CONSOLIDATED
FINANCIAL STATEMENTS

**DOCTOR'S MANAGEMENT
COMPANY, LLC**

Years Ended December 31, 2008 and 2007

DOCTOR'S MANAGEMENT COMPANY, LLC

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December 31, 2008 and 2007

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NEIKIRK MAHONEY & Co., PLLC

ACCOUNTANT'S REVIEW REPORT

To the Board of Directors and Members
Doctor's Management Company, LLC
Breman, Indiana

We have reviewed the accompanying consolidated balance sheet of Doctor's Management Company, LLC as of December 31, 2008, and the related consolidated statements of operations and changes in members' equity, and cash flows for the year then ended, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of management of Doctor's Management Company, LLC.

A review consists principally of inquiries of Company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express an opinion on the 2008 financial statements.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

Our review was made for the purpose of expressing limited assurance that there are no material modifications that should be made to the consolidated financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America. The information included in the accompanying Supplementary Information is presented only for supplementary analysis purposes. Such information has not been subjected to the inquiry and an analytical procedure applied in the review of the basic financial statements, but was compiled from information that is the representation of management, without audit or review. Accordingly, we do not express an opinion or any other form of assurance on the supplementary information.

The consolidated financial statements for the year ended December 31, 2007, were audited by other accountants and they expressed an unqualified opinion on them in their report dated June 30, 2008, but they have not performed any auditing procedures since that date.

Neikirk, Mahoney & Co. PLLC

Louisville, Kentucky
October 27, 2009

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DOCTOR'S MANAGEMENT COMPANY, LLC

CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

		2008		2007
ASSETS				
Current assets				
Cash and equivalents	$	350,312	$	490,819
Healthcare receivables, net of allowance for uncollectible accounts - $144,786 in 2008 and $63,367 in 2007		978,914		914,386
Affiliate healthcare and management fee receivable		442,511		-
Accounts receivable - other		268,702		528,274
Affiliate loan receivable		170,743		101,395
Prepaid expenses		55,876		13,587
Estimated third-party settlements		63,578		333,585
Total current assets		2,330,636		2,382,046
Investment in Affiliate		-		67,591
Property and equipment, net		1,035,398		1,002,625
Other non-current assets				
Non-current affiliate management fee receivable, net of allowance for uncollectible accounts of $524,826 in 2008 and $0 in 2007		-		-
Total non-current assets		-		-
TOTAL ASSETS	$	3,366,034	$	3,452,262
LIABILITIES AND MEMBERS' EQUITY				
Current liabilities				
Accounts payable	$	455,544	$	381,952
Affiliate healthcare payable		363,428		-
Accrued expenses		117,745		160,352
Deferred revenue		24,840		32,378
Current portion of note payable		36,685		33,723
Current portion of capital lease		233,730		178,915
Line of credit		1,063,447		850,000
Total current liabilities		2,295,419		1,637,320
Long-term liabilities				
Note payable, net of current portion		245,980		279,942
Capital lease, net of current portion		361,213		549,737
Total liabilities		2,902,612		2,466,999
Members' equity		463,422		985,263
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	3,366,034	$	3,452,262

See accompanying accountant's review report and notes to the financial statements.

DOCTOR'S MANAGEMENT COMPANY, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS
AND CHANGES IN MEMBERS' EQUITY

For the Year Ended December 31, 2008 and 2007

	2008	2007
Revenues		
Patient service	$ 6,793,274	$ 6,536,122
Management fees	233,333	209,886
Other	596,043	272,541
Total revenues	7,622,650	7,018,549
Operating expenses		
Salaries, wages and payroll taxes	1,828,588	1,915,753
Employee benefits	178,202	125,474
Contract services	1,209,029	767,431
Guaranteed payments	415,000	411,500
Bad debt expense	776,375	-
Professional fees	137,400	185,648
Medical director fees	201,556	201,456
Medical supplies	645,484	546,132
Office	25,248	20,876
Equipment rent	42,591	50,091
Rent	93,735	35,823
Repairs and maintenance	104,748	69,229
Utilities	152,275	120,105
Advertising and promotional	86,930	49,612
Insurance	105,541	90,687
Office expense	94,312	86,907
Dues, taxes, licenses and subscriptions	76,053	10,033
Travel, meals and conferences	124,697	79,828
Depreciation expense	306,764	286,853
Charitable contributions	31,444	-
Miscellaneous	38,874	55,687
Total operating expenses	6,674,846	5,109,125
Income from operations	947,804	1,909,424
Other income (expense)		
Interest income	19,911	6,403
Interest expense	(218,494)	(281,269)
Loss on equity investment	(72,921)	(67,409)
Other income	24,092	5,270
Total other (expense)	(247,412)	(337,005)
Net income	$ 700,392	$ 1,572,419

See accompanying accountant's review report
and notes to the financial statements.

