CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Steward Health Care System LLC
Year Ended September 30, 2011
With Reports of Independent Auditors

Ernst & Young LLP

ERNST & YOUNG

Steward Health Care System LLC

Consolidated Financial Statements

Year Ended September 30, 2011

Contents

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Report of Independent Auditors

Board of Directors and Member
Steward Health Care System LLC

We have audited the accompanying consolidated balance sheet of Steward Health Care System LLC (Steward or the System) and subsidiaries as of September 30, 2011, and the related consolidated statements of operations, changes in member's equity, and cash flows for the year then ended. These financial statements are the responsibility of the System'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, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of 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 audit the System'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 System'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 audit provides 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 Steward Health Care System LLC and subsidiaries as of September 30, 2011, and the results of their consolidated operations, changes in member's equity, and cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

January 30, 2012

Steward Health Care System LLC

Consolidated Balance Sheet

September 30, 2011

(Amounts in thousands, except for membership interests)

Assets		
Cash and cash equivalents	$	35,137
Patient accounts receivable, less allowance for uncollectible accounts of $48,444		138,933
Other accounts receivable		29,300
Deferred tax assets		6,007
Other current assets		33,075
Total current assets		242,452
Investments of insurance subsidiary		54,432
Property and equipment – net		470,532
Other assets		55,633
Goodwill		35,213
Total assets	$	858,262
Liabilities and member's equity		
Current liabilities:		
Current portion of long-term debt and capital lease obligations	$	1,456
Accounts payable and accrued expenses		193,646
Accrued compensation and benefits		75,448
Estimated settlements with third-party payors		8,579
Other current liabilities		6,885
Total current liabilities		286,014
Long-term debt and capital lease obligations – net of current portion		2,004
Revolving credit facility		96,331
Estimated settlements with third-party payors – net of current portion		9,051
Professional liability costs		47,873
Deferred taxes		19,725
Pension liabilities		263,992
Other liabilities		9,418
Total liabilities		734,408
Member's equity:		
Common membership interests; 100 interests authorized, issued and outstanding		–
Contributed capital		251,516
Accumulated deficit		(70,487)
Accumulated other comprehensive deficit		(57,175)
Total member's equity		123,854
Total liabilities and member's equity	$	858,262

See accompanying notes.

Steward Health Care System LLC

Consolidated Statement of Operations

Year Ended September 30, 2011
(Amounts in thousands)

Patient service revenues	$ 1,194,177
Less: provision for bad debts	(52,052)
Patient service revenues, net	1,142,125
Premium revenue	134,545
Research	7,299
Other	43,691
Total revenues	1,327,660
Expenses:	
Salaries, wages, and fringe benefits	807,655
Supplies and other expenses	407,438
Purchased provider services and other expenses related to premium revenue	61,479
Depreciation and amortization	64,708
Interest	1,034
Reorganization expenses	14,316
Acquisition-related expenses	25,236
Total expenses	1,381,866
Loss before income taxes	(54,206)
Income tax expense	2,706
Net loss	$ (56,912)

See accompanying notes.

Steward Health Care System LLC

Consolidated Statement of Changes in Member's Equity

(Amounts in thousands)

	Contributed Capital	Accumulated Deficit	Accumulated Other Comprehensive Deficit	Total Member's Equity
Balances, September 30, 2010	$ –	$ (13,575)	$ –	$ (13,575)
Contribution by financial sponsor	245,931	–	–	245,931
Acquired not-for-profit interests	4,604	–	–	4,604
Net loss	–	(56,912)	–	(56,912)
Pension liability adjustment, net of tax of $0	–	–	(57,175)	(57,175)
Total comprehensive loss				(114,087)
Equity-based compensation expense	1,200	–	–	1,200
Change in not-for-profit interests	(219)	–	–	(219)
Balances, September 30, 2011	$ 251,516	$ (70,487)	$ (57,175)	$ 123,854

See accompanying notes.

Steward Health Care System LLC

Consolidated Statement of Cash Flows

Year Ended September 30, 2011
(Amounts in thousands

Operating activities	
Net loss	$ (56,912)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation and amortization	64,708
Provision for bad debts	52,052
Equity-based compensation expense	1,200
Other	(219)
(Decrease) increase in cash resulting from a change in:	
Patient accounts receivable	(81,147)
Other current assets	(24,354)
Investments of insurance subsidiary	(5,371)
Accounts payable, accrued expenses and other liabilities	13,488
Estimated settlements with third-party payors	(935)
Professional liability costs	11,079
Deferred taxes	194
Pension liability	(6,728)
Net cash used in operating activities	(32,945)
Investing activities	
Purchase of property and equipment	(141,740)
Cash paid for acquisitions, net of cash acquired	(88,723)
Increase in non-current assets	(42,853)
Net cash used in investing activities	(273,046)
Financing activities	
Contribution by financial sponsor	245,931
Net borrowings under revolving credit facility	96,331
Repayments of debt and capital lease obligations	(1,134)
Net cash provided by financing activities	341,128
Net increase in cash and cash equivalents	35,137
Cash and cash equivalents at beginning of year	–
Cash and cash equivalents at end of year	$ 35,137

Steward Health Care System LLC

Consolidated Statement of Cash Flows (continued)

Year Ended September 30, 2011
(Amounts in thousands)

Supplemental disclosure of cash flow information		
Net cash paid for interest	$	373
Net cash paid for income taxes	$	–
Supplemental schedule of non-cash investing and financing activity		
Purchase of property and equipment financed by capital leases	$	764

See accompanying notes.

1. Organization

Steward Health Care System LLC (Steward or the System) is a controlled affiliate of Cerberus Capital Management, L.P. (the financial sponsor) and was formed in March 2010 for the purpose of owning and operating community-based hospitals and related health care entities. Steward commenced its principal operations on November 6, 2010, when it acquired the business, assets, and operations of Caritas Christi (see Note 2). As of September 30, 2011, the System's subsidiaries and affiliates owned and operated eight acute care hospitals with 1,308 licensed beds in eastern Massachusetts, including: Steward St. Anne's Hospital Corporation (St. Anne's); Steward St. Elizabeth's Medical Center of Boston, Inc. (St. Elizabeth's); Steward Holy Family Hospital, Inc. (Holy Family); Steward Carney Hospital, Inc. (Carney); Steward Norwood Hospital, Inc. (Norwood); Steward Good Samaritan Medical Center, Inc. (SGSMC); Merrimack Valley Hospital, A Steward Family Hospital, Inc. (Merrimack) and Nashoba Valley Medical Center, A Steward Family Hospital, Inc. (Nashoba).

