PINNACLE HEALTHCARE, LLC

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

Tentative and Preliminary Draft
for Review and Discussion
Subject to Change
No Opinion Expressed or Implied
McMahon & Associates
Certified Public Accountants, P.C.

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INDEPENDENT AUDITORS' REPORT

Board of Managers
Pinnacle Healthcare, LLC
Crown Point, Indiana

We have audited the accompanying balance sheets of Pinnacle Healthcare, LLC (a Limited Liability Company) as of December 31, 2008 and 2007, and the related statements of income and members' equity and cash flows for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As more fully described in Note 10 to the financial statements, the Company has not consolidated a variable interest entity in these financial statements. In our opinion, accounting principles generally accepted in the United States of America require that these entities be consolidated in the financial statements.

In our opinion, except for the effects of not including the financial information of the variable interest entity, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Pinnacle Healthcare, LLC as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 12 to the financial statements, the Company has incurred substantial net losses for each of the past two years. These conditions raise substantial doubt about its ability to continue as a going concern. Management's plans regarding those matters also are described in Note 13. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Certified Public Accountants
Munster, Indiana

December 28, 2009

PINNACLE HEALTHCARE, LLC

BALANCE SHEETS
DECEMBER 31, 2008 AND 2007

ASSETS

		2008		2007
CURRENT ASSETS:				
Cash and cash equivalents	$	299,127	$	95,458
Restricted cash		1,300,000		1,300,000
Patient receivables		2,050,546		7,756,904
Other receivables		15,550		572,725
Prepaid expenses		11,922		169,927
Prepaid supplies		623,106		873,602
Total current assets		4,300,251		10,768,616
PROPERTY AND EQUIPMENT:				
Property and equipment		9,955,760		9,744,831
Less: accumulated depreciation		(3,244,971)		(1,012,688)
Total property and equipment		6,710,789		8,732,143
TOTAL ASSETS	$	11,011,040	$	19,500,759

LIABILITIES AND MEMBERS' EQUITY

		2008		2007
CURRENT LIABILITIES:				
Current portion - leases payable	$	1,962,256	$	1,962,256
Accounts payable		1,453,703		2,144,805
Accrued expenses payable		1,941,502		1,104,867
Notes payable		6,687,383		6,004,032
Due to related party		1,028,045		1,625,000
Total current liabilities		13,072,889		6,836,928
LONG TERM DEBT - Leases payable, net of current portion		5,088,948		7,086,370
Total liabilities		18,161,837		19,927,330
MEMBERS' EQUITY		(7,150,797)		(426,571)
TOTAL LIABILITIES AND MEMBERS' EQUITY	$	11,011,040	$	19,500,759

See accompanying notes to financial statements.

PINNACLE HEALTHCARE, LLC

STATEMENTS OF INCOME AND CHANGES IN MEMBERS' EQUITY
FOR THE YEARS ENDING DECEMBER 31, 2008 AND 2007

	2008	2007
REVENUE:		
Net patient revenue	$ 16,046,405	$ 12,707,943
Other operating revenue	379,643	41,926
Total revenue	16,426,048	12,749,869
EXPENSES:		
Ancillary services	360,727	744,373
Advertising	180,485	101,016
Bank fees	32,302	2,835
Contract labor	1,622,324	428,486
Depreciation	2,232,282	1,007,531
Dietary	86,099	68,094
Donations	19,964	2,800
Dues and subscriptions	9,512	14,271
Equipment rental	35,795	61,909
Facility rent	1,800,000	1,088,306
Hospital license fees	5,206	6,125
Insurance	256,723	104,227
Medical / surgical supplies and drugs	3,118,220	2,740,944
Miscellaneous	269,488	143,422
Other supplies	13,994	132,167
Postage and shipping	32,413	15,231
Professional fees	2,441,995	486,443
Repairs and maintenance	713,802	156,689
Salaries and benefits	8,767,110	5,144,940
Training and development	61,444	8,494
Travel and entertainment	36,987	52,105
Taxes - property	346,134	236,291
Taxes - sales	0	8,803
Utilities	606,706	345,076
Total expenses	23,049,712	13,100,578
Percentage to revenue	140.32%	102.75%
GROSS MARGIN	(6,623,664)	(350,709)
Gross margin percentage	-40.32%	-2.75%
OTHER INCOME (EXPENSE):		
Interest expense	(781,220)	(322,301)
Interest income	29,883	0
Miscellaneous income	682	0
Bad debt	(293,149)	(168,646)
Total other income (expense)	(1,043,804)	(490,947)
NET LOSS	(7,667,468)	(841,656)
BEGINNING MEMBERS' EQUITY	(426,571)	230,085
MEMBERS' CONTRIBUTIONS	943,242	185,000
ENDING MEMBERS' EQUITY	$ (7,150,797)	$ (426,571)

See accompanying notes to financial statements.