DOCTOR'S MANAGEMENT COMPANY, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS
AND CHANGES IN MEMBERS' EQUITY - CONTINUED

For the Year Ended December 31, 2008 and 2007

	2008	2007
Net income	700,392	1,572,419
Members' equity, beginning of year	985,263	276,172
Members' contributions	196,875	206,525
Members' distributions	(1,419,108)	(1,013,603)
Member redemptions	-	(56,250)
Members' equity, end of year	$ 463,422	$ 985,263

See accompanying accountant's review report
and notes to the financial statements.

DOCTOR'S MANAGEMENT COMPANY, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Year Ended December 31, 2008 and 2007

	2008	2007
Cash flows from operating activities		
Net income	$ 700,392	$ 1,572,419
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	306,764	286,853
Bad debt expense	776,375	-
Direct write off of uncollectible accounts	(170,130)	-
Loss on equity investment	72,921	67,409
Reduction in affiliate loan receivable in accordance with Equity Method of Accounting for Investment	(5,330)	
Changes in:		
Healthcare receivables	(145,947)	505,229
Affiliate healthcare and management fee receivable	(442,511)	-
Affiliate receivable	(69,348)	-
Accounts receivable - other	259,572	(381,317)
Prepaid expenses	(42,289)	(13,587)
Estimated third-party settlements	270,007	(333,585)
Non-current affiliate management fee receivable	(524,826)	
Accounts payable	73,592	(25,727)
Affiliate healthcare payable	363,428	
Accrued expenses	(42,607)	1,344
Deferred revenue	(7,538)	32,378
Net cash provided by operating activities	1,372,525	1,711,416
Cash flows from investing activities		
Purchase of property and equipment	(339,537)	(30,902)
Investment in affiliate	-	(135,000)
Loans to affiliate	-	(1,395)
Net cash used in investing activities	(339,537)	(167,297)
Cash flows from financing activities		
Member contributions	196,875	156,525
Member redemptions	-	(78,125)
Member distributions	(1,419,108)	(1,013,603)
Net change in line of credit	213,447	(150,000)
Proceeds from long-term debt	-	147,425
Proceeds from capital lease transactions	51,477	-
Payments on capital lease obligations	(185,094)	(141,279)
Payments on long-term debt	(31,092)	(100,760)
Net cash used in financing activities	(1,173,495)	(1,179,817)

See accompanying accountant's review report and notes to the financial statements.

DOCTOR'S MANAGEMENT COMPANY, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED

For the Year Ended December 31, 2008 and 2007

		2008		2007
Increase (decrease) in cash and equivalents during the year		(140,507)		364,302
Cash and equivalents, beginning of year		490,819		126,517
Cash and equivalents, end of year	$	350,312	$	490,819
Supplemental disclosures of cash flow information				
Cash paid during the period for interest which was expensed	$	218,494	$	281,269
Cash paid during the period for interest which was capitalized		2,000		-
Supplemental disclosures of non-cash investing and financing transactions				
Purchase of assets with capital lease	$	51,477	$	35,000
Member equity issued in exchange for repayment of debenture		-		50,000

See accompanying accountant's review report
and notes to the financial statements.

DOCTOR'S MANAGEMENT COMPANY, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE A – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Doctor's Management Company, LLC ("DMC") is the sole member of Northern Indiana Rehab Hospital, LLC d/b/a Doctor's Hospital ("NIRH" and collectively "the Company"). NIRH operates a 20 bed, freestanding specialty medical rehabilitation hospital located in Breman, Indiana. NIRH provides short-term, comprehensive rehabilitation services to patients, and its programs are designed to restore physical functions following an acute illness or trauma. Inpatient and outpatient therapy and support services provided by NIRH include physical, occupational, speech and recreation therapy, radiology, laboratory and dietary services.

NIRH also provides management services to physician practices.

