Significant Index No. 0412.06-00

200432019

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

TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

MAY 14 2004

In re:

This letter constitutes notice that your request of July 15, 2003, for a waiver of the minimum funding standard for the above-named plan for the plan year ending , has been granted subject to the following conditions:

(1) Within 60 days of the date of this letter, an agreement is reached with the Pension Benefit Guaranty Corporation ("PBGC") concerning collateral that is to be provided to the Plan to secure the amount of the waived funding deficiency.

(2) The will make contributions to the Plan in amounts sufficient to meet the minimum funding requirements for the Plan for the plan year ending , by March 15, 2005.

You agreed to these conditions in a letter dated May 11, 2004 (which was transmitted by facsimile). If these conditions are not satisfied, the waiver is retroactively null and void.

This conditional waiver has been granted in accordance with section 412(d) of the Internal Revenue Code ("Code") and section 303 of the Employee Retirement Income Security Act of 1974 (ERISA). The amount for which this waiver has been granted is the contribution that would otherwise be required to reduce the balance in the funding standard account to zero as of

The Company operates as a . It is the only serving the residents of the community, and includes specialized

In , the Company opened a state-of-the-art facility. It is the only such facility within miles and provides vital services to the area. A major portion of the Company's revenue is from third-party payers, including , and

Until recently, the Company operated profitably. However, several adverse trends that have affected the industry as a whole have begun to impact the Company's profitability. The federal Balanced Budget Act of 1997 had the effect of reducing reimbursement rates that the Company received for certain services and procedures covered by . In , also deregulated the rates that all charged for services covered by group and individual insurance policies, resulting in the negotiation by insurance companies of significant fee reductions. These two changes caused a significant decrease in the Company's ability to generate positive cash flows.

In the Company issued $ of unrated Industrial Development Agency bonds. The bonds require the Company to maintain at least days of operating cash on hand as of the end of each fiscal year.

The formation in the late of certain affiliates was expected to allow the Company to provide certain important services in a flexible manner without increasing the Company's costs. However, these benefits did not materialize, and the Company was required to subsidize the affiliates. The costs associated with the affiliates have reduced the Company's cash reserves to levels around days of operating cash. If the covenant on the bonds is breached, it would result in the Company having to make immediate and drastic cutbacks in services, reducing the level and quality of care the Company provides its and forcing the Company to make extensive staffing cuts.

The Company has also suffered from the nationwide shortage. This caused high turnover of staff and made it impossible for the Company to recruit and maintain adequate numbers of skilled to meet needs. The shortage forced the Company to secure temporary through independent staffing agencies at a premium cost, because agency personnel cost approximately twice the amount of in-house

These factors have caused a temporary business hardship for the Company due to cash flow difficulties. This hardship was exacerbated by an unexpected increase in the minimum funding requirements of the Plan, caused mainly by losses in the equity markets and low interest rates. The losses in plan assets amounted to an annualized loss of , in and . To stem costs, the Company froze benefit accruals as of , which reduced plan costs by over $

The has made great strides in stemming its cash flow problems and has begun to implement a long-term business plan that has already shown improvement in the company's financial situation by reducing costs, improving staffing, and increasing profitability. Furthermore, the has been able to resume contributions to the Plan for the Plan year ending , and has made the quarterly payments due , , and , in a timely manner.

Because the prospects for the Company's recovery appear solid, the waiver for the plan year ending , has been granted, subject to the conditions that the waiver be secured in a manner acceptable to PBGC and that the minimum funding requirement be met for the plan year ending .

Your attention is called to section 412(f)(1) of the Code and section 304(b) of ERISA which describe the consequences that would result in the event the plan is amended to increase benefits, to change the rate in the accrual of benefits, or to change the rate of vesting while any portion of the waived funding deficiency remains unamortized. Please note that any amendment to other retirement plans maintained by the to increase the liabilities of those plans would be considered an amendment for purposes of section 412(f) of the Code and section 304(b) of ERISA.

This ruling is directed only to the taxpayer that requested it. Section 6110(k)(3) of the Code provides that it may not be used or cited by others as precedent.

When filing Form 5500 for the plan year ending , the date of this letter should be entered on Schedule B (Actuarial Information). For this reason, we suggest that you furnish a copy of this letter to the individual who is responsible for the completion of the Schedule B.

We have sent a copy of this letter to the Manager, EP Classification, , and to your authorized representative pursuant to a power of attorney on file in this office. A copy of this letter should be furnished to the enrolled actuary for the Plan.

If you require further assistance in this matter, please contact

Sincerely yours,

Paul T. Shultz
acting for

Carol D. Gold
Director, Employee Plans