Consolidated Financial Statements and Other Financial Information

Sharon Hospital Holding Company, Inc. and Subsidiaries
Years Ended September 30, 2009 and 2008
With Report of Independent Auditors

Ernst & Young LLP

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Contents

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Report of Independent Auditors

The Board of Directors
Sharon Hospital Holding Company, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Sharon Hospital Holding Company, Inc. and Subsidiaries as of September 30, 2009 and 2008, and the related statements of income, stockholder's 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sharon Hospital Holding Company, Inc. and Subsidiaries at September 30, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

December 22, 2009

Consolidated Sharon Hospital Holding Company, Inc.
and Subsidiaries

Consolidated Balance Sheets

	September 30	
	2009	**2008**
Assets		
Current assets:		
Patient accounts receivable, net of allowance for doubtful accounts of $4,044,869 in 2009 and $3,950,684 in 2008	**$ 6,542,170**	6,656,193
Inventories	**1,140,534**	1,134,838
Prepaid expenses and other receivables	**1,526,863**	1,173,737
Deferred income taxes	**1,707,366**	1,198,005
Total current assets	**10,916,933**	10,162,773
Property and equipment:		
Land and land improvements	**1,797,359**	1,797,359
Buildings	**39,340,742**	39,340,742
Equipment	**16,149,430**	15,672,879
Construction in progress	**235,793**	162,764
	57,523,324	56,973,744
Less accumulated depreciation	**(16,518,636)**	(13,550,284)
	41,004,688	43,423,460
Amounts due from Parent	**5,228,965**	2,281,341
Other	**502,632**	524,108
	5,731,597	2,805,449
Total assets	**$ 57,653,218**	$ 56,391,682

Consolidated Sharon Hospital Holding Company, Inc.
and Subsidiaries

Consolidated Balance Sheets (continued)

	September 30	
	2009	**2008**
Liabilities and stockholder's equity		
Current liabilities:		
Accounts payable and other liabilities	**$ 1,983,168**	$ 2,293,783
Other accrued expenses	**3,690,101**	2,855,261
Due to third-party payors	**435,106**	208,044
Current portion of capital lease obligations	**606,509**	796,567
Current portion of long-term debt	**350,000**	350,000
Total current liabilities	**7,064,884**	6,503,655
Accrued post-retirement benefits	**1,407,000**	1,126,000
Deferred income taxes	**842,943**	978,564
Capital lease obligations, less current portion	**1,001,842**	1,615,809
Long-term debt, less current portion	**34,037,500**	34,387,500
Other	**250,000**	250,810
Stockholder's equity:		
Common stock; no par; 1,000 shares authorized; 1,000 shares issued and outstanding	**1,000**	1,000
Other comprehensive loss	**(353,878)**	–
Retained earnings	**13,401,927**	11,528,344
Total stockholder's equity	**13,049,049**	11,529,344
Total liabilities and stockholder's equity	**$ 57,653,218**	$ 56,391,682

See accompanying notes.

Consolidated Sharon Hospital Holding Company, Inc.
and Subsidiaries

Consolidated Statements of Income

	Year Ended September 30	
	2009	**2008**
Net patient revenue	**$ 54,310,740**	$ 55,699,481
Other revenue	**543,474**	496,271
	54,854,214	56,195,752
Operating expenses:		
Salaries and benefits	**21,273,114**	21,890,470
Professional services	**9,099,695**	9,489,383
Supplies	**6,139,169**	6,339,785
Other operating expenses	**5,887,509**	6,430,192
Provision for doubtful accounts	**2,882,152**	3,827,007
Depreciation and amortization	**3,555,043**	3,568,388
	48,836,682	51,545,225
Income before interest, intercompany fees and income tax provision	**6,017,532**	4,650,527
Interest expense	**2,032,328**	2,918,034
Intercompany fees	**1,264,688**	1,197,032
Income before taxes	**2,720,516**	535,461
Income tax provision	**846,933**	282,527
Net income	**$ 1,873,583**	$ 252,934

See accompanying notes.