Other related healthcare entities owned and operated by Steward's subsidiaries and affiliates include:

- Steward Medical Group, Inc., Steward Emergency Physicians, Inc., and Steward Physician Contracting, Inc. (collectively, SMG) – physician practice groups that employ physicians who provide primary care and specialty care at Steward hospitals and in community settings throughout eastern Massachusetts.

- Tailored Risk Assurance Company, Ltd. (TRACO) – a captive insurance company incorporated and based in the Cayman Islands that provides professional and general liability insurance (Note 13).

- Steward Home Care, Inc. (Home Care) – an organization engaged in the provision of home care services.

- Steward PET Imaging, LLC – a joint venture with Radiology Associates of Norwood, Inc., which operates a mobile PET imaging service at St. Elizabeth's, St. Anne's, SGSMC, Norwood, Carney, and certain non-Steward hospitals.

- Steward Health Care Network, Inc. – an accountable care organization that also negotiates and monitors managed care contracts.

1. Organization (continued)

- Steward Research and Specialty Projects Corporation (SRSPC) – an organization that engages in health-related research activities funded in whole or in part by federal, state, or private grants.

2. Acquisitions

Caritas Christi

Effective November 6, 2010, Steward acquired substantially all of the business, assets, and operations of Caritas Christi (Caritas), a Massachusetts non-profit, charitable corporation that operated a comprehensive, integrated network of hospitals and affiliated entities providing community-based health care services primarily in eastern Massachusetts (the Caritas acquisition). Total consideration provided by Steward to Caritas was approximately $671 million and consisted of the following (amounts in thousands):

Cash consideration	$ 61,663
Assumption of liabilities, including resulting deferred tax liabilities	396,034
Assumption of pension liabilities	213,545
Total purchase consideration	$ 671,242

In addition to the consideration provided to Caritas, Steward also made the following commitments in connection with the Caritas acquisition:

- A commitment for Steward and its wholly-owned subsidiaries to make aggregate capital expenditures of $400,000,000 over the four-year period following the Caritas acquisition.

- A commitment under a Stewardship Agreement to adhere to the Ethical and Religious Directives for Catholic Healthcare Services (the Directives). The Directives are promulgated by the National Conference of Catholic Bishops.

- Other commitments and operating restrictions as imposed by the Massachusetts Attorney General and the Massachusetts Department of Public Health.

2. Acquisitions (continued)

The Caritas acquisition has been accounted for using the acquisition method of accounting in accordance with Accounting Standards Codification (ASC) Topic 805, *Business Combinations*. The purchase consideration has been allocated to the assets and liabilities acquired based on estimated fair market values, and any excess of the purchase price over the fair value of such identifiable net assets has been allocated to goodwill. Determining the fair value of the assets acquired and liabilities assumed requires judgment and involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows and discount rates, among others.

The fair values of assets acquired, liabilities assumed, and the resulting deferred tax assets and liabilities (which are included as a component of other assets and other liabilities, respectively) at the date of the Caritas acquisition were as follows (amounts in thousands):

Cash	$ 5,318
Accounts receivable	121,086
Inventories	15,446
Other assets	137,097
Property and equipment	367,806
Goodwill	24,489
Total assets acquired	671,242
Accounts payable	66,834
Other liabilities	326,366
Capital lease obligations	2,834
Pension liabilities	213,545
Total liabilities assumed	609,579
Net assets acquired	$ 61,663

Steward recognized goodwill of approximately $24.5 million in connection with the Caritas acquisition and the goodwill balance is not deductible for tax purposes. Steward believes the factors contributing to the goodwill that resulted from the Caritas acquisition include, but are not limited to, the efficiency of the System's facilities, the locations of the System's facilities, and the access to long-term patient, employee, and physician relationships.

2. Acquisitions (continued)

Essent

Effective May 1, 2011, Steward acquired substantially all of the business and operations and certain of the assets of two hospitals in eastern Massachusetts from Essent Healthcare, Inc. (the Essent acquisition). Total consideration provided by Steward to Essent was approximately $25.1 million and consisted of cash consideration of $21.7 million and the assumption of $3.4 million in liabilities.

The Essent acquisition has been accounted for using the acquisition method of accounting in accordance with ASC Topic 805, *Business Combinations*. The purchase consideration has been allocated to the assets and liabilities acquired based on estimated fair market values.

The fair values of assets acquired and liabilities assumed at the date of the Essent acquisition were as follows (amounts in thousands):

Inventories	$ 2,325
Other assets	766
Property and equipment	21,966
Total assets acquired	25,057
Other liabilities	2,407
Capital lease obligations	996
Total liabilities assumed	3,403
Net assets acquired	$ 21,654

3. Summary of Significant Accounting Policies

Reporting Entity and Basis of Consolidation

The accompanying consolidated financial statements include the accounts of subsidiaries and affiliates controlled by Steward. Significant intercompany accounts and transactions have been eliminated in preparing the consolidated financial statements.

3. Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States (GAAP) 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

Net patient service revenue is recognized in the period the healthcare services are provided at the estimated net realizable amounts from patients, third-party payors, and others, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by the third-party payors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Variances between preliminary estimates of net patient service revenue and final third-party settlements are included in net patient service revenue in the year in which the settlement or change in estimate occurs. In 2011, changes in prior year estimates increased net patient service revenue by approximately $6.3 million.

Allowance for Doubtful Accounts

Steward has adopted the provisions of Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowances for Doubtful Accounts for Certain Health Care Entities* (ASU 2011-7) during the year ended September 30, 2011. ASU 2011-7 requires health care entities to present bad debt expense as a deduction from patient service revenues.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, Steward analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage,

3. Summary of Significant Accounting Policies (continued)

Steward analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid). For receivables associated with self-pay patients, Steward records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

The allowance for doubtful accounts was approximately $48.4 million as of September 30, 2011. This balance as a percent of accounts receivable, net of contractual adjustments was approximately 25.8%.

Estimated Settlements With Third-Party Payors

A portion of the accrual for estimated settlements with third-party payors at September 30, 2011, has been classified as long term because such amounts, by their nature or by virtue of regulation or legislation, will not be assessed within one year.

Premium Revenue and Capitation Arrangements

Certain of the System's subsidiaries have agreements with various health maintenance organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, the subsidiaries receive monthly capitation payments based on the number of covered participants, regardless of services actually performed by the subsidiaries. Expenses incurred related to services provided by health care providers other than the subsidiaries, pursuant to capitation arrangements entered into by the subsidiary, are accrued in the period in which the services are provided, based, in part, on estimates, including an accrual for medical services incurred, but not reported. These expenses, along with other expenses incurred by Steward related to capitated arrangements, are reported as "purchased provider services and other expenses related to premium revenue" in the accompanying consolidated statement of operations.

