ 2,000,000	\$ (345,000) (-14.7%)	\$ (197,000) (-5.0%)	\$ 3,940,000	\$ 3,743,000 (-5.0%)	\$ (197,000)
Decrease	\$ 2,345,000	\$ 2,250,000	\$ (95,000) (-4.1%)	\$ (197,000) (-5.0%)	\$ 3,940,000	\$ 3,845,000 (-2.4%)	\$ (95,000)
Increase	\$ 2,345,000	\$ 2,440,000	\$ 95,000 4.1%	\$ 197,000 5.0%	\$ 3,940,000	\$ 4,035,000 2.4%	\$ 95,000
Increase	\$ 2,345,000	\$ 2,690,000	\$ 345,000 14.7%	\$ 197,000 5.0%	\$ 3,940,000	\$ 4,137,000 5.0%	\$ 197,000

First Contract Year (10 FTE physicians and no other adjustments)	Base Compensation Pool = \$ 3,353,000
Current Contract Year (10 FTE physicians and no other adjustments)	Base Compensation Pool = \$ 3,940,000
Maximum / Minimum Base Compensation Pool Adjustment = 5.0% times Current Contract Year Base Compensation Pool	Maximum Adjustment = \$ 197,000 Minimum Adjustment = (\$ 197,000)

**Example 2: Base Compensation Pool Adjustment per 3 (iii). Practice Performance Adjustment:
Adjustment Limitation**

	NIAD Preceding Contract Year	NIAD Current Contract Year	NIAD Change	Maximum Adjustment = 5%	Base Compensation Pool Current Year	Base Compensation Pool Subsequent Year	Practice Performance Adjustment
Decrease	\$ 2,345,000	\$ 2,000,000	\$ (345,000) (-14.7%)	\$ (174,900) (-5.0%)	\$ 3,498,000	\$ 3,353,000 (-4.1%)	\$ (145,000)

First Contract Year (10 FTE physicians and no other adjustments)	Base Compensation Pool = \$ 3,353,000
Current Contract Year (10 FTE physicians and no other adjustments)	Base Compensation Pool = \$ 3,498,000
Maximum / Minimum Base Compensation Pool Adjustment = 5.0% times Current Contract Year Base Compensation Pool	Maximum Adjustment = \$ 174,900 Minimum Adjustment = (\$ 174,900)

4. Incentive Compensation

No later than ninety (90) days following the end of each Contract Year, MCC shall make available to the MCC Compensation Committee the Physician Incentive Compensation Pool, if any, for distribution by the MCC Compensation Committee of Incentive Compensation to such Physicians and in such amounts as the MCC Compensation Committee determines appropriate, subject to approval by the MCC Board of Directors, and retention of any amount as determined appropriate or necessary by the MCC Compensation Committee.

5. MCC Compensation Committee

The MCC Compensation Committee shall initially be comprised of Charles H. Srodes, M.D., Cynthia K. Evans, M.D., Sigurdur R. Petursson, M.D., Kathy J. Selvaggi, M.D., and the WPH / WP SMSO designated administrative representative for MCC. Such Physicians shall continue as members of the MCC Compensation Committee for so long as they are employed by MCC. The MCC Compensation Committee may add or delete such Physician members to the MCC Compensation Committee as determined by majority vote of Physician members and the concurrence of the WPH/WP SMSO designated representative.

The MCC Compensation Committee members will determine the method and allocation of available Physician Incentive Compensation. The method and allocation of adjustments to Incentive Compensation is subject to approval by the Board of Directors. The MCC Compensation Committee shall not have any authority to obligate MCC to pay Base Compensation or Incentive Compensation in excess of those amounts provided for herein, any Physician Employment Agreement, any other agreement between the affected parties, as limited by the MCC Board of Directors, or that would reasonably be determined to be excessive compensation, private benefit, or private inurement by the Internal Revenue Service.

6. Reasonable Compensation

All compensation received by a Physician from MCC, including but not limited to Base Compensation, Incentive Compensation, or any other compensation, benefits, or reimbursement of expenses of any nature, shall at all times be subject to determination by the MCC Board of Directors (without participation by MCC Physicians) and WPAHS Board of Directors to be reasonable and not deemed to be excessive compensation, private inurement, or private benefit as determined by such Boards of Directors pursuant to Internal Revenue Service guidelines as may be in effect from time to time and subject to reduction in order to satisfy such standards.

In no event will total compensation for any MCC Physician, including Base Salary and Incentive Compensation, exceed the 90th percentile of market compensation for similar specialty physicians according to the most recently available compensation study by the Medical Group Management Association or such alternative market compensation study determined applicable by the MCC Board of Directors without participation by any MCC physician.

7. Definitions

"Actual Expenses" shall mean the expenses of MCC, WPAHS and its affiliates, WPH, WP SMSO, or any other management company or third party for or reasonably allocated to MCC, in each case including categories and types of expenses as currently set forth in the MCC's annual budget plan, including, but not limited to, all operating expenses of the practice, all direct clinical and business development expenses carried out for or on behalf of MCC, non-physician employee salaries, physician and non-physician employee health and welfare benefits, non-physician employee pension expense (subject to the limitations described herein under "Pension Credit"), physician and non-physician malpractice and liability insurance, and physician and non-physician workers' compensation insurance. All Actual Expenses will be measured on an accrual basis in accordance with generally accepted accounting principles, consistently applied, and not including nonspecific overhead allocations from WPH, WP SMSO or WPAHS. Actual Expenses shall exclude any expenditure described as being: (i) a component of the Base Compensation Pool, (ii) MCC Physician Expense Responsibility or, (iii) any expenditure mutually agreed to be excluded as outlined in the Master Agreement

"Actual Revenues" shall mean any and all revenues from all sources received or accrued by MCC or any Physician, including but not limited to clinical, administrative, consulting, or research revenues and fees, during the applicable Contract Year in question for any and all services and activities by, on behalf of, or under the supervision of the Physicians, including physician extenders and other employees, including without limitation any amounts as currently recorded or as anticipated, from all sources and any other consideration paid in exchange for professional or medical service rendered by Physician, as measured on an accrual basis in accordance with generally accepted accounting principles, consistently applied. These amounts to be multiplied by a percentage equal to the MCC's historic collection percentage adjusted on a periodic basis to reflect the MCC's actual collection rate and changes in rates and reimbursement. Any Director fees for physicians shall not be included in Actual Revenues for

NIAD calculation, and shall be the sole revenue source excluded from the determination of total Actual Revenues for MCC.

"Base Compensation Pool" shall mean the total pool of funds that is comprised of (i) Physicians' Base Salary, (ii) Pension Credit, (iii) Physician Business Expense, (iv) MCC's portion of Physician payroll taxes, and (v) Physician Expense Responsibility. For Contract One (1) Year beginning July 1, 2002, the Base Compensation Pool is set at three million three hundred and fifty-three thousand dollars (\$3,353,000) based upon ten (10) FTE complement Physicians.

"Contract Year" shall mean the twelve-month period from July 1 to June 30. Contract Year One (1) shall mean the period from July 1, 2002 through June 30, 2003 and the final partial Contract Year being the period July 1, 2008 through December 31, 2008. Contract Year Two (2) shall mean the period July 1, 2003 through June 30, 2004, notwithstanding the transition in the legal employment relationship of Medical Center Clinic, P.C. physicians to West Penn Allegheny Oncology Network.

"Division Support" shall mean any investments made by WPAHS and its affiliates, WPH or WP SMSO in support of the MCC's business as mutually agreed including without limitation those investments for: (a) **"Division Capital Support"** which includes (i) Information Systems and (ii) General Capital including leasehold improvements and renovations, clinical and office equipment and furnishings, and (b) **"Division Operating Support"** which includes (i) Physician recruitment support (but excluding physician compensation support), (ii) marketing, and (iii) any other MCC business or clinical support provided by WP SMSO, WPH or WPAHS and its affiliates, as mutually agreed. Division Support shall be identified and appropriate and reasonable plans will be submitted for approval as part of the annual budget process or on an as needed basis for approval in a timely manner during the Contract Year. Division Support will be excluded from the determination of MCC Net Income Available for Distribution and will be recaptured through Recovery Of Investment or Accelerated Recovery Of Investment defined below. If this Agreement expires or is terminated for any reason, the total balance of any and all outstanding Division Support less any Recovery of Investment and Accelerated Recovery of Investment already paid, shall be immediately due and payable by Physicians to WPAHS.

"Net Income Available for Distribution" or ("NIAD") is defined as that amount by which Actual Revenues exceeds the sum of (i) all Actual Expenses, (ii) the Base Compensation Pool, and (iii) Recovery Of Investment for any Contract Year in question.

"Physician Incentive Compensation Pool", if any, for any Contract Year, will be allocated based upon the following tiers:

Tier 1: For all NIAD less than or equal to two million dollars (\$2,000,000), the Physician Incentive Compensation Pool will equal fifty percent (50%) of the NIAD for such Contract Year.

Tier 2: For all NIAD greater than two million dollars (\$2,000,000) and less than or equal to four million dollars (\$4,000,000), the **Physician Incentive Compensation Pool** will equal sixty percent (60%) of the NIAD for such Contract Year.

Tier 3: For all NIAD greater than four million dollars (\$4,000,000), the **Physician Incentive Compensation Pool** will equal seventy percent (70%) of the NIAD for such Contract Year.

Any NIAD after allocation of the Physician Incentive Compensation Pool will be available to WPAHS and its affiliates, WPH or WPSMSO. Amounts in excess of one million dollars (\$1,000,000) but less than one million and eight hundred thousand dollars (\$1,800,000) will be applied first as Accelerated Recovery of Investment for the most recently completed Contract Year.

P&L		Component of P&L
Revenue (+)	AR \$	<ul style="list-style-type: none"> Actual Revenues
LESS: Expenses (-)	AE \$	<ul style="list-style-type: none"> Actual Expenses Excludes: <ol style="list-style-type: none"> Division Capital Support (Depreciation Expense) Division Operating Support (Operating Expense)
LESS: Base Compensation Pool (-)	BCP \$	<ul style="list-style-type: none"> Per Agreement
LESS: Recovery of Investment (-)	ROI \$	<ul style="list-style-type: none"> Recovery of Division Support <ol style="list-style-type: none"> Capital Support Operating Support
EQUALS: Net Income Available for Distribution	NIAD \$	<ul style="list-style-type: none"> NIAD = [AR \$] less [AE \$] less [BCP \$] less [ROI \$] less [DIRECTOR FEES \$ (as described under "Actual Revenues")]
Physician Incentive Compensation Pool	PICP \$	<ul style="list-style-type: none"> Allocated per Agreement
WPAHS, WPH or WP SMSO	WP SMSO \$	<ul style="list-style-type: none"> Allocated per Agreement

"Physician" shall include all physicians under contractual agreement with or providing services for compensation on behalf of MCC.

"Physician Base Compensation ("PBC")" shall mean the total of, (i) annual Base Salary as indicated in this Economic Appendix, under Section 1 or the Base Salary as described

in the individual Physician Employment Agreement, (ii) Physician Business Expense ("PBE"), (iii) MCC's portion of Physician's payroll taxes as determined on Base Salary only as described under Section 1 or the Base Salary as described in the individual Physician Employment Agreement, and (iv) Pension Credit ("PC").

"Physician Business Expenses ("PBE")" shall mean the Physician-related expenses detailed and categorized below to be paid from Base Compensation. As currently defined and as described below, Physician Business Expenses will be set at nineteen thousand dollars (\$19,000) for each FTE Physician complement per Contract Year. MCC will set sub-limits for the PBE categories described below, which MCC can modify from time to time. MCC will determine specific PBE policies, documentation requirements, limitations, and reasonable allocations based upon allotted funds, that will be consistently applied to all physicians. Adjustments to these amounts, either up or down may be made during the annual budgetary process. Any amounts not expended will be retained in the Base Compensation Pool, and maybe used to meet Physician Expense Responsibility or to be paid out as Physician Incentive. Physician must submit an itemized accounting of expenses that meet the IRS regulations and appropriate WPAHS policies to qualify for business related reimbursement. PBE I will be paid directly to physician as described below. Any Physician Business Expense that has been paid or advanced to the Physician that is absent appropriate accounting per IRS regulations will be included as compensation and subject to personal taxation. Physician Business Expenses shall include, to a Contract Year maximum allowance per FTE physician, the following:

PBE (I) maximum allowance is \$6,000 (six thousand dollars) per Contract Year

- Automobile expenses to include purchase and lease payments, gasoline, maintenance, insurance, and other automobile costs and Physician's parking fees. MCC will make this payment directly to the Physician as compensation, consistent with MCC's customary payroll practices.

PBE (II) maximum allowance is \$4,500 (five thousand dollars) per Contract Year.

- Meeting and seminar expenses including travel, lodging, meals, and registration fees.
- Physician entertainment expenses and business gifts.

PBE (III) maximum allowance is \$ 2,000 (two thousand dollars) per Contract Year

- Physician's professional fees.
- Medical staff dues and assessments.
- Professional society dues and assessments.

PBE (IV) maximum allowance is \$2,000 (two thousand dollars) per Contract Year

- Life Insurance not included under the Employer's plans.
- Professional books and subscriptions.

PBE (V) maximum allowance is \$4,500 (four thousand and five hundred dollars) per Contract Year

- Business portion of home and cellular telephone.
- Home office expenses including lease, utility, and supply expenses.
- Personal computer hardware, software and access fees, for physician business use.

“Physician Expense Responsibility” shall mean that the following expenditures will be the Physician’s responsibility for payment, and shall not to be included as an Actual Expense, of MCC, WPH, WP SMSO, WPAHS, or any affiliate:

- Contributions to the West Penn Allegheny Health System retirement plans of MCC, to the extent that it exceeds the Pension Credit.
- Any costs for the Medical Center Clinic, Professional Corporation (MCC, P.C.) retirement plans.
- Entertainment, donations and gift expenses not directly related to the business of MCC, WPH, WP SMSO, WPAHS or their affiliates.
- Any Capital or Operating expenditures not directly related to the business of MCC, WPH, WP SMSO, WPAHS or their affiliates, or any Capital or Operating expenditures that are indicated to be the direct and personal responsibility of MCC Physicians under this Master Agreement, including both the Economic and Information Technology Appendices.
- The cost of merit or performance bonus plans or salary structures for non-physician employees of MCC shall be paid by the Physicians to the extent it exceeds the cost or salary structure that would be incurred for such non-physician employees if they were covered by the WPH or WP SMSO’s performance, merit or salary structure, as currently in place or to be implemented and approved for physician practices.
- Physician short-term disability insurance.
- Any Physician payroll taxes in excess of those defined under Physician Base Compensation (“PBC”).
- All other items identified in any agreement as being the responsibility of the MCC Physicians.

“Physician Representative” shall mean Charles H. Srodes, M.D., or in the event of his inability or unwillingness to serve, a replacement will be appointed by The Board of Directors of MCC.

“Pension Credit (“PC”) shall be the sum of two percent (2%) of non-physician employees’ salaries per Contract Year, plus twenty-three thousand dollars (\$23,000) per Contract Year per FTE Physician. These amounts shall constitute WPH’s contribution to the MCC funding obligation for MCC’s portion of the WPAHS retirement plans for all eligible MCC physician and non-physician employees. All pension costs in excess of the Pension Credit will be deducted from the Base Compensation Pool and/or Physician Incentive Compensation Pool. A one-time tax impact Pension Credit adjustment of fifty-five thousand dollars (\$55,000) has been included in the Base Compensation Pool for the Contract Year beginning July 1, 2002, with no other adjustments, compensation or contributions being made for the term of this Economic Appendix for this purpose.

“Recovery of Investment (ROI)” shall mean the recapture of Division Support by WPAHS /WPSMSO or its affiliates over an amortized period in an amount equal to 10% per year. Recovery of Investment will be in lieu of recorded depreciation for Division Capital Support and in lieu of recorded operating expense for Division Operating Support. **“Accelerated Recovery of Investment (ARI)”**, as provided for in the definition of Physician Incentive

Compensation Pool, shall be defined as the recapture of only the most recently completed Contract Year Division Support, net the reduction of the ROI for that Contract Year, in an amount not to exceed the most recently completed available Contract Year NIAD (as defined under Section 7 "Physician Incentive Compensation Pool"), between one million dollars (\$1,000,000) but less than one million and eight hundred thousand dollars (\$1,800,000). However, for Contract Year One (1) of this Economic Appendix, ARI recapture shall include the Division Support balances for Contract Year One (1) and any outstanding Division Support balances prior to Contract Year One (1), as of June 30, 2003, subject to the annual limits set herein. In all cases, ROI will be determined and recaptured prior to ARI for any Contract Year period. While ARI will be determined and recaptured at the end of that Contract Year, net the reduction of the ROI for that Contract Year.

"Senior Physicians" shall mean the physician employees of the Employer consisting of Charles H. Srodes, M.D., Sigurdur R. Petursson, M.D., Cynthia K. Evans, M.D., and Kathy J. Selvaggi, M.D.

"Unpaid Physician Incentive Compensation Pool" shall mean those funds available for distribution during any Contract Year of the Term, as defined under "Physician Incentive Compensation Pool", that are not actually paid-out during the current or any prior Contract Years, including any accrued Unpaid Physician Incentive funds as of June 30, 2003. These funds shall not be considered a component of the Base Compensation Pool described herein, nor be included in the determination of any Base Compensation Pool Adjustments.

MASTER AGREEMENT

This Master Agreement is entered into this 15th of July 2003, by and between West Penn Allegheny Oncology Network, doing business as Medical Center Clinic ("MCC") and West Penn Allegheny Health System ("WPAHS").

WITNESSETH:

WHEREAS, WPAHS maintains comprehensive clinical, educational, and research programs and services in oncology; and

WHEREAS, WPAHS currently possesses and is continuing to develop comprehensive integrated oncology programs and services within the West Penn Allegheny Cancer Institute ("WPACI"), including quaternary, tertiary, and community hospital oncology services at WPAHS hospitals, WPACI affiliates, and free-standing locations; and

WHEREAS, MCC is a corporation affiliated with WPAHS and is envisioned to play a significant role in the development of the WPACI medical oncology network; and

WHEREAS, WPAHS and MCC desire to set forth their agreements in writing regarding MCC's role in the development of the WPACI medical oncology network.

7/14/03

NOW, THEREFORE, in consideration of the mutual covenants herein contained and other good and valuable consideration, and intending to be legally bound hereby, the parties agree as follows:

1. WPACI Community Oncology Network Leadership. Carl Srodes, M.D. will serve as the Director of the West Penn Allegheny Cancer Institute Community Oncology Network ("WPACI Community Oncology Network"). The Director of the WPACI Community Oncology Network will oversee the development of physician office based community medical oncology services for WPAHS hospitals, WPACI affiliates, and freestanding WPACI medical oncology sites, as currently in place or as designated by WPAHS or WPACI from time to time.

The Director of the WPACI Community Oncology Network will report to the WPACI Director of Medical Oncology and WPAHS Chief Executive Officer or his designee. The Director of the WPACI Community Oncology Network will serve as a member of the WPAHS Oncology Advisory Board and the WPACI Medical Oncology Physician Leadership Group.

The Director of the WPACI Community Oncology Network will fulfill the following duties and responsibilities:

- Work cooperatively with the leadership of WPAHS Hospitals, WPACI, and WPACI affiliates in order to fulfill their medical oncology needs.
- Consult with Community Health Alliance Hospitals and other WPACI affiliates to assist in the development of affiliated medical oncology programs. Initial

7/14/03

consultations shall be without charge. Intensive consultation and program development will be based upon a negotiated fee for consulting services.

- Work as an active participant in the development of WPACI strategy through the WPACI Medical Oncology Physician Leadership Group.
- Develop staffing and recruitment plans for the WPACI Community Oncology Network and assist in the recruitment of physicians to the Network in coordination with the WPACI Director of Medical Oncology, consistent with Article 2 of this Agreement.
- Provide physician management services to the WPACI Community Oncology Network as may be mutually agreed from time to time.
- Provide clinical quality management services to the WPACI Community Oncology Network as may be mutually agreed from time to time.
- Such other duties and responsibilities as reasonably designated by the WPACI Director of Medical Oncology or WPAHS Chief Executive Officer or his designee from time to time.

In consideration of the duties and responsibilities as Director of the WPACI Community Oncology Network, Carl Srodes, M.D. shall receive compensation in the amount of Seventy Five Thousand Dollars (\$75,000) per annum.

Any successor to Carl Srodes, M.D. as the Director of the WPACI Community Oncology Network will be selected by the Board of Directors of MCC, will hold the leadership position as

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Director of the WPACI Community Oncology Network and relate to the WPACI in a similar fashion to Carl Srodes, M.D., and will practice clinical medicine within MCC.

2. MCC Role in WPACI Community Oncology Network. The current MCC sites will serve as the core of the WPACI Community Oncology Network. MCC will pursue the development of physician office based community medical oncology sites to be added to the WPACI Community Oncology Network at WPAHS hospitals, WPACI affiliates, and such freestanding sites as identified by the WPACI Medical Oncology Physician Leadership Group from time to time on a "first opportunity" basis. WPACI will not recruit community based medical oncologists until MCC has indicated it will not pursue said opportunity or has failed to pursue said opportunity to completion on a timely basis. Notwithstanding the foregoing, subject to the agreement of WPAHS, any WPACI affiliate desiring to develop a WPACI Community Oncology Network site at or in connection with its facility shall have the option to develop such site independent of MCC ownership and control. WPAHS will support the continued development and presence of MCC at The Western Pennsylvania Hospital ("WPH") and Allegheny General Hospital. MCC will actively participate in WPACI clinical trials and WPAHS educational, teaching, and research activities under the oversight and in cooperation with the WPACI Medical Oncology Physician Leadership Group.

3. Oncology Practice Billing and Management Services. Provided MCC has staff qualified to do so and the necessary resources available, MCC will serve as the billing agent, practice manager, and practice consultant for billing and practice management services for such WPAHS Medical oncology practice plans and physicians and such WPACI affiliate medical

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oncology physicians as designated by WPAHS from time to time. MCC's duties and responsibilities shall include, but not be limited to the development of the capability to bill third-party payers for all fees generated by oncology physicians and physician extenders, the development of the capability to employ and bill for the services of support staff administering outpatient chemotherapy to patients of physicians, the development of the capability to bill for chemotherapy and related drugs in the outpatient setting, and general practice management services. In furtherance of MCC's duties and responsibilities set forth above, WPAHS, WPAHS hospitals, and WPACI affiliates shall pay such fees as are mutually agreed to MCC and support MCC with those resources as needed, including but not limited to personnel, operating resources, and capital resources, including information systems, as are reasonable and necessary and as mutually agreed.

4. MCC Corporate Structure and Governance. MCC is a Pennsylvania not-for-profit corporation that will file for exemption from federal income tax pursuant to the Internal Revenue Code. Subject to the approval of the Internal Revenue Service relative to MCC's application for tax exemption, the Board of Directors of MCC will be comprised of two physicians to be designated by the MCC Compensation Committee and a minimum of four individuals to be designated by WPAHS who will not be "insiders" according to the Internal Revenue Service rules, regulations, and guidelines. The MCC practice director shall be regularly invited to the meetings of the Board of Directors of MCC, unless the Board of Directors determines otherwise on a case-by-case basis. The Bylaws of MCC will include a provision authorizing any two (2) members of the Board of Directors of MCC to convene a meeting of the Board of Directors. The Board of Directors of MCC will have legal oversight and governance of the corporation. An

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Operating Committee of the Board of Directors will be established and comprised of three physicians to be designated by the MCC Compensation Committee and three individuals designated by WPAHS or WPH. The MCC practice director shall serve as an ex-officio member of the Operating Committee, without vote. The Operating Committee of the Board of Directors will have the responsibility for the development of capital and operating budgets for the corporation, strategy development, and oversight of day-to-day operations of the corporation; subject to presentation to and approval by the Board of Directors. Initial officers of MCC include Charles Srodes, M.D., President; Jerry J. Fedele, Secretary; and David A. Samuel, Treasurer.

5. The Western Pennsylvania Hospital Support. MCC will have the benefit of one certified registered nurse practitioner to assist MCC with its inpatient hospital practice at WPH, but the cost of the certified registered nurse practitioner shall not be part of the Actual Expenses of MCC as defined on the Economic Appendix dated July 1, 2002, attached hereto. WPH will place MCC on the WPH teaching service on the same terms as provided to other oncologists practicing at WPH. Failure of WPH to place MCC on the WPH teaching service within ninety (90) days of the date of execution of this Agreement by all parties on the same terms as provided to other oncologists practicing at WPH shall constitute a breach of this Agreement.

6. Capital Support. WPAHS or an affiliate will provide all required and mutually agreed capital support to MCC pursuant to such business plans and budgets as approved by the MCC Board of Directors. The MCC Operating Committee shall submit proposed business plans

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relative to capital expenditures as initiatives requiring capital arise and will submit proposed budgets to the MCC Board of Directors on an annual basis or on an interim basis as needed.

WPAHS or an affiliate shall provide such capital or other resources required to fulfill the obligations of WPAHS and its affiliates set forth on the Master Agreement – MCC IT Appendix Dated June 4, 2003, attached hereto. Failure of WPAHS or an affiliate to purchase the Intergy Practice System as required in Article I(1)(a) of the MCC IT Appendix shall constitute a breach of this Agreement.

7. Management of MCC. West Penn Specialty MSO, Inc. ("MSO") is an affiliate of WPAHS engaged in the provision of management services to physicians. A decentralized management approach will be employed whereby MCC will perform many of the management services required by MCC directly with remaining management services provided by MSO, all as more particularly set forth herein.

a. Retention of Staff. All employees engaged in the provision of clinical services on behalf of MCC, all staff dedicated to the day-to-day operations of MCC on an exclusive basis, and all staff dedicated exclusively to the billing and collection for professional services rendered by MCC shall be employed and managed directly by MCC. All other management services required in the operation of MCC will be provided by MSO.

b. MCC Budget. MCC shall have the authority to manage the day-to-day operations of MCC in accordance with the MCC budget as approved by the MCC Board of

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Directors. Day-to-day MCC operations will be managed by the MCC Practice Director subject to the oversight of the MCC Physician Representative and the MSO Vice President responsible for MCC. The MCC Practice Director will meet on a regular basis with the MCC Physician Representative and the MSO Vice President responsible for MCC on a regular basis to review the operations of MCC and discuss any management issues that may arise from time to time. The Board of Directors of MCC will act upon capital and operating budgets on an annual basis prior to the beginning of the fiscal year.

c. Human Resources. MCC will be responsible for the hiring, supervision and management, and discharge of all MCC support staff dedicated exclusively to providing services to MCC and not otherwise provided by MSO. MSO will provide or be responsible for the necessary resources to support all of MCC's recruitment, employment, and employee relations processes, programs, and needs. Unbudgeted staffing requests will be reviewed and are subject to approval by MSO within five business days of presentation by MCC of such requests with all relevant supporting information necessary to make an informed decision with respect thereto. All offers of employment for approved positions will be processed by MSO within four business days following receipt of completed new employee forms and information with all appropriate authorizations and signatures, including an approved physician requisition; provided that negative employee references or failure to receive a clean criminal background check may delay the extension of an offer of employment. The actual employment start date for any employee will be dependent upon successful completion of a pre-employment physical, the final outcome of the criminal background check, results of drug testing, and other customary pre-employment matters.

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MSO will work in cooperation with MCC to develop and utilize wage scales specific to physician practices reflecting competitive market rates, practice location, and positions unique to MCC. Any adjustments to existing wage scales will be implemented during fiscal year 2004. Subject to the prior review and approval of the MCC Physician Representative and MSO, MCC may provide an annual bonus to employee staff based upon objective business related criteria and MCC performance. Any such bonus will be paid from the MCC Physician Incentive Compensation Pool and subject to completed performance evaluations in accordance with the job descriptions, evaluation process, and time frame specified by MSO.

Subject to the obligations of the parties as set forth in the preceding paragraph, in the performance by MCC of Human Resources related duties, responsibilities, and obligations, MCC shall at all times comply with all policies and procedures of MSO and WPH and all laws, rules, and regulations with respect thereto. MCC will follow the wage scales, job descriptions, compensation policies and procedures, and such other policies and procedures as established by MSO and WPH from time to time with respect to MCC employees. MCC will adhere to the terms and conditions of all health and welfare benefits plans, vacation policies, sick time, and other benefit policies and procedures as established by MSO and WPH from time to time. MSO will provide all necessary resources to manage all enrollment, processing, and administration of benefits offered to MCC employees.

d. Billing Services. MCC shall perform all MCC billing and collection functions subject to such processes, policies, and procedures as specified by MSO. All billing and collection functions will be subject to audit by MSO at all times. MCC shall provide MSO

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such reports as reasonably requested to monitor the performance of the MCC billing and collection function and to prepare and maintain financial reports and analysis of MCC. MCC will operate the billing and collection functions in a manner consistent with MSO and WPH policies and procedures, best business practices for oncology, and in accordance with all laws, rules, and regulations as may be in effect from time to time.

e. Engagement of MSO, MSO Authority and Responsibilities. Other than the management services to be provided directly by MCC as set forth herein, MCC engages MSO on an exclusive basis to provide all strategic and management services required to develop and operate MCC. MSO will provide such management services required by MCC in a commercially reasonable manner and MCC will engage no other person or entity to provide management services to it. The MSO Vice President responsible for MCC shall consult with the MCC Practice Director relative to the provision of MSO services. In providing services to MCC, except as otherwise provided herein, MSO shall have the authority and responsibility to conduct, supervise, and manage the business operations and personnel of MCC, including without limitation all administrative, management, and financial matters regarding MCC. In furtherance thereof, and not by way of limitation, MSO shall have responsibility and commensurate authority for the following administrative, management, and financial activities of MCC:

(i) Purchasing. Consistent with the MCC budget, MSO will have the primary responsibility for strategy and management of all contracting, purchasing, and leasing of equipment, drugs, supplies, and any other major materials, resources, and services necessary for the operations of MCC. MSO will provide its services in cooperation with the designated MCC

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Physicians and MCC Practice Director. MCC shall have the operations responsibility to implement contracts, purchases, leases, and other agreements and to make such periodic purchasing needs within limits as designated by MSO and consistent with the MCC budget as immediately necessary for the daily operations of MCC.

(ii) Accounting Services. MSO will establish and administer appropriate accounting procedures and controls for the development, preparation, and safekeeping of records and books of account relating to the business and financial affairs of MCC.

(iii) Provider Contracts. With input from MCC, MSO will be responsible for the negotiation, administration, and termination of all contracts, agreements, and arrangements for the provision of health care services and related medical director, administrative, faculty, and research services by MCC and its physicians and employees including, but not limited to all insurance, managed care, third party payor arrangements, and direct provider relationships. MCC and MSO will cooperatively establish, maintain, revise, and administer the overall charge structure for the professional services rendered by MCC, MCC physicians, and MCC employees. MSO shall periodically review and audit all provider contracts in an effort to obtain maximum reimbursement for services rendered by MCC.

(iv) Funds Depository, Payment of Accounts. MSO shall maintain accounts in the name of MCC in such banks, savings and loan associations, and other financial institutions with such balances as MSO shall from time to time deem appropriate, taking into consideration the operating needs of MCC. MSO shall make disbursements from such accounts

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of such amounts of MCC funds as MSO shall from time to time determine appropriate in the discharge of MCC's responsibilities to third parties, WPAHS, WPH, the MSO, and their affiliates. MSO shall arrange for the payment of payroll, trade accounts, amounts due on short term and long term indebtedness, taxes, and all other obligations of MCC. MCC will be provided with an accounts payable position to be physically located at a mutually agreed upon MCC site with access to all necessary resources, including software applications, to effectively manage and support the MCC accounts payable and related vendor processes. The cost of the accounts payable position shall not be part of the Actual Expenses of MCC as defined on the Economic Appendix dated July 1, 2002, attached hereto. Subject to adequate MCC operating cash, MCC and MSO will cooperate to achieve maximum vendor discounts available to support payment terms and conditions necessary to achieve such discounts. All vendor rebates, discounts, value exchanges, grants, or in-kind services shall accrue to and be used by MCC in the pursuit of its clinical and business operations, and shall be recorded as Actual Revenues or as reductions in Actual Expenses, such terms are defined in the Economic Appendix, or recorded as restricted funds if so designated.

(v) Professional Liability Insurance. MSO will arrange for the placement of professional liability insurance for MCC in such amounts as required by Pennsylvania law from time to time and with companies authorized to provide professional liability insurance in the Commonwealth of Pennsylvania. Professional liability insurance may be in either occurrence or claims made policy type; provided that MSO shall arrange for the placement of tail professional liability insurance for any departing MCC provider who is covered by a claims

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made policy form. Professional liability insurance shall be limited to the activities of MCC providers within the scope of their employment during the term of their employment.

(vi) Information Systems. MSO will select and administer communications and information systems used by MCC. MSO will provide information systems technical expertise to advise on evaluation of new technologies or applications that could benefit MCC. Any evaluation shall include, but is not limited to adherence to proven industry standards, compatibility with the existing operational environment, and a demonstrable return on investment. Such technical expertise will be provided with respect to new technology in the areas of information systems, telecommunications, and clinical oncology as it relates to prior services. In all cases, MCC will adhere to MSO, WPAHS, and WPH information systems standards, security, compliance, and service requirements. MCC will support consistency in development, upgrades, access, and requested modifications as they relate to information systems as judged according to the information systems maintained by MSO, WPAHS, and WPH.

(vii) Real Estate and Office Space. MSO will be responsible for the selection, professional services, contracting, leasing, and management of owned, leased, or sublet business and clinical office space supporting MCC, subject to prior consultation with and the reasonable consent of MCC. MSO shall renovate physician office space at 5140 Liberty Avenue during calendar year 2003. MCC will relocate its Shadyside Hospital office to 5140 Liberty Avenue promptly upon the availability of such renovated office space.

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f. Quality, Customer Satisfaction, and Resource Utilization. MSO and MCC shall work cooperatively to promote the quality of services rendered by MCC, customer satisfaction, and resource utilization. MCC shall cooperate and shall cause its physicians and employees to cooperate in the development of quality and efficient medical services in order to comply with accepted standards of medical practice, certifying agencies, payor requirements, and in order to maintain quality, cost efficient medical services attractive to patients and purchasers of health care services. MCC will participate in all MSO, WPAHS, and WPH service excellence, customer satisfaction, and employee development programs as may be in effect from time to time.

g. Compliance. MCC will adhere to all MSO, WPAHS, and WPH compliance policies and procedures and all laws, rules, and regulations relative to compliance activities. MCC will provide any and all documents, reports, charts, records, billing information, and other requested information in a timely and comprehensive manner for compliance audits as requested by MSO. MCC will participate in all compliance training sessions, internal audit, compliance reviews, and all other activities by or on behalf of or any authorized third party relative to compliance.

h. Compensation. MCC physicians and WPAHS, WPH, MSO, and their affiliates will be compensated pursuant to the methodology set forth in the Economic Appendix dated July 1, 2002, attached hereto.

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8. Entire Agreement/Modification. This Master Agreement along with the Employment Agreements between MCC and its physician employees are the complete and integrated agreements among MSO, WPAHS, WPH, and their affiliates, MCC, and all MCC physicians, and supersede any prior agreements, oral or written, among the parties. There are no other agreements, oral or written, between the parties and any prior agreements between the parties not explicitly referenced herein are terminated. Any modification to this Master Agreement or any other agreement referenced herein must be in writing and executed by all parties thereto in order to be effective. No oral modification to any such agreement shall be effective under any circumstances and no written modification to any such agreement shall be effective unless executed by all parties thereto.

9. Assignment. This Agreement and all rights, duties, obligations, responsibilities, benefits, and interests hereunder are personal to the parties and neither this Agreement nor any right, duty, obligation, responsibility, benefit, or interest of either party herein or arising hereunder shall be voluntarily or involuntarily sold, subcontracted, transferred, or assigned. Any such attempted sale, subcontract, transfer, or assignment shall be null and void. Notwithstanding the foregoing, WPAHS may assign this agreement to any current or future affiliate of WPAHS without the prior consent of MCC; provided that any such assignment will not have the effect of combining distinct Medical Center Clinic management, operations, or clinical practice with any other medical practice.

10. Term. The Term of this Master Agreement will be for the period commencing January 1, 2004, and continuing through December 31, 2008.

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11. Binding Effect. This Agreement shall be binding upon, and inure to the benefit of, the parties and their respective permitted successors and assigns, subject to the provisions of Paragraph 7 hereof.

12. Waiver. No term or condition of this Agreement shall be deemed to have been waived, nor shall there be any estoppel against the enforcement of any provision of this Agreement, except by written instrument of the party charged with such waiver or estoppel. No such written waiver shall be deemed a continuing waiver unless specifically stated therein, and each such waiver shall operate only as to the specific term or condition waived and shall not constitute a waiver of such term or condition for the future or as to any act other than that specifically waived.

13. Savings Clause. This Agreement is intended not to constitute a "financial relationship" within the meaning of 42 U.S.C. § 1395nn. Should this Agreement ever cease to so qualify, otherwise be deemed to be in violation of any law (including without limitation any statute, regulation, or other law prohibiting remuneration for referrals or relating to relationships between physicians and hospital or tax-exempt organizations), or threaten the tax exempt status of MCC, WPAHS, or any affiliate, upon the written request of either party, the parties agree to renegotiate the Agreement in a manner that will cure said violation or failure to qualify and place the parties in as nearly the same position as originally intended by this Agreement.

14. Severability. If, for any reason, any provision of this Agreement is held invalid, such invalidity shall not affect any other provision of this Agreement not held so invalid, and each such other provision shall to the full extent consistent with law continue in full force and effect. If

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any provision of this Agreement shall be held invalid in part, such invalidity shall in no way affect the rest of such provision, which together with all other provisions of this Agreement, shall to the full extent consistent with law continue in full force and effect.

15. Governing Law. This Agreement has been executed and delivered in the Commonwealth of Pennsylvania and its validity, interpretation, performance, and enforcement shall be governed by the laws of said Commonwealth. The parties agree that the Federal and State courts situate in Allegheny County, Pennsylvania shall be the sole and exclusive forum relative to any and all disputes among them. The parties hereto by execution of this Agreement submit to the in personam jurisdiction of the Federal and State courts situate in Allegheny County, Pennsylvania.

16. Headings. The headings of paragraphs herein are included solely for convenience of reference and shall not control the meaning or interpretation of any of the provisions of this Agreement.

17. Notice. Notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered in person or by United States Certified Mail - Return Receipt Requested and postage prepaid, addressed as follows:

MCC:

Medical Center Clinic, P.C.
4800 Friendship Avenue
Pittsburgh, PA 15224
Attention: Charles H. Srodes, President

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With a copy to:

Anne D. Mullaney, Esq.
Thorp, Reed & Armstrong
14th Floor
One Oxford Centre
Pittsburgh, PA 15219

WPAHS:

West Penn Allegheny Health System
320 E. North Avenue
Pittsburgh, PA 15212
Attention: Jerry J. Fedele, Esq., Sr. VP & General Counsel

The Western Pennsylvania Hospital
4800 Friendship Avenue
Pittsburgh, PA 15224
Attention: James Collins, President and Chief Executive Officer

West Penn Allegheny Health System
4800 Friendship Avenue
Pittsburgh, PA 15224
Attention: Charles M. O'Brien, President and Chief Executive Officer

Either party may change its address for receipt of notices pursuant to this Agreement by providing written notice of such change to the other party pursuant to the provisions hereof.

18. Purchase Option. The following physicians:

Charles H. Srodes, M.D.
Kathy J. Selvaggi, M.D.
Cynthia K. Evans, M.D.
Sigurdur S. Petursson, M.D.
Alexander Barsouk, M.D.
Eugene Finley, M.D.
Mohammed F. Islam, M.D.
Gregory Scott Long, M.D., Ph.D.
Helen Analo, M.D.
Moses Sundar Raj, M.D.
Melissa M. Thimons, D.O.

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("Optionees") shall have the option as a group to purchase the Assets as hereinafter defined from MCC on the following terms and conditions:

a. The Optionees may render notice of the exercise of the option to purchase the Assets (i) at any time prior to December 31, 2007, in the event of a breach of this Agreement by WPAHS, provided that prior to such exercise the Optionees shall have provided written notice of such breach to WPAHS including the intention of the Optionees to exercise the option to purchase the Assets and WPAHS shall have failed to cure such breach within thirty (30) days of the receipt of such notice, or if cure reasonably takes longer than thirty (30) days then within a reasonable time, or (ii) between October 1, 2007, and December 31, 2007, for any reason.

b. All of the Optionees must notify MCC and WPAHS in writing, signed by all of the Optionees of the exercise of the option, agree to participate in the exercise of the option, and the purchase of the Assets. If one or more of the Optionees does not participate in the exercise of the option and the purchase of the Assets, the option shall be null and void.

c. Unless the parties mutually agree to a different date, in all cases the closing on the purchase of the Assets shall occur on the date one (1) year from (i) the date of the notice of exercise of the option to purchase the Assets or (ii) the failure of WPAHS to cure in response to a notice of breach pursuant to the time frame for cure specified in Article 18(a) ("Closing Date"). Time is of the essence regarding notice of the exercise of this option and closing on the purchase of the Assets.

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d. The purchase price for the Assets shall be the business enterprise value of the going business of MCC as of the date of notice of the exercise of the option, including the Assets and the services of the Optionees (assuming that all Optionee employment agreements with MCC would continue in effect for a minimum period of five years subsequent to the Closing Date), as determined by an accounting firm mutually agreeable to WPAHS and the Optionees according to the discounted cash flow valuation methodology in accordance with Internal Revenue Service regulations as in effect on the date of this Agreement; provided that in no event shall the purchase price for the Assets be less than One Million Five Hundred Thousand Dollars (\$1,500,000) plus any unrecovered Recovery of Investment (as defined in the Economic Appendix dated July 1, 2002, attached hereto) as of the Closing Date. In selecting the accounting firm engaged to derive the purchase price for the Assets, both the Optionees and WPAHS may consider the accounting firm reputation, experience, reasonable approach to similar valuations including the various components thereof such as practice growth projections and applicable discount rate, and such other reasonable factors. The purchase price for the Assets shall be paid by the Optionees to WPAHS in immediately available funds at closing on the Closing Date.

e. The Assets subject to this option include those tangible assets of MCC dedicated exclusively to the professional practice of Optionees, the professional services of the Optionees, any software licenses serving MCC which are assignable without having a detrimental operational or cost impact on WPAHS and its affiliates, and such other mutually agreed upon items.

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f. In the event the Optionees purchase the Assets as provided herein, each of the Optionees agree that for a period of two (2) years following the Closing Date, none of the Optionees shall enter into any current or future organizational, equity, employment, contractual, administrative, professional, management, leadership, faculty, clinical, compensation, financial, strategic, ownership, or any other relationship of any nature, directly or indirectly, whether as consultant, independent contractor, agent, shareholder, partner, owner, director, officer, employee, or otherwise, with any competitor of West Penn Allegheny Health System, including without limitation UPMC Health System, Pittsburgh Mercy Health System, any other hospital or health system, any health insurer, any local, regional or national physician group or physician management company, and the affiliates of each of the foregoing. The foregoing restriction shall also prohibit any arrangement by any third party to directly or indirectly fund, reimburse, or guarantee the purchase price of the Assets currently or at any time in the future.

g. For a period of two (2) years following the Closing Date, no Optionee shall be precluded by his or her MCC employment agreement from continuing to practice medicine at any practice site purchased by the Optionees from MCC, at any WPAHS hospital, or at any other hospital at which such Optionee practiced medicine during the one (1) year period prior to the rendering of notice to purchase the Assets by the Optionees; provided during such period of two (2) years following the Closing Date, no Optionee shall materially increase the scope or magnitude of clinical practice at any non-WPAHS facility beyond the scope and magnitude of his or her clinical practice as existed during the one (1) year period prior to the rendering of notice to purchase the Assets by the Optionees.

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h. Notwithstanding anything set forth in this Article 18 to the contrary, the Optionees shall not include any individual MCC physician who has provided notice to MCC prior to the date of the Optionees' notice of the exercise of the option to purchase the Assets that such MCC physician terminates such MCC physician's employment agreement with MCC in accordance with the terms thereof or is not renewing such MCC physician's employment agreement with MCC upon expiration at or prior to December 31, 2008. In the event any MCC physician previously designated as an Optionee pursuant to this Article 18 is subsequently removed as an Optionee pursuant to this Article 18(h), then the Optionees and successor medical practice of Optionees shall not enter into any professional relationship with such MCC physician prior to and for a period of two (2) years following the Closing Date.

i. WPAHS will not directly or indirectly act in bad faith to influence the vote of any Optionee to refrain from the repurchase of the Assets through offering compensation or other inducements above market rates.

j. In the event the Optionees exercise their right to purchase the Assets, WPAHS and the Optionees shall negotiate in good faith relative to the provision of practice management services by WPAHS and its affiliates to the Optionees subsequent to the Closing Date.

k. In the event, but only in the event of a breach of this Agreement based upon (i) WPH fails to place MCC on the WPH teaching service on the same terms and conditions as other oncologists practicing at WPH within ninety (90) days of the date of execution of this Agreement or (ii) WPAHS or its affiliates fail to purchase the Intergy Practice

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System as required by Article I (1)(a) of the MCC IT Appendix, then any and all rights, if any, of Charles H. Srodes, M.D., Cynthia K. Evans, M.D., Sigurdur S. Petursson, M.D., and Kathy J. Selvaggi, M.D. to enter the private practice of medicine and any restrictions relative to time and location thereon shall be governed by the agreements among the parties in effect on the day immediately preceding the execution of this Agreement by all parties, notwithstanding Article 18 of this Agreement or any assertion by WPH that Drs. Srodes, Evans, Petursson, and Selvaggi failed previously to provide timely notice to WPH according to the terms of the agreements among the parties in effect on the day immediately preceding the execution of this Agreement by all parties. Any claim of breach pursuant to this Article 18(k) may only be asserted on or before June 30, 2004. Subsequent to June 30, 2004, this Article 18(k) shall be null and void for all purposes.

I. In the event the Optionees exercise their right to purchase the Assets, as a condition precedent to the closing on the purchase of the Assets, each Optionee shall be required to execute a binding legal acknowledgment of their continuing obligations pursuant to Articles 18(f) and 18(g) of this Master Agreement. Articles 18(f) and 18(g) of this Master Agreement shall be interpreted to be consistent with and cumulative to the obligations of any Optionee pursuant to the Optionee's Employment Agreement with Medical Center Clinic, P.C. and West Penn Allegheny Oncology Network, except to the extent of a direct conflict between this Master Agreement and an Optionee's Employment Agreement in which case this Master Agreement shall control.

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IN WITNESS WHEREOF, the parties have caused this Master Agreement to be executed

by its duly authorized representatives the day and year first above written.

WITNESS

WEST PENN ALLEGHENY ONCOLOGY NETWORK

Shirley Mullanez

By: *Charles H. Jordan*

Title: *President*

WITNESS

WEST PENN ALLEGHENY HEALTH SYSTEM

Jeanne C. ...

By: *Gregory J. ...*

Title: *J.P. ...*

(MCC - Master -vs2Redlined.doc)

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Medical Center Clinic
Economic Appendix
July 1, 2002

The economic terms of the relationship among West Penn Allegheny Oncology Network d/b/a Medical Center Clinic ("MCC"), Medical Center Clinic, P.C., The Western Pennsylvania Hospital ("WPH"), West Penn Specialty Management Services Organization ("WP SMSO"), and West Penn Allegheny Health System ("WPAHS") and its affiliates as set forth herein shall be for a period of six (6) years and six (6) months, effective July 1, 2002 and ending December 31, 2008 ("Term"). Effective July 1, 2002, this Economic Appendix shall apply to the relationship between Medical Center Clinic, P.C. and WPAHS and its affiliates. Effective January 1, 2004, the employment of the Medical Center Clinic, P.C. physicians will transition to West Penn Allegheny Oncology Network and this Economic Appendix will continue to apply to the relationship between West Penn Allegheny Oncology Network and WPAHS and its affiliates in a seamless fashion as if there were no transition in the legal employment relationship of the Medical Center Clinic, P.C. physicians.

1. Base Salary

The Base Salary for any newly or currently employed physicians of MCC will be determined based upon the years of tenure with MCC. Clinical experience, market capabilities, or other special circumstances as they relate to a physician or group of physicians may merit compensation at a Base Salary tier different than determined based upon years of tenure with MCC. The MCC Board of Directors will determine such exceptions and in no case shall the Base Salary exceed the Base Salary of the Senior Physicians unless approved by the MCC Board of Directors. Based upon years of tenure, the following Base Salary tiers shall apply during the Term.

<u>Tenure with MCC</u>	<u>Base Salary (as defined)</u>
Year 1 Tier:	\$180,000 (One Hundred Eighty Thousand Dollars)
Year 2 Tier:	\$200,000 (Two Hundred Thousand Dollars)
Year 3 Tier:	\$220,000 (Two Hundred Twenty Thousand Dollars)
Year 4 Tier and above:	\$240,000 (Two Hundred Forty Thousand Dollars)

For the Senior Physicians, Base Salary will be set at Two Hundred Forty Thousand Dollars per annum (\$240,000) during the Term.

2. Productivity

All MCC Physicians will perform duties consistent with an active and thriving medical and hematology oncology practice during each year or partial year of the Term and shall maintain in the aggregate levels of productivity at least equivalent to the levels produced during

the fiscal year July 1, 2001 to June 30, 2002 adjusted for the number of full time equivalent ("FTE") Physicians.

3. Base Compensation Pool Adjustments

The Base Compensation Pool is subject to increase or decrease. (i) at any time based upon changes in the number of FTE Physicians, (ii) at any time based upon changes in Physician Base Salary, as described in Section 1, and (iii) at the beginning of any Contract Year as a result of the MCC Practice Performance Adjustment. The adjustment pursuant to 3(i) will be the product of the respective Physician Base Compensation ("PBC"), as defined herein under Section 7, times the change in the respective Physician FTE complement as may occur at any time during the Contract Year. The adjustment pursuant to 3(iii), the "Practice Performance Adjustment", shall be defined as the lesser of, (i) the most recently concluded Contract Year Net Income Available for Distribution minus the immediately preceding concluded Contract Year Net Income Available for Distribution or, (ii) five percent (5%) of the most recently concluded Contract Year Base Compensation Pool, in all cases applied to the subsequent year Base Compensation Pool. The subsequent year Base Compensation Pool shall be increased or decreased up to a maximum adjustment of five percent (5%) in any Contract Year based upon the Practice Performance Adjustment, but only after all other adjustments have been made pursuant to paragraph 3(i) and 3(ii). Finally, the Base Compensation Pool shall in no case be reduced as a result of the Practice Performance Adjustment pursuant to paragraph 3(iii) below the first Contract Year Base Compensation Pool of \$3,353,000 adjusted pursuant to paragraphs 3(i) and 3(ii).

Example 1: Base Compensation Pool Adjustment per 3 (iii). Practice Performance Adjustment

	NIAD Preceding Contract Year	NIAD Current Contract Year	NIAD Change	Maximum Adjustment = 5%	Base Compensation Pool Current Year	Base Compensation Pool Subsequent Year	Practice Performance Adjustment
Decrease	\$ 2,345,000	\$ 2,000,000	\$ (345,000) (-14.7%)	\$ (197,000) (-5.0%)	\$ 3,940,000	\$ 3,743,000 (-5.0%)	\$ (197,000)
Decrease	\$ 2,345,000	\$ 2,250,000	\$ (95,000) (-4.1%)	\$ (197,000) (-5.0%)	\$ 3,940,000	\$ 3,845,000 (-2.4%)	\$ (95,000)
Increase	\$ 2,345,000	\$ 2,440,000	\$ 95,000 4.1%	\$ 197,000 5.0%	\$ 3,940,000	\$ 4,035,000 2.4%	\$ 95,000
Increase	\$ 2,345,000	\$ 2,690,000	\$ 345,000 14.7%	\$ 197,000 5.0%	\$ 3,940,000	\$ 4,137,000 5.0%	\$ 197,000

First Contract Year (10 FTE physicians and no other adjustments)	Base Compensation Pool = \$ 3,353,000
Current Contract Year (10 FTE physicians and no other adjustments)	Base Compensation Pool = \$ 3,940,000
Maximum / Minimum Base Compensation Pool Adjustment = 5.0% times Current Contract Year Base Compensation Pool	Maximum Adjustment = \$ 197,000 Minimum Adjustment = (\$ 197,000)

Example 2: Base Compensation Pool Adjustment per 3 (iii). Practice Performance Adjustment: Adjustment Limitation

	NIAD Preceding Contract Year	NIAD Current Contract Year	NIAD Change	Maximum Adjustment = 5%	Base Compensation Pool Current Year	Base Compensation Pool Subsequent Year	Practice Performance Adjustment
Decrease	\$ 2,345,000	\$ 2,000,000	\$ (345,000) (-14.7%)	\$ (174,900) (-5.0%)	\$ 3,498,000	\$ 3,353,000 (-4.1%)	\$ (145,000)

First Contract Year (10 FTE physicians and no other adjustments)	Base Compensation Pool = \$ 3,353,000
Current Contract Year (10 FTE physicians and no other adjustments)	Base Compensation Pool = \$ 3,498,000
Maximum / Minimum Base Compensation Pool Adjustment = 5.0% times Current Contract Year Base Compensation Pool	Maximum Adjustment = \$ 174,900 Minimum Adjustment = (\$ 174,900)

4. Incentive Compensation

No later than ninety (90) days following the end of each Contract Year, MCC shall make available to the MCC Compensation Committee the Physician Incentive Compensation Pool, if any, for distribution by the MCC Compensation Committee of Incentive Compensation to such Physicians and in such amounts as the MCC Compensation Committee determines appropriate, subject to approval by the MCC Board of Directors, and retention of any amount as determined appropriate or necessary by the MCC Compensation Committee.

5. MCC Compensation Committee

The MCC Compensation Committee shall initially be comprised of Charles H. Srodes, M.D., Cynthia K. Evans, M.D., Sigurdur R. Petursson, M.D., Kathy J. Selvaggi, M.D., and the WPH / WP SMSO designated administrative representative for MCC. Such Physicians shall continue as members of the MCC Compensation Committee for so long as they are employed by MCC. The MCC Compensation Committee may add or delete such Physician members to the MCC Compensation Committee as determined by majority vote of Physician members and the concurrence of the WPH/WP SMSO designated representative.

The MCC Compensation Committee members will determine the method and allocation of available Physician Incentive Compensation. The method and allocation of adjustments to Incentive Compensation is subject to approval by the Board of Directors. The MCC Compensation Committee shall not have any authority to obligate MCC to pay Base Compensation or Incentive Compensation in excess of those amounts provided for herein, any Physician Employment Agreement, any other agreement between the affected parties, as limited by the MCC Board of Directors, or that would reasonably be determined to be excessive compensation, private benefit, or private inurement by the Internal Revenue Service.

6. Reasonable Compensation

All compensation received by a Physician from MCC, including but not limited to Base Compensation, Incentive Compensation, or any other compensation, benefits, or reimbursement of expenses of any nature, shall at all times be subject to determination by the MCC Board of Directors (without participation by MCC Physicians) and WPAHS Board of Directors to be reasonable and not deemed to be excessive compensation, private inurement, or private benefit as determined by such Boards of Directors pursuant to Internal Revenue Service guidelines as may be in effect from time to time and subject to reduction in order to satisfy such standards.

In no event will total compensation for any MCC Physician, including Base Salary and Incentive Compensation, exceed the 90th percentile of market compensation for similar specialty physicians according to the most recently available compensation study by the Medical Group Management Association or such alternative market compensation study determined applicable by the MCC Board of Directors without participation by any MCC physician.

7. Definitions

"Actual Expenses" shall mean the expenses of MCC, WPAHS and its affiliates; WPH, WP SMSO, or any other management company or third party for or reasonably allocated to MCC, in each case including categories and types of expenses as currently set forth in the MCC's annual budget plan, including, but not limited to, all operating expenses of the practice, all direct clinical and business development expenses carried out for or on behalf of MCC, non-physician employee salaries, physician and non-physician employee health and welfare benefits, non-physician employee pension expense (subject to the limitations described herein under "Pension Credit"), physician and non-physician malpractice and liability insurance, and physician and non-physician workers' compensation insurance. All Actual Expenses will be measured on an accrual basis in accordance with generally accepted accounting principles, consistently applied, and not including nonspecific overhead allocations from WPH, WP SMSO or WPAHS. Actual Expenses shall exclude any expenditure described as being: (i) a component of the Base Compensation Pool, (ii) MCC Physician Expense Responsibility or, (iii) any expenditure mutually agreed to be excluded as outlined in the Master Agreement

"Actual Revenues" shall mean any and all revenues from all sources received or accrued by MCC or any Physician, including but not limited to clinical, administrative, consulting, or research revenues and fees, during the applicable Contract Year in question for any and all services and activities by, on behalf of, or under the supervision of the Physicians, including physician extenders and other employees, including without limitation any amounts as currently recorded or as anticipated, from all sources and any other consideration paid in exchange for professional or medical service rendered by Physician, as measured on an accrual basis in accordance with generally accepted accounting principles, consistently applied. These amounts to be multiplied by a percentage equal to the MCC's historic collection percentage adjusted on a periodic basis to reflect the MCC's actual collection rate and changes in rates and reimbursement. Any Director fees for physicians shall not be included in Actual Revenues for

NIAD calculation, and shall be the sole revenue source excluded from the determination of total Actual Revenues for MCC.

"Base Compensation Pool" shall mean the total pool of funds that is comprised of (i) Physicians' Base Salary, (ii) Pension Credit, (iii) Physician Business Expense, (iv) MCC's portion of Physician payroll taxes, and (v) Physician Expense Responsibility. For Contract One (1) Year beginning July 1, 2002, the Base Compensation Pool is set at three million three hundred and fifty-three thousand dollars (\$3,353,000) based upon ten (10) FTE complement Physicians.

"Contract Year" shall mean the twelve-month period from July 1 to June 30. Contract Year One (1) shall mean the period from July 1, 2002 through June 30, 2003 and the final partial Contract Year being the period July 1, 2008 through December 31, 2008. Contract Year Two (2) shall mean the period July 1, 2003 through June 30, 2004, notwithstanding the transition in the legal employment relationship of Medical Center Clinic, P.C. physicians to West Penn Allegheny Oncology Network.

"Division Support" shall mean any investments made by WPAHS and its affiliates, WPH or WP SMSO in support of the MCC's business as mutually agreed including without limitation those investments for: (a) **"Division Capital Support"** which includes (i) Information Systems and (ii) General Capital including leasehold improvements and renovations, clinical and office equipment and furnishings, and (b) **"Division Operating Support"** which includes (i) Physician recruitment support (but excluding physician compensation support), (ii) marketing, and (iii) any other MCC business or clinical support provided by WP SMSO, WPH or WPAHS and its affiliates, as mutually agreed. Division Support shall be identified and appropriate and reasonable plans will be submitted for approval as part of the annual budget process or on an as needed basis for approval in a timely manner during the Contract Year. Division Support will be excluded from the determination of MCC Net Income Available for Distribution and will be recaptured through Recovery Of Investment or Accelerated Recovery Of Investment defined below. If this Agreement expires or is terminated for any reason, the total balance of any and all outstanding Division Support less any Recovery of Investment and Accelerated Recovery of Investment already paid, shall be immediately due and payable by Physicians to WPAHS.

"Net Income Available for Distribution" or ("NIAD") is defined as that amount by which Actual Revenues exceeds the sum of (i) all Actual Expenses, (ii) the Base Compensation Pool, and (iii) Recovery Of Investment for any Contract Year in question.

"Physician Incentive Compensation Pool", if any, for any Contract Year, will be allocated based upon the following tiers:

Tier 1: For all NIAD less than or equal to two million dollars (\$2,000,000), the Physician Incentive Compensation Pool will equal fifty percent (50%) of the NIAD for such Contract Year.

Tier 2: For all NIAD greater than two million dollars (\$2,000,000) and less than or equal to four million dollars (\$4,000,000), the **Physician Incentive Compensation Pool** will equal sixty percent (60%) of the NIAD for such Contract Year.

Tier 3: For all NIAD greater than four million dollars (\$4,000,000), the **Physician Incentive Compensation Pool** will equal seventy percent (70%) of the NIAD for such Contract Year.

Any NIAD after allocation of the Physician Incentive Compensation Pool will be available to WPAHS and its affiliates, WPH or WPSMSO. Amounts in excess of one million dollars (\$1,000,000) but less than one million and eight hundred thousand dollars (\$1,800,000) will be applied first as Accelerated Recovery of Investment for the most recently completed Contract Year.

P&L		Component of P&L
Revenue (+)	AR \$	<ul style="list-style-type: none"> Actual Revenues
LESS: Expenses (-)	AE \$	<ul style="list-style-type: none"> Actual Expenses Excludes: <ol style="list-style-type: none"> Division Capital Support (Depreciation Expense) Division Operating Support (Operating Expense)
LESS: Base Compensation Pool (-)	BCP \$	<ul style="list-style-type: none"> Per Agreement
LESS: Recovery of Investment (-)	ROI \$	<ul style="list-style-type: none"> Recovery of Division Support <ol style="list-style-type: none"> Capital Support Operating Support
EQUALS: Net Income Available for Distribution	NIAD \$	<ul style="list-style-type: none"> NIAD = [AR \$] less [AE \$] less [BCP \$] less [ROI \$] less [DIRECTOR FEES \$ (as described under "Actual Revenues")]
Physician Incentive Compensation Pool	PICP \$	<ul style="list-style-type: none"> Allocated per Agreement
WPAHS, WPH or WP SMSO	WP SMSO \$	<ul style="list-style-type: none"> Allocated per Agreement

"Physician" shall include all physicians under contractual agreement with or providing services for compensation on behalf of MCC.