Sharon Hospital Holding Company, Inc. and Subsidiaries

Consolidated Statements of Stockholder's Equity

	Common Stock		Retained	Other Comprehensive	Total Stockholder's
	Shares	**Amount**	**Earnings**	**Income (Loss)**	**Equity**
Balance at September 30, 2007	1,000	$ 1,000	$ 11,275,410	$ –	$ 11,276,410
Net income	–	–	252,934	–	252,934
Balance at October 1, 2008	1,000	1,000	11,528,344	–	11,529,344
Net income	–	–	**1,873,583**	–	1,873,583
Actuarial losses on post retirement healthcare benefit (net of tax benefit)	–	–	–	**(353,878)**	(353,878)
Balance at September 30, 2009	**1,000**	**$ 1,000**	**$ 13,401,927**	**$ (353,878)**	**$ 13,049,049**

See accompanying notes.

Sharon Hospital Holding Company, Inc.
and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended September 30	
	2009	**2008**
Operating activities		
Net income	**$ 1,873,583**	$ 252,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	**3,555,043**	3,285,523
Amortization	–	282,865
Provision for doubtful accounts	**2,882,152**	3,827,007
Deferred income taxes	**(644,982)**	(331,999)
Changes in operating assets and liabilities:		
Accounts receivable	**(2,768,129)**	(4,521,632)
Inventories	**(5,696)**	(57,030)
Prepaid expenses and other current assets	**(353,126)**	(289,629)
Accounts payable and other current liabilities	**450,537**	(353,918)
Due to third-party payers	**227,062**	193,019
Net cash provided by operating activities	**5,216,444**	2,287,140
Investing activities		
Increase in other assets	**21,476**	46,166
Purchases of property and equipment	**(1,136,271)**	(2,631,557)
Net cash used in investing activities	**(1,114,795)**	(2,585,391)
Financing activities		
Net advances from (to) Parent	**(2,947,624)**	1,221,247
Proceeds from debt	–	35,000,000
Payments on debt	**(350,000)**	(35,006,557)
Capital lease principal payments	**(804,025)**	(916,439)
Net cash (used in) provided by financing activities	**(4,101,649)**	298,251
Decrease in cash and cash equivalents	**–**	–
Cash and cash equivalents, beginning of period	**–**	–
Cash and cash equivalents, end of period	**$ –**	$ –
Supplemental cash flow information		
Cash paid for interest	**$ 2,032,328**	$ 2,918,034
Non-cash investing activities		
Equipment acquired under capital lease obligations	**$ –**	$ 691,170

See accompanying notes.

1. Business and Summary of Significant Accounting Policies

Organization

Sharon Hospital Holding Company, Inc. (the Company) is a wholly owned subsidiary of Essent Healthcare, Inc. (the Parent). As of September 30, 2009, the Company through its subsidiaries (Essent Healthcare of Connecticut, Inc. and Regional Healthcare Associates, LLC) owns and operates Sharon Hospital (the Hospital) and physician office practices. During 2008, the Parent affected a transfer of the Hospital ownership from another Parent controlled entity to the Company. Prior to the transfer, the company had no operations. These consolidated financial statements include the results of operations of Essent Healthcare of Connecticut, Inc. and Regional Healthcare Associates, LLC for the years ended September 30, 2009 and 2008. The Hospital and physician practices provide healthcare services to patients living in Sharon, Connecticut and the surrounding communities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand less an amount for payments that have not cleared the bank (outstanding checks). At September 30, 2009 and 2008, the amount of outstanding checks exceeded the amount of cash on hand. The net balance of $1,264,903 at September 30, 2009 and $482,383 at September 30, 2008, are included in accounts payable and other liabilities in the accompanying balance sheets. The Company participates in the Parent's cash management system, which provides cash to the Company as outstanding checks clear the bank. Cash and cash equivalents are held in financial institutions that are federally insured. The amount of credit exposure with any one institution is limited.