3. Summary of Significant Accounting Policies (continued)

Research Contracts

SRSPC engages in research activities funded by contracts from U.S. government agencies and other private sources. Revenue related to grants and contracts is recognized as the related costs are incurred. Indirect costs relating to certain government grants and contracts are reimbursed at fixed rates negotiated with the government agencies.

Other Revenue

Other revenue includes certain investment income, rental income, parking and cafeteria revenue, and other non-patient revenue.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments with maturities of three months or less when purchased.

Investments of Insurance Subsidiary

The investments of TRACO, the System's wholly owned insurance subsidiary, are recorded at fair value. The investment securities are held for the purpose of providing the funding source to pay professional and general liability claims covered by the insurance subsidiary.

Supplies

Supplies are recorded at the lower of cost (first-in, first-out method) or market, and are included in other current assets in the accompanying consolidated balance sheet.

Property and Equipment

Property and equipment balances acquired in connection with the acquisitions described in Note 2 were adjusted to estimated fair market value. All other property and equipment additions are stated at cost. Property and equipment balances are depreciated using the straight-line method over the estimated useful lives of the related assets. Equipment under capital leases is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included with depreciation and amortization expense in

3. Summary of Significant Accounting Policies (continued)

the accompanying consolidated statement of operations. When assets are sold, or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any gain or loss is included in the consolidated statement of operations. Maintenance and repairs are charged to operations as incurred.

Property and equipment balances are reviewed for impairment whenever circumstances indicate that the carrying amount of an asset may not be recoverable. Property and equipment to be disposed of is reported at the lower of the carrying amount or fair value, less cost to sell.

Goodwill

Goodwill is not amortized but is instead tested at least annually for impairment, or more frequently when events or changes in circumstances indicate that the assets might be impaired. This impairment test is performed annually during the fourth quarter at the reporting unit level. Management has determined that Steward's operations comprise a single reporting unit. Goodwill is considered to be impaired if the carrying value of the reporting unit, including goodwill, exceeds the reporting unit's fair value. Reporting unit fair value is estimated using both income (discounted cash flow) and market approaches. The discounted cash flow approach requires the use of assumptions and judgments including estimates of future cash flows and the selection of discount rates. The market approach relies on comparisons to publicly traded stocks or to sales of similar companies. Steward has determined that no goodwill impairment exists at September 30, 2011.

Costs of Borrowing

Costs associated with the System's revolving credit facility (Note 8) are capitalized and amortized as a component of depreciation and amortization expense over the term of the revolving credit facility. Amortization expense related to capitalized credit facility costs was $0.2 million for the year ended September 30, 2011.

Functional Expenses

Substantially all expenses in the accompanying consolidated statement of operations are related to the delivery of health care services.

3. Summary of Significant Accounting Policies (continued)

Employee Termination Benefits

Steward has implemented various programs to restructure certain functions within the organization. As a result, certain positions were eliminated or replaced, resulting in the accrual of termination benefits totaling approximately $13.7 million during the year ended September 30, 2011. These termination benefits are included as a component of reorganization expense in the accompanying consolidated statement of operations. As of September 30, 2011, approximately $10.8 million of these termination benefits were unpaid, and were included as a component of accrued compensation and benefits in the accompanying consolidated balance sheet.

Income Taxes

The System accounts for income taxes under the provisions of ASC Topic 740, *Income Taxes*, which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax basis of the assets and liabilities using enacted tax rates in effect for the year in which the difference is expected to reverse.

TRACO is registered under the laws of the Cayman Islands, and is exempt from local income, profits, and capital gains taxes until 2029.

Recently Issued Accounting Pronouncements

In June 2011, the FASB issued ASU 2011-5, *Comprehensive Income (Topic 220) — Presentation of Comprehensive Income*. ASU 2011-5 eliminates the System's currently elected option to present components of other comprehensive income as part of the consolidated statement of changes in member's equity. Instead, ASU 2011-5 requires that all non-owner changes be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-5 is required to be applied retroactively and is effective for fiscal years beginning after December 15, 2011. Early adoption is permitted. The adoption of ASU 2011-5 is not expected to impact the System's consolidated financial position, results of operations, or cash flows prospectively.

3. Summary of Significant Accounting Policies (continued)

In September 2011, the FASB issued ASU 2011-8, *Intangibles — Goodwill and Other (Topic 350)*. Prior to the adoption of ASU 2011-8, entities were required to test goodwill for impairment, on at least an annual basis, by first comparing the fair value of a reporting unit with its carrying amount, including goodwill. If the resulting fair value of a reporting unit was less than its carrying amount, then the second step of the test would be performed to measure the amount of the impairment loss, if any. ASU 2011-8 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step goodwill impairment test is unnecessary.

In accordance with ASU 2011-8, an entity has the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step goodwill impairment test. Additionally, ASU 2011-8 permits an entity to resume performing the qualitative assessment in any subsequent period. ASU 2011-8 is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The adoption of ASU 2011-8 is not expected to impact the System's consolidated financial position, results of operations, or cash flows.

In August 2010, the FASB issued ASU No. 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries*. This ASU eliminates the practice of netting claim liabilities with expected related insurance recoveries for balance sheet presentation. Claim liabilities are to be determined with no regard for recoveries and presented gross. Expected recoveries are presented separately. ASU 2010-24 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010, and is not expected to significantly impact the System's consolidated financial position, results of operations, or cash flows.

4. Charity Care and Community Benefit

Community Benefit

Steward and its members provide a wide variety of services to the community in order to ensure access to appropriate care for populations in need. Steward and its subsidiaries and affiliates support services which target not only the general population in each entity's respective service area, but also particular populations with special health care needs, including the poor, the elderly, children, and minority populations. Supported services include various clinics, health screening programs, health education programs, and support area groups operated in the local area. Steward and its subsidiaries and affiliates work actively with other service providers to ensure the development of an effective community health network. Steward and its subsidiaries and affiliates also participate in activities designed to foster a vital local economic and civic environment.

Uncompensated Care

The Commonwealth of Massachusetts operates a "health safety net" to reimburse hospitals for the cost of uncompensated care, defined as charity care, and bad debts associated with emergency services. Amounts are paid to the health safety net based on a percentage of private sector charges. Payments from the health safety net are determined on a per visit or discharge basis according to Medicare reimbursement rates adjusted for overall shortfalls in the statewide funding for the health safety net.