"Physician Base Compensation ("PBC")" shall mean the total of, (i) annual Base Salary as indicated in this Economic Appendix, under Section 1 or the Base Salary as described

in the individual Physician Employment Agreement. (ii) Physician Business Expense ("PBE"). (iii) MCC's portion of Physician's payroll taxes as determined on Base Salary only as described under Section 1 or the Base Salary as described in the individual Physician Employment Agreement, and (iv) Pension Credit ("PC").

"Physician Business Expenses ("PBE")" shall mean the Physician-related expenses detailed and categorized below to be paid from Base Compensation. As currently defined and as described below, Physician Business Expenses will be set at nineteen thousand dollars (\$19,000) for each FTE Physician complement per Contract Year. MCC will set sub-limits for the PBE categories described below, which MCC can modify from time to time. MCC will determine specific PBE policies, documentation requirements, limitations, and reasonable allocations based upon allotted funds, that will be consistently applied to all physicians. Adjustments to these amounts, either up or down may be made during the annual budgetary process. Any amounts not expended will be retained in the Base Compensation Pool, and maybe used to meet Physician Expense Responsibility or to be paid out as Physician Incentive. Physician must submit an itemized accounting of expenses that meet the IRS regulations and appropriate WPAHS policies to qualify for business related reimbursement. PBE I will be paid directly to physician as described below. Any Physician Business Expense that has been paid or advanced to the Physician that is absent appropriate accounting per IRS regulations will be included as compensation and subject to personal taxation. Physician Business Expenses shall include, to a Contract Year maximum allowance per FTE physician, the following:

PBE (I) maximum allowance is \$6,000 (six thousand dollars) per Contract Year

- Automobile expenses to include purchase and lease payments, gasoline, maintenance, insurance, and other automobile costs and Physician's parking fees. MCC will make this payment directly to the Physician as compensation, consistent with MCC's customary payroll practices.

PBE (II) maximum allowance is \$4,500 (five thousand dollars) per Contract Year.

- Meeting and seminar expenses including travel, lodging, meals, and registration fees
- Physician entertainment expenses and business gifts.

PBE (III) maximum allowance is \$ 2,000 (two thousand dollars) per Contract Year

- Physician's professional fees.
- Medical staff dues and assessments.
- Professional society dues and assessments.

PBE (IV) maximum allowance is \$2,000 (two thousand dollars) per Contract Year

- Life Insurance not included under the Employer's plans.
- Professional books and subscriptions.

PBE (V) maximum allowance is \$4,500 (four thousand and five hundred dollars) per Contract Year

- Business portion of home and cellular telephone.
- Home office expenses including lease, utility, and supply expenses.
- Personal computer hardware, software and access fees, for physician business use.

"Physician Expense Responsibility" shall mean that the following expenditures will be the Physician's responsibility for payment, and shall not to be included as an Actual Expense, of MCC, WPH, WP SMSO, WPAHS, or any affiliate:

- Contributions to the West Penn Allegheny Health System retirement plans of MCC, to the extent that it exceeds the Pension Credit.
- Any costs for the Medical Center Clinic, Professional Corporation (MCC, P.C.) retirement plans.
- Entertainment, donations and gift expenses not directly related to the business of MCC, WPH, WP SMSO, WPAHS or their affiliates.
- Any Capital or Operating expenditures not directly related to the business of MCC, WPH, WP SMSO, WPAHS or their affiliates, or any Capital or Operating expenditures that are indicated to be the direct and personal responsibility of MCC Physicians under this Master Agreement, including both the Economic and Information Technology Appendices.
- The cost of merit or performance bonus plans or salary structures for non-physician employees of MCC shall be paid by the Physicians to the extent it exceeds the cost or salary structure that would be incurred for such non-physician employees if they were covered by the WPH or WP SMSO's performance, merit or salary structure, as currently in place or to be implemented and approved for physician practices.
- Physician short-term disability insurance.
- Any Physician payroll taxes in excess of those defined under Physician Base Compensation ("PBC").
- All other items identified in any agreement as being the responsibility of the MCC Physicians.

"Physician Representative" shall mean Charles H. Srodes, M.D., or in the event of his inability or unwillingness to serve, a replacement will be appointed by The Board of Directors of MCC.

"Pension Credit ("PC")" shall be the sum of two percent (2%) of non-physician employees' salaries per Contract Year, plus twenty-three thousand dollars (\$23,000) per Contract Year per FTE Physician. These amounts shall constitute WPH's contribution to the MCC funding obligation for MCC's portion of the WPAHS retirement plans for all eligible MCC physician and non-physician employees. All pension costs in excess of the Pension Credit will be deducted from the Base Compensation Pool and/or Physician Incentive Compensation Pool. A one-time tax impact Pension Credit adjustment of fifty-five thousand dollars (\$55,000) has been included in the Base Compensation Pool for the Contract Year beginning July 1, 2002, with no other adjustments, compensation or contributions being made for the term of this Economic Appendix for this purpose.

"Recovery of Investment (ROI)" shall mean the recapture of Division Support by WPAHS /WPSMSO or its affiliates over an amortized period in an amount equal to 10% per year. Recovery of Investment will be in lieu of recorded depreciation for Division Capital Support and in lieu of recorded operating expense for Division Operating Support. **"Accelerated Recovery of Investment (ARI)"**, as provided for in the definition of Physician Incentive

Compensation Pool, shall be defined as the recapture of only the most recently completed Contract Year Division Support, net the reduction of the ROI for that Contract Year, in an amount not to exceed the most recently completed available Contract Year NIAD (as defined under Section 7 "Physician Incentive Compensation Pool"), between one million dollars (\$1,000,000) but less than one million and eight hundred thousand dollars (\$1,800,000). However, for Contract Year One (1) of this Economic Appendix, ARI recapture shall include the Division Support balances for Contract Year One (1) and any outstanding Division Support balances prior to Contract Year One (1), as of June 30, 2003, subject to the annual limits set herein. In all cases, ROI will be determined and recaptured prior to ARI for any Contract Year period. While ARI will be determined and recaptured at the end of that Contract Year, net the reduction of the ROI for that Contract Year.

"Senior Physicians" shall mean the physician employees of the Employer consisting of Charles H. Srodes, M.D., Sigurdur R. Petursson, M.D., Cynthia K. Evans, M.D., and Kathy J. Selvaggi, M.D.

"Unpaid Physician Incentive Compensation Pool" shall mean those funds available for distribution during any Contract Year of the Term, as defined under "Physician Incentive Compensation Pool", that are not actually paid-out during the current or any prior Contract Years, including any accrued Unpaid Physician Incentive funds as of June 30, 2003. These funds shall not be considered a component of the Base Compensation Pool described herein, nor be included in the determination of any Base Compensation Pool Adjustments.

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by and between
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and
The Western Pennsylvania Hospital ("WPH"),
collectively "the Parties"
Information Technology Appendix (IT Appendix)

JUNE 4, 2003

(1) Practice Management System

- (a). Following execution of this Agreement, WPH will purchase, within a timeline mutually acceptable to WPH and MCC, the "Intergy" practice management system ("Practice System") from Medical Manager, Inc., ("Medical Manager") as described in 1(b).
- (b). The Practice System will include the following components: Intergy Software Base System with such Client Access Licenses scaled to MCC business and clinical operations, Intergy Electronic Remittance System, Intergy Managed Care Level 1, Intergy Collection System, Intergy Ultra and Clinical Chart Systems, Touchpoint/Infopoint Decision Support System for MS SQL Server, Intergy Network Services All Payer Solution, and Intergy Flexible Forms Package with Applicable Forms Based on Software Licensed. The Practice System will also include the interface between "Intergy", its related applications described above, and a pharmaceutical inventory control system, as mutually determined by the Parties. Additionally, WPH will purchase the server hardware and operating system for the Medical Manager "Intergy" software and inventory platform, as well as the initial configuration hardware and software for personal computers, printers and peripherals that may be needed as defined by the Parties in a mutually agreed upgrade or replacement plan. All the above capital and operating expenditures will be considered Division Support or Actual Expenses, respectively, as defined in the Economic Appendix of the Master Agreement.
- (c). The Practice System implementation project will incorporate the combined resources of West Penn Allegheny Health System ("WPAHS"), MCC, Net Tec and Medical Manager. However, Medical Manager will be contractually responsible for the installation and implementation of the system, as well as ongoing support at levels mutually agreed to by the Parties. Net Tec will be engaged to provide overall project leadership for the Practice System implementation for a term of one year, the cost of which will be shared equally by WPH and MCC, subject to WPH's funding not exceeding fifty thousand dollars (\$50,000).
- (d). Hardware configuration, data communication, bandwidth and software implementation will be consistent with the specifications to be outlined by Medical Manager. WPAHS will be responsible for seven day a week, twenty-four hour per day, support of all data center functions as located at One Allegheny Center, including disaster recovery, maintenance and housing for the Practice System and related hardware and software per the specifications, including any updates prescribed by the vendors of those systems. WPAHS will provide access to the Practice System and related hardware and software as necessary and requested by the vendors.

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(2). Internet Protocol Telephony (IP Telephony Project)

- (a) MCC Physicians may proceed on a timeline acceptable to them with the Internet Protocol Telephony Project which includes the purchase and implementation of a Cisco Call Manager System, Cisco Unity System for unified messaging, Cisco phone sets and PCs (collectively, "IP Telephony Project"), based upon the presented Net Tec IP Telephony Project Plan, subject to all conditions as outlined under this Section 2.
- (b) WPAHS, with the full cooperation of Net Tec, will be afforded the opportunity to complete a business evaluation of the IP Telephony Project based upon the presented Net Tec IP Telephony Project Plan within a period not to exceed ninety (90) days from the execution of the Net Tec IP Telephony Project agreements or the Master Agreement, whichever is later.
- (c) If the business evaluation is acceptable to WPH, WPH will fund the IP Telephony Project as described in the presented Net Tec IP Telephony Project Plan. All necessary capital funding will be considered Division Support as defined in the Economic Appendix. Any on-going operating costs will be considered Actual Expenses as defined in the Economic Appendix.
- (d) If, for any reason, WPH chooses not to fund the IP Telephony Project, any and all funding for the IP Telephony Project shall not be considered Division Support, and such funds shall be excluded from the ROI requirements described in Section 7 of the Economic Appendix. Should this option be chosen, initial funding, on-going operating costs or subsequent upgrades or conversions associated with the IP Telephony Project, will be the sole and personal responsibility of the MCC Physicians to be paid from the MCC Base and Incentive Compensation Pools and not considered as an expense of MCC or WPAON, nor an obligation of WPH. Under this section 2 (d), any reduction in operating expenses directly related to the IP Telephony Project will accrue to the benefit of the MCC Physicians, such financial benefit to be calculated and paid to the MCC Physicians as Incentive Compensation Pool contributions, based upon a mutually agreed methodology to be pre-determined during the final business evaluation.
- (e) In either the case of 2 (c) or 2 (d) as described above, the IP Telephony Project, as determined by the final business evaluation, will be implemented by a vendor acceptable to MCC Physicians. Access to IP Telephony on a regular or permanent basis will be provided to WPAHS, WPH or WP SMSO for any legitimate business purposes.

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(3). Web Site

- (a). WPAHS will engage Net Tec to develop the MCC web site in an amount not to exceed an initial funding of twenty-five thousand dollars (\$25,000). Any initial funding in excess of this amount will be the sole responsibility of MCC Physicians to be paid from the MCC Base and Incentive Compensation Pools.
- (b). Net Tec will in its development of the MCC web site and hosting, meet the Marketing and Communication guidelines and standards as set forth by WPAHS and will work in cooperation with H2 (WPAHS' web development vendor) to ensure those guidelines are met and appropriate internet and intranet standards and linkages are addressed. The web site must be consistent with the technical criteria established by WPAHS Department of Information Technology for linked web sites.
- (c). All such implementations will be in conformity with all Federal and State regulations, including the Health Insurance Portability and Accountability Act ("HIPAA").
- (d). Future MCC web site enhancements, will be considered Division Support and Actual Expenses so long as such capital expenditures and expenses, respectively, have been approved in the MCC Annual Budget as defined in the Master Agreement and Economic Appendix.

(4). Physician Access

- (a). WPAHS will, within ninety (90) days following execution of the Master Agreement, make available to all MCC physicians the WPAHS Web-Based Physician Portal through the MCC Wide Area Network ("WAN").
- (b). Net Tec Services will implement, support and maintain a Virtual Private Network ("VPN") and configure all the PCs across the WAN, at all practice sites, at the homes of physicians and select staff homes, and at select MCC and WPH administrative sites, for Citrix connectivity and access to the Personal Productivity, Exchange, CallManager and Unity Servers, as well as to the "Intergy" software system.

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- (c). All such implementations will be in conformity with all Federal and State regulations, including HIPAA. Furthermore, Net Tec will utilize a mutually agreed upon security system and maintain secure access to the VPN. VPN accessibility will be provided on a regular or permanent basis to WPAHS, WPH or WP SMSO for any legitimate business purposes.
- (d). All necessary one-time and on-going VPN hardware and software costs for such implementations will be funded in accordance with the Master Agreement and Economic Appendix, through Physician Business Expense (PBEs). Funds in excess of the PBEs shall be provided by MCC Physicians from the Base and Incentive Compensation Pools; where such expense will not be considered an Actual Expense of MCC, nor an obligation of WPH.

(5). MCC Information Technology Support

- (a). The Parties will mutually determine, on an annual basis, the IT support necessary for the business and clinical activities of MCC and its related commitments. This support may be achieved through a combination of both internal and external resources, acceptable to the Parties, except as noted herein where such determinations are specified in this Information Technology Appendix.
- (b). WPAHS will provide full-time support of MCC's "Intergy" software system and related application platforms located at the WPAHS Data Center as described under Section 1(d). WPAHS will deliver the Practice System applications to the MCC WAN, at a location and through such connection as mutually acceptable to the Parties. Medical Manager will provide "Intergy" software support during the installation and implementation initial phases of the project. Upon completion of the Medical Manager project, the Parties will implement a mutually agreeable product support plan to include technical support, and issue management, as well as administrative oversight support of the Medical Manager "Intergy" hardware platform, operating system, and application software. As a component of this support plan, WPAHS will provide at a minimum one full equivalent (FTE) dedicated to MCC for the support of the Practice System. All such costs described herein shall be consistent with an approved MCC Annual Budget where all operating costs and capital expenditures necessary for this support function will be treated in accordance with the Master Agreement, such that all necessary capital funding will be considered Division Support as defined in the Economic Appendix and any on-going operating costs will be considered Actual Expenses as defined in the Economic Appendix.

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- (c). Net Tec will provide support of MCC's network configuration personal computers and peripheral equipment, including all related hardware and software per the various vendors' then-current specifications, including any updates, prescribed by the vendors of those systems, consistent with a performance agreement mutually acceptable to the Parties for a period of at least one year. The support will include technical support, project and issue management, as well as administrative oversight support. Net Tec will have primary responsibility to support the purchase, repair, replacement or upgrades, as mutually agreed, at market competitive pricing for all MCC personal computer hardware and software, printers and peripheral devices. MCC, WPAHS or WPH will have the right to purchase computer hardware and software, outside the Net Tec support program, as may be needed or requested by MCC or WPH. All such costs described herein shall be consistent with an approved MCC Annual Budget where all operating costs and/or capital expenditures necessary for this support function will be treated in accordance with the Master Agreement such that all necessary capital funding will be considered Division Support as defined in the Economic Appendix and any on-going operating costs will be considered Actual Expenses as defined in the Economic Appendix. Nothing in this section is intended to supersede the treatment of support costs and capital expenditures as provided for in Section 2 and Section 4 of this Information Technology Appendix.
- (e). Should it be mutually determined by the Parties, that Net Tec is unable to perform its duties at acceptable levels for the support described herein or in accordance with standards set out in prescribed performance agreements, the Parties may choose a mutually acceptable vendor and/or WPAHS to provide on-going support in a manner consistent with the applicable sections of the Master Agreement, Economic Appendix or this Information Technology Appendix.
- (f). One (1) year after the installation of the Practice System, the Parties may mutually agree to continue the support agreement with Net Tec, select another vendor and/or move support to WPAHS. This determination shall be inclusive of all support described under Sections 2, 4, 5 (b) and 5 (c) of this Information Technology Appendix, all handled in a manner consistent with the applicable sections of the Master Agreement, Economic Appendix or this Information Technology Appendix.

**MEDICAL PRACTICE VALUATION
MEDICAL CENTER CLINIC, P.C.
as of December 31, 2003**

WPAHS-001863



HOROVITZ
RUDOLY &
ROTEMAN

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

May 6, 2004

CONFIDENTIAL

Mr. Thomas S. Albanesi, Jr.
Vice President, Corporate Finance
West Penn Allegheny Health System
Two Allegheny Center
Eleventh Floor
Pittsburgh, PA 15212

Dear Mr. Albanesi:

At your request, we have made a determination of our estimate of the Fair Market Value of the medical practice of Medical Center Clinic, P.C. (Medical Center Clinic, P.C.). The purpose of this appraisal is to ascertain an approximate fair market value of one hundred percent (100%) of the practice's business interests as of December 31, 2003 to assist in the completion of Internal Revenue Service Form 1023, Application for Tax Exemption.

In our opinion and based on recognized valuation techniques, we believe that the Fair Market Value of Medical Center Clinic, P.C. can be estimated as follows:

Tangible Asset Value	\$334,597
Intangible Asset Value	<u>547,268</u>
Total Business Enterprise Value As of December 31, 2003	\$ 881,865

We believe that the above conclusion as to the value of Medical Center Clinic, P.C. will be acceptable to the Internal Revenue Service for the purpose of filing the Form 1023, Application for Tax Exemption.

Our conclusion as to the value of Medical Center Clinic, P.C. is based on the Internal Revenue Service Rules and Regulations, Revenue Rulings and Procedures, Letter Rulings, and pronouncements by the Internal Revenue Service including the most recently issued relevant pronouncements disseminated by the Internal Revenue Service. That pronouncement, which reflects on a cumulative basis the views of the Internal Revenue Service on physician practice valuations for purposes of acquisition by exempt hospitals, are the 18th and 19th editions of the Internal Revenue Service's Exempt Organization Continuing Professional Education Technical Instruction Program textbook (the "CPE book"). The CPE book is viewed by commentators to provide substantial direction on how the Internal Revenue Service views the valuation issue and its ramifications.

The accompanying Valuation Report describes the facts and reasoning upon which our opinion is based. Our estimate of value is subject to the Assumptions and Limiting Conditions set forth in the report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Alex M. Kindler". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Alex M. Kindler, CPA, CVA, CDP, MBA
Horovitz, Rudoy & Roteman

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I. PURPOSE OF VALUATION AND GENERAL APPROACH EMPLOYED

A. PURPOSE AND DATE OF VALUATION

Horovitz, Rudoy & Roteman, a Certified Public Accounting firm, has been retained by West Penn Allegheny Oncology Network, Inc. to appraise the fair market value of Medical Center Clinic, P.C. ("Medical Center Clinic", the "Clinic").

This valuation is prepared as of December 31, 2003. The date of this Report is May 6, 2004, the date at which we completed our technical work on this engagement. In the interest of clarity and consistency, comments in this Report are from the perspective of the valuation date, December 31, 2003.

B. FUNCTION OF THE VALUATION

The valuation is being conducted to assist the Clinic in connection with the completion of Internal Revenue Service Form 1023, Application for Tax Exemption.

C. SOURCES OF INFORMATION

Numerous sources of information were considered before reaching our determination of the fair market value of Medical Center Clinic, P.C. as of December 31, 2003. These sources include:

1. The Corporation Income Tax Returns (Form 1120) for the years ended December 31, 1998 through December 31, 2002 filed by Medical Center Clinic, P.C. as prepared by KPMG, LLP, Certified Public Accountants, Pittsburgh, PA.
2. The Corporation Income Tax Returns (Form 1120) for the years ended December 31, 1998 through December 31, 2002 filed by West Penn Specialty MSO, Inc. as prepared by KPMG, LLP, Certified Public Accountants, Pittsburgh, PA.
3. The financial statements for the twelve months ended June 30, 2002 through June 30, 2003 and the interim financial statement for the six months ended December 31, 2003 prepared internally, for Medical Center Clinic, P.C.
4. The financial statements for the years ended June 30, 2002 through June 30, 2003 and the interim financial statement for the six months ended December 31, 2003 prepared internally, for West Penn Specialty MSO, Inc.
5. Budgeting information and trend analysis for West Penn Allegheny Oncology Network.
6. Payment and charge schedules for services provided for Medical Center Clinic.

7. Employee compensation, benefit and pension schedules and information for Medical Center Clinic.
8. Revenue breakdown and analysis for Medical Center Clinic as of January 5, 2004.
9. Account receivable aging summary for Medical Center Clinic as of January 5, 2004.
10. Account receivable charges by unit for Medical Center Clinic as of January 5, 2004.
11. Month-to-date Practice analysis for Medical Center Clinic as of January 5, 2004.
12. Inventory and depreciation listing for West Penn Specialty MSO, Inc. as of December 31, 2003.
13. Asset Purchase Agreement between West Penn Specialty MSO, Inc. and Medical Center Clinic, Ltd., and Carl H. Srodes, MD, Teresa A. Nolan, MD, Sigurdur R. Petursson, MD, Dennis J. Meisner, MD, Cynthia K. Evans, MD, and Kathy J. Selvaggi, MD, dated April 22, 1997.
14. Master Agreement between West Penn Allegheny Oncology Network, d/b/a Medical Center Clinic, and West Penn Allegheny Health System ("WPAHS"), dated July 15, 2003.
15. Management Agreement between West Penn Specialty MSO, Inc. and Medical Center Clinic, P.C., entered into as of April 22, 1997.
16. Original and amended employment agreements made between West Penn Allegheny Oncology Network, Medical Center Clinic, P.C., and various individual medical doctors. These agreements include: Master Agreement between West Penn Oncology Network, dba Medical Center Clinic, and West Penn Allegheny Health Systems; amended employment agreements between Medical Center Clinic and Cynthia K. Evans, MD, Sigurdur R. Petursson, MD, Kathy J. Selvaggi, MD and Charles H. Srodes, MD; Senior Participating Physician Agreements between West Penn Allegheny Oncology Network and Cynthia K. Evans, MD, Sigurdur R. Petursson, MD, Kathy J. Selvaggi, MD and Charles H. Srodes, MD; employment agreements between West Penn Allegheny Oncology Network and Alexander Barsouk, MD, Eugene Finley, MD, Mohammad F. Islam, MD, Gregory Scott Long, MD, Moses Sundar Raj, MD, Melissa M Thimons, DO and Helen Analo, MD.
17. Industry statistics obtained from the Physician Characteristics and Distributions in the US - 2003-2004 Edition; Physician Socioeconomic Statistics - 2003 Edition, both published by American Medical Association;. Data on inflation obtained from Stocks, Bonds, Bills, and Inflation 2003 Yearbook published by Ibbotson Associates, Chicago, IL.
18. Valuation techniques used to complete this business appraisal were obtained from numerous sources including the American Society of Appraisers and NACVA

recommended texts, Valuing a Business and Valuing Small Business and Professional Practices, written by Dr. Shannon P. Pratt; Financial Valuation: Businesses and Business Interests, written by James H. Zukin; the Handbook of Business Valuation by Thomas L. West; Buying & Selling Medical Practices: A Valuation Guide, published by the American Medical Association; the 18th and 19th editions of the Internal Revenue Service's Exempt Organization Continuing Professional Education Technical Instruction Program textbook (the "CPE book"); Medial Practice Valuation Guidebook 2001/2002, written by Mark O. Dietrich, CPA, ABV and The Effect of the Changing U.S. Economy on Healthcare Valuation, written by Robert J. Cimasi, ASA, CBA, AVA, FCBI and presented at the NACVA Ninth Annual Business Valuation Conference.

II. ASSUMPTIONS AND LIMITING CONDITIONS

A. ASSUMPTIONS AND LIMITING CONDITIONS

1. This letter and accompanying text constitute our Appraisal Report. It does not purport to be an all-inclusive list of all of the considerations undertaken in order to arrive at our opinion of value.
2. This report is an appraisal report designed to give a conclusion of value. It is not an accounting report, and it should not be relied on to disclose hidden assets or to verify financial reporting. It is an opinion of value of the specific assets and liabilities considered by Horovitz, Rudoy & Roteman.
3. Horovitz, Rudoy & Roteman has accepted the financial information as contained in the Federal Income Tax returns without additional verification. The tax returns consist of balance sheets and income statements. The returns have not been audited by us, and their accuracy is the sole responsibility of management.
4. Horovitz, Rudoy & Roteman has relied on representations made by Medical Center Clinic, P.C. about the history and background of the medical practice. These representations are believed to be reliable, but no responsibility is assumed for the accuracy of the representations.
5. This Appraisal Report was prepared for the use of West Penn Allegheny Health System, Inc. No reproduction, publication, distribution, or other use of this Appraisal Report is authorized without the prior consent of Horovitz, Rudoy & Roteman.
6. All facts and data as set forth in this report are true and accurate to the best of the appraiser's knowledge and belief. No matters affecting the conclusions have knowingly been withheld or omitted.
7. The fee charged for this Appraisal Report is not contingent upon the conclusion of value set forth herein.

8. The appraisal and its conclusion are subject to review upon the presentation of data which may have been undisclosed or not available at this writing.

B. STATEMENT OF DISINTEREST

Horovitz, Rudoy & Roteman and its employees have no present or contemplated future interest in the subject property of this Appraisal Report. We have no interest in or bias with respect to subject property or the owners thereof.

C. DEFINITION OF FAIR MARKET VALUE

The definition of "fair market value", as used for federal, estate, gift tax and Pennsylvania inheritance tax purposes, has taken on a universal application by most valuation experts. Estate Tax Regulation *20.2031-2(f) and Gift Tax Regulation *25.2512-2(f) defines "fair market value" as:

"the price at which such property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell, and both having reasonable knowledge of relevant facts."

There is no precise formula for appraising a closely-held corporation. However, Revenue Ruling 59-60, Estate Tax Regulation *20.2031-2(f), and Gift Tax Regulation *25.2512-2(f) are now the most significant legal guidelines in valuations. They set forth eight factors and solid valuation approaches to be considered in valuing closely-held businesses, which have long been recognized by the courts and practiced by the appraisal profession. These factors are:

1. Nature of the business and the history of the enterprise from its inception;
2. The economic outlook in general and the condition and outlook of the specific industry in particular;
3. The book value of the stock and the financial condition of the business;
4. The earning capacity of the company;
5. The dividend-paying capacity;
6. Whether or not the enterprise has goodwill or other intangible value;
7. Sales of the stock, if available, and the size of the block of stock to be valued;
8. The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over the counter.

Revenue Ruling 59-60 emphasizes that the eight factors do not necessarily have equal weight and that the determination of value is a matter of judgment and common sense to be arrived at after consideration of all factors by the valuation expert or appraiser.

The following are brief summaries of additional Revenue Rulings relating to the valuation of closely held business:

Revenue Ruling 65-192 was established for the purpose of encompassing income and other tax valuation matters under Revenue Ruling 59-60. It also expanded Revenue Ruling 59-60 and made it apply to problems involving the determination of fair market value of business interests of any type.

Revenue Ruling 65-193 modifies Rev. Rul. 59-60 by recognizing the possibility of valuing the tangible and intangible assets of a business separately.

Revenue Ruling 68-609 supersedes A.R.M. 34 and Rev. Rul. 65-192 and addresses the question whether the "formula" approach, the capitalization of excess earnings, may be used to determine the fair market value of intangible assets.

Revenue Ruling 77-287 amplifies Rev. Rul. 59-60, as modified by Rev. Rul. 65-193, by addressing the valuation of shares of stock that have not been registered for public trading when the issuing company has stock of the same class that is actively traded.

Revenue Ruling 80-213 further amplifies Rev. Rul. 59-60, as modified by Rev. Rul. 65-193 and as amplified by Rev. Rul. 77-287, by discussing the valuation of the stock of a subsidiary corporation that is distributed to the shareholders of the former parent and can be sold only with the stock of the distributing corporation.

Revenue Ruling 83-120 further amplifies Rev. Rul. 59-60, as modified by Rev. Rul. 65-193 and as modified by Rev. Rul. 77-287 and Rev. Rul. 80-213, by specifying additional factors to be considered in valuing common and preferred stock of a closely held corporation in a recapitalization.

III. PRACTICE BACKGROUND AND HISTORY

The entity that is the subject of this appraisal report is Medical Center Clinic, P.C., a personal service corporation, and is identified by Federal Employer Identification Number # 23-2894939. The practice performs medical oncology and hematology services.

A. PRACTICE HISTORY

For the past twenty years, Medical Center Clinic has offered patients the full range of the most advanced diagnostic and treatment services for all types of cancer. The Clinic offers a multi-disciplinary team of radiation therapists, hematologists and surgeons to battle cancer on all fronts, utilizing some of the most comprehensive diagnostic and treatment services available. The Clinic also conducts basic trials for a range of hematologic malignancies and solid tumors. Since its inception, the Clinic has also been a member of the Cancer and Leukemia Group B, which provides national protocols for the treatment of patients with cancer and leukemia.

Some of the services offered by the Clinic are as follows:

Breast Diagnostic Imaging - offering the latest in imaging technology, and is home to the first facility in Pittsburgh dedicated to complete diagnostic imaging of the breast. The Center also offers digital mammography, breast ultrasound, breast MRI,

galactography/ductoscopy, ductal lavage, stereotactic core needle biopsy, and needle aspiration.

Diagnostic Radiology – state-of-the-art technology includes a digital radiography system that produces exceptionally clear images very quickly for accurate diagnosis, without increased radiation exposure for patients.

Specialized Surgical Centers – offers surgeons with specialized training in colorectal, breast, lung, thoracic, pancreatic, hepatobiliary, urologic, prostate, liver, and head and neck surgery. Minimally invasive and laparoscopic techniques are used as well as immediate reconstruction following breast surgery to help minimize patient discomfort, blood loss and recovery time.

Neuro-oncology – offers the latest treatments and performs cutting-edge research to continually improve surgical techniques and adjuvant therapies. MRI spectroscopy is used to characterize brain tumors, perform chemosensitivity testing to create customized chemotherapy regimens for each patient. The Clinic was one of the first institutions in the world to use computer-targeted radiation therapy to shrink previously inoperable brain tumors.

The Clinic operates at several different locations throughout Western Pennsylvania, with hours of operation varying depending on location. Clinic locations are as follows:

<u>Hospital/Clinic</u>	<u>Location</u>
The Western Pennsylvania Hospital	Pittsburgh, PA
Suburban General Hospital	Pittsburgh, PA
Allegheny General Hospital	Pittsburgh, PA
UPMC - Shadyside	Pittsburgh, PA
Punxsutawney Area Hospital	Punxsutawney, PA .
2915 Wilmington Avenue	New Castle, PA
Armstrong County Memorial Hospital	Kittanning, PA
Butler Regional Cancer Center	Butler, PA
Forbes Regional Hospital	Monroeville, PA
Canonsburg General Hospital	Canonsburg, PA
Allegheny Valley Hospital	Natrona Heights, PA
Citizens General Ambulatory Care Center	New Kensington, PA

B. STAFFING

The professional staff of the Medical Center Clinic is made up of twelve physicians. The physicians and their medical backgrounds are as follows:

Charles Henninger Srodes, MD – Dr. Srodes received his medical degree from Columbia University in New York City, completed a two-year residency in Internal Medicine at Duke University Hospital, and a third year of internal medicine residency and fellowship in Hematology at Presbyterian University Hospital in Pittsburgh. He is board certified in

Hematology, Medical Oncology and Internal Medicine, and currently serves as Clinical Professor of Medicine at the University of Pittsburgh School of Medicine and adjunct Clinical Professor of Medicine at Temple University.

Sigurdur Ragnar Petursson, MD – Dr. Petursson received his medical degree from the University of Rochester School of Medicine and Dentistry in Rochester, NY, completed an internship in medicine and a junior and senior residency program in medicine at the University of Pittsburgh Presbyterian University Hospital. He also completed a fellowship in hematology/oncology at the University of Pittsburgh and in bone marrow transplantation at the Fred Hutchinson Cancer Research Center in Seattle, WA. He has received eight scientific grants, and currently serves as an associated member of the Pittsburgh Cancer Institute and a Clinical Associate Professor of Medicine at the University of Pittsburgh.

Cynthia K. Evans, MD – Dr. Evans received her medical degree from the University of Kentucky College of Medicine in Lexington, KY, completed an internship and residency program in internal medicine at Mercy Hospital of Pittsburgh and a fellowship in hematology/oncology at the Pittsburgh Cancer Institute of the University of Pittsburgh Medical Center.

Kathy Selvaggi, MD – Dr. Selvaggi received her medical degree from the Penn State University College of Medicine and completed her internship and residency training in Internal Medicine at the University of Pittsburgh Health Sciences Center. She also served as chief medical resident at Shadyside Hospital and as a hematology/oncology fellow at the University of Pittsburgh Health Sciences Center. Dr. Selvaggi is board certified in Internal Medicine and Medical Oncology and is a fellow of the American College of Physicians.

Gregory Scott Long, MD – Dr. Long received both his medical degree and a doctorate in Experimental Pathology from the University of Pittsburgh Medical School. He has completed a residency program in internal medicine at the Hospital of the University of Pennsylvania and served as a senior clinical fellow in medical oncology at The Johns Hopkins Hospital in Baltimore. He is certified as a diplomate in internal medicine and medical oncology and is a member of the American College of Physicians.

Moses S. Raj, MD – Dr. Raj completed his medical degree at Guntur Medical College in Guntur, India and continued his registrarship in radiation oncology at Christian Medical College in Vellore, India. He completed his residency in internal medicine at Ohio Valley Medical Center in Wheeling, WV and Metro West Medical Center in Framingham, MA., and concluded a fellowship in hematology and medical oncology at the University of Iowa Hospitals in Iowa City, IA. He holds board certifications in hematology, oncology and internal medicine and is a member of the American Society of Clinical Oncology.

Mohammed Fakhru Islam, MD, MS – Dr. Islam received his medical degree and a master of science in pathology degree from Dhaka University, Bangladesh. He completed a residency in internal medicine at St. Francis Medical Center in Pittsburgh, followed by a fellowship in medical oncology and hematology at the Pittsburgh Cancer Institute. He is boards certified in internal medicine, hematology and medical oncology.

Gene G. Finley, MD – Dr. Finley is a graduate of the University of Pittsburgh School of Medicine, where he completed his internship and residency in medicine and participated in the Physician Investigator Training Program in Molecular Bio/Oncology. He also completed a fellowship in medical oncology at the Pittsburgh Cancer Institute. Dr. Finley is board certified in internal medicine and in clinical oncology.

Alexander Barsouk, MD – Dr. Barsouk received his medical degree from the Scientific Department of Moscow Medical Academy in Moscow, Russia. After being selected to participate in the International Scientific Exchange Program at the University of Toronto and postgraduate study at the Moscow Medical Academy, Dr. Barsouk served as a research fellow in the Thyroid Eye Disease Research Lab and the Lung Cancer Research Program at Allegheny General Hospital in Pittsburgh. He completed residency in internal medicine at St. Francis Medical Center in Pittsburgh followed by fellowships in hematology/oncology at the Washington Hospital Center in Washington, D.C. He is board certified in internal medicine, hematology and medical oncology.

Helen I. Analo, MD – Dr. Analo received her medical degree from the University of Lagos in Lagos, Nigeria, where she also completed her internship and residency in hematology and blood transfusion. She also served her residency in internal medicine at the University of Pittsburgh Medical Center – Shadyside and completed a fellowship in hematology/oncology at the Mount Sinai Hospital in New York. She is board certified in internal medicine, hematology and medical oncology.

Melissa Thimons, DO – Dr. Thimons received her medical degree from the Philadelphia College of Osteopathic Medicine. She completed both her internship and residency training in internal medicine at the Western Pennsylvania Hospital in Pittsburgh, and completed a fellowship in hematology/oncology through the Western Pennsylvania Cancer Institute at the Western Pennsylvania Hospital.

Jose Seixas Silva, MD – Dr. Silva received his medical degree from the Federal University of Bahia, Brazil. He completed an internship in internal medicine at the University of Sao Paulo, Ribeirao Preto in Brazil and an internal medicine internship and residency at the Medical College of Pennsylvania and Hahnemann University in Philadelphia. He also completed a hematology and oncology fellowship at the University of Pittsburgh Cancer Institute and earned a post-graduate degree from the Clinical Research Training Program at the University of Pittsburgh School of Medicine. He is board certified in internal medicine.

C. AFFILIATIONS

Medical Center Clinic, P.C. is affiliated with West Penn Allegheny Health System and accepts Keystone Health Plan, Security Blue, UPMC Health Plan, Gateway Health Plan, Best Health, Med Plus, Aetna/USHealthcare, Advanta, and CARELINK/HealthAmerica. As of December 31, 2003, the highest total of charges as a percent of total gross charges is from Security Blue and Keystone, which account for 19% and 14%, respectively. Medicare makes up the largest overall percentage, at 40% of total gross charges as of the sixth months ended December 31, 2003.

E. FURNITURE AND EQUIPMENT

The practice leases its office and lab space at the various locations of operation, with different locations having different lease rates. Various exam tables, office furniture, files and other medical equipment are located appropriately throughout each office. A listing of this equipment is attached in the exhibits to this report. West Penn Specialty MSO, Inc. owns the office furniture and fixtures, computers and other medical equipment, and its un-depreciated accounting book value equates to \$834,228.

As stated above, the tangible assets of Medical Center Clinic are owned by West Penn Specialty MSO. The intangible assets of the Practice are also owned primarily by West Penn Specialty MSO, with junior physician contracts owned by Medical Center Clinic.

IV. FINANCIAL STATEMENT ANALYSIS

One of the main objectives of financial analysis is the compilation of a base period operating statement to be used as a foundation upon which a financial valuation model may be built. We were presented with financial information for the periods ended June 30 and December 31, 2002 and 2003 based on a June 30 fiscal year end. Exhibits D and E are summaries of financial data that were generated in our financial review and analysis process.

A. INCOME STATEMENT

In 2002, the Clinic had total revenue of \$21,247,494. By the end of fiscal year 2003 total revenue had climbed to \$28,189,129, a 32.7 percent yearly increase. For the six-month period ending December 31, 2003, total revenue for the Clinic was \$18,503,443.

A significant reason for the increase in total revenue through June 2003 was the large jump in fees generated by chemotherapy and therapeutic services. While other revenue areas, such as professional services, lab fees and chemotherapy and therapeutic administration all increased over the prior year, none went up as much as the 33.5 percent that the chemotherapy and therapeutic fees did. For the six months ended December 31, 2003, the percentage of total revenues comprised of chemotherapy and therapeutic continues to increase. This area accounted for 82.4 percent of total revenues through June 2002, 84.4 percent through June 2003, and has risen to 86.7 percent through December 31, 2003. Revenue from Medicare to the Clinic remained the predominant payor of gross charges, accounting for 39 percent of total payments as of June 2003. This is off slightly from the June 2002 level of 42 percent.

Operating expenses for the Practice were \$16,817,283 in 2002. This figure jumped 25.8 percent to \$21,159,074 in 2003. This jump was caused in large part by the addition of over \$3,000,000 in salaries and wages, and an increase in prices for drugs and IV solutions, which was up almost \$4,000,000 over the prior year.

These operating expense figures do not include the expenses incurred in relation to the physicians. Physician base salary accounts for almost \$2,700,000 of the total \$3,576,535 spent last year on physician expenses, or approximately 9.5 percent of total revenues. While this figure is a large dollar amount increase over 2002, its total as a percentage of revenues shows only a slight increase. With all expenses considered, net income as of June 30, 2003 is at \$1,352,468, a large increase over the 2002 level of \$243,228. As of December 31, 2003, net income was at \$950,546.

V. ECONOMIC AND INDUSTRY OUTLOOK

A. NATIONAL

Economic expansion has increased during the year, and activity remains steady going into the fourth quarter of 2003. Ten of the twelve districts within the Federal Reserve System have reported increased activity, with the remaining two reporting steady levels of growth. As a whole, prices and wages throughout the nation have remained relatively steady.

With the exception of a slight decrease in auto sales, consumer spending strengthened throughout most districts. Retailers are anticipating a modest gain for the upcoming holiday shopping season over the previous year, and inventory levels within the retail sector are at or close to their desired levels. Auto retailers report higher than desired inventories in most pockets across the country, due in large part to the slowdown in auto sales that has taken place over the past several months. Any retail sales that were lost over the East coast due to closures caused by late summer/early fall's hurricanes were quickly recovered, and sales in hardware and grocery stores as well as restaurants were strong immediately following the storms.

Manufacturing activity has strengthened within the majority of the regions across the country and, while employment has remained comparatively weak, areas of firming within the sector has been noted in several areas. Machine tool orders increased in the South and Midwest, semiconductors showed strengthening in the West coast, high-tech activity in the Dallas region increased and construction related materials showed gains throughout the country. While manufacturing employment did show some gains in certain regions, it is mostly considered stable or declining.

While residential real estate markets continued to show strength, commercial markets remained relatively sluggish across the nation. The slight rise in mortgage rates have done little to slow residential home sales, with most regions reporting steady to strong activity. Residential construction remains strong as well, but an increase in supply and lumber costs in certain regions are said to be squeezing builders' profit margins. Commercial real estate continues to remain weak in the majority of the country, but certain areas in the East and Mideast are reporting signs of the market beginning to firm up slightly.

Banks are reporting generally favorable conditions throughout the country, with the recent declines in mortgage refinances being offset by an increase in borrowing from the commercial sector. With commercial lending picking up in most areas and consumer

lending described as steady, the loan quality reported has remained good, with only slight changes in delinquency rates.

On a whole, with the steady to slightly improving conditions throughout several sectors, it appears that the long-awaited economic turnaround that has been discussed so often may finally be on the horizon. With a recent slight drop in unemployment and the quick monthly growth in the economy recently reported, the economy as a whole seems to be making the turn towards continued growth.

(Sources: The Beige Book, Federal Reserve Bank,
Federal Reserve Bank of Philadelphia,
Stuart Hoffman, Chief Economist, National Economic Outlook, PNC Financial Services Group)

B. LOCAL

It is also necessary to look at the nature of the regional economy in order to gain some indication of how the regional factors may impact the business of the Practice.

The economy of the Pittsburgh Metropolitan Statistical Area (MSA)¹ continues to lack a clear direction and as of yet has not been able to sustain adequate job growth. The area economy continues to face challenges in the form of structural change in key industries, increases in personal bankruptcies, and the unresolved budget crisis in the City of Pittsburgh. The recent drop in the area's jobless rate is mainly due to the contraction in the metro area's labor force. This is indicative of a large number of discouraged job seekers, but as the economy begins to improve over the coming months, some of these individuals will return to the labor force. Meanwhile, the short term outlook is that the jobless rate could be pushed higher before it would start a more sustained decline.

The housing sector throughout the Pittsburgh Metropolitan Area turned in a mixed performance in 2003, but still serves as a source of support for the metro area's economy. While early data suggests a slight decline in single family housing permits the past year, low mortgage rates have continued to support the strong pace of new home sales throughout the region. Once final figures are in for 2003, results are expected to show that the year was another record year for home sales within the region. Although talk is surfacing about a possible rise in key interest rates, as long as interest rates remain at their current low levels, the housing sector is predicted to continue its strong performance. The commercial real estate market continues to struggle in comparison with the residential market, but signs of a turnaround may be in sight. While commercial vacancy rates remain high, specifically in the downtown and west corridors, the beginning of the economic turnaround has resulted in companies to reconsidering expanding existing business lines. As the overall economy continues to improve, companies will get more aggressive with expansion in order to take advantage of the current low commercial lease rates being offered through the region. Looking forward, it is expected that tenants will have an advantage over landlords in lease negotiations due to high vacancy rates throughout the first six months of 2004.

¹ The Pittsburgh MSA consists of Allegheny, Beaver, Butler, Fayette, Washington and Westmoreland Counties.

Overall, the Pittsburgh MSA's economy should begin to stabilize over the coming months, but will face lingering uncertainty in some key areas. A firmer U.S. economy will provide some relief to manufacturers and providers of business services in the metro area. However, the future of US Airways and the manner in which the City of Pittsburgh addresses its budget situation represent downside risks to the region. Longer term, Pittsburgh's efforts to attract high-tech and biotech industries will improve its growth prospects. In addition, ongoing infrastructure improvements will spur more intensive commercial use of the airport and enhance growth in the airport corridor. However, the metro area's weak demographics will limit growth.

(Sources: Federal Reserve Board Cleveland,
PNC Financial Services Group, Economics Division, Metro Main Edition, 2003,
Pittsburgh Business Times)

C. INDUSTRY

1. DEMAND

The demand for health care services has been growing rapidly in the United States over the past 40 years. From 1960 to 2000, personal health care spending grew at an annual average rate of 10 percent. As a result, health care spending is growing in importance in consumption and Gross Domestic Product (GDP), and consequently has become a target of major policy initiatives. According to the National Health Statistics Group (NHSG), personal health care expenditures totaled \$23.4 billion in 1960, comprising 4.4 percent of GDP. Expenditures in 2000 were estimated at \$1.130 trillion, or 11.4 percent of GDP. While this growing trend is alarming, it is also expected to continue into the foreseeable future.

Several factors have contributed to the increased cost of health care throughout the country: individuals' insistence on quality health care, regardless of cost; the rapidly increasing elderly population, who are disproportionately heavy users of health care; and increasingly sophisticated medical technology, in the form of new, high-priced diagnostic tests, therapeutic equipment, and pharmaceuticals. These costs are often passed on to the consumer in the form of higher physician fees, less insurance reimbursement and increased costs for prescription drugs.

After a period of declining demand for health care services in the 1980's and early 1990's, spending on health care services has been increasing steadily. This is the result of continuing changes in insurance reimbursement, both to the providers and the patients, as well as an increase in the growth of the elderly population. As providers are pushing preventative medicine to young and middle-aged individuals with an eye toward reducing expensive health care in the future, the increasing trend in the population of people over age 65 is expected to continue into the near future. Advances in technology, increased life expectancy, an aging population and changes in insurance reimbursements are expected to continue to drive spending in health care for the next 10 to 15 years.

2. SUPPLY

Professionals

As of the year 2000, there were over 800,000 physicians in the United States, an increase of almost 200,000, or over 32% from 1990 and almost double the level from 1980. The growth in medical care physicians has outpaced the general population growth over the past twenty years, and while this pace is expected to slow, it will continue in the same direction. Of these 800,000 doctors, almost 80 percent focus their energies and talents directly on patient care. The remaining 20 percent focus primarily on administrative functions, medical teaching and research. Within the patient care category, between 1980 and 2000 there were increases of 80.2 percent in Office Based physicians and 50.2 percent in Hospital Based physicians. Since 1980, the complement of Office Based physicians grew by 63.9 percent while those in Hospital Based did so by 46.5 percent.

Over the past thirty years, there seems to have been a shift from a general practice physician to one that is in more of a specialized field. The number of physicians in General Practice has decreased by some 42,730 from 1970 to 2000. The decrease may in part be explained by the establishment of Family Practice medicine. Between 1975 and 2000, Family Practice showed an increase of 59,452 physicians while there were 27,161 fewer physicians in General Practice in 2000 than in 1975. Over the same time period, Internal Medicine demonstrated a dramatic increase, gaining 41,872 physicians between 1970 and 1980, and another 63,014 between 1980 and 1990. Another large increase occurred for Diagnostic Radiologists. In 1970, Diagnostic Radiologists accounted for 0.06 percent of all physicians. By 2000, that percentage had jumped to 2.6 percent of all physicians, or 21,104. Of the physician distributions as of 2000, the specialty that had the largest population of physicians was Internal Medicine with 134,539 followed by Family Practice with 86,848, Pediatrics with 62,385, Psychiatry with 39,457 and General Surgery with 36,650.

Health Insurance and Health Maintenance Organizations

Insurance and Health Maintenance Organizations (HMOs) play a unique role in the American health care system. These organizations pay much of the actual bill on behalf of consumers. Traditional insurance plans allow consumers to purchase health care from any provider. The consumer then either directs the provider to bill the insurance company, or requests reimbursement after paying the provider. HMOs facilitate the delivery of prepaid health care services to its members through a network of independent primary care physicians, specialty physicians and other health care providers who contract with the HMO to furnish such services. In general, such plans allow the consumer freedom in choosing health care options.

Overall, the share of the U.S. population without health insurance rose in 2002 to 43.6 million people, or 15.2 percent of the population. In addition to the increase in individuals without insurance, the number of people covered by employment-based health insurance dropped in the recent year. In 2001, 62.6 percent of people were covered by employment-based insurance. In 2002, this percentage dropped to 61.3 percent.

Health insurance coverage provided by the U.S. government increased between 2001 and 2002, but not enough to offset the decline in private coverage. Overall, Medicaid coverage rose by 0.4 percentage points to 11.6 percent in 2002. Of the entire U.S. population, 25.7 percent had government insurance, including Medicare (13.4 percent), Medicaid (11.6 percent) and Military Health Care (3.5 percent). Of the total people covered by Medicare, 7.4 percent carried private health insurance coverage as well.

The insurance market, like the hospital market, is divided between for-profit and not-for-profit providers. HMOs are mostly private, but some of the not-for-profit insurers have created HMO subsidiaries. HMOs had grown rapidly in the mid-1990's before declining in recent years. Overall, the number of full-service HMOs operating nationwide dropped from 541 in January 2001 to 500 in January 2002. Total HMO enrollment fell from 79.1 million people in January 2001 to 76.1 million enrollees in January 2002. Despite this decline, the managed care industry is expected to have a solid year in 2003, with industry net income estimated to increase 16 percent over 2002 levels. On top of the 7 percent increase in net revenues the industry experienced in 2002, managed care is expecting to increase to \$213 billion in 2003, an additional 7.3 increase.

As in the hospital sector, the insurance/HMO sector has been undergoing consolidation in the form of mergers between health insurers, including mergers between traditional insurance companies and HMOs; the sale of not-for-profit health insurers to for-profit entities; and, the merging of roles as HMOs and traditional insurers begin to take on similar functions.

3. PRICING

Health care premiums have been climbing in recent years, and the outlook for the near future shows few signs of deviating from that trend. The average increase in health care expenses of 4,000 firms surveyed in mid-June 2003 showed a projected rise of 11 percent in the coming year. According to analysts at William-Mercer, about 50 million workers covered by fully-insured HMOs are facing premium increases of 16 to 22 percent.

There are several reasons for the price increases in recent years. First, there is a greater demand for costly health care services. There is also a greater demand for highly advertised drugs, some of which cost 10 times more than generic, but equally effective drugs. New technology, while leading to increased efficiencies in other areas of the economy, is also a contributing factor. New technologies often involve new capital expenditures for hospitals and health care facilities. A third cause of price increases are increased fee demands by doctors and hospitals. While providers have held medical fees in check over the past several years, often as a result of pressure from HMOs, that trend is starting to change. With the current climate of health care pricing, low double-digit premium increases are expected over the next five years.

4. TRENDS

There are several easily discernable trends over the last three (3) decades driven by government payment policy that have had a significant impact on healthcare industry, revenues, and profit reimbursement methods.

Medicare and Medicaid originally paid for hospital services using a "cost plus" reimbursement basis, where hospitals were paid for all of their costs and more. The rising costs associated with this system led to the introduction by the federal government of a "prospective pricing system" for hospital payment, where hospitals are reimbursed an average, qualified amount for each patient treated with the same type of diagnosis specified by Diagnostic Related Group (DRG). The government is currently developing prospective pricing systems for reimbursement for ambulatory surgery centers, hospital outpatient services, home health care, skilled nursing facilities, and rehabilitation facilities. There are also plans for a prospective pricing system for long-term hospital care.

Medicare's Resource Based Relative Value Scales (RBRVS) system was designed with the intent of bringing medical practice payment more in line with a prospective payment system and away from a purely fee-for-service system. The RBRVS physician payment system pays all physicians' services according to a single cross-specialty RBRVS with payment determined by a procedure's Relative Value Units (for physician work, overhead, and malpractice costs) which are adjusted for local geographic differences and then multiplied by a conversion factor to obtain the dollar amount of governmental reimbursement. All physicians are subject to the same payment schedule under the Medicare program.

The RBRVS system was implemented between 1992 and 1996 and is updated annually by the U.S. Centers for Medicare and Medicaid Services (CMS) formerly known as HCFA. In assigning the relative values to procedures and in making yearly updates to these levels, the government has deliberately shifted payment levels to primary care specialties in order to redress what they believe are historic inequalities perceived to cause medical students to over specialize and thereby raise healthcare costs (as specialists and surgeons generally command higher fees and compensation). These adjustments in reimbursement levels have, and are forecast to have, significant impacts for many specialties.

On December 31, 2002, the Centers for Medicare & Medicaid Services published a final rule, setting the update for 2003 at -4.4 percent. In developing the final rule, CMS did everything it could under existing law to reduce the potential effect of these payment reductions on physicians. However, the statutory formula allows little flexibility. One refinement to the fee schedule methodology had the effect of benefiting physicians—changing the measure of productivity in Medicare Economic Index (MEI), a factor in determining the sustainable growth rate (SGR).

CMS believed that the 2003 update would be more accurate if CMS had the legal authority to revisit the SGRs for 1998 and 1999, in light of actual data rather than projections. These revised SGRs would not be given retroactive effect but would be used in calculating the 2003 update. CMS estimated that the resulting update would be a positive 1.6 percent.

The Centers for Medicare & Medicaid Services on December 31, 2003 issued a final rule that will increase payments to more than 875,000 physicians and other health care professionals for services under the Medicare Physician Fee Schedule by an average of more than 1.5 percent for calendar year 2004.

These increases were part of the Medicare Prescription Drug, Improvement, and Modernization Act (DIMA) and replace payment rates published in November that would have reduced payment rates by an average of about 4.5 percent. The earlier rates were based on formula required by Medicare law, but President Bush signed the DIMA law on December 8, 2003 that included provisions to raise physician payment rates. The new, higher rates become effective January 1, 2004.

Because of the late timing of the change in payment rates under this rule, CMS is extending until February 17, 2004 the deadline for physicians to decide whether or not they want to participate in Medicare in 2004. Nearly 90 percent of physicians enrolled to treat Medicare beneficiaries chose participating status in 2003, and nearly 95 percent of Medicare claims are submitted by participating physicians. Participating physicians are paid using a higher fee schedule than that used for nonparticipating physicians, but agree to accept assignment and to bill beneficiaries only for the 20 percent co-payment.

The new rule will establish more accurate Medicare payment for drugs and their administration. The rule reduces payment for injectable and certain other drugs covered by Medicare to more closely reflect the prices actually charged to physicians by their suppliers. Currently, Medicare pays for these drugs at the lesser of the physician's actual charge to Medicare or 95 percent of the average wholesale price (AWP). Under the new rule, Medicare will pay for most of these drugs at the lesser of the actual charge or 85 percent of the April 1, 2003 AWP. In addition, Medicare will increase payment for the administration of drugs.

Another trend is developing in an effort to combat high prescription drug prices. Health insurance firms are beginning to branch out from traditional lines of business and into pharmaceutical distribution. Recently, a subsidiary of Highmark Inc., which covers over 3 million patients in Western Pennsylvania, purchased Fisher's SPS, a specialty pharmacy that provides injectable pharmaceutical products used to treat hepatitis C, multiple sclerosis, infertility and cancer, among other ailments, and has served more than 35,000 patients nationwide. The specialized pharmacy model provides care to people with chronic or special medication needs. In this model, the insurance company essentially provides medications to the medical practice for administration to patients. This is in contrast to the medical practices supplying these drugs and garnering sometimes significant profit margins.

(Sources: Physician Characteristic and Distributions in the US, 2003-2004 Edition, American Medical Association, Physician Socioeconomic Statistics, 2003 Edition, American Medical Association, Center for Health Policy Research, "Academy supports new physician fee fix legislation; launches grass roots action campaign." American Academy of Ophthalmology, Mar. 13, 2002 "The Effect of the Changing U.S. Economy on Healthcare Valuation", Robert J. Cimasi, May 23, 2002 Pittsburgh Business Times, September 26, 2003.)

D. APPLICATION TO MEDICAL CENTER CLINIC, P.C.

The positive factors of the economic and industry environment:

- The economy of the Pittsburgh Metropolitan Statistical area has begun to show signs of stabilizing, with improvement expected over the coming twelve to eighteen months. The drop in the regions jobless rate can be seen as an encouraging trend towards individuals returning to the workforce and future employment growth. Increased improvement in the area infrastructure will help to spur economic growth throughout the region.
- The continued growth in the demand for health care services over the past four years, coupled with the aging population of the surrounding metropolitan region, indicate that health care services have a solid outlook over the next several years. The increased focus on preventive medicine will also result in increased medical visits from younger patients.
- The Medical Center Clinic is a proven medical practice with an established client base and strong reputation throughout the region.

The negative factors of the economic and industry environment:

- With the U.S. economy just beginning to emerge from a recession, health care expenditures have been skyrocketing, comprising more and more of GDP each year. Efforts will be focused to government and industry regulation to contain health care costs in the future.
- The growth of new medical professionals continues to outpace the growth of the general population. Increased medical options for health care clients mean more competition which can lead to tighter pricing in terms of fee for services.
- The cuts in physician payments instituted by the Centers for Medicine and Medicaid Services for 2003, and expected increased cuts through 2005, will directly impact the profitability of physician practices, especially ones such as Medical Center Clinic, who rely heavily on Medicare and Medicaid for patient reimbursement.
- The movement of Highmark, Inc. to get into the pharmaceutical distribution business will greatly impact the revenues the Practice generates through a reduction of sales of pharmaceutical products to patients.

VI. MEDICAL PRACTICE VALUATION METHODOLOGY

The value of Medical Center Clinic, P.C. must be determined with a view toward the intrinsic value of the assets, the value of its income flow, and the Fair Market Value of the equity in the marketplace. As set forth in Revenue Ruling 59-60, different methods of valuation consider the different elements of value in arriving at an overall conclusion. A

cost approach looks to the present, utilizing estimates of the current cost to reproduce or replace the property and the property's current state of depreciation. A market approach looks to the past, arriving at a conclusion through an analysis of past medical practice sales similar to the practice being appraised. An income approach looks to the future, quantifying the potential financial benefits of owning the practice. In the analysis of Medical Center Clinic, P.C., we have considered the appropriateness of each of these methods in the valuation assignment.

All of the approaches discussed above, income, cost and market, are recognized methodologies for estimating business enterprise value. In the context of a medical practice valuation, the business enterprise value is the sum of the medical group's net fixed assets and its intangible asset value. The business enterprise value represents the total price at which a medical practice might be expected to exchange between a willing buyer and a willing seller in an arm's length transaction, since the business enterprise value is the value of the practice as an ongoing entity. The business enterprise value is the basis of the medical practice valuation methodologies used to appraise Medical Center Clinic, P.C.

The following financial statement analyses and approaches to valuation have been applied to Medical Center Clinic, P.C. in order to determine the Fair Market Value at December 31, 2003.

A. TANGIBLE ASSETS VALUE

In estimating the value of the Clinic's tangible assets, there are three components which comprise the value of a medical practice: (1) the physical assets, including equipment, furnishings and supplies, (2) the accounts receivable which are deemed to be reasonably collectible and (3) the intangible assets which are reflective of the earning capacity of the medical practice. We will comment upon each of these components separately. As was mentioned previously in this report, the tangible assets of Medical Center Clinic are owned by West Penn Specialty MSO. The intangible assets of the Practice are also owned primarily by West Penn Specialty MSO, with junior physician contracts owned by Medical Center Clinic.

1) PHYSICAL ASSETS

The physical assets of the practice consist of furniture, medical equipment, computers and office equipment. A schedule of these physical assets is attached in the Exhibits. The relative importance and value of medical equipment in a medical practice depends to a great extent upon the type of practice. For oncology and hematology practices, medical equipment may or may not be a significant factor, as some of the more expensive equipment can be leased rather than purchased. The value of the physical assets can be determined one of three ways; (1) a formal independent medical equipment appraisal, (2) via mutual agreement among buyer and seller, and (3) through utilization of an amortized depreciation or formula method. For purposes of this valuation, fair market value is estimated using a formula approach.

The Clinic reported that the acquisition cost of the medical equipment, office furniture, computers and other equipment was \$834,228. In recognition of the useful remaining

value of these assets, we value them using a formula approach based on their remaining economic life on a straight-line basis. These assets for Medical Center Clinic, P.C. are calculated at an estimated Fair Market Value of \$334,597. This represents a decrease of \$540,211 from their original cost of \$834,228.

2) ACCOUNTS RECEIVABLE

Typically, when a practice changes hands, the accounts receivable do not. It is frequently the case that the selling physician or entity will retain the accounts receivable of the practice even after the transaction closes and will simply collect those accounts receivable. This approach avoids disputes over the level of accounts receivable and their percentage of collectability. In the instant case, the fair market value of the Clinic's accounts receivable were not calculated, as they will not change hands in the event of a sale.

3) INTANGIBLE ASSETS

The primary component of value for most medical practices that do not own real estate is the intangible assets. This is also the most difficult component to assess. Intangible assets are typically not valued under a cost approach unless their value can be estimated reasonably. As the cost approach takes into consideration more tangible assets, it tends to understate the overall earning capacity of the practice that is attributable to both tangible and intangible assets. It is because of these limitations that the income approach to estimating business enterprise value is often the preferred valuation approach, and the one we will utilize to determine the portion of the Clinic's overall value that is attributable to its intangible assets.

B. INCOME APPROACH

Of the various income approaches considered, the discounted cash flow method is the one most commonly relied on for the valuation of medical practices. To understand the basis for the discounted cash flow approach, one must recognize that the value of an asset or business enterprise is equal to the present worth of the future benefits of ownership. When using the discounted cash flow method, the value for a practice is determined by aggregating the present value of the future cash flows from the practice over a given period, typically five years, and adding to these aggregated cash flows a "residual" or "terminal" value at the end of the estimation period. The critical variables to be derived in an analysis of this sort are 1) the relevant cash flow streams, 2) the calculation of residual and 3) the appropriate discount rate.