1. Business and Summary of Significant Accounting Policies (continued)

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Sharon Hospital Holding Company Inc., and of subsidiaries and affiliates controlled by the Company. The Company generally considers control to represent the majority of an entity's voting interests. All material intercompany accounts and transactions have been eliminated in consolidation.

Net Patient Revenue and Accounts Receivable

The Company has entered into agreements with third-party payors, including government programs and commercial insurers, under which the facilities are paid based upon discounts from established charges, the cost of providing services, predetermined rates per diagnosis, or fixed per diem rates. Revenues are recorded at the time the healthcare services are provided at estimated amounts due from patients and third-party payors. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as interim or final settlements of amounts are determined. Final determination of certain amounts earned under prospective payment and cost-reimbursement activities is subject to review by appropriate governmental authorities or their agents and may take several years for the final settlements to be determined.

Laws and regulations governing Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a possibility that recorded estimates may change in the future. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on the Company's financial statements.

Management recognizes that revenue and receivables from government agencies are significant to its operations, but it does not believe that there is significant credit risks associated with these government agencies. The Company performs continual credit evaluations of its accounts receivable and maintains allowances for estimated uncollectible amounts. The Company's determination of uncollectible accounts is based on an assessment of historical and expected net collections, and business and economic conditions prevalent in each operating market and trends in federal and state governmental healthcare coverage. Upon the culmination of reasonable collection efforts, accounts receivable are written-off based upon specific identification.

1. Business and Summary of Significant Accounting Policies (continued)

Approximately 54% of the Company's gross charges for the years ended September 30, 2009 and 2008, were related to patients participating in the Medicare and Medicaid programs.

The Company provides care to patients who are financially unable to pay for the healthcare services they receive. Because the Company does not pursue collection of amounts determined to qualify as charity care, the related charges are not reported as revenue. The amount of charges forgone for services and supplies furnished under the Company's charity care policy aggregated approximately $430,330 and $767,308 for the years ended September 30, 2009 and 2008 respectively.

Inventories

Inventories, principally medical supplies and pharmaceuticals, are stated at the lower of cost (first-in, first-out) or market.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities or extend useful lives are capitalized. Depreciation expense is computed by the straight-line method over the estimated useful lives of the assets, which approximate 3 to 30 years. For the year ended September 30, 2008, the Company capitalized $117,933 of interest costs related to a construction project finalized during 2008.

Deferred Financing Costs

Loan costs are deferred and amortized over the term of the related debt using the straight line method which approximates the interest method. Amortization of deferred loan costs is included in interest expense in the accompanying statements of income.

In connection with the refinancing event that occurred on December 20, 2007 (see footnote 3), the Company wrote-off the remaining balance of deferred loan costs of $271,523 in 2008.

1. Business and Summary of Significant Accounting Policies (continued)

Long-Lived Assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In evaluating possible impairment, the Company uses the most appropriate method of evaluation given the circumstances surrounding the particular asset, which generally has been an estimate of the related asset's undiscounted cash flows, as prescribed by the Financial Accounting Standards Board (the FASB) accounting guidance for the impairment or disposal of long-lived assets. The Company incurred no impairment to the long-lived assets in the years ended September 30, 2009 and 2008.

Amounts due to/from Parent

Amounts due to/from Parent represent the net excess or deficit of funds transferred to or paid on behalf of the Company over funds transferred to the centralized cash management account of the Parent. Generally, this balance represents funds advanced to acquire the facility, net effect of funds used or provided by the Company during the normal daily cash management process, plus any intercompany charges from the Parent to the Company for management fees. Management fees include an allocation of corporate office expense of $1,264,689 and $1,197,032 for the years ended September 30, 2009 and 2008 respectively.

Self-Insurance Plan

The Company maintained a self-insured medical and dental plan for employees. Claims were accrued under this plan as the incidents that give rise to them occurred. Unpaid claim accruals are based on the estimated ultimate cost of the claim, including any related expenses, in accordance with the Company's past experience. The Company has entered into a reinsurance agreement with an independent insurance company to limit its losses on claims. The Company remains liable for these claims to the extent that the re-insurer does not meet its obligations.