Charity Care

Steward adopted the provisions of ASU No. 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure* (ASU 2010-23) during the year ended September 30, 2011. ASU 2010-23 standardizes cost as the basis for charity care disclosures and specifies the elements of cost to be used in charity care disclosures.

Steward provides care without charge or at amounts less than established rates to patients who meet certain criteria under the System's charity care policies. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. During 2011, the System provided approximately $49.7 million at standard charges in charity care. The cost of this charity care was $25.0 million and exceeded net payments from the Commonwealth of Massachusetts "health safety net" by $12.1 million. The equivalent percentage of charity care patients to all patients served was approximately 1.9% in 2011. Such

4. Charity Care and Community Benefit (continued)

amounts and percentages are determined using charges foregone based on established rates. The cost of charity care is estimated using the cost-to-charge ratio for each Steward facility.

5. Third-Party Reimbursement

Steward and its subsidiaries have agreements with third-party payors that provide for payments to the respective organizations at amounts different from their established rates. A summary of the payment arrangements with major third-party payors is as follows:

Medicare

The System's acute care hospitals are subject to a federal prospective payment system (PPS) for Medicare non-capitated inpatient hospital services, inpatient skilled nursing facility services, and certain outpatient services. Under these prospective payment methodologies, Medicare pays a prospectively determined rate per discharge, per day, or per visit for non-physician services. These rates vary according to the Diagnosis Related Group (DRG), Resource Utilization Group, or Ambulatory Payment Classification of each patient. Capital costs related to Medicare inpatient PPS services are paid based upon a standardized amount per discharge weighted by DRG. Certain outpatient services are reimbursed according to fee screens. The hospitals are reimbursed for cost-reimbursable items at a tentative interim rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary.

U.S. Family Health Plan

The U.S. Family Health Plan (the Health Plan) is a U.S. Department of Defense (DOD)-sponsored health plan available to families of active duty military, uniformed services retirees, and their eligible family members, including those age 65 and over. The National Defense Authorization Act of 1997 established six civilian organizations as designated providers of the Health Plan. Brighton Marine Health Center, Inc. (Brighton Marine) is the designated provider in Massachusetts and Rhode Island. The program is fully at-risk and the program requirements and the methodology for capitation rate payments are established pursuant to the current provisions of a five-year contract with the DOD effective through September 30, 2013. In order to meet the terms of their DOD contract, Brighton Marine has subcontracted most of the administration of the Health Plan, and all of the financial risk for provision of services, to Steward. This subcontract is co-terminus with Brighton Marine's contract with the DOD. To assist it with its responsibilities, Steward has subcontracted with Tufts Health Plan (THP) to assist it with the

5. Third-Party Reimbursement (continued)

administration of the Health Plan, and to access THP's network of providers. $128 million of the premium revenue included in the 2011 consolidated statement of operations is attributed to this arrangement.

Other Payor Arrangements

Steward and its member organizations have entered into other payment agreements with BlueCross BlueShield of Massachusetts, the Commonwealth's Division of Medical Assistance, commercial insurance carriers, HMOs, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge and per day, discounts from established charges, fee screens, and capitation fees earned on a per-member, per-month basis.

6. Investments of Insurance Subsidiary

The investments held by TRACO consisted of the following at September 30, 2011 (in thousands of dollars):

		Unrealized Amounts		
	Amortized Cost	Gains	Losses	Fair Value
U.S. Treasury securities	$ 9,783	$ 321	$ (1)	$ 10,103
Federal agency debt securities	6,727	20	(27)	6,720
Corporate debt securities	20,572	122	(240)	20,454
Equity securities	11,915	57	(2,047)	9,925
	$ 48,997	$ 520	$ (2,315)	$ 47,202

At September 30, 2011, reinsurance recoverables of approximately $7.2 million were included as a component of the investments of insurance subsidiary in the accompanying consolidated balance sheet.

7. Property and Equipment

Property and equipment at September 30, 2011, consisted of the following (in thousands of dollars):

Land and improvements	$ 67,237
Buildings and improvements	213,408
Equipment	199,960
Leasehold improvements	16,111
	496,716
Less accumulated depreciation and amortization	(62,059)
	434,657
Construction-in-progress	35,875
	$ 470,532

8. Revolving Credit Facility

On June 20, 2011, Steward and certain of its subsidiaries and affiliates (as co-borrowers) and Steward Health Care Holdings LLC, a controlled affiliate of the financial sponsor (as guarantor), entered into a Credit Agreement with three financial institutions as lenders. The Credit Agreement consists of a five-year, $150 million revolving credit facility (the Revolver).

As of September 30, 2011, the System had borrowings of approximately $96.3 million outstanding under the Revolver and the borrowing availability under the Revolver as defined in the Credit Agreement was approximately $53.7 million. Borrowings under the Revolver have been used for capital investment, including large-scale capital improvements at several hospitals, acquisitions of new hospitals, and for general working capital needs.

Amounts borrowed under the Revolver are due in June 2016. The Revolver has a commitment fee on undrawn balances of 0.50%, payable in arrears on the last day of each calendar quarter. The Revolver bears interest at the greater of (i) the Prime Rate as defined in the Credit Agreement, (ii) the Federal Funds Effective Rate as defined in the Credit Agreement plus ½ of 1%, and (iii) Adjusted LIBOR as defined in the Credit Agreement plus 1%, plus 2.25% when the borrowing availability as defined in the Credit Agreement is less than $25 million, 2.0% when

8. Revolving Credit Facility (continued)

the borrowing availability as defined in the Credit Agreement is between $25 and $100 million, and 1.75% when the borrowing availability as defined in the Credit Agreement is greater than $100 million. The borrowing rate at September 30, 2011, was 5.25%.

Under the Revolver, the System may request Letters of Credit at any time and from time to time prior to the Maturity Date up to an aggregate amount of $10 million. As of September 30, 2011, there were approximately $4.4 million in Letters of Credit outstanding. These Letters of Credit were outstanding as of the date Steward entered into the Credit Agreement and therefore do not reduce the $10 million Letter of Credit total provided for under the Revolver.

Interest expense under the Credit Agreement for the year ended September 30, 2011, was approximately $800,000. As discussed in Note 3, interest expense reported in the accompanying consolidated statement of operations for the year ended September 30, 2011, includes approximately $180,000 of amortization expense related to capitalized debt issuance costs. Commitment fees on the undrawn balance of the Revolver were approximately $140,000 for the year ended September 30, 2011 and are also classified as interest expense in the accompanying consolidated statement of operations.