1) CASH FLOW STREAM

There is considerable variation in the selection of a relevant cash flow stream. The definition that we will use focuses on the notion of "debt free cash flow", i.e. the amount of cash that theoretically could be paid out to the owners of an investment without impairing the operations and profitability of the business.

As with any forecast, a number of assumptions must be made regarding future service volume and revenue and expense relationships. The level of detail possible is dictated by the availability of historical data upon which the forecast model can be constructed. The first step is to develop financial statements for the estimation period. The historical information should then be adjusted or "normalized" for any extraordinary occurrences during the estimation period or for any known changes in revenues or expenses which will be sustained into the future. The resulting financial statements are called the "normalized financial statements".

After the normalized financial statements are developed, reasonable assumptions are made regarding rates of revenue increase, patient volume, payor mix, and rates of expense increase based upon current market conditions, growth, and best estimates of inflation trends. Exhibit B is the revenue forecasting model used for Medical Center Clinic, P.C.

The revenue model assumes a decrease in reimbursable charges from Medicare/Medicare HMO for the chemotherapy and therapeutic areas of 10% and 25% in the first two years, followed by a 2% increase in the remaining three years. The decrease in the first two years is a result of changes in the reimbursement levels and increased drug costs. The chemotherapy and therapeutic administration revenue stream is anticipated to jump 150% the first year, decline 18% in the second year, and then level out to a 2% growth rate over the final three years. Both the professional services and laboratory areas are anticipated to grow at a steady 2% over the entire five year estimation.

The reimbursable charges from Highmark for the chemotherapy and therapeutic areas are anticipated to decline by 10% over the first two years, and then level out with a 2% growth for the remaining three years. The reimbursable charges for all other payors throughout all areas are expected to grow at an annual rate of 2% per year for the next five years.

The anticipated changes discussed above were entered into Medical Bill Analyzer v3.0, a computer-based software program provided by the Community Oncology Alliance, Inc. This software is designed specifically to project the overall net impact of proposed changes to Medicare reimbursements to a practice's operations.

As a result of the above-mentioned scenarios and with results generated by the Medical Bill Analyzer software, total Practice revenue is forecast to amount to \$35,476,488 for the first year, decline to \$31,527,041 the following year, and then slowly rise to reach a level of \$33,456,749 by the end of the fifth year.

Once revenues have been forecast for the coming five years, Practice expenses must be addressed. The anticipated operating expenses for year one are based off annualized figures from the interim operating expenses stated as of December 31, 2003. From here, they are anticipated to increase 2% annually over the remaining four years of the forecast.

In addition to the Clinic's operating expenses, an assumption must be made for physician expenses, including compensation, pension expense, insurance and other expenses. Physician base pay amounts are calculated in accordance with each individual physician's employment contract with the Practice, and the pension amounts are based on Plan design. The remaining expenses in terms of meetings, auto expense and such are estimated from

past operating history. The physician incentive totals are based off of Practice revenues, and are calculated in accordance with the contractual agreements made between the individual physicians and the Practice. Estimated calculations are detailed in Exhibit D.

After a reasonable level of revenue and expense is calculated and physician incentive compensation is factored in, earnings before depreciation, interest, and taxes ("EBDIT") are calculated. EBDIT is then adjusted for changes in depreciation, changes in net working capital, changes in capital expenditures and new capital. This is expressed in the following formula:

EBDIT (earnings before depreciation, interest, and taxes)
+ Depreciation and Amortization
+/- Changes in Net Working Capital
+/- Changes in Fixed Assets
+/- Changes in Capitalization
EBT (Earnings Before Taxes)

Several aspects of the above formula should be noted:

- "EBDIT" should reflect as an expense an implicit salary for the physician or physicians in question.
- "Depreciation" is added back as a non-cash expense, except that funded depreciation is not added back since it involves actual cash outlays.
- "Changes in Net Working Capital" are cash outlays required to fund increased levels of accounts receivable or cash inflows related to decreased levels. Also, cash outlays for increased operating expenses not covered by cash revenues.
- "Changes in Capitalization" are cash outlays for principal payments on debt or cash inflows from additional contributed capital.

It is assumed that Medical Center Clinic, P.C. will spend approximately \$75,000 per year on capital expenditures. These expenditures are assumed to be expensed as Section 179 depreciation in the year they are acquired. The Practice's increase in debt free working capital is estimated to be \$874,798 in the first year. Estimates for years two through five show increases declining, with amounts in the final two years under \$12,000 (See Exhibit E).

The next step is to determine earnings after taxes using the applicable federal and state tax rates. The Internal Revenue Service's National Office Appeals, Office of Appraisal Services, requires valuers using a discounted cash flow income approach to use an after-tax rather than pre-tax cash flow assumption. The Service's position is that Fair Market Value is based on the business enterprise value and that the most likely hypothetical buyer is assumed to be a commercial health care corporation that would have to pay taxes. The relevant income taxes for the varying levels of income over the forecast years have been calculated. The tax calculations can be found in Exhibit J.

After the previously calculated "earnings" figures have been adjusted for taxes, the result represents the "debt free cash flow available for distribution". This is the number that will

be used for the calculation of "residual" or "terminal" value and to which the appropriate discount rate is applied.

2) DISCOUNT RATE

The discount rate is a key component of a valuation based on a debt free cash flow ("DCF") analysis. The rate should reflect the risk of the investment in the business. Investment risk represents the probability of failure; prudent investors contemplating two investments, each expected to have the same average return over time, prefer the investment with the lower variance, or volatility, of expected future returns. Thus, investors require compensation for this exposure to risk. The required compensation typically takes the form of a rate of return in excess of the risk-free interest rate. The percentage return in excess of the risk-free rate is termed the "risk premium" and the combined rate is termed a "risk-adjusted rate of return." The discount rate determines the value of the cash flows during the estimation period and the terminal year.

a. WEIGHTED AVERAGE COST OF CAPITAL

A commonly used methodology to determine the discount rate in a DCF analysis is the weighted average cost of capital ("WACC"). The WACC is the minimum rate of return an investment must yield in order to provide the required return to all sources of capital. These sources include common and preferred stock, interest-bearing debt and retained earnings. In this case we consider, primarily, two sources: equity (common stock) and interest-bearing debt. Debt has a lower cost than equity since it has a priority claim on the earnings of the going concern and on the assets in liquidation. Equity holders require a higher return because of their higher risk position associated with their subordinated, or residual, claim to earnings and assets. The overall cost of capital is a function of the relative proportion of debt and equity and their respective costs as shown in the following formula:

$$WACC = [(1-T) \times K_d \times D] + [K_e \times E]$$

T	=	Tax Rate
K_d	=	Cost of Debt
D	=	Proportion of Debt in Total Capital Structure
K_e	=	Cost of Equity
E	=	Proportion of Equity (1 - D)

The cost of debt, K_d , is derived from either a review of the yield, as of the valuation date, on long-term, publicly traded debentures issued by corporations exposed to a level of credit risk equivalent to that of the debt of the subject company, or the marginal cost of debt for the subject company. We calculate the cost of equity through the Capital Asset Pricing Model (CAPM), which is discussed in the following section. The optimal proportions of debt and equity in the capital structure are determined by reference to the market values of debt and equity in the capital structures of commercial healthcare corporations that may represent potential buyers of the subject practice.

Cost of Debt

Selecting an appropriate cost of debt generally begins with the prime rate plus basis points, if applicable. On December 31, 2003, the prime rate was 4.0 percent² with no basis points. We then added 6.0 percent to this rate to reflect the cost of debt that would be incurred by the most likely hypothetical buyer, with the associated risks, if they were to secure a loan from a bank. This premium is added to the cost of debt in consideration for the value of guarantees. Thus, the cost of debt used is 10.0 percent.

Cost of Equity

The Capital Asset Pricing Model ("CAPM") is the traditional approach to determine the cost of equity capital in a BEV (Business Enterprise Value). It was judicially accepted in Northern Trust Co. v. Commissioner, 87 T.C. 349 (1986). CAPM is based on the principle that a business enterprise's required rate of return is related to the current interest rate environment, the expected volatility of investment returns, and the market equity risk premium in excess of the current risk free rate of return. According to Shannon Pratt, the applicability of CAPM to business valuations is that "businesses and business interests are a subset of the investment opportunities available in the total capital market; thus, the determination of the prices of businesses theoretically should be subject to the same economic forces and relationships that determine the prices of other investments."³

CAPM evaluates the relative risk of a particular investment compared to the average return on all common stocks. It does so through use of a formula:

$$K_e = R_f + B(R_m - R_f) + R_s$$

K_e	=	Required Rate of Return
R_f	=	Risk Free Rate of Return
B	=	Investment's Beta
R_m	=	Historical Return on the Market Portfolio
$R_m - R_f$	=	Market Equity Risk Premium
R_s	=	Small Stock Risk Premium

Risk Free Rate

The risk free rate is the yield on the U.S. Treasury obligation that matches the tenor of the investment being considered. With investments in publicly held companies, for example, the risk free rate is often based on short term Treasuries, mirroring the liquidity of such investments. For purposes of medical practice valuations, however, a longer term Treasury yield is more appropriate and is generally used as the anticipated long-term partnership between the most likely hypothetical buyer and the physician practice.

² Federal Reserve Bank, December 31, 2003.

³ Valuing a Business. The Analysis and Appraisal of Closely Held Companies by Shannon P. Pratt, 1996 ("Valuing a Business"), p. 164.

The Treasury yield as of the date of valuation is 5.11 percent.⁴

Beta

Beta is a measure of the volatility of a security's return relative to the volatility of the overall market performance. Expressed more simply, beta is a measure of the sensitivity of a security's price to movements of the broader market. An investment's Beta factor reflects the extent to which returns on it are affected by changes in returns on all assets in the economy.

The total risk to which a security is exposed is comprised of unsystemic risk and systemic risk. Unsystemic risk is that portion of total risk, or price volatility, that is associated with the idiosyncrasies of the firm, such as winning or losing a major contract, a patent awarded or rejected, loss of a key man, lawsuits, strikes or other events unique to a firm. Investors through diversification can eliminate unsystemic risk; bad events in one firm will be offset by good events in another. Systemic risk, or market risk, on the other hand, is attributable to common macroeconomic factors and investors' perceptions that affect all stocks to differing degrees and cannot be diversified away. Thus, according to the CAPM, investors can expect compensation only for the degree of market risk to which they are exposed. A stock's beta signifies its marginal contribution to the market risk exposure of a diversified portfolio of assets to systemic risk.

By definition, the market portfolio has a beta of 1.0. The beta of an investment with below-average volatility of return is less than 1.0, whereas the beta of a stock with above-average volatility is greater than 1.0. For example, a stock with a beta of 2.0 is twice the expected market risk premium and any change in the expected market risk premium will be doubly reflected in the stock's risk premium. A stock with a beta of 0.5 will command half of the expected risk premium of the market portfolio and will respond half as much to macroeconomic factors that affect the expected risk premium of the market portfolio.

In the instant case, we employed a beta of 2.0 for Medical Center Clinic, Inc.

Market Equity Risk Premium ("R_m - R_f")

The market equity risk premium component of the cost of equity formula is an empirical measurement of the amount by which historical average return on common stocks exceeds the historical average return on risk free securities of a given type. Presently the market equity risk premium is 6.2 percent for average common stocks over the long-term, as stated in Ibbotson & Associates, Inc., Stocks, Bonds, Bills, and Inflation 2003 Yearbook.⁵

Small Stock Risk Premium

The small stock risk premium reflects the fact that small companies are generally a higher risk than the large common stocks on the stock exchanges. A small stock premium, as noted in SBBI, is added for this higher risk. The current small stock risk premium is 4.3 percent. See Ibbotson & Associates, supra. Also, it is not unusual for valuations to add a

⁴ US Financial Data, Federal Reserve Bank of St. Louis.

⁵ Ibbotson & Associates compiles and analyzes market results for stocks, bonds, and U.S. treasury bills.

“premium for specific risks” of between 2 percent and 6 percent to the cost of equity calculation. This premium represents the appraisers’ judgment of the additional risk inherent in investing in the Practice given the aforementioned discussion of the economy, the industry in which it operates, and the financial condition of the entity. Based on these issues, we have utilized a total small stock risk premium is 6.06 percent.

Therefore, based on the formula:

$$K_e = R_f + B(R_m - R_f) + R_s$$

the Cost of Equity for Medical Center Clinic, Inc. is 23.6 percent. (See Exhibit G for a description of the calculation).

Tax Rate

The tax rate is the appropriate federal income tax rate for the subject medical practice. As previously mentioned, the tax rate for the practice is 40 percent.

Debt

Debt is generally stated as a percentage of total capital in capital structures similar to seller’s business. In the instant case, 25 percent is used which is the average amount of debt in comparable practices.

Equity

Equity is stated as a percentage of total capital in capital structures similar to seller’s business. In the instant case, 75 percent is used which is the average amount of equity in the comparable companies.

b. CALCULATION OF WEIGHTED AVERAGE COST OF CAPITAL

Once all the variables are derived using the appropriate methodology, the WACC may be calculated:

$$\begin{aligned} \text{WACC} &= [(1-T) \times K_d \times D] + [K_e \times E] \\ \text{WACC} &= [(1-40\%) \times 10\% \times 25\%] + [23.6\% \times 75\%] \\ \text{WACC} &= 19.2\% \end{aligned}$$

The after-tax discount rate of 19.2 percent for Medical Center Clinic, Inc. is used to discount all future cash flows including the terminal value.

3) CALCULATION OF RESIDUAL

To calculate the residual or terminal value of a medical practice at the end of the estimation period, an annuity in perpetuity method is employed. This method assumes that the cash flow achieved in the final year of the estimation period can be maintained indefinitely into

the future. To calculate the terminal value, the debt free cash flow available for distribution at the end of the estimation period is "capitalized" using a capitalization rate. The difference between a discount rate and a capitalization rate is that the discount rate is used to obtain a present value for future cash flows and the capitalization rate is used to obtain a value based upon a single period's cash flow. There is a direct relationship between the two rates. The capitalization rate is equal to the discount rate less the annual percentage growth rate based on inflation rate and office visits. A capitalization rate of 17.2% was used to determine the terminal value of Medical Center Clinic, P.C. at the end of the estimation period.

Once the sum of the present values of the forecasted years' cash flows (\$399,697) is added to the present value of the terminal year's cash flow (\$482,168), the result is the business enterprise fair market value. The total business enterprise value of the Clinic is \$881,865.

C. MARKET APPROACH

The market approach to value involves comparing the recent sale prices or income characteristics of similar practices within a specific geographic market area to the medical practice in question. The market approach to the valuation of medical practices is rarely useful since practices differ from one another significantly. The fundamental business characteristics of each practice as well as its reasonably anticipated financial performance must be analyzed within each practice's own specific context. Factors affecting comparability can include geographic markets served, competitive position, profitability, growth prospects, risk perceptions, and financial composition. Because it has been determined that there are no medical practices that appear to be appropriate comparables to Medical Center Clinic, P.C., market approaches have not been calculated.

VII. ALLOCATION OF TANGIBLE / INTANGIBLE ASSET VALUES

With its tangible assets comprising \$334,597 of the total business enterprise value of \$881,865, this means that \$547,268 of the overall business enterprise value of the Clinic is attributable to its intangible assets. The intangible value of the Clinic is comprised of three main components: the value of its workforce-in-place, the value of its medical records and the value of the non-competition covenant in place.

Workforce-in-Place

The Clinic currently has an extensive, well-established work-force in place that supports the professional staff. Having a trained, experienced staff in place to handle such practice needs as billings, insurance reimbursement processing and patient contact and scheduling is of more value than if a practice would have to hire inexperienced workers in these positions and then train them to perform their job functions.

Once an employee is hired, even a skilled individual can require weeks or even months to perform at peak efficiency in a new job. During this period of time a new employee who has questions and need ongoing instruction places demands on the time of co-workers and the employer. These factors help contribute to the value of an existing workforce.

Taking this into consideration, we estimated that 5% of total staff payroll expense would equate to the value of having an established, fully-trained workforce-in-place such as Medical Center Clinic currently has. Thus, 5% of the staff payroll of \$2,707,958 equates to a value of the workforce-in-place of \$135,398.

Medical Records and Patient Charts

Establishing and maintaining medical records is costly. By having established medical records and patient charts already in place, a hypothetical buyer would save time and money by already having a detailed medical history of any patient that the Practice would currently be seeing. The savings that would be offered with complete patient records contributes to the value of a medical practice.

In the instant case, it is estimated, based on office visit activity, that the Clinic maintains charts and files on approximately 18,000 active patients. We have conservatively estimated a cost of approximately \$17.00 for each active patient file, which equates to a value of \$305,495.

Non-competition Covenant

Junior and Senior physicians of the Practice are contracted to work based on the terms of their employment agreements. Often in agreements such as these, it stipulates that the provider, or their employing entities, should not be permitted to interfere with the physician-patient relationship. This relationship between the physicians and their patients, which generates revenues for the practice, is protected by the employment agreements. Although this intangible asset component is often difficult to quantify, its fair market value cannot be greater than the total intangible value less the specifically identified intangible assets. Therefore, as of December 31, 2003, the fair market value of the non-competition covenants is \$106,375.

The fair market value of these non-competition covenants are further delineated into the senior physician component and the junior physician component. This breakdown is necessary as the senior physician employment contracts are owned by West Penn Specialty MSO, Inc. and the junior physician employment contracts are owned by Medical Center Clinic, P.C. Our estimate of the value of these agreements was determined by the relationship of the junior physicians' salaries, 34.9 percent, and senior physicians' salaries, 65.1 percent, compared to total physicians' salaries. Therefore, the fair market value of the senior physicians' non-competition covenant is \$69,273 and the junior physicians' non-competition covenant is \$37,102.

VIII. VALUATION SUMMARY AND CONCLUSIONS

In reaching a conclusion of the fair market value of Medical Center Clinic, P.C we have considered and selected from alternative value methodologies to arrive at a final value estimate. We have weighed the relative significance, applicability, and defensibility of each value methodology and relied on the value indication that we believe is the most appropriate. Although the consideration necessarily involves professional judgment, our conclusion results from a careful, logical analysis of all factors. The analysis is based on several criteria that enable us to form a meaningful, supportable conclusion about the final value estimate. These criteria are appropriateness, accuracy, and quantity of evidence.

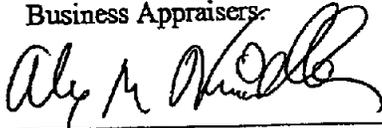
In our analysis of the preliminary valuation conclusions, we have selected the Discounted Cash Flow approach as the best representation of the Fair Market Value on a business enterprise basis for Medical Center Clinic, P.C.

Therefore, based upon the foregoing analysis, we conclude that the Fair Market Value of a 100% interest in Medical Center Clinic, P.C. can be estimated as follows:

Tangible Asset Value	\$334,597
Intangible Asset Value:	
Value of Workforce in Place	135,398
Value of Medical Records	305,495
Non-Competition Covenant:	
Senior Physicians (SMSO)	69,273
Junior Physicians (MCC)	<u>37,102</u>
Total Business Enterprise Value	\$ 881,865

IX. CERTIFICATION OF THE APPRAISERS

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions, and our personal, impartial and unbiased professional analyses, opinions and conclusions.
3. We have no present or prospective interest in the property that is the subject of this report.
4. We have no personal interest or bias with respect to the subject matter of this report or the persons involved.
5. Our compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result or the occurrence of a subsequent event directly related to the intended use of this appraisal.
6. Our analyses, opinions and conclusions were developed, and this report was prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
7. No persons provided significant professional assistance to the person signing this report except for the following: John S. Guna, AVA, MBA, a member of Horovitz, Rudoy & Roteman.
8. The reported analyses, opinions and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Appraisal Practice of the Appraisal Institute, of the American Institute of Certified Public accountants, the National Association of Certified Valuation Analysts, the American Society of Appraisers and The Institute of Business Appraisers.



Alex M. Kindler, CPA/ABV, CVA, CDP, MBA

X. STATEMENT OF QUALIFICATIONS

ALEX M. KINDLER, CPA/ABV, CVA, CDP, MBA CURRICULUM VITAE

Partner, Business Valuation Services,
Horovitz, Rudoy & Roteman, Pittsburgh, Pennsylvania

Certifications:

Certified Public Accountant (CPA); Certified Valuation Analyst (CVA); Accreditation in Business Valuation (ABV); Certification in Data Processing (CDP) management

Member:

National Association of Certified Valuation Analysts; NACVA national membership board and currently NACVA Western Pennsylvania State Chapter President
American Institute of Certified Public Accountants
Pennsylvania Institute of Certified Public Accountants

Education and Licensures:

- Undergraduate education in economics at Knox College, Galesburg, Illinois
- Masters in Business Administration (MBA) with a concentration in finance and accounting from the University of Pittsburgh
- Licensed Life and Annuities – PA Resident Agent
- Licensed General Securities Representative – Series 7

Published author and frequent speaker at professional and educational seminars;

Course instructor for national CPA conference on business valuation; PICPA Accounting and Auditing Conference; CPA Practitioners' Conference; and CPA Continuing Education for Community College of Allegheny County.

Admitted in court and master's hearings as an expert witness in valuation cases in U.S. District Court and the Pennsylvania counties of Allegheny, Butler, Washington, Westmoreland, Cambria, and Dauphin.

JOHN S. GUNA, AVA, MBA

CURRICULUM VITAE

Senior Valuation Analyst,
Horovitz, Rudoy & Roteman

Designations:

- Accredited Valuation Analyst (AVA) through National Association of Certified Valuation Analysts (NACVA)

Member:

- National Association of Certified Valuation Analysts (NACVA)

Education:

- Bachelor of Science, Business Administration – Finance, West Virginia University, Morgantown, West Virginia
- Masters in Business Administration, with dual concentrations in Accounting and Management Information Systems, Duquesne University, Pittsburgh, Pennsylvania

Prior employers include National City Bank of Pennsylvania and Oxford Development Company/Insignia Oxford.

Holds Pennsylvania Real Estate Salespersons License.

Primary responsibilities include business valuation and litigation support. He also assists clients with such services as cash flow and growth projections, financial and economic research, and analysis of the rights and responsibilities of ownership. He provides services to various types of entities in industries such as the following:

- *Manufacturing*
- *Real Estate*
- *Medical Practices*
- *High-Tech Companies*
- *Retail and Wholesale*
- *Construction*

EXHIBIT A

MEDICAL CENTER CLINIC, P.C.
as of December 31, 2003

Tangible Assets Value	\$334,597
Intangible Asset Value	<u>547,268</u>
Business Enterprise Value	<u>\$ 881,865</u>

Allocation of Intangible Value

Value of Workforce-in-Place	\$ 135,398
Value of Medical Records	\$ 305,495
Non-competition Covenant	\$ 106,375

Allocation of Non-competition Covenant

Senior Physicians (SMSO)	\$ 69,273
Junior Physicians (MCC)	\$ 37,102

MEDICAL CENTER CLINIC, P.C.

DISCOUNTED CASH FLOW ANALYSIS
For the Years Ending December 31

	Year 1	Year 2	Year 3	Year 4	Year 5		
Adjusted Gross Revenue	\$ 35,476,488	\$ 31,527,041	\$ 32,157,582	\$ 32,800,734	\$ 33,456,749		
Total Operating Expenses	27,682,749	27,290,398	27,836,206	28,392,931	28,960,789		
Total Physician Expenses	3,549,485	3,633,211	3,636,573	3,661,138	3,683,366		
Earnings Before Physician Incentives, Depreciation, Interest, & Taxes	4,244,255	603,432	684,803	746,666	812,593		
Less: Physician Incentive Compensation	2,370,978	301,716	342,402	373,333	406,297		
Earnings Before Depreciation, Interest, and Taxes (EBDIT)	1,873,276	301,716	342,402	373,333	406,297		
Less: Depreciation	58,514	69,228	79,942	90,657	101,371		
Earnings Before Taxes (EBT)	1,814,763	232,488	262,459	282,676	304,925		
Effective Income Taxes	(801,597)	(88,088)	(101,603)	(110,720)	(120,753)		
Debt Free Net Income	1,013,165	144,400	160,856	171,956	184,173		
Add: Depreciation	58,514	69,228	79,942	90,657	101,371		
Less: Changes in Debt Free Working Capital	874,798	132,670	14,447	11,244	11,417		
Less: Capital Expenditures	75,000	75,000	75,000	75,000	75,000		
Debt Free Cash Flow Available for Distribution	121,881	5,958	151,352	176,369	199,127	199,127	
Terminal Year Capitalization Rate						17.2%	
Terminal Value						1,159,230	
Present Value Factor @ a Discount Rate of -	19.2%	0.9160	0.7686	0.6449	0.5412	0.4541	0.4159
		111,645	4,579	97,612	95,443	90,418	482,168
Sum of Present Values - 5 years		399,697					
Add: Present Value of Terminal Year		482,168					
Business Enterprise Fair Market Value		\$ 881,865					

EXHIBIT C

MEDICAL CENTER CLINIC, P.C.

REVENUE FORECAST
for the years ending December 31

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5												
		<table border="1"> <tr><td colspan="6">Growth</td></tr> <tr><td>-10.0%</td><td>-25.0%</td><td>2.0%</td><td>2.0%</td><td>2.0%</td><td>2.0%</td></tr> </table>					Growth						-10.0%	-25.0%	2.0%	2.0%	2.0%	2.0%
Growth																		
-10.0%	-25.0%	2.0%	2.0%	2.0%	2.0%													
MEDICARE / MEDICARE HMO	63.0% \$ 23,310,000																	
Chemotherapy & Therapeutic	86.7% 20,209,770	18,188,793	15,157,328	15,460,474	15,769,684	16,085,077												
		<table border="1"> <tr><td colspan="6">Growth</td></tr> <tr><td>150.0%</td><td>-18.0%</td><td>2.0%</td><td>2.0%</td><td>2.0%</td><td>2.0%</td></tr> </table>					Growth						150.0%	-18.0%	2.0%	2.0%	2.0%	2.0%
Growth																		
150.0%	-18.0%	2.0%	2.0%	2.0%	2.0%													
Chemotherapy & Therapeutic Admin	3.3% 769,230	\$ 1,923,075	\$ 1,576,922	\$ 1,608,460	\$ 1,640,629	\$ 1,673,442												
		<table border="1"> <tr><td colspan="6">Growth</td></tr> <tr><td>2.0%</td><td>2.0%</td><td>2.0%</td><td>2.0%</td><td>2.0%</td><td>2.0%</td></tr> </table>					Growth						2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Growth																		
2.0%	2.0%	2.0%	2.0%	2.0%	2.0%													
Professional Service	9.0% 2,097,900	\$ 2,139,858	\$ 2,182,655	\$ 2,226,308	\$ 2,270,834	\$ 2,316,251												
Laboratory	1.0% 233,100	\$ 237,762	\$ 242,517	\$ 247,368	\$ 252,315	\$ 257,361												
Total MEDICARE / MEDICARE HMO		\$ 22,489,488	\$ 19,159,421	\$ 19,542,610	\$ 19,933,462	\$ 20,332,131												
		<table border="1"> <tr><td colspan="6">Growth</td></tr> <tr><td>-10.0%</td><td>-10.0%</td><td>2.0%</td><td>2.0%</td><td>2.0%</td><td>2.0%</td></tr> </table>					Growth						-10.0%	-10.0%	2.0%	2.0%	2.0%	2.0%
Growth																		
-10.0%	-10.0%	2.0%	2.0%	2.0%	2.0%													
ALL OTHER PAYORS	37.0% \$ 13,690,000																	
Chemotherapy & Therapeutic - Highmark	59.5% 8,140,000	7,326,000	6,593,400	6,725,268	6,859,773	6,996,969												
		<table border="1"> <tr><td colspan="6">Growth</td></tr> <tr><td>2.0%</td><td>2.0%</td><td>2.0%</td><td>2.0%</td><td>2.0%</td><td>2.0%</td></tr> </table>					Growth						2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Growth																		
2.0%	2.0%	2.0%	2.0%	2.0%	2.0%													
Chemotherapy & Therapeutic	27.2% 3,729,230	3,803,815	3,879,891	3,957,489	4,036,636	4,117,371												
Chemotherapy & Therapeutic Admin	3.3% 451,770	480,805	470,022	479,422	489,010	498,791												
Professional Service	9.0% 1,232,100	1,256,742	1,281,877	1,307,514	1,333,665	1,360,338												
Laboratory	1.0% 136,900	139,838	142,431	145,279	148,185	151,149												
Total ALL OTHER PAYORS		\$ 12,987,000	\$ 12,367,620	\$ 12,614,972	\$ 12,867,272	\$ 13,124,617												
Total Practice Revenue	\$ 37,000,000	\$ 35,476,488	\$ 31,527,041	\$ 32,157,582	\$ 32,800,734	\$ 33,456,749												

MEDICAL CENTER CLINIC, P.C.

OPERATING & PHYSICIAN EXPENSE PROJECTIONS
For the Years Ending December 31

	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Expenses					
Salaries & Wages	\$ 3,348,816	\$ 3,415,792	\$ 3,484,108	\$ 3,553,790	\$ 3,624,866
Professional Fees	\$ 60,000	\$ 61,200	\$ 62,424	\$ 63,672	\$ 64,946
Purchased Services	\$ 323,548	\$ 330,019	\$ 336,619	\$ 343,352	\$ 350,219
Corp Services from WPAHS	\$ 191,724	\$ 195,558	\$ 199,470	\$ 203,459	\$ 207,528
Patient Care Supplies	\$ 599,528	\$ 611,519	\$ 623,749	\$ 636,224	\$ 648,948
Drugs / IV Solutions	\$ 21,850,840	\$ 21,348,840	\$ 21,775,817	\$ 22,211,333	\$ 22,655,560
Utilities	\$ 187,576	\$ 191,328	\$ 195,154	\$ 199,057	\$ 203,038
Leases / Rentals	\$ 776,554	\$ 792,085	\$ 807,927	\$ 824,085	\$ 840,567
Insurance	\$ 746	\$ 761	\$ 776	\$ 792	\$ 807
Local Taxes - 0.15%	\$ 53,215	\$ 47,291	\$ 48,236	\$ 49,201	\$ 50,185
Prof Liability Insurance	\$ 58,264	\$ 59,429	\$ 60,618	\$ 61,830	\$ 63,067
Nonpatient Care Supplies	\$ 106,146	\$ 108,269	\$ 110,434	\$ 112,643	\$ 114,896
Other General Expenses	\$ 125,792	\$ 128,308	\$ 130,874	\$ 133,491	\$ 136,161
Total Operating Expenses	\$ 27,682,749	\$ 27,290,398	\$ 27,836,206	\$ 28,392,931	\$ 28,960,789
Physician Expenses					
Physician Base Salary	\$ 2,551,663	\$ 2,613,330	\$ 2,636,666	\$ 2,640,000	\$ 2,640,000
Physician Guaranteed Comp Pool	\$ 414,872	\$ 435,616	\$ 414,672	\$ 435,616	\$ 457,396
Payroll Taxes	\$ 99,848	\$ 100,742	\$ 101,080	\$ 101,129	\$ 101,129
Pension / 401k	\$ 253,000	\$ 253,000	\$ 253,000	\$ 253,000	\$ 253,000
Dues/membership fees	\$ 22,000	\$ 22,000	\$ 22,000	\$ 22,000	\$ 22,000
Meetings & Travel	\$ 55,000	\$ 55,000	\$ 55,000	\$ 55,000	\$ 55,000
Auto	\$ 66,000	\$ 66,000	\$ 66,000	\$ 66,000	\$ 66,000
Phone/Cell/Pagers	\$ 33,000	\$ 33,000	\$ 33,000	\$ 33,000	\$ 33,000
Books & Subscriptions / Life	\$ 33,000	\$ 33,000	\$ 33,000	\$ 33,000	\$ 33,000
Worker's Comp	\$ 11,960	\$ 12,199	\$ 12,443	\$ 12,692	\$ 12,946
Computer Supplies	\$ 9,142	\$ 9,325	\$ 9,511	\$ 9,702	\$ 9,896
Total Physician Expenses	\$ 3,549,485	\$ 3,833,211	\$ 3,636,573	\$ 3,661,138	\$ 3,683,366

MEDICAL CENTER CLINIC, P.C.

OPERATING & PHYSICIAN EXPENSE PROJECTIONS - Percentage Analysis
For the Years Ending June 30

	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Expenses					
Salaries & Wages	9.44%	10.83%	10.83%	10.83%	10.83%
Professional Fees	0.17%	0.19%	0.19%	0.19%	0.19%
Purchased Services	0.91%	1.05%	1.05%	1.05%	1.05%
Corp Services from WPAHS	0.54%	0.62%	0.62%	0.62%	0.62%
Patient Care Supplies	1.69%	1.94%	1.94%	1.94%	1.94%
Drugs / IV Solutions	61.59%	67.72%	67.72%	67.72%	67.72%
Utilities	0.53%	0.61%	0.61%	0.61%	0.61%
Leases / Rentals	2.19%	2.51%	2.51%	2.51%	2.51%
Insurance	0.00%	0.00%	0.00%	0.00%	0.00%
Nonpatient Care Supplies	0.30%	0.34%	0.34%	0.34%	0.34%
Other General Expenses	0.35%	0.41%	0.41%	0.41%	0.41%
Total Operating Expenses	78.03%	86.56%	86.56%	86.56%	86.56%
Physician Expenses					
Physician Base Salary	7.19%	8.29%	8.20%	8.05%	7.89%
Physician Guaranteed Comp Pool	0.28%	0.32%	0.31%	0.31%	0.30%
Payroll Taxes	0.71%	0.80%	0.79%	0.77%	0.76%
Pension / 401k	0.06%	0.07%	0.07%	0.07%	0.07%
Dues/membership fees	0.18%	0.17%	0.17%	0.17%	0.16%
Meetings & Travel	0.19%	0.21%	0.21%	0.20%	0.20%
Auto	0.09%	0.10%	0.10%	0.10%	0.10%
Phone/Cell/Pagers	0.09%	0.10%	0.10%	0.10%	0.10%
Books & Subscriptions / Life	0.16%	0.19%	0.19%	0.19%	0.19%
Prof Liability Insurance	0.03%	0.04%	0.04%	0.04%	0.04%
Worker's Comp	0.03%	0.03%	0.03%	0.03%	0.03%
Computer Supplies	0.15%	0.15%	0.15%	0.15%	0.15%
Local Taxes - 0.15%					
Total Physician Expenses	10.01%	11.52%	11.31%	11.16%	11.01%

EXHIBIT E

MEDICAL CENTER CLINIC, P.C.

Physician Incentive Calculation per Contractual Agreement

	Year 1	Year 2	Year 3	Year 4	Year 5
Earnings Before Physician Incentives, Depreciation, Interest, & Taxes	4,244,255	603,432	684,803	746,666	812,593
First \$2,000,000 - 50% Physician Incentive	1,000,000	301,716	342,402	373,333	406,297
Next \$2,00,000 - 60% Physician Incentive	1,200,000	-	-	-	-
Over \$4,000,000 - 70% Physician Incentive	170,978	-	-	-	-
Total Physician Incentive	2,370,978	301,716	342,402	373,333	406,297

EXHIBIT F

MEDICAL CENTER CLINIC, P.C.

WORKING CAPITAL ADJUSTMENT

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue	35,476,488	31,527,041	32,157,582	32,800,734	33,456,749
Initial A/R Ramp-up/ Change in Revenue	35,476,488	(3,949,447)	630,541	643,152	656,015
Change in A/R - 30 Days	2,956,374	(329,121)	52,545	53,598	54,668
Change in Operating Expenses w/o Payroll	24,978,907	(5,541,487)	457,179	508,225	519,011
Change in A/P - 30 Days	2,081,576	(461,791)	38,098	42,352	43,251
Net Working Capital Requirement	\$ 874,798	\$ 132,670	\$ 14,447	\$ 11,244	\$ 11,417

EXHIBIT G

MEDICAL CENTER CLINIC, P.C.

PERIOD ENDING DECEMBER 31, 2003
TANGIBLE ASSET ANALYSIS

DESCRIPTION	DATE IN USE	COST (\$)	ECONOMIC USEFUL LIFE (YRS)	(1) ECONOMIC ACCUM. DEPRECIATION (\$)	FAIR MARKET VALUE (\$)
Furniture & Equipment	4/16/1997	175,405	7	175,405	17,541
Furniture & Equipment	4/30/1997	17,071	7	17,071	1,707
Office Equipment	3/31/1998	29,615	5	29,615	2,962
Computer Equipment	3/31/1998	98,615	5	98,615	9,862
Office Equipment	5/30/1998	29,212	5	29,212	2,921
Copier	6/30/1998	635	5	635	64
Copier	9/30/1998	6,650	5	6,650	665
Office Equipment	9/30/1998	16,325	5	16,325	1,633
Computer Equipment	9/30/1998	548	5	548	55
Copier	11/30/1998	7,049	5	7,049	705
Office Equipment	11/30/1998	12,116	5	12,116	1,212
Office Equipment	1/1/1999	12,560	5	12,560	1,256
Office Furniture	11/1/1999	58,344	7	37,507	20,837
Recliners	6/30/2001	2,433	7	1,217	1,217
Acclaim Encore	6/30/2001	9,200	7	4,600	4,600
Computer	6/30/2001	1,693	5	1,185	508
Monitor	6/30/2001	718	5	503	215
Computer	6/30/2001	16,350	5	11,445	4,905
Chairs	6/30/2001	1,130	7	565	565
computers	6/30/2001	10,278	5	7,195	3,084
Safety Hood	6/30/2001	5,140	7	2,570	2,570
Fax Machines	6/30/2001	1,000	5	700	300
mixing hood	6/30/2001	6,038	7	3,019	3,019
Safety Hood	6/30/2001	5,440	7	2,720	2,720
Medical Equipment	6/30/2001	3,545	7	1,773	1,773
Computer	7/31/2001	7,960	5	3,980	3,980
Furniture	7/31/2001	5,639	7	2,014	3,625
Computer	7/31/2001	8,050	5	4,025	4,025
Furniture	7/31/2001	463	7	165	298
Phone Lines	7/31/2001	3,369	5	1,684	1,684
Safety Hood	8/31/2001	5,440	7	1,943	3,497
Office Furniture	10/31/2001	1,945	7	694	1,250
Office Furniture	10/31/2001	7,813	7	2,790	5,023
Hemo Analyzer	12/31/2001	10,548	7	3,767	6,781
Microscope	12/31/2001	4,688	7	1,674	3,013
Microscope	12/31/2001	4,688	7	1,674	3,013
Safety Hood	2/28/2002	5,779	7	2,064	3,715
Office Furniture	3/19/2002	17,610	7	6,289	11,321
Computers	3/19/2002	13,332	5	6,666	6,666
Copier	8/31/2002	4,596	5	1,379	3,217
Office Furniture	9/30/2002	11,304	7	2,422	8,882
Printers	9/30/2002	1,512	5	454	1,059
Copier	10/17/2002	7,544	5	2,263	5,280
Blood Chair	10/17/2002	549	7	118	431
Office Furniture	10/31/2002	1,296	7	278	1,018
Equipment	12/31/2003	183,000	7	13,071	169,929
Total		\$834,228		\$540,211	\$334,597

WPAHS-001904

MEDICAL CENTER CLINIC, P.C.

CALCULATION OF DISCOUNT RATE

WACC =	$[(1 - T) \times Kd + D] \times [Ke \times E]$	Value
WACC =	$80.0\% \times 10.0\% + 25.0\% \times 23.8\% \times 75.0\%$	40.0%
WACC =	$15.0\% + 17.7\%$	10.0%
WACC =	<u>19.2%</u>	25.0%

T = Tax Rate
 Kd = Cost of Debt
 D = Proportion of Debt
 Ke = Cost of Equity
 E = Proportion of Equity = (1 - D)

Calculation of Cost of Equity

Ke =	$Rf + [B \times (Rm - Rf)] + Ra$	Value
Ke =	$5.1\% + 2 \times 8.2\% + 6.1\%$	5.11%
Ke =	<u>23.8%</u>	2

Rf = Risk Free Interest Rate
 B = Beta
 Rm - Rf = Market Risk Premium
 Ra = Small Stock Risk Premium

NOTES:
 a - U. S. Financial Data, The Federal Reserve Bank, as of January 4, 2004
 b - Stocks, Bonds, Bills and Inflation, 2003 Yearbook, Ibbotson Associates, Inc. Chicago, IL.
 c - 10-decile-size premium NYSE Benchmark

EXHIBIT I

MEDICAL CENTER CLINIC, P.C.
 HISTORICAL DETAILED INCOME & PAYOR DATA

	Six Months Ended 12/31/2003		Year Ended 6/30/2003		Year Ended 6/30/2002	
Revenue						
Chemotherapy & Therapeutic	26,127,902	86.7%	39,101,040	84.4%	29,292,402	82.4%
Chemotherapy & Therapeutic Admin	992,024	3.3%	1,766,570	3.8%	1,448,985	4.1%
Professional Service	2,724,539	9.0%	4,994,929	10.8%	4,348,687	12.2%
Laboratory	279,753	0.9%	483,817	1.0%	444,009	1.2%
Total Charges	30,124,218	100.0%	46,346,356	100.0%	35,534,083	100.0%
Contractual Adjustment	(11,636,938)	-38.6%	(18,280,586)	-39.4%	(14,380,089)	-40.5%
Net Patient Revenue	18,487,280	61.4%	28,065,770	60.6%	21,153,994	59.5%
Other Income	16,163	0.1%	123,359	0.3%	93,500	0.3%
Total Revenue	18,503,443	61.4%	28,189,129	60.8%	21,247,494	59.8%

Payor Mix Based On Gross Charges

Keystone	14%	13%	12%
Security Blue/MC HMO	19%	20%	19%
UPMC Health Plan	2%	3%	1%
Gateway Health Plan	4%	5%	4%
Best Health	0%	0%	1%
Med Plus (Three Rivers)	1%	1%	1%
Aetna/US Healthcare	1%	2%	3%
Advantra (HA Medicare)	4%	3%	2%
CARELINK/HealthAmerica	4%	4%	3%
Sub-total Managed Care	47%	51%	48%
Medicare	40%	39%	42%
Blue Shield	8%	7%	7%
Medicaid	1%	1%	0%
Commercial	4%	3%	2%
Self-Pay	0%	0%	0%
Payor Total	100%	100%	100%

EXHIBIT J

MEDICAL CENTER CLINIC, P.C.
 HISTORICAL INCOME AND EXPENSE DATA

	Six Months Ended 12/31/2003		Year Ended 6/30/2003		Year Ended 6/30/2002	
Total Revenue	18,503,443	100.00%	28,189,129	100.00%	21,247,494	100.00%
Operating Expenses						
Salaries & Wages	1,674,408	9.05%	3,056,062	10.84%	-	0.00%
Employee Benefits	-	0.00%	1,529	0.01%	698	0.00%
Professional Fees	30,000	0.16%	-	0.00%	2,378,065	11.18%
Purchased Services	161,774	0.87%	298,434	1.06%	496,545	2.34%
Corp Services from WPAHS	95,862	0.52%	55,464	0.20%	-	0.00%
Purchased Services - AKM C	78,579	0.42%	101,155	0.36%	(89,731)	-0.33%
Patient Care Supplies	299,764	1.62%	511,239	1.81%	415,592	1.96%
Drugs / IV Solutions	11,204,420	60.55%	16,028,015	56.88%	12,153,993	57.20%
Utilities	93,788	0.51%	98,357	0.35%	98,767	0.46%
Leases / Rentals	388,277	2.10%	721,419	2.56%	615,452	2.90%
Insurance	373	0.00%	95	0.00%	-	0.00%
Nonpatient Care Supplies	53,073	0.29%	112,535	0.40%	110,921	0.52%
Other General Expenses	62,896	0.34%	139,388	0.49%	92,583	0.44%
Interest & Amortization	-	0.00%	-	0.00%	373,611	1.76%
Depreciation	28,883	0.16%	35,382	0.13%	152,787	0.72%
Total Operating Expenses	14,172,097	76.59%	21,159,074	75.06%	16,817,283	79.15%
Operating Margin - pre- physician	4,331,346	23.41%	7,030,055	24.94%	4,430,211	20.85%
Physician Expenses						
Physician Base Salary	1,337,206	7.23%	2,692,930	9.55%	1,961,272	9.23%
Payroll Taxes	69,237	0.37%	99,872	0.35%	101,330	0.48%
Pension / 401k	135,460	0.73%	247,012	0.88%	247,146	1.16%
401K Contribution	-	0.00%	45,185	0.16%	32,520	0.15%
Life Insurance	-	0.00%	2,292	0.01%	2,814	0.01%
Dues/membership fees	14,856	0.08%	31,984	0.11%	33,532	0.16%
Luncheons & meetings	2,232	0.01%	16,447	0.06%	18,938	0.09%
Parking/Travel/Auto	40,005	0.22%	19,756	0.07%	44,735	0.21%
Other Benefits	116,703	0.63%	187,233	0.66%	86,580	0.41%
Health Insurance	-	0.00%	93,139	0.33%	77,027	0.36%
Prof Liability Insurance	29,132	0.16%	55,837	0.20%	44,302	0.21%
Worker's Comp	5,980	0.03%	17,006	0.06%	15,400	0.07%
Phone/Cell/Pagers	4,194	0.02%	12,248	0.04%	12,660	0.06%
Books & Subscriptions	1,502	0.01%	11,371	0.04%	5,996	0.03%
Computer Supplies	4,571	0.02%	12,223	0.04%	3,992	0.02%
Local Taxes	16,000	0.09%	32,000	0.11%	34,697	0.16%
Physician Expenses	1,777,078	9.60%	3,576,535	12.69%	2,722,941	12.82%
Income before Physician Incentive	2,554,268	13.80%	3,453,520	12.25%	1,707,270	8.04%
Less. Physician Incentive	1,603,722	8.67%	2,101,052	7.45%	1,464,042	6.89%
Net Income	950,546	5.14%	1,352,468	4.80%	243,228	1.14%

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MEDICAL CENTER CLINIC, P.C.

Federal & Pennsylvania Corporate Income Taxes

	Year 1	Year 2	Year 3	Year 4	Year 5
Earnings Before Taxes (EBT)	\$ 1,814,763	\$ 232,488	\$ 262,459	\$ 282,676	\$ 304,925
Pennsylvania Tax	181,295	23,226	26,220	28,239	30,462
	\$ 1,633,468	\$ 209,262	\$ 236,239	\$ 254,437	\$ 274,463
Federal Taxable Income					
Federal Tax	7,500	7,500	7,500	7,500	7,500
First \$50,000	6,250	6,250	6,250	6,250	6,250
Next \$25,000	8,500	8,500	8,500	8,500	8,500
Next \$25,000	598,052	42,612	53,133	60,230	68,041
Tax on Excess					
Total Federal Tax	620,302	64,862	75,383	82,480	90,291
Total Corporate Taxes	801,597	88,088	101,603	110,720	120,753

CODE OF ETHICS

WE VALUE INTEGRITY AND HONESTY in Avoiding Conflicts of Interest

- We will disclose any actual or potential conflict of interests in personal and professional relationships, and will not participate in any decisions where such a conflict exists.
- The Board of Trustees, senior management and other key personnel who interact with outside organizations and businesses will complete a Conflict of Interest disclosure form on a regular basis.
- We will disclose the relationship of the System with other health care organizations, providers, payers and educational institutions.
- Our outside commitments will not significantly impose on the levels of time or effort owed to the organization.
- We will not solicit, accept or receive gifts or gratuities of more than nominal value from organizations or persons who do business with the System.
- We will not offer, give, solicit or receive any form of bribe or other improper payment for the direct or indirect referral of patients or business, or for special treatment purposes.
- We will act in the best interests of West Penn Allegheny Health System without regard to personal interests or influence of outside parties.
- We will make decisions and decide appropriate actions based on the goals and the mission of West Penn Allegheny Health System.
- We will not use the resources of West Penn Allegheny Health System (equipment, staff, utilities, etc.) to earn money or other compensation for our own benefit.
- We will expect that all information provided to the government is truthful, accurate and timely.
- We will not provide or pay for meals, refreshments, travel or lodging expenses for government investigators or auditors.

Document Divider

Form **1023**
(Rev. July 1981)

Department of the Treasury
Internal Revenue Service

Application for Recognition of Exemption

Under Section 501(c)(3) of the Internal Revenue Code

For Paperwork Reduction Act Notice, see page 1 of the instructions.

OMB No. 1545-0056

Expires May 31, 1984

To be filed in the key district for the area in which the organization has its principal office or place of business.

This application, when properly completed, constitutes the notice required under section 508(a) of the Internal Revenue Code so that an applicant may be treated as described in section 501(c)(3) of the Code, and the notice required under section 508(b) for an organization claiming not to be a private foundation within the meaning of section 509(a). (Read the instructions for each part carefully before making any entries.) The organization must have an organizing instrument (see Part II) before this application may be filed.

Part I—Identification

1 Full name of organization

The West Penn Hospital Foundation

2 Employer identification number
(If none, attach Form SS-4)
See attached SS-4

3(a) Address (number and street)
4800 Friendship Avenue

Check here if applying under section:
 501(a) 501(f)

3(b) City or town, State, and ZIP code
Pittsburgh, Pennsylvania 15224

4 Name and phone number of person to be contacted
Paul W. Schwendeman (412) 355-6570

5 Month the annual accounting period ends
June

6 Date incorporated or formed
April 9, 1984

7 Activity codes
927 | 602 |

8(a) Has the organization filed Federal income tax returns? Yes No
If "Yes," state the form number(s), year(s) filed, and Internal Revenue office where filed ▶

8(b) Has the organization filed exempt organization information returns? Yes No
If "Yes," state the form number(s), year(s) filed, and Internal Revenue office where filed ▶

Part II.—Type of Entity and Organizational Documents (see instructions)

Check the applicable entity box below and attach a conformed copy of the organization's organizing and operational documents as indicated for each entity.

Corporation—Articles of incorporation, bylaws. Trust—Trust indenture. Other—Constitution or articles, bylaws.

Part III.—Activities and Operational Information

1 What are or will be the organization's sources of financial support? List in order of magnitude. If a part of the receipts is or will be derived from the earnings of patents, copyrights, or other assets (excluding stock, bonds, etc.), identify the item as a separate source of receipts. Attach representative copies of solicitations for financial support.

See Schedule 1 attached.

2 Describe the organization's fund-raising program, both actual and planned, and explain to what extent it has been put into effect. (Include details of fund-raising activities such as selective mailings, formation of fund-raising committees, use of professional fund raisers, etc.)

See Schedule 1 attached.

I declare under the penalties of perjury that I am authorized to sign this application on behalf of the above organization and I have examined this application, including the accompanying statements, and to the best of my knowledge it is true, correct, and complete.

Chloe M. ...
(Signature)

Board Member
(Title or authority of signer)

5/15/84
(Date)

WPAHS-001910

Part III.—Activities and Operational Information (Continued)

3 Give a narrative description of the activities presently carried on by the organization, and those that will be carried on. If the organization is not fully operational, explain what stage of development its activities have reached, what further steps remain for the organization to become fully operational, and when such further steps will take place. The narrative should specifically identify the services performed or to be performed by the organization. (Do not state the purposes of the organization in general terms or repeat the language of the organizational documents.) If the organization is a school, hospital, or medical research organization, include enough information in your description to clearly show that the organization meets the definition of that particular activity that is contained in the instructions for Part VII-A.

See Schedule 1 attached.

4 The membership of the organization's governing body is:

(a) Names, addresses, and duties of officers, directors, trustees, etc.	(b) Specialized knowledge, training, expertise, or particular qualifications
See Schedule 2 attached.	

Part III.—Activities and Operational Information (Continued)

4 (c) Do any of the above persons serve as members of the governing body by reason of being public officials or being appointed by public officials? Yes No
If "Yes," name those persons and explain the basis of their selection or appointment.

(d) Are any members of the organization's governing body "disqualified persons" with respect to the organization (other than by reason of being a member of the governing body) or do any of the members have either a business or family relationship with "disqualified persons?" (See specific instruction 4(d).) . . . Yes No
If "Yes," explain.

(e) Have any members of the organization's governing body assigned income or assets to the organization? . Yes No
If "Yes," attach a copy of assignment(s) and a list of items assigned.

(f) Is it anticipated that any current or future member of the organization's governing body will assign income or assets to the organization? Yes No
If "Yes," explain fully on an attached sheet.

5 Does the organization control or is it controlled by any other organization? Yes No
Is the organization the outgrowth of another organization, or does it have a special relationship to another organization by reason of interlocking directorates or other factors? Yes No
If either of these questions is answered "Yes," explain. The Foundation Board (except for the initial Board) is appointed by the Board of its Parent and supported organization, Healthcare, an applicant simultaneously herewith for 509(a)(1) status. Healthcare also retains certain powers over Foundation in the Foundation's Articles and Bylaws, such as appointment and removal of directors, and approval of bylaws, budgets, investment decisions and all unusual expenditures.

6 Is the organization financially accountable to any other organization? Yes No
If "Yes," explain and identify the other organization. Include details concerning accountability or attach copies of reports if any have been submitted. The Foundation is accountable to Healthcare, its Parent, through Healthcare's ability to appoint and remove the Foundation's Directors and to approve budgets and certain expenditures. As mentioned above, Healthcare is simultaneously submitting an application for 509(a)(1) status and would be the support organization of Foundation.

7 (a) What assets does the organization have that are used in the performance of its exempt function? (Do not include property producing investment income.) If any assets are not fully operational, explain their status, what additional steps remain to be completed, and when such final steps will be taken. Foundation has not purchased any tangible physical assets as of yet. It is obtaining use of office equipment and the like via lease or comparable arrangement from the Hospital.

(b) To what extent have you used, or do you plan to use contributions as an endowment fund, i.e., hold contributions to produce income for the support of your exempt activities? It is planned that the majority of the Foundation's assets will be held as such an endowment.

8 (a) What benefits, services, or products will the organization provide that are related to its exempt function?

See Schedule 3 attached.

Part III.—Activities and Operational Information (Continued)

8 (b) Have the recipients been required or will they be required to pay for the organization's benefits, services, or products? Yes No
If "Yes," explain and show how the charges are determined.

See Schedule 3 attached.

9 Does or will the organization limit its benefits, services, or products to specific classes of individuals? . . . Yes No
If "Yes," explain how the recipients or beneficiaries are or will be selected.

10 Is the organization a membership organization? Yes No
If "Yes," complete the following:

(a) Describe the organization's membership requirements and attach a schedule of membership fees and dues.

(b) Describe your present and proposed efforts to attract members, and attach a copy of any descriptive literature or promotional material used for this purpose.

(c) Are benefits, services, or products limited to members? Yes No
If "No," explain.

11 Does or will the organization engage in activities tending to influence legislation or intervene in any way in political campaigns? Yes No
If "Yes," explain. (Note: You may wish to file Form 5768, Election/Revocation of Election by an Eligible Section 501(c)(3) Organization to Make Expenditures to Influence Legislation.)

12 Does the organization have a pension plan for employees? Yes No

13 (a) Are you filing Form 1023 within 15 months from the end of the month in which you were created or formed as required by section 508(a) and the related Regulations? (See general instructions.) . . . Yes No
(b) If you answer "No," to 13(a) and you claim that you fit an exception to the notice requirements under section 508(a), attach an explanation of your basis for the claimed exception. N/A
(c) If you answer "No," to 13(a) and section 508(a) does apply to you, you may be eligible for relief under section 1.9100 of the Income Tax Regulations from the application of section 508(a). Do you wish to request relief? .N/A Yes No
(d) If you answer "Yes," to 13(c) attach a detailed statement that satisfies the requirements of Rev. Proc. 79-63. N/A
(e) If you answer "No," to both 13(a) and 13(c) and section 508(a) does apply to you, your exemption can be recognized only from the date this application is filed with your key District Director. Therefore, do you want us to consider your application as a request for recognition of exemption from the date the application is received and not retroactively to the date you were formed? . N/A Yes No

Part IV.—Statement as to Private Foundation Status

1 Is the organization a private foundation? Yes No
2 If you answer "Yes," to question 1 and the organization claims to be a private operating foundation, check here and complete Part VIII. N/A
3 If you answer "No," to question 1 indicate the type of ruling you are requesting regarding the organization's status under section 509 by checking the box(es) that apply below:
(a) Definitive ruling under section 509(a)(1), (2), (3), or (4) Complete Part VII.
(b) Advance ruling under section 170(b)(1)(A)(vi) or 509(a)(2)—see instructions.
(c) Extended advance ruling under section 170(b)(1)(A)(vi) or 509(a)(2)—see instructions.
Note: If you want an extended advance ruling you must check the appropriate boxes for both 3(b) and 3(c.)

Part V.—Financial Data

Form 1023 (Rev. 7-81)

Statement of Support, Revenue, and Expenses for period ending See Schedule 4, 19. attached.

Table with 18 rows for Support and Revenue (lines 1-7) and Expenses (lines 8-18). Includes a handwritten note: 'NEW ORGANIZATION NOT APPLICABLE, PLEASE REFER TO SCHEDULE 4 - PROJECTIONS.'

Table for Balance Sheets (Assets and Liabilities) with columns for Enter dates, Beginning date, and Ending date. Includes handwritten note: 'NOT APPLICABLE -- NEW ORGANIZATION WHICH HAS NO ASSETS OR LIABILITIES AT PRESENT'.

Has there been any substantial change in any aspect of your financial activities since the period ending date shown above? [] Yes [] No If "Yes," attach a detailed explanation.

Part VI.—Required Schedules for Special Activities. Table with 7 rows of questions and columns for 'If "Yes," check here;' and 'And, complete schedule—'.

Part VII.—Non-Private Foundation Status (Definitive ruling only)

A.—Basis for Non-Private Foundation Status

The organization is not a private foundation because it qualifies as:

<input checked="" type="checkbox"/>	Kind of organization	Within the meaning of	Complete
1	a church	Sections 509(a)(1) and 170(b)(1)(A)(i)	
2	a school	Sections 509(a)(1) and 170(b)(1)(A)(ii)	
3	a hospital	Sections 509(a)(1) and 170(b)(1)(A)(iii)	
4	a medical research organization operated in conjunction with a hospital	Sections 509(a)(1) and 170(b)(1)(A)(iii)	
5	being organized and operated exclusively for testing for public safety	Section 509(a)(4)	
6	being operated for the benefit of a college or university which is owned or operated by a governmental unit	Sections 509(a)(1) and 170(b)(1)(A)(iv)	Part VII.—B
7	normally receiving a substantial part of its support from a governmental unit or from the general public	Sections 509(a)(1) and 170(b)(1)(A)(vi)	Part VII.—B
8	normally receiving not more than one-third of its support from gross investment income and more than one-third of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions (subject to certain exceptions)	Section 509(a)(2)	Part VII.—B
9 <input checked="" type="checkbox"/>	being operated solely for the benefit of or in connection with one or more of the organizations described in 1 through 4, or 6, 7, and 8 above	Section 509(a)(3)	Part VII.—C

B.—Analysis of Financial Support N/A

	(a) Most recent tax year	(Years next preceding most recent tax year)			(e) Total
	19.....	(b) 19.....	(c) 19.....	(d) 19.....	
1 Gifts, grants, and contributions received					
2 Membership fees received					
3 Gross receipts from admissions, sales of merchandise or services, or furnishing of facilities in any activity which is not an unrelated business within the meaning of section 513					
4 Gross investment income (see instructions for definition)					
5 Net income from organization's unrelated business activities not included on line 4					
6 Tax revenues levied for and either paid to or spent on behalf of the organization					
7 Value of services or facilities furnished by a governmental unit to the organization without charge (not including the value of services or facilities generally furnished the public without charge)					
8 Other income (not including gain or loss from sale of capital assets)—attach schedule					
9 Total of lines 1 through 8					
10 Line 9 minus line 3					
11 Enter 2% of line 10, column (e) only					

12 If the organization has received any unusual grants during any of the above tax years, attach a list for each year showing the name of the contributor, the date and amount of grant, and a brief description of the nature of such grant. Do not include such grants on line 1 above—(See instructions).

Part VII.—Non-Private Foundation Status (Definitive ruling only) (Continued) N/A

B.—Analysis of Financial Support (Continued)

- 13 If the organization's non-private foundation status is based on:
 - (a) Sections 509(a)(1) and 170(b)(1)(A)(iv) or (vi).—Attach a list showing the name and amount contributed by each person (other than a governmental unit or "publicly supported" organization) whose total gifts for the entire period were more than the amount shown on line 11.
 - (b) Section 509(a)(2).—For each of the years included on lines 1, 2, and 3, attach a list showing the name of and amount received from each person who is a "disqualified person."
 - For each of the years on line 3, attach a list showing the name of and amount received from each payor (other than a "disqualified person") whose payments to the organization were more than \$5,000. For this purpose, "payor" includes but is not limited to, any organization described in sections 170(b)(1)(A)(i) through (vi) and any government agency or bureau.

C.—Supplemental Information Concerning Organizations Claiming Non-Private Foundation Status Under Section 509(a)(3)

1 Organizations supported by applicant organization:	Has the supported organization received a ruling or determination letter that it is not a private foundation by reason of section 509(a)(1) or (2)?
Name and address of supported organization The Western Pennsylvania Healthcare System, Inc. 4800 Friendship Avenue, Pittsburgh, PA 15224	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No Pending
	<input type="checkbox"/> Yes <input type="checkbox"/> No
	<input type="checkbox"/> Yes <input type="checkbox"/> No
	<input type="checkbox"/> Yes <input type="checkbox"/> No
	<input type="checkbox"/> Yes <input type="checkbox"/> No

2 To what extent are the members of your governing board elected or appointed by the supported organization(s)?
All directors and officers (other than initial directors and officers) must be approved by Healthcare, the supported organization.