Income Taxes

The Company is a corporation subject to federal and state income taxes. In accordance with the FASB's guidance for accounting for income taxes, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial

1. Business and Summary of Significant Accounting Policies (continued)

statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in years in which those temporary differences are expected to be recovered or settled. Under the income tax guidance, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Company is included in the consolidated Federal tax return of the Parent. The Parent's tax policy is to allocate a provision for income taxes as if the Company filed a separate return. The state income tax provision for the years ended September 30, 2009 and 2008, were based on the Company's allocable share of the consolidated Connecticut income tax rate for Essent Healthcare, Inc. Obligations related to income taxes of $1,309,614 and $614,526 at September 30, 2009 and 2008 respectively, are included in Amounts due from Parent in the accompanying balance sheets. All income tax payments are paid by the Parent in connection with the consolidated Federal tax obligation.

Fair Value of Financial Instruments

The carrying amounts reported in the accompanying balance sheets for cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable, accrued expenses, other current liabilities, and other liabilities approximate fair value. Based on the borrowing rates currently available to the Company, the carrying amounts reported for long-term debt and capital lease obligations approximate fair value.

Professional and General Liability Reserves

The Company is insured for professional and general liabilities under the Parent's insurance policies. The Parent insures for professional and general liability risks under a combination of "claims-made" policies. Claims are covered up to at least $2,000,000 per occurrence and are subject to a $2,000,000 self-insured retention. The Company paid $772,000 and $843,000 in 2009 and 2008 to a subsidiary of the Parent to insure the $2,000,000 self-insurance retention. Additionally, the Parent has excess liability policies in place to extend coverage to a maximum of $40,000,000 per occurrence and in the aggregate. The Parent reserves for professional and general liability risks, including estimates for incurred but not reported claims, and allocates such costs to the Company. Professional and general liability costs incurred for the year ended September 30, 2009 and 2008, and recorded in the statements of income totaled $1,227,519 and $1,383,021 respectively.

1. Business and Summary of Significant Accounting Policies (continued)

Recent Accounting Developments

On July 13, 2006, the Financial Accounting Standards Board (the FASB) issued guidance on accounting for uncertainty in income tax positions. This guidance clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with the FASB's guidance on accounting for income taxes. The guidance also prescribes recognition of a tax position taken or expected to be taken in a tax return. In addition, the literature provides guidance on derecognition, classification, interest and penalties, accounting, disclosure and transition.

The provisions of the guidance are effective for the Company beginning October 1, 2009. Earlier application is permitted. The provisions are to be applied to all tax positions upon initial adoption of this standard. Only tax positions that meet the more-likely-than-not recognition threshold at the effective date may be recognized or continue to be recognized upon adoption of the guidance. The cumulative effect of applying the provisions should be reported as an adjustment to the opening balance of retained earnings for that fiscal year. The Company does not anticipate the adoption to have a material impact on its financial position or results from operations.

During September 2006, the FASB issued accounting guidance related to Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans. This guidance represented the completion of the first phase in the FASB's postretirement benefits accounting project and requires an entity to: recognize in its balance sheet an asset for a defined benefit postretirement plan's overfunded status or a liability for a plan's underfunded status; measure a defined benefit postretirement plan's assets and obligations that determine its funded status as of the end of the employer's fiscal year; and recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. This guidance does not change the amount of net periodic benefit cost included in net income. The requirement to recognize the funded status of a defined benefit postretirement plan and the disclosure requirements were adopted for fiscal year end September 30, 2008.

2. Retirement Benefit Plans

Postretirement Benefit Plan

The Company provides postretirement benefits to eligible former employees of the Hospital who retired prior to August 1, 1994. The Hospital provides supplemental medical and dental coverage to retirees who retired prior to that date. Only those employees grandfathered in the postretirement plan are eligible to participate.