The Credit Agreement contains financial covenants that require the System to maintain (i) a minimum fixed charge coverage ratio if availability under the Revolver as defined in the Credit Agreement is below 15% of the commitment amount of $150 million for five consecutive business days or below $15 million at any time, and (ii) a minimum interest coverage ratio as a condition to incur additional indebtedness. Other restrictive covenants contained in the Credit Agreement include certain restrictions on (i) additional indebtedness, (ii) creation of liens, (iii) fundamental organizational changes, (iv) sale of assets, (v) additional investments, (vi) payment of dividends or any other distributions, and (vii) affiliate transactions. The Credit Agreement also contains conditions precedent to borrowing, events of default (including change of control), and covenants customary for facilities of this nature. The System was in compliance with all required covenants at September 30, 2011.

Borrowings under the Revolver are secured by substantially all of the assets of the System.

9. Leases

Steward and its affiliates lease equipment and office space under various capital and operating leases. Minimum lease payments under capital lease obligations, and non-cancelable operating leases at September 30, 2011, were as follows (in thousands of dollars):

	Capital Leases	Operating Leases
Year Ending September 30		
2012	$ 1,636	$ 19,200
2013	1,117	13,191
2014	557	9,844
2015	272	7,680
2016	74	6,328
Thereafter	–	15,529
Total minimum lease payments	3,656	$ 71,772
Less amounts representing interest	364	
Capital lease obligations	$ 3,292	

The net book value of equipment recorded under capital leases amounted to approximately $3.6 million at September 30, 2011.

Rent expense amounted to approximately $28.0 million for the year ended September 30, 2011.

10. Member's Equity

The System has one authorized class of membership interests in the form of common membership interests. As of September 30, 2011, there were 100 common membership interests authorized and outstanding and all of the System's outstanding common membership interests were held by Steward Healthcare Holdings LLC, a controlled affiliate of the Financial Sponsor. The System may issue additional membership interests only by the vote or written consent of the members holding a majority of the membership interests. Each membership interest represents the holder's interest in the net profits, losses, and distributions of the System and has rights and obligations specified under the terms of the LLC Agreement.

10. Member's Equity (continued)

Equity Incentive Plan

During 2011, certain of the System's management were awarded Class B Interests in Steward Healthcare Investors LLC (Investors), a controlled affiliate of the financial sponsor and the holder of all of the outstanding membership interests of Steward Healthcare Holdings LLC. The Class B Interests vest over a four-year period subject to meeting the time-based and performance-based requirements defined in the individual award agreements. In the event of a sale of all or substantially all of the assets of Investors, and provided the holder of the interests remains employed on the date the sale is consummated, any time-based interests not then vested will become fully vested.

As of September 30, 2011, a total of 13,475,000 Class B Interests had been granted to employees of the System and 563,250 were vested as of that date. Vested and unvested interests are forfeited without payment of any consideration when an employee is terminated for cause. If the employee ceases to provide services to the System for any other reason, the unvested interests are forfeited and any vested interests are retained, subject to Investors exercising their right to repurchase the vested interests at fair market value as provided for in the award agreement.

The Class B Interests are considered a share-based payment and are therefore accounted for in accordance with ASC 718, *Compensation – Stock Compensation,* which requires that the cost of equity-based awards be measured based on the grant date fair value of the award and recognized in the System's financial statements over the period during which an employee is required to provide service in exchange for the award or the requisite service period. The grant date fair values of those interests subject to time-based vesting requirements are recognized on a straight-line basis over the four-year vesting period. The grant date fair values of those interests subject to performance-based vesting requirements are recognized using an accelerated attribution method over the four-year vesting period, subject to a determination by management that the performance-based vesting requirements are probable of being achieved.

The System valued the Class B Interests granted during the year ended September 30, 2011, using the Black-Scholes option-pricing model During the year ended September 30, 2011, the System recognized compensation expense of approximately $1.2 million related to the Class B Interests. As of September 30, 2011, there was approximately $2.2 million of compensation expense related to unvested interests that are expected to vest. This amount will be recognized over approximately three years.

11. Employees' Retirement Plans

Defined Contribution Plan

Certain of the System's subsidiaries maintain a defined contribution retirement savings plan (the Defined Contribution Plan). Participants in the Defined Contribution Plan have to perform one year of continuous service and have reached the age of 21 in order to be eligible to receive a match under the Defined Contribution Plan. Under the Defined Contribution Plan, the participating subsidiaries contribute an amount equal to one-half of the participant's contribution, up to 5.0% of the eligible participant's wages. Expense under the Defined Contribution Plan amounted to approximately $10.3 million in 2011.

Defined Benefit Plans

In connection with the Caritas acquisition, Steward assumed certain obligations related to defined benefit pension plans maintained for the benefit of employees of Norwood and SGSMC. These plans are frozen both to new participants and as to benefits for current plan participants and provide retirement benefits for vested employees. Benefits are generally based on the participant's age, years of credited service, and compensation. The plans are funded in conformity with the funding requirements of applicable government regulations. Plan assets consist primarily of stocks and bonds.

In addition, Steward agreed, as part of the Caritas acquisition, to assume all obligations pursuant to the Caritas Christi Retirement Plan (the Caritas Plan). Prior to the Caritas acquisition, the Caritas Plan was part of a multiemployer, non-contributory, defined benefit pension plan established and administered by the Roman Catholic Archdiocese of Boston (the RCAB Multiemployer Plan). The Caritas Plan was frozen to existing benefits in August 2003. Steward's assumption of the Caritas Plan obligation is subject to the terms of a Pension Transfer Agreement (the PTA) between Steward and Caritas. The PTA sets forth Steward's, Caritas' and the RCAB's relative rights and obligations with respect to the Caritas Plan and the related pension obligation during the period between the closing date of the Caritas acquisition and the date on which a newly formed Steward Pension Plan will assume the Caritas Plan obligation (the transfer date). The period between the closing date and the transfer date is referred to as the "transition period."

Within 90 days following the closing date, the Board of Trustees of the RCAB Multiemployer Plan were required to segregate the assets attributable to the Caritas Plan from the total assets of the RCAB Multiemployer Plan as of the closing date of the Caritas acquisition to a separate trust

11. Employees' Retirement Plans (continued)

established by the trustees solely to hold the segregated assets. During the transition period, the System is at-risk for any decrease in value of the segregated assets. Also during the transition period, Steward is required to make quarterly payments of $1,625,000 to the RCAB, with the first payment due in April 2011. Upon receipt of the payments, the RCAB is required to deposit the full amount of the payment into the separate trust holding the segregated assets. During the transition period, all benefit payments made to or in respect of participants in the Caritas Plan will be made pursuant to the Plan and paid from the separate trust holding the segregated assets.