DMC has two classes of member units, 35 class A units (reserved for physician members) and 65 class B units. The manager of DMC has the right to vote 51% of the total votes cast at all meetings. Units of involuntarily terminated members, as described in the Operating Agreement, are mandatorily redeemable by DMC. At December 31, 2008 and 2007 there were 35 and 35 class A units and 65 and 65 class B units outstanding, respectively.

Basis of Consolidation

The accompanying consolidated financial statements include the accounts of NIRH, and have been prepared in conformity with accounting principles generally accepted in the United States of America. All material intercompany accounts and transactions have been eliminated in consolidation.

Industry

NIRH derives a significant portion of its revenue from third-party payer programs. The receipt of future revenues by NIRH is subject to, among other factors, federal and state policies affecting the health care industry, economic conditions that may include an inability to control expenses in periods of inflation, increased competition, market pressures on premium rates and other conditions which are impossible to predict.

DOCTOR'S MANAGEMENT COMPANY, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates associated with the allowances for contractual adjustments and uncollectible patient accounts are particularly susceptible to material change in the near term.

Concentrations

The Company maintains cash balances with financial institutions which, at times, exceed federally insured limits.

Total net patient accounts receivable and revenue concentrations by payer as of and for the year ended December 31, 2008 and 2007 are as follows:

	2008		2007	
	Accounts Receivable	Revenue	Accounts Receivable	Revenue
Medicare	51.5%	83.7%	40.7%	80.6%
Blue Cross	10.0%	4.2%	9.9%	7.0%
CHA	1.1%	0.0%	3.5%	0.7%
Commercial and other	37.4%	12.1%	45.9%	11.7%
	100.0%	100.0%	100.0%	100.0%

NIRH does not perform credit evaluations of its payers, but does inquire of patients of their access to insurance and ability to pay. NIRH does not require collateral from its patients, third-party payers or others.

Cash and Cash Equivalents

All highly liquid investments with maturities of three months or less when purchased are classified as cash and cash equivalents. At December 31, 2008 and 2007 the Company had cash deposits in excess of FDIC insured amounts totaling approximately $49,000 and $267,000, respectively.

DOCTOR'S MANAGEMENT COMPANY, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

Healthcare Receivables and Allowances

Healthcare receivables represent charges to patients, primarily on open account. NIRH does not accrue interest on any of its patient receivables. Adjustments to patient accounts are made in amounts estimated to maintain an adequate allowance to cover contractual allowances and anticipated losses. Healthcare receivables represent estimated net realizable amounts from patients, third-party payers and others. Estimated contractual adjustments, based on existing contractual relationships, are recorded at the time charges are posted and are adjusted to reflect actual contractual adjustments as claims are adjudicated.

Management periodically reviews patient receivables and records an allowance for uncollectible accounts based on current circumstances. Allowance estimates are based on historical experience and other relevant factors. Accounts are charged against the allowance when all attempts to collect the receivable have failed. Healthcare receivables are shown net of allowances on the balance sheet.

Settlements

Settlements under cost reimbursement agreements with third-party payers are estimated and recorded in the period in which the related services are rendered and are adjusted in future periods as financial settlements are determined. Final determination of amounts earned under the Medicare and Medicaid programs often occur in subsequent years because of audits by the programs, rights of appeal, and the application of numerous technical provisions. A net estimated Medicare and Medicaid settlement of $63,578 and $333,585 were recorded at December 31, 2008 and 2007, respectively.

DOCTOR'S MANAGEMENT COMPANY, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

Investment in Affiliate

The Company owns 7.5% of Physician's Hospital, LLC ("investee"). The original cost of $135,000 has been decreased to reflect the equity in the net loss of the affiliate company since its acquisition. The Company's share of net loss for the year ended December 31, 2008 and 2007 was $175,606 and $67,409, respectively.

Accounting Principles Bulletin ("APB") No. 18, *The Equity Method of Accounting for Investments in Common Stock*, requires the Company to discontinue using the equity method of accounting for an investment when the investor's share of losses of the investee reduces the investment to zero, unless one of three exceptions are satisfied. As the Company did not satisfy any of the exceptions contained in APB No. 18 the 2008 loss is limited to the Company's remaining basis in the investment ($67,591 as of December 31, 2008) plus the loan receivable from the investee ($5,330 as of December 31, 2008). The 2008 allowed loss under the equity method, which is reported in other income and (expense) on the consolidated statements of operations and changes in members' equity, is $72,921. The unreported losses are $102,685 as of December 31, 2008.