Significant disclosures relating to the postretirement benefit plan (measured as of September 30, 2009 and 2008) follow:

	2009	2008
Components of net periodic benefit cost		
Interest cost	**$ 92,000**	$ 74,000
Amortization of actuarial loss	**9,000**	–
Net periodic benefit cost	**$ 101,000**	$ 74,000
Weighted-Average Assumptions to Determine Net Cost		
Discount rate	**7.67%**	6.25%

	2009	2008
Change in Benefit Obligation		
Accumulated benefit obligation at beginning of year	**$ 1,270,000**	$ 1,233,821
Interest cost	**92,000**	74,000
Benefits paid	**(233,000)**	(141,000)
Actuarial (gain) or loss	**442,000**	103,179
Accumulated benefit obligation at end of year	**$ 1,571,000**	$ 1,270,000

2. Retirement Benefit Plans (continued)

Change in Plan Assets	**2009**	**2008**
Fair value of plan assets at end of prior year	**$ –**	$ –
Employer contributions	**233,000**	141,000
Benefits paid	**(233,000)**	(141,000)
Fair value of plan assets at end of year	**$ –**	$ –
Funded status at year end	**$(1,571,000)**	$(1,270,000)
Amounts recognized in the statement of financial position consists of:		
Current liabilities	**$ (164,000)**	$ (144,000)
Noncurrent liabilities	**(1,407,000)**	(1,126,000)
Net amount recognized in statement of financial position	**$(1,571,000)**	$(1,270,000)
Weighted-average assumptions used to determine benefit obligations at September 30		
Discount rate	**4.95%**	7.67%
Measurement date	**Sept. 30, 2009**	Sept. 30, 2008
Medical cost trend rate assumed for next year	**6.75%**	7.00%
Ultimate rate	**5.00%**	5.00%
Year that the rate reaches the ultimate rate	**2018-2019**	2017-2018

Expected Cash Flows	**2009**	**2008**
Expected return of assets to employer in next year	**$ –**	$ –
Expected employer contributions for next fiscal year	**$ 163,000**	$ 148,000

2. Retirement Benefit Plans (continued)

	Employer Benefit Payment
Expected benefit payments for fiscal year ending in:	
2010	$ 163,000
2011	162,000
2012	159,000
2013	155,000
Next 5 years	635,000

	2009	2008
Effect of 1% Increase in Trend Rates		
Effect on total service cost and interest cost	**$ 6,000**	$ 5,000
Effect on benefit obligation	**$ 69,000**	$ 77,000
Effect of 1% Decrease in Trend Rates		
Effect on total service cost and interest cost	**$ (5,000)**	$ (5,000)
Effect on benefit obligation	**$ (63,000)**	$ (70,000)

For measurement purposes relating to the postretirement benefit plan for 2009, annual increases in per capita cost of covered health care benefits of 6.75% (grading down to 5.0% after 8 years) were assumed.

401(k) Plan

Effective October 1, 1999, the Parent adopted the Essent Healthcare, Inc. 401(k) Plan (the Benefit Plan). Each employee employed on the effective date was deemed eligible to participate. Otherwise, to become eligible, participants must be at least 21 years of age and be employed by the Company. The Company makes matching contributions to the Benefit Plan on a discretionary basis. Matching contributions paid during the year ended September 30, 2008, related to fiscal year 2007 were $256,139. During fiscal year 2009, the Company decided not to fund an employer match for the Plan year 2008. Accordingly, the company reduced employee benefits in 2009 by the $229,000 of accrued matching contribution as of September 30, 2008. The Company anticipates making the matching contribution in fiscal year 2010 related to the Plan year 2009. As of September 30, 2009, an accrual for matching contributions in the amount

2. Retirement Benefit Plans (continued)

of approximately $203,000 is included in the accompanying balance sheet for matching contributions related to Plan year 2009. For the years ended September 30, 2009 and 2008, the Company recorded $(24,111) and $281,445, as a (benefit) expense related to the employer's matching contribution to participants in the Benefit Plan.