PINNACLE HEALTHCARE, LLC

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

		2008		2007
OPERATING ACTIVITIES:				
Cash collected from patients	$	22,689,581	$	4,420,240
Cash paid for operating expenses		(21,152,818)		(9,790,780)
Interest income		29,883		0
Interest paid		(781,220)		(322,301)
Net cash provided (used) by operating activities		785,426		(5,692,841)
INVESTING ACTIVITIES - Purchase of property and equipment		(210,928)		(9,659,568)
FINANCING ACTIVITIES:				
Borrowings		914,766		15,124,087
Repayment of borrowings		(2,228,837)		(71,429)
Capital contributions		943,242		185,000
Net cash provided (used) by financing activities		(370,829)		15,237,658
NET INCREASE (DECREASE) IN CASH		203,669		(114,751)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR		95,458		210,209
CASH AND CASH EQUIVALENTS - END OF YEAR	$	299,127	$	95,458
RECONCILIATION OF NET LOSS TO CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Net loss	$	(7,667,468)	$	(841,656)
Add: Non-cash items				
Depreciation		2,232,282		1,007,531
Bad debt		293,149		168,646
Decrease (increase) in assets:				
Restricted cash		0		(1,300,000)
Patient receivables		5,413,209		(7,925,550)
Other receivables		557,175		(572,725)
Prepaid expenses		158,005		(169,927)
Prepaid supplies		250,496		(873,602)
Deposits		0		19,318
Increase (decrease) in liabilities:				
Accounts payable		(691,102)		2,144,805
Accrued expenses payable		836,635		1,104,867
Due to related party		(596,955)		1,545,452
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$	785,426	$	(5,692,841)

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - Pinnacle Healthcare, LLC is a privately owned hospital that provides inpatient and outpatient surgery services to patients in Northwest Indiana. The Company is physician-owned and began operations on July 10, 2007.

Accounting Method - The Hospital uses the accrual basis of accounting for financial statement purposes.

Cash and Cash Equivalents - Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months.

Patient Receivables - The Hospital carries its accounts receivable for medical services provided at the total cost. The Hospital provides care to patients under Medicare and commercial insurance, as well as private pay. Net patient accounts receivable and revenue are reported at the estimated net realizable amounts from patients, third-party payers, and other for services rendered. The Hospital evaluates the collectability of its accounts receivable based on certain factors, such as payer type, historical collection trends and aging categories. The allowance that is applied to the receivable balances is based on the historical experience and time limits, if any, for each particular payer source, such as private, insurance, Medicare and Medicaid. Actual results could differ from the estimated allowances.

Provision for Bad Debts - The Hospital grants credit without collateral to its patients, most of whom are local residents and insured by third-party payers. The amount of the provision for bad debts is based upon management's assessment of historical and expected net collections, trends in collections with individual insurance companies, and other collection indicators.

Property and Equipment - Property and equipment are recorded at cost. Depreciation is provided using the straight-line and accelerated cost recovery methods over the estimated useful lives of the respective assets for both financial reporting and income tax purposes. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized.

Commitments and Contingencies - The Hospital is subject to claims and lawsuits which arise primarily in the ordinary course of business. It is impossible to predict the outcome or the ultimate resolution of such claims and lawsuits.

Advertising - Advertising costs are charged to operations when incurred. Advertising costs for 2008 and 2007 are $180,485 and $101,016, respectively.

Use of Estimates - The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Income Taxes - The Company has elected to operate as a Limited Liability Corporation. The Company files a partnership tax return. Income and losses are passed on to the members, who report the incomes and losses on their personal tax returns.

Prepaid Supplies - Prepaid supplies consist primarily of medical supplies and pharmaceuticals, and are stated at cost.

Reclassifications - Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

NOTE 2 - RESTRICTED CASH

As of December 31, 2008 and 2007, $1,300,000 is held in a an interest bearing deposit account pursuant to the provision of a letter of credit with First Midwest Bank - see note 8.