Steward has sole discretion to determine the transfer date, provided that the transfer date will be no later than November 6, 2013. As of the transfer date, the segregated assets will be transferred to a trust established by Steward for the benefit of the Steward Pension Plan (yet to be formed) and the Steward Pension Plan will formally assume the Caritas pension obligation.

Steward's obligation to assume the obligations pursuant to the Caritas Plan is unconditional and therefore the System has accounted for this obligation pursuant to the provisions of ASC 715, *Compensation – Retirement Benefits*.

The following table provides a reconciliation of the aggregate benefit obligations, plan assets, and funded status of the Norwood and SGSMC defined benefit plans and the Caritas Plan (collectively, the Plan), and the related amounts that are recognized in the accompanying consolidated balance sheet at September 30, 2011 (in thousands of dollars):

Change in benefit obligation:	
Benefit obligation at acquisition date	$ (560,821)
Interest cost	(24,804)
Actuarial loss	(30,318)
Benefits paid	17,794
Benefit obligation at September 30, 2011	(598,149)
Change in plan assets:	
Fair value of Plan assets at acquisition date	347,276
Actual return on Plan assets	(3,906)
Employer contributions	8,581
Benefits paid from Plan assets	(17,794)
Fair value of Plan assets at September 30, 2011	334,157
Funded status of the Plan	$ (263,992)

11. Employees' Retirement Plans (continued)

Net periodic benefit cost:		
Interest cost	$	24,804
Expected return on Plan assets		(22,950)
Net amortization and deferral		–
Benefit cost for the year ended September 30, 2011	$	1,854

The accumulated benefit obligation of the Plan was $598.1 million at September 30, 2011.

Steward measured its Plan at September 30, 2011, and used the following assumptions in determining the preceding amounts for the Plan:

Discount rates for projected benefit obligation	4.40%-4.55%
Discount rates for net periodic benefit cost	5.00
Expected return on Plan assets	7.50

Included in accumulated comprehensive income at September 30, 2011, are unrecognized actuarial losses of $57.2 million. No prior service costs and actuarial losses are expected to be recognized in net periodic pension cost during the year ending September 30, 2012.

The following table details the Plan asset allocations:

	Target for Fiscal Year Ended September 30 2011	**Assets at September 30 2011**
Cash and cash equivalents	–	7%
Equity investments	40-55%	41
Fixed income investments	45-60	48
Alternative investments	–	4
Total	100%	100%

11. Employees' Retirement Plans (continued)

The investment policy and strategy, as established by the Steward Investment Committee (the Investment Committee), is to provide for growth of capital with a moderate level of volatility by investing assets based on the target allocations stated above. Steward plans to reallocate its investments periodically to meet the above target allocations. Steward also plans to review its investment policy periodically to determine if the policy should be changed.

The expected long-term rate of return for the Plan's total assets is based on the expected return of each of the above categories, weighted based on the median of the target allocation for each class. Equity securities are expected to return 10% to 11% over the long term, while cash and fixed income is expected to return between 4% and 6%. Based on historical experience, the Investment Committee expects that each Plan's asset managers will provide a 0.5% to 1.0% per annum premium to their respective market benchmark indices.

The following table shows the expected cash flows of the Plan (in thousands of dollars):

September 30, 2012 – expected employer contributions	$	15,217
Estimated future benefit payments:		
2012		24,029
2013		25,111
2014		26,155
2015		27,433
2016		28,569
2017 – 2021		164,292

12. Income Taxes

The provision for income taxes for the year ended September 30, 2011, consists of the following (in thousands of dollars):

Current:		
State and local	$	2,512
Deferred:		
Federal		152
State and local		42
Total income tax expense	$	2,706

The deferred tax expense relates to the tax effects of indefinite-lived intangible assets and goodwill balances that cannot be offset against the current year deferred tax benefit. These assets are not amortized for financial reporting purposes, however, they are amortized over 15 years for tax purposes. As such, deferred income tax expense and a related deferred tax liability arise as a result of the tax-deductibility of these assets. The resulting deferred tax liability, which is expected to continue to increase over time, will have an indefinite life and will remain on the balance sheet unless there is an impairment of the related assets for financial reporting purposes or the business to which those assets relate is disposed of.

For the year ended September 30, 2011, the provision for income taxes differs from the expected tax provision computed by applying the U.S. federal statutory rate to income before taxes as a result of the following (in thousands of dollars):

Tax benefit at U.S. federal statutory rate	$	(18,972)
State income taxes, net of benefit		1,659
Tax credits		–
Other permanent adjustments		1,854
Losses with no benefit		18,165
Provision for income taxes	$	2,706

12. Income Taxes (continued)

The difference between the tax provision computed at the statutory rate and the tax provision recorded by Steward primarily relates to state and local income taxes and losses incurred for financial statement purposes for which no tax benefit has been recorded.

At September 30, 2011, Steward had net operating loss carryforwards of approximately $13.4 million available to reduce federal taxable income. These operating loss carryforwards will expire at September 30, 2031, for federal tax purposes. Net operating loss and tax credit carryforwards are subject to review and possible adjustment by the Internal Revenue Service and may become subject to an annual limitation in the event of certain cumulative changes in the ownership interest of significant shareholders over a three-year period in excess of 50% as defined under Sections 382 and 383 in the Internal Revenue Code. This could limit the amount of tax attributes that can be utilized annually to offset future taxable income or tax liabilities. The amount of the annual limitation is determined based on Steward's value immediately prior to the ownership change. Subsequent ownership changes may further affect the limitation in future years.

The significant components of the System's deferred tax assets and liabilities as of September 30, 2011, are as follows (in thousands of dollars):

Deferred tax assets:	
Net operating loss carryforwards and other attributes	$ 5,731
Pension plan	97,319
Accrued expenses and reserves	20,103
	123,153
Deferred tax liabilities:	
Fixed assets	(64,490)
Prepaids and other	(2,967)
	(67,457)
Total gross deferred tax assets, net of deferred tax liabilities	55,696
Less: valuation allowance	(69,414)
Net deferred tax liabilities	$ (13,718)

12. Income Taxes (continued)

Steward has recorded a valuation allowance against its deferred tax assets for the year ended September 30, 2011, because management believes that it is more likely than not that these assets will not be realized. The valuation allowance increased by approximately $69 million during the year ended September 30, 2011 and is primarily attributable to the Caritas acquisition. The deferred tax liability primarily relates to the tax effects associated with indefinite-lived assets and tax-deductible goodwill that cannot be offset against deferred tax assets.