3 What is the extent of common supervision or control that you and the supported organization(s) share?
All budgets, amendments to bylaws or Articles of Incorporation, investment plans and decisions outside the usual scope of business must receive approval of the supported organization. The Foundation and the supported organization also have a common Director

4 To what extent do(es) the supported organization(s) have a significant voice in your investment policies, the making and timing of grants, and in otherwise directing the use of your income or assets?
In addition to the contact and supervision indicated above, the Foundation's investment plan is approved and evaluated by the supported organization's Finance Committee.

5 Does the mentioning of the supported organization(s) in your governing instrument make you a trust that the supported organization(s) can enforce under State law and compel to make an accounting? Yes No
If "Yes," explain.

6 What portion of your income do you pay to each supported organization and how significant is the support to each?
Because the supported organization is not yet operational, the supported organization has not yet received any financial support. It is envisioned that the amount of income used to support the organization will vary depending on the supported organization's projects and activities.

7 To what extent do you conduct activities which would otherwise be carried out by the supported organization(s)? Explain why these activities would otherwise be carried on by the supported organization(s). The supported organization, as the Parent in a health system, would otherwise conduct the system-wide fundraising. The Foundation will assume the general fundraising for the system in the Foundation's name, but may also conduct special-project fundraising for the Parent in the Parent's name.

8 Is the applicant organization controlled directly or indirectly by one or more "disqualified persons" (other than one who is a disqualified person solely because he or she is a manager) or by an organization which is not described in section 509(a)(1) or (2)? Yes No
If "Yes," explain.

Part VIII.—Basis for Status as a Private Operating Foundation N/A

If the organization—

- (a) bases its claim to private operating foundation status on normal and regular operations over a period of years; or
- (b) is newly created, set up as a private operating foundation, and has at least one year's experience;

provide the information under the income test and under one of the three supplemental tests (assets, endowment, or support). If the organization does not have at least one year's experience, complete line 21. If the organization's private operating foundation status depends on its normal and regular operations as described in (a) above, attach a schedule similar to the one below showing the data in tabular form for the three years next preceding the most recent tax year.

Income Test	Most recent tax year
1 Adjusted net income, as defined in section 4942(f)	
2 Qualifying distributions:	
(a) Amounts (including administrative expenses) paid directly for the active conduct of the activities for which organized and operated under section 501(c)(3) (attach schedule)	
(b) Amounts paid to acquire assets to be used (or held for use) directly in carrying out purposes described in sections 170(c)(1) or 170(c)(2)(B) (attach schedule)	
(c) Amounts set aside for specific projects which are for purposes described in section 170(c)(1) or 170(c)(2)(B) (attach schedule)	
(d) Total qualifying distributions (add lines 2(a), (b), and (c))	
3 Percentage of qualifying distributions to adjusted net income (divide line 2(d) by line 1—percentage must be at least 85%)	%
Assets Test	
4 Value of organization's assets used in activities that directly carry out the exempt purposes. Do not include assets held merely for investment or production of income (attach schedule)	
5 Value of any stock of a corporation that is controlled by applicant organization and carries out its exempt purposes (attach statement describing corporation)	
6 Value of all qualifying assets (add lines 4 and 5)	
7 Value of applicant organization's total assets	
8 Percentage of qualifying assets to total assets (divide line 6 by line 7—percentage must exceed 65%)	%
Endowment Test	
9 Value of assets not used (or held for use) directly in carrying out exempt purposes:	
(a) Monthly average of investment securities at fair market value	
(b) Monthly average of cash balances	
(c) Fair market value of all other investment property (attach schedule)	
(d) Total (add lines 9(a), (b), and (c))	
10 Subtract acquisition indebtedness related to line 9 items (attach schedule)	
11 Balance (subtract line 10 from line 9(d))	
12 For years beginning on or after January 1, 1976, multiply line 11 by a factor of 3 1/3% (3/8 of the applicable percentage for the minimum investment return computation under section 4942(e)). Line 2(d) above must equal or exceed the result of this computation	
Support Test	
13 Applicant organization's support as defined in section 509(d)	
14 Subtract amount of gross investment income as defined in section 509(e)	
15 Support for purposes of section 4942(j)(3)(B)(iii) (subtract line 14 from line 13)	
16 Support received from the general public, five or more exempt organizations, or a combination of these sources (attach schedule)	
17 For persons (other than exempt organizations) contributing more than 1% of line 15, enter the total amounts that are more than 1% of line 15	
18 Subtract line 17 from line 16	
19 Percentage of total support (divide line 18 by line 15—must be at least 85%)	%
20 Does line 16 include support from an exempt organization that is more than 25% of the amount on line 15?	<input type="checkbox"/> Yes <input type="checkbox"/> No
21 Newly created organizations with less than one year's experience: Attach a statement explaining how the organization is planning to satisfy the requirements of section 4942(j)(3) for the income test and one of the supplemental tests during its first year's operation. Include a description of plans and arrangements, press clippings, public announcements, solicitations for funds, etc.	

SCHEDULE A.—Schools, Colleges, and Universities N/A

- 1 Is the organization an instrumentality of a State or political subdivision of a State? Yes No
If "Yes," document this in Part III and do not complete Items 2 through 8 of this schedule. (See instructions for Schedule A.)
- 2 Does or will the organization (or any department or division within it) discriminate in any way on the basis of race with respect to:
 - (a) Admissions? Yes No
 - (b) Use of facilities or exercise of student privileges? Yes No
 - (c) Faculty or administrative staff? Yes No
 - (d) Scholarship or loan program? Yes No
 If "Yes," for any of the above, explain.
- 3 Does the organization include a statement in its charter, bylaws, or other governing instrument, or in a resolution of its governing body, that it has a racially nondiscriminatory policy as to students? Yes No
Attach whatever corporate resolutions or other official statements the organization has made on this subject.
- 4 (a) Has the organization made its racially nondiscriminatory policies known in a manner that brings the policies to the attention of all segments of the general community which it serves? Yes No
If "Yes," describe how these policies have been publicized and state the frequency with which relevant notices or announcements have been made. If no newspaper or broadcast media notices have been used, explain.
- (b) If applicable, attach clippings of any relevant newspaper notices or advertising, or copies of tapes or scripts used for media broadcasts. Also attach copies of brochures and catalogues dealing with student admissions, programs, and scholarships, as well as representative copies of all written advertising used as a means of informing prospective students of your programs.
- 5 Attach a numerical schedule showing the racial composition, as of the current academic year, and projected as far as may be feasible for the next academic year, of: (a) the student body, (b) the faculty and administrative staff.
- 6 Attach a list showing the amount of any scholarship and loan funds awarded to students enrolled and the racial composition of the students who have received the awards.
- 7 (a) Attach a list of the organization's incorporators, founders, board members, and donors of land or buildings, whether individuals or organizations.
(b) State whether any of the organizations listed in (a) have as an objective the maintenance of segregated public or private school education, and, if so, whether any of the individuals listed in (a) are officers or active members of such organizations.
- 8 Indicate the public school district and county in which the organization is located.

SCHEDULE B.—Organizations Providing Scholarship Benefits, Student Aid, etc. to Individuals N/A

- 1 (a) Describe the nature of the scholarship benefit, student aid, etc., including the terms and conditions governing its use, whether a gift or a loan, and the amount. If the organization has established or will establish several categories of scholarship benefits, identify each kind of benefit and explain how the organization determines the recipients for each category. Attach a sample copy of any application the organization requires or will require of individuals to be considered for scholarship grants, loans, or similar benefits. (Private foundations that make grants for travel, study or other similar purposes are required to obtain advance approval of scholarship procedures. See sections 53 4945-4(c) and (d) of the regulations.)
- (b) If you want this application considered as a request for approval of grant procedures in the event we determine that you are a private foundation, check here

SCHEDULE B.—Organizations Providing Scholarship Benefits, Student Aid, etc. to Individuals (Continued)

2 What limitations or restrictions are there on the class of individuals who are eligible recipients? Specifically explain whether there are, or will be, any restrictions or limitations in the selection procedures based upon race and whether there are, or will be, restrictions or limitations in selection procedures based on the employment status of the prospective recipient or any relative of the prospective recipient. Also indicate the approximate number of eligible individuals.

3 Indicate the number of grants you anticipate making annually

4 List the names, addresses, duties, and relevant background of the members of your selection committee. If you base your selections in any way on the employment status of the applicant or any relative of the applicant, indicate whether there is or has been any direct or indirect relationship between the members of the selection committee and the employer. Also indicate whether relatives of the members of the selection committee are possible recipients or have been recipients.

5 Describe any procedures you have for supervising grants, such as obtaining reports or transcripts, which you award and any procedures you have for taking action if the terms of the grant are violated.

SCHEDULE C.—Successors to "For Profit" Institutions N/A

I What was the name of the predecessor organization and the nature of its activities?

2 Who were the owners or principal stockholders of the predecessor organization? (If more space is needed, attach schedule.)

Name and address	Share or interest

3 Describe the business or family relationship between the owners or principal stockholders and principal employees of the predecessor organization and the officers, directors, and principal employees of the applicant organization.

4 (a) Attach a copy of the agreement of sale or other contract that sets forth the terms and conditions of sale of the predecessor organization or of its assets to the applicant organization.
(b) Attach an appraisal by an independent, qualified expert showing the fair market value of the facilities or property interest sold at the time of sale.

SCHEDULE C.—Successors to "For Profit" Institutions (Continued)

5 Has any property or equipment formerly used by the predecessor organization been rented to the applicant organization or will any such property be rented? Yes No
If "Yes," explain and attach copies of all leases and contracts.

6 Is the organization leasing or will it lease or otherwise make available any space or equipment to the owners, principal stockholders, or principal employees of the predecessor organization? Yes No
If "Yes," explain and attach a list of these tenants and a copy of the lease for each such tenant.

7 Were any new operating policies initiated as a result of the transfer of assets from a profit-making organization to a nonprofit organization? Yes No
If "Yes," explain.

SCHEDULE D.—Hospitals and Medical Research Organizations N/A

Check here if you are claiming to be a hospital and complete the questions in Part I of this Schedule and write "N/A" in Part II.
 Check here if you are claiming to be a medical research organization operated in conjunction with a hospital and complete the questions in Part II of this Schedule and write "N/A" in Part I.

Part I.—Hospitals

1 (a) How many doctors are on the hospital's courtesy staff?
(b) Do these doctors include all the doctors in the community? Yes No
If "No," give the reasons why and explain how the courtesy staff is selected.

2 Composition of board of directors or trustees. (If more space is needed, attach schedule.)

Table with 2 columns: Name and address, Occupation. Multiple rows for listing board members.

3 (a) Does the hospital maintain a full-time emergency room? Yes No
(b) What is the hospital's policy on administering emergency services to persons without apparent means to pay?

(c) Does the hospital have any arrangements with police, fire, and voluntary ambulance services for the delivery or admission of emergency cases? Yes No
Explain.

SCHEDULE D.—Hospitals and Medical Research Organizations (Continued)

Part I.—Hospitals (Continued)

4 (a) Does or will the hospital require a deposit from persons covered by Medicare or Medicaid in its admission practices? Yes No
If "Yes," explain.

(b) Does the same deposit requirement apply to all other patients? Yes No
If "No," explain.

5 Does or will the hospital provide for a portion of its services and facilities to be used for charity patients? . Yes No
Explain (include data on the hospital's past experience in admitting charity patients and arrangements it may have with municipal or governmental agencies for absorbing the cost of such care).

6 Does or will the hospital carry on a formal program of medical training and research? Yes No
If "Yes," describe.

7 Does the hospital provide office space to physicians carrying on a medical practice? Yes No
If "Yes," attach a list setting forth the name of each physician, the amount of space provided, the annual rent (if any), and the expiration date of the current lease.

Part II.—Medical Research Organizations

1 Name the hospital(s) with which you have a relationship and describe the relationship(s).

2 Describe your present and proposed (indicate which) medical research activities, show the nature of the activities, and the amount of money which has been or will be spent in carrying them out. (Making grants to other organizations is not direct conduct of medical research.)

3 Attach a statement of assets showing the fair market value of your assets and the portion of the assets directly devoted to medical research.

SCHEDULE E.—Homes for Aged N/A

1 What are the requirements for admission to residency? Explain fully and attach promotional literature and application forms.

2 Does or will the home charge an entrance or founder's fee? Yes No
If "Yes," explain.

3 What periodic fees or maintenance charges are or will be required of its residents?

4 (a) What established policy does the home have concerning residents who become unable to pay their regular charges?

(b) What arrangements does the home have or will it make with local and Federal welfare units, sponsoring organizations, or others to absorb all or part of the cost of maintaining those residents?

5 What arrangements does or will the home have to provide for the health needs of its residents?

6 In what way are the home's residential facilities designed to meet some combination of the physical, emotional, recreational, social, religious, and similar needs of the aged?

7 Has the home established or will it establish any reserves for future expenditures? Yes No
If "Yes," state the source of such reserves and explain how they will be used.

8 Attach a sample copy of the contract or agreement the organization makes with or requires of its residents.

SCHEDULE F.—Litigating Organizations (Public Interest Law Firms and Similar Organizations) N/A

1 Will the organization conform to the guidelines for organizations engaged in litigation activities issued by the Internal Revenue Service in Rev. Proc. 71-39, 1971-2 C.B. 575, and Rev. Proc. 75-13, 1975-1 C.B. 662? Yes No

If "No," explain.

2 What is the organization's area of public interest or concern?

3 Is the organization set up primarily to try the case of a particular person or prosecute a particular cause of action? Yes No

If "Yes," explain.

4 What are the organization's criteria for selection of cases?

5 In what cases has the organization started legal proceedings and in what other cases is it preparing to start proceedings? Describe the legal issues involved in each case and explain how they relate to the organization's area of concern.

6 (a) Composition of the organization's board of directors or trustees:

Name and address	Business or Occupation

(b) Will any of the attorneys hired by the organization be a trustee or member of the board of directors of the organization or be associated in the practice of law with any such trustee or member? Yes No

If "Yes," explain.

7 Does or will the organization share office space with a private law firm? Yes No

If "Yes," explain.

8 Does or will the organization receive fees for its professional services? Yes No

If "Yes," explain.

SCHEDULE G.—National or International Amateur Sports Competition N/A

1 Does your organization directly or indirectly provide any facilities or equipment for the use of amateur athletes engaged in national or international sports competition? Yes No

If "Yes," explain.

2 How do you foster national or international sports competition?

3 Do you provide financial assistance to amateur athletes? Yes No

FORM 1023

The West Penn Hospital Foundation ("Foundation")

PART III. ACTIVITIES AND OPERATIONAL INFORMATION

1. (1) First, approximately \$11.5 million, which will be transferred as initial capital to The West Penn Hospital Foundation ("Foundation") from The Western Pennsylvania Hospital ("Hospital"), an affiliated 501(c)(3), 170(b)(1)(A)(iii) corporation.
- (2) Second, contributions and grants from the general public, government, corporations and foundations.
- (3) Third, investment income from held funds.

No solicitations for funds have been made yet, so no representative copies of solicitations are available.

2. The Foundation will raise funds itself and for the other affiliated tax-exempt entities within the system: (1) its parent, The Western Pennsylvania Healthcare System, Inc. ("Healthcare"), a non-profit Pennsylvania corporation applying herewith for 501(c)(3) and 509(a)(1) status; and (2) the Hospital, a 170(b)(1)(A)(iii) organization. Although it is not now anticipated, in the future, the Foundation may also raise funds for affiliated 509(a)(1) or 509(a)(2) organizations which may enter the system. The Foundation will absorb the majority of the fundraising function formerly performed by the Hospital. Fundraising will be directed towards historical contributors to the Hospital, former patients of the Hospital, government agencies, corporations and foundations. Mailings, direct contact and formal proposals will be used. Solicitations will be directed and conducted by the staff in the Foundation as well as Board members who are, themselves, community leaders. No outside professional fundraising services are planned.

3. Description of Activities

The West Penn Hospital Foundation (the "Foundation") is a non-profit Pennsylvania corporation created pursuant to a Plan of Division of The Western Pennsylvania Hospital (the "Hospital"), filed on or about March 30, 1984. The Hospital was and remains a non-profit Pennsylvania corporation which is qualified under 501(c)(3) and 170(b)(1)(A)(iii).

When fully operational, the Foundation will raise, manage, invest and distribute funds to support The Western Pennsylvania Healthcare System, Inc. ("Healthcare"), the Hospital and any future affiliated public charities or programs sponsored

FORM 1023
The West Penn Hospital Foundation ("Foundation")

PART III. ACTIVITIES AND OPERATIONAL INFORMATION

3. (continued)

thereby. All Foundation fundraising is designed to encourage present or future programs which promote health and hospital care, health awareness, health research and health education. Such support may take the form of meeting either capital or operating expenses, such as, but not limited to, personnel training, equipment, renovation, and promotional expenses. The Foundation may make direct grants or guarantee the payments or obligations of affiliated tax-exempt entities to assist in the construction, acquisition, operation and maintenance of facilities used for the provision of health care, education or research.

Stage of Development

The Foundation has been incorporated and has filed IRS ruling requests. Its employees and office location, as well as its Board of Directors, have been selected. A petition of the Hospital for Court consent to the transfer of certain assets from the Hospital to the Foundation was filed with the Orphans' Court Division of the Court of Common Pleas of Allegheny County, Pennsylvania on or about March 30, 1984.

Additional Steps

It is planned that the Foundation will become fully operational July 1, 1984 or upon receipt of requested IRS and Orphans' Court approvals, whichever is later.

Schedule 2

(a) The names and addresses of the initial Board of Directors are:

1. Dr. Lester A. Dunmire
4815 Liberty Avenue
Pittsburgh, PA 15224
2. Mr. Timothy O. Fisher
5131 Westminster Place
Pittsburgh, PA 15232
3. Mrs. Alan Lehman
2 Robin Road
Pittsburgh, PA 15217
4. Dr. Charles H. Srodes
4815 Liberty Avenue
Pittsburgh, PA 15224
5. Robert J. Dodds, Esq.
326 3rd Avenue
Pittsburgh, PA 15222

(b) Specialized knowledge, training, expertise, or particular qualifications:

1. Physician, Surgeon
2. Businessman
3. Community Leader
4. Physician, Oncologist
5. Served as Director of The Western Pennsylvania Hospital; Serves as Director of The Western Pennsylvania Healthcare System, Inc.; attorney

Schedule 3

FORM 1023
The West Penn Hospital Foundation ("Foundation")

PART III. Section 8.

8. (a) Foundation will support other, affiliated tax-exempt organizations by grants, contributions and, in some cases, provision of services and functions such as investment services that would otherwise be performed by those entities themselves. The organization to which such grants are made and services performed, are primarily involved in the provision of health care and are tax-exempt public charities under 501(c)(3) or are making application herewith.
- (b) Recipients of Foundation grants or services will not be ordinarily required to pay for services which they receive, with minor exceptions. Those exceptions involve reimbursement to the Foundation for the Foundation's costs in providing fundraising services in Healthcare's name. Such services would be at or near Foundation's cost.

Schedule 4

FORM 1023
The West Penn Hospital Foundation ("Foundation")

PART V. - FINANCIAL DATAThe West Penn Hospital FoundationPRO-FORMA PROJECTED BUDGET

	Fiscal Year 1984-1985	Fiscal Year 1985-1986
REVENUES:		
Contributions	\$ 900,000	\$ 900,000
Exempt Business Activities	100,000	100,000
Investment Income	1,000,000	1,000,000
Dues - None	-	-
Unrelated Business Income - None	-	-
	<u>2,000,000</u>	<u>2,000,000</u>
EXPENSES:		
Direct Exempt Business Costs	100,000	100,000
Officers Compensation	-	-
Wages	78,500	78,500
Employee Fringes	21,000	21,000
Postage	4,600	4,600
Printed Material	14,000	14,000
Supplies	21,400	21,400
Travel	7,000	7,000
Photocopying	1,000	1,000
Other Direct Expenses	10,000	10,000
Professional Fees - Legal	10,000	10,000
Professional Fees - Accounting & Auditing	3,500	3,500
Other Engaged Services	25,000	25,000
Interest	-	-
Office Space Rent	4,000	4,000
Other Administrative Costs	6,000	6,000
	<u>306,000</u>	<u>306,000</u>
Excess of Revenue Over Expenses Before Transfers and Gifts	1,694,000	1,694,000
Transfers and Gifts to Related 501(c)(3) Organizations	<u>1,072,000</u>	<u>1,072,000</u>
Excess of Revenue Over Expenses	<u>\$ 622,000</u>	<u>\$ 622,000</u>

WPAHS-001928

THE WEST PENN HOSPITAL FOUNDATION

SUPPLEMENTS TO FORM 1023

STATEMENT ATTACHED TO AND MADE PART OF FORM 1023

PROCEDURAL MATTERS

A. Oral Conference

A Conference is hereby requested if any decision should be under consideration inconsistent with the foregoing Application before any such decision is actually made.

B. Required Statements

To the best of the Parties' knowledge, the issues presented in this Application are not included in a return of the Applicant or a related taxpayer, nor pending before any field office or any appeals office of the Internal Revenue Service nor pending in litigation involving the Applicant or a related taxpayer.

THE WEST PENN HOSPITAL FOUNDATION

SUPPLEMENTS TO FORM 1023

STATEMENT ATTACHED TO AND MADE PART OF FORM 1023

Statement Concerning Attached
Articles of Incorporation

I, Carl H. Stodes, M.D., an authorized officer or trustee of The West Penn Hospital Foundation, hereby declares that the attached Articles of Incorporation is a complete and accurate copy of the original in effect for the organization.

Carl H. Stodes M.D.

Title: Board Member

THE WEST PENN HOSPITAL FOUNDATION

5/9/84

(Date)

Document Divider

Form **1023**

(Rev. July 1981)

Department of the Treasury
Internal Revenue Service

Application for Recognition of Exemption

Under Section 501(c)(3) of the Internal Revenue Code

For Paperwork Reduction Act Notice, see page 1 of the instructions.

Expires May 31, 1984

To be filed in the key district for the area in which the organization has its principal office or place of business.

This application, when properly completed, constitutes the notice required under section 508(a) of the Internal Revenue Code so that an applicant may be treated as described in section 501(c)(3) of the Code, and the notice required under section 508(b) for an organization claiming not to be a private foundation within the meaning of section 509(a). (Read the instructions for each part carefully before making any entries.) The organization must have an organizing instrument (see Part II) before this application may be filed.

Part I—Identification

1 Full name of organization Suburban Health Foundation ("Foundation")		2 Employer identification number (If none, attach Form SS-4) Applied For	
3(a) Address (number and street) South Jackson Street		Check here if applying under section: <input type="checkbox"/> 501(e) <input type="checkbox"/> 501(f)	
3(b) City or town, State, and ZIP code Pittsburgh, Pennsylvania 15202		4 Name and phone number of person to be contacted Stephen H. Nimmo (412) 562-1061	
5 Month the annual accounting period ends June 30	6 Date incorporated or formed July 1, 1984	7 Activity codes 922 927 602	
8(a) Has the organization filed Federal income tax returns? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," state the form number(s), year(s) filed, and Internal Revenue office where filed			
8(b) Has the organization filed exempt organization information returns? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," state the form number(s), year(s) filed, and Internal Revenue office where filed			

Part II.—Type of Entity and Organizational Documents (see instructions)

Check the applicable entity box below and attach a conformed copy of the organization's organizing and operational documents as indicated for each entity.

Corporation—Articles of incorporation, bylaws. Trust—Trust indenture. Other—Constitution or articles, bylaws.

Part III.—Activities and Operational Information

1 What are or will be the organization's sources of financial support? List in order of magnitude. If a part of the receipts is or will be derived from the earnings of patents, copyrights, or other assets (excluding stock, bonds, etc.), identify the item as a separate source of receipts. Attach representative copies of solicitations for financial support.

- a. Investment income from the endowment.
- b. Income from fund-raising activities undertaken on behalf of itself Suburban General Hospital and Suburban Health Corporation, which comprise a system of related corporations (the "Health Care System")
- c. Special gifts, grants and donations from individuals, corporations and private foundations.

2 Describe the organization's fund-raising program, both actual and planned, and explain to what extent it has been put into effect. (Include details of fund-raising activities such as selective mailings, formation of fund-raising committees, use of professional fund raisers, etc.)

Prior to the corporate reorganization of Suburban General Hospital, fund-raising activities were conducted by the Hospital itself. Fund-raising activities will now be conducted by the Foundation and Suburban Health Corporation. Activities of the Foundation may include an annual giving campaign, occasional special project campaigns, and solicitation of contributions from corporations and private foundations.

I declare under the penalties of perjury that I am authorized to sign this application on behalf of the above organization and I have examined this application, including the accompanying statements, and to the best of my knowledge it is true, correct, and complete.

(Signature)

(Title or authority of signer)

11-19-84
(Date)

*See Exhibits A and B respectively

WPAHS-001931

Part III.—Activities and Operational Information (Continued)

4 (c) Do any of the above persons serve as members of the governing body by reason of being public officials or being appointed by public officials? Yes No
If "Yes," name those persons and explain the basis of their selection or appointment.

(d) Are any members of the organization's governing body "disqualified persons" with respect to the organization (other than by reason of being a member of the governing body) or do any of the members have either a business or family relationship with "disqualified persons?" (See specific instruction 4(d).) Yes No
If "Yes," explain.

(e) Have any members of the organization's governing body assigned income or assets to the organization? Yes No
If "Yes," attach a copy of assignment(s) and a list of items assigned.

(f) Is it anticipated that any current or future member of the organization's governing body will assign income or assets to the organization? Yes No
If "Yes," explain fully on an attached sheet.

5 Does the organization control or is it controlled by any other organization? Yes No
Is the organization the outgrowth of another organization, or does it have a special relationship to another organization by reason of interlocking directorates or other factors? Yes No
If either of these questions is answered "Yes," explain. The Foundation was created pursuant to the Plan of Division of Suburban General Hospital (the "Hospital"). See Exhibit A. The Board of Directors of the Foundation is elected by, and certain other powers are delegated by the bylaws of the Foundation to, the Board of Directors of its parent corporation, Suburban Health Corporation. See Exhibit C for further details.

6 Is the organization financially accountable to any other organization? Yes No
If "Yes," explain and identify the other organization. Include details concerning accountability or attach copies of reports if any have been submitted. The Board of Directors of Suburban Health Corporation has power to approve the Foundation's annual operating and capital budgets, and to approve certain unbudgeted business expenditures. See Exhibit C for further details.

7 (a) What assets does the organization have that are used in the performance of its exempt function? (Do not include property producing investment income.) If any assets are not fully operational, explain their status, what additional steps remain to be completed, and when such final steps will be taken. In addition to the endowment, which produces investment income, the Foundation has cash as working capital. See Part V.

(b) To what extent have you used, or do you plan to use contributions as an endowment fund, i.e., hold contributions to produce income for the support of your exempt activities? Contributions will be used for operating expenses or as an endowment fund, or transferred to one or more entities within the*

8 (a) What benefits, services, or products will the organization provide that are related to its exempt function? The Foundation will provide investment management services, conduct fund-raising, and make contributions of funds and assets, for the benefit of the Health Care System.

*Health Care System, in furtherance of the Foundation's exempt functions.

Statement of Support, Revenue, and Expenses for period ending ...September 30, 1984...

		1	-0-	
Support and Revenue	1	Gross contributions, gifts, grants, and similar amounts received	2	
	2	Gross dues and assessments of members		
	3	(a) Gross amounts derived from activities related to organization's exempt purpose	3	
		(b) Minus cost of sales		
	4	(a) Gross amounts from unrelated business activities	4	
		(b) Minus cost of sales		
	5	(a) Gross amount received from sale of assets, excluding inventory items (attach schedule)	5	
	(b) Minus cost or other basis and sales expenses of assets sold	6	\$ 137,937	
6	Investment income (see instructions)	7	137,937	
7	Total support and revenue			
		8	-0-	
Expenses	8	Fund raising expenses	9	
	9	Contributions, gifts, grants, and similar amounts paid (attach schedule)	10	
	10	Disbursements to or for benefit of members (attach schedule)	11	
	11	Compensation of officers, directors, and trustees (attach schedule)	12	
	12	Other salaries and wages	13	
	13	Interest	14	
	14	Rent	15	
	15	Depreciation and depletion	16	
	16	Other (attach schedule)	17	-0-
	17	Total expenses	18	137,937
	18	Excess of support and revenue over expenses (line 7 minus line 17)		

Balance Sheets		Enter dates	Beginning date July 1, 1984	Ending date September 30, 1
Assets				
19	Cash (a) Interest bearing accounts		\$ 150,000	\$ 153,469
	(b) Other			
20	Accounts receivable, net			
21	Inventories			
22	Bonds and notes (attach schedule)			
23	Corporate stocks (attach schedule)			
24	Mortgage loans (attach schedule)		2,822,000	2,896,317
25	Other investments (attach schedule)			
26	Depreciable and depletable assets (attach schedule)			
27	Land			60,151
28	Other assets (attach schedule)			3,109,937
29	Total assets			
Liabilities				
30	Accounts payable			
31	Contributions, gifts, grants, etc., payable			
32	Mortgages and notes payable (attach schedule)			
33	Other liabilities (attach schedules)			-0-
34	Total liabilities			
Fund Balances or Net Worth				
35	Total fund balances or net worth			3,109,937
36	Total liabilities and fund balances or net worth (line 34 plus line 35)			3,109,937

Has there been any substantial change in any aspect of your financial activities since the period ending date shown above? Yes No
 If "Yes," attach a detailed explanation.

Part VI.—Required Schedules for Special Activities		If "Yes," check here:	And, complete schedule—
1	Is the organization, or any part of it, a school?		A
2	Does the organization provide or administer any scholarship benefits, student aid, etc.?		B
3	Has the organization taken over, or will it take over, the facilities of a "for profit" institution?		C
4	Is the organization, or any part of it, a hospital or a medical research organization?		D
5	Is the organization, or any part of it, a home for the aged?		E
6	Is the organization, or any part of it, a litigating organization (public interest law firm or similar organization)?		F
7	Is the organization, or any part of it, formed to promote amateur sports competition?		G

Part VII.—Non-Private Foundation Status (Definitive ruling only) (Continued)

B.—Analysis of Financial Support (Continued)

- 13 If the organization's non-private foundation status is based on:
- (a) Sections 509(a)(1) and 170(b)(1)(A)(iv) or (vi).—Attach a list showing the name and amount contributed by each person (other than a governmental unit or "publicly supported" organization) whose total gifts for the entire period were more than the amount shown on line 11.
 - (b) Section 509(a)(2).—For each of the years included on lines 1, 2, and 3, attach a list showing the name of and amount received from each person who is a "disqualified person."
For each of the years on line 3, attach a list showing the name of and amount received from each payor (other than a "disqualified person") whose payments to the organization were more than \$5,000. For this purpose, "payor" includes but is not limited to, any organization described in sections 170(b)(1)(A)(i) through (vi) and any government agency or bureau.

C.—Supplemental Information Concerning Organizations Claiming Non-Private Foundation Status Under Section 509(a)(3)

1 Organizations supported by applicant organization:

Name and address of supported organization
Suburban Health Corporation South Jackson Street, Pittsburgh, PA 15202
Suburban General Hospital South Jackson Street, Pittsburgh, PA 15202

Has the supported organization received a ruling or determination letter that it is not a private foundation by reason of section 509(a)(1) or (2)?

Application submitted con
 Yes No currently here

Yes No

Yes No

Yes No

Yes No

2 To what extent are the members of your governing board elected or appointed by the supported organization(s)?
Foundation's Board of Directors elected by Suburban Health Corporation's Board of Directors.

3 What is the extent of common supervision or control that you and the supported organization(s) share?
The Hospital's Board of Directors is also elected by Suburban Health Corporation's Board of Directors.

4 To what extent do(es) the supported organization(s) have a significant voice in your investment policies, the making and timing of grants, and in otherwise directing the use of your income or assets? Suburban Health Corporation has indirect control through certain powers conferred upon it by the Bylaws of the Foundation. See Article III, Section 1 of the Bylaws attached hereto as Exhibit B.

5 Does the mentioning of the supported organization(s) in your governing instrument make you a trust that the supported organization(s) can enforce under State law and compel to make an accounting? Yes No
If "Yes," explain.

6 What portion of your income do you pay to each supported organization and how significant is the support to each? Income from investment received by the Foundation will be transferred to the supported organizations as needed or reinvested.

7 To what extent do you conduct activities which would otherwise be carried out by the supported organization(s)? Explain why these activities would otherwise be carried on by the supported organization(s).
Investment management and fund-raising activities would otherwise be carried out by t Hospital or Suburban Health Corporation.

8 Is the applicant organization controlled directly or indirectly by one or more "disqualified persons" (other than one who is a disqualified person solely because he or she is a manager) or by an organization which is not described in section 509(a)(1) or (2)? Yes No
If "Yes," explain.

EXHIBIT A
SUBURBAN HEALTH FOUNDATION

FORM 1023

PLAN OF DIVISION

The undersigned hereby certifies that the attached is a true and correct copy of the Plan of Division of Suburban General Hospital, containing the Articles of Incorporation of Suburban Health Foundation.

Date:



Attorney For
Suburban Health Foundation

WPAHS-001935

APPLICANT'S ACCT NO.

8443 285

Filed this 28th day of JUNE 1954

Commonwealth of Pennsylvania
Department of State
Eff: July 1, 1954

William L. Davis

Secretary of the Commonwealth

(Line for numbering)

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF STATE
CORPORATION BUREAU

725567

(Box for Certification)

DSCB: 15-7943 (Rev. 11-72)
Filing Fee: \$75 plus \$75 for each
new resulting corporation
in excess of one
DVM-33
Articles of Division—
Corporation:
Not-for-profit

In compliance with the requirements of 15 Pa. S. §7943 (relating to articles of division) the undersigned corporation not-for-profit, desiring to effect a division, hereby certifies that:

1. The name of the dividing corporation is:
Suburban General Hospital

2. (Check and complete one of the following):

The dividing corporation is a domestic corporation and the location of its registered office in this Commonwealth is (the Department of State is hereby authorized to correct the following statement to conform to the records of the Department):

South Jackson Street (STREET)

Pittsburgh (CITY) Pennsylvania (STATE) 15202 (ZIP CODE)

The dividing corporation is a qualified foreign corporation incorporated under the laws of _____ and the address of its registered office in this Commonwealth is (the Department of State is hereby authorized to correct the following statement to conform to the records of the Department):

(NUMBER) (STREET)

(CITY) Pennsylvania (STATE) _____ (ZIP CODE)

The dividing corporation is a nonqualified foreign corporation incorporated under the laws of _____ and the address of its principal office under the laws of such domiciliary jurisdiction is:

(NUMBER) (STREET)

(CITY) _____ (STATE) _____ (ZIP CODE)

3. The statute by or under which it was incorporated is:

Act of April 29, 1874 and the several supplements thereto.

4. The date of its incorporation is July 16, 1903

5 (Check one of the following):

- The dividing corporation will survive the division.
- The dividing corporation will not survive the division.

6. The name and the address of the registered office of each new domestic nonprofit corporation and qualified foreign corporation resulting from the division are as follows:

Suburban Health Corporation
South Jackson Street
Pittsburgh, Pennsylvania 15202

Suburban Health Foundation
South Jackson Street
Pittsburgh, Pennsylvania 15202

7. (Check, and if appropriate, complete one of the following):

- The plan of division shall be effective upon filing these Articles of Division in the Department of State.
- The plan of division shall be effective on July 1, 1984 at 12:01 A.M.

8. (Check one of the following):

- The plan of division was adopted by action of the members pursuant to 15 Pa. S. §§7924(a) and 7942(c) and (d).
- The plan of division was adopted by the action of the board of directors pursuant to 15 Pa. S. §§7924(b) and 7942(c) and (d).

9. The plan of division is set forth in Exhibit A, attached hereto and made a part hereof.

IN WITNESS WHEREOF, the undersigned corporation has caused these Articles of Division to be signed by a duly authorized officer and its corporate seal, duly attested by another such officer, to be hereunto affixed this 26th day of June 1984

RECEIVED
JUL 27 10 33 AM '84

Suburban General Hospital
(NAME OF CORPORATION)

By [Signature]
(SIGNATURE)

President

(TITLE, PRESIDENT, VICE PRESIDENT, ETC.)

Attest

[Signature]
CORPORATE SEAL
SECRETARY ASSISTANT SECRETARY ETC

Assistant Secretary

SUBURBAN GENERAL HOSPITALPLAN OF DIVISION

In compliance with Section 7942 of the Pennsylvania Nonprofit Corporation Law of 1972, Act of November 15, 1972, P.L. 1063, No. 271, 15 Pa. C.S.A. §7942, the following Plan of Division (the "Plan") of Suburban General Hospital is adopted:

1. The name of the dividing corporation is Suburban General Hospital, a non-profit corporation under the laws of Pennsylvania.
2. The names of the new corporations to be formed by the division of Suburban General Hospital are: Suburban Health Corporation, a non-profit corporation, and Suburban Health Foundation, a non-profit corporation.
3. The effective time and date of the division shall be the later of July 1, 1984 or the date on which the Pennsylvania Department of State, Corporation Bureau shall accept this Plan of Division for filing, such date hereinafter to be called the "Effective Date".
4. Upon the Effective Date, the division, as set forth herein, shall occur.
5. Suburban General Hospital shall survive the division and shall retain all of its assets and liabilities, except

such assets and liabilities as shall be hereinafter specifically described and allocated to certain of the corporations to be formed pursuant to this Plan of Division, all as more particularly hereinafter set forth.

6. Upon the Effective Date, the articles of the Suburban General Hospital shall be amended to state in their entirety as follows:

"(1) The name of the corporation is Suburban General Hospital.

"(2) The location and post office address of the registered office of the corporation in this Commonwealth is South Jackson Street, Pittsburgh, Pennsylvania 15202.

"(3) The corporation was incorporated under the name of Suburban General Hospital under authority of the Act of April 29, 1874, and the purposes of the corporation are exclusively charitable, scientific or educational within the meaning of Section 501 (c) (3) of the Internal Revenue Code of 1954 and in furtherance of these purposes, the corporation may:

(a) support, manage and furnish facilities, personnel and services for the diagnosis, and medical, surgical and hospital treatment of illnesses and diseases to sick, injured or disabled persons without regard to race, creed, color, age, sex or national origin; and

(b) otherwise operate exclusively for charitable, scientific or educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1954 in the course of which operation:

(i) no part of the net earnings of the corporation shall inure to the benefit of, or be distributable to, its directors, officers or other private per-

sons, except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein;

(ii) no substantial part of the activities of the corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and the corporation shall not participate in, or intervene in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office except as authorized under the Internal Revenue Code; and

(iii) notwithstanding any other provisions of these articles, the corporation shall not carry on any other activities not permitted to be carried on either by a corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1954, or by a corporation, contributions to which are deductible under Section 170(c)(2) of the Internal Revenue Code of 1954.

"(4) The term for which the corporation is to exist is perpetual.

"(5) The corporation is organized upon a nonstock basis.

"(6) The corporation shall have no members.

"(7) The business, property and affairs of the corporation shall be managed and controlled by its Board of Directors. All elections of the corporation's Board of Directors shall be by the affirmative vote of a majority of the members of the Board of Directors of Suburban Health Corporation present and voting at a duly called meeting of the Suburban Health Corporation at which a quorum is present.

"(8) In the event that the corporation shall be dissolved or wound up at any time, then all of the properties, monies and assets of the corporation remaining after provision has been made for payment of its known debts and liabilities as provided by law, shall be transferred exclusively to and become the property of Suburban Health Corporation or, in the event that Suburban Health Corporation no longer exists or no longer qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954, to such non-profit funds, foundations, or corporations as are selected and designated by the Board of Directors of the corporation, and which shall at that time qualify as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code of 1954. Any such assets not so disposed of shall be disposed of by a court of competent jurisdiction exclusively for such exempt purposes or to such organization or organizations as said court shall determine, which are organized and operated exclusively for such exempt purposes. No private individual shall share in the distribution of any corporate assets upon dissolution of the corporation.

"(9) References in these articles of incorporation to a section of the Internal Revenue Code of 1954 shall be construed to refer both to such section and to the regulations promulgated thereunder, as they now exist or may hereafter be amended in this or in any subsequent internal revenue laws of the United States."

7. The members of the Board of Directors of Suburban General Hospital at the Effective Date, and the expiration of their respective terms of office as Directors, shall be as follows:

"(8) In the event that the corporation shall be dissolved or wound up at any time, then all of the properties, monies and assets of the corporation remaining after provision has been made for payment of its known debts and liabilities as provided by law, shall be transferred exclusively to and become the property of Suburban Health Corporation or, in the event that Suburban Health Corporation no longer exists or no longer qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954, to such non-profit funds, foundations, or corporations as are selected and designated by the Board of Directors of the corporation, and which shall at that time qualify as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code of 1954. Any such assets not so disposed of shall be disposed of by a court of competent jurisdiction exclusively for such exempt purposes or to such organization or organizations as said court shall determine, which are organized and operated exclusively for such exempt purposes. No private individual shall share in the distribution of any corporate assets upon dissolution of the corporation.

"(9) References in these articles of incorporation to a section of the Internal Revenue Code of 1954 shall be construed to refer both to such section and to the regulations promulgated thereunder, as they now exist or may hereafter be amended in this or in any subsequent internal revenue laws of the United States."

7. The members of the Board of Directors of Suburban General Hospital at the Effective Date, and the expiration of their respective terms of office as Directors, shall be as follows:

<u>Name</u>	<u>Expiration of Term</u>
(a) Robert C. Bacher	1984
James R. Deily	1984
Helen Carlisle	1984
Evelyn R. Young	1984
(b) William S. Hansen	1985
Donald C. Korb	1985
James R. Schaffner	1985
William W. Milnes	1985
(c) John F. Marshall	1986
Donald Y. Clem	1986
William G. Thomas	1986
Thomas P. Ravis	1986
Louis J. Slais	1986
(d) John B. Mallon	(to serve ex officio)
John A. Straka, M.D.	(to serve ex officio)
Thomas R. Graham, M.D.	(to serve ex officio)
Harry M. Null, M.D.	(to serve ex officio)

8. Upon the Effective Date, the articles of the Suburban Health Corporation shall be as follows:

"(1) The name of the corporation is the Suburban Health Corporation.

"(2) The location and post office address of the initial registered office of the corporation in this Commonwealth is South Jackson Street, Pittsburgh, Pennsylvania 15202.

"(3) The corporation is incorporated under the Pennsylvania Nonprofit Corporation Law of 1972, Act of November 15, 1972, P.L. 1063, No. 271 (15 Pa. C.S.A. §7301, et seq.), and the purposes for which the corporation is organized are exclusively charitable, scientific or educational within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1954 and, in furtherance of these purposes but not in limitation thereof, the corporation may:

(a) establish, develop, sponsor, promote and/or conduct educational programs, scientific research, treatment facilities, hospitals, rehabilitation centers, nursing homes, housing centers, human services programs and other charitable activities devoted to improving and protecting the health and welfare of all persons in the Western Pennsylvania area, including providing opportunities to aid persons suffering from physical, mental or emotional disabilities, providing access to community resources aimed at promoting life and health, and providing assistance to persons with the aim of leading full and meaningful lives;

(b) sponsor, develop, promote and encourage public participation in public services and programs in the general area of Pittsburgh, Pennsylvania, or in a larger area if feasible, which are charitable, scientific or educational;

(c) own or operate facilities or own other assets for public use or the public's health and welfare;

(d) solicit contributions for the use of the Suburban General Hospital and any other organization with which this corporation may be affiliated and which is qualified under Section 501(c)(3) of the Internal Revenue Code and to promote, by donation, loan or otherwise, the interests of any such organization;

(e) exercise such duties and managerial or other responsibilities as may be conferred upon it by any affiliated corporation; and

(f) otherwise operate exclusively for charitable, scientific or educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1954 in the course of which operation:

(i) no part of the net earnings of the corporation shall inure to the benefit

of, or be distributable to its directors, officers, or other persons, except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein;

(ii) no substantial part of the activities of the corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and the corporation shall not participate in, or intervene in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office except as authorized under the Internal Revenue Code; and

(iii) notwithstanding any other provisions of these articles, the corporation shall not carry on any other activities not permitted to be carried on either by a corporation exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1954, or by a corporation, contributions to which are deductible under Section 170(c)(2) of the Internal Revenue Code of 1954.

"(4) The term for which the corporation is to exist is perpetual.

"(5) The corporation is organized upon a nonstock basis.

"(6) The corporation shall have no members.

"(7) Management of the affairs of the corporation shall be vested in a Board of Directors who, except as otherwise provided by law or by the corporation's by-laws, shall have and exercise full power and authority to do all things deemed necessary, expedient, and in the best interests of the corporation.

"(8) In the event that the corporation shall be dissolved or wound up at any time, then all of the properties, monies, and assets of the corporation remaining after provision has been made for payment of its known debts and liabilities as provided by law, shall be transferred exclusively to and become the property of Suburban General Hospital or, in the event that Suburban General Hospital no longer exists or no longer qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954, to such non-profit funds, foundations, or corporations as are selected and designated by the Board of Directors of the corporation, and which shall at that time qualify as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code of 1954. Any such assets not so disposed of shall be disposed of by a court of competent jurisdiction, exclusively for such exempt purposes or to such organization or organizations, as said court shall determine, which are organized and operated exclusively for such exempt purposes. No private individual shall share in the distribution of any corporate assets upon dissolution of the corporation.

"(9) References in these articles of incorporation to a section of the Internal Revenue Code of 1954 shall be construed to refer both to such section and to the regulations promulgated thereunder, as they now exist or may hereafter be amended in this or in subsequent internal revenue laws of the United States."

9. As of the Effective Date, the sum of \$100,000 shall be taken from the assets of the Suburban General Hospital and deemed, without further action, to be vested in the Suburban Health Corporation. Suburban Health Corporation shall assume no liabilities of Suburban General Hospital.

10. The members of the initial Board of Directors of the Suburban Health Corporation, and the expiration of their respective terms of office, shall be as follows:

<u>Name</u>	<u>Expiration of Term</u>
(a) Robert C. Bacher	1984
John Corcoran	1984
Hon. William S. Rahauser	1984
(b) William S. Hansen	1985
J. Lawrence McBride	1985
John B. Mallon	1985
(c) Curtis E. Jones	1986
John F. Marshall	1986
James W. Knox	1986

11. Upon the Effective Date there shall also be formed, pursuant to the Plan, Suburban Health Foundation, a non-profit corporation, and the articles of which shall be as follows:

"(1) The name of the corporation is the Suburban Health Foundation.

"(2) The location and post office address of the registered office of the corporation in this Commonwealth is South Jackson Street, Pittsburgh, Pennsylvania 15202.

"(3) The corporation is incorporated under the Pennsylvania Nonprofit Corporation Law of 1972, Act of November 15, 1972, P.L. 1063, No. 271 (15 Pa. C.S.A. §7301, et seq.), and the purposes for which the corporation is organized are exclusively charitable, scientific or educational within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1954 and, in furtherance of these purposes, the corporation may:

(a) promote, by donation, loan or otherwise, the interests of the following organizations: itself, Suburban General Hospital and other organizations, affiliated with Suburban General Hospital, which are described in Section 501(c)(3) of the Internal Revenue Code of 1954 and in Section 509(a)(1) or 509(a)(2) thereof;

(b) in support of one or more of the corporations described in (a) above, to purchase and hold improved or unimproved real estate to be utilized or held for future expansion;

(c) in support of one or more of the corporations described in (a) above, to assist in the advancement of medical research and investigation and in the improvement of medical teaching facilities and methods;

(d) in support of one or more of the corporations described in (a) above, to provide funds to further the erection, establishment, organization, equipment, operation, management and maintenance of hospital facilities for the treatment of those who are sick, infirm or in any way afflicted with disease, including the promotion and advancement of medical aid, medical research, standards of medical care and health as well as to develop improved methods of health care service delivery and methods to contain the costs thereof;

(e) in support of one or more of the corporations described in (a) above, to solicit and receive contributions from whatever sources, whether unrestricted or for designated purposes and hold the same for such designated purposes or subject to any conditions specified in the terms of the gift or grant;

(f) otherwise operate exclusively for charitable, scientific or educational purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1954 in the course of which operation:

- 210 601

(i) no part of the net earnings of the corporation shall inure to the benefit of, or be distributable to its directors, officers, or other persons, except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein;

(ii) no substantial part of the activities of the corporation shall be the carrying on of propaganda, or otherwise attempting to influence legislation, and the corporation shall not participate in, or intervene in (including the publishing or distribution of statements) any political campaign on behalf of any candidate for public office except as authorized under the Internal Revenue Code; and

(iii) notwithstanding any other provisions of these articles, the corporation shall not carry on any other activities not permitted to be carried on either by a corporation exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code of 1954, or by a corporation, contributions to which are deductible under Section 170(c)(2) of the Internal Revenue Code of 1954.

"(4) The term for which the corporation is to exist is perpetual.

"(5) The corporation is organized upon a nonstock basis.

"(6) The corporation shall have no members.

"(7) The business, property and affairs of the corporation shall be managed and controlled by its Board of Directors. All elections of the corporation's Board of Directors shall be by the affirmative vote of a majority of the members of the Board of Directors of Suburban Health Corporation present and voting at a duly called meeting of the Suburban Health Corporation at which a quorum was present.

"(8) In the event that the corporation shall be dissolved or wound up at any time, then all of the properties, monies, and assets of the corporation remaining after provision has been made for payment of its known debts and liabilities as provided by law, shall be transferred exclusively to and become the property of the Suburban Health Corporation or in the event that the Suburban Health Corporation no longer exists or no longer qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954, then to the Suburban General Hospital, or in the event that the Suburban General Hospital no longer exists or no longer qualifies as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1954, then to such non-profit funds, foundations, or corporations as are selected and designated by the Board of Directors of the corporation, and which shall at that time qualify as an exempt organization or organizations under Section 501(c)(3) of the Internal Revenue Code of 1954. Any such assets not so disposed of shall be disposed of by a court of competent jurisdiction, exclusively for such exempt purposes or to such organization or organizations, as said court shall determine, which are organized and operated exclusively for such exempt purposes. No private individual shall share in the distribution of any corporate assets upon dissolution of the corporation.

"(9) References in these articles of incorporation to a section of the Internal Revenue Code of 1954 shall be construed to refer both to such section and to the regulations promulgated thereunder, as they now exist or may hereafter be amended in this or in subsequent internal revenue laws of the United States."

12. As of the Effective Date, the sum of \$150,000 from the general account and \$3,000,000 from the funded depreciation account, shall be taken from the assets of Suburban General Hospital and deemed, without further action, to be transferred to and vested in the Suburban Health Foundation. Suburban Health

Foundation shall assume no liabilities of Suburban General Hospital.

13. The members of the initial Board of Directors of the Suburban Health Foundation, and the expiration of their respective terms of office, shall be as follows:

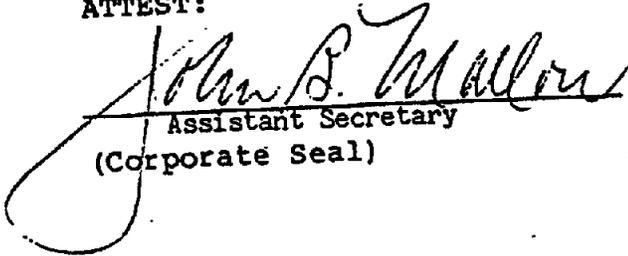
<u>Name</u>	<u>Expiration of Term</u>
(a) John Corcoran	1984
James W. Knox	1984
T. Ewing Thompson, M.D.	1984
(b) Donald Y. Clem	1985
Donald C. Korb	1985
Curtis E. Jones	1985
Richard Merk	1985

14. The Board of Directors of the Suburban General Hospital, on February 28, 1984, at a meeting thereof, duly called and convened and at which a quorum was present and voting throughout, approved this Plan of Division by resolution of a majority of those present.

15. This Plan may be amended or terminated and the division abandoned by action of the Board of Directors of the Suburban General Hospital or by action of the Executive Committee of the Board of Directors of the Suburban General Hospital at any time before the approval of the transfer to be made pursuant to this Plan of Division by the Orphans' Court Division of the Court of Common Pleas of Allegheny County, Pennsylvania, notwithstanding adoption of this Plan by the Board of Directors of the Suburban General Hospital.

WITNESS the due execution hereof this 26th day
of June, 1984.

ATTEST:


Assistant Secretary
(Corporate Seal)

SUBURBAN GENERAL HOSPITAL

BY 
President

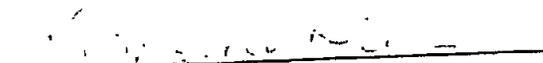
EXHIBIT B
SUBURBAN HEALTH FOUNDATION

FORM 1023

BYLAWS

The undersigned hereby certifies that the attached is a true
and correct copy of the Bylaws of Suburban Health Foundation.

Date:



Attorney For
Suburban Health Foundation

WPAHS-001953

EXHIBIT C

Suburban Health Foundation

Part III, Question 3, Form 1023

Suburban General Hospital is a Pennsylvania nonprofit corporation, incorporated under authority of the Act of April 29, 1874. The address of the Hospital is South Jackson Street, Pittsburgh, Pennsylvania 15202. The Hospital owns and operates a general hospital facility in the City of Pittsburgh, Allegheny County, Pennsylvania.

On February 28, 1984, the Hospital's Board of Directors at a duly called and convened meeting thereof, at which a quorum was present and voting throughout, approved a Plan of Division (the "Plan") in accordance with the provisions of Section 7942 of the Pennsylvania Corporation Not-for-profit Code. The Plan was adopted by the Hospital's Board for the purpose of implementing a corporate reorganization of the Hospital.

The Plan was reviewed and approved by the Orphans' Court Division of the Court of Common Pleas of Allegheny County, after giving proper notice to the office of the Pennsylvania Attorney General. The principal purpose of this review was to establish that the various transfers of assets set forth in the Plan did not result in a diversion of such assets from the charitable purposes to which they were devoted.

The Plan preserved the existence of the Hospital and created two new corporations. These two new corporations, Suburban Health Corporation (the "Health Corporation") and Suburban Health Foundation (the "Foundation") are each Pennsylvania nonprofit corporations. After the Plan became effective, a for-profit corporation, Suburban General Service Corporation, was formed pursuant to the provisions of the Pennsylvania Business Corporation Law, 15 Pa. C.S §1202 et seq. All of the issued and outstanding shares of capital stock of Suburban General Service Corporation is owned by the Health Corporation.

The Hospital is described in Internal Revenue Code ("Code") section 501(c)(3), is exempt from Federal income tax under section 501(a), and is other than a private foundation pursuant to Code sections 509(a)(1) and 170(b)(1)(A)(iii). The

Health Corporation is applying for and reasonably expects to obtain recognition as an organization described in Code section 501(c)(3), exempt from Federal income tax under Code section 501(a), and other than a private foundation pursuant to Code section 509(a)(1) and 170(b)(1)(A)(vi). The Foundation, by this Application seeks to obtain recognition as an organization described in Code section 501(c)(3), exempt from Federal income tax under section 501(a), and other than a private foundation pursuant to Code section 509(a)(3). Suburban General Service Corporation is a taxable corporation for Federal income tax purposes.

The Health Corporation serves as the parent corporation in the Health Care System and provides overall direction and control to all entities within the System. The Health Corporation will establish and monitor a System-wide strategic planning process; establish System-wide budgeting guidelines and operating objectives; formulate relationships within the System; evaluate, on a System-wide basis, long-range considerations of programs and capital investments; represent the structure before governmental, industry, and citizen groups; and engage in fund-raising on behalf of the System. In addition, the Parent will provide essential management services to the other corporations in the Health Care System. These services may include financial and personnel services, executive management, and asset management. Services to Suburban General Service Corporation will be at fair market rates.

The Health Corporation has certain powers conferred upon it by the bylaws of the Hospital and the Foundation, including the power:

- (a) to appoint the governing boards (other than the initial governing boards);
- (b) to remove any director or trustee at any time with or without cause;
- (c) to approve any changes in the articles of incorporation or by-laws;
- (d) to approve the appointment of top level management;
- (e) to approve strategic plans;
- (f) to approve annual operating and capital budgets;

(g) to approve certain unbudgeted business expenditures; and

(h) to approve any other action of any such corporation which is not in the ordinary course of such corporation's business.

The Foundation seeks recognition as an organization other than a private foundation by virtue of being controlled by the Health Corporation and organized and operated for the benefit of the Health Corporation and the Hospital, and thus described by Code section 509(a)(3). See Treas. Reg. §1.509(a)-4(g)(1)(ii). The Foundation currently manages the investment of approximately 3 million dollars (\$3,000,000) worth of securities and other property transferred from the Hospital to and vested in the Foundation pursuant to the Plan. In addition, the Foundation will manage the investment of (1) those net revenues of the Health Care System transferred by the Health Corporation to the Foundation, (2) those gifts, grants and donations received as a result of fund-raising activities conducted by the Foundation on behalf of the System, and (3) those gifts, grants and donations received by the Health Corporation, as a result of the fund-raising it conducts on behalf of the Hospital, and transferred to the Foundation. The Foundation will also engage in fund-raising activities on behalf of the System. These activities are exempt functions which, historically, have been performed by the Hospital.

EXHIBIT D
SUBURBAN HEALTH FOUNDATION

BOARD OF DIRECTORS AND OFFICERS

EXHIBIT E

SUBURBAN HEALTH FOUNDATION

Form 1023 - Application for Recognition of Exemption

PROPOSED BUDGETS

	<u>1st Year</u> <u>(1984-1985)</u>	<u>2d Year</u> <u>(1985-1986)</u>
<u>Income</u>		
1. Gross contributions, gifts, grants	\$350,000	\$ _____
2. Investment Income	_____	_____
TOTAL		
<u>Expenses</u>		
1. Fund-raising expenses:	\$ 75,000	\$ _____
2. Salaries:	49,000	52,000
3. Benefits:	10,293	11,200
4. Office Expense:	3,000	6,000
5. Printing Expense:	10,000	25,000
6. Consulting Fees:	<u>-0-</u>	<u>5,000</u>
TOTAL	\$147,293	\$ _____

SUBURBAN HEALTH FOUNDATION

SCHEDULE

Part V - Financial Data

Item 25 Other Investments - Certificates of Deposit and other securities.

Item 28 Other Assets - Accrued Interest Income.

Part VIII.—Basis for Status as a Private Operating Foundation

If the organization—

- (a) bases its claim to private operating foundation status on normal and regular operations over a period of years; or
 - (b) is newly created, set up as a private operating foundation, and has at least one year's experience;
- provide the information under the income test and under one of the three supplemental tests (assets, endowment, or support). If the organization does not have at least one year's experience, complete line 21. If the organization's private operating foundation status depends on its normal and regular operations as described in (a) above, attach a schedule similar to the one below showing the data in tabular form for the three years next preceding the most recent tax year.

	Most recent tax year
Income Test	
1 Adjusted net income, as defined in section 4942(f)	
2 Qualifying distributions:	
(a) Amounts (including administrative expenses) paid directly for the active conduct of the activities for which organized and operated under section 501(c)(3) (attach schedule)	
(b) Amounts paid to acquire assets to be used (or held for use) directly in carrying out purposes described in sections 170(c)(1) or 170(c)(2)(B) (attach schedule)	
(c) Amounts set aside for specific projects which are for purposes described in section 170(c)(1) or 170(c)(2)(B) (attach schedule)	
(d) Total qualifying distributions (add lines 2(a), (b), and (c))	
3 Percentage of qualifying distributions to adjusted net income (divide line 2(d) by line 1—percentage must be at least 85%)	%
Assets Test	
4 Value of organization's assets used in activities that directly carry out the exempt purposes. Do not include assets held merely for investment or production of income (attach schedule)	
5 Value of any stock of a corporation that is controlled by applicant organization and carries out its exempt purposes (attach statement describing corporation)	
6 Value of all qualifying assets (add lines 4 and 5)	
7 Value of applicant organization's total assets	
8 Percentage of qualifying assets to total assets (divide line 6 by line 7—percentage must exceed 65%)	%
Endowment Test	
9 Value of assets not used (or held for use) directly in carrying out exempt purposes:	
(a) Monthly average of investment securities at fair market value	
(b) Monthly average of cash balances	
(c) Fair market value of all other investment property (attach schedule)	
(d) Total (add lines 9(a), (b), and (c))	
10 Subtract acquisition indebtedness related to line 9 items (attach schedule)	
11 Balance (subtract line 10 from line 9(d))	
12 For years beginning on or after January 1, 1976, multiply line 11 by a factor of 3 1/3 % (2/3 of the applicable percentage for the minimum investment return computation under section 4942(e)). Line 2(d) above must equal or exceed the result of this computation	
Support Test	
13 Applicant organization's support as defined in section 509(d)	
14 Subtract amount of gross investment income as defined in section 509(e)	
15 Support for purposes of section 4942(j)(3)(B)(iii) (subtract line 14 from line 13)	
16 Support received from the general public, five or more exempt organizations, or a combination of these sources (attach schedule)	
17 For persons (other than exempt organizations) contributing more than 1% of line 15, enter the total amounts that are more than 1% of line 15	
18 Subtract line 17 from line 16	
19 Percentage of total support (divide line 18 by line 15—must be at least 85%)	
20 Does line 16 include support from an exempt organization that is more than 25% of the amount on line 15? <input type="checkbox"/> Yes <input type="checkbox"/> No	
21 Newly created organizations with less than one year's experience: Attach a statement explaining how the organization is planning to satisfy the requirements of section 4942(j)(3) for the income test and one of the supplemental tests during its first year's operation. Include a description of plans and arrangements, press clippings, public announcements, solicitations for funds, etc.	