Summarized financial information for the affiliate is as follows at December 31, 2008 and 2007:

	2008	2007
Assets	$ 5,509,365	$ 2,594,616
Liabilities	6,949,557	1,693,399
Equity	(1,440,192)	901,217

Property and Equipment

Property and equipment are stated at cost. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets and includes depreciation on assets leased under capital lease arrangements. When properties are retired on or otherwise disposed of, the appropriate accounts are relieved of cost and accumulated depreciation, and any resulting gain or loss is recognized.

The assets' estimated lives used in computing depreciation are as follows:

Building	5 – 39 years
Furniture, fixtures and office equipment	5 years
Medical equipment	7 – 25 years
Leasehold improvements	Lesser of life of lease or useful life

DOCTOR'S MANAGEMENT COMPANY, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

Revenue Recognition

Patient service revenue is recorded when medical services are rendered. Management fee revenue is recorded as services are rendered. Provisions for estimated third-party payer settlements and adjustments are made in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Medical Malpractice

The Indiana Medical Malpractice Act limits the maximum recovery for professional liability to $750,000 per occurrence, $250,000 of which would be paid through NIRH's malpractice insurance coverage, and the balance would be paid by the State of Indiana Patient Compensation Fund. NIRH maintains professional liability insurance coverage on a claims-incurred basis. Premiums are expensed in the period to which they relate.

Advertising Costs

The Company expenses advertising costs to operations as incurred. Advertising expenses were $86,930 and $49,612 for the years ended December 31, 2008 and 2007, respectively.

DOCTOR'S MANAGEMENT COMPANY, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

Variable Interest Entity

The Company, along with others, guarantee the debt of various entities related through common ownership. All entities for which the Company provided loan guarantees are considered variable interest entities as defined by Financial Accounting Standards Board Interpretation ("FIN") 46(R) due to the guarantee, but the Company is not considered the primary beneficiary.

The total amount outstanding on each debt, by entity, and the related unaudited balance sheet summary for each entity is as follows:

	2008	2007
Dunaway Real Estate Company, LLC		
Outstanding balance of debt guaranteed	$ 290,095	$ 374,989
Unaudited assets	423,724	527,669
Unaudited liabilities (other than long term debt)	11,063	-
Physicians Home Healthcare, LLC		
Outstanding balance of debt guaranteed	$ 275,000	-
Unaudited assets	278,953	-
Unaudited liabilities (other than long term debt)	96,960	-
Plymouth Rehab LLC d/b/a LifePlex Rehabilitation		
Outstanding balance of debt guaranteed	$ 220,000	-
Unaudited assets	176,876	-
Unaudited liabilities (other than long term debt)	72,614	-

Income Taxes

The Company is not subject to income taxes. Instead, each member reports their distributive share of the income or loss on their income tax return.

DOCTOR'S MANAGEMENT COMPANY, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2008 and 2007:

	2008	2007
Building	$ 906,270	$ 900,000
Furniture, fixtures and office equipment	164,973	109,281
Medical equipment	99,480	48,003
Leasehold improvements	437,797	427,148
Construction in process	215,447	-
	1,823,969	1,484,432
Accumulated depreciation	(788,571)	(481,807)
	$ 1,035,398	$ 1,002,625

NOTE C – LINE OF CREDIT

The Company maintains an available line-of-credit in the principal amount of $900,000 and $1,000,000, as of December 31, 2008 and 2007, respectively, with First Merchants Bank. The line-of-credit had principal outstanding in the amount of $850,000 at December 31, 2008 and 2007. Interest accrues daily at an annual rate of prime plus 0.50% and 0.75% (3.75% and 8.00%) at December 31, 2008 and 2007, respectively, not to exceed 21% or drop below 6%, payable monthly. The line is secured by substantially all of the assets of the Company and expired on December 12, 2008. First Merchant Bank did not call the line-of-credit and it was renewed through the normal process on January 8, 2009. The line-of-credit is subject to certain covenants, including covenants that restrict distributions to Members. The Company was not in compliance with all covenants as of December 31, 2008. However, the Company obtained a waiver for non-compliance with the covenants on December 3, 2009.

