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April 11, 2002

Melinda Hatton
Vice President and Chief Washington Counsel
American Hospital Association
325 Seventh St. NW, Suite 700
Washington, D.C. 20004-2802

Re: Stark Law Correspondence

Dear Mindy:

We have reviewed the March 14, 2002 letter to the American Hospital Association ("AHA") from Thomas Scully, Administrator of the Centers for Medicare and Medicaid Services ("CMS"), on the topic of Stark law issues pertinent to certain hospital-physician activities. Mr. Scully's letter refers to our legal memorandum dated November 27, 2001, which analyzed the application of several Stark law exceptions – including, in particular, the exception for remuneration unrelated to designated health services – to a number of common hospital-physician activities. CMS notes that it intends to revise the proposed regulation implementing this exception and that, in the absence of a final rule on the scope of the exception, "hospitals may base their activities on any reasonable interpretation of the statutory language." This is consistent with the feedback we received in the telephone conversation between AHA and Joanne Sinsheimer and other Health and Human Services Department staff on January 17, 2002.

The purpose of this letter is to confirm that we believe that the analysis set forth in our memorandum constitutes a reasonable interpretation of the statute, at least until CMS provides further clarification. We would caution, however, that this analysis was based on broadly drawn hypothetical examples of hospital-physician activities. Accordingly, in assessing the applicability of a Stark law exception to particular situations, your member hospitals should consider

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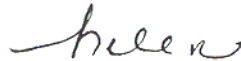
April 11, 2001

Page 2

whether the specific facts involved would be likely to affect the analysis. If they have any uncertainty about whether this is the case, they should consult their legal counsel.

Please do not hesitate to call with questions.

Sincerely,

A handwritten signature in cursive script that reads "Helen".

Helen R. Trilling