Part VII.—Non-Private Foundation Status (Definitive ruling only)

A.—Basis for Non-Private Foundation Status

The organization is not a private foundation because it qualifies as:

<input type="checkbox"/>	Kind of organization	Within the meaning of	Complete
<input type="checkbox"/>	1 a church	Sections 509(a)(1) and 170(b)(1)(A)(i)	<input type="checkbox"/>
<input type="checkbox"/>	2 a school	Sections 509(a)(1) and 170(b)(1)(A)(ii)	<input type="checkbox"/>
<input type="checkbox"/>	3 a hospital	Sections 509(a)(1) and 170(b)(1)(A)(iii)	<input type="checkbox"/>
<input type="checkbox"/>	4 a medical research organization operated in conjunction with a hospital	Sections 509(a)(1) and 170(b)(1)(A)(iii)	<input type="checkbox"/>
<input type="checkbox"/>	5 being organized and operated exclusively for testing for public safety	Section 509(a)(4)	<input type="checkbox"/>
<input type="checkbox"/>	6 being operated for the benefit of a college or university which is owned or operated by a governmental unit	Sections 509(a)(1) and 170(b)(1)(A)(iv)	Part VII.—B
<input type="checkbox"/>	7 normally receiving a substantial part of its support from a governmental unit or from the general public	Sections 509(a)(1) and 170(b)(1)(A)(vi)	Part VII.—B
<input type="checkbox"/>	8 normally receiving not more than one-third of its support from gross investment income and more than one-third of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions (subject to certain exceptions)	Section 509(a)(2)	Part VII.—B
<input checked="" type="checkbox"/>	9 being operated solely for the benefit of or in connection with one or more of the organizations described in 1 through 4, or 6, 7, and 8 above	Section 509(a)(3)	Part VII.—C

B.—Analysis of Financial Support

	(a) Most recent tax year	(Years next preceding most recent tax year)			(e) Total
	19.....	(b) 19.....	(c) 19.....	(d) 19.....	
1 Gifts, grants, and contributions received					
2 Membership fees received					
3 Gross receipts from admissions, sales of merchandise or services, or furnishing of facilities in any activity which is not an unrelated business within the meaning of section 513					
4 Gross investment income (see instructions for definition)					
5 Net income from organization's unrelated business activities not included on line 4					
6 Tax revenues levied for and either paid to or spent on behalf of the organization					
7 Value of services or facilities furnished by a governmental unit to the organization without charge (not including the value of services or facilities generally furnished the public without charge)					
8 Other income (not including gain or loss from sale of capital assets)—attach schedule					
9 Total of lines 1 through 8					
10 Line 9 minus line 3					
11 Enter 2% of line 10, column (e) only					

12 If the organization has received any unusual grants during any of the above tax years, attach a list for each year showing the name of the contributor, the date and amount of grant, and a brief description of the nature of such grant. Do not include such grants on line 1 above—(See instructions).

Part III.—Activities and Operational Information (Continued)

8. (b) Have the recipients been required or will they be required to pay for the organization's benefits, services, or products? Yes No
If "Yes," explain and show how the charges are determined. Health Care System members, may be required to pay for services at fair market rates.

9 Does or will the organization limit its benefits, services, or products to specific classes of individuals? Yes No
If "Yes," explain how the recipients or beneficiaries are or will be selected.
Services will be limited to members of the Health Care System.

10 Is the organization a membership organization? Yes No
If "Yes," complete the following:
(a) Describe the organization's membership requirements and attach a schedule of membership fees and dues.
(b) Describe your present and proposed efforts to attract members, and attach a copy of any descriptive literature or promotional material used for this purpose.
(c) Are benefits, services, or products limited to members? Yes No
If "No," explain.

11 Does or will the organization engage in activities tending to influence legislation or intervene in any way in political campaigns? Yes No
If "Yes," explain. (Note: You may wish to file Form 5768, Election/Revocation of Election by an Eligible Section 501(c)(3) Organization to Make Expenditures to Influence Legislation.)

12 Does the organization have a pension plan for employees? [not currently] Yes No

13 (a) Are you filing Form 1023 within 15 months from the end of the month in which you were created or formed as required by section 508(a) and the related Regulations? (See general instructions.) Yes No
(b) If you answer "No," to 13(a) and you claim that you fit an exception to the notice requirements under section 508(a), attach an explanation of your basis for the claimed exception.
(c) If you answer "No," to 13(a) and section 508(a) does apply to you, you may be eligible for relief under section 1.9100 of the Income Tax Regulations from the application of section 508(a). Do you wish to request relief? Yes No
(d) If you answer "Yes," to 13(c) attach a detailed statement that satisfies the requirements of Rev. Proc. 79-63.
(e) If you answer "No," to both 13(a) and 13(c) and section 508(a) does apply to you, your exemption can be recognized only from the date this application is filed with your key District Director. Therefore, do you want us to consider your application as a request for recognition of exemption from the date the application is received and not retroactively to the date you were formed? Yes No

Part IV.—Statement as to Private Foundation Status

1 Is the organization a private foundation? Yes No
2 If you answer "Yes," to question 1 and the organization claims to be a private operating foundation, check here and complete Part VIII.
3 If you answer "No," to question 1 indicate the type of ruling you are requesting regarding the organization's status under section 509 by checking the box(es) that apply below:
(a) Definitive ruling under section 509(a)(1), (2), (3), or (4) . Complete Part VII.
(b) Advance ruling under section 170(b)(1)(A)(vi) or 509(a)(2)—see instructions.
(c) Extended advance ruling under section 170(b)(1)(A)(vi) or 509(a)(2)—see instructions.
(Note: If you want an extended advance ruling you must check the appropriate boxes for both 3(b) and 3(c).)

Part III.—Activities and Operational Information (Continued)

3 Give a narrative description of the activities presently carried on by the organization, and those that will be carried on. If the organization is not fully operational, explain what stage of development its activities have reached, what further steps remain for the organization to become fully operational, and when such further steps will take place. The narrative should specifically identify the services performed or to be performed by the organization. (Do not state the purposes of the organization in general terms or repeat the language of the organizational documents.) If the organization is a school, hospital, or medical research organization, include enough information in your description to clearly show that the organization meets the definition of that particular activity that is contained in the instructions for Part VII-A.

See Exhibit C attached hereto and made a part hereof.

4 The membership of the organization's governing body is:

(a) Names, addresses, and duties of officers, directors, trustees, etc.	(b) Specialized knowledge, training, expertise, or particular qualifications
See Exhibit D attached hereto and made a part hereof.	

Document Divider

Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code

OMB No. 1545-0056
 Note: If exempt status is approved, this application will be open for public inspection.

Read the instructions for each Part carefully.
 A User Fee must be attached to this application.
 If the required information and appropriate documents are not submitted along with Form 8718 (with payment of the appropriate user fee), the application may be returned to you.
 Complete the Procedural Checklist on page 8 of the instructions.

Part I Identification of Applicant

<p>1a Full name of organization (as shown in organizing document) AUMC Cahnonsburg Ambulance Service, Inc.</p>	<p>2 Employer identification number (EIN) (if none, see page 3 of the Specific Instructions.) 23 2939715</p>
<p>1b c/o Name (if applicable) Andrew E. Thurman, Esq.</p>	<p>3 Name and telephone number of person to be contacted if additional information is needed Andrew E. Thurman (412) 359-6746</p>
<p>1c Address (number and street) 320 East North Avenue</p>	<p>4 Month the annual accounting period ends 6</p>
<p>1d City, town, or post office, state, and ZIP + 4. If you have a foreign address, see Specific Instructions for Part I, page 3. Pittsburgh, PA 15212</p>	<p>5 Date incorporated or formed March 5, 1998</p>
<p>1e Web site address N/A</p>	<p>6 Check here if applying under section: a <input type="checkbox"/> 501(e) b <input type="checkbox"/> 501(f) c <input type="checkbox"/> 501(k) d <input type="checkbox"/> 501(n)</p>

- 7** Did the organization previously apply for recognition of exemption under this Code section or under any other section of the Code? Yes No
 If "Yes," attach an explanation.
- 8** Is the organization required to file Form 990 (or Form 990-EZ)? N/A Yes No
 If "No," attach an explanation (see page 3 of the Specific Instructions).
- 9** Has the organization filed Federal income tax returns or exempt organization information returns? . . . Yes No
 If "Yes," state the form numbers, years filed, and Internal Revenue office where filed.

Initial return will be filed on or about May 15, 1999.

10 Check the box for the type of organization. ATTACH A CONFORMED COPY OF THE CORRESPONDING ORGANIZING DOCUMENTS TO THE APPLICATION BEFORE MAILING. (See Specific Instructions for Part I, Line 10, on page 3.) See also Pub. 557 for examples of organizational documents.)

- a Corporation—Attach a copy of the Articles of Incorporation (including amendments and restatements) showing approval by the appropriate state official; also include a copy of the bylaws.
- b Trust— Attach a copy of the Trust Indenture or Agreement, including all appropriate signatures and dates.
- c Association— Attach a copy of the Articles of Association, Constitution, or other creating document, with a declaration (see instructions) or other evidence the organization was formed by adoption of the document by more than one person; also include a copy of the bylaws.

If the organization is a corporation or an unincorporated association that has not yet adopted bylaws, check here

I declare under the penalties of perjury that I am authorized to sign this application on behalf of the above organization and that I have examined this application, including the accompanying schedules and attachments, and to the best of my knowledge it is true, correct, and complete.

Please Sign Here (Signature) Andrew E. Thurman (Type or print name and title or authority of signer) 4/23/99 (Date)

For Paperwork Reduction Act Notice, see page 7 of the instructions.

Part II Activities and Operational Information

- 1 Provide a detailed narrative description of all the activities of the organization—past, present, and planned. Do not merely refer to or repeat the language in the organizational document. List each activity separately in the order of importance based on the relative time and other resources devoted to the activity. Indicate the percentage of time for each activity. Each description should include, as a minimum, the following: (a) a detailed description of the activity including its purpose and how each activity furthers your exempt purpose; (b) when the activity was or will be initiated; and (c) where and by whom the activity will be conducted.

See Attachment II-1

-
- 2 What are or will be the organization's sources of financial support? List in order of size.

fees for services provided

-
- 3 Describe the organization's fundraising program, both actual and planned, and explain to what extent it has been put into effect. Include details of fundraising activities such as selective mailings, formation of fundraising committees, use of volunteers or professional fundraisers, etc. Attach representative copies of solicitations for financial support.

N/A

Part II Activities and Operational Information (Continued)

4 Give the following information about the organization's governing body:	b Annual compensation
a Names, addresses, and titles of officers, directors, trustees, etc. Barry H. Roth, President & CEO, AUMC, 500 Finley Street, Pittsburgh, PA 15206	-0-
Barbara Bensaia, President & CEO, AUH-Canonsburg, 199 Medical Boulevard, Canonsburg, PA 15317	-0-
Andrew E. Thurman, Deputy General Counsel, AUH-West, 320 East North Avenue, Pittsburgh, PA 15212	-0-

c Do any of the above persons serve as members of the governing body by reason of being public officials or being appointed by public officials? Yes No
 If "Yes," name those persons and explain the basis of their selection or appointment.

d Are any members of the organization's governing body "disqualified persons" with respect to the organization (other than by reason of being a member of the governing body) or do any of the members have either a business or family relationship with "disqualified persons"? (See Specific Instructions for Part II, Line 4d, on page 3.) Yes No
 If "Yes," explain.

5 Does the organization control or is it controlled by any other organization? Yes No
 Is the organization the outgrowth of (or successor to) another organization, or does it have a special relationship with another organization by reason of interlocking directorates or other factors? Yes No
 If either of these questions is answered "Yes," explain.

See Attachment II-5

6 Does or will the organization directly or indirectly engage in any of the following transactions with any political organization or other exempt organization (other than a 501(c)(3) organization): (a) grants; (b) purchases or sales of assets; (c) rental of facilities or equipment; (d) loans or loan guarantees; (e) reimbursement arrangements; (f) performance of services, membership, or fundraising solicitations; or (g) sharing of facilities, equipment, mailing lists or other assets, or paid employees? Yes No
 If "Yes," explain fully and identify the other organizations involved.

7 Is the organization financially accountable to any other organization? Yes No
 If "Yes," explain and identify the other organization. Include details concerning accountability or attach copies of reports if any have been submitted.

See Attachment II-5

Part II Activities and Operational Information (Continued)

8 What assets does the organization have that are used in the performance of its exempt function? (Do not include property producing investment income.) If any assets are not fully operational, explain their status, what additional steps remain to be completed, and when such final steps will be taken. If none, indicate "N/A."
Ambulances and a leasehold interest in a garage and dispatch facility.

9 Will the organization be the beneficiary of tax-exempt bond financing within the next 2 years? Yes No

10a Will any of the organization's facilities or operations be managed by another organization or individual under a contractual agreement? Yes No
b Is the organization a party to any leases? Yes No
If either of these questions is answered "Yes," attach a copy of the contracts and explain the relationship between the applicant and the other parties.
See Attachment II-10

11 Is the organization a membership organization? Yes No
If "Yes," complete the following:
a Describe the organization's membership requirements and attach a schedule of membership fees and dues. Anyone within the service area can be a member.

b Describe the organization's present and proposed efforts to attract members and attach a copy of any descriptive literature or promotional material used for this purpose. N/A

c What benefits do (or will) the members receive in exchange for their payment of dues?
Ambulance service without charge.

12a If the organization provides benefits, services, or products, are the recipients required, or will they be required, to pay for them? N/A Yes No
If "Yes," explain how the charges are determined and attach a copy of the current fee schedule.
See Attachment II-12a

b Does or will the organization limit its benefits, services, or products to specific individuals or classes of individuals? N/A Yes No
If "Yes," explain how the recipients or beneficiaries are or will be selected.

13 Does or will the organization attempt to influence legislation? Yes No
If "Yes," explain. Also, give an estimate of the percentage of the organization's time and funds that it devotes or plans to devote to this activity.

14 Does or will the organization intervene in any way in political campaigns, including the publication or distribution of statements? Yes No
If "Yes," explain fully.

Part III Technical Requirements

1 Are you filing Form 1023 within 15 months from the end of the month in which your organization was created or formed? Yes No
If you answer "Yes," do not answer questions on lines 2 through 6 below.

2 If one of the exceptions to the 15-month filing requirement shown below applies, check the appropriate box and proceed to question 7.
Exceptions—You are not required to file an exemption application within 15 months if the organization:

- a Is a church, interchurch organization of local units of a church, a convention or association of churches, or an integrated auxiliary of a church. See Specific Instructions, Line 2a, on page 4;
- b Is not a private foundation and normally has gross receipts of not more than \$5,000 in each tax year; or
- c Is a subordinate organization covered by a group exemption letter, but only if the parent or supervisory organization timely submitted a notice covering the subordinate.

3 If the organization does not meet any of the exceptions on line 2 above, are you filing Form 1023 within 27 months from the end of the month in which the organization was created or formed? Yes No
If "Yes," your organization qualifies under Regulation section 301.9100-2, for an automatic 12-month extension of the 15-month filing requirement. Do not answer questions 4 through 6.
If "No," answer question 4.

4 If you answer "No" to question 3, does the organization wish to request an extension of time to apply under the "reasonable action and good faith" and the "no prejudice to the interest of the government" requirements of Regulations section 301.9100-3? Yes No
If "Yes," give the reasons for not filing this application within the 27-month period described in question 3. See Specific Instructions, Part III, Line 4, before completing this item. Do not answer questions 5 and 6.
If "No," answer questions 5 and 6.

5 If you answer "No" to question 4, your organization's qualification as a section 501(c)(3) organization can be recognized only from the date this application is filed. Therefore, do you want us to consider the application as a request for recognition of exemption as a section 501(c)(3) organization from the date the application is received and not retroactively to the date the organization was created or formed? Yes No

6 If you answer "Yes" to question 5 above and wish to request recognition of section 501(c)(4) status for the period beginning with the date the organization was formed and ending with the date the Form 1023 application was received (the effective date of the organization's section 501(c)(3) status), check here and attach a completed page 1 of Form 1024 to this application.

Part III Technical Requirements (Continued)

7 Is the organization a private foundation?

- Yes (Answer question 8.)
 No (Answer question 9 and proceed as instructed.)

8 If you answer "Yes" to question 7, does the organization claim to be a private operating foundation?

- Yes (Complete Schedule E.)
 No

After answering question 8 on this line, go to line 14 on page 7.

9 If you answer "No" to question 7, indicate the public charity classification the organization is requesting by checking the box below that most appropriately applies:

THE ORGANIZATION IS NOT A PRIVATE FOUNDATION BECAUSE IT QUALIFIES:

- | | | |
|---|---|--|
| a | <input type="checkbox"/> As a church or a convention or association of churches (CHURCHES MUST COMPLETE SCHEDULE A.) | Sections 509(a)(1) and 170(b)(1)(A)(i) |
| b | <input type="checkbox"/> As a school (MUST COMPLETE SCHEDULE B.) | Sections 509(a)(1) and 170(b)(1)(A)(ii) |
| c | <input type="checkbox"/> As a hospital or a cooperative hospital service organization, or a medical research organization operated in conjunction with a hospital (These organizations, except for hospital service organizations, MUST COMPLETE SCHEDULE C.) | Sections 509(a)(1) and 170(b)(1)(A)(iii) |
| d | <input type="checkbox"/> As a governmental unit described in section 170(c)(1). | Sections 509(a)(1) and 170(b)(1)(A)(iv) |
| e | <input type="checkbox"/> As being operated solely for the benefit of, or in connection with, one or more of the organizations described in a through d, g, h, or i (MUST COMPLETE SCHEDULE D.) | Section 509(a)(3) |
| f | <input type="checkbox"/> As being organized and operated exclusively for testing for public safety. | Section 509(a)(4) |
| g | <input type="checkbox"/> As being operated for the benefit of a college or university that is owned or operated by a governmental unit. | Sections 509(a)(1) and 170(b)(1)(A)(iv) |
| h | <input type="checkbox"/> As receiving a substantial part of its support in the form of contributions from publicly supported organizations, from a governmental unit, or from the general public. | Sections 509(a)(1) and 170(b)(1)(A)(vi) |
| i | <input checked="" type="checkbox"/> As normally receiving not more than one-third of its support from gross investment income and more than one-third of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions (subject to certain exceptions). | Section 509(a)(2) |
| j | <input type="checkbox"/> The organization is a publicly supported organization but is not sure whether it meets the public support test of h or i. The organization would like the IRS to decide the proper classification. | Sections 509(a)(1) and 170(b)(1)(A)(vi) or Section 509(a)(2) |

If you checked one of the boxes a through f in question 9, go to question 14. If you checked box g in question 9, go to questions 11 and 12. If you checked box h, i, or j, in question 9, go to question 10.

Part III Technical Requirements (Continued)

- 10 If you checked box h, i, or j in question 9, has the organization completed a tax year of at least 8 months?
- Yes—Indicate whether you are requesting:
 - A definitive ruling. (Answer questions 11 through 14.)
 - An advance ruling. (Answer questions 11 and 14 and attach two Forms 872-C completed and signed.)
 - No—You must request an advance ruling by completing and signing two Forms 872-C and attaching them to the Form 1023.
- 11 If the organization received any unusual grants during any of the tax years shown in Part IV-A, Statement of Revenue and Expenses, attach a list for each year showing the name of the contributor; the date and the amount of the grant; and a brief description of the nature of the grant.

12 If you are requesting a definitive ruling under section 170(b)(1)(A)(v) or (vi), check here and:

- a Enter 2% of line 8, column (e), Total, of Part IV-A
- b Attach a list showing the name and amount contributed by each person (other than a governmental unit or "publicly supported" organization) whose total gifts, grants, contributions, etc., were more than the amount entered on line 12a above.

13 If you are requesting a definitive ruling under section 509(a)(2), check here and:

- a For each of the years included on lines 1, 2, and 9 of Part IV-A, attach a list showing the name of and amount received from each "disqualified person." (For a definition of "disqualified person," see Specific Instructions, Part II, Line 4d, on page 3.)
- b For each of the years included on line 9 of Part IV-A, attach a list showing the name of and amount received from each payer (other than a "disqualified person") whose payments to the organization were more than \$5,000. For this purpose, "payer" includes, but is not limited to, any organization described in sections 170(b)(1)(A)(i) through (vi) and any governmental agency or bureau.

14 Indicate if your organization is one of the following. If so, complete the required schedule. (Submit only those schedules that apply to your organization. Do not submit blank schedules.)

	Yes	No	If "Yes," complete Schedule:
Is the organization a church?			A
Is the organization, or any part of it, a school?			B
Is the organization, or any part of it, a hospital or medical research organization?			C
Is the organization, or any part of it, a hospital or medical research organization?			D
Is the organization a section 509(a)(3) supporting organization?			E
Is the organization a private operating foundation?			F
Is the organization, or any part of it, a home for the aged or handicapped?			G
Is the organization, or any part of it, a child care organization?			H
Does the organization provide or administer any scholarship benefits, student aid, etc.?			I
Has the organization taken over, or will it take over, the facilities of a "for profit" institution? . . .			

Part IV Financial Data

See Attachment IV-1

Complete the financial statements for the current year and for each of the 3 years immediately before it. If in existence less than 4 years, complete the statements for each year in existence. If in existence less than 1 year, also provide proposed budgets for the 2 years following the current year.

A. Statement of Revenue and Expenses

	Current tax year	3 prior tax years or proposed budget for 2 years			(e) TOTAL
		(a) From _____ to	(b) _____	(c) _____	
Revenue					
1 Gifts, grants, and contributions received (not including unusual grants—see page 6 of the instructions).					
2 Membership fees received					
3 Gross investment income (see instructions for definition)					
4 Net income from organization's unrelated business activities not included on line 3.					
5 Tax revenues levied for and either paid to or spent on behalf of the organization					
6 Value of services or facilities furnished by a governmental unit to the organization without charge (not including the value of services or facilities generally furnished the public without charge).					
7 Other income (not including gain or loss from sale of capital assets) (attach schedule)					
8 Total (add lines 1 through 7)					
9 Gross receipts from admissions, sales of merchandise or services, or furnishing of facilities in any activity that is not an unrelated business within the meaning of section 513. Include related cost of sales on line 22.					
10 Total (add lines 8 and 9)					
11 Gain or loss from sale of capital assets (attach schedule).					
12 Unusual grants.					
13 Total revenue (add lines 10 through 12).					
Expenses					
14 Fundraising expenses					
15 Contributions, gifts, grants, and similar amounts paid (attach schedule)					
16 Disbursements to or for benefit of members (attach schedule)					
17 Compensation of officers, directors, and trustees (attach schedule)					
18 Other salaries and wages					
19 Interest					
20 Occupancy (rent, utilities, etc.)					
21 Depreciation and depletion					
22 Other (attach schedule)					
23 Total expenses (add lines 14 through 22).					
Percent of revenue over					

Part IV

Financial Data (Continued)

Current tax year

Date _____

B. Balance Sheet (at the end of the period shown)

Assets

1	Cash	1
2	Accounts receivable, net	2
3	Inventories	3
4	Bonds and notes receivable (attach schedule)	4
5	Corporate stocks (attach schedule)	5
6	Mortgage loans (attach schedule)	6
7	Other investments (attach schedule)	7
8	Depreciable and depletable assets (attach schedule)	8
9	Land	9
10	Other assets (attach schedule)	10
11	Total assets (add lines 1 through 10)	11

Liabilities

12	Accounts payable	12
13	Contributions, gifts, grants, etc., payable	13
14	Mortgages and notes payable (attach schedule)	14
15	Other liabilities (attach schedule)	15
16	Total liabilities (add lines 12 through 15)	16

Fund Balances or Net Assets

17	Total fund balances or net assets	17
18	Total liabilities and fund balances or net assets (add line 16 and line 17)	18

If there has been any substantial change in any aspect of the organization's financial activities since the end of the period shown above, check the box and attach a detailed explanation

9816-723

MAR - 5 1998

Microfilm Number _____ Filed with the Department of State on _____

Entity Number 2803781

[Signature]
Secretary of the Commonwealth

ARTICLES OF INCORPORATION - DOMESTIC NONPROFIT CORPORATION
(DSCB: 15-5306)

In compliance with the requirements of 15 Pa. C.S.A. §5306 (relating to articles of incorporation), the undersigned, desiring to incorporate a nonprofit corporation, hereby state(s) that:

1. The name of the corporation is: **AUMC Canonsburg Ambulance Service, Inc.**
2. The (a) address of this corporation's initial registered office in this Commonwealth or (b) name of its commercial registered office provider and the county of venue is:
 - (a) 120 Fifth Ave., Suite 2900, Pgh. Allegheny County, PA 15222.

ATTENTION: Legal Department

(b) c/o N/A
Name of Commercial Registered Office Provider

For a corporation represented by a commercial registered office provider, the county in (b) shall be deemed the county in which the corporation is located for venue and official publication purposes.

3. The corporation is incorporated under the Nonprofit Corporation Law of 1988 for the following purpose or purposes:

(See attached)

9816-724

DSCB: 15-5306

- 4. The corporation does not contemplate pecuniary gain or profit, incidental or otherwise.
- 5. The corporation is organized upon a nonstock basis.
- 6. (Strike out if inapplicable): ~~The corporation shall have no members.~~
- 7. (Strike out if inapplicable): ~~The incorporators constitute a majority of the members of the committee authorized to incorporate _____ by the requisite vote required by the organic law of the association for the amendment of such organic law.~~
- 8. The name and address, including street and number, if any, of each incorporator is:

Name

Address

Andrew E. Thurman, Esq. 120 Fifth Ave., Suite 2900,
Pgh., Allegheny County, PA 15222

- 9. The specified effective date, if any, is: N/A
Month Day Year Hour,
if any

IN TESTIMONY WHEREOF, the incorporator has signed these Articles of Incorporation this 4th day of March, 1998.

AUMC CANONSBURG AMBULANCE
SERVICE, INC.



Andrew E. Thurman, Esq.
Incorporator

kcs:3/3/98

DSCB: 15-5306

ATTACHMENT TO
ARTICLES OF INCORPORATION
AUMC CANONSBURG AMBULANCE SERVICE, INC.

ARTICLE III

The corporation, which does not contemplate pecuniary gain or profit, incidental or otherwise, is incorporated under the Pennsylvania Nonprofit Corporation Law of 1988. The corporation is incorporated and shall be operated exclusively for charitable, scientific and educational purposes within the meaning of section 501 (c) (3) of the Internal Revenue Code, particularly for the following purposes:

(a) To establish, maintain, operate and support either directly or in cooperation with other organizations, such facilities and services providing health care for the sick, injured, disabled, indigent, or infirm persons and providing for the preservation of health as the Board of Trustees may determine from time to time to be appropriate, including without limitation, community based health care transport services and agencies or facilities providing for persons in their homes; and

(b) To establish, maintain, operate and support either directly, through subsidiary organizations, or in cooperation with other organizations, such activities, services, and facilities as are designed or intended to advance or support provision of health care services, including without limitation, programs involving education, research, and preventive health activity; and

(c) To engage in, promote, or support either directly, through subsidiary organizations, or in cooperation with other organizations, any activity designed to promote the general

DSCB: 15-5306

health, rehabilitation, or social needs of the public, either within or outside the Commonwealth of Pennsylvania; and

(d) To raise, receive and distribute funds either directly, or through related organizations or other organizations exempt from tax under section 501 (c) (3) of the Internal Revenue Code in furtherance of the purposes of the corporation, subject to limitations on the nature or extent of such activities applicable to organizations exempt from tax under section 501 (c) (3) of the Internal Revenue Code; and

(e) To engage in business and activities either directly or through tax exempt or taxable subsidiaries, or in cooperation with other organizations, which activities support the purposes of the corporation, subject to limitations on the nature and extent of such activities applicable to nonprofit corporations under the laws of the Commonwealth of Pennsylvania or to organizations exempt from tax under section 501 (c) (3) of the Internal Revenue Code; and

(f) To acquire, own, dispose of, and deal with real and personal property whether tangible or intangible, and interests therein, and to apply contributions, gifts, grants, bequests, and devises, and the proceeds thereof, in furtherance of the purposes of the corporation.

(g) To carry out all other objects as stated in the Articles of Incorporation and to engage in any lawful activities for which corporations may be organized under Pennsylvania Nonprofit Corporation Law and which are within the scope of activities permitted under section 501 (c) (3) of the Internal Revenue Code.

9816-727

DSCB: 15-5306

No part of the corporation's net earnings shall inure to the benefit of, or be distributed to any member, contributor, director, officer or other individual except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein. No substantial part of the activities of the corporation shall consist of carrying on propaganda or otherwise attempting to influence legislation, and the corporation shall be empowered to make the election authorized under section 501 (h) of the Internal Revenue Code. The corporation shall not participate or intervene in any political campaign on behalf of or in opposition to any candidate for public office.

Notwithstanding any other provisions hereof, the corporation shall not conduct or carry on any activities not permitted to be conducted or carried on (i) by an organization which is tax exempt under the provisions of section 501 (a) of the Internal Revenue Code as an organization described in section 501 (c) (3) of such Code or (ii) by a corporation contributions to which are deductible under section 170 (a) of the Internal Revenue Code.

References herein to sections of the Internal Revenue Code are to provisions of the Internal Revenue Code of 1986, as amended, as those provisions are now enacted or to corresponding provisions of any future United States internal revenue law.

ARTICLE IV

The corporation shall have one (1) class of Member, and there shall be only one member of such class. Allegheny University Medical Centers shall be the sole Member. The Member is a nonprofit corporation organized and operating under the laws of

9816-728

DSCB: 15-5306

the Commonwealth of Pennsylvania and is an organization described in section 501 (c) (3) of the Internal Revenue Code. The Member shall have all of the rights and privileges conferred upon nonprofit corporate Members under the laws of the Commonwealth of Pennsylvania, except as otherwise specified in the Bylaws of the corporation, as well as such additional rights and privileges as shall be specified in the Bylaws of the corporation.

ARTICLE V

This corporation is organized upon a nonstock basis.

ARTICLE VI

Except as otherwise reserved to the Member in Article IV, above, or as established by law or by the Bylaws of the corporation, the business and affairs of the corporation shall be managed under the direction of a Board of Trustees. The number, term and manner of appointment, term of office, voting rights and other provisions relating to the Board of Trustees shall be fixed and governed by the Bylaws of the corporation.

ARTICLE VII

Any reference herein to specific provisions of the law of the Commonwealth of Pennsylvania or to specific provisions of the Internal Revenue Code shall be construed to include subsequent amendments to such specific provisions and to include corresponding provisions of subsequent legislation which may relate to, supersede, or otherwise alter such specific provisions.

ARTICLE VIII

9816-729

DSCB: 15-5306

Except as otherwise required by law, upon dissolution of the corporation, all of the corporation's assets, after providing for debts and obligations of the corporation, shall be distributed to Allegheny University Medical Centers which is a Pennsylvania nonprofit corporation, or to its successor(s), as may be designated by the Board of Trustees of the corporation, provided that any such corporation or any such successor receiving such a distribution shall then be in existence and shall then be an organization exempt from income taxes under section 501 (c) (3) of the Internal Revenue Code. If upon the dissolution of the corporation, Allegheny University Medical Centers, or its successor, shall not be in existence and an organization exempt from income taxes under section 501 (c) (3) of the Internal Revenue Code, all of the corporation's assets remaining after providing for debts and obligations of the corporation, shall be distributed to one or more organizations exempt from income taxes under section 501 (c) (3) of the Internal Revenue Code as may be designated by the Board of Trustees of the corporation.

kcs
3/2/98

PENNSYLVANIA DEPARTMENT OF STATE
CORPORATION BUREAU
ROOM 308 NORTH OFFICE BUILDING
P.O. BOX 8722
HARRISBURG, PA 17105-8722

AUMC CANONSBURG AMBULANCE SERVICE, INC.

THE CORPORATION BUREAU IS HAPPY TO SEND YOU YOUR FILED DOCUMENT.
PLEASE NOTE THE FILE DATE AND THE SIGNATURE OF THE SECRETARY OF THE
COMMONWEALTH. THE CORPORATION BUREAU IS HERE TO SERVE YOU AND WANTS
TO THANK YOU FOR DOING BUSINESS IN PENNSYLVANIA. IF YOU HAVE ANY
QUESTIONS PERTAINING TO THE CORPORATION BUREAU, CALL (717) 787-1057.

ENTITIES THAT ARE CHARITIES AND SOLICIT FUNDS SHOULD CONTACT THE
BUREAU OF CHARITABLE ORGANIZATIONS FOR REGISTRATION REQUIREMENTS AT
DEPARTMENT OF STATE, BUREAU OF CHARITABLE ORGANIZATIONS, SUITE 300
124 PINE STREET, HARRISBURG, PENNSYLVANIA 17101 (717) 783-1720 OR
1-800-732-0999 WITHIN PENNSYLVANIA.

ENTITY NUMBER: 2803781

MICROFILM NUMBER: 09816

0723-0729

T M ROHRBAUGH
KIRKPATRICK & LOCKHART LLP
240 N 3RD ST
HARRISBURG PA 17101-1507

WPAHS-001980

BYLAWS
of
AUMC/CANONSBURG AMBULANCE SERVICE INC.

ARTICLE I
NAME

The name of this corporation (the "Corporation") is
AUMC/Canonsburg Ambulance Service, Inc.

ARTICLE II
PLACE OF BUSINESS

The Corporation shall have its principal office in the
Commonwealth of Pennsylvania and may have such other offices
either within or outside the Commonwealth of Pennsylvania as the
Board of Trustees may from time to time determine.

ARTICLE III
FISCAL YEAR

The fiscal year of this Corporation shall be the period
beginning on July 1 of each year and ending on June 30 of the
following year.

ARTICLE IV
PURPOSES

The Corporation will have the purposes or powers as stated
in its Articles of Incorporation, or any amendments thereto, and,
unless otherwise limited by the Articles of Incorporation, shall
also have whatever powers are or may be granted by the
Pennsylvania Nonprofit Corporation Law of 1988, or under the
Pennsylvania laws relevant to Pennsylvania nonprofit
corporations, or any successor legislation.

ARTICLE V
MEMBERSHIP

5.1 Membership. The sole member of the Corporation shall
be Allegheny University Medical Centers.

5.2 Rights of the Member. The Member
shall have the following rights with regard to the corporation;

- (a) To adopt Bylaws and to effect or approve any amendment, alteration, restatement or other revision of the Articles of Incorporation of the corporation and these Bylaws, subject to receipt of any necessary recommendations for approval of such changes from the Class B Member;
- (b) To approve the appointment of the President of the corporation and to remove the President of the corporation;
- (c) To determine how any and all excess cash generated by the Corporation is allocated within the Allegheny System in pursuit of the overall Allegheny mission. For purposes of this section, "excess cash" shall mean the amount of cash added in prior periods as reflected in the audited statements of cash flows. The Member's allocation of such excess cash would occur only after insuring compliance with any and all debt covenants;
- (d) To approve the purchase or sale of any real property by the Corporation or any subsidiary corporation, and to approve the creation of a mortgage, lien, or any other security interest in the real property of the Corporation or in the real property of any subsidiary corporation.
- (e) To approve annual capital and operating budgets for the corporation and for any other corporation in which the corporation possesses a sole, majority, or controlling voting or ownership interest (hereinafter referred to as "subsidiary corporation") including approval of individual line items of expense and income;
- (f) To approve unbudgeted capital or operating expenditures to be undertaken individually or collectively by the corporation and any subsidiary corporation where the cumulative amount of such unbudgeted expenditures is (i) Two Million Dollars (\$2,000,000) or more in excess of individual or combined approved budgets or (ii) ten percent (10%) in excess of the individual or combined approved budgets of the corporation and its subsidiaries, whichever is less;
- (g) To approve borrowing of funds by the corporation

from an unrelated person, corporation, or other legal entity, or lending of funds by the corporation to an unrelated person, corporation or legal entity, including capital leases, where the term of the borrowing or lending exceeds one (1) year in duration and where the total amount of the borrowing or lending exceeds One Hundred Thousand Dollars (\$100,000).

5.4 Quarterly Operating Reports. The Corporation shall submit operating reports not less than quarterly to the Member in a form to be defined by the Member. Such operating reports shall reflect results of operations of the Corporation and of any Subsidiary Corporation.

5.5 Annual and Regular Meetings of the Member. The annual meetings of the Member shall be held in the last calendar quarter of each year on such date and at such time and place as may be determined by the Member for the transaction of such business as may properly be brought before such meeting. Other regular meetings of the Member may be held during the year on such dates and at such times and places as may be determined by the Member for the transaction of such business as may be properly brought before such meetings.

5.6 Special Meetings of the Member. Special meetings of the Member may be called at any time by the Board of Trustees of the Corporation, the Board of Trustees of the Member, or the Chair of the Member or the Corporation. The transaction of business at a special meeting of the Member shall be limited to the purpose for which the special meeting was called as identified in the notice of the meeting.

5.7 Notice of Meetings of the Member. Notice of the time, place, and subject of any meeting of the Member shall be in writing and shall be mailed to the Members not less than five (5) nor more than thirty (30) days prior to the meeting. Attendance of the Member at any meeting shall constitute a waiver of notice of that meeting, and no written waiver need be obtained from such Member except when a representative of such Member attends the meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened.

5.8 Unanimous Written Consent of the Members. Any action required or permitted at any meeting of the Member may be taken without a meeting, without prior notice, and without a vote if the Member consents thereto in writing. Said written consent

shall be filed with or entered upon the records of the Corporation and shall have the same effect as a vote for all purposes.

5.9 Termination of Membership. The status of the Member as a Member of this Corporation shall not be terminated without the written consent of such Member, provided that a membership shall terminate automatically and without further action on the part of the Corporation or the affected Member in the event that a Member is determined conclusively by the Internal Revenue Service or by a court of competent jurisdiction not to be an organization qualified for tax exempt status under Section 501(a) of the Internal Revenue Code of 1986, as amended (or corresponding provisions of subsequent legislation).

5.10 Distribution to Member. The Corporation may confer benefits upon the Member including, but not limited to, making distributions or contributions to the Member, repaying capital contributions, and redeeming its subvention certificates or evidences of indebtedness, as authorized by the laws of the Commonwealth of Pennsylvania except to the extent that any such action would be inconsistent with the laws of the Commonwealth of Pennsylvania.

ARTICLE VI BOARD OF TRUSTEES

6.1 Management and Duties. The business and the affairs of the Corporation shall be directed, controlled, and managed by the Board of Trustees which shall be the governing body of the Corporation. The Board of Trustees shall direct the management of all of the affairs, the property and funds of the Corporation, and shall have the duty and authority to do and perform all acts consistent with these Bylaws, the Articles of Incorporation of the Corporation and any amendments thereto, and the laws of the Commonwealth of Pennsylvania.

The Board shall act on and approve annual capital and operating budgets and shall review and approve the annual audited financial statements and management's response.

The Board may delegate such duties and authorities as it deems appropriate to committees of the Board in a manner consistent with these Bylaws, the Articles of Incorporation of the Corporation and any amendments thereto, and the laws of the Commonwealth of Pennsylvania.

6.2 Annual Review of Management. At least once a year, the external members of the Board will meet in Special Session to review the performance of management.

6.3 Qualifications. Trustees shall be those individuals who have demonstrated the requisite experience, skills, interests and ability to represent various aspects of the community served by the corporation. Trustees need not be residents of the Commonwealth of Pennsylvania.

All new trustees will be provided with appropriate orientation relative to specific Board functions and procedures to educate them in their governing role and will also be provided with opportunities to attend continuing education programs designed to enhance their performance as Board members.

6.4 Numbers of Trustees. The number of trustees shall be three. The President and Secretary of the Member and the CEO of Canonsburg General Hospital shall be the trustees of the Corporation.

6.5 Annual Meetings of The Board of Trustees. The annual meeting of the Board of Trustees of the Corporation shall be held during the fourth calendar quarter of each year at such time and place as the Board of Trustees shall determine for the purpose of the transaction of such business as may properly be brought before the meeting. If less than a quorum of trustees appears for an annual meeting of the Board of Trustees, the holding of such annual meeting shall not be required and matters that might have been taken up at the annual meeting may be taken up at any later regular, special, or annual meeting or by consent resolution.

6.6 Regular Meetings of The Board of Trustees. Regular meetings of the Board of Trustees shall be held at such date, time, and place as shall be designated by the Board. The Board of Trustees shall meet as often as necessary, but no less than semi-annually, to transact the business of the Corporation. The Board, at its discretion, may meet in executive session and/or special session. Fourteen days written notice of the time and place of all regular meetings shall be given to all trustees.

6.7 Special Meetings. Special meetings of the Board may be called by the Member, the Chair of the Board, or the President, and shall be called by the Secretary. Written notice of special meetings of the Board, stating the purpose of the meetings, shall be sent to each trustee at least five (5) days prior to the day

named for the meeting.

6.8 Executive and/or Special Session. The Board, or any Committee thereof, at its discretion, may meet in Executive and/or Special Session. Such meetings may be held in conjunction with any regular or special meeting of the Board or Committee or may be separately called. Where Executive or Special Sessions are held, other than in conjunction with a regular or special meeting of the Board or Committee, written notice of such meetings, stating the purpose of the meeting, shall be sent to each eligible Trustee at least five (5) days prior to the day named for the meeting.

A meeting in Executive Session shall include all voting members of the Board or Committee. A meeting in Special Session shall include only external Trustees who are voting members of the Board or Committee. Attendance at either an Executive or Special Session may include, at the request of the Board or Committee, the officers of the Board and other individuals whose presence is deemed necessary to the consideration of an issue before the Board or Committee.

6.9 Notice of Meetings. Notice of the date, time, and place of any special meeting of the Board shall be mailed, sent by telegram or given personally to each trustee or by sending a copy thereof by first class or express mail, postage prepaid, or by telegram (with messenger service specified), telex or TWX (with answerback received) or courier service, charges prepaid, or by facsimile transmission to his/her address (or to his/her telex, TWX or facsimile number) not less than five (5) days before the date of such meeting. Notice of special meetings shall state the purpose or purposes for the special meeting and at such meeting no other business than that stated in the notice shall be transacted.

6.10 Waiver of Notice. Any meeting of the Board of Trustees may be deemed to have been validly and legally called if all of the trustees entitled to vote on the day of the meeting sign a written waiver of notice, either before or after the meeting. Attendance of a trustee at any meeting shall constitute a waiver of notice of that meeting and no written waiver need be obtained from that trustee except when the trustee attends the meeting for the express purpose of objecting to the transaction of any business because the meeting is not lawfully called or convened. All such waivers, consents or approvals shall be filed with the corporate records of the Corporation.

6.11 Actions by Unanimous Written Consent. Any action

required or permitted at any meeting of the trustees may be taken without a meeting, without prior notice, and without a vote if all of the trustees entitled to vote thereon consent thereto in writing. Said written consents shall be filed with the minutes of the proceedings and shall have the same effect as a vote for all purposes.

6.12 Quorum. Unless otherwise specified in these Bylaws, a quorum for the transaction of business at any meeting of the Board of Trustees shall be two Trustees. Unless otherwise specified in these Bylaws, a quorum for the transaction of business at any meeting of a committee of the Board shall be one-half (1/2) of the members of the committee.

The vote of a majority of the trustees present at any meeting at which there is a quorum shall be the acts of the Board or of the committee except as a greater vote may be required by the laws of the Commonwealth of Pennsylvania, these Bylaws, or the Articles of Incorporation of the Corporation, provided that a majority of the number of trustees comprising less than a quorum may adjourn any meeting of the Board of Trustees at which a quorum previously was present.

6.13 Conference Telephone. A member of the Board or of a committee designated by the Board may participate in a meeting by the means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear one another. Participation in a meeting in this manner constitutes presence in person at the meeting and shall count towards a quorum requirement.

ARTICLE VII OFFICERS

7.1 Officers. The Chairman of the Corporation shall be the President of the Member, the President of the Corporation shall be the CEO of Canonsburg General Hospital, and the Secretary of the Corporation shall be the Secretary of the Member.

ARTICLE VIII ORDERS FOR THE PAYMENT OF MONEY AND EXECUTION OF INSTRUMENTS

8.1 Checks. All checks, drafts, or orders for the payment of money, shall be executed in the name of the

Corporation in such manner by such officer or officers or employees as the Board of Trustees shall determine by resolution or order.

8.2 Contracts. When the execution of any contracts, conveyances, or other instruments has been authorized without specifying the executing officers, any two (2) officers may execute the same in the name of and on behalf of this Corporation. Such authority may be general or confined to specific instances and unless so authorized by the Board, no officer, agent, or employee shall have any power or authority to bind the Corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose.

8.3 Execution of Conveyances and Mortgages. Except as otherwise required by law or any other provision of these Bylaws, no purchase of real property shall be made by the corporation nor shall it sell, mortgage, lease away or otherwise dispose of its real property, unless such a transaction is authorized by the Board and approved by the Members.

All mortgages, notes, evidence of indebtedness, contracts, conveyances or other instruments in writing, or any assignment or endorsement thereof, executed or entered into by or on behalf of this Corporation shall be executed and, if need be, acknowledged in the name of the corporation by the Chair of the Board, or a Vice Chair or the President, and the Secretary or Treasurer or their Assistants. In the absence of the President, he/she may designate, in writing, a Vice President or other individual who may execute documents during such absence. No person may execute, acknowledge or verify any instrument in more than one (1) capacity.

ARTICLE IX COMMITTEES

The Board of Trustees may establish such standing committees and special committees from time to time as it shall deem appropriate to conduct the activities of the Corporation and to advise the Board, and the Board shall define the powers and responsibilities of such committees. In addition, the Chair of the Board, subject to the approval of the Board of Trustees, may establish standing or special committees of the Board to carry out any functions which may lawfully be assigned to a Committee. The members and chairpersons of all such committees ("Specified Committees") shall be appointed by the Chair of the Board, for a one (1) year term or until their successors are duly appointed.

The Chair of the Board of Trustees shall advise the Board of any such appointments. While such appointments are not required to be approved by the Board of Trustees, any appointee shall be subject to removal at any time by vote of majority of the Board of Trustees then in office. No Specified Committee appointed by the Chair shall consist of fewer than one trustee. Persons other than trustees may be appointed as Specified Committee members by the Chair, provided that the chairpersons of all Specified Committees shall be trustees. The voting rights of Specified Committee members other than trustees shall be specified by the Chair of the Board at the time such appointment is made. A Specified Committee may have such specific powers and responsibilities as may be determined by the Board of Trustees, except that it shall not have the power:

- (a) To amend these Bylaws or the Articles of Incorporation;
- (b) To approve any action or exercise any authority requiring the approval of more than a majority of a quorum of the Board of Trustees under the laws of the Commonwealth of Pennsylvania, the Articles of Incorporation, or these Bylaws;
- (c) To take any action for which final authority is reserved to the membership of this Corporation;
- (d) To take any other action which may not be delegated to it under the laws of the Commonwealth of Pennsylvania or under the provisions of the Articles of Incorporation or these Bylaws. The charge of all standing committees shall be reviewed annually by the Board.

ARTICLE X INDEMNIFICATION

10.1 Indemnification of Trustees and Officers. The Corporation shall indemnify any officer or trustee of the Corporation who was or is a party or is threatened to be made a party to any threatened, pending, or completed action, suit or proceeding, including actions by or in the right of the Corporation, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was a representative of the Corporation, or is or was serving at the

request of the Corporation as a representative of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding unless the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness.

10.2 Advancement of Expenses. Expenses (including attorneys' fees) incurred by an officer or trustee of the Corporation in defending any action, suit, or proceeding referred to in Section 10.1 shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such person to repay such amount if it shall be determined ultimately that the person is not entitled to be indemnified by the Corporation.

10.3 Insurance. The Corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a representative of the Corporation, or is or was serving at the request of the Corporation as a representative of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such person or the Corporation and incurred by such person or the Corporation in any such capacity, or arising out of such person's status as such, whether or not the Corporation would have the power to indemnify such person against such liability under the provisions of this Article.

10.4 Rights not Exclusive. The indemnification of and advancement of expenses to officers and trustees of the Corporation provided by or pursuant to this Article shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under the Articles of Incorporation, any insurance or other agreement, vote of disinterested trustees or otherwise, both as to actions in their official capacity and as to actions in another capacity while holding an office, and shall continue as to a person who has ceased to be a trustee or officer and shall inure to the benefit of the heirs, executors and administrators of such person.

10.5 Preservation of Rights. The provisions of this Article relating to indemnification and the advancement of expenses shall constitute a contract between the Corporation and each of its trustees and officers. No amendment or repeal of this Article shall adversely affect any right or protection

extended to an officer or trustee hereunder for an act or failure to act occurring prior to the time of such amendment or repeal. Each officer or trustee shall be deemed to act in such capacity in reliance upon the rights of indemnification and advancement of expenses hereunder.

10.6 Indemnification of Employees and Other Persons. To the extent permitted by law, the Corporation may, by action of its Board of Trustees and to the extent provided in such action, indemnify employees and other persons as though they were officers or trustees, pursuant to Sections 10.1 - 10.2 of these Bylaws.

ARTICLE XI LIABILITY OF TRUSTEES

11.1 Liability of Trustees. Except for responsibility or liability of a trustee pursuant to any criminal statute or for payment of taxes pursuant to local, state or federal law, a trustee of the Corporation shall not be personally liable for monetary damages for any action taken or any failure to take any action with respect to the Corporation unless (a) such trustee has breached or failed to perform his fiduciary duties as provided in Section 11.2 hereof and (b) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

11.2 Standard of Care and Justifiable Reliance.

(a) As provided in Section 5712 of the Pennsylvania Nonprofit Corporation Law, 15 Pa. C.S.A. §5712, et seq., each trustee of this Corporation shall stand in a fiduciary relation to the Corporation and shall perform his or her duties as a trustee, including his or her duties as a member of any committee of the Board upon which he/she may serve, in good faith, in a manner he/she reasonably believes to be in the best interests of the Corporation, and with such care, including reasonable inquiry, skill and diligence as a person of ordinary prudence would use under similar circumstances. In performing his or her duties, a trustee shall be entitled to rely in good faith on information, opinions, reports or statement, including financial statements and other financial data, in each case prepared or presented by any of the following:

(1) One or more officers or employees of the Corporation whom the trustee reasonably believes to be reliable and competent in the matters presented;

(2) Counsel, public accountants or other persons as to matters which the trustee reasonably believes to be within the professional or expert competence of such persons; and

(3) A committee of the Board upon which the trustee does not serve, duly designed in accordance with law, as to matters within its designated authority, which committee the trustee reasonably believes to permit confidence.

(b) A trustee shall not be considered to be acting in good faith if he/she has knowledge concerning the matter in question that would cause his or her reliance to be unwarranted.

(c) In discharging the duties of their respective positions, the Board of Trustees, committees of the Board and individual trustees may, in considering the best interest of the Corporation, consider the effects of any action upon employees, upon suppliers and customers of the Corporation and upon communities in which offices or other establishments of the Corporation are located and all other pertinent factors. The consideration of those factors shall not constitute a violation of Section 13.2(a).

(d) Absent breach of fiduciary duty, lack of good faith or self-dealing, actions taken as a trustee or any failure to take any action shall be presumed to be in the best interests of the Corporation.

11.3 Liability of Trustees and Officers. As provided in 42 Pa. C.S.A., §8332.2 and so long as the Corporation is qualified as an exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, no trustee or officer of the Corporation who serves without compensation, other than reimbursement for actual expense, shall be liable for any civil damages as a result of any acts or omissions relating solely to the performance of his duties as a trustee or officer, unless (a) the conduct of such trustee or officer falls substantially below the standards generally practiced and accepted in like circumstances by similar persons performing the same or similar duties and (b) it is shown that the trustee or officer did an act or omitted doing any act which he was under a recognized duty to another to do, knowing or having reason to know that the act or omission created a substantial risk of actual harm to the person or property of another.

11.4 Preservation of Rights. The provisions of this Article relating to the limitation of trustees and officers liability shall constitute a contract between the Corporation and

each of its trustees and officers. No amendment or repeal of this Article shall adversely affect any right or protection extended to an officer or trustee hereunder for an act or failure to act occurring prior to the time of such amendment or repeal. Each officer or trustee shall be deemed to act in such capacity in reliance upon the limitations of liability hereunder.

ARTICLE XII CONFLICTS OF INTEREST

12.1 Annual Conflict of Interest Statement. Each trustee, officer, member of a committee with Board delegated powers, key clinical or administrative manager employed by the corporation, or other individual who is in a position to exercise substantial influence over the decisions of the organization, shall submit a periodic conflict of interest disclosure statement in a form prescribed by the Committee which, among other things, affirms that such person:

- a. has received a copy of the conflict of interest policy,
- b. has read and understands the policy,
- c. has agreed to comply with the policy, and
- d. understands that the corporation is a charitable organization and that in order to maintain its federal tax-exemption it must engage primarily in activities which accomplish one or more of its tax-exempt purposes.

12.2 Conflict of Interest Policy. The Board of Trustees shall adopt a Conflict of Interest Policy that is consistent with the provisions of Section 13.1, above, and that is in furtherance of the corporation's best interest and consistent with applicable policies and requirements of law.

12.3 Board of Trustees Confidentiality Agreement. Each member of the Board of Trustees, each new nominee to the Board and life trustees who continue to be active in the organization shall be required to sign a Confidentiality Agreement (the "Agreement"), to be kept with the official records of the Corporation, acknowledging the importance of maintaining the confidentiality of the affairs of the Corporation and the matters discussed at Board or Committee meetings. Confidentiality shall be maintained pursuant to the organization's policy as set forth

in the Allegheny Health, Education and Research Foundation Code of Ethics. Any Board member contacted about confidential matters relating to the organization shall refer the inquiry to the authorized spokesperson for the organization.

ARTICLE XIII
MISCELLANEOUS

13.1 Non-Discrimination. It is hereby adopted as the policy of the Board of Trustees that the Hospital shall admit and treat all patients and handle all aspects of the employment process and relationship without regard to race, color, sex, creed or national origin except where such factors constitute a bona fide occupational qualification.

13.2 Patient Bill of Rights. The Board of Trustees shall formulate and adopt a policy with respect to the rights of patients at the Hospital or any other health care facility operated by the Corporation in such form and content as the Board of Trustees shall deem to be necessary and appropriate, and as shall be required to comply with any legal requirements applicable to the Corporation, including without limitation licensure requirements imposed by the Commonwealth of Pennsylvania.

13.3 Seal. The seal of this Corporation shall consist of a flat-faced circular die with the name of the Corporation and the date and state of its incorporation cut or engraved thereon. Any agreement, instrument, certificate or other document which has been duly executed on behalf of the Corporation shall be valid, binding, and enforceable as to the Corporation even though the seal of the Corporation has not been affixed thereto.

13.4 Gender. Where the masculine gender is used in these Bylaws, such usage is for convenience only. Any usage of specific gender terminology shall be deemed to include references to both genders, and any title involving gender shall be permitted to be used in an alternative form for another gender.

13.5 Examination of Books. The Board of Trustees shall have the power to determine from time to time by whom and to what extent and under what conditions and limitations the accounts, records, and books of the Corporation or any of them shall be open to inspection. The minute book of the Corporation and all audited financial statements shall at all times during business

hours be open to inspection by duly authorized representatives of either the Members or by trustees of the Corporation.

13.6 Facsimile or Electronic Transmission of Signatures. Whenever the execution of a document on behalf of the Corporation by any officer of the Corporation or any trustee is authorized by these Bylaws or by other action of the Board of Trustees, the signature of such officer or trustee or any such document may be transmitted by facsimile or other electronic means.

13.7 Auxiliaries and Supporting Organizations. All organizations organized or operated to support and assist in carrying out the purposes or activities of the Corporation, including auxiliary organizations, shall be governed by written Bylaws. Such Bylaws, together with amendments recommended from time to time, shall be subject to approval or adoption by the Board of Trustees before becoming legally effective. The Board of Trustees shall have the authority to amend, alter, restate, or repeal any such Bylaws at any time as may be determined appropriate by the Board of Trustees.

13.8 Parliamentary Authority. The current edition of Robert's Rules of Order shall govern the Board's procedures in the transaction of its business in all cases to which such rules are applicable and in which they are not inconsistent with these Bylaws and any special rules or order which the Board may adopt.

ARTICLE XIV AMENDMENTS

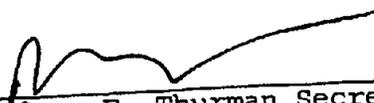
14.1 Amendments to Articles of Incorporation. The Articles of Incorporation and these Bylaws may be altered, amended, repealed, or restated only with the affirmative written approval of the Member. Any notice of meeting of the Member in which a proposed amendment to the Articles of Incorporation or these Bylaws is to be considered shall include a copy of the proposed amendment or a summary of the changes to be effected thereby.

14.2 Technical Amendments. The Secretary shall have the authority to change the Bylaws without any requirement of Board or Member approval when, in the Secretary's judgment and after review and approval by the General Counsel or his/her designee, the Bylaws require technical modification or clarification, such as renumbering, changes in punctuation, spelling or errors of

grammar or expression, changes in reference to statutory citation, or changes made solely to reflect alteration of organization name, structure or titles.

ARTICLE XV
ADOPTION AND EFFECTIVE DATE

These Amended and Restated Bylaws were officially adopted by the action of the Board, at its meeting held on the 5th day of May, 1998, and became effective, in accordance with the terms of such adoption, that day. Said Bylaws are in full force and effect as of the date hereof.



Andrew E. Thurman, Secretary

Date: 02/3/99

**AUMC/CANONSBURG AMBULANCE SERVICE INC. FORM 1023
ATTACHMENT II-1**

The Corporation provides all levels of ground ambulance transportation, from basic through advanced life support, and coordinates air ambulance services, for residents of Allegheny and Washington County, Pennsylvania. Although the Corporation accepts memberships, as discussed infra, and bills third-party payors, also discussed infra, its services are provided to all citizens of the service area regardless of ability to pay.

This is the sole activity of the Corporation.

**AUMC/CANONSBURG AMBULANCE SERVICE FORM 1023
ATTACHMENT II-5**

The sole corporate member of the Corporation is Allegheny University Medical Centers ("AUMC"), a Pennsylvania non-profit corporation exempt from tax under Section 501(c)(3) of the Internal revenue Code which provides health care services in Allegheny and Washington counties, Pennsylvania. As the sole corporate member, AUMC has certain reserve powers with respect to the Corporation which are set forth in the bylaws. Also, pursuant to the Corporation's bylaws, the Trustees of the Corporation are officers of AUMC.

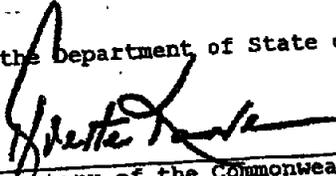
9816-723

MAR - 5 1998

Microfilm Number _____

Filed with the Department of State on _____

Entity Number 2803781


Secretary of the Commonwealth

ARTICLES OF INCORPORATION - DOMESTIC NONPROFIT CORPORATION
(DSCB: 15-5306)

In compliance with the requirements of 15 Pa. C.S.A. §5306 (relating to articles of incorporation), the undersigned, desiring to incorporate a nonprofit corporation, hereby state(s) that:

1. The name of the corporation is: **AUMC Canonsburg Ambulance Service, Inc.**
2. The (a) address of this corporation's initial registered office in this Commonwealth or (b) name of its commercial registered office provider and the county of venue is:
 - (a) 120 Fifth Ave., Suite 2900, Pgh. Allegheny County, PA 15222.

ATTENTION: Legal Department

(b) c/o _____

N/A

Name of Commercial Registered Office Provider

For a corporation represented by a commercial registered office provider, the county in (b) shall be deemed the county in which the corporation is located for venue and official publication purposes.

3. The corporation is incorporated under the Nonprofit Corporation Law of 1988 for the following purpose or purposes:

(See attached)

DSCB: 15-5306

- 4. The corporation does not contemplate pecuniary gain or profit, incidental or otherwise.
- 5. The corporation is organized upon a nonstock basis.
- 6. (Strike out if inapplicable): ~~The corporation shall have no members.~~
- 7. (Strike out if inapplicable): ~~The incorporators constitute a majority of the members of the committee authorized to incorporate _____ by the requisite vote required by the organic law of the association for the amendment of such organic law.~~
- 8. The name and address, including street and number, if any, of each incorporator is:

Name,	Address
-------	---------

Andrew E. Thurman, Esq.	120 Fifth Ave., Suite 2900,
Pgh., Allegheny County,	PA 15222

- 9. The specified effective date, if any, is: N/A
Month Day Year Hour,
if any

IN TESTIMONY WHEREOF, the incorporator has signed these Articles of Incorporation this 4TH day of March, 1998.

AUMC CANONSBURG AMBULANCE
SERVICE, INC.



Andrew E. Thurman, Esq.
Incorporator

kcs:3/3/98

DSCB: 15-5306

ATTACHMENT TO
ARTICLES OF INCORPORATION
AUMC CANONSBURG AMBULANCE SERVICE, INC.