The Company also established a construction line-of-credit on October 10, 2008 in the principal amount of $435,000 with First Merchants Bank of which $213,447 was outstanding on the line at December 31, 2008. Interest accrues daily at an annual rate of 7.0%, payable monthly. The line is secured by substantially all of the assets of the Company, as well as a Real Estate Mortgage on the construction property financed by the line-of-credit located in Starke County, Knox, Indiana and matures in July 2010. The line-of-credit is subject to certain covenants, including covenants that restrict distributions to Members. The Company was not in compliance with all covenants as of December 31, 2008. However, the Company obtained a waiver for non-compliance with the covenants on December 3, 2009.

DOCTOR'S MANAGEMENT COMPANY, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE D – LONG-TERM DEBT

Long-term debt at December 31 consists of the following:

	2008	2007
First Merchants Bank - note payable in monthly installments of $2,251 including fixed interest at 8%, maturing in December 2010. The note is secured by substantially all assets of the Company.	$ 49,245	$ 69,365
Compass Funding Group - note payable in monthly installments of $1,631 including fixed interest at 15%, maturing in October 2011. The note is secured by equipment.	45,920	56,800
Member debentures - interest compounds monthly at 4.34% and is payable annually with principal payable at maturity in January 2010. The debentures can be redeemed early without penalty at the Company's sole discretion, and the maturity may be extended for up to one additional one year term.	187,500	187,550
	282,665	313,665
Current portion of long-term debt	(36,685)	(33,723)
Long-term debt	$ 245,980	$ 279,942

Maturities, based on amortization of outstanding debt at December 31, 2008, over the next three years are as follows:

2009	$ 36,685
2010	226,257
2011	19,724
	$ 282,666

The Company is required to maintain certain financial and non-financial covenants. The Company was not in compliance with all covenants as of December 31, 2008. However, the Company obtained a waiver for non-compliance with the covenants on December 3, 2009.

DOCTOR'S MANAGEMENT COMPANY, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE E – LESSEE LEASES

The Company entered into non-cancelable operating leases for medical and office equipment and space through April 2011. Rent expense for equipment in 2008 and 2007 was $93,735 and $35,823, respectively. At December 31, 2008, future lease payments under operating leases with initial non-cancelable terms of one year or more consisted of the following:

2009	$	87,893
2010		57,127
2011		8,958
Total	$	153,978

Additionally, the Company has a capital lease with DREC, a party related through common ownership, for the building and also maintains capital leases for medical and office equipment with various parties. Following is a summary of the capital leases at December 31, 2008:

		2008		2007
Building	$	900,000	$	900,000
Furniture, fixtures and office equipment		52,500		52,500
Medical equipment		51,477		-
		1,003,977		952,500
Accumulated depreciation		(525,197)		(326,093)
	$	478,780	$	626,407

Future minimum payments on the capital leases are as follows:

2009	$	332,962
2010		323,799
2011		88,560
2012		13,560
2013		22
		758,903
Amount representing interest		(163,960)
Present value of net minimum lease payments (including current portion of $233,730)	$	594,943

DOCTOR'S MANAGEMENT COMPANY, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE F - LESSOR LEASES

The Company entered into a direct financing lease with a member of the DMC during 2007. Unearned income related to the lease is $24,840 and $32,378 at December 31, 2008 and 2007, respectively. The Company reported $13,453 and $1,183 of interest income related to the lease in 2008 and 2007, respectively.

Future estimated minimum payments to be received are as follows:

2009	$	22.600
2010		22,600
2011		20,678
Total	$	65,878

NOTE G – 401(K) PLAN

All employees meeting certain eligibility requirements may participate in the Company's 401(k) plan ("the Plan"). Each plan participant may elect to defer compensation, subject to certain limitations. The Plan includes provisions for company matching and elective contributions, at the Company's sole discretion. The Company accrued $54,000 and $0, for matching or elective contributions to the Plan for 2008 and 2007, respectively.

NOTE H – RELATED PARTY TRANSACTIONS

<u>Medical Director Agreements</u>

NIRH has entered into medical director agreements ("MDA") with individuals who are members of DMC. The MDAs expired in February 2007 and automatically renew for one year periods unless terminated according to the terms of the MDAs. Expenses under the medical director agreements for 2008 and 2007 were $201,556 and $201,456, respectively. Liabilities of $10,796 and $3,187 are recoded in accounts payable on the balance sheet at December 31, 2008 and 2007, respectively.