3. Debt

Credit Facility

On December 20, 2007, the Parent entered into a credit facility which consists of two term loans and a revolving credit loan. The proceeds from the loan were used to retire all the Parent's and the Company's then outstanding term and revolver debt and pay the debt issuance costs incurred in connection with the transaction. One of the term loans in the amount of $35,000,000 is an obligation of the Company. This term loan will be repaid in twenty-two consecutive quarterly installments of $87,500 beginning on March 31, 2008 with a final payment of $33,075,000 on September 30, 2013. The revolving credit loan matures on September 30, 2013. The interest on the loans will accrue at the Company's option at either base rate (prime) plus 3% or LIBOR plus 4%. The margins above the prime rate or LIBOR will decrease depending on the Parent's consolidated leverage ratio as defined in the Agreement. At September 30, 2009, the interest rate was 4.25%.

In accordance with the Credit Agreement, the Parent is required to comply with certain covenants including a fixed coverage charge ratio and a leverage ratio. The Parent was in compliance with the covenants as of September 30, 2009. The Company's term loan is secured by a collateral interest in substantially all of the Company's assets.

Considering the terms of the Credit Facility, the Company's scheduled principal payments over the next five years are as follows:

For the year September 30, 2009	Amount
2010	$ 350,000
2011	350,000
2012	350,000
2013	33,337,500

3. Debt (continued)

At December 19, 2007, long-term debt consisted of $30,000,000 Term Debt that was drawn in three installments. The initial installment was received on November 27, 2006. The proceeds were used to pay down previously outstanding revolver balance and term loan, reimburse the Company for previously expended construction costs and for the costs associated with the financing. In addition, there was a $5,000,000 cash-flow based revolver. At October 1, 2007, $29,744,057 was outstanding related to the Term Debt and $5,000,000 related to the revolver. The interest on the Term Debt was payable on a quarterly basis and was based on the Company's option of either prime rate plus 2.75% adjusted based on changes in the prime rate or LIBOR plus 3.75% adjusted either monthly, quarterly or six-months based on the Company's option. On October 1, 2007, the interest rate was 9.06%. This debt was repaid in connection with the December 20, 2007 financing event.

4. Common Stock

The Company issued 1,000 shares of no par Common Stock to EHCO, LLC, a subsidiary of the Parent. Holders of the Common Stock outstanding shall be entitled to one vote per share on all matters to be voted on by the stockholders. The Board may declare a dividend upon the Common Stock out of the unrestricted and unreserved surplus of the Company. As and when dividends are declared or paid thereon, the holders of the Common Stock shall be entitled to receive the balance of such dividends ratably among such holders.

Upon any liquidation of the Company, after payment of all of the Company's debts and obligations, the holders of Common Stock shall be entitled to participate in all distributions. The holders of the Common Stock shall be entitled to receive the balance of such distribution ratably among such holders.

In connection with the acquisition of the Hospital, the Company through its subsidiary issued 1,000 shares of $.01 par value, non-voting Class B Common Stock (the Shares) of Essent Healthcare of Connecticut, Inc. to the seller. In accordance with the Stockholders Agreement, the Company has the right to call the Shares at any time on and after April 12, 2012, for a total purchase price of $250,000. The value of the Class B Common Stock is recorded in other long-term liabilities on the consolidated balance sheet.

5. Capital Lease Obligations

The Company leases various equipment under lease agreements that have been capitalized with a net book value of $1,719,620 included in equipment at September 30, 2009. Future minimum lease payments and the present value of future minimum lease payments for capital leases as of September 30, 2009, are as follows:

2010	$ 700,707
2011	588,096
2012	301,717
2013	100,344
2014 and thereafter	79,751
Total future minimum lease payments	1,770,615
Less amounts representing interest	162,264
	1,608,351
Less current portion	606,509
Long-term capital lease obligations	$1,001,842

6. Income Taxes

The income tax provision (benefit) for the year ended September 30, 2009 and 2008 includes the following components:

	2009	2008
Federal income tax provision (benefit)		
Current	**$ 1,202,490**	$ 548,301
Deferred	**(462,681)**	(321,717)
	739,809	226,584
State income tax provision (benefit)		
Current	**107,124**	66,225
Deferred	**–**	(10,282)
	107,124	55,943
	$ 846,933	$ 282,527

6. Income Taxes (continued)

Significant components of the Company's deferred tax assets and liabilities consist of the following at September 30, 2009:

	Current	Noncurrent	Total
Deferred tax assets:			
Accrued expenses	$ 617,048	$ 486,206	$ 1,103,254
Allowance for doubtful accounts	1,090,318	–	1,090,318
Charitable contribution carryover	–	31,380	31,380
Post retirement	–	102,340	102,340
Total deferred tax assets	1,707,366	619,926	2,327,292
Deferred tax liabilities:			
Property and equipment	–	(1,462,869)	(1,462,869)
Total deferred tax liabilities	–	(1,462,869)	(1,462,869)
Net deferred tax assets (liabilities)	$ 1,707,366	$ (842,943)	$ 864,423

Significant components of the Company's deferred tax assets and liabilities consist of the following at September 30, 2008:

	Current	Noncurrent	Total
Deferred tax assets:			
Accrued expenses	$ 429,406	$ 637,135	$ 1,066,541
Allowance for doubtful accounts	768,599	–	768,599
Charitable contribution carryover	–	22,883	22,883
Total deferred tax assets	1,198,005	660,018	1,858,023
Deferred tax liabilities:			
Property and equipment	–	(1,638,582)	(1,638,582)
Total deferred tax liabilities	–	(1,638,582)	(1,638,582)
Net deferred tax assets (liabilities)	$ 1,198,005	$ (978,564)	$ 219,441

6. Income Taxes (continued)

The Company's effective tax rate differed from the federal statutory rate as set forth below:

	2009	2008
Tax at U.S. statutory rates	**$ 924,975**	$ 182,057
State taxes, net of federal benefits	**70,702**	36,922
Other	**(148,744)**	63,548
Total	**$ 846,933**	$ 282,527

7. Contingencies and Healthcare Regulations

The Company is subject to various claims and lawsuits arising in the normal course of business. In the opinion of management, the ultimate resolution of these matters will not have a material effect on the Company's financial position or results of operations.

Healthcare Regulations

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Company believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs and the reduction of funding levels could have an adverse impact on the Company.

7. Contingencies and Healthcare Regulations (continued)

Operating Leases

The Company leases office facilities and certain equipment under noncancellable operating leases that expire at various dates through 2012. As of September 30, 2009, the future minimum lease commitments under these noncancellable leases are as follows:

2010	$ 104,636
2011	39,495
2012	17,717
2013	2,761
Total minimum rental payments	$ 164,609

Total rental expense amounted to approximately $477,472 and $478,162 for the years ended September 30, 2009 and 2008, respectively.

8. Subsequent Events

The Company has evaluated all material events subsequent to the balance sheet date through December 22, 2009, for events requiring disclosure or recognition in the consolidated financial statements. There were not subsequent events requiring disclosure or recognition in the consolidated financial statements.

Other Financial Information

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Report of Independent Auditors on Other Financial Information

The Board of Directors
Sharon Hospital Holding Company, Inc. and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating financial information as of and for the year ended September 30 2009, is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Ernst & Young LLP

December 22, 2009

Consolidated Sharon Hospital Holding Company, Inc.