ARTICLE III

The corporation, which does not contemplate pecuniary gain or profit, incidental or otherwise, is incorporated under the Pennsylvania Nonprofit Corporation Law of 1988. The corporation is incorporated and shall be operated exclusively for charitable, scientific and educational purposes within the meaning of section 501 (c) (3) of the Internal Revenue Code, particularly for the following purposes:

(a) To establish, maintain, operate and support either directly or in cooperation with other organizations, such facilities and services providing health care for the sick, injured, disabled, indigent, or infirm persons and providing for the preservation of health as the Board of Trustees may determine from time to time to be appropriate, including without limitation, community based health care transport services and agencies or facilities providing for persons in their homes; and

(b) To establish, maintain, operate and support either directly, through subsidiary organizations, or in cooperation with other organizations, such activities, services, and facilities as are designed or intended to advance or support provision of health care services, including without limitation, programs involving education, research, and preventive health activity; and

(c) To engage in, promote, or support either directly, through subsidiary organizations, or in cooperation with other organizations, any activity designed to promote the general

DSCB: 15-5306

health, rehabilitation, or social needs of the public, either within or outside the Commonwealth of Pennsylvania; and

(d) To raise, receive and distribute funds either directly, or through related organizations or other organizations exempt from tax under section 501 (c) (3) of the Internal Revenue Code in furtherance of the purposes of the corporation, subject to limitations on the nature or extent of such activities applicable to organizations exempt from tax under section 501 (c) (3) of the Internal Revenue Code; and

(e) To engage in business and activities either directly or through tax exempt or taxable subsidiaries, or in cooperation with other organizations, which activities support the purposes of the corporation, subject to limitations on the nature and extent of such activities applicable to nonprofit corporations under the laws of the Commonwealth of Pennsylvania or to organizations exempt from tax under section 501 (c) (3) of the Internal Revenue Code; and

(f) To acquire, own, dispose of, and deal with real and personal property whether tangible or intangible, and interests therein, and to apply contributions, gifts, grants, bequests, and devises, and the proceeds thereof, in furtherance of the purposes of the corporation.

(g) To carry out all other objects as stated in the Articles of Incorporation and to engage in any lawful activities for which corporations may be organized under Pennsylvania Nonprofit Corporation Law and which are within the scope of activities permitted under section 501 (c) (3) of the Internal Revenue Code.

9816-727

DSCB: 15-5306

No part of the corporation's net earnings shall inure to the benefit of, or be distributed to any member, contributor, director, officer or other individual except that the corporation shall be authorized and empowered to pay reasonable compensation for services rendered and to make payments and distributions in furtherance of the purposes set forth herein. No substantial part of the activities of the corporation shall consist of carrying on propaganda or otherwise attempting to influence legislation, and the corporation shall be empowered to make the election authorized under section 501 (h) of the Internal Revenue Code. The corporation shall not participate or intervene in any political campaign on behalf of or in opposition to any candidate for public office.

Notwithstanding any other provisions hereof, the corporation shall not conduct or carry on any activities not permitted to be conducted or carried on (i) by an organization which is tax exempt under the provisions of section 501 (a) of the Internal Revenue Code as an organization described in section 501 (c) (3) of such Code or (ii) by a corporation contributions to which are deductible under section 170 (a) of the Internal Revenue Code.

References herein to sections of the Internal Revenue Code are to provisions of the Internal Revenue Code of 1986, as amended, as those provisions are now enacted or to corresponding provisions of any future United States internal revenue law.

ARTICLE IV

The corporation shall have one (1) class of Member, and there shall be only one member of such class. Allegheny University Medical Centers shall be the sole Member. The Member is a nonprofit corporation organized and operating under the laws of

9816-728

DSCB: 15-5306

the Commonwealth of Pennsylvania and is an organization described in section 501 (c) (3) of the Internal Revenue Code. The Member shall have all of the rights and privileges conferred upon nonprofit corporate Members under the laws of the Commonwealth of Pennsylvania, except as otherwise specified in the Bylaws of the corporation, as well as such additional rights and privileges as shall be specified in the Bylaws of the corporation.

ARTICLE V

This corporation is organized upon a nonstock basis.

ARTICLE VI

Except as otherwise reserved to the Member in Article IV, above, or as established by law or by the Bylaws of the corporation, the business and affairs of the corporation shall be managed under the direction of a Board of Trustees. The number, term and manner of appointment, term of office, voting rights and other provisions relating to the Board of Trustees shall be fixed and governed by the Bylaws of the corporation.

ARTICLE VII

Any reference herein to specific provisions of the law of the Commonwealth of Pennsylvania or to specific provisions of the Internal Revenue Code shall be construed to include subsequent amendments to such specific provisions and to include corresponding provisions of subsequent legislation which may relate to, supersede, or otherwise alter such specific provisions.

ARTICLE VIII

9816-729

DSCB: 15-5306

Except as otherwise required by law, upon dissolution of the corporation, all of the corporation's assets, after providing for debts and obligations of the corporation, shall be distributed to Allegheny University Medical Centers which is a Pennsylvania nonprofit corporation, or to its successor(s), as may be designated by the Board of Trustees of the corporation, provided that any such corporation or any such successor receiving such a distribution shall then be in existence and shall then be an organization exempt from income taxes under section 501 (c) (3) of the Internal Revenue Code. If upon the dissolution of the corporation, Allegheny University Medical Centers, or its successor, shall not be in existence and an organization exempt from income taxes under section 501 (c) (3) of the Internal Revenue Code, all of the corporation's assets remaining after providing for debts and obligations of the corporation, shall be distributed to one or more organizations exempt from income taxes under section 501 (c) (3) of the Internal Revenue Code as may be designated by the Board of Trustees of the corporation.

kcs
3/2/98

**LEASE AGREEMENT
BY AND BETWEEN AUMC/CANONSBURG
AND VFW POST 191 AMBULANCE SERVICE**

This Lease, dated January 1, 1998 is by and between AUMC/Canonsburg, a Pennsylvania not for profit corporation (hereinafter referred to as "AUMC"), and VFW Post 191 Ambulance Service, and Private James Perry, Post 191, V.F.W., (hereinafter referred to as "VFW").

PREMISES

1. VFW hereby leases to AUMC, and AUMC agrees to so lease, those certain premises (hereinafter referred to as the "Leased Premises") located at 20th West Pike Street, Canonsburg, Pennsylvania. The leased premises is a building containing approximately 5,620 square feet of office and garage space and associated ground with 18 parking spaces and one handicapped space.

TERM

2. The term of the Lease shall begin on January 1, 1998, and extend for a period of twelve (12) months and shall be automatically renewed for consecutive one (1) year periods thereafter, unless either party shall provide written notice of its intention not to renew this Agreement to the other party at least ninety (90) days before the end of the then applicable period. VFW hereby grants AUMC an option to purchase the Leased Premises for its appraised fair market value at any time during the initial five years of this Lease; if AUMC fails to exercise this option during the initial five years of the Lease, then VFW shall place the Leased Premises for sale on the public market. During the term of this Lease AUMC shall have the option to cancel the lease upon 90 days written notice should the Leased Premises, in AUMC's reasonable judgment, become unfit for the purpose set forth in Paragraph 4 hereof.

RENT

3. AUMC shall pay to VFW at its principal place of business, or at such other place as VFW may designate from time to time, one month's security deposit in addition to the monthly sum due on the first of each month, beginning with and including the initial day of the lease term the sum of three thousand three hundred ninety five dollars (\$3,395). This sum shall be net of all expenses of occupying the Leased Premises, which shall be the sole and absolute responsibility of AUMC, and shall be paid to VFW without deduction or set off.

USE OF LEASED PREMISES

4. The Leased Premises shall be used by AUMC for operation of an ambulance service. AUMC shall permit VFW to use office space on the Leased Premises for a reasonable period of time and after the commencement of this lease for the purpose of collecting accounts receivable and winding down its business. In addition, AUMC shall permit VFW use of the locked attic to archive the records of the VFW Post 191 Ambulance Service until records may be legally destroyed.

LIMITATIONS OF LIABILITY AND INDEMNITY

5. Both Parties agree that neither Party shall be liable to the other Party, or any of its agents, employees, servants, or invitees, for any damage to persons or property due to the condition or design or any defect of the building or its mechanical systems which may exist or subsequently occur. Each Party agrees to indemnify and hold harmless the other Party from and against all suits, claims, and actions of every kind by reason of any breach, violation, or nonperformance of any term or condition on the part of either Party hereunder.

ASSIGNMENT AND SUBLETTING

6. This Lease may not be assigned, in whole or in part, except that AUMC may assign this Lease to a affiliated or related corporation nor may AUMC sublet the Leased Premises for any purpose.

GENERAL

- 7. (A) This Lease embodies the entire agreement between AUMC and VFW and shall not be modified, changed, or altered in any respect except in writing and executed by both parties.
- (B) The covenants, agreements, and obligations of this Lease shall extend to bind, and inure to the benefit not only of AUMC and VFW but their successors, and assigns except where otherwise specifically prohibited.
- (C) Any notice, demand, or communication required, permitted or desired to be given under this Lease shall be deemed effectively given when personally delivered or mailed by prepaid certified mail, return receipt requested, and addressed as follows:

AUMC:

Andrew E. Thurman, Esq.
Senior Counsel
AHERF
Fifth Avenue Place
120 Fifth Avenue, Suite 2900
Pittsburgh, PA 15222

PHYSICIAN GROUP:

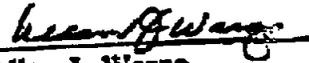
or to such other address, and to the attention of such other person(s) or officer(s) as either party may designate in writing to the other.

IN WITNESS WHEREOF, and intending to be legally bound, AUMC and VFW respectively execute duplicate originals of this Lease as of the day and year first written above.

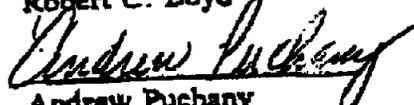
AUMC/CANONSBURG
as Lessee:

VFW
as Lessor:

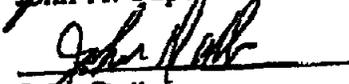
By: 
Barry Roth
President

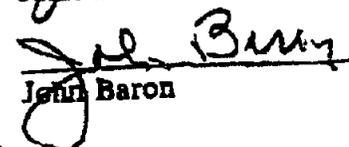
By: 
Allan J. Wargo


Robert C. Boyd


Andrew Puchany


John A. Pape


John Dalbo


John Baron

2/25/98 vfw.caz

**AUMC CANONSBURG AMBULANCE SERVICE INC. FORM 1023
ATTACHMENT II-11a**

SUBSCRIPTION RATES

Individual	\$20
Husband & Wife	\$30
Family	\$40

09/08/99 18:30 FAX 724 743 7211

AUH CANONSBURG

+ THURMAN

0002/009

EDS 00-1 CARRIES 00865 PART 3 - DISCLOSURE REPORT FST99 12/09/99 PAGE 1

ATTACHMENT II-12a

PROVIDER 200118

AUMC CANONSBURG AMB SVC

AREA 03 PA AREA 03

SPEC 39 AMBULANCE SERVICE SUPPLIER

TYPE OF SERVICE ? DNE/PSYCH/OTHER

CPT-4 PROC NOB	CUST/50TH	PREVAILING	TIC
A0300	250.00	250.00	166.05
A0302	250.00	250.00	166.05
A0304	0.00	0.00	166.05
A0306	0.00	0.00	262.65
A0308	0.00	0.00	262.65
A0310	420.00	420.00	262.65
A0320	310.00	275.00	166.05
A0322	310.00	275.00	166.05
A0324	440.00	0.00	166.05
A0326	425.00	500.00	262.65
A0328	440.00	364.00	262.65
A0330	425.00	425.00	262.65
A0340	0.00	0.00	161.74
A0342	175.00	225.00	161.74
A0344	0.00	0.00	161.74
A0346	0.00	0.00	243.99
A0348	0.00	0.00	243.99
A0350	270.00	270.00	236.89
A0360	225.00	265.00	161.74
A0362	250.00	275.00	161.74
A0364	275.00	300.00	161.74
A0366	395.00	456.00	258.78
A0368	475.00	480.00	258.78
A0370	425.00	480.00	258.78
A0582	5.00	5.00	3.71
A0579	3.00	3.50	3.88
A0422	35.00	40.00	24.71
Z0224	25.00	70.00	45.28

CHANDLER AMBUL. SERV
DEPARTMENTAL REVENUE AND EXPENSE
JUNE 30, 1998

ROW DATE: 07/21/98
FOR TYPE: 21-844
COST CENTER: 000000
- C U R R E N T M O N E T R Y -
ACTUAL BUDGET VARIANCE

ACTUAL	BUDGET	VARIANCE	ACT	ROW
134,326.50	134,326.50	0	7112101	OUTPATIENT REVENUE
134,326.50	134,326.50	0		O/R ANCILLARY
134,326.50	134,326.50	0		O/R ACUTE ANCILL-NC
134,326.50	134,326.50	0		TOTAL O/R ANCILLARY
134,326.50	134,326.50	0		GROSS O/R REVENUE
43,152.36	43,152.36	0		O/P ALLOWANCE
43,152.36	43,152.36	0		O/P ACUTE ALLOW-NC
43,152.36	43,152.36	0		TOTAL O/P ALLOWANCE
43,152.36	43,152.36	0		TOTAL ALLOWANCES
43,152.36	43,152.36	0		NET O/R REVENUE
91,174.14	91,174.14	0		NET PATIENT REVENUE
91,174.14	91,174.14	0		OTHER REV - W-SC
91,174.14	91,174.14	0		TOTAL OTHER REV
97,996.14	97,996.14	0		TOTAL REVENUE
33,883.06	33,883.06	0		SALARIES/PROP FEES
858.73	858.73	0		S & W-PRODUCTION
1,336.20	1,336.20	0		S & W-VACATION
				S & W-OVERTIME
				FEES-STIPENDS
36,077.99	36,077.99	0		TOTAL SALARIES
2,355.25	2,355.25	0		FRINGE BENEFITS
5,000.00	5,000.00	0		PTIC - EMPLOYER SHARE
77.04	77.04	0		WORKERS COMPENSATION
				PA UNEMPLOYMENT COMP
				MEDICAL INS PREMIUMS
				UNIFORM ALLOWANCE
				PAIDERS BENEFIT ALLOW
4,700.00	4,700.00	0		TOTAL FRINGE BENEFIT
12,152.29	12,152.29	0		PATIENT CARE SUPPLIES
586.54	586.54	0		YAD/SONG SUPPLIES
4.84	4.84	0		IV BONDAGES/STAPLER
				OXYGEN/GAS
75,565.95	75,565.95	0		TOTAL

11/21/98

RUN DATE: 07/21/98
 RUN TIME: 21:1844
 COST CENTER: 000000
 DEPARTMENT: 000000
 ACTUAL: 000000
 BUDGET: 000000
 VARIANCE: 000000
 ACCT FID:

CANNONBURG AMBUL SERV
 DEPARTMENTAL REVENUE AND EXPENSE
 STATE 30,1998

ACTUAL: 4,821.78
 BUDGET: 4,821.78
 VARIANCE: 0.00

CORR 178 2
 PAGE

FHS-FINRNC

WPAHS-002012

ACTUAL	BUDGET	VARIANCE	ACCT FID
590.98	590.98		
173.50	173.50		8259000
864.79	864.79		8251000
120.40	120.40		8254000
63.00	63.00		8255100
80.59	80.59		8256100
144.57	144.57		8256400
248.13	248.13		8256500
939.23	939.23		8257200
3,395.00	3,395.00		8258200
826.25	826.25		8259000
6,915.56	6,915.56		
5,915.56	5,915.56		
4.99	4.99		
1,753.03	1,753.03		
1,758.02	1,758.02		
788.38	788.38		8311100
209.78	209.78		8311700
4,452.50	4,452.50		8356100
8358500			
5,450.66	5,450.66		
7,208.68	7,208.68		
2,750.00	2,750.00		8503400
2,750.00	2,750.00		
65,695.50	65,695.50		
4,821.78	4,821.78		
1,475.00	1,475.00		
4,970.79	4,970.79		
1,200.80	1,200.80		
150.00	150.00		
459.04	459.04		
2,106.18	2,106.18		
1,012.86	1,012.86		
4,324.63	4,324.63		
27,160.00	27,160.00		
2,483.75	2,483.75		
17,339.21	17,339.21		
62,682.26	62,682.26		
62,682.26	62,682.26		
62,682.26	62,682.26		
4.99	4.99		
488.74	488.74		
7,846.52	7,846.52		
8,320.25	8,320.25		
8,320.25	8,320.25		
2,939.75	2,939.75		
766.86	766.86		
24,452.50	24,452.50		
830.95	830.95		
28,990.06	28,990.06		
37,310.31	37,310.31		
16,500.00	16,500.00		
16,500.00	16,500.00		
377,250.38	377,250.38		

RUN DATE: 03/11/99
 RUN TYPE: 205002 000000
 COST CENTER: 000000
 MANAGER: C U R R E N T M O N T H -
 ACTUAL BUDGET VARIANCE PERCENT ACCT YR - ACCOUNT DESCRIPTION -
 CAROLSBURG ANNUAL SERV BUDGET AND EXPENSE REPORT
 FOR PERIOD ENDING FEBRUARY 28, 1999

ACTUAL	BUDGET	VARIANCE	PERCENT	ACCT YR	ACCOUNT DESCRIPTION	ACTUAL	BUDGET	VARIANCE	PERCENT
94,000	76,451	17,549	23.0	7112100	OP ACCTE ANCILLARY	758,405	641,213	117,192	18.3
94,000	76,451	17,549	23.0		TOTAL DEPARTMENT REVENUE	758,405	641,213	117,192	18.3
36,135	29,789	6,346	21.3	7130100	O/P ACCTE ALLOW-NC	256,153	249,838	6,315	2.5
36,135	29,789	6,346	21.3		TOTAL OUTPATIENT ALLOWANCE	256,153	249,838	6,315	2.5
57,865	46,662	11,203	24.0		NET OUTPATIENT REVENUE	502,252	391,375	110,877	28.3
					TOTAL CONTRIBUTIONS	65	52,016	2,372	4.6
324	6,502	6,178	95.0	7700900	OTHER REV - XTRC	54,388	52,016	2,372	4.6
324	6,502	6,178	95.0		TOTAL OTHER REVENUE	54,388	52,016	2,372	4.6
58,189	53,184	5,025	9.5		TOTAL REVENUE	556,705	463,391	113,314	25.6
27,513	27,139	374	1.4		TOTAL SALARIES	210,105	225,294	15,189	7.2
754	1,661	1,661	100.0		9-5-8151000 PICA - EMPLOYER SHARE	12,962	4,000	8,962	84.2
163					100.0-8152300 WORKERS COMPENSATION INSURANCE	27,544	4,787	22,757	100.0
30,071	27,339	2,732	10.0		60.0-8155000 MEDICAL INS PREMIUMS	259,145	225,294	33,851	14.6
2,290	2,091	199	9.5		100.0-8152300 WORKERS COMPENSATION INSURANCE	19,598	17,215	2,383	13.7
239	598	359	60.0		100.0-8155000 MEDICAL INS PREMIUMS	20,030	40,000	19,970	49.9
70	101	101	100.0		100.0-8152000 UNIFORM ALLOWANCE	4,787	805	4,033	84.2
11	4,700	4,700	100.0		100.0-8159900 PRIME BENEFIT ALLOCATION	2,585	37,600	35,015	50.0
11	4,700	4,700	100.0		8195175 PRIME BENEFIT PR CSH	41		41	
2,610	12,490	9,880	79.1		TOTAL PRIME BENEFITS	61,808	100,427	38,619	38.5
130	767	637	83.1		CONTRACT MAINTENANCE	1,374	6,111	4,737	77.5
139	100	100	100.0		REPAIRS-EQUIPMENT	540	800	260	32.3
115	167	167	100.0		8254000 MAINTENANCE-BLDG & GROUNDS	1,333	1,333	0	100.0
823	58	58	100.0		8255100 WATER RENEWAL	467	467	0	100.0
95	250	250	100.0		8256200 WATER AND SEWAGE	500	2,000	1,500	75.0
454	150	150	100.0		8256300 GAS	2,130	2,200	70	3.2
488	708	708	100.0		8256400 ELECTRICITY	6,613	5,667	946	16.7
423	83	83	100.0		8256500 TELEPHONE	2,402	667	1,735	25.0
	5,200	5,200	100.0		8257100 RECEIPTS RENTAL/LEASE	16,402	41,680	25,278	59.2
	642	642	100.0		8257200 PROPERTY RENTAL	536	4,233	3,697	87.6
					8258300 EXCITING SERVICES				

CHANNING ABLU, SERV
BUDGET AND EXPENSE REPORT
FOR PERIOD ENDING FEBRUARY 28, 1999

RUN DATE: 03/11/99
RUN TIME: 205002
COST CENTER: 000000
MANAGER: C U R R E N T M O N T H -
ACTUAL BUDGET VARIANCE PERCENT

ACTUAL	BUDGET	VARIANCE	PERCENT	ACCT NUM	ACCOUNT DESCRIPTION	ACTUAL	BUDGET	VARIANCE	PERCENT
798	83	715-	861.4-	8254000	OTHER PURCHASED SERVICES	4,812	667	4,145-	621.4-
3,666	8,108	8,442	54.8		TOTAL PURCHASED SERVICES	40,145	64,867	24,722	18.1
2,438	100	100	100.0	8302000	HOBBY/RECREATION SUPPLIES	14	800	786	58.3
2,418	417	417	100.0	8303100	LABORATORY/OTHER SUPPLIES	57	3,333	3,276	98.3
110-	125	125	100.0	8304000	MAINTENANCE SUPPLIES	13,474	1,000	12,474	100.0
259	42	42	100.0	8307100	VEHICLE MAINTENANCE	11,545	9,333	2,212	44.4-
149	100	100	100.0		TOTAL SUPPORT SVCS & SUPPLS	12,589-	14,466	1,877-	5.4
173	208	208	100.0	8311000	OFFICE/OTHER SUPPLIES	475	5,667	5,192-	288.8
427	42	42	100.0	8313000	DUPLICATES	67	67	0	100.0
600	40	40	100.0	8314000	POSTAGE/STAMPS AND RECEIPTS	324	1,667	1,343-	100.0
167	79	79	100.0	8315000	SHIRTS	667	3,233	2,566-	60.4
2,750	40	40	100.0	8317000	NON-DEPR FIXED ASSETS	333	333	0	100.0
2,917	198	198	100.0	8320000	TEACHING SUPPLIES	50	50	0	100.0
43,451	100	100	100.0	8325000	SPECIAL EVENTS	800	800	0	100.0
15,758	4,000	4,000	100.0	8326000	POSTAGE/EXPENSE TRAIL	15,641	12,000	3,641	51.1
15,736	42	42	100.0	8326100	OTHER INSURANCE	131	333	202	60.7
267	42	42	100.0	8328500	MEDIA ADVERTISING	5,029	45,200	40,171-	88.9
267	515	515	85-		TOTAL GENERAL EXPENSES	2,773	1,667	1,106-	6.4-
267	198	198	100.0	8451100	MEAT/SEAFOOD SUPPLIES	324	667	343-	100.0
267	79	79	100.0	8451700	DESSERTS	667	667	0	100.0
267	40	40	100.0	8454000	TV SOLUTIONS/SUPPLIES	333	333	0	100.0
267	239	239	115.7-	8458000	OXIGEN/GENS	825	1,667	842	50.5
267	515	515	85-		TOTAL PATIENT CARE SUPPLIES	1,922	4,334	2,412-	32.6
267	167	167	100.0	8501000	DEPR LABELED INSTRUMENTS	1,336	1,334	2	1-
267	2,750	2,750	100.0	8503400	DEPRED-NATURE MOVABLE EQUIPMENT	22,000	22,000	0	100.0
267	2,917	2,917	100.0		TOTAL DEPRECIATION/MONETIZ.	23,336	23,334	2	100.0
267	58,828	16,377	27.8		TOTAL EXPENSES	404,990	477,922	72,932	15.1
267	5,664	21,482	377.9-		EXCESS REVENUE OVER EXPENSE	151,775	34,531-	186,306-	539.5-
267	5,664	21,402	377.9-		NET INCOME	151,775	34,531-	186,306-	539.5-
267	31	761.3-			O/P ANCIL STAFFS	2,534	260	2,274-	874.6-
267	31	761.3-			TOTAL ANCIL STAFFS	2,534	260	2,274-	874.6-

Document Divider

Form **1023**
(Rev. September 1998)
Department of the Treasury
Internal Revenue Service

Application for Recognition of Exemption Under Section 501(c)(3) of the Internal Revenue Code

OMB No. 1545-0046
Note: If exempt status is approved, this application will be open for public inspection.

Read the instructions for each Part carefully.
A User Fee must be attached to this application.
If the required information and appropriate documents are not submitted along with Form 8718 (with payment of the appropriate user fee), the application may be returned to you.
Complete the Procedural Checklist on page 8 of the instructions.

Part I Identification of Applicant

1a Full name of organization (as shown in organizing document) Allegheny Specialty Practice Network		2 Employer identification number (EIN) (if none, see page 3 of the Specific Instructions.) 25 1838458
1b c/o Name (if applicable) Allegheny General Hospital		3 Name and telephone number of person to be contacted if additional information is needed Michael A. Lehmann (212) 830-7258
1c Address (number and street) 320 E. North Ave.	Room/Suite	4 Month the annual accounting period ends June
1d City, town, or post office, state, and ZIP + 4. If you have a foreign address, see Specific Instructions for Part I, page 3. Pittsburgh, PA 15212		
1e Web site address None		5 Date incorporated or formed June 16, 1999
6 Check here if applying under section: a <input type="checkbox"/> 501(a) b <input type="checkbox"/> 501(b) c <input type="checkbox"/> 501(c) d <input type="checkbox"/> 501(f)		
7 Did the organization previously apply for recognition of exemption under this Code section or under any other section of the Code? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," attach an explanation.		
8 Is the organization required to file Form 990 (or Form 990-EZ)? <input type="checkbox"/> N/A <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach an explanation (see page 3 of the Specific Instructions).		
9 Has the organization filed Federal income tax returns or exempt organization information returns? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," state the form numbers, years filed, and Internal Revenue office where filed. The applicant's initial return (Form 990) for its initial short year ended June 30, 1999 was due on November 15, 1999. An extension has been filed.		

10 Check the box for the type of organization. ATTACH A CONFORMED COPY OF THE CORRESPONDING ORGANIZING DOCUMENTS TO THE APPLICATION BEFORE MAILING. (See Specific Instructions for Part I, Line 10, on page 3.) See also Pub. 557 for examples of organizational documents.)

- a Corporation—Attach a copy of the Articles of Incorporation (including amendments and restatements) showing approval by the appropriate state official; also include a copy of the bylaws. See Attachments 1 and 2.
- b Trust— Attach a copy of the Trust indenture or Agreement, including all appropriate signatures and dates.
- c Association— Attach a copy of the Articles of Association, Constitution, or other creating document, with a declaration (see instructions) or other evidence the organization was formed by adoption of the document by more than one person; also include a copy of the bylaws.

If the organization is a corporation or an unincorporated association that has not yet adopted bylaws, check here

I declare under the penalties of perjury that I am authorized to sign this application on behalf of the above organization and that I have examined this application, including the accompanying schedules and attachments, and to the best of my knowledge it is true, correct, and complete.

Please Sign Here  **Andrew E. Thurman, Secretary** 11/19/99
(Signature) (Type or print name and title or authority of signor) (Date)

For Paperwork Reduction Act Notice, see page 7 of the instructions.

OMB No. 1545-0046

Part II Activities and Operational Information

- 1 Provide a detailed narrative description of all the activities of the organization—past, present, and planned. Do not merely refer to or repeat the language in the organizational document. List each activity separately in the order of importance based on the relative time and other resources devoted to the activity. Indicate the percentage of time for each activity. Each description should include, as a minimum, the following: (a) a detailed description of the activity including its purpose and how each activity furthers your exempt purpose; (b) when the activity was or will be initiated; and (c) where and by whom the activity will be conducted.

See Attachment #3.

- 2 What are or will be the organization's sources of financial support? List in order of size.

Patient revenues.
Graduate medical education reimbursements.

- 3 Describe the organization's fundraising program, both actual and planned, and explain to what extent it has been put into effect. Include details of fundraising activities such as selective mailings, formation of fundraising committees, use of volunteers or professional fundraisers, etc. Attach representative copies of solicitations for financial support.

The Applicant does not expect to undertake fund raising activities.

Part II Activities and Operational Information (Continued)

4 Give the following information about the organization's governing body:

a Names, addresses, and titles of officers, directors, trustees, etc.

See Attachment #7.

b Annual compensation

c Do any of the above persons serve as members of the governing body by reason of being public officials or being appointed by public officials? Yes No
If "Yes," name those persons and explain the basis of their selection or appointment.

d Are any members of the organization's governing body "disqualified persons" with respect to the organization (other than by reason of being a member of the governing body) or do any of the members have either a business or family relationship with "disqualified persons"? (See Specific Instructions for Part II, Line 4d, on page 3.) Yes No
If "Yes," explain.

5 Does the organization control or is it controlled by any other organization? Yes No
Is the organization the outgrowth of (or successor to) another organization, or does it have a special relationship with another organization by reason of interlocking directorates or other factors? Yes No
If either of these questions is answered "Yes," explain.

See Attachment #8.

6 Does or will the organization directly or indirectly engage in any of the following transactions with any political organization or other exempt organization (other than a 501(c)(3) organization): (a) grants; (b) purchases or sales of assets; (c) rental of facilities or equipment; (d) loans or loan guarantees; (e) reimbursement arrangements; (f) performance of services, membership, or fundraising solicitations; or (g) sharing of facilities, equipment, mailing lists or other assets, or paid employees? Yes No
If "Yes," explain fully and identify the other organizations involved.

7 Is the organization financially accountable to any other organization? Yes No
If "Yes," explain and identify the other organization. Include details concerning accountability or attach copies of reports if any have been submitted.

See Attachment #9.

Part II Activities and Operational Information (Continued)

8 What assets does the organization have that are used in the performance of its exempt function? (Do not include property producing investment income.) If any assets are not fully operational, explain their status, what additional steps remain to be completed, and when such final steps will be taken. If none, indicate "N/A."
See Attachment #10.

9 Will the organization be the beneficiary of tax-exempt bond financing within the next 2 years? Yes No

10a Will any of the organization's facilities or operations be managed by another organization or individual under a contractual agreement? Yes No

b Is the organization a party to any leases? Yes No
If either of these questions is answered "Yes," attach a copy of the contracts and explain the relationship between the applicant and the other parties.
See Attachment #11.

11 Is the organization a membership organization? Yes No
If "Yes," complete the following:

a Describe the organization's membership requirements and attach a schedule of membership fees and dues.
See Attachment #12.

b Describe the organization's present and proposed efforts to attract members and attach a copy of any descriptive literature or promotional material used for this purpose.
See Attachment #12.

c What benefits do (or will) the members receive in exchange for their payment of dues?
See Attachment #12.

12a If the organization provides benefits, services, or products, are the recipients required, or will they be required, to pay for them? N/A Yes No
If "Yes," explain how the charges are determined and attach a copy of the current fee schedule.
See Attachment #13.

b Does or will the organization limit its benefits, services, or products to specific individuals or classes of individuals? N/A Yes No
If "Yes," explain how the recipients or beneficiaries are or will be selected.

13 Does or will the organization attempt to influence legislation? Yes No
If "Yes," explain. Also, give an estimate of the percentage of the organization's time and funds that it devotes or plans to devote to this activity.

14 Does or will the organization intervene in any way in political campaigns, including the publication or distribution of statements? Yes No
If "Yes," explain fully.

Part III Technical Requirements

1 Are you filing Form 1023 within 15 months from the end of the month in which your organization was created or formed? Yes No
If you answer "Yes," do not answer questions on lines 2 through 6 below.

2 If one of the exceptions to the 15-month filing requirement shown below applies, check the appropriate box and proceed to question 7.
Exceptions—You are not required to file an exemption application within 15 months if the organization: N/A

- a Is a church, interchurch organization of local units of a church, a convention or association of churches, or an integrated auxiliary of a church. See **Specific Instructions**, Line 2a, on page 4;
- b Is not a private foundation and normally has gross receipts of not more than \$5,000 in each tax year; or
- c Is a subordinate organization covered by a group exemption letter, but only if the parent or supervisory organization timely submitted a notice covering the subordinate.

3 If the organization does not meet any of the exceptions on line 2 above, are you filing Form 1023 within 27 months from the end of the month in which the organization was created or formed? Yes No N/A

If "Yes," your organization qualifies under Regulation section 301.9100-2, for an automatic 12-month extension of the 15-month filing requirement. Do not answer questions 4 through 6.

If "No," answer question 4.

4 If you answer "No" to question 3, does the organization wish to request an extension of time to apply under the "reasonable action and good faith" and the "no prejudice to the interest of the government" requirements of Regulations section 301.9100-3? Yes No N/A

If "Yes," give the reasons for not filing this application within the 27-month period described in question 3. See **Specific Instructions**, Part III, Line 4, before completing this item. Do not answer questions 5 and 6.

If "No," answer questions 5 and 6.

5 If you answer "No" to question 4, your organization's qualification as a section 501(c)(3) organization can be recognized only from the date this application is filed. Therefore, do you want us to consider the application as a request for recognition of exemption as a section 501(c)(3) organization from the date the application is received and not retroactively to the date the organization was created or formed? Yes No N/A

6 If you answer "Yes" to question 5 above and wish to request recognition of section 501(c)(4) status for the period beginning with the date the organization was formed and ending with the date the Form 1023 application was received (the effective date of the organization's section 501(c)(3) status), check here and attach a completed page 7 of Form 1024 to this application. N/A

Part III Technical Requirements (Continued)

- 7 Is the organization a private foundation?
 Yes (Answer question 8.)
 No (Answer question 9 and proceed as instructed.)

- 8 If you answer "Yes" to question 7, does the organization claim to be a private operating foundation?
 Yes (Complete Schedule E.) N/A
 No

After answering question 8 on this line, go to line 14 on page 7.

- 9 If you answer "No" to question 7, indicate the public charity classification the organization is requesting by checking the box below that most appropriately applies:

THE ORGANIZATION IS NOT A PRIVATE FOUNDATION BECAUSE IT QUALIFIES:

- | | | |
|---|--|---|
| a | <input type="checkbox"/> As a church or a convention or association of churches
(CHURCHES MUST COMPLETE SCHEDULE A.) | Sections 509(a)(1)
and 170(b)(1)(A)(i) |
| b | <input type="checkbox"/> As a school (MUST COMPLETE SCHEDULE B.) | Sections 509(a)(1)
and 170(b)(1)(A)(ii) |
| c | <input checked="" type="checkbox"/> As a hospital or a cooperative hospital service organization, or a medical research organization operated in conjunction with a hospital (These organizations, except for hospital service organizations, MUST COMPLETE SCHEDULE C.) | Sections 509(a)(1)
and 170(b)(1)(A)(iii) |
| d | <input type="checkbox"/> As a governmental unit described in section 170(c)(1). | Sections 509(a)(1)
and 170(b)(1)(A)(iv) |
| e | <input type="checkbox"/> As being operated solely for the benefit of, or in connection with, one or more of the organizations described in a through d, g, h, or i (MUST COMPLETE SCHEDULE D.) | Section 509(a)(3) |
| f | <input type="checkbox"/> As being organized and operated exclusively for testing for public safety. | Section 509(a)(4) |
| g | <input type="checkbox"/> As being operated for the benefit of a college or university that is owned or operated by a governmental unit. | Sections 509(a)(1)
and 170(b)(1)(A)(v) |
| h | <input type="checkbox"/> As receiving a substantial part of its support in the form of contributions from publicly supported organizations, from a governmental unit, or from the general public. | Sections 509(a)(1)
and 170(b)(1)(A)(vi) |
| i | <input type="checkbox"/> As normally receiving not more than one-third of its support from gross investment income and more than one-third of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions (subject to certain exceptions). | Section 509(a)(2) |
| j | <input type="checkbox"/> The organization is a publicly supported organization but is not sure whether it meets the public support test of h or i. The organization would like the IRS to decide the proper classification. | Sections 509(a)(1)
and 170(b)(1)(A)(vii)
or Section 509(a)(2) |

If you checked one of the boxes a through f in question 9, go to question 14. If you checked box g in question 9, go to questions 11 and 12. If you checked box h, i, or j, in question 9, go to question 10.

Part III Technical Requirements (Continued)

- 10 If you checked box h, i, or j in question 9, has the organization completed a tax year of at least 8 months? N/A
- Yes—Indicate whether you are requesting:
- A definitive ruling. (Answer questions 11 through 14.)
 - An advance ruling. (Answer questions 11 and 14 and attach two Forms 872-C completed and signed.)
- No—You must request an advance ruling by completing and signing two Forms 872-C and attaching them to the Form 1023.
- 11 If the organization received any unusual grants during any of the tax years shown in Part IV-A, Statement of Revenue and Expenses, attach a list for each year showing the name of the contributor; the date and the amount of the grant; and a brief description of the nature of the grant. N/A

- 12 If you are requesting a definitive ruling under section 170(b)(1)(A)(iv) or (vi), check here and: N/A
- a Enter 2% of line 8, column (e), Total, of Part IV-A
 - b Attach a list showing the name and amount contributed by each person (other than a governmental unit or "publicly supported" organization) whose total gifts, grants, contributions, etc., were more than the amount entered on line 12a above.

- 13 If you are requesting a definitive ruling under section 509(a)(2), check here and: N/A
- a For each of the years included on lines 1, 2, and 9 of Part IV-A, attach a list showing the name of and amount received from each "disqualified person." (For a definition of "disqualified person," see Specific Instructions, Part II, Line 4d, on page 3.)
 - b For each of the years included on line 9 of Part IV-A, attach a list showing the name of and amount received from each payer (other than a "disqualified person") whose payments to the organization were more than \$5,000. For this purpose, "payer" includes, but is not limited to, any organization described in sections 170(b)(1)(A)(i) through (vi) and any governmental agency or bureau.

14 Indicate if your organization is one of the following. If so, complete the required schedule. (Submit only those schedules that apply to your organization. Do not submit blank schedules.)

	Yes	No	If "Yes," complete Schedule:
Is the organization a church?		X	A
Is the organization, or any part of it, a school?		X	B
Is the organization, or any part of it, a hospital or medical research organization?	X		C
Is the organization a section 509(a)(3) supporting organization?		X	D
Is the organization a private operating foundation?		X	E
Is the organization, or any part of it, a home for the aged or handicapped?		X	F
Is the organization, or any part of it, a child care organization?		X	G
Does the organization provide or administer any scholarship benefits, student aid, etc.?		X	H
Has the organization taken over, or will it take over, the facilities of a "for profit" institution? . . .		X	I

Part IV Financial Data Allegheny Specialty Practice Network

Complete the financial statements for the current year and for each of the 3 years immediately before it. If in existence less than 4 years, complete the statements for each year in existence. If in existence less than 1 year, also provide proposed budgets for the 2 years following the current year.

A. Statement of Revenue and Expenses

	Current tax year	3 prior tax years or proposed budget for 2 years			(e) TOTAL
	(a) From 7/1/99 to 6/30/2000	(b) 7/1/2000 to 6/30/2001	(c) 7/1/2001 to 6/30/2002	(d)	
Revenue					
1 Gifts, grants, and contributions received (not including unusual grants—see page 6 of the instructions)	\$ 0	\$ 0	\$ 0		\$ 0
2 Membership fees received	0	0	0		0
3 Gross investment income (see instructions for definition)	0	0	0		0
4 Net income from organization's unrelated business activities not included on line 3.	0	0	0		0
5 Tax revenues levied for and either paid to or spent on behalf of the organization	0	0	0		0
6 Value of services or facilities furnished by a governmental unit to the organization without charge (not including the value of services or facilities generally furnished the public without charge).	0	0	0		0
7 Other income (not including gain or loss from sale of capital assets) (attach schedule)	\$795,970	\$811,790	\$828,102		\$2,435,862
8 Total (add lines 1 through 7)	\$795,970	\$811,790	\$828,102		\$2,435,862
9 Gross receipts from admissions, sales of merchandise or services, or furnishing of facilities in any activity that is not an unrelated business within the meaning of section 513. Include related cost of sales on line 22	\$39,560,973	\$40,355,242	\$41,565,900		\$121,482,115
10 Total (add lines 8 and 9)	\$40,356,943	\$41,167,032	\$42,394,002		
11 Gain or loss from sale of capital assets (attach schedule).	0	0	0		0
12 Unusual grants.	0	0	0		0
13 Total revenue (add lines 10 through 12)	\$40,356,943	\$41,167,032	\$42,394,002		\$123,917,977
Expenses					
14 Fundraising expenses	0	0	0		
15 Contributions, gifts, grants, and similar amounts paid (attach schedule)	0	0	0		
16 Disbursements to or for benefit of members (attach schedule)	0	0	0		
17 Compensation of officers, directors, and trustees (attach schedule)	0	0	0		
18 Other salaries and wages	\$42,538,132	\$43,386,671	\$44,252,181		
19 Interest	0	0	0		
20 Occupancy (rent, utilities, etc.).	103,958	106,037	108,158		
21 Depreciation and depletion	337,873	352,873	382,873		
22 Other (attach schedule)	9,699,058	9,601,566	9,793,597		
23 Total expenses (add lines 14 through 22)	\$52,679,021	\$53,447,147	\$54,536,809		
24 Excess of revenue over expenses (line 13 minus line 23)	(\$12,322,078)	(\$12,280,115)	(\$12,142,807)		

Note to Line 24: Deficits are expected to be covered through support payments from AGH and AUMC. AGH will cover 79% of the deficits and AUMC will cover 21%.

Part IV Financial Data (Continued)

B. Balance Sheet (at the end of the period shown)

Current tax year
Date 6/30/2000

Assets		
1	Cash	\$1,179,000
2	Accounts receivable, net	8,195,000
3	Inventories	3,311,000
4	Bonds and notes receivable (attach schedule)	472,000
5	Corporate stocks (attach schedule)	0
6	Mortgage loans (attach schedule)	0
7	Other investments (attach schedule)	11,936,000
8	Depreciable and depletable assets (attach schedule)	14,574,000
9	Land	0
10	Other assets (attach schedule)	75,000
11	Total assets (add lines 1 through 10)	\$40,332,000
Liabilities		
12	Accounts payable	\$ 9,968,000
13	Contributions, gifts, grants, etc., payable	7,138,000
14	Mortgages and notes payable (attach schedule)	9,521,000
15	Other liabilities (attach schedule)	4,738,000
16	Total liabilities (add lines 12 through 15)	\$31,365,000
Fund Balances or Net Assets		
17	Total fund balances or net assets	\$ 8,967,000
18	Total liabilities and fund balances or net assets (add line 16 and line 17)	\$40,332,000

If there has been any substantial change in any aspect of the organization's financial activities since the end of the period shown above, check the box and attach a detailed explanation

Schedule C. Hospitals and Medical Research Organizations

Check here if claiming to be a hospital; complete the questions in Section I of this schedule; and write "N/A" in Section II.

Check here if claiming to be a medical research organization operated in conjunction with a hospital; complete the questions in Section II of this schedule; and write "N/A" in Section I.

Section I Hospitals

1a How many doctors are on the hospital's courtesy staff? N/A

b Are all the doctors in the community eligible for staff privileges? Yes No
If "No," give the reasons why and explain how the courtesy staff is selected.

See Attachment #16.

2a Does the hospital maintain a full-time emergency room? Yes No N/A

b What is the hospital's policy on administering emergency services to persons without apparent means to pay? N/A

See Attachment #16.

c Does the hospital have any arrangements with police, fire, and voluntary ambulance services for the delivery or admission of emergency cases? Yes No N/A
Explain.

See Attachment #16.

3a Does or will the hospital require a deposit from persons covered by Medicare or Medicaid in its admission practices? Yes No
If "Yes," explain.

b Does the same deposit requirement, if any, apply to all other patients? Yes No N/A
If "No," explain.

4 Does or will the hospital provide for a portion of its services and facilities to be used for charity patients? Yes No N/A
Explain the policy regarding charity cases. Include data on the hospital's past experience in admitting charity patients and arrangements it may have with municipal or government agencies for absorbing the cost of such care.

5 Does or will the hospital carry on a formal program of medical training and research? Yes No
If "Yes," describe.

See Attachment #16.

6 Does the hospital provide office space to physicians carrying on a medical practice? Yes No
If "Yes," attach a list setting forth the name of each physician, the amount of space provided, the annual rent, the expiration date of the current lease and whether the terms of the lease represent fair market value.

Section II Medical Research Organizations

1 Name the hospitals with which the organization has a relationship and describe the relationship.

2 Attach a schedule describing the organization's present and proposed (indicate which) medical research activities; show the nature of the activities, and the amount of money that has been or will be spent in carrying them out. (Making grants to other organizations is not direct conduct of medical research.)

3 Attach a statement of assets showing their fair market value and the portion of the assets directly devoted to medical research.

For more information, see back of Schedule C.

List of Attachments

Attachment #1	The Applicant's Certificate of Incorporation
Attachment #2	The Applicant's By-Laws
Attachment #3	Response to Part II, Question 1: Activities and Operational Information
Attachment #4	Settlement Agreement
Attachment #5	Affiliation Agreement
Attachment #6	Membership Withdrawal Agreement
Attachment #7	Response to Part II, Question 4: Directors and Officers
Attachment #8	Response to Part II, Question 5: Control by Other Organizations
Attachment #9	Response to Part II, Question 7: Accountability to Other Organizations
Attachment #10	Response to Part II, Question 8: Assets Used
Attachment #11	Response to Part II, Question 10(a): Management Services
Attachment #12	Response to Part II, Question 11: Membership Corporation
Attachment #13	Response to Part II, Question 12a: Benefits, Services or Products
Attachment #14	Response to Part IV, Line 7: Other Income
Attachment #15	Response to Part IV, Line 22: Other Expenses
Attachment #16	Response to Schedule C
Attachment #17	Conflict of Interest Policy

Exhibit 1

JUN 16 1999

Filed in the Department of
State

Kim Fitzgerald
Secretary of the Commonwealth

9945-1153

2882863

ARTICLES OF INCORPORATION

OF THE

ALLEGHENY SPECIALTY PRACTICE NETWORK

In compliance with the requirements of 15 Pa.C.S. § 5306, the undersigned, being of full age and desiring to incorporate a nonprofit corporation, hereby certifies as follows:

FIRST: The name of the corporation is Allegheny Specialty Practice Network (hereinafter the "Corporation").

SECOND: The address of the Corporation's initial registered office in this Commonwealth is 4800 Friendship Avenue, Pittsburgh, Pennsylvania 15224, located in the county of Allegheny.

THIRD: The Corporation is incorporated under the Pennsylvania Nonprofit Corporation Law of 1988.

FOURTH: The Corporation is formed and is to be operated exclusively for the following charitable, scientific and educational purposes, within the meaning of section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"): supporting, benefitting and carrying out the functions of a regional health care system, comprised of corporations, each of which (x) has a sole corporate member that is also the sole corporate member of the Corporation, (y) either (i) operates, raises funds for, or conducts activities otherwise ancillary to the operation of, health care facilities in Western Pennsylvania without regard to age, sex, race, religion, national origin or sexual orientation, or (ii) carries on scientific research related to the causes, diagnosis, treatment, prevention or control of physical or mental diseases and impairments of persons, and (z) is described in sections 501(c)(3) and either 509(a)(1) or 509(a)(2) of the Code (all health care facilities operated by such corporations are referred to herein as the "Constituent Hospitals", and such corporations are referred to herein as the "Constituent Corporations") by:

- (a) maintaining and operating programs rendering diagnostic and clinical and other health care services and health related services in support of clinical programs, education and research in the Western Pennsylvania community;

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- (b) providing health care for sick injured, disabled, indigent, or infirm persons in the Western Pennsylvania community;
- (c) supporting or carrying on research and educational activities of the Constituent Hospitals and Constituent Corporations, related to the rendering of care to the sick, injured and disabled, the furthering of knowledge in the medical arts and in promotion of health;
- (d) assisting the Constituent Hospitals and Constituent Corporations in their residency training programs in various medical specialties and related teaching programs; and
- (e) exercising such powers in furtherance of the foregoing purposes as are now or may be granted hereafter by the Nonprofit Corporation Law of the Commonwealth of Pennsylvania, as amended from time to time, or any successor legislation.

FIFTH: The Corporation does not contemplate pecuniary gain or profit, incidental or otherwise.

SIXTH: The Corporation is organized upon a nonstock basis.

SEVENTH: The Member or Members shall be the entity and/or persons identified as such in the Corporation's Bylaws. As such, the Member or Members shall have all of the rights and privileges conferred upon nonprofit corporate Members under the laws of the Commonwealth of Pennsylvania, except as otherwise specified in the Bylaws of the Corporation, as well as such additional rights and privileges as shall be specified in the Bylaws of the Corporation.

EIGHTH: The name and address of the incorporator is:

Name	Address
Michael A. Lehmann	c/o Kalkines, Arky, Zall & Bernstein LLP 1675 Broadway, 27th Floor New York, New York 10019

NINTH: Notwithstanding any other provision herein, the Corporation is organized and is to be operated exclusively for one or more of the purposes specified in section 501(c)(3) of the Code and shall neither have nor exercise any power, nor shall it engage directly or indirectly in any activity, that would invalidate (i) its status as a corporation which is exempt from Federal income taxation under section 501(a) of the Code, as an organization described in section 501(c)(3) of the Code, (ii) its status as a public charity under 509(a)(3) of the Code, and

(iii) its status as an organization, contributions to which are deductible under sections 170(c)(2), 2055(a)(2) and 2522(a)(2) of the Code.

TENTH: No part of the net earnings of the Corporation shall inure to the benefit of any trustee, director or officer of the Corporation or any private individual, firm, corporation or association, except that reasonable compensation may be paid for services rendered and payments and distributions may be made in furtherance of the purposes set forth in Article FOURTH hereof, and no trustee, director or officer of the Corporation, nor any private individual, firm, corporation or association, shall be entitled to share in the distribution of any of the corporate assets on dissolution of the Corporation.

ELEVENTH: In the event of dissolution of the Corporation, its Board of Directors, after making provision for the payment of all of the liabilities of the Corporation, and subject to providing prior notice to the Attorney General, obtaining the approval of the Orphans' Court of the Commonwealth of Pennsylvania, and compliance with the laws of the Commonwealth of Pennsylvania, shall arrange for either the direct distribution of all of the assets of the Corporation for the purposes of the Corporation (as set forth in Article FOURTH hereof) or the distribution to one or more organizations (i) which qualify for exemption under the provisions of section 501(a) of the Code as an organization described in section 501(c)(3) of the Code and classified as a public charity pursuant to section 509(a) of the Code and the Treasury Regulations promulgated thereunder, and (ii) contributions to which then are deductible under sections 170(c)(2), 2055(a)(2) and 2522(a) of the Code.

TWELFTH: No substantial part of the activities of the Corporation shall be carrying on propaganda, or otherwise attempting to influence legislation, except as may otherwise be permitted by section 501(h) of the Code. No part of the activities of the Corporation shall be participating in, or intervening in, any political campaign on behalf of or in opposition to any candidate for public office (including the publishing or distributing of statements).

THIRTEENTH: The Member or Members may alter or amend these Articles, subject to obtaining any additional approvals required by the Bylaws of the Corporation, and provided that any such alteration or amendment shall be consistent with the Corporation's status as (i) a corporation which is exempt from Federal income taxation under section 501(a) of the Code, as an organization described in section 501(c)(3) of the Code, (ii) a public charity under section 509(a)(3) of the Code, and (iii) a corporation, contributions to which are deductible under sections 170(c)(2), 2055(a)(2) and 2522(a)(2) of the Code.

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FOURTEENTH: Reference in these Articles to sections of the "Code" shall be deemed to include corresponding provisions of any future United States Internal Revenue law.

IN TESTIMONY WHEREOF, the incorporator has signed these Articles of Incorporation this 15th day of June, 1999.


Michael A. Lehmann

c/o Kalkines, Arky, Zall & Bernstein LLP
1675 Broadway, 27th Floor
New York, New York 10019

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AMENDED AND RESTATED BYLAWS
OF
ALLEGHENY SPECIALTY PRACTICE NETWORK

ARTICLE I

NAME AND LOCATION

Section 1. Name. The name of the Corporation is Allegheny Specialty Practice Network (the "Corporation").

Section 2. Principal Office. The principal office of the Corporation shall be located at 320 East North Avenue, Pittsburgh, Pennsylvania 15212 or at such other address as the Board of Directors shall determine.

ARTICLE II

PURPOSE; PARTICIPATION IN SYSTEM

Section 1. Purpose. The Corporation is formed and is to be operated exclusively for the following charitable, scientific and educational purposes, within the meaning of section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"): supporting, benefitting and carrying out the functions of a regional health care system, comprised of corporations, each of which (x) has a sole corporate member that is also the sole corporate member of the Corporation, (y) either (i) operates, raises funds for, or conducts activities otherwise ancillary to the operation of, health care facilities in Western Pennsylvania without regard to age, sex, race, religion, national origin or sexual orientation, or (ii) carries on scientific research related to the causes, diagnosis, treatment, prevention or control of physical or mental diseases and impairments of persons, and (z) is described in sections 501(c)(3) and either 509(a)(1) or 509(a)(2) of the Code (all health care facilities operated by such corporations are referred to herein as the "Constituent Hospitals", and such corporations are referred to herein as the "Constituent Corporations") by:

- (a) maintaining and operating programs rendering diagnostic and clinical and other health care services and health related services in support of clinical programs, education and research in the Western Pennsylvania community;
- (b) providing health care for sick injured, disabled, indigent, or infirm persons in the Western Pennsylvania community;
- (c) supporting or carrying on research and educational activities of the Constituent Hospitals and Constituent Corporations, related to the

rendering of care to the sick, injured and disabled, the furthering of knowledge in the medical arts and in promotion of health;

- (d) assisting the Constituent Hospitals and Constituent Corporations in their residency training programs in various medical specialties and related teaching programs; and
- (e) exercising such powers in furtherance of the foregoing purposes as are now or may be granted hereafter by the Nonprofit Corporation Law of the Commonwealth of Pennsylvania, as amended from time to time, or any successor legislation (the "PNCL").

Section 2. Participation in System. The Corporation is a constituent entity of the health care system serving Western Pennsylvania known as The Healthcare Alliance For Western Pennsylvania (the "System") which, as of the date of the adoption of these bylaws, is comprised of affiliated hospitals and certain other affiliated organizations. These Bylaws, among other things, establish the relative authority and responsibility of the entities and individuals participating in the governance and management of the Corporation in its capacity as part of the System.

ARTICLE III

MEMBER

Section 1. Member. Subject to Section 9 of this Article III, the sole voting member of the Corporation (the "Member") shall be The Healthcare Alliance for Western Pennsylvania, Inc. (the "Member"), acting through its Board of Directors (the "Member Board"), or through its Executive Committee (the "Member Executive Committee") or designated officers of the Member (the "Designated Representatives") to the extent that the Member has, pursuant to its Bylaws or by resolution duly adopted by the Member Board, delegated its authority herein to the Member Executive Committee or to a Designated Representative; provided, however, that neither the Member Executive Committee nor any Designated Representative shall have the authority to act on behalf of the Member with respect to any of the actions identified in Section 2.B of this Article III.

Section 2. Powers and Rights of Member.

A. The Member shall have such powers and rights as are set forth in the PNCL and the Articles of Incorporation of the Corporation. Without limiting and in addition to such powers and rights, the Member shall have the exclusive authority to exercise the following powers:

- (1) Adopt and/or approve and interpret the statement of mission and philosophy of the Corporation, and require the Corporation to operate in conformance with its statement of mission and philosophy;

(2) Adopt and/or approve amendments or restatements of the bylaws and Articles of Incorporation of the Corporation, subject, however, to Section 9 of this Article III, and with respect to amendments of the following provisions in the bylaws and Articles of Incorporation of the Corporation, subject to prior notice to the Attorney General and the prior approval of the Orphans' Court: (i) provisions setting forth the purposes of the Corporation; (ii) provisions setting forth the powers reserved exclusively to the Member; (iii) provisions describing the manner in which the assets of the Corporation are to be distributed upon termination, dissolution or winding up of the Corporation; and (iv) provisions requiring notice to the Attorney General or approval of the Orphans' Court prior to the taking of certain action by the Corporation.

(3) Fix the number of, and elect, appoint, fill vacancies in and remove, with or without cause, the Directors; and elect and remove, with or without cause, the Chair and Vice Chair of the Board of Directors of the Corporation, and the Secretary and Treasurer of the Corporation; provided that no Director or officer shall be removed by the Member without 10 days prior notice of such removal from the Member to the Board of Directors;

(4) Designate the administrative structure of the Corporation and, after consultation with the Board of Directors of the Corporation, elect and remove, with or without cause, the President and Chief Executive Officer and all vice presidents and other officers of the Corporation, provided that no officer shall be removed by the Member without 10 days prior notice of such removal from the Member to the Board of Directors;

(5) Cause or approve any merger, consolidation, division, conversion, or dissolution of the Corporation, or the filing of a petition in bankruptcy or execution of a deed of assignment for the benefit of creditors;

(6) Approve or cause the Corporation to engage in any acquisition or any sale, lease, exchange, mortgage, pledge or other alienation of any personal property of the Corporation having a value in excess of an amount to be fixed from time to time by the Member or any real property of the Corporation;

(7) Adopt and/or approve any capital or operating budgets of the Corporation, and approve or direct any unbudgeted expenditure to be undertaken individually or collectively by the Corporation and any affiliated corporations controlled by the Corporation (other than unbudgeted expenditures which are required in order for the Corporation to be in compliance with applicable laws, rules and regulations, and state licensing and accreditation requirements), where the cumulative amount of such unbudgeted expenditures is in excess of an amount to be fixed from time to time by the Member;

(8) Adopt and/or approve any operating plan or financial plan with respect to the Corporation, and require the Corporation to comply with such operating or financial plan;

(9) Approve and/or cause the Corporation to undertake or engage itself in respect of any bond issuance or any other indebtedness for borrowed money of the Corporation, or any lending of funds by the Corporation to an unrelated person, corporation or other legal entity, including without limitation any capital leases (other than indebtedness to provide funds for expenditures necessary in order for the Corporation to be in compliance with applicable laws, rules and regulations, and state licensing and accreditation requirements, to the extent such funds are not otherwise reasonably available), representing obligations of the Corporation in excess of an amount per annum in the aggregate established from time to time by the Member;

(10) Approve and/or direct the allocation and transfer of the Corporation's excess cash (as determined by the Member) among those charitable nonprofit health care organizations operating in Western Pennsylvania of which the Member is the sole Member, which organizations are exempt from federal income taxation under Section 501(a) of the Code because they are organizations described in Section 501(c)(3) of the Code, provided that any such allocation and transfer shall be in furtherance of the Corporation's charitable purposes;

(11) Establish and/or approve the criteria for, and conduct the evaluation of, the performance of the President and Chief Executive Officer and all vice presidents and officers of similar rank of the Corporation;

(12) Approve and/or cause the adoption by the Corporation of proposed settlements of litigation when such settlements exceed applicable insurance coverage or the amounts reserved in respect thereof of any applicable self-insurance fund;

(13) Approve and/or cause the adoption by the Corporation of any contracts between the Corporation and any managed care organization (including without limitation any health maintenance organization or independent practice association) or insurance company;

(14) Approve and/or cause any corporate reorganization of the Corporation or the establishment or dissolution of any subsidiary organizations, including corporations, partnerships or other entities, of the Corporation;

(15) Adopt and/or approve the strategic plan of the Corporation; and

(16) Approve or direct the taking of any other action outside of ordinary course of business and such matters as are required to be submitted to corporate members of a Pennsylvania nonprofit corporation.

Except as otherwise required by the PNCL, and subject to Section 9 of this Article III, the action of the Member with respect to each of the foregoing actions shall be sufficient to approve such actions, ~~no action by the Board of Directors of the Corporation shall be required with respect to any such actions, and, to the full extent permitted by law, no action of the Board of Directors with respect to any such actions shall be effective for any purpose without the approval of the Member.~~

B. Each of the following actions may be approved by the Member only through action of the Member Board, and not through action of the Member Executive Committee or any Designated Representative:

(1) The adoption or approval of a statement of mission and philosophy of the Corporation;

(2) The adoption or approval of any amendments of the Bylaws or Articles of Incorporation of the Corporation;

(3) The approval of any merger, consolidation, division, conversion, or dissolution of the Corporation, or the filing of a petition in bankruptcy or execution of a deed of assignment for the benefit of creditors, or the sale or other disposition of all or substantially all of the assets of the Corporation;

(4) The election, appointment and removal of the Directors, the Chair and Vice Chair of the Board of Directors of the Corporation, and the Secretary and Treasurer of the Corporation;

(5) The approval of any bond issuance or incurrence of any other indebtedness for borrowed money of the Corporation, or any lending of funds by the Corporation to an unrelated person, corporation or other legal entity, including without limitation any capital leases; and

(6) The approval and/or direction of the allocation and transfer of the Corporation's excess cash (as determined by the Member) among those charitable nonprofit health care organizations operating in Western Pennsylvania of which the Member is the sole Member.

Section 3. Meetings of Member. Meetings of the Member may be held at such place within the Commonwealth of Pennsylvania as the Member may from time to time determine, or as may be designated in the notice of the meeting.

Section 4. Annual Meeting of the Member.

A. Unless otherwise fixed by the Member, the annual meeting of the Corporation shall be held in June of each year. At each annual meeting, (i) the Board of Directors shall present to the Member an annual report regarding the financial performance of the Corporation, and (ii) the Member shall appoint the Board of Directors of the Corporation in accordance with Article IV and all officers that pursuant to the Bylaws are then to be appointed by the Member. If the annual meeting shall not be called and held within one (1) month of the date specified in this Article III, Section 4 or fixed by the Member in accordance with this Article III, Section 4, as applicable, any members of the Board of Directors and any officers theretofore appointed by the Member shall continue to serve unless removed by the Member (or unless the applicable member of the Board of Directors or officer resigns), and a special meeting may be held in place thereof with the same force and effect as the annual meeting, and in such case all references in these Bylaws, except in this Article III, Section 4, to the annual meeting of the Corporation shall be deemed to refer to such special meeting. Any such special meeting shall be called and notice given as provided in Article III, Sections 5 and 7, as applicable.

B. Immediately after each annual appointment of the Board of Directors by the Member at the annual meeting or a special meeting, the Board of Directors of the Corporation shall meet for the transaction of business to be conducted by the Board of Directors at the place where the annual or special meeting of the Member was held. Notice of such meeting need not be given. If such meeting is to be held at any other time or place, notice thereof shall be given as provided in Article V, Section 2 for special meetings of the Board of Directors.