DOCTOR'S MANAGEMENT COMPANY, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

Employment Agreements

NIRH entered into employment agreements ("EA") with individuals who are members of DMC in 2006. The EAs contain a one year restrictive non-compete covenant, and provide for severance pay and health insurance over five years if the employee is terminated by the Company without cause. The payment of severance pay was not considered probable at December 31, 2008 and 2007, and accordingly no liability for severance pay has been accrued. Expenses under these agreements for 2008 and 2007 were $415,000 and $411,500, respectively.

Professional Services Agreement

On July 1, 2006, NIRH entered into a Professional Service Agreement ("PSA") with Knox/Winamac Community Health Centers, Inc. ("KWCHC"), a related party through common ownership, to provide financial, clinical, and administrative management services. The PSA has a maximum term of four years but may be terminated earlier according to the terms of the PSA. KWCHC agrees to pay NIRH $100,000 per clinic (up to a maximum of $400,000 per year) in monthly installments, and to reimburse NIRH for expenses incurred on behalf of KWCHC, as described in the PSA. PSA fees earned and expense reimbursements in 2008 and 2007 were $200,000 and $209,886 and $0 and $39,448, respectively, and are included in management fees on the statement of operations and members' equity. A receivable of $524,826 and $324,826 and an allowance of $524,826 and $0 are recorded in non-current affiliate management fee receivable as of December 31, 2008 and 2007, respectively.

Future minimum receipts from the PSA are as follows

2009	$ 30,000
2010	120,000
Total	$ 150,000

Lease Agreement

The Company entered into a net lease for the building with DREC, a related party through common ownership (see Note E). The initial term of the lease is for five years beginning in April 2006. In addition, the Company guarantees the full amount of debt of DREC (see Note A), and would be required to perform on the guarantee in the event of default of DREC.

Purchased Services

The Company provided non-contracted services to Physicians Hospital, LLC, in which DMC owns a 7.5% interest. Non-contract services provided for 2008 and 2007 were $54,857 and $219,530, respectively, and a receivable of $0 and $100,834 was recorded at December 31, 2008 and 2007, respectively.

Employee Lease Agreement

The Company entered into an Employee Lease Agreement with Physician's Management/Employee Leasing Company, LLC ("PMEL"), a related party through common ownership. The initial term of the lease is for five years beginning in February 2008, and provides for automatic renewal terms of 1 year each, unless notice to terminate is given. PMEL provides employee services for the Company's staffing needs, and the Company has agreed to reimburse PMEL for wages, benefits, and various employment liability coverage. The Company incurred $1,895,309 in expenses for leased employees of PMEL in 2008 and an ending receivable from PMEL of $56,416 was recorded at December 31, 2008.

Promissory Note

In April of 2007 the Company issued a promissory note to a member of DMC in the amount of $15,000. Payments are due in monthly installments of $1,318 and shall be paid as funds become available to the member. The note bears an interest rate of 10% and the member's ownership in DMC is provided as collateral. At December 31, 2008 and 2007, the Company has received payments of $0 and $0, respectively, on the loan. The loan is included in accounts receivable - other at December 31, 2008 and 2007.

Consulting Service Agreement

On August 28, 2008, the Company entered into an Agreement for Consulting Services ("ACS") with Plymouth Rehab, LLC ("PR"), a related company through common ownership, to provide consulting and advisory services. The initial term of the agreement is for a two year period but may be extended by one year intervals by mutual consent of the parties. PR agrees to pay the Company $8,333 per month for the first year of the ACS. Under the terms of the agreement compensation paid to the Company shall increase by the greater of 4% or the fair market value of the services rendered, as mutually agreed upon by the parties, on August 28, 2009. ACS fees earned in 2008 were $33,333, and are included in management fees on the statement of operations and members' equity. A receivable of $28,083 is included in affiliate healthcare and management fee receivable as of December 31, 2008.

Employee Loans

On October 28, 2008, the Company loaned $47,000 to the newly hired Chief Operating Officer. This loan is evidenced by a promissory note, payable in 36 monthly installments and does not carry interest. The promissory note is collateralized by bonus payments due to the Chief Operating Officer from the Company. Should the Chief Operating Officer terminate employment for any reason the outstanding balance becomes due and payable immediately. As of December 31, 2008 the outstanding balance on this loan was $41,200.