Steward's reserves related to income taxes are based on a determination of whether a tax benefit taken by Steward in its tax filings or positions is more likely than not to be realized. At September 30, 2011, Steward had no unrecognized tax benefits.

The statute of limitations for assessment by the Internal Revenue Service and state tax authorities is open for tax years ended September 30, 2010, forward. There are currently no federal or state audits in progress.

13. Contingencies

Malpractice Insurance

Steward, and certain of its affiliates and associated physicians, secure medical malpractice and comprehensive general liability coverage from TRACO. TRACO provides insurance coverage on a modified claims-made basis through the issuance of two separate policies: a claims made policy that covers claims made during its term, but not those occurrences for which claims may be made after expiration of the policy; and an IBNR policy that covers those claims that arose during the term of the policy but were not known or reported until after the policy term expired. The TRACO premium is a fixed annual premium and is actuarially determined.

The amount of professional and comprehensive general liability insurance expense is based, in part, upon estimates prepared by independent actuaries. The accrual for professional and comprehensive general liability costs includes a provision for asserted and unasserted claims.

13. Contingencies (continued)

Workers' Compensation

Steward is licensed by the Commonwealth of Massachusetts to provide workers' compensation coverage on a self-insured basis. Steward has obtained surety bonds to support its potential obligations for coverage, has purchased excess insurance coverage to limit its exposure in the event of adverse claims experience, and has provided letters of credit in a total amount of $3.1 million to obtain the surety bonds.

Loss Contingency

Subsequent to the Caritas acquisition, Steward self-reported certain technical violations of federal law relating to arrangements with certain physicians during the period 2008 – 2010. Steward has been working with the Centers for Medicare and Medicaid Services to resolve these potential Stark Law violations, which may result in a payment to the federal government.

At this time, management cannot predict the amount of its payment obligation, or other terms of a negotiated resolution. The accompanying financial statements at September 30, 2011, include a provision of $1,000,000 related to this matter, representing management's estimate of the low end of the range of the potential settlement amount. Management has estimated the exposure at the high end of the range to be $35,000,000. However, it is not possible at this time to reasonably predict the ultimate amount that may be payable within this range. As of January 30, 2012, no demand for payment has been made by the federal government.

Asset Retirement Obligation

Steward maintains a liability primarily related to estimated costs to remove asbestos that is contained within Steward's hospital facilities. The liability, reported in other non-current liabilities in the accompanying consolidated balance sheet, was $8.6 million as of September 30, 2011. Accretion expense was $0.4 million for the year ended September 30, 2011.

13. Contingencies (continued)

Other Contingencies

Steward and its subsidiaries are parties to various legal proceedings and potential claims arising in the ordinary course of their business. In addition, the health care industry as a whole is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to government review and interpretation, as well as regulatory actions, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services. Such compliance in the health care industry has recently come under increased governmental scrutiny. Management does not believe that these matters will have a material adverse effect on Steward's consolidated financial position or results of operations.

14. Concentrations of Credit Risk

Financial instruments which potentially subject Steward and its subsidiaries to concentrations of credit risk consist primarily of cash and cash equivalents, investments, and accounts receivable.

Steward and its subsidiaries' investments are managed by investment managers based upon guidelines established by the Board.

Steward and its subsidiaries provide services throughout eastern Massachusetts. The subsidiaries grant credit without collateral to their patients, many of whom are local residents and are insured under third-party payor agreements. Net patient accounts receivable at September 30, 2011, consisted of the following:

Medicare and Medicare-managed care	32.8%
Medicaid and Medicaid-managed care	14.4
Blue Cross	12.4
Other commercial insurance companies, HMOs, and patients	40.4
	100.0%

A significant portion of the accounts receivable from commercial insurance companies and HMOs is derived from two Massachusetts managed care companies. Although management expects the amounts recorded as net accounts receivable at September 30, 2011, to be collectible, this concentration of credit risk is expected to continue in the near term.

15. Fair Value Measurements

Cash and Cash Equivalents

The carrying amount of such assets approximates fair value because of the short maturities of these instruments.

Investments of Insurance Subsidiary and Pension Plan Assets

Steward applies the methods of calculating fair value as described in ASC 820, *Fair Value Measurement*, to value the investments held by its insurance subsidiary and those investments held by the Plan. As defined in ASC 820-10, fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

> *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
>
> *Level 2:* Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.
>
> *Level 3:* Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, Steward utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible, as well as considers counterparty credit risk in its assessment of fair value.

15. Fair Value Measurements (continued)

Investments held by the System's insurance subsidiary and those investments held by the Plan as of September 30, 2011, are classified in the tables below in one of the three categories described above (in thousands):

	Level 1	Level 2	Level 3	Total
Investments of insurance subsidiary				
U.S. Treasury securities	$ 10,103	$ –	$ –	$ 10,103
U.S federal agency debt securities	–	6,720	–	6,720
U.S. corporate debt securities	–	20,454	–	20,454
U.S. equity securities	9,925	–	–	9,925
Total assets at fair value	$ 20,028	$ 27,174	$ –	$ 47,202

	Level 1	Level 2	Level 3	Total
Pension plan assets				
Cash and cash equivalents	$ 20,763	$ –	$ –	$ 20,763
U.S. Treasury securities	20,899	–	–	20,899
U.S. equity securities	86,917	–	–	86,917
International equity securities	17,837	–	–	17,837
U.S. equity mutual funds	–	23,290	–	23,290
International equity mutual funds	–	10,301	–	10,301
U.S. corporate debt securities	–	57,088	–	57,088
U.S. collateralized mortgage obligations	–	37,023	–	37,023
Fixed income mutual funds	–	38,809	–	38,809
Annuities	–	6,909	–	6,909
Alternative investments	–	–	14,321	14,321
Total assets at fair value	$ 146,416	$ 173,420	$ 14,321	$ 334,157

15. Fair Value Measurements (continued)

The following is a description of the System's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers, and brokers. Level 3 assets consist of alternative investments held by the Plan. Alternative investments consist of investments in limited partnerships, and are measured at fair value or estimates of fair value if no readily determinable fair value exists. These estimates are determined based upon information from the funds' General Partners. The General Partner's estimates and assumptions of fair values of nonmarketable investments may differ significantly from the values that would have been used had a ready market existed, and may also differ significantly from the values at which such investments may be sold, and the differences could be material. Many of the investments classified in Levels 2 and 3 in the above tables consist of shares or units in investment funds, as opposed to direct interests in the funds' underlying holdings, which may be marketable. As the net asset value reported by each fund is used as a practical expedient to estimate the fair value of the System's interest therein, its classification in Level 2 or 3 is based on the System's ability to redeem its interest at or near the measurement date. If the interest can be redeemed in the near term, the investment is classified in Level 2. The methods described above may produce a fair value that may not be indicative of net realizable value, or reflective of future fair values. Furthermore, while Steward believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

The following table is a rollforward of the amounts for financial instruments classified by the System in Level 3 of the valuation hierarchy defined above (in thousands):

Fair value at acquisition date	$ –
Purchases of investments	14,321
Net realized and unrealized losses	–
Investment income, net	–
Proceeds from sales of investments	–
Fair value at September 30, 2011	$ 14,321

The fair value of long-term debt approximated its carrying value as of September 30, 2011.