Section 5. Special Meetings of the Member. Special meetings of the Member shall be held whenever called by the Board of Directors of the Corporation, or by written demand of the Member.

Section 6. Action Without a Meeting. Any action which may be taken at a meeting of the Member may be taken without a meeting if a consent in writing setting forth the actions so taken shall be signed by the Member, and filed with the Secretary of the Corporation.

Section 7. Notice of Meetings; Participation by Conference Telephone.

A. Unless otherwise provided in these Bylaws, whenever written notice is required to be given to the Member under the provisions of the Articles of Incorporation, these Bylaws, or the PNCL, it may be given by sending a copy thereof first class mail, postage prepaid, by personal delivery, or in the case of notices other than notices of meetings, by telecopy with confirmed receipt to the address of the Member appearing on the books of the Corporation. If the notice is sent by mail, it shall be deemed to have been given to the Member entitled thereto when deposited in the United States. A notice of meeting shall specify the place, day and hour of the meeting and any other information required by law or these Bylaws, and, unless the meeting is an annual meeting, shall indicate that the notice is being issued by or at the direction of the person(s) calling the meeting. Notice of each meeting of the Member shall be given not less than five days before the date of the meeting, except in the case where fundamental changes

to the Corporation under Chapter 59 of the PNCL will be considered, in which case such notice shall be given not less than ten days before the date of the meeting. Every such notice shall state the date, time and place of the meeting, and notices of special meetings of the Member shall also set forth the general nature of the business to be conducted at such meeting.

B. When a meeting is adjourned, it shall not be necessary to give any notice of the adjourned meeting and of the business to be transacted at an adjourned meeting in accordance with the provisions of this Article III, Section 7 if the day, time and place to which the meeting is adjourned is announced at the meeting at which the adjournment is taken.

C. Whenever notice of a meeting is required, such notice need not be given to the Member if a written waiver of notice executed by the Member is filed with the records of the Corporation. Attendance by the Member at any meeting of the Member shall constitute a waiver by the Member of notice of such meeting, except where the Member attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

D. One or more persons may participate in a meeting of the Member by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this subsection shall constitute presence in person at such meeting.

Section 8. Resolutions. Whenever the language of a proposed resolution is included in a written notice of a meeting of the Member, the meeting considering the resolution may without further notice adopt it with such clarifying or other amendments as do not enlarge its original purpose.

Section 9. Additional Members. Notwithstanding anything herein to the contrary, upon the occurrence of a Triggering Event (as defined below), then effective immediately and automatically upon the occurrence of such Triggering Event and without further action by the Member, the voting members of the Corporation shall include, in addition to the Member identified in Section 1 of this Article III hereof, all of the then-current members of the Board of Directors of the Corporation, and any reference in these bylaws to "the Member" shall be deemed to be a reference to "the Members" as identified in this Article III, Section 9, each of whom shall have one vote, and all of whom together shall have the authority that, but for operation of this Article III, Section 9, would be vested in the Member. From and after the occurrence of a Triggering Event, (i) a majority of the Members shall constitute a quorum at any meeting of the Members and (ii) the affirmative vote of two-thirds (or greater) of the whole number of Members shall be required to approve any matter to be voted on by the Members. For purposes of this Section, "Triggering Event" shall mean any of the following occurrences:

- (1) a Final Determination (as defined below) shall have been entered denying the Member's application for recognition as an Exempt Organization (as defined below) or revoking the Member's status as an Exempt Organization;

(2) the Member shall have taken all corporate action necessary to approve (x) the dissolution of the Member or (y) the filing by the Member of a voluntary petition in bankruptcy;

(3) the Member shall have admitted in writing its inability to pay its debts as they come due; or

(4) an involuntary petition for the dissolution and winding up of the Member shall have been filed, which such petition is not dismissed within 60 days of the filing thereof.

"Final Determination" shall mean a decision, judgment, decree or other order by the Internal Revenue Service or a court of competent jurisdiction which is final and unappealable, or which has become unappealable because the time for instituting an appeal has expired. "Exempt Organization" shall mean an organization exempt from federal income taxation pursuant to Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code. Notwithstanding anything herein to the contrary, amendment of this Section 9 shall require approval of both the Member and at least two-thirds of the entire Board of Directors of the Corporation.

Section 10. Operating Reports. The Board of Directors of the Corporation shall submit operating reports to the Member in such form and on such schedule as shall be established by the Member. Such operating reports shall reflect the results of operations of the Corporation and of any affiliates of the Corporation that are controlled by the Corporation.

ARTICLE IV

THE BOARD OF DIRECTORS

Section 1. Powers and Responsibility. Subject to Article III hereof and to the other rights and powers of the Member specified herein or in the Articles of Incorporation or otherwise provided hereby or in the Articles of Incorporation or by law, the Board of Directors shall have charge, control, and management of the administrative affairs, property and funds of the Corporation and shall have the power and authority to do and perform all acts and functions not inconsistent with these Bylaws, the Articles of Incorporation, and applicable law, in each case as amended from time to time. Such responsibility shall include without limitation: implementation of any operational or financial plan adopted by the Member and institutional management and planning. Without limiting the generality of the foregoing, the Board of Directors shall have power and authority to, and shall be responsible to, establish and manage the Corporation's program for compliance with all legal requirements applicable to the Corporation. The Board of Directors shall also prepare, for the Member's review and approval, on such timetable as the Member shall establish, proposed annual budgets for the Corporation, which budgets shall be consistent with any operating plan or financial plan adopted or approved by the Member and then in effect.

Section 2. Composition of the Board; Appointment Qualifications. The Board of Directors shall be composed of not fewer than three nor more than twenty voting members, exclusive of non-voting *ex officio* Directors. The exact number of voting Directors shall be as fixed from time to time by the Member, except that as of the date of adoption of these bylaws, the Board of Directors of the Corporation shall be comprised of three members as identified on Exhibit A hereto, each having the term identified for such individual on Exhibit A hereto. Directors shall generally be appointed at the annual meeting of the Member, but may be appointed at any regular or special meeting of the Member; provided that, except for the *ex officio* Directors specified in Section 4 of this Article IV, the Board of Directors shall not include any full-time employees of the Member or of the Corporation. Each Director of the Corporation shall be a natural person of at least eighteen years of age, of good moral character and who enjoys a good reputation in the community, and who, by his or her experience, community interest, or prior action, demonstrates a willingness to devote time and talent to the affairs of the Corporation and to exercise his or her judgment with undivided loyalty to the Corporation. Each Director shall further satisfy the requirements set forth in Section 9 of this Article IV.

Section 3. Term of Office. Subject to Section 5 of this Article IV, Directors, other than *ex officio* Directors, shall serve for one, two, or three year terms, as specified by the Member. In the event that the Member elects to classify the Board of Directors for purposes of staggering their respective terms of office, then the number of Directors assigned to each class shall be as nearly equal as possible to those assigned to each other class. Each Director shall retain his or her position as Director until his or her successor shall be duly appointed and qualified or until his or her earlier death, resignation or removal, except that an *ex officio* Director shall retain his or her position as Director only during his or her tenure in the position from which his or her respective *ex officio* status is derived, or until his or her earlier death, resignation, or removal. Directors may be re-elected for unlimited successor terms.

Section 4. Ex Officio Directors. From and after February 1, 2000, the following persons shall serve as *ex officio* Directors of the Corporation with vote:

- (1) President and Chief Executive Officer of the Member; and
- (2) President and Chief Executive Officer of the Corporation.

In the event that any individual holds multiple *ex officio* positions s/he shall have one vote.

Section 5. Removal, Resignation, Vacancies.

A. The Member may, in its discretion, remove any Director at any time, with or without cause, upon 10 days prior notice to the Board of Directors. Without limiting the generality of the foregoing, upon such notice the Member may, in its discretion, remove and replace all or a portion of the Board of Directors if the Member determines that the Corporation has failed to comply with any operating or financial plan adopted or approved by the Member.

Unless such removal notice is revoked by the Member during the 10 day notice period, any such removal shall be effective immediately upon expiration of the notice period.

B. Any Director may resign from office with or without cause, by delivering a written statement of resignation to the Secretary of the Corporation. Any such resignation shall take effect immediately upon its receipt by the Secretary of the Corporation, unless a later effective time or date for the resignation is specified in the notice of resignation.

C. Any person appointed to fill a vacancy on the Board of Directors shall be appointed for the unexpired term of the Director whose death, resignation, or removal gave rise to the applicable vacancy.

Section 6. Orientation of Directors. Newly elected or appointed Directors shall be oriented to the functions and procedures of the Board of Directors. Such orientation shall be carried out under the supervision of the President and Chief Executive Officer.

Section 7. No Compensation. No Director shall receive any compensation for acting as a Director. Directors who are officers or employees of the Corporation may receive compensation for those duties.

Section 8. Review of Bylaws. The Board of Directors shall review these Bylaws of the Corporation annually, and based on such review, may propose amendments to these Bylaws to the Member of the Corporation.

Section 9. Conflict of Interest. Directors shall exercise good faith in all transactions touching upon their duties at the Corporation and its property. No director shall use his or her position, or knowledge gained therefrom, in any way that might give rise to a conflict between the interest of the Corporation and that of the individual Director. The Board of Directors shall adopt a conflict of interest policy, and each Director and officer of the Corporation shall agree in writing to be bound thereby as a prerequisite to his or her qualification as a Director or officer, as the case may be.

ARTICLE V

MEETINGS OF THE BOARD OF DIRECTORS

Section 1. Regular and Annual Meetings of the Board of Directors. The Board of Directors shall hold regular meetings at such time and place as determined by the Board or the Chair; provided that the Board shall meet not less than four times per year. The Annual Meeting shall be held as provided in Article III, Section 4 of these Bylaws. Notice of any meeting shall be mailed, personally delivered or faxed to each Director at least 5 days prior to the meeting to the Director's address (or fax number) on the books of the Corporation. Voting by proxy shall not be permitted at any meeting.

Section 2. Special Meetings. Special meetings may be held at any time upon call of the Member or the Chair or upon receipt by the President and Chief Executive Officer of the written request of at least three Directors.

Section 3. Quorum. A majority of the entire Board of Directors shall constitute a quorum at any regular meeting. Once a quorum is established, subsequent withdrawal of individuals to less than a quorum shall not affect the validity of any subsequent action taken at the meeting. Except as otherwise required by the PNCL, approval of any matter before the Board of Directors by a majority of the Directors present at a meeting shall constitute approval of the applicable matter by the Board.

Section 4. Action Without a Meeting. Any action which may be taken at a meeting of the Board or any committee thereof may be taken without a meeting if consent in writing setting forth such action is signed by all of the Directors or members of the committee, and is filed in the minutes of the proceedings of the Board or of the committee.

Section 5. Rules of Conduct. Meetings of the Board of Directors and Committees of the Board of Directors will be conducted in accordance with such rules as may be established by the Board of Directors.

Section 6. Participation by Conference Telephone. One or more Directors or members of a Committee established pursuant hereto may participate in a meeting of the Board of Directors or such Committee by means of conference telephone or similar communications equipment by means of which all persons participating in the meeting can hear each other. Participation in a meeting pursuant to this subsection shall constitute presence in person at such meeting.

Section 7. Waiver of Notice. Whenever any written notice is required to be given under the provisions of these bylaws or the PNCL, such notice need not be given to any Director who submits a signed waiver of notice whether before or after the meeting, or who attends the meeting without protesting, prior thereto or at its commencement, the lack of notice to such Director.

ARTICLE VI

OFFICERS

Section 1. Officers Generally. The officers shall be a Chair, a Vice-Chair, a Secretary, a Treasurer, a President and Chief Executive Officer, and such Vice Presidents and other subordinate officers as the Member shall designate. The Chair, Vice Chair, Secretary, and Treasurer shall be appointed from among the elected (i.e., non-*ex officio*) members of the Board of Directors. All other officers need not, but may, be selected from among such elected members of the Board of Directors. No full-time employee of the Member or of the Corporation shall be eligible to serve as Chair or Vice Chair of the Corporation.

Section 2. Appointment of Officers. The officers shall be appointed by the Member, after consultation with the Board of Directors of the Corporation, at the Annual Meeting of the Member each year and shall hold office for terms of one year and until their successors are duly installed, subject in each case to an officer's earlier death, resignation or removal. Vacancies in any office may be filled by action of the Member after consultation with the Board of Directors of the Corporation. So long as the Member is the sole Member of the Corporation, no full-time employee of the Member or of the Corporation shall be eligible to serve as Chair or Vice Chair of the Corporation. Further, the Chair shall be appointed from among individuals who also serve on the Member's Board of Directors. Nothing contained herein shall be construed as prejudicing any officer's rights with respect to compensation under any employment agreement with the Corporation.

Section 3. Chair. The Chair shall preside at all meetings of the Board of Directors, and at the Annual Meeting of the Member each year shall present the report of the Board of Directors. The Chair shall be responsible to review the performance of the Board of Directors on an annual basis, and to report on such performance to the Member. The Chair shall have such authority, and shall perform all duties, ordinarily required of an officer in like position, and such other authority and duties as may be assigned by the Member.

Section 4. President and Chief Executive Officer. The President and Chief Executive Officer of the Corporation shall be an *ex officio* member of the Board. The President and Chief Executive Officer shall have all authority and responsibility necessary to operate the Corporation in all its activities, subject, however, to the policies and directives of the Member and of the Board of Directors with regard to the matters as to which the Board of Directors is responsible, and to the provisions of the Corporation's Articles of Incorporation and Bylaws.

Section 5. Vice Chair. The Vice-Chair shall perform the duties of the Chair when for any reason the Chair is unable to perform the same.

Section 6. Secretary. The Secretary shall keep and properly record the minutes of the proceedings of the Board of Directors, notify officers of their election and committee members of their appointment, give notice of all meetings of the Board of Directors and the Executive Committee, have custody of the corporate seal and of all books and papers pertaining to the office, and generally shall have such authority, and shall perform all duties, ordinarily required of an officer in like position.

Section 7. Treasurer. The Treasurer shall receive and have custody of all funds, money, and income of the Corporation not otherwise specifically provided for by the Member and shall deposit the same in such depository or depositories as the Board shall designate. The Treasurer shall have such authority, and shall perform all duties, ordinarily required of an officer in like position, and such other authority and duties as may be assigned by the Member.

Section 8. Resignation. Any officer may resign at any time by giving written notice thereof to the Chair, the President and Chief Executive Officer or the Secretary of the Corporation. Any such resignation shall take effect on the date of receipt of such notice by one

of the above-specified officers, or at such later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 9. Removal. Any officer of the Corporation may be removed, with or without cause, by the Member whenever in the judgment of the Member the best interests of the Corporation will be served thereby. Nothing contained herein shall be construed as prejudicing any officer's rights with respect to compensation under any employment agreement with the Corporation.

ARTICLE VII

COMMITTEES OF THE BOARD OF DIRECTORS

Section 1. Committees Generally. The Directors, upon direction of the Member, shall establish the following committees, and, upon the approval of the Member, may establish such other committees (standing or special) as the Board of Directors shall determine to establish, with such authority and composition as the Board of Directors shall determine (subject only to the rights and powers of the Members as set forth in the PNCL, the Articles of Incorporation, and these Bylaws, and the limitations or delegation of the Board's authority pursuant to the PNCL):

- A. Executive Committee
- B. Finance Committee
- C. Strategic Planning and Capital Development Committee
- D. Audit Committee

Section 2. Powers of the Executive Committee. From and after its establishment, the Executive Committee shall have and may exercise the powers of the Board of Directors in the management of the business affairs of the Corporation, except that the Executive Committee shall not have authority with respect to any of the following matters:

- A. The submission to the Member of any action requiring approval of the Member;
 - B. Amending or repealing any resolution of the Board of Directors;
- or
- C. Approving any matters which pursuant to the Bylaws or resolution of the Board of Directors is reserved to another established committee of the Board.

Section 3. Finance Committee. From and after its establishment, this Committee shall review and recommend to the Board of Directors the annual budget to be proposed to the Member, establish and review periodic budgetary reports and meet with the Corporation's independent auditors following receipt of the annual audit. This Committee shall also review

and recommend the financial plan of the Corporation. This Committee shall meet at least quarterly to review the budget and financial performance of the Corporation and its affiliates, and to review and recommend approval or disapproval of any proposed unbudgeted expenditures by the Corporation where the cumulative amount of such unbudgeted expenditures is in excess of the amount fixed from time to time by the Member.

Section 4. ~~-----~~ Strategic Planning and Capital Development Committee: From and after its establishment, this Committee shall propose long range plans for the Corporation for the consideration of the Member, with the goal of constantly improving services, facilities and programs. These plans shall be periodically reviewed and revised by the Committee, and shall be subject to approval by the Member.

Section 5. Audit Committee. From and after its establishment, this Committee shall cause to be audited the accounts of the Treasurer and of the Corporation at the close of each year prior to the annual meeting of the Corporation, shall render a full report to the Member at its annual meeting, and shall have such other responsibilities and authority as designated by the Board in a resolution.

Section 6. Appointment of Committees. The members of any standing or special Committee shall be appointed by the Board. Each Committee shall include at least three Directors, including *ex officio* members. The Chair and the President and Chief Executive Officer shall be *ex officio* members of all committees with full voting privileges. Each other member of a committee shall serve for a term of one year and until his or her successor has been appointed, subject to his or her earlier death, resignation or removal.

Section 7. Meetings of Committees. All standing Committees shall function under the direction of the Board of Directors and shall meet as often as necessary to transact their business and shall make such reports as they may deem necessary or which may be specifically required of them. Minutes shall be kept of each meeting of each Committee and such minutes shall be disseminated to all members of the Board of Directors, and to the Member.

Section 8. Quorum; Act of Committee. A majority of the members of a Committee shall constitute a quorum for the transaction of business. Once a quorum has been established, subsequent withdrawal of committee members so as to reduce the number of members present to less than a quorum shall not affect the validity of any subsequent action taken at the meeting. Approval of any matter before any Committee by a majority of those present at a meeting of a Committee where a quorum is present shall constitute approval of the applicable matter by the applicable Committee.

Section 9. Resignation. Any Committee member may resign at any time by giving written notice thereof to the Chair, the President and Chief Executive Officer or the Secretary of the Corporation. Any such resignation shall take effect on the date of receipt of such notice by one of the above-specified officers, or at such later time specified therein, and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

Section 10. Removal. Any Committee member may be removed, with or without cause, by the Board or the Member whenever in the judgment of the Board or the Member the best interests of the Corporation will be served thereby, provided that if any Committee member is removed by the Member, at least 10 days advance notice of such removal shall be given by the Member to the Board of Directors.

ARTICLE VIII

FISCAL YEAR AND ANNUAL REPORT

Section 1. Fiscal Year. The Fiscal Year of the Corporation shall be begin on the first day of July of each year and end on the last day of June of the succeeding year.

Section 2. Annual Report. As soon as may be convenient following the close of the Fiscal Year, the Board of Directors may cause to be published for general distribution an Annual Report containing such information regarding the work and affairs of the Hospital for the preceding Fiscal Year as in their discretion may be deemed advisable.

ARTICLE IX

SEAL

Section 1. Seal. The seal of the Corporation shall be in such form as may be approved by the Board of Directors.

ARTICLE X

LIABILITY OF DIRECTORS

Section 1. Standard of Care and Fiduciary Duty. Each Director shall stand in a fiduciary relation to this Corporation and shall perform his or her duties as a Director, including his or her duties as a member of any committee of the Board upon which the Director may serve, in good faith, in a manner the Director reasonably believes to be in the best interests of this Corporation, and with such care, including reasonable inquiry, skill and diligence, as a person of ordinary prudence would use under similar circumstances. In performing his or her duties, each Director shall be entitled to rely in good faith on information, opinions, reports or statements, including financial statements and other financial data, in each case prepared or presented by any of the following:

- (a) one or more officers or employees of this Corporation whom the Director reasonably believes to be reliable and competent in the matters presented;

(b) counsel, public accountants or other persons as to matters which the Director reasonably believes to be within the professional or expert competence of such persons; and

(c) a committee of the Board of this Corporation upon which the Director does not serve, as to matters within its designated authority, which committee the Director reasonably believes to merit confidence.

A Director shall not be considered to be acting in good faith if the Director has knowledge concerning the matter in question that would cause his reliance to be unwarranted.

Section 2. Limitation on Liability. Neither the Member nor any Director of the Corporation shall be personally liable for monetary damages for any action taken, or any failure to take any action, provided however, that this provision shall not eliminate or limit the liability of the Member or any Director to the extent that such elimination or limitation of liability is expressly prohibited by, Section 5713 of the PNCL, as in effect at the time of the alleged action or failure to take action by such Member or Director.

Section 3. Preservation of Rights. Any repeal or modification of this Article shall not adversely affect any right or protection existing at the time of such repeal or modification to which any Member, Director or former Member or Director may be entitled under this Article. The rights conferred by this Article shall continue as to any person who has ceased to be the Member or a Director of the Corporation and shall inure to the benefit of the successors, heirs, executors, and administrators of such person.

ARTICLE XI

INDEMNIFICATION

Section 1. Mandatory Indemnification of Directors and Officers. The Corporation shall indemnify, to the fullest extent now or hereafter permitted by law, each Director and officer (including each former Director or officer) of the Corporation who was or is or is threatened to be made a party to or a witness in any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that the Director or officer is or was an authorized representative of the Corporation, or is or was serving at the written request of the Corporation as a representative of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust or other enterprise, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the Director or officer in connection with such action, suit or proceeding if such Director or officer acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interest of the Corporation and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful.

Section 2. Mandatory Advancement of Expenses to Directors and Officers. The Corporation shall pay expenses (including attorneys' fees) incurred by a Director or officer of the Corporation referred to in Section 1 of this Article XI in defending or appearing as a witness in any civil or criminal action, suit or proceeding described in Section 1 of this Article XI in advance of the final disposition of such action, suit or proceeding. The expenses incurred by such Director or officer shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding only upon receipt of an undertaking by or on behalf of such Director or officer to repay all amounts advanced if it shall ultimately be determined that the Director or officer is not entitled to be indemnified by the Corporation as provided in Section 4 of this Article XI.

Section 3. Permissive Indemnification and Advancement of Expenses. The Corporation may, as determined by the Board of Directors from time to time, indemnify, in full or in part, to the fullest extent now or hereafter permitted by law, any person who was or is or is threatened to be made a party to or a witness in, or is otherwise involved in, any threatened, pending or completed action or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such person is or was an authorized representative of the Corporation or is or was serving at the request of the Corporation as a representative of another domestic or foreign corporation for profit or not-for-profit, partnership, joint venture, trust or other enterprise, both as to action in his official capacity and as to action in another capacity while holding such office or position, against all expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in conjunction with such action, suit or proceeding if such person acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interest of the Corporation and, with respect to any criminal proceeding, had no reasonable cause to believe his or her conduct was unlawful. The Corporation may, as determined by the Board of Directors from time to time, pay expenses incurred by any such person by reason of such person's participation in an action, suit or proceeding referred to in this Section 3 in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of such person to repay such amount if it shall ultimately be determined that such person is not entitled to be indemnified by the Corporation as provided in Section 4 of this Article XI.

Section 4. Scope of Indemnification. Indemnification under this Article shall not be made by the Corporation in any case where a court determines that the alleged act or failure to act giving rise to the claim for indemnification is expressly prohibited by Chapter 57, Subchapter D of the PNCL or any successor statute as in effect at the time of such alleged action or failure to take action.

Section 5. Miscellaneous. Each Director and officer of the Corporation shall be deemed to act in such capacity in reliance upon such rights of indemnification and advancement of expenses as are provided in this Article. The rights of indemnification and advancement of expenses provided by this Article shall not be deemed exclusive of any other rights to which any person seeking indemnification or advancement of expenses may be entitled under any agreement, vote of members (if any), disinterested Directors, statute or otherwise, both as to

action in such person's official capacity and as to action in another capacity while holding such office or position, and shall continue as to a person who has ceased to be an authorized representative of the Corporation and shall inure to the benefit of the heirs, executors and administrators of such person. Any repeal or modification of this Article by the members (if any) or the Board of Directors of the Corporation shall not adversely affect any right or protection existing at the time of such appeal or modification to which any person may be entitled under this Article.

Section 6. Definition of Authorized Representative. For the purposes of this Article, the term, "authorized representative" shall mean a director, officer (including a former director or officer), or employee of the Corporation or of any corporation controlled by the Corporation, or a trustee, custodian, administrator, committeeman or fiduciary of any employee benefit plan established and maintained by the Corporation or by any corporation controlled by the Corporation, or person serving another corporation, partnership, joint venture, trust or other enterprise in any of the foregoing capacities at the written request of the Corporation. The term "authorized representative" shall not include money managers or investment advisors (or any employees thereof) hired by the Corporation, and shall not include agents of the Corporation unless indemnification thereof is expressly approved by the Board of Directors.

Section 7. Funding to Meet Indemnification Obligations. Subject to the approval of the Member, the Board of Directors shall have the power to borrow money on behalf of the Corporation, including the power to pledge the assets of the Corporation, from time to time to discharge the Corporation's obligations with respect to indemnification, the advancement and reimbursement of expenses, and the purchase and maintenance of insurance for the benefit of the Corporation and any person indemnified pursuant hereto. Upon the approval of the Member, the Corporation may, in lieu of or in addition to the purchase and maintenance of insurance, establish and maintain a fund of any nature or otherwise secure or insure in any manner its indemnification obligations, whether arising pursuant to this Article or otherwise.

ARTICLE XII

AMENDMENTS OF THESE BYLAWS AND/OR THE ARTICLES OF INCORPORATION OF THE CORPORATION

The power to amend, modify, alter or repeal these Bylaws or the Articles of Incorporation, is hereby exclusively vested in the Member of the Corporation subject, however, to Section 9 of Article III, and with respect to amendments of the following provisions in the bylaws and Articles of Incorporation of the Corporation, subject to prior notice to the Attorney General and the prior approval of the Orphans' Court: (i) provisions setting forth the purposes of the Corporation; (ii) provisions setting forth the powers reserved exclusively to the Member; (iii) provisions describing the manner in which the assets of the Corporation are to be distributed upon termination, dissolution or winding up of the Corporation; and (iv) provisions requiring notice to the Attorney General or approval of the Orphans' Court prior to the taking of certain action by the Corporation.

ARTICLE XIII

SUBVENTIONS

The Corporation shall be authorized by resolution of the Board of Directors or the Member to accept subventions from the Member or nonmembers on terms and conditions not inconsistent with PNCL § 5542, and to issue certificates therefor. The resolution of the Board of Directors or the Member may provide that the holders of subvention certificates shall be entitled to a fixed or contingent periodic payment out of the corporate assets equal to a percentage of the original amount or value of the subvention. The rights of holders of subvention certificates shall at all times be subordinate to the rights of creditors of the Corporation.

* * * *

EXHIBIT A

<u>Name</u>	<u>Term</u>
Concetta Cibrone	Term Expires 6/2000
Andrew Thurman	Term Expires 6/2000
Barry Roth	Term Expires 6/2000

Σ 3

Σ 4

AFFILIATION AGREEMENT

BY AND AMONG

ALLEGHENY UNIVERSITY HOSPITALS - WEST,

ALLEGHENY GENERAL HOSPITAL,

ALLEGHENY UNIVERSITY MEDICAL CENTERS,

AUMC - CANONSBURG,

ALLEGHENY SINGER RESEARCH INSTITUTE;

AND

THE HEALTHCARE ALLIANCE FOR WESTERN PENNSYLVANIA, INC.

Dated as of June 30, 1999

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AFFILIATION AGREEMENT

This Affiliation Agreement ("Agreement") is made and entered into as of this 30th day of June, 1999, by and among Allegheny University Hospitals–West, a Pennsylvania non-profit corporation ("AUH West"), Allegheny General Hospital, a Pennsylvania non-profit corporation ("AGH"), Allegheny University Medical Centers, a Pennsylvania non-profit corporation ("AUMC"), AUMC–Canonsburg, a Pennsylvania non-profit corporation ("AUMC–Canonsburg") and Allegheny Singer Research Institute, a Pennsylvania non-profit corporation ("ASRI" and, together with AGH, AUMC and AUMC–Canonsburg, collectively, the "Allegheny Entities"; each an "Allegheny Entity"), on the one hand, and The Healthcare Alliance for Western Pennsylvania, Inc., a Pennsylvania non-profit corporation (the "Governing Entity"), on the other hand.

W I T N E S S E T H

WHEREAS, each of AUH–West, the Allegheny Entities and the Governing Entity are tax exempt charitable organizations which have the common mission of providing quality health care services and medical education in a charitable and efficient manner; and

WHEREAS, the Allegheny Entities are seeking to preserve their historic and current mission to provide charitable healthcare in the western Pennsylvania region; and

WHEREAS, the Governing Entity is willing to extend its governance and fiduciary stewardship to include the Allegheny Entities and is willing to commit funds to preserve the charitable and academic missions of the Allegheny Entities; and

WHEREAS, the Allegheny Entities and the Governing Entity have concluded that an affiliation with each other provides the best opportunity to enable the Governing Entity and each Allegheny Entity to preserve their charitable mission for the benefit of the residents of the Commonwealth of Pennsylvania.

NOW, THEREFORE, for and in consideration of the mutual covenants contained herein, and intending to be legally bound hereby, the parties agree as follows.

I. DEFINITIONS AND REFERENCES

1.1 DEFINITIONS AND REFERENCES. As used in this Agreement, and unless the context requires a different meaning, the following terms have the meanings given:

Accreditation Bodies: any Government Authority, or private non-profit organization, that reviews and, based thereon, licenses or accredits hospitals or other health care facilities, including without limitation the Department of Health of the Commonwealth of Pennsylvania,

the Joint Commission on Accreditation of Healthcare Organizations and the American Council on Graduate Medical Education;

Affiliate: any Person that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with another Person, where "control" includes the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of securities, the possession of membership authority, election or appointment of directors, by contract or otherwise;

Affiliated Group: any affiliated group within the meaning of Code Sec. 1504;

Agreement: this Affiliation Agreement and all Exhibits and Schedules attached hereto or delivered separately to the Governing Entity as contemplated hereby, as amended, consolidated, supplemented, novated or replaced by the parties from time to time;

AHERF: Allegheny Health, Education and Research Foundation, a Pennsylvania non-profit corporation;

AHSPIC: Allegheny Healthcare Providers Insurance Company, a Cayman Islands company;

Allegheny Entities: AGH, AUMC, AUMC-Canonsburg and ASRI;

Allegheny Entities' Endowment and Grant Accounts: special accounts administered and maintained by the Allegheny Entities with respect to the Endowments and Grants;

Articles: articles of this Agreement;

ASRI: Allegheny Singer Research Institute, a Pennsylvania non-profit corporation;

Assets: all assets, real, personal and mixed, tangible and intangible, owned by the Allegheny Entities, to be transferred or conveyed by AUH-West pursuant to this Agreement or to be transferred or conveyed by AHERF, AUMP or AUHS pursuant to the Global AHERF Settlement Agreement, and including the Transferred Assets;

Audited Financial Statements: the audited consolidated balance sheets of AGH and AUMC as of June 30, 1998, and the audited consolidated statements of revenue and expenses, and audited consolidated statement of cash flows for the fiscal year then ended, together with the notes thereto and the report thereon of KPMG Peat Marwick LLP, independent certified public accountants;

AGH: Allegheny General Hospital, a Pennsylvania non-profit corporation;

ASRI Financial Statements: the audited consolidated balance sheets of ASRI as of June 30, 1998, and the audited consolidated statements of revenue and expenses, and audited

consolidated statement of cash flows for the fiscal year then ended, together with the notes thereto and the report thereon of KPMG Peat Marwick LLP, independent certified public accountants;

AUH-West: Allegheny University Hospitals-West, a Pennsylvania non-profit corporation;

AUHS: Allegheny University of the Health Sciences, a Pennsylvania non-profit corporation;

AUMC: Allegheny University Medical Centers, a Pennsylvania non-profit corporation;

AUMC-Canonsburg: AUMC-Canonsburg, a Pennsylvania non-profit corporation, the sole corporate member of which is AUMC;

AUMP: Allegheny University Medical Practices, a Pennsylvania non-profit corporation;

AUMP/AUHS Balance Sheet: the meaning ascribed to such term in the Global AHERF Settlement Agreement;

Businesses: all businesses owned, leased, managed or otherwise operated or conducted by the Allegheny Entities, or by AUH-West, AUMP or AUHS using the Transferred Assets, and including the Transferred Assets Businesses;

Carved-Out Transactions: Any sale of the interest of any Allegheny Entity in Forbes Metropolitan Hospital or Gateway Health Plan, L.P.;

Closing: defined in Section 8.1;

Closing Date: the date on or as of which the Closing occurs;

Code: the Internal Revenue Code of 1986, as amended;

Contracts: all commitments, contracts, leases, licenses, agreements and understandings, written or oral, relating to the Assets or the operation of the Businesses to which AUH-West, any Allegheny Entity, AUMP or AUHS is a party or by which it or any of the Assets are bound, including agreements with payers, physicians and other providers, agreements with health maintenance organizations, independent practice associations, preferred provider organizations and other managed care plans and alternative delivery systems, Grant Agreements, joint venture and partnership agreements, management, employment, retention and severance agreements, vendor agreements, real and personal property leases and schedules, maintenance agreements and schedules, and agreements with municipalities and labor organizations;

Controlled Group: with respect to any Allegheny Entity, a group consisting of each trade or business (whether or not incorporated) which, together with such Allegheny Entity, would

be deemed a "single employer" within the meaning of section 4001(b)(1) of ERISA or subsections (b), (c), (m) or (o) of Section 414 of the Code;

Cost Reports: all cost and other reports filed pursuant to the requirements of the Government Reimbursement Programs, the Non-Governmental Payor Programs or any Grant Providers, or any Governmental Authorities not constituting Grant Providers, for payment or reimbursement of amounts due from them;

Employee Benefit Plan: any (1) nonqualified deferred compensation or retirement plan or arrangement which is an Employee Pension Benefit Plan, (2) qualified defined contribution retirement plan or arrangement which is an Employee Pension Benefit Plan (including any Multiemployer Plan), (3) qualified defined benefit retirement plan or arrangement which is an Employee Pension Benefit Plan (including any Multiemployer Plan), or (4) Employee Welfare Benefit Plan or material fringe benefit plan or program that any Allegheny Entity or any member of the Controlled Group that includes any Allegheny Entity is or has been a sponsor of or party to, maintains or has maintained or to which it contributes or has contributed (including employee elective deferrals), or is or was required to contribute;

Employee Pension Benefit Plan: an Employee Benefit Plan defined in ERISA Sec. 3(2);

Employee Welfare Benefit Plan: an Employee Benefit Plan defined in ERISA Sec. 3(1);

Encumbrances: liabilities, levies, claims, charges, assessments, mortgages, security interests, liens, pledges, conditional sales agreements, title retention contracts, leases, subleases, rights of first refusal, options to purchase, restrictions and other encumbrances, and agreements or commitments to create or suffer any of the foregoing;

Endowment and Grant Accounts: specially created escrow accounts to be administered by the Governing Entity in accordance with the terms and conditions of the Endowment and Grant Restrictions and applicable Legal Requirements;

Endowment and Grant Restrictions: the terms and conditions of the underlying Endowments, Grants and Grant Agreements and any Legal Requirements associated therewith;

Endowments: any and all cash or cash equivalents or other property of any kind, together with the proceeds thereof, that has been contributed or has been committed to be contributed to the Allegheny Entities or, in the case of the Transferred Endowments, AHERF, AUHS or AUMP for any purpose whatsoever pursuant to Endowment and Grant Restrictions, including the Transferred Endowments;

Environmental Claim: any notice by a Person alleging potential liability (including potential liability for investigatory costs, cleanup costs, Governmental Authority response costs, natural resource damages, property damages, personal injuries, or penalties) arising out of, based on or resulting from (1) the presence, or release into the environment, of any Materials of Environmental Concern at any location, whether or not owned by the Allegheny Entities, or

(2) circumstances forming the basis of any violation, or alleged violation, of any Environmental Laws;

Environmental Laws: any and all Legal Requirements relating to pollution or protection of human health or the environment (including ground water, land surface or subsurface strata), including Legal Requirements relating to emissions, discharges, releases or threatened releases of Materials of Environmental Concern, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, recycling, reporting or handling of Materials of Environmental Concern;

ERISA: the Employee Retirement Income Security Act of 1974, as amended;

ERISA Fiduciary: defined in ERISA Section 3(21);

Estates: the meaning ascribed to such term in the Global AHERF Settlement Agreement;

Financial Statements: the Audited Financial Statements and the Interim Financial Statements;

GAAP: generally accepted accounting principles consistently applied.

Global AHERF Settlement Agreement: The Settlement Agreement, by and among the Allegheny Entities, AUH-West, the Trustee, Allegheny Hospitals-East, Allegheny Hospitals-Centennial, AUMP, AUHS, the Official Committee of Unsecured Creditors of certain of the foregoing, and the Governing Entity;

Governing Entity: The Healthcare Alliance for Western Pennsylvania, Inc., a Pennsylvania non-profit corporation;

Governmental Authorities: all agencies, authorities, bodies, boards, commissions, courts, instrumentalities, legislatures and offices of any nature whatsoever of any federal, state, county, district, municipal, city, foreign or other government or quasi-government unit or political subdivision, and private arbitration panels or dispute resolution makers;

Government Reimbursement Programs: federal and state Medicare, Medicaid and CHAMPUS programs, and similar or successor programs with or for the benefit of Governmental Authorities;

Grant Agreement: a contract with a Grant Provider, the terms and conditions of which govern the funding of specific activities, including research and education, for the use by or benefit of one or more of the Allegheny Entities, or AUHS, AUMP or AHERF;

Grant Provider: any Governmental Authority, private non-profit organization or trust, or other Person providing Grants to the Allegheny Entities, or to AUHS for the use by or benefit

of one or more of the Allegheny Entities or AUHS, for the conduct of research, education or other non-profit or charitable activities;

Grants: any and all grants, honoraria, prizes and any other funds or property of any kind that have been awarded or otherwise committed to any of the Allegheny Entities or to AUHS, AUMP or AHERF to be used by the Allegheny Entities for a defined project, research area or other specified purpose;

Highmark: Highmark Inc., d/b/a Highmark Blue Cross Blue Shield, a Pennsylvania non-profit corporation;

Highmark Credit Agreement: The credit agreement, entered into or to be entered into by and between Highmark, the Governing Entity and certain other parties;

Hill-Burton Act: the Public Health Service Act, 42 U.S.C. Section 291, *et seq.*;

HSR Act: the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended;

Immaterial Contracts: Any Contract that (i) requires the future payment by any Allegheny Entity of cumulative value of \$20,000 or less or the future performance by any Allegheny Entity of services having a cumulative value of \$20,000 or less, or (ii) requires the future payment by any Allegheny Entity of cumulative value of \$50,000 or less, or the future performance by any Allegheny Entity of services having a cumulative value of \$50,000 or less, and that is terminable by the respective Allegheny Entity at any time, without cause and without liability for any termination fee or other similar charge, on the part of the respective Allegheny Entity upon notice of 90 days or less;

Indebtedness: any and all indebtedness, obligations or liabilities of any Allegheny Entity for or in respect of: (i) borrowed money, (ii) amounts raised under or liabilities in respect of any note purchase or acceptance credit facility, (iii) reimbursement obligations under any letter of credit, currency swap agreement, interest rate swap, cap, collar or floor agreement or other interest rate management device, (iv) any other transaction (including forward sale or purchase agreement, capitalized leases and conditional sales agreements) having the commercial effect of a borrowing of money entered into by any Allegheny Entity (but not including trade payables and accrued expenses incurred in the ordinary course of business which are not represented by a promissory note or other evidence of indebtedness); or (v) the obligations of any third party, pursuant to a guaranty, surety relationship, contractual indemnity or otherwise;

Intellectual Properties: all marks, names (including "Allegheny University Hospitals," "Allegheny University Hospitals - West," "Allegheny General Hospital," "AGH," "Allegheny University Medical Centers," "AUMC," "AUMC - Canonsburg," "Canonsburg General Hospital," "AUMC - Allegheny Valley," "Allegheny Valley Hospital," "Forbes Hospital," "Forbes Regional" and "Forbes Hospice" and all variations of the foregoing), trademarks, service marks, patents, patent rights, assumed names, logos; copyrights, trade secrets and similar intangibles (including variants thereof and applications therefor) used in the Businesses;

Interim Financial Statements: the unaudited financial statements of AGH and AUMC for the four months ended October 31, 1998;

Investment: shares of capital stock of any corporation, interests in partnerships or limited liability companies, or other equity or debt instruments issued by any Person, other than such investments that relate to Endowments and Grants or are short-term investments of Unrestricted Cash, and proceeds from the sale thereof;

IRS: the Internal Revenue Service;

Legal Requirements: with respect to any Person, all statutes, laws (including common law), ordinances, by-laws, codes, rules, regulations, restrictions, orders, judgments, writs, injunctions, decrees, permits, concessions, grants, franchises, licenses, determinations or awards of any Governmental Authority having jurisdiction over such Person or any of such Person's assets or businesses;

Letter of Intent: the letter of intent, dated March 1, 1999, by and among the Governing Entity, the Allegheny Entities, AUH-West, the Trustee of AHERF as trustee and on behalf of the AHERF Estate, Allegheny Hospitals - East and Allegheny Hospitals, Centennial;

Management Agreement: such management services agreement as may be entered into after the date hereof by The Western Pennsylvania Healthcare System, Inc., as management services provider, on the one hand, and AGH and AUMC as the recipient of such services on the other hand;

Material Adverse Effect: the meaning ascribed to such term in Section 7.1(a);

Materials of Environmental Concern: any hazardous or toxic material, substance, or product or any pollutant or contaminant, whether or not defined as such under any Environmental Law, including without limitation, any asbestos containing material; petroleum product, derivative, compound or mixture; polychlorinated byphenyls; radioactive material; lead-containing products; and any other substance which is prohibited by applicable law, which may require removal, remediation, and/or encapsulation by applicable law, or which may require a permit or special handling in its use, collection, storage, treatment or disposal;

Multiemployer Plan: defined in ERISA section 3(37) or section 4001(a)(3);

Multiple Employer Plan: an Employee Pension Benefit Plan which is not a Multiemployer Plan and for which a Person who is not a member of a Controlled Group that includes any Allegheny Entity is or has been a contributing sponsor;

Non-Governmental Payor Programs: third party payor agreements and payment and reimbursement programs with a commercial insurer, managed care organization or health benefits plan, including without limitation such agreements and programs with Highmark Blue Cross Blue Shield, HealthAmerica or Aetna U.S. Healthcare, and any direct employer

agreements or programs for the payment of the costs of medical services rendered to employees of such employer; including without limitation the workers' compensation program for employees of the City of Pittsburgh;

Other Plan: any Contract, program or arrangement which provides cash or non-cash benefits or perquisites to current or former employees of any Allegheny Entity that any Allegheny Entity or any member of the Controlled Group that includes any Allegheny Entity has been a sponsor of or, party to, maintains or to which it contributes (including employee elective deferrals), or is required to contribute, but which is not an Employee Benefit Plan ;

Party: any party to this Agreement, its successors and assigns;

PBGC: the Pension Benefit Guaranty Corporation;

PBGC Agreement: the agreement by and among the PBGC, the Governing Entity, the Allegheny Entities, AUH-West, the Trustee and the Estates with respect to the RAP Plan in the form of Exhibit 5.9 (it being understood that, if such agreement is not executed as of the date hereof, it will be attached hereto as Exhibit 5.9 when executed and prior to the Closing);

Permitted Personal Property Encumbrances: (i) those Encumbrances described in Schedule 3.9, or (ii) liens for taxes not yet due and payable;

Permitted Real Property Encumbrances: (i) those Encumbrances described in the title policies referenced on Schedule 3.10, or (ii) liens for taxes not yet due and payable;

Person: any individual, company, body corporate, association, partnership, limited liability company, firm, joint venture, trust, trustee or Governmental Authority;

Prohibited Transaction: defined in ERISA Sec. 406 and Code Sec. 4975;

RAP Plan: the Retirement Account Plan for Employees of Allegheny Health, Education and Research Foundation for certain employees of AHERF or Affiliates;

Real Property: all real property owned or leased by the Allegheny Entities, including but not limited to the real property described on Schedule 3.10, together with all buildings, improvements and fixtures thereon and all appurtenances and rights thereto;

Reportable Event: defined in ERISA Sec. 4043;

Restricted Assets: all Restricted Cash, Endowments and Grants;

Restricted Cash: all cash and cash equivalents that are subject to Endowment and Grant Restrictions;

Sections: sections of the Agreement;

Tax: any federal, state, local, foreign or other income (net or gross), unrelated business income, gross receipts, license, payroll, wage, employment, excise, severance, stamp, occupation, privilege, premium, windfall profits, environmental (including taxes under Code Sec. 59A), customs duties, capital, capital stock, franchise, profits, withholding, social security, unemployment, disability, real property, personal property, intangible, stamp, sales, use, services, ad valorem, transfer, registration, unclaimed property, value added, alternative or add-on minimum, estimated or other tax, assessment, charge, levy or fee of any kind whatsoever, including payments or services in lieu of Taxes, interest or penalties on and additions to all of the foregoing, which are due or alleged to be due to any Governmental Authority, whether disputed or not;

Tax Return: any return, declaration, report, claim for refund, information return or statement, including schedules and attachments thereto and amendments, relating to taxes;

Transferred Assets: the meaning ascribed to such term in the Global AHERF Settlement Agreement;

Transferred Assets Businesses: the meaning ascribed to such term in the Global AHERF Settlement Agreement;

Transferred Endowments: the meaning ascribed to such term in the Global AHERF Settlement Agreement;

Transferred Grants: the meaning ascribed to such term in the Global AHERF Settlement Agreement;

Trustee: William Scharffenberger as trustee of AHERF and any successor to Mr. Scharffenberger in such capacity;

Unrestricted Cash: all cash and cash equivalents, including unrestricted short-term investments, other than Restricted Cash;

Working Capital Loan Agreement: that certain Working Capital Loan Agreement, dated as of April 29, 1999, by and between The Western Pennsylvania Hospital, as Lender, and AGH, as Borrower.

1.2 **Certain References.** As used in this Agreement, and unless the context requires otherwise:

- (a) references to "include" or "including" mean including without limitation;
- (b) references to "partners" include general and limited partners of partnerships and members of limited liability companies;

(c) references to "partnerships" include general and limited partnerships, joint ventures and limited liability companies;

(d) references to "hereof", "herein" and derivative or similar words refer to this Agreement;

(e) references to any document are references to that document as amended, consolidated, supplemented, novated or replaced by the parties thereto from time to time;

(f) references to any law are references to that law as amended, consolidated, supplemented or replaced from time to time and all rules and regulations promulgated thereunder;

(g) references to time are references to Pittsburgh, Pennsylvania time;

(h) references in this Agreement to the "knowledge" of the Allegheny Entities or variants thereof (including "best knowledge") mean the actual knowledge of each of the Persons whose names or positions are set forth in Schedule 1.2;

(i) the gender of all words includes the masculine, feminine and neuter, and the number of all words includes the singular and plural; and

(j) the divisions of this Agreement into articles, sections and subsections and the use of captions and headings in connection therewith are solely for convenience and shall have no legal effect in construing the provisions of this Agreement.

II. AFFILIATION TRANSACTIONS

2.1 Amendment of Articles and Bylaws.

(a) Effective as of the Closing Date, in consideration of the Governing Entity's service, charitable and financial commitments to the Allegheny Entities, each Allegheny Entity shall have caused its articles of incorporation to be amended and restated as set forth in Exhibit 2.1(a) hereto to reflect, inter alia, that the Governing Entity is the sole member of such Allegheny Entity.

(b) Effective as of the Closing Date, in consideration of the Governing Entity's service, charitable and financial commitments to the Allegheny Entities, each Allegheny Entity shall have caused its bylaws to be amended and restated as set forth in Exhibit 2.1(b) hereto.

2.2 Consideration: Subject to the terms and conditions hereof, at Closing, the Governing Entity shall extend to the Allegheny Entities the governance and fiduciary stewardship, management expertise and support of the Governing Entity in furtherance of the charitable missions of the Allegheny Entities, and shall make or cause to be made such advances

under the Highmark Loan Agreement as the Governing Entity shall determine are reasonably necessary for the preservation of the Allegheny Entities and the orderly conduct of the Businesses as of the Closing Date.

2.3 No Assignment or Assumption with Respect to AUH-West. AUH-West shall not assign to AGH any Contracts, and AGH shall not assume or be responsible for any liability or obligation of AUH-West whatsoever, whether fixed or contingent, liquidated or unliquidated, present or future, all of which are expressly retained by AUH-West.

III. REPRESENTATIONS AND WARRANTIES OF THE ALLEGHENY ENTITIES

Notwithstanding any references in this Article to the "Allegheny Entities", "any Allegheny Entity", "each Allegheny Entity", or words or phrases of similar import, each of AUH-West and the Allegheny Entities represents and warrants to the Governing Entity as follows. The Governing Entity acknowledges and agrees that (i) the Allegheny Entities and AUH-West do not have the legal authority to direct the business operations of AUMP and AUHS, and (ii) the Allegheny Entities and AUH-West do not control or in all respects have access to the financial books and records of AUMP and AUHS. The representations and warranties in this Article III with respect to AUMP and AUHS are nonetheless made on an unqualified basis for purposes of the condition to closing described in Section 7.1(a). In no event will any officer or trustee of any Allegheny Entity or AUH-West have any personal responsibility as a result of any breach or default in the following representations or warranties.

3.1 Organization. Each Allegheny Entity is duly organized and validly existing and subsisting under the laws of the Commonwealth of Pennsylvania. None of the Allegheny Entities is licensed, qualified or admitted to do business in any jurisdiction other than the Commonwealth of Pennsylvania and there is no other jurisdiction in which the ownership, use or leasing of any of the Allegheny Entities' assets or properties, or the conduct or nature of their businesses, makes such licensing, qualification or admission necessary.

3.2 Powers; Consents; Absence of Conflicts, Etc. Each Allegheny Entity has the requisite power and authority to conduct its businesses as now being conducted, to enter into this Agreement and, subject to the satisfaction of the conditions set forth in Article VI, to perform its obligations hereunder, and except as described in Schedule 3.2, the execution, delivery and performance by each Allegheny Entity of this Agreement and, subject to the satisfaction of the conditions set forth in Article VI, the consummation of the transactions contemplated herein (i) are within such Allegheny Entity's corporate powers, (ii) are not in contravention of any Legal Requirement or of the terms of its articles or certificate of incorporation, bylaws and other governing documents, if any, as amended to date (true and correct copies of which have been delivered to the Governing Entity), (iii) do not conflict with or result in any breach or contravention of any Contract to which any Allegheny Entity is a party or by which it is bound; (iv) have been duly authorized by all appropriate corporate action, and (v) do not require the Allegheny Entities to obtain any consent, license, approval or authorization of, or to make any

filing with, or provide any notification to, any Governmental Entities that will not be obtained by the Closing Date.

3.3 Binding Agreement. This Agreement and all instruments and agreements hereunder to which any Allegheny Entity is or becomes a party are (or upon execution will be) valid and legally binding obligations of such Allegheny Entity, enforceable against such Allegheny Entity in accordance with the respective terms hereof or thereof, except as enforceability may be restricted, limited or delayed by applicable bankruptcy, or other laws affecting creditors' rights generally and except as enforceability may be subject to general principles of equity. Pursuant to the Global AHERF Settlement Agreement, the Trustee and the Estates are acknowledging that the Allegheny Entities are entering into this Agreement.

3.4 Subsidiaries, Investments and Third Party Rights. No Affiliate of any Allegheny Entity conducts any business that competes with the Businesses, the Allegheny Entities have no interests in any Persons that conduct any business that competes with the Businesses, the Assets do not include any Investments, and none of the Allegheny Entities is under any obligation or requirement to provide funds or make any investment (in the form of a loan, capital contribution or otherwise) in any entity or business in an amount that is material. Schedule 3.4 includes a true, correct and complete list of all Affiliates of the Allegheny Entities in which the Allegheny Entities or any of them owns an interest or of which the Allegheny Entities or any of them is a member.

3.5 Legal and Regulatory Compliance. Each Allegheny Entity and each of AUMP and AUHS is in compliance with all Legal Requirements, and has timely filed all reports, data and other information required to be filed with Governmental Authorities. Except as described on Schedule 3.5, no Allegheny Entity is a subject of any proceeding, audits or investigation by Governmental Authorities or any other Person.

3.6 Financial Statements. The Financial Statements fairly present in all material respects the financial condition and results of operations of AGH and AUMC as of the respective dates thereof and for the periods therein referred to, all in accordance with GAAP, subject in the case of the Interim Financial Statements, to normal recurring year-end adjustments and the absence of notes. The ASRI Financial Statements fairly present in all material respects the financial condition and results of operations of ASRI as of the date thereof and for the period then ended in accordance with GAAP except for the absence of footnotes none of which would reflect any material contingent liability. Schedule 3.6 contains a true and correct copy of the Financial Statements and the ASRI Financial Statements.

3.7 Inventory. All items of inventory and supplies on hand consist of items of a quality usable or saleable in the ordinary course of business, except for those items which are obsolete, below standard quality or in the process of repair and in each case for which adequate reserves have been provided in the Financial Statements.

3.8 Equipment. All equipment constituting Assets, whether reflected in the Financial Statements or otherwise, that is used in the Business of the Allegheny Entities, AUHS or AUMP

is well maintained and in good operating condition, except for reasonable wear and tear. All medical and leased equipment constituting Assets or identified on Schedule 3.8 hereto is maintained (either by the Allegheny Entities, the manufacturer or lessor, as the case may be) in accordance with manufacturer and lessor requirements and is in good operating condition, except for reasonable wear and tear. Schedule 3.8 describes all leased equipment that is material to the operations of the Allegheny Entities.

3.9 Title to Personal Property.

(a) The Allegheny Entities own and hold (or in the case of Assets to be transferred or conveyed to the Allegheny Entities pursuant to the Global AHERF Settlement Agreement will as of the Closing Date own and hold) good and valid title or leasehold title to all Assets other than the Real Property and the Endowments and Grants, free and clear of any Encumbrances other than the Permitted Personal Property Encumbrances described in Schedule 3.9.

(b) Upon conveyance of the Transferred Endowments to the Allegheny Entities pursuant to the Global AHERF Settlement Agreement, the Allegheny Entities or their fiduciaries (as set forth on Schedule 3.18 to the Global AHERF Settlement Agreement) will own legal title to all Restricted Assets free and clear of any Encumbrances other than the Endowment and Grant Restrictions. A description of each bequest, gift or grant constituting Restricted Assets, including the Transferred Endowments, is listed on Schedule 3.18 to the Global AHERF Settlement Agreement.

3.10 Real Property.

(a) The Allegheny Entities own fee simple or leasehold title (as the case may be and as set forth on Schedule 3.10) to the Real Property described in Schedule 3.10 together with all buildings, improvements and fixtures thereon and all appurtenances and rights thereto, free and clear of any Encumbrances other than the Permitted Real Property Encumbrances described in Schedule 3.10.

(b) The Real Property described in Schedule 3.10 comprises all of the real property owned or leased by the Allegheny Entities, and also describes all of the real property owned or leased by Affiliates of the Allegheny Entities which is associated with or employed in the operation of the Businesses.

(c) Except as described on Schedule 3.10, the buildings constructed on the Real Property are in a state of good condition and repair, are structurally sound, and in need of no maintenance or repairs except for ordinary, routine maintenance, and are adequate for the uses to which they are being put.

(d) No Allegheny Entity has received notice of condemnation or similar proceeding relating to the Real Property or any part thereof.

(e) No part of the Real Property contains, is located within or abuts any flood plain, navigable water or other body of water, tideland, wetland, marshland or any other area which is subject to special State, federal or municipal regulation, control or protection.

(f) Each of the real property leases described in Schedule 3.10 is in full force and effect and enforceable in accordance with their respective terms, are for the periods set forth in Schedule 3.10, and, except as set forth in Schedule 3.10, are superior to all mortgages or other leases or encumbrances. There are no notices of cancellation, termination, or default under any lease nor do any conditions currently exist which, with or without notice or lapse of time, or both, would constitute a default under the lease.

(g) The transactions contemplated by this Agreement will not constitute an assignment or other event which is not permitted by any of the real property leases described in Schedule 3.10, or which requires the consent of any Person except as listed on Schedule 3.10(g).

(h) The Real Property, including the buildings and other improvements thereon, is in compliance with all applicable subdivision, land use, zoning, building law codes and other Legal Requirements.

(i) There are no sale contracts, leases, subleases, licenses, purchases, assignments or other agreements for the transfer of any material parcel of any Real Property or which allow Persons other than the Allegheny Entities to use or occupy any material parcel of any Real Property or any part thereof.

3.11 Environmental Matters. Except as described on Schedule 3.11, the Assets and the Businesses are in compliance with all Environmental Laws and there are no circumstances in existence that would prevent or interfere with compliance by the Assets and the Businesses in all material respects with Environmental Laws. No Materials of Environmental Concern have been or are on, or in, or released or generated or disposed from the Businesses or the Assets, or other Real Property owned or used from time to time by the Allegheny Entities, except those materials (i) routinely used in connection with typical hospital uses, (ii) used or disposed of in compliance with applicable Legal Requirements, and (iii) which do not and will not, with the passage of time, require any environmental remediation under applicable Legal Requirements. Except as described on Schedule 3.11, no Allegheny Entity has received any communication from any Person alleging that, with respect to the Assets of or the conduct of the Businesses, any Allegheny Entity is not in compliance in all material respects with Environmental Laws. Each Allegheny Entity has all permits, licenses and approvals required under applicable Environmental Laws to own or lease the Real Property (as applicable) and to conduct the Businesses thereon as they are currently conducted.

3.12 Intellectual Properties, Computer Software, etc. Except for customary licensing fees payable under the Contracts, subject to the consummation of the transactions contemplated by the Global AHERF Settlement Agreement, and except for any Intellectual Properties covered by any agreement that the Governing Entity has elected not to treat as an Assigned AHERF

Agreement or an Assigned AUHS Agreement (as each such term is defined in the Global AHERF Settlement Agreement), the Allegheny Entities have the right to use, free and clear of any royalty or other payment obligations, claims of infringement or other liens, (i) all Intellectual Properties used or needed by the Allegheny Entities in the conduct of the Businesses, (ii) all computer software, programs and similar systems owned by or licensed under Contracts to the Allegheny Entities and used in the conduct of the Businesses, and (iii) all computer software, programs and similar systems necessary to or used in connection with the operation of the Businesses as currently conducted; and no Allegheny Entity is in material conflict with or in material violation or infringement of, nor has any Allegheny Entity received a notice alleging any conflict with or violation or infringement of, any rights of any other Person with respect to any such Intellectual Properties or computer software, programs or similar systems other than such as have arisen under Contracts between an Allegheny Entity and AHERF and which are being resolved pursuant to the Global AHERF Settlement Agreement. The Allegheny Entities have in place a Year 2000 plan of correction, which plan is adequate to deal with the Year 2000 issue and is financially feasible.

3.13 Insurance.

(a) Schedule 3.13 describes all material insurance arrangements, including self-insurance, in place for the benefit of the Assets and the conduct of the Businesses. With respect to third party insurance, Schedule 3.13 sets forth the name of each insurer, whether such insurer is an Affiliate of any Allegheny Entity, and the number, coverage, limits, term and premium for each policy of insurance purchased or held by the Allegheny Entities covering the ownership and operation of the Assets and the Businesses.

(b) No Allegheny Entity has any liability or responsibility in respect of any retrospective premium obligation described in any reinsurance agreement between Steadfast Insurance Company or Lexington Insurance Company and AHSPIC. The value of the assets of AHSPIC held in insurance trust reserve or agency accounts for the benefit of AHSPIC is less than the actuarially determined present value of the claims for which AHSPIC is or may be liable pursuant to the terms of any and all such reinsurance agreements by an amount that does not exceed \$7.0 million.

3.14 Permits and Licenses. The Allegheny Entities, AUMP and AUHS hold or own all material licenses, permits, grants, authorizations, easements, variances, exemptions, consents, approvals, orders, accreditations by Accreditation Bodies, franchises and certificates of need (including applications therefor) (collectively, the "Permits") necessary to the ownership, development or operations of the Businesses and the Assets. The Allegheny Entities, AUMP and AUHS are duly licensed by the appropriate state agencies and any ancillary departments located at the facilities of the Businesses that are required to be specifically licensed are duly licensed by the appropriate state agencies, and have the appropriate accreditations from Accreditation Bodies. The Businesses are in compliance in all material respects with such licensing and accreditation requirements and there is no action proceeding or investigation pending or threatened that could result in suspension or cancellation of any of the Permits.

3.15 Government Reimbursement Programs and Other Payor Programs.

(a) To the extent required, each of the Businesses is qualified for participation in and have current and valid provider contracts with the Government Reimbursement Programs and the Non-Governmental Payor Programs under which such entity has received reimbursement or direct payments in respect of services rendered and/or with the fiscal intermediaries or paying agents under such programs, and comply in all material respects with the conditions of participation therein. To the extent required, the Businesses are entitled to payment under the Government Reimbursement Programs and the Non-Governmental Payor Programs for services rendered to qualified beneficiaries and have received all approvals or qualifications necessary for capital reimbursement on the Assets. The Cost Reports were filed when due or have since been filed for all Cost Report periods through June 30, 1998. The Cost Reports have been audited and Notices of Program Reimbursement issued for all Cost Report periods through June 30, 1997. All amounts shown in the Cost Reports as due from any entity operating the Businesses were remitted with such reports and all amounts shown in the Notices of Program Reimbursement as due have been paid. The Allegheny Entities have not received or submitted any claim for payment in excess of the amount provided by, or otherwise in violation of, law or applicable Contract and, except as described on Schedule 3.15, no Allegheny Entity has received notice of or otherwise is aware of any dispute or claim by any Governmental Authority, fiscal intermediary or other person regarding the Government Reimbursement Programs or the Non-Governmental Payor Programs or the Allegheny Entities' or AUMP's or AUHS's participation therein. The Financial Statements reflect proper and adequate reserves for all normal and customary audit and contractual adjustments for which the Businesses will be liable under the Government Reimbursement Programs and the Non-Governmental Payor Programs.