Agreement for Surgical Services

On December 1, 2008, the Company entered into an Agreement for Surgical Services ("AGS") with United Surgeons, LLC ("United"), a related company through common ownership. The AGS allows NIRH to utilize United facilities to perform outpatient surgical services. Under the terms of the agreement NIRH is to pay United agreed upon fees depending on the various surgical procedures performed, all of which are at fair market value. AGS fees paid and accrued to United during 2008 were $363,428, and are included in contract services on the consolidated statement of operations and changes in members equity. A payable of $363,428 is included in affiliate healthcare payable as of December 31, 2008.

NOTE I - SERVICE AGREEMENTS

Medical Director Agreement

On January 1, 2006, the Company entered into a Medical Director Agreement ("MDA") with Health Force, Inc. ("HFI"), to provide medical direction and administrative services. The MDA had an initial term of two years, and automatically renews for one year periods unless terminated according to the terms of the MDA. The agreement was terminated in 2007. HFI agreed to pay the Company $30,000 per year, in equally monthly installments.

Income Guarantee Agreement

The Company entered into an Income Guarantee Agreement ("IGA") with a physician effective March 2007 for a period of one year. The Company agreed to guarantee up to \$170,000, plus approximately \$36,744 in expenses. In addition, the Company agreed to advance \$10,000 in relocation expenses, and to pay up to \$25,000 in finder's fees. The Company paid \$88,710 under the IGA in 2007, and \$4,000 was repaid to the Company in 2007. Any payments made under the IGA are payable back to the Company in 36 monthly installments, including interest at prime plus 2% (5.25% and 9.25% at December 31, 2008 and 2007, respectively), compounded annually, if the physician does not satisfy his service requirement as defined in the IGA. Guarantee payments will be forgiven so long as the physician continues to practice in the community, as defined by the IGA, beginning in 2009.

DOCTOR'S MANAGEMENT COMPANY, LLC

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008 and 2007

NOTE J - CONTINGENCIES

The Company is the subject of various claims and contingencies that arise in the normal course of business. Reserves related to such claims and contingencies are established when payment is probable and estimable in accordance with Statement of Financial Accounting Standards ("SFAS") No. 5, *Accounting for Contingencies*.

NIRH is, at times, involved in professional liability claims arising from the use of the hospital, which are defended and handled in the ordinary course of business. At December 31, 2008 and 2007, management believes that NIRH does not have any significant malpractice claims or other litigation in which the ultimate resolution is probable and could have a material financial impact.

In June 2008, NIRH received a Notice of Program Reimbursement from Center for Medicare and Medicaid Services ("CMS") finalizing the 2006 cost report. NIRH requested CMS reopen the 2006 cost report in order to resubmit Lower Income Patient ("LIP") reimbursement requests. CMS processed the amended return and NIRH received payment on this amended return totaling approximately $107,000 during the calendar year ending December 31, 2008.

On April 15, 2009 federal and state law enforcement agents executed a search warrant on the Company in Bremen, Indiana related to various categories of records, including various documents related to the coding and billing of rehabilitation services. The Office of the United States Attorney for the Northern District of Indiana has advised that the Company is the target of a grand jury investigation related to patient referral patterns and documentation retained by the Company. The Company has complied with the subpoena and all requests from the government for information relating to the investigation. The Company denies any wrongdoing and intends to vigorously defend against any potential claim filed. In view of the inherent uncertainties of this investigation, and the fact that litigation has not commenced, the outcome cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated. Therefore, a reserve has not been established related to this investigation as of December 31, 2008.

NOTE K - NEW ACCOUNTING PRONOUNCEMENTS

In June 2008, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation 48 ("FIN 48"), *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, on a tax return. The interpretation also provides guidance on derecognition, classification, and other matters. FIN 48 is effective for the calendar year ending December 31, 2009. The Company is in the process of assessing what impact, if any, the application of FIN 48 will have on its financial statements.

NOTE L - SUBSEQUENT EVENTS

Net Land and Building Lease

On March 1, 2009, the Company entered into a Net Land and Building Lease ("Lease") with KWCHC, a company related through common ownership (See Note H above), for the operation of a Community Health Center. The initial term of the lease is for a period of five years. Basic monthly rent under the Lease is $3,000 per month for the first six months, escalating to $5,000 per month for the remainder of the Lease.

Loan Refinancing

On April 2, 2009, the Company refinanced the line-of-credit maintained with First Merchants Bank, with a principal amount of $900,000, to a line-of-credit with Lake City Bank, with a principal amount of $950,000. Interest accrues daily at the prime interest rate, adjusted not more frequently than daily, not to drop below 4% or exceed the maximum rate allowed by law. The line is secured by substantially all of the assets of Company and expires on April 2, 2014.