NOTE 3 - PROPERTY AND EQUIPMENT

The breakdown of cost, accumulated depreciation and cash value as of December 31, 2008 and 2007 follows:

2008

	Cost	Accumulated Depreciation	Book Value
Leasehold Improvements	$ 72,661	$ 17,454	$ 55,207
Office furniture and equipment	328,599	73,940	254,659
Land deposit	25,000	0	25,000
Medical Equipment	9,529,500	3,153,577	6,375,923
Total	$ 9,955,760	$ 3,244,971	$ 6,710,789

2007

	Cost	Accumulated Depreciation	Book Value
Leasehold Improvements	$ 64,771	$ 3,580	$ 61,191
Office furniture and equipment	214,058	17,777	196,281
Land deposit	25,000	0	25,000
Medical Equipment	9,441,002	991,331	8,449,671
Total	$ 9,744,831	$ 1,012,688	$ 8,732,143

Depreciation expense is $2,232,282 and $1,007,531 for the years ended December 31, 2008 and 2007, respectfully.

NOTE 4 - OPERATING LEASE

The Hospital leases its facilities from a related party, Medical Realty Associates, LLC. The lease is a fifteen year lease, commencing in 2007, with a base rent for the first year of $1,800,000. The terms of the lease can be renegotiated upon the first anniversary of the commencement date or upon the refinancing of the property by the landlord. This is a "triple net" lease; therefore the tenant is also responsible for the property taxes, utilities, insurance, and maintenance on the property. Included in the facility lease was $1,800,000 and $900,000 paid to Medical Realty Associates, LLC as of December 31, 2008 and 2007, respectively.

Minimum future lease expenses are:

2009	$ 1,800,000
2010	1,800,000
2011	1,800,000
2012	1,800,000
2013	1,800,000
Thereafter	15,300,000
Total	$ 24,300,000

NOTE 5 - CAPITAL LEASES

The Hospital acquired equipment under several long-term leases. For reporting purposes, the present value of the minimum lease payments has been capitalized. The leases expire at various times within the next five years. As of December 31, 2008 the property under capital lease had a total cost of $9,133,215, accumulated depreciation of $3,055,076, and a net book value of $6,078,439. The future minimum lease payments under these capital eases at December 31, 2008 are as follows:

2009	$ 2,470,043
2010	2,246,015
2011	2,072,502
2012	1,109,772
Total minimum lease payments	$ 7,898,332
Less amount representing interest	847,128
Present value of net minimum obligations	7,051,204
Less current obligation under capital lease	1,962,256
Long-term obligation under capital lease	$ 5,088,948

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NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

NOTE 6 - LINE OF CREDITS

The Hospital has a working capital line of credit available with First Midwest Bank in the amount of $1,000,000, maturing March 1, 2009. The balance as of December 31, 2008 and 2007 is $923,564 and $0, respectively. The line is secured by accounts receivable, business property and personal guarantors. The interest is the current Wall Street Journal Prime. At December 31, 2008 and 2007 the interest rate was 3.25% and 7.25%, respectively.

The Hospital has a second line of credit available with First Midwest Bank in the amount of $6,000,000, maturing May 1, 2009. The balance at December 31, 2008 and 2007 is $5,763,819and $5,932,483, respectively. The line is secured by business assets and the mortgage on 9301 Connecticut Street. The interest is the current Wall Street Journal Prime. At December 31, 2008 and 2007 the interest rate was 4.17% and 7.25%, respectively.

NOTE 7 - LETTER OF CREDIT

The Hospital has a letter of credit with First Midwest Bank. The letter of credit amount is $2,600,000. At December 31, 2008 and 2007, the letter has not been drawn on, and the balance is $0. The letter is secured by business assets of the Hospital and a related Company, as well as $1,300,000 cash held in a restricted deposit account. The letter matures on July 24, 2009. The interest rate is the current Wall Street Journal Prime.

NOTE 8 - RELATED PARTIES

The Hospital and Medical Realty Associates, LLC are owned by the same 53 individuals. The financing agreement between the Hospital and First Midwest Bank is cross-collateralized with the business assets of Medical Realty Associates, LLC and property located at 9301 Connecticut Dr., Crown Point, IN.
The Hospital owes $71,548 to a member at December 31, 2008.

NOTE 9 - PROFESSIONAL LIABILITY INSURANCE

The Hospital maintains its professional liability insurance coverage on a claims made basis. The provisions for estimated professional liability claims include estimates of the ultimate costs for both reported and unreported claims. The Hospital does not have any professional or other litigation which is expected to have a material financial impact.