(b) All claims for payment on the part of the Allegheny Entities, AUMP and AUHS under the Government Reimbursement Programs and Non-Governmental Payor Programs are valid and enforceable in accordance with their terms, subject only to contractual adjustments and to the effect of the change in interpretation by the Department of Public Welfare with respect to the general assistance days rules (the impact of which did not exceed \$1.4 million for fiscal year 1998 and \$2.4 million for fiscal year 1997, all of which has been taken account of in the Financial Statements). No such claims are subject to offset, recoupment or counterclaim by any Governmental Authority or other third party payor.

3.16 Agreements and Commitments.

(a) Except for Contracts listed on Schedule 3.16:

(i) there are no Contracts adversely affecting the ownership or use of, title to or interest in any Real Property;

(ii) there are no Contracts with Affiliates, officers, directors, or employees that are not on an arms-length basis on fair market terms or with referral sources to any of the Businesses;

(iii) there are no collective bargaining agreements or other Contracts with labor unions or other employee representatives or groups;

(iv) there are no requirements or exclusive Contracts or Contracts prohibiting or limiting competition or the conduct by the Allegheny Entities of any lawful business by the Businesses;

(v) there are no Contracts for the administration, operation or funding of any Employee Benefit Plan that are not on an arms-length basis on fair market terms;

(vi) there are no Contracts with providers or (other than Contracts under which AUHS or AUMP are the employers) with physicians or physician groups;

(vii) there are no employment or severance Contracts;

(viii) there are no Contracts for the management of any part of the Businesses; and

(ix) there are no other Contracts other than Immaterial Contracts.

(b) Except for Contracts for borrowed money, none of the Allegheny Entities is in breach of any of the Contracts listed on Schedule 3.16 if such breach would have a Material Adverse Effect.

(c) Complete and correct copies of all Contracts listed on Schedule 3.16 have been made available to the Governing Entity at the disclosure data room of the Allegheny Entities maintained by the Allegheny Entities at the legal department of the Allegheny Entities and at the offices of Kirkpatrick & Lockhart LLP.

3.17 Employees and Employee Relations.

(a) The Allegheny Entities have separately delivered to the Governing Entity (i) a complete list (as of the date set forth therein) of names, positions, current annual salaries or wage rates, and bonus and other compensation arrangements of all full-time and part-time non-physician employees of the Allegheny Entities, AUH-West and AHERF, AUMP and AUHS employed in the operation of the Businesses as of April 1, 1999, and (ii) a separate complete list (as of the date set forth therein) of names, positions, current annual salaries or wage rates, and bonus and other compensation arrangements of all full-time and part-time physician employees of the Allegheny Entities, AUMP and AUHS as of April 1, 1999 (and their Affiliates, if applicable) (indicating in both lists whether each employee is part-time or full-time, the name of the employer of such employee and whether such employee is employed under written Contract).

(b) Except as described on Schedule 3.17, no employees of any Allegheny Entity or AHERF, AUMP and AUHS are represented by, or have made demand for recognition of, a labor union or employee organization, and no other union organizing or collective bargaining activities by or with respect to any employees of any Allegheny Entity are taking place.

3.18 Employee Benefit Plans.

(a) Schedule 3.18 lists each Employee Benefit Plan and Other Plan.

(b) Each Employee Benefit Plan (and related trust, insurance contract or fund) complies in form and in operation in all material respects with applicable Legal Requirements, and has been administered and operated in all material respects in accordance with the terms of the Plan and applicable Legal Requirements. All required reports and descriptions (including Form 5500 Annual Reports, Summary Annual Reports, PBGC- 1's and Summary Plan Descriptions) have been filed or distributed appropriately with respect to each Employee Benefit Plan. Each Allegheny Entity has delivered to the Governing Entity correct and complete copies of the plan documents and summary plan descriptions, most recent determination letters received from the Internal Revenue Service, most recent Form 5500 Annual Report, and all related trust agreements, insurance contracts and other funding agreements which implement each Employee Benefit Plan. Since January 1, 1993, no Employee Benefit Plan has been audited by any Governmental Authority and no written notice that such an audit will or may be conducted has been received by any Allegheny Entity.

(c) Each Employee Pension Benefit Plan meets the requirements of a qualified plan under Code Sec. 401(a), a tax sheltered annuity plan under Code Section 403(b), or a qualified employee pension plan under Code Section 408, and each qualified plan has received a favorable determination letter from the Internal Revenue Service reflecting compliance at least through the requirements imposed by the Tax Reform Act of 1986. All contributions (including employer contributions and employee salary reduction contributions) to each Employee Pension Benefit Plan that are required to be paid have been paid. The market value of all assets under each Employee Pension Benefit Plan and the present value of all vested and unvested liabilities thereunder have been determined and, with respect to each such Employee Pension Benefit Plan, as of such date of determination the vested and unvested liabilities thereunder were determined in accordance with PBGC immediate and deferred factors and assumptions applicable to an Employee Pension Benefit Plan terminating on the date for determination.

(d) The requirements of Part 6 of Subtitle B to Title I of ERISA and of Code Sec. 4980B have been met with respect to each Employee Welfare Benefit Plan; all premiums or other payments for all periods ending on or before the Closing Date have been paid with respect to each Employee Welfare Benefit Plan.

(e) Except for the Reportable Event that occurred by reason of the disposition by AHERF and its Affiliates other than the Allegheny Entities of certain assets to Tenet Health Care Corporation, the obligations of the Controlled Group that includes any Allegheny Entity

in respect of which will be fully discharged by the filing of a Form 5500 on or prior to September 30, 1999, no Reportable Event has occurred and there have been no Prohibited Transactions with respect to any Employee Benefit Plan that would subject any Allegheny Entity or any member of the Controlled Group that includes any Allegheny Entity to any liability; no ERISA Fiduciary has any material liability for breach of fiduciary duty or any other failure to act or comply in connection with the administration or investment of the assets of any Employee Benefit Plan; no action, suit, proceeding, hearing or investigation with respect to the administration or the investment of the assets of any Employee Benefit Plan (other than routine claims for benefits) is pending or to the Allegheny Entities' knowledge threatened; and to the Allegheny Entities' knowledge there exists no basis for any such action, suit, proceeding, hearing or investigation. No Party in Interest has any interest in any assets of any Employee Benefit Pension Plan other than as a beneficiary by virtue of such Person's participation in such plan.

(f) Except as set forth in Schedule 3.18, no Employee Benefit Plan which is an Employee Pension Benefit Plan has been completely or partially terminated or the subject of a Reportable Event and no proceeding by the PBGC to terminate any Employee Pension Benefit Plan has been instituted or threatened; and no Allegheny Entity has incurred any material liability to the PBGC (other than PBGC premium payments) or otherwise under Title IV of ERISA (including any withdrawal liability) or under the Code with respect to any Employee Pension Benefit Plan.

(g) Except as set forth in Schedule 3.18, the Allegheny Entities, and any member of the Controlled Group that includes the Allegheny Entities, have no unfunded liabilities, or potential, contingent or actual multiemployer plan withdrawal liabilities, on account of or in connection with any of the Employee Benefit Plans or Other Plans or otherwise, all contributions or premium payments due from the Allegheny Entities or any member of the Controlled Group that includes the Allegheny Entities have been paid in a timely manner, and any additional contributions or premium payments due on or before the Closing Date shall have been paid by that date. No Allegheny Entity, and no member of the Controlled Group that includes any Allegheny Entity, contributes to, ever has contributed to, or ever has been required to contribute to any Multiple Employer Plan or any Multiemployer Plan. No Allegheny Entity, and no member of the Controlled Group that includes any Allegheny Entity, maintains or contributes, ever has maintained or contributed, or ever has been required to maintain or contribute to any Employee Welfare Benefit Plan providing medical, health or life insurance or other welfare-type benefits for current or future retired or terminated employees, their spouses or their dependents (other than in accordance with Code Sec. 4980B).

3.19 Litigation and Proceedings.

(a) The Allegheny Entities have separately delivered to the Governing Entity a loss run reflecting all material medical malpractice claims against any Allegheny Entity as of December 31, 1998. In all other respects, Schedule 3.19 sets forth a list and summary description of all material claims, actions, suits, litigation, arbitration, mediations, investigations

and other proceedings pending or threatened against any Allegheny Entity, AUMP or AUHS as of the date of this Agreement.

(b) All litigation pending or threatened involving professional liability on the part of the Allegheny Entities, AUMP or AUHS will be fully discharged by the current carriers of professional liability insurance, as identified on Schedule 3.13 hereof.

(c) The Financial Statements reflect adequate and appropriate reserves in accordance with GAAP in respect of all pending and threatened litigation. Without limiting the generality of the foregoing, any claims made by HealthAmerica against one or more of the Allegheny Entities will not result in liability to any of the Allegheny Entities inconsistent with the amounts reserved therefor on the Financial Statements or otherwise have a Material Adverse Effect on the business of the Allegheny Entities.

3.20 Taxes.

(a) The Allegheny Entities have filed when due all Tax Returns required to be filed by or on behalf of any of them when due, all such Tax Returns are correct and complete in all material respects, and the Allegheny Entities have duly paid all Taxes due and made provision in the Financial Statements for the payment of all Taxes accrued but not yet due.

(b) Each Allegheny Entity has withheld proper and accurate amounts from its employees' compensation in full and complete compliance with all withholding and similar provisions of the Code and any and all other applicable Legal Requirements, and has withheld and paid, or caused to be withheld and paid, all Taxes on monies paid by the Allegheny Entities to independent contractors, creditors and other Persons for which withholding or payment is required by law.

(c) Except as set forth on Schedule 3.20, (i) there is no dispute or claim concerning any Tax liability of the Allegheny Entities either claimed or raised by any Governmental Authority in writing, or as to which any Allegheny Entity has notice or knowledge; (ii) there are no liens for Taxes on any of the Assets of the Allegheny Entities; (iii) the Assets do not include stock of corporations with net operating losses that could be limited by the transactions contemplated hereby; (iv) the Allegheny Entities are not participants in any partnerships or joint ventures; (v) there are no audits, actions, suits, proceedings, investigations or claims currently pending or threatened regarding any Taxes, (vi) there are no agreements or consents currently in effect for the extension or waiver of time (x) for filing Tax Returns or (y) for assessment of taxes and no Allegheny Entity has been requested to enter into any such agreement or consent with respect to the Allegheny Entities; (vii) all Tax deficiencies that have been claimed, proposed or asserted against any Allegheny Entity have been fully paid or settled; and (viii) there are no powers of attorney outstanding or applications for rulings or determinations regarding Taxes with respect to the Allegheny Entities.

(d) The Allegheny Entities are corporations exempt from federal and state income taxation because they are described in Section 501(c)(3) of the Code, and each has

received favorable letters of determination from the IRS regarding such Tax status. No similar letters of determination are required to be obtained from the Commonwealth of Pennsylvania Department of Revenue. The Allegheny Entities have not taken any actions that are inconsistent with any exemptions or Section 501(c)(3) status or would jeopardize exemptions or Section 501(c)(3) status and the Allegheny Entities are not under any investigation that could result in any exemption or Section 501(c)(3) status being revoked and no such investigation is pending or threatened.

3.21 Medical Staff. The Allegheny Entities have delivered to the Governing Entity copies of the bylaws, rules, and regulations currently in effect of the medical staff and medical executive committees of the Businesses. To the best knowledge of the Allegheny Entities, each professionally licensed employee of any of the Allegheny Entities is and at all times during his or her employment with such Allegheny Entity has been, and each professionally licensed member of the medical staffs of each Allegheny Entity is and at all times during his or her affiliation with such Allegheny Entity has been, duly licensed by all applicable licensing bodies and has held all professional certificates and designations appropriate to the functions discharged by him or her.

3.22 Special Funds. Subject to the matters described in a proof of claim or amendment thereto filed with the Bankruptcy Court on behalf of the Commonwealth of Pennsylvania (and without any implication that the Allegheny Entities are responsible for the matters described in such proof of claim), and subject to the repayment of loans made from restricted assets of AUHS as reflected in the AUMP/AUHS Balance Sheet, all of the Assets, including the Transferred Endowments and Transferred Grants, that are subject to Endowment and Grant Restrictions have been maintained, used and applied in accordance with such Endowment and Grant Restrictions. Except for the Endowment and Grant Restrictions set forth in Schedule 3.18 to the Global AHERF Settlement Agreement, none of the Assets are subject to any liability in respect of funds received by any Person for the purchase, improvement or use of any of the Assets or the conduct of the Businesses under restricted or conditioned grants or donations, including monies received under the Hill-Burton Act or from any other Governmental Authority.

3.23 Brokers and Finders. No Allegheny Entity nor any Affiliate of any Allegheny Entity, nor any officer, trustee, director, employee or agent thereof, has engaged any finder or broker in connection with the transactions contemplated hereunder, except that the Allegheny Entities have engaged Salomon Smith Barney Inc. to act as the Allegheny Entities' independent financial advisor in connection with the transactions contemplated by this Agreement. A true, correct and complete copy of all agreements reflecting the compensation arrangement between the Allegheny Entities and with Salomon Smith Barney Inc. is attached hereto as Exhibit 3.23.

3.24 Payments. No Allegheny Entity has, directly or indirectly, paid or delivered or agreed to pay or deliver any fee, commission or other sum of money or item of property, or other consideration, however characterized, to any Person which is in any manner related to the Assets or the Businesses in violation of any Legal Requirement. No Allegheny Entity, nor any officer, director or trustee of any Allegheny Entity has received or, as a result of the consummation of the transaction contemplated by this Agreement, will receive any rebate,

kickback or other payment from any Person with whom the Allegheny Entities conduct or have conducted business except (i) as expressly contemplated by this Agreement and (ii) for base salary and wages paid by the Allegheny Entities in the ordinary course of business.

3.25 Operation of the Businesses. The Assets constitute all assets (other than working capital), properties, goodwill and businesses necessary to operate the Businesses in all material respects in the manner in which they have been operated since June 30, 1998.

3.26 Restricted Assets. The Allegheny Entities own and hold (or, in the case of the Transferred Endowments and Transferred Grants, will as of the Closing own and hold) good and valid title to all Restricted Assets, free and clear of any Encumbrances other than the Endowment and Grant Restrictions and any applicable Legal Requirements.

3.27 Full Disclosure. This Agreement and the schedules and exhibits hereto, including the Global AHERF Settlement Agreement and the schedules and exhibits thereto, do not contain any material misstatement of fact or, when taken as a whole, omit to state a material fact necessary to make the statements contained herein or therein not misleading.

IV. REPRESENTATIONS AND WARRANTIES OF THE GOVERNING ENTITY

The Governing Entity makes the following representations and warranties to the Allegheny Entities on and as of the date hereof and shall be deemed to make them again at and as of the Closing. The Governing Entity represents and warrants to the Allegheny Entities as follows:

4.1 Organization. The Governing Entity is a non-profit corporation duly organized and validly subsisting under the laws of the Commonwealth of Pennsylvania.

4.2 Corporate Powers; Consents; Absence of Conflicts, Etc. The Governing Entity has the requisite power and authority to conduct its business as now being conducted, to enter into this Agreement, and to perform its obligations hereunder. The execution, delivery and performance by the Governing Entity of this Agreement and the consummation of the transactions contemplated herein by it:

(a) are within its corporate powers and are not in contravention of the terms of its articles or certificates of incorporation and bylaws, as amended to date, and have been approved by all requisite corporate action;

(b) except as otherwise expressly herein provided, do not require any approval or consent of, or filing with, any Governmental Authority bearing on the validity of this Agreement;

(c) do not conflict with or result in any breach or contravention of, any material agreement to which the Governing Entity is a party or by which it is bound; and

(d) do not violate any Legal Requirement to which the Governing Entity may be subject.

4.3 Binding Agreement. This Agreement and all instruments and agreements hereunder to which the Governing Entity is or becomes a party are (or upon execution will be) valid and legally binding obligations of the Governing Entity enforceable against it in accordance with the respective terms hereof and thereof, except as enforceability against them may be restricted, limited or delayed by applicable bankruptcy or other laws affecting creditors' rights generally and except as enforceability may be subject to general principles of equity.

4.4 Brokers and Finders. Neither the Governing Entity, nor any Affiliate of the Governing Entity, nor any officer, director, employee or agent thereof, has engaged any finder or broker in connection with the transactions contemplated hereunder.

4.5 Payments. Neither the Governing Entity nor any Affiliate of the Governing Entity nor any officer, director, employee or agent thereof, has, directly or indirectly, paid or delivered, offered to pay or deliver, or agreed to pay or deliver any fee, commission or other sum of money or item of property, however characterized, to any Person which is now or was previously an affiliate or insider of the Allegheny Entities to induce the consent or approval of such Person with respect to the transactions contemplated hereby, except as contemplated by the Global AHERF Settlement.

4.6 No Other Representations. The Governing Entity acknowledges that there are no representations, warranties, expressed or implied, of the Allegheny Entities except as expressly set forth in this Agreement.

V. COVENANTS AND AGREEMENTS OF THE PARTIES

5.1 Operations. Until the Closing Date except as otherwise expressly provided in this Agreement, AUH-West and the Allegheny Entities will:

- (a) carry on the Businesses in the ordinary course and in substantially the same manner as they have heretofore;
- (b) maintain the Assets and all leased equipment or Real Property in as good working order and condition as at present, ordinary wear and tear excepted;
- (c) perform when due all Legal Requirements and obligations under Contracts relating to or affecting the Businesses;
- (d) keep in full force and effect present insurance policies or other comparable insurance benefiting the Assets and the conduct of the Businesses;

(e) permit and allow reasonable access by the Governing Entity to establish relationships with physicians, payors and other Persons having business relations with the Allegheny Entities; and

(f) Keep and fulfill in all material respects (i) all obligations of AGH under the Working Capital Loan Agreement, and (ii) so long as it is in effect, all obligations of AGH and AUMC under the Management Agreement.

5.2 Certain Actions. Until the Closing Date, except pursuant to the direction of the manager under the Management Agreement, AUH-West and the Allegheny Entities shall not take any of the following actions without first obtaining the written consent of the Governing Entity:

(a) assign, amend or terminate any Contract, or enter into or renew any Contract, except for Immaterial Contracts and except for Contracts with Persons other than Affiliates (not including for such purpose executives or managers) entered into, terminated, renewed or amended in the ordinary course of the Businesses;

(b) make any material change in personnel, operations, finances, accounting policies, or real or personal property of the Businesses;

(c) increase compensation, benefits, or other remuneration payable or to become payable to, make a bonus or severance payment to, or otherwise enter into one or more bonus or severance agreements with, any employee or agent of any Allegheny Entity or appoint, hire or engage any employee, except for non-executive and non-management personnel in the ordinary course of the Businesses in accordance with existing personnel policies;

(d) create, agree to create, guarantee, assume or permit to exist any new Encumbrance upon any of the Assets other than the interests of lessors under operating leases entered into in the ordinary course of the Businesses;

(e) sell, assign, transfer, distribute or otherwise transfer or dispose of any property, plant or equipment of any Allegheny Entity having an original cost in excess of \$20,000 or otherwise material to the Businesses except in the ordinary course of the Businesses with comparable replacement thereof, provided that this Section 5.2(e) shall not prohibit the consummation of the Carved-Out Transactions so long as the proceeds thereof are retained by the applicable seller;

(f) take any action outside the ordinary course of the Businesses;

(g) except pursuant to a final, binding, and non-appealable Legal Requirement, amend or agree to amend the articles or certificate of incorporation or bylaws of any Allegheny Entity or otherwise take any action relating to any liquidation or dissolution of any Allegheny Entity; provided that if any Allegheny Entity believes that a final, binding and non-appealable Legal Requirement requires it to take any of the foregoing

actions, such Allegheny Entity shall, prior to taking such action advise the Governing Entity of such belief and confer with the Governing Entity with respect thereto;

(h) incur any new indebtedness for borrowed money (other than pursuant to the Working Capital Loan Agreement and indebtedness owed from AGH to AUMC) or otherwise create, incur, assume, guarantee or otherwise become liable for any liability of any Allegheny Entity or any other Person, or agree to do any of the foregoing, except for liabilities and obligations of an Allegheny Entity (other than indebtedness for borrowed money) in the ordinary course of the Businesses consistent with past practices;

(i) cancel, forgive, release, discharge or waive any receivable or any similar Asset or right with respect to the Businesses, or agree to do any of the foregoing, except in the ordinary course of the Businesses consistent with past practices and with respect to a Person that is not an Affiliate (including for such purpose executives and managers) of any Allegheny Entity;

(j) change any accounting method, policy or practice in the Financial Statements;

(k) terminate, amend or otherwise modify any Employee Benefit Plan or Other Plan, except for amendments required to comply with applicable Legal Requirements;

(l) commence or settle any claims, actions, suits, litigation, or other proceedings, or allow the time to appeal any decisions affecting the same (including without limitation with respect to Government Reimbursement Programs) to lapse (other than professional liability claims covered by insurance in the ordinary course of business);

(m) make any cash payment from the Allegheny Entities to the Estates that (A) does not represent a charge for the direct cost of services that have been provided for the benefit of an Allegheny Entity, AUHS or AUMP for periods after March 1, 1999, and (B) has not been approved by the Governing Entity; or

(n) make or cause to be made any cash transfer from the Allegheny Entities to AUH-West except to discharge current ordinary course obligations of AUH-West in accordance with past practice.

5.3 Reserved.

5.4 Access to and Provision of Additional Information.

(a) Until the Closing, AUH-West and the Allegheny Entities shall provide to the Governing Entity full and complete access to and the right to inspect and copy the Assets, books and records of AUH-West and the Allegheny Entities relating to the Businesses, access to AUH-West's and the Allegheny Entities' files and other records regarding claims, actions,

suits, litigation, arbitration, mediations, investigations and other proceedings pending against or otherwise affecting AUH-West or any Allegheny Entity, the Businesses or the Assets, and such additional financial, operating and other data and information regarding the Businesses as the Governing Entity may from time to time reasonably request, whether such books, records and data are in the possession of AUH-West or the Allegheny Entities or in the possession of a consultant or advisor to AUH-West or the Allegheny Entities.

(b) Until the Closing, the AUH-West and Allegheny Entities shall cause their respective officers and employees to confer on a regular and frequent basis with one or more representatives of the Governing Entity and to answer the Governing Entity's questions regarding matters relating to the conduct of the Businesses and the status of transactions contemplated by this Agreement. AUH-West and the Allegheny Entities shall notify the Governing Entity in writing of any material changes in the operations, financial condition or prospects of the Businesses and of any complaints, investigations, hearings or adjudicatory proceedings (or communications indicating that the same may be contemplated) of any Person (including without limitation those with respect to Government Reimbursement Programs) and shall keep the Governing Entity reasonably informed of such matters.

(c) The exercise by the Governing Entity of any right of access granted herein shall not unreasonably interfere with the business operations of the Allegheny Entities. Any and all information acquired by or provided to the Governing Entity in the course of having the access granted herein shall be held in confidence in accordance with paragraph 4 of the Letter of Intent.

5.5 Governmental Authority Approvals: Consents to Assignment. Until the Closing Date, AUH-West and each Allegheny Entity and the Governing Entity shall (i) promptly apply for and use all reasonable efforts to obtain as soon as practicable all consents, approvals, authorizations and clearances of Governmental Authorities required of it to consummate the transactions contemplated hereby, (ii) provide such information and communications to Governmental Authorities as the other party or such Persons may reasonably request, (iii) reasonably assist and cooperate with other parties to obtain all consents, licenses, permits, approvals, authorizations and clearances of Governmental Authorities that the other parties reasonably deem necessary or appropriate, and to prepare any document or other information reasonably required of it by any such Persons to consummate the transactions contemplated herein, and (iv) otherwise use all reasonable efforts to cause the Closing to occur as soon as possible; provided that, notwithstanding the foregoing, no party shall have any obligation under such provisions to pay any cash amounts to Governmental Authorities other than filing fees.

5.6 Further Acts and Assurances. At any time and from time to time at and after the Closing, upon request of any party, each other party shall do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged and delivered, such further acts, deeds, powers of attorney, confirmations and assurances as the requesting party may reasonably request to more effectively consummate the transactions contemplated hereby and by the Global AHERF Settlement Agreement. Each party shall also furnish each other party, at the cost and expense of the requesting party, with such information and documents in its possession or under its

control, or which such other party can execute or cause to be executed, as will enable the requesting party to prosecute any and all petitions, applications, claims and demands relating to the transactions contemplated hereby and the Global AHERF Settlement Agreement.

5.7 Restricted Assets. The Governing Entity acknowledges that the Restricted Assets are subject to the Endowment and Grant Restrictions. The Governing Entity will cause the Allegheny Entities to take such actions after Closing as are reasonably necessary to comply with the conditions of such Endowment and Grant Restrictions, including but not limited to establishment and maintenance of the Endowment and Grant Accounts.

5.8 Costs and Expenses.

(a) Except as otherwise expressly set forth in this Agreement, all expenses of the preparation of this Agreement and of the consummation of the transactions contemplated hereby, including counsel, accounting, brokerage and investment advisor fees and disbursements, shall be borne by the respective party incurring such expense, whether or not such transactions are consummated. The Allegheny Entities shall be responsible for paying any fees and expenses of Salomon Smith Barney Inc. in connection with the transactions contemplated by this Agreement.

(b) The Governing Entity shall pay the cost of environmental, engineering and other professional studies undertaken by the Governing Entity.

5.9 RAP Plan Matters. Notwithstanding anything to the contrary in this Agreement, the obligations of the parties, if any, with respect to the RAP Plan and any pension liabilities arising thereunder or in connection therewith shall be governed by the PBGC Agreement in the form attached as Exhibit 5.9. The Closing hereunder shall not occur except upon the simultaneous closing under the PBGC Agreement, and the terms of the PBGC Agreement shall survive the Closing notwithstanding anything to the contrary in this Agreement.

VI. CONDITIONS PRECEDENT TO OBLIGATIONS OF THE ALLEGHENY ENTITIES

The obligations of the Allegheny Entities hereunder are subject to the satisfaction on or prior to the Closing Date of the following conditions unless waived in writing by the Allegheny Entities (with the understanding that the condition set forth in Section 6.3 (ii) cannot be waived):

6.1 Representations and Warranties; Covenants.

(a) The representations and warranties of the Governing Entity contained in this Agreement shall be true and correct in all material respects on and as of the Closing Date.

(b) The terms, covenants and agreements to be complied with or performed by the Governing Entity on or before the Closing Date shall have been complied with and performed, including the obligations of the Governing Entity in Section 8.3.

6.2 Adverse Action or Proceeding. No action or proceeding before any Governmental Authority shall have been instituted or threatened to restrain or prohibit the transactions herein contemplated and shall continue to be pending, and there shall not be in effect any order restraining, enjoining or otherwise preventing consummation of the transactions contemplated hereunder.

6.3 Pre-Closing Confirmations. The Allegheny Entities shall have obtained documentation or other evidence reasonably satisfactory to the Allegheny Entities that the Allegheny Entities have received or will receive all approvals, authorizations and clearances of Governmental Authorities and other Persons required of them to consummate the transactions contemplated hereby and that all applicable waiting periods under the HSR Act have expired. Without limiting the generality of the foregoing, (i) an order of the U.S. Bankruptcy Court for the Western District of Pennsylvania shall have been obtained with respect to the transactions contemplated hereby and by the Global AHERF Settlement Agreement that is reasonably satisfactory to the Allegheny Entities, and (ii) the Orphans' Court shall have entered an order approving the transactions contemplated hereby.

6.4 Global AHERF Settlement Agreement. The transactions contemplated by the Global AHERF Settlement Agreement shall have been consummated in all material respects in accordance with the terms and conditions of the Global AHERF Settlement Agreement.

6.5 Highmark Loan Closing. The Highmark Credit Agreement shall be in full force and effect, and the conditions to the closing and the initial advance of loan proceeds under the Highmark Credit Agreement shall have been satisfied or been waived by Highmark, and such advances under the Highmark Credit Agreement as the Governing Entity shall determine are reasonably necessary for the preservation of the Allegheny Entities and the orderly conduct of the Businesses as of the Closing Date shall have been made.

6.6 AUH-West. The corporate entity and unsatisfied liabilities of AUH-West shall have been dealt with in a manner satisfactory to the Allegheny Entities and AUH-West. It is understood that the condition in this Section 6.6 may not be waived without the consent of AUH-West.

VII. CONDITIONS PRECEDENT TO OBLIGATIONS OF THE GOVERNING ENTITY

The obligations of the Governing Entity hereunder are subject to the satisfaction on or prior to the Closing Date of the following conditions, unless waived in writing by the Governing Entity (it being understood that, except for the conditions set forth in Section 7.7(a), which may be waived only with the consent of the PBGC, and the conditions set forth in Section 7.11 (ii), which cannot be waived, each of the following conditions may be deemed to be satisfied or may

be waived only in the sole discretion of the Governing Entity, and that such conditions may fail of satisfaction as a result of a determination by Highmark that such conditions have not been met; neither the Governing Entity, Highmark or any of their Affiliates shall have any liability or obligation to other party hereto as a result of any determination of the Governing Entity or Highmark that any such condition has failed to be satisfied):

7.1 Representations and Warranties: Covenants.

(a) The Governing Entity shall be reasonably satisfied that the representations and warranties of AUH-West and the Allegheny Entities contained in this Agreement shall be true and correct in all material respects on and as of the Closing Date, as if made on such date, except to the extent that the failure of such representations and warranties (individually or in the aggregate) to be true and correct in all material respects would not have a Material Adverse Effect. The Governing Entity shall be reasonably satisfied that no changes, events, omissions, or occurrences shall have occurred or be threatened or pending (whether or not arising from any such failure), which in the aggregate have had or are likely to have a Material Adverse Effect. For such purpose, a change, event, omission or occurrence, or a failure of a representation or warranty to be true and correct, shall only be deemed to have a "Material Adverse Effect" if, individually or collectively with other such changes, events, omissions, occurrences and failures, it would be reasonably likely to cause the following actual or anticipated annualized financial measurements with respect to the Businesses (calculated as if the Transferred Assets Businesses of AUHS and AUMP constituted part of the Businesses) to be different from the indicated base case financial measurements (which the parties acknowledge represent the Governing Entity's current base case assumptions for the Businesses, calculated on the same basis) by more than the indicated amounts: (i) if it would be reasonably likely to cause the sum of (A) the current assets of AGH and AUMC determined in accordance with GAAP less (B) the outstanding principal amount and all accrued and unpaid interest under the Working Capital Loan Agreement, plus (C) the assets of AGH and AUMC that are restricted as to use (not including the Transferred Endowments), less (D) the current liabilities of AGH and AUMC (exclusive of the current portion of long-term debt and the outstanding principal amount and all accrued and unpaid interest under the Working Capital Loan Agreement) determined in accordance with GAAP, to vary negatively from the base case of \$120.4 million by more than \$10 million; (ii) if it would be reasonably likely to cause the sum of the long term debt of AGH and AUMC inclusive of current maturities (not including the principal amount or any accrued interest under the Working Capital Loan Agreement) to vary negatively from the base case of \$449.1 million by more than \$1 million; (iii) if it would be reasonably likely to cause the sum of the annualized inpatient revenue, outpatient revenue, capitation revenue, risk contract revenue and physician services revenue of AGH and AUMC (not including physician services revenue recognized by AUHS and AUMP) to vary negatively from the base case of \$650.8 million by more than \$10 million; (iv) if it would be reasonably likely to cause the sum for AUHS and AUMP of the accounts receivable (other than accounts receivable from AHERF and its Affiliates), plus inventory, prepaid expenses, other receivables and Grants receivable (net), less accounts payable and accrued expenses, all in accordance with GAAP, to vary negatively from the base case of \$7.4 million by more than \$1 million; (v) if it would be reasonably likely to cause the sum for AUHS and AUMP of pension liabilities, workers compensation liabilities and other liabilities,

all in accordance with GAAP, to vary negatively from the base case of \$3.3 million by more than \$0.5 million; or (vi) if it would be reasonably likely to place the Governing Entity and/or the Allegheny Entities in material violation of Legal Requirements that are material to the conduct of the Allegheny Entities' Businesses (as if, for such purpose, the transactions contemplated by the Global AHERF Settlement Agreement had been consummated) after the Closing.

(b) The Governing Entity shall be satisfied that the liquidity position of AGH as of the Closing Date is such that the liquid resources of the Governing Entity, AGH and AUMC that are legally available to be applied to the costs incurred and to be incurred by the Governing Entity, AGH and AUMC at and for a reasonable time after the Closing Date will be sufficient to pay and discharge such costs in a timely manner while leaving a prudent level of liquid reserves available to pay future costs. Without limiting the generality of the foregoing, on the motion of AGH that is approved by the Attorney General of the Commonwealth of Pennsylvania, the Orphan's Court shall have entered an order authorizing the application of funds that would otherwise constitute Endowments of AGH to the payment of such costs, free and clear of Endowment and Grant Restrictions and without violation of any Legal Requirements, in an amount or amounts and at such time or times as may be necessary in the judgment of the Governing Entity in order to satisfy the condition set forth in this Section 7.1(c), and all legal matters affecting such motion, order and authorization shall be reasonably satisfactory to the Governing Entity.

(c) The terms, covenants and agreements to be complied with or performed by AUH-West and the Allegheny Entities on or before the Closing Date shall have been complied with and performed in all material respects, including the obligations of AUH-West and the Allegheny Entities in Section 8.2.

7.2 Adverse Action or Proceeding. No action or proceeding by any Governmental Authority shall have been instituted seeking to restrain or prohibit the transactions herein contemplated and shall continue to be pending, and there shall not be in effect any order restraining, enjoining or otherwise preventing consummation of the transactions contemplated hereunder.

7.3 Pre-Closing Confirmations. The Governing Entity shall have obtained documentation or other evidence reasonably satisfactory to the Governing Entity (1) that AUH-West, the Allegheny Entities and the Governing Entity have received or will receive all approvals, authorizations and clearances of Governmental Authorities and other Persons required of them or advisable in the judgment of the Governing Entity to consummate the transactions contemplated hereby, the failure to receive which would have a Material Adverse Effect or would violate in a material way the provisions of applicable law or expose any Allegheny Entity or the Governing Entity to any material liability, including without limitation (w) required consents of parties to Contracts (other than Immaterial Contracts) to which the Allegheny Entities and/or AUMP or AUHS is a party, (x) waivers of defaults by the holders of long term indebtedness, parties to capital and operating leases and parties to other Contracts (other than Immaterial Contracts) affecting the Businesses; (y) required consents of the Governing Entity's

governing bodies; and (z) consents of third parties required or deemed advisable by the Governing Entity in order for the Governing Entity to consummate the transactions contemplated hereby; and (2) that all applicable waiting periods under the HSR Act have expired. Without limiting the generality of the foregoing, an order of the U.S. Bankruptcy Court for the Western District of Pennsylvania shall have been obtained with respect to the transactions contemplated hereby and by the Global AHERF Settlement Agreement the terms of which and the procedures of entry for which are satisfactory to the Governing Entity, and *inter alia*, does not by its terms allocate to the Allegheny Entities or the Governing Entity any responsibility for the payment of professional fees, and such order shall have become final and not be subject to a pending appeal.

7.4 Deliveries at Closing. The Allegheny Entities shall have delivered to the Governing Entity, in form reasonably acceptable to the Governing Entity, the amended articles of incorporation and bylaws, and all agreements, instruments, certificates or other documents required to be executed by any Allegheny Entity pursuant to this Agreement.

7.5 Global AHERF Settlement Agreement. The transactions contemplated by the Global AHERF Settlement Agreement shall have been consummated in all material respects in accordance with the terms and conditions of the Global AHERF Settlement Agreement. Without limiting the generality of the foregoing, it is expressly agreed that each and every one of the conditions set forth in Article 7 of the Global AHERF Settlement Agreement to the obligations of the Governing Entity under the Global AHERF Settlement Agreement shall constitute a condition to the obligations of the Governing Entity under this Agreement, each of which (except for the conditions set forth in Section 7.12 of the Global AHERF Settlement Agreement, which may be waived only with the consent of the PBGC) may be deemed to be satisfied or may be waived only in the sole discretion of the Governing Entity, and that such conditions may fail of satisfaction as a result of a determination by Highmark that such conditions have not been met. Neither the Governing Entity, Highmark nor any of their Affiliates shall have any liability or obligation to any other party hereto as a result of any determination of the Governing Entity or Highmark that any such condition has failed to be satisfied.

7.6 Specific Conditions. Without limiting the generality of Section 7.1(a), the Governing Entity shall be reasonably satisfied that the following specific conditions have been met, in each case to the extent that the failure of the satisfaction of any one or more of the following specific conditions, individually or when taken together with any matters that have caused the representations and warranties of AUH-West and the Allegheny Entities in this Agreement not to be true and correct in all material respects on and as of the Closing Date, as if made on such date, or with any changes, events, omissions or occurrences that have occurred or may be threatened or pending as of the Closing Date, would have or is likely to have a Material Adverse Effect:

(a) Investigations. The Governing Entity shall be satisfied as to the status of any pending governmental or third party payor investigation.

(b) Plan of Transition. The Governing Entity shall be satisfied with respect to the legal and financial aspects of the Contracts, taken as a whole, to which AUMP and AUHS

are and have been parties with respect to employment of physicians and acquisition of physician practices, and with respect to the plan of transition for AUMP and AUHS physicians.

(c) Insurance. The Governing Entity shall be satisfied that the Allegheny Entities will have no material liability in respect of directors' and officers' indemnity claims that is not covered by insurance.

(d) Qui Tam Suit and Related Litigation. The Governing Entity shall be satisfied as to the status of the litigation matters captioned U.S. ex rel. v. AGH et al. and Cedars-Sinai v. Shalala.

7.7 PBGC Agreement and RAP Plan Matters.

(a) The PBGC Agreement shall be in full force and effect, the transactions contemplated thereby to be consummated at the time of the Closing shall have been consummated and the releases, confirmations and other actions contemplated thereby to be delivered or taken at the time of the Closing shall have been delivered or taken, all in a manner that the Governing Entity is satisfied is in accordance in all material respects with the terms and conditions of the PBGC Agreement.

(b) IRS Inaction With Respect to Form 5310-A. At least thirty days prior to the Closing Date, the Allegheny Entities shall have timely filed or caused to be filed appropriate notices to the Internal Revenue Service on Form 5310-A with respect to the spin-off of the RAP contemplated by the PBGC Agreement, and as of the Closing Date, the Internal Revenue Service shall not have noted an objection to such spin off or requested additional time to review such spin off.

(c) Reasonable Satisfaction With Respect to Funding Obligations of the Allegheny Entities Plan. The Governing Entity shall be reasonably satisfied that, on an actuarial basis using actuarial assumptions used by the RAP applied to the New Plan (as such term is defined in the PBGC Agreement), including, but not limited to, an interest rate of 9% per year, and assuming that benefit accruals are ceased by the Allegheny Entities as of the Closing Date, neither the Governing Entity nor the Allegheny Entities (or any of them) will have an obligation to make contributions to the Allegheny Entities Plan (it being understood that nothing in this Section 7.7(c) shall limit or restrict the obligations of the Governing Entity or the Allegheny Entities from and after the Closing Date arising under the terms of the New Plan, the PBGC Agreement or the provisions of applicable law with respect thereto).

7.8 Opinions. The Governing Entity shall have received the opinion of counsel to AUH-West and the Allegheny Entities with respect to the matters set forth on Schedule 8.2.

7.9 Highmark Loan Closing. The Highmark Loan Agreement shall be in full force and effect, and the conditions to the closing and the initial advance of loan proceeds under the Highmark Loan Agreement shall have been satisfied or been waived by Highmark, and such advances under the Highmark Loan Agreement as the Governing Entity shall determine are

reasonably necessary for the preservation of the Allegheny Entities and the orderly conduct of the Businesses as of the Closing Date shall have been made.

7.10 HealthAmerica Settlement. The Allegheny Entities shall have entered into a settlement agreement with HealthAmerica Pennsylvania, Inc. ("HealthAmerica") settling and resolving on terms satisfactory to the Governing Entity all claims of HealthAmerica against the Allegheny Entities, AUMP and AUHS in respect of alleged defaults by AHERF and its Affiliates under risk bearing or risk sharing provider agreements, in respect of provider payment audit or reconciliation or alleged obligations, and any other matters that have been disputed between the Allegheny Entities, AUMP and AUHS on the one hand and HealthAmerica on the other hand.

7.11 Legal Matters. All legal matters affecting the transactions hereby shall be reasonably satisfactory to the Governing Entity. Without limiting the generality of the foregoing, the Governing Entity shall be satisfied that (i) the Attorney General of the Commonwealth of Pennsylvania shall have approved the terms of this Affiliation Agreement and (ii) the approval of the Orphans' Court of the transfer of the Transferred Endowments and the other transactions contemplated hereby and by the Settlement Agreement shall have been obtained.

VIII. CLOSING: TERMINATION OF AGREEMENT

8.1 Closing. Consummation of the affiliation and other transactions contemplated by and described in this Agreement (the "Closing") shall take place at the offices of AGH at 10:00 a.m. on the first business day following satisfaction or waiver of the conditions set forth in Articles 6 and 7, or at such time or place as the parties may mutually agree. Unless otherwise agreed in writing by the parties at Closing, the Closing shall be effective for accounting purposes as of 12:01 A.M. on the day following the Closing Date.

8.2 Action of the Allegheny Entities at Closing. At the Closing and unless otherwise waived in writing by the Governing Entity, the Allegheny Entities shall deliver:

(a) to the Governing Entity duly amended articles of incorporation substantially in the form set forth in Exhibit 2.1(a) hereto;

(b) to the Governing Entity duly amended bylaws substantially in the form set forth in Exhibit 2.1(b) hereto;

(c) to the Governing Entity copies of resolutions duly adopted by the board of directors or trustees of AUH-West, each Allegheny Entity, the Community Advisory Board of Allegheny Valley Hospital, the Community Advisory Board of AUMC-Canonsburg, and the member of AUH-West and each Allegheny Entity, authorizing and approving the execution and delivery of this Agreement and the consummation of the transactions contemplated hereby, including without limitation approval of the amended articles and bylaws contemplated by this Agreement, certified as true and in full force

and effect as of the Closing Date by the appropriate officers of AUH-West and such Allegheny Entity and the member of AUH-West and each Allegheny Entity;

(d) to the Governing Entity certificates executed and delivered on behalf of AUH-West and each Allegheny Entity by the duly authorized President, Vice President or other appropriate officer of AUH-West or such Allegheny Entity certifying that the representations and warranties of AUH-West or such Allegheny Entity contained in this Agreement are true and correct in all material respects on and as of the Closing Date, and that each and all of the terms, covenant and agreements to be complied with or performed by such Allegheny Entity on or before the Closing Date have been complied with and performed in all material respects; and

(e) to the Governing Entity the opinion, dated the Closing Date, of counsel to AUH-West and the Allegheny Entities with respect to the matters set forth on Schedule 8.2.

8.3 Action of the Governing Entity at Closing. At the Closing and unless otherwise waived in writing by the Allegheny Entities, the Governing Entity shall deliver to the Allegheny Entities:

(a) written evidence that the conditions to the closing and the initial advance of loan proceeds under the Highmark Loan Agreement have been satisfied or been waived by Highmark;

(b) copies of resolutions duly adopted by the board of trustees or directors of the Governing Entity authorizing and approving the Governing Entity's execution and delivery of this Agreement and the transactions contemplated hereby, certified as true and in full force and effect as of the Closing Date by an appropriate officer of the Governing Entity; and

(c) certificates of the duly authorized President or a Vice President or other appropriate officer of the Governing Entity certifying that the representations and warranties of the Governing Entity contained in this Agreement are true and correct in all material respects on and as of the Closing Date, and that each and all of the terms, covenants and agreements to be complied with or performed by the Governing Entity on or before the Closing Date have been complied with and performed; and

(d) to the Allegheny Entities, the opinion, dated the Closing Date, of counsel to the Governing Entity with respect to the matters set forth on Schedule 8.3.

8.4 Termination Prior to Closing.

(a) Notwithstanding anything herein to the contrary, this Agreement may be terminated, and the transactions contemplated by this Agreement abandoned, upon notice by the terminating party to the other parties:

(i) at any time before the Closing, by mutual consent of the Governing Entity and the Allegheny Entities;

(ii) by the Allegheny Entities or the Governing Entity if a court of competent jurisdiction or other Governmental Authority shall have issued a nonappealable final order, decree or ruling or taken any other action, in each case having the effect of permanently restraining, enjoining or otherwise prohibiting consummation of the transactions contemplated by this Agreement;

(iii) at any time before the Closing, by the Governing Entity on the one hand, or the Allegheny Entities on the other hand, in the event of material breach of this Agreement by the non-terminating party or parties or if the satisfaction of any condition to such party's obligations under this Agreement becomes impossible or impracticable and the failure of such condition to be satisfied is not caused by a breach by the terminating party or parties (it being understood that no investigation or state of knowledge on the part of the Governing Entity, and no consent or approval that may be granted by the Governing Entity pursuant to Section 5.2 or otherwise, shall be deemed to cause a failure of the conditions expressed in Section 7.1); and

(iv) at any time after July 31, 1999, by the Allegheny Entities or the Governing Entity if the transactions contemplated by this Agreement have not been consummated on or before such date, provided that (A) the Governing Entity shall not be entitled to terminate this Agreement if the failure to consummate the transactions contemplated by this Agreement was caused by the breach or default on the part of the Governing Entity in respect of its representations, warranties or covenants hereunder or under the Global AHERF Settlement Agreement, and (B) the Allegheny Entities shall not be entitled to terminate this Agreement if the failure to consummate the transactions contemplated by this Agreement was caused by a breach or default on the part of any of AUH-West, the Allegheny Entities, AUMP or AUHS in respect of its or their representations or warranties hereunder which breach or default has not been waived within ten days after written notice thereof has been given to the Governing Entity by the Allegheny Entities, or by a breach or default on the part of the Allegheny Entities in respect of its representations or warranties hereunder that to the knowledge of AUH-West or the Allegheny Entities were false or misleading when made, or by a breach by AUH-West or the Allegheny Entities of their obligations hereunder, or by a breach on the part of AUMP and/or AUHS (or their respective bankruptcy estates) of such parties' representations or warranties in the Global AHERF Settlement Agreement that to the knowledge of AUH-West or the Allegheny Entities were false or misleading when made, which in any such case, individually or in the aggregate, resulted in a Material Adverse Effect.

(b) (1) If this Agreement is validly terminated pursuant to this Section, this Agreement will be null and void, and, except as provided in Section 8.4(b)(2) and Section 8.5, there will be no liability on the part of any party (or any of their respective officers, directors, trustees, employees, agents, consultants or other representatives).

(2) If this Agreement is terminated pursuant to Section 8.4(a) and the basis for such termination is not attributable to the breach by the Governing Entity of its representations, warranties, covenants or agreements hereunder, and within one year after such termination or breach any of AUH-West, the Allegheny Entities, AUMP, AUHS or the Estates enters into any transaction involving any new corporate affiliation of or sale of the assets of such entity (including without limitation any transaction involving transfer of control or delegation of management authority with respect to such entity or any similar transaction involving the accession by a third party to any right, power, or interest in such entity or any management authority with respect thereto), other than a Carved-Out Transaction, whether pursuant to a bankruptcy plan of reorganization, liquidation, or otherwise, then, upon the closing of any such transaction, the Allegheny Entities, jointly and severally, shall pay to the Governing Entity in cash or by wire transfer of immediately available funds, (i) all of the out-of-pocket expenses incurred by the Governing Entity and The Western Pennsylvania Healthcare System Inc. in connection with evaluation of, investigations related to, and negotiation of, the transaction contemplated hereby and by the Global AHERF Settlement Agreement plus (ii) a break-up fee of \$10 million. None of the Allegheny Entities shall enter into any agreement to undertake any such transaction unless the purchaser, transferee or new affiliate (as the case may be) binds itself, jointly and severally with the Allegheny Entities and for the benefit of the Governing Entity, to pay such amounts at such time.

(c) As used in this Section 8.4, any termination rights of the Allegheny Entities may only be exercised through the unanimous decision of all Allegheny Entities to terminate and not by one or more (but less than all) Allegheny Entities.

8.5 Remedies. If any of the representations and warranties of AUH-West and the Allegheny Entities shall prove to be false or misleading as of the date hereof or as of the Closing Date, the Governing Entity agrees that absent actual fraud (including without limitation, the making of a representation or warranty by any of the Allegheny Entities that to the knowledge of the Allegheny Entities was false or misleading in a material respect at the time it was made which in any such case (individually or in the aggregate with any other such false or misleading representations or warranties) results in a Material Adverse Effect), or the material breach by one or more of AUH-West or the Allegheny Entities of its obligations hereunder, the remedies of the Governing Entity shall be limited to the express remedies set forth in Section 8.4(a) and Section 8.4(b). To the extent that the Governing Entity is entitled to recover damages hereunder, the Governing Entity agrees that the amount of damages to which it shall be entitled shall be reduced by any amount actually paid to it pursuant to Section 8.4(b).

IX. GENERAL

9.1 Non-Survival of Representations, Warranties and Agreements. Except as expressly provided in Section 5.9, none of the representations, warranties and agreements in this Agreement or in any other document or instrument delivered pursuant to this Agreement shall survive the Closing except for those agreements which by their express terms are to be performed after the Closing.

9.2 Tax and Government Reimbursement Program Effect. None of the parties (nor such parties' counsel or accountants) has made or is making in this Agreement any representation to any other party (or such party's counsel or accountants) concerning any of the Tax or Government Reimbursement Program effects or consequences on the other party of the transactions provided for in this Agreement (provided that nothing in this Section 9.2 shall limit or restrict the representations and warranties of the Allegheny Entities hereunder). Each party represents that it has obtained, or may obtain, independent Tax and Government Reimbursement Program advice with respect thereto and upon which it, if so obtained, has solely relied or will solely rely.

9.3 Consents, Approvals and Discretion. Except as herein expressly provided to the contrary, whenever this Agreement requires any consent or approval to be given by either party or either party must or may exercise discretion, such consent or approval shall not be unreasonably withheld or delayed and such discretion shall be reasonably exercised. Notwithstanding any other provision of this Section 9.3, any consent or approval contemplated by Section 5.2 or Article VII may be given or withheld by the Governing Entity in its sole discretion. In no event will the granting or withholding of any consent or approval by the Governing Entity with respect to any action or omission of AUH-West or any Allegheny Entity give rise to any liability on the part of the Governing Entity (it being understood that this sentence will not excuse any breach or default on the part of the Governing Entity under this Agreement).

9.4 Choice of Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without regard to such state's conflicts of laws rules.

9.5 Benefit; Assignment. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns. The Western Pennsylvania Healthcare System Inc. shall be a third party beneficiary of and shall be entitled to enforce the rights of the Governing Entity under, this Agreement. No waiver of the condition set forth in Section 7.7(a) and no amendment of Section 5.9 shall be effective without the prior written consent of the PBGC, and the PBGC shall be a third party beneficiary of, and shall be entitled to enforce, the provisions of Section 5.9. No party may assign this Agreement without the prior written consent of the other parties, provided that the Governing Entity may assign this Agreement, in whole or in part, to any Affiliate of the Governing Entity.

9.6 No Third Party Beneficiary. Except as is expressly set forth in Section 9.5, the terms and provisions of this Agreement are intended solely for the benefit of the parties and their respective successors and permitted assigns, and are not intended to confer third-party beneficiary rights upon any other Person, including without limitation AHERF, the Trustee, the Estates, any Affiliate of AHERF other than the Allegheny Entities, any employee or creditor of any Allegheny Entity or of AHERF or any of its affiliates. In no event shall The Western Pennsylvania Healthcare System, Inc. be liable or responsible for any acts or omissions of the Governing Entity.

9.7 Waiver of Breach, Right or Remedy. The waiver by any party of any breach or violation by another party of any provision this Agreement or of any right or remedy permitted the waiving party in this Agreement (i) shall not waive or be construed to waive any subsequent breach or violation of the same provision, (ii) shall not waive or be construed to waive a breach or violation of any other provision, and (iii) shall be in writing and may not be presumed or inferred from any party's conduct. Except as expressly provided otherwise in this Agreement no remedy conferred by this Agreement is intended to be exclusive of any other remedy, and each and every remedy shall be in addition to every other remedy granted in this Agreement or now or hereafter existing at law or in equity, by statute or otherwise. The election of any one or more remedies by a party shall not constitute a waiver of the right to pursue other available remedies. In addition to any other rights and remedies any party may have at law or in equity for breach of this Agreement, each party shall be entitled to seek an injunction to enforce the provisions of this Agreement.

9.8 Notices. Any notice, demand or communication required, permitted or desired to be given hereunder shall be deemed effectively given if given in writing (i) on the date tendered by personal delivery, (ii) on the date received by facsimile or other electronic means (including telegraph and telex), (iii) the day after the date tendered for delivery by nationally recognized overnight courier, or (iv) three days after the date tendered for delivery by United States mail, with postage prepaid thereon, certified mail, return receipt requested, in any event addressed as follows:.....

If to the Governing Entity:

The Healthcare Alliance for Western Pennsylvania, Inc.
c/o The Western Pennsylvania Healthcare System, Inc.
4800 Friendship Avenue
Pittsburgh, PA 15224
Attn: Jerry J. Fedele, Esq.
Facsimile: (412) 578-1296

with a copy to:

Kalkines, Arky, Zall & Bernstein LLP
1675 Broadway
New York, N.Y. 10019
Attn: Peter F. Olberg, Esq.
Facsimile: (212) 541-9250

If to AUH-West:

Anthony M. Sanzo
President and Chief Executive Officer
320 East North Avenue
Pittsburgh, PA 15212
Phone: 412-359-3005
Fax: 412-359-3888

If to Allegheny General Hospital:

Connie M. Cibrone
President and Chief Executive Officer
320 East North Avenue
Pittsburgh, PA 15212
Phone: 412-359-6583
Fax: 412-359-3888

If to AUMC:

Barry H. Roth
President and Chief Executive Officer
500 Finley Street
Pittsburgh, PA 15206
Phone: 412-665-3320
Fax: 412-665-3240

and in each case, with a copy to:

David L. McClenahan, Esquire
Kirkpatrick & Lockhart LLP
1500 Oliver Building
Pittsburgh, PA 15222
Phone: 412-355-6484
Fax: 412-355-6501

or to such other address or number, and to the attention of such other Person, as a given party may designate at any time in writing in conformity with this Section.

9.9 Severability. If any provision of this Agreement, of the PBGC Agreement or of the Global AHERF Settlement Agreement is held or determined to be illegal, invalid or unenforceable under any law, and if in the sole judgment of the Governing Entity the rights or obligations of any party under this Agreement will not be materially and adversely affected thereby: (a) such provision will be fully severable; (b) this Agreement will be construed and enforced as if such illegal, invalid or unenforceable provision had never comprised a part hereof; (c) the remaining provisions of this Agreement will remain in full force and effect and will not be affected by the illegal, invalid or unenforceable provision or by its severance herefrom; and (d) in lieu of such illegal, invalid or unenforceable provision, there will be added automatically as a part of this agreement a legal, valid and enforceable provision as similar in terms to such illegal, invalid or unenforceable provision as may be possible.

9.10 Entire Agreement; Amendment. This Agreement supersedes the Letter of Intent, except that the provisions of paragraph 4 of the Letter of Intent shall continue to bind the parties as if set forth at length herein. This Agreement, the PBGC Agreement, the Settlement Agreement and paragraph 4 of the Letter of Intent supersede all previous contracts, agreements and understandings and constitute the entire agreement of whatsoever kind or nature existing

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between or among the parties representing the within subject matter and no party shall be entitled to benefits other than those specified herein and therein. This Agreement may be executed in two or more counterparts, each and all of which shall be deemed an original and all of which together shall constitute but one and the same instrument. This Agreement may not be amended except in a written instrument executed by the parties. This Agreement shall not be effective until it has been executed and delivered by all parties hereto. The counter-signature of a facsimile of a signature of a party on the signature page of this Agreement shall have the same effect as delivery of a manually signed original of a counterpart hereof.

9.11 Waiver of Jury Trial. The parties hereto hereby irrevocably waive all right to trial by jury in any action, proceeding or counterclaim arising out of or relating to this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in multiple originals by their duly authorized officers as of the date set forth above.

ALLEGHENY UNIVERSITY
HOSPITALS - WEST

ALLEGHENY GENERAL HOSPITAL

X
By: [Signature]
Title: Chairman

By: _____
Title: _____

ALLEGHENY UNIVERSITY MEDICAL
CENTERS

AUMC - CANONSBURG

By: _____
Title: _____

By: _____
Title: _____

ALLEGHENY SINGER RESEARCH
INSTITUTE

THE HEALTHCARE ALLIANCE FOR
WESTERN PENNSYLVANIA, INC.

By: _____
Title: _____

By: _____
Title: _____

between or among the parties representing the within subject matter and no party shall be entitled to benefits other than those specified herein and therein. This Agreement may be executed in two or more counterparts, each and all of which shall be deemed an original and all of which together shall constitute but one and the same instrument. This Agreement may not be amended except in a written instrument executed by the parties. This Agreement shall not be effective until it has been executed and delivered by all parties hereto. The transmission of a facsimile of a signature of a party on the signature page of this Agreement shall have the same effect as delivery of a manually signed original of a counterpart hereof.

9.11 Waiver of Jury Trial. The parties hereto hereby irrevocably waive all right to trial by jury in any action, proceeding or counterclaim arising out of or relating to this Agreement.

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ALLEGHENY UNIVERSITY
HOSPITALS - WEST

ALLEGHENY GENERAL HOSPITAL

By: _____
Title: _____

By: _____
Title: _____

ALLEGHENY UNIVERSITY MEDICAL
CENTERS

AUMC - CANONSBURG

By: *Barry H. Kalk*
Title: Pres & CEO

By: *Barry H. Kalk*
Title: Pres & CEO

ALLEGHENY SINGER RESEARCH
INSTITUTE

THE HEALTHCARE ALLIANCE FOR
WESTERN PENNSYLVANIA, INC.

By: _____
Title: _____

By: _____
Title: _____

between or among the parties representing the within subject matter and no party shall be entitled to benefits other than those specified herein and therein. This Agreement may be executed in two or more counterparts, each and all of which shall be deemed an original and all of which together shall constitute but one and the same instrument. This Agreement may not be amended except in a written instrument executed by the parties. This Agreement shall not be effective until it has been executed and delivered by all parties hereto. The transmission of a facsimile of a signature of a party on the signature page of this Agreement shall have the same effect as delivery of a manually signed original of a counterpart hereof.

9.11 Waiver of Jury Trial. The parties hereto hereby irrevocably waive all right to trial by jury in any action, proceeding or counterclaim arising out of or relating to this Agreement.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed in multiple originals by their duly authorized officers as of the date set forth above.

ALLEGHENY UNIVERSITY
HOSPITALS - WEST

By: _____
Title: _____

ALLEGHENY GENERAL HOSPITAL

By: [Signature]
Title: [Title]

ALLEGHENY UNIVERSITY MEDICAL
CENTERS

By: _____
Title: _____

AUMC - CANONSBURG

By: _____
Title: _____

ALLEGHENY SINGER RESEARCH
INSTITUTE

By: [Signature]
Title: [Title]

THE HEALTHCARE ALLIANCE FOR
WESTERN PENNSYLVANIA, INC.

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**ALLEGHENY UNIVERSITY
HOSPITALS - WEST**

By: _____
Title: _____

ALLEGHENY GENERAL HOSPITAL

By: _____
Title: _____

**ALLEGHENY UNIVERSITY MEDICAL
CENTERS**

By: _____
Title: _____

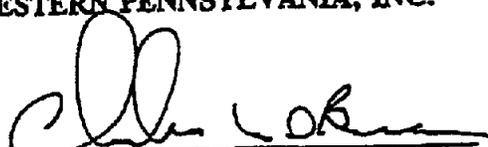
AUMC - CANONSBURG

By: _____
Title: _____

**ALLEGHENY SINGER RESEARCH
INSTITUTE**

By: _____
Title: _____

**THE HEALTHCARE ALLIANCE FOR
WESTERN PENNSYLVANIA, INC.**

By:  _____
Title: _____

Ex 5

SETTLEMENT AGREEMENT

BY AND AMONG

ALLEGHENY GENERAL HOSPITAL

ALLEGHENY UNIVERSITY MEDICAL CENTERS

ALLEGHENY UNIVERSITY HOSPITALS-WEST

ALLEGHENY SINGER RESEARCH INSTITUTE

**WILLIAM J. SCHARFFENBERGER, AS TRUSTEE
OF THE BANKRUPTCY ESTATE OF
ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION,**

ALLEGHENY HOSPITALS - EAST, as Debtor-In-Possession.

ALLEGHENY HOSPITALS - CENTENNIAL, as Debtor-In-Possession

ALLEGHENY UNIVERSITY MEDICAL PRACTICES, as Debtor-In-Possession

ALLEGHENY UNIVERSITY OF THE HEALTH SCIENCES, as Debtor-In-Possession

THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS

OF CERTAIN OF THE FOREGOING

AND

THE HEALTHCARE ALLIANCE FOR WESTERN PENNSYLVANIA, INC.

Dated as of June 30, 1999

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