On August 25, 2009, the Company refinanced the construction line-of-credit (See Note C above) to a 15 year term note with a principal balance of $435,000. The promissory note bears interest at a rate of 6.75% until August 24, 2014, at which time the interest rate converts to a variable interest rate at an annual rate of prime plus 2.0%, not to exceed 21% or drop below 6%. The promissory note is secured by substantially all of the assets of the Company and matures on August 24, 2024.

Contingencies

On April 15, 2009 federal and state law enforcement agents executed a search warrant on the Company in Bremen, Indiana related to various categories of records, including various documents related to the coding and billing of rehabilitation services (See Note J above).

Loan Guaranties

On two separate occasions, one on February 13, 2009, the other on April 2, 2009, the Company signed as loan guarantor on behalf of KWCHC (See Note H above). The principal amounts of each loan are $700,000 and $200,000, respectively. In the event of default by KWCHC, the Company would be obligated to perform under the promissory note.

On March 3, 2009, the Company signed as loan guarantor on behalf of Physician's Hospital System - Starke County, LLC. The principal amount of this loan is $250,000. The Company guaranteed this debt as part of its capital contribution in connection with the acquisition of a hospital in Starke County, Indiana, which would have been operated as Physician's Hospital System - Starke County, LLC. As a result of the search warrant executed on April 15, 2009 (see Note J above) this investment was no longer deemed feasible by the Company. Accordingly, the purchase was abandoned. The Company is now obligated to perform under the terms of the promissory note as guarantor.

On May 1, 2009, as a result of Physicians Home Healthcare, LLC discontinuing operations, the Company is now obligated to perform on a guarantee of a promissory note in the principal amount of $275,000 (see Note A above).

SUPPLEMENTARY INFORMATION

DOCTOR'S MANAGEMENT COMPANY, LLC

SUPPLEMENTARY INFORMATION -
SEGMENT INCOME STATEMENT

For the Year Ended December 31, 2008

	Total Earnings before Interest, Taxes, Depreciation, and Amortization	2009 Hospital Operations	Non-Operating, Including Prior Year Write Offs
Revenues			
Patient service	$ 6,793,274	$ 6,793,274	$ -
Management fees	233,333	33,333	200,000
Other	596,043	160,715	435,328
Total revenues	7,622,650	6,987,322	635,328
Operating expenses			
Salaries, wages and payroll taxes	1,828,588	1,828,588	-
Employee benefits	178,202	178,202	-
Contract services	1,209,029	845,601	363,428
Guaranteed payments	415,000	415,000	-
Bad debt expense	776,375	93,819	682,556
Professional fees	137,400	137,400	-
Medical director fees	201,556	201,556	-
Medical supplies	645,484	645,484	-
Office supplies	25,248	25,248	-
Equipment rent	42,591	42,591	-
Rent	93,735	93,735	-
Repairs and maintenance	104,748	104,748	-
Utilities	152,275	152,275	-
Advertising and promotional	86,930	86,930	-
Insurance expense	105,541	105,541	-
Office expense	94,312	94,312	-
Dues, taxes, licenses and subscriptions	76,053	76,053	-
Travel, meals and conferences	124,697	124,697	-
Charitable contributions	31,444	31,444	-
Miscellaneous	38,874	38,874	-
Total operating expenses	6,368,082	5,322,098	1,045,984
Income from operations	1,254,568	1,665,224	(410,656)

DOCTOR'S MANAGEMENT COMPANY, LLC

SUPPLEMENTARY INFORMATION -
SEGMENT INCOME STATEMENT - CONTINUED

For the Year Ended December 31, 2008

	Total Earnings before Interest, Taxes, Depreciation, and Amortization	Hospital Operations	Non-Operating
Income from operations	$ 1,254,568	$ 1,665,224	$ (410,656)
Other income (expense)			
Loss on equity investment	(72,921)	-	(72,921)
Other income	24,092	24,092	-
Total other income (expense)	(48,829)	24,092	(72,921)
Earnings before interest, taxes, depreciation and amortization	1,205,739	1,689,316	(483,577)
Interest expense, net of interest income of $19,911	(198,583)	(198,583)	-
Depreciation expense	(306,764)	(306,764)	-
Net Income	700,392	1,183,969	(483,577)

See accompanying accountant's review report