NOTE 10 - CONSOLIDATION OF A VARIABLE INTEREST ENTITY

The Financial Accounting Standards board has issued FIN 46(R), *Consolidation of Variable Interest Entities*, effective December, 2003. FIN 46(R) requires that the entities with a level of invested equity that is not sufficient to fund future activities to permit them to operate on a stand alone basis, or whose equity holders lack certain characteristics of a controlling financial interest, be identified as the Hospital's participation in variable interest entities. For entities identified as a variable interest entity, FIN 46(R) sets forth a model to evaluate potential consolidation based on an assessment of which party to the variable interest entity, if any, bears a majority of the exposure to its expected losses, or stands to gain from a majority of its expected returns. FIN 46(R) also sets forth certain disclosures regarding interests in variable interest entities that are deemed significant, even if consolidation is not required. The Hospital has elected not to adopt the provisions of FIN 46(R) for the variable interest entity described below.

Medical Realty Associates LLC is an operating entity that owns and leases the land and building to Pinnacle Healthcare, LLC. Pinnacle Healthcare, LLC has a working capital loan and a letter of credit that is cross-collateralized with the business assets of Medical Realty Associates LLC.

If this entity had been consolidated in these financial statements, an increase would have occurred in current assets of $150,081, an increase in land and building of $20,449,565, an increase in other assets of $25,000, an increase in current liabilities of $2,774,454, an increase in long term debt of $15,769,574, an increase in equity of $644,672, a decrease in due to related party of $1,260,865 and a decrease in net income of $822,601.

NOTE 11 - LITIGATION

Subsequent to the year ended December 31, 2007, three civil lawsuits have been filed by various groups of members against other member groups, and in one case, Pinnacle, regarding Pinnacle's leadership and Board control. In 2008 the Hospital was involved in additional litigation. As of the date of this report, the Hospital is the named defendant in four lawsuits, and there is a possibility of other lawsuits being filed in the future. The Hospital has accrued $1,000,000 as of December 31, 2008, to allow for losses resulting from these lawsuits. Additionally, there are a number of medical malpractice claims that exist. They are being defended by the Hospital's malpractice carrier, and the Hospital is confident that their exposure is protected by their insurance.

NOTE 12 - GOING CONCERN

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles, which contemplate continuation of the company as a going concern. However, the Hospital has sustained substantial operating losses in the past two years. The net operating loss from operations at December 31, 2008 and 2007 was $7,667,468, and $841,656, respectively. Further, at December 31, 2008, current liabilities exceed current assets by $8,912,227, and total liabilities exceed total assets by $7,150,797.

The Hospital has a note payable to a bank, and the Hospital must comply with provisions of the loan agreement. The bank claims that during 2008 the company violated certain terms of these provisions. A significant portion of the company's operating assets is pledged as collateral for this note, and foreclosure by the bank would seriously impair the company's continued existence. All these factors raise substantial doubt about the company's ability to continue as a going concern. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, of the amounts and classification of liabilities that might be necessary in the event the company cannot continue in existence. Management of the company has met with representatives of the bank in an attempt to restructure the loan agreement, or otherwise satisfactorily resolve the bank's claim.

The Hospital has numerous leases for their equipment used in their daily operations. The Hospital is in arrears of their monthly lease payments as of December 31, 2008. It is not possible at this time to predict the intentions of the leasing companies regarding the arrearage in payments. General Electric Corporation, one of the Hospital's lessee's, has filed a lawsuit as of the date of this report due to missed lease payments. That lawsuit is included in the discussion of Note 11.

NOTE 13 – MANAGEMENT'S RESPONSE TO GOING CONCERN

The Hospital has made several management changes in 2009 to address the issues of daily management and cash flow for the organization. As of the date of these financial statements, the Hospital has hired new administrators who are addressing these issues. The Hospital has also entered into a contract with Anthem BCBS which has the potential to substantially increase their revenue. The Hospital has increased admissions and scheduled procedures in October, 2009 that resulted in the Hospital's level of performance surpassing all prior months of 2009. The Hospital also recruited a respected spine surgeon in November 2009. The Hospital's board of managers believes that these changes will result in increased cash flow in the future that will allow the organization to continue operations.

NOTE 14 – WAIVER OF BREACH OF LOAN COVENANT

The loan agreements relating to the Hospital's note payable to a bank contains various covenants pertaining to accounts receivable and payment requirements. At the date of these financial statements, the Hospital has a shortfall of approximately $5,000,000 in margined value of accounts receivable. The bank has waived all loan covenant defaults through December 31, 2009 with the exception of payment defaults.

NOTE 15 – SUBSEQUENT EVENTS

The Hospital became delinquent in their capital lease payments subsequent to the year end. In November, 2009, GE Capital Leasing filed a lawsuit seeking the return of their leased equipment due to lack of payments by the Hospital (see Note 12). The Hospital is also delinquent in payments to other vendors. As of the date of this report, it is uncertain how these delinquencies will affect the future operations of the Hospital.