Consolidating Balance Sheet

Year Ended September 30, 2009

	Sharon Hospital Holding Co., Inc.	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Eliminations	Consolidated Sharon Hospital Holding Co., Inc.
Assets					
Current assets:					
Patient accounts receivable, net of allowance for doubtful accounts of $4,044,869	$ –	$ 6,306,510	$ 235,660	$ –	6,542,170
Inventories	–	1,140,534	–	–	1,140,534
Prepaid expenses and other receivables	–	1,517,860	9,003	–	1,526,863
Deferred income taxes	–	1,707,366	–	–	1,707,366
Total current assets	–	10,672,271	244,662	–	10,916,933
Property and equipment:					
Land and land improvements	–	1,797,359	–	–	1,797,359
Buildings	–	38,999,472	341,270	–	39,340,742
Equipment	–	15,693,177	456,254	–	16,149,430
Construction in progress	–	235,793	–	–	235,793
	–	56,725,801	797,523	–	57,523,324
Less accumulated depreciation	–	(16,284,093)	(234,543)	–	(16,518,636)
	–	40,441,708	562,980	–	41,004,688
Amounts due from (to) Parent/Affiliate	–	8,409,285	(3,180,320)	–	5,228,965
Other	1,000	502,632	–	(1,000)	502,632
	1,000	8,911,917	(3,180,320)	(1,000)	5,731,597
Total assets	$ 1,000	$ 60,025,896	$ (2,372,678)	$ (1,000)	$ 57,653,218

Consolidated Sharon Hospital Holding Company, Inc.

Consolidating Balance Sheet (continued)

Year Ended September 30, 2009

	Sharon Hospital Holding Co., Inc.	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Eliminations	Consolidated Sharon Hospital Holding Co., Inc.
Liabilities and stockholder's equity (deficit)					
Current liabilities:					
Accounts payable and other liabilities	$ –	$ 1,950,304	$ 32,864	$ –	$ 1,983,168
Other accrued expenses	–	3,690,101	–	–	3,690,101
Due to third-party payors	–	435,106	–	–	435,106
Current portion of capital lease obligations	–	606,509	–	–	606,509
Current portion of long-term debt	–	350,000	–	–	350,000
Total current liabilities	–	7,032,020	32,864	–	7,064,884
Accrued post-retirement benefits	–	1,407,000	–	–	1,407,000
Deferred income taxes	–	842,943	–	–	842,943
Capital lease obligations, less current portion	–	1,001,842	–	–	1,001,842
Long-term debt, less current portion	–	34,037,500	–	–	34,037,500
Other	–	251,000	–	(1,000)	250,000
Stockholder's equity (deficit):					
Common stock; no par; 1,000 shares authorized; 1,000 shares issued and outstanding	1,000	–	–	–	1,000
Other comprehensive loss	–	(353,878)	–	–	(353,878)
Retained earnings (deficit)	–	15,807,469	(2,405,542)	–	13,401,927
Total stockholder's equity (deficit)	1,000	15,453,591	(2,405,542)	–	13,049,049
Total liabilities and stockholder's equity (deficit)	$ 1,000	$ 60,025,896	$ (2,372,678)	$ (1,000)	$ 57,653,218

Consolidated Sharon Hospital Holding Company, Inc.

Consolidating Statement of Operations

Year Ended September 30, 2009

	Sharon Hospital Holding Co., Inc.	Essent Healthcare of Connecticut, Inc.	Regional Healthcare Associates, LLC	Consolidated Sharon Hospital Holding Co., Inc.
Net patient revenue	$ –	$ 51,853,289	$ 2,457,451	$ 54,310,740
Other revenue	–	543,474	–	543,474
	–	52,396,763	2,457,451	54,854,214
Operating expenses:				
Salaries and benefits	–	18,903,185	2,369,929	21,273,114
Professional services	–	8,250,679	849,016	9,099,695
Supplies	–	6,036,261	102,908	6,139,169
Other operating expenses	–	5,540,367	347,142	5,887,509
Provision for doubtful accounts	–	2,953,540	(71,388)	2,882,152
Depreciation and amortization	–	3,422,746	132,297	3,555,043
	–	45,106,778	3,729,904	48,836,682
Income (loss) before interest, intercompany fees and income taxes	–	7,289,984	(1,272,452)	6,017,532
Interest expense	–	2,032,328	–	2,032,328
Intercompany fees	–	1,264,688	–	1,264,688
Income before taxes	–	3,992,968	(1,272,452)	2,720,516
Income tax expense (benefit)	–	1,279,567	(432,634)	846,933
Net income	$ –	$ 2,713,402	$ (839,819)	$ 1,873,583