16. Related-Party Transactions

Steward reimbursed its financial sponsor and its affiliates $6.4 million related to legal, accounting, professional consulting, and other costs incurred on Steward's behalf in connection with the Caritas acquisition. Additionally, during 2011, the financial sponsor and its affiliates provided $2.2 million of ongoing consulting services to Steward. This expense is included in supplies and other expenses in the accompanying consolidated statement of operations.

17. Subsequent Events

Steward evaluates the impact of subsequent events, which are events that occur after the balance sheet date but before the consolidated financial statements are issued, for potential recognition in the consolidated financial statements as of the balance sheet date. For the year ended September 30, 2011, Steward evaluated the impact of subsequent events through January 30, 2012, representing the date at which the consolidated financial statements were issued.

Acquisitions

On October 1, 2011, pursuant to an asset purchase agreement, Steward acquired substantially all of the assets and certain liabilities of Quincy Medical, Inc. (Quincy), a 196-bed acute care hospital located in Quincy, Massachusetts, and its affiliated physician corporations. As of September 30, 2011, Steward had deposited $37.9 million into an escrow account related to this transaction. Also on October 1, 2011, pursuant to an asset purchase agreement, Steward acquired substantially all of the assets and liabilities of Morton Hospital and Medical Center, Inc. (Morton), a 154-bed acute care hospital located in Taunton, Massachusetts, and its affiliated entities. As of September 30, 2011, Steward had deposited $2.6 million into an escrow account related to this transaction. The escrow deposits for the Quincy and Morton acquisitions are included as other noncurrent assets in the accompanying consolidated balance sheet at September 30, 2011.

17. Subsequent Events (continued)

On May 26, 2011, Steward entered into an asset purchase agreement with Landmark Health System, Inc. (Landmark) to acquire substantially all of the assets of Landmark which include a 214-bed acute care hospital located in Woonsocket, Rhode Island, and an 82-bed rehabilitation hospital located in North Smithfield, Rhode Island, for approximately $10 million. As of September 30, 2011, Steward had deposited $1 million in an escrow account related to this transaction. Steward also entered into an advisory agreement with Landmark to provide management services and to extend a credit facility to Landmark. At September 30, 2011, Landmark had drawn $3.7 million on the credit facility, inclusive of an earlier advance, and has subsequently drawn an additional $1.9 million. The escrow deposit and credit facility drawdown related to Landmark are included as other noncurrent assets in the accompanying consolidated balance sheet at September 30, 2011. This acquisition is anticipated to be completed during the spring of 2012.

On November 29, 2011, Steward entered into an asset purchase agreement to acquire the assets of Compass Medical, P.C. (Compass), a multispecialty medical group practice for $15.7 million. Contemporaneously, Steward has entered into an agreement with Compass whereby Compass will lease staff to Steward and manage the practices to be acquired by Steward. This acquisition is anticipated to be completed during spring 2012.

On December 22, 2011, Steward entered into an asset purchase agreement to acquire substantially all of the assets of Physicians Healthcare LLC, a home healthcare business with locations in Massachusetts, for $8.3 million. This acquisition is anticipated to be completed during winter 2012.

Debt

On December 16, 2011, the Revolver was increased from $150 million to $200 million. Subsequent to September 30, 2011, an additional $41.3 million was borrowed under the Revolver. All other terms of the Revolver remain the same.

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Auditors' Report on Other Financial Information

Board of Directors and Member
Steward Health Care System LLC

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following information 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 audit of the consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

Ernst + Young LLP

January 30, 2012

Steward Healthcare System LLC

Supplemental Consolidating Schedule – Balance Sheet Information

September 30, 2011 (Amounts in thousands, except for membership interests)

	Steward Health Care System, LLC	Steward Hospital Holdings, LLC	Steward Medical Holdings, LLC	Steward Operations Holdings, LLC	Steward Imaging & Radiology Holdings, LLC	Steward Medical Group, Inc.	TRACO	Laboure College, Inc.	Caritas Por Cristo	Steward Research & Special Projects Group	Eliminations	Total
Assets												
Cash and cash equivalents	$ 27,814	$ 242	$ 20	$ 2,189	$ 799	$ 246	$ 472	$ 3,022	$ 333	$ -	$ -	$ 35,137
Patient accounts receivable, less allowance for uncollectible accounts	-	106,475	10,553	3,906	974	17,025	-	-	-	-	-	138,933
Other accounts receivable	171,119	15,248	587	8,143	11	(307)	994	2,889	400	5,032	(174,816)	29,300
Deferred tax assets	6,007	-	-	-	-	-	-	-	-	-	-	6,007
Other current assets	10,713	18,362	2,484	240	52	274	3	941	-	6	-	33,075
Total current assets	215,653	140,327	13,644	14,478	1,836	17,238	1,469	6,852	733	5,038	(174,816)	242,452
Investments of insurance subsidiary	-	-	-	-	-	-	54,432	-	-	-	-	54,432
Property and equipment - net	68,269	364,326	21,414	9,058	747	4,440	-	504	1,774	-	-	470,532
Other assets	193,617	39,001	4	1,279	-	46,133	-	2,570	106	-	(227,077)	55,633
Goodwill	24,424	10,789	-	-	-	-	-	-	-	-	-	35,213
Intercompany investment in subsidiaries	(63,499)	-	-	-	-	-	-	-	-	-	63,499	-
Total assets	$ 438,464	$ 554,443	$ 35,062	$ 24,815	$ 2,583	$ 67,811	$ 55,901	$ 9,926	$ 2,613	$ 5,038	$ (338,394)	$ 858,262
Liabilities and member's equity												
Current liabilities:												
Current portion of long-term debt and capital lease obligations	$ -	$ 853	$ 467	$ 35	$ 136	$ -	$ -	$ -	$ -	$ -	$ (35)	$ 1,456
Accounts payable and accrued expenses	115,345	200,840	7,997	14,692	864	23,624	246	3,990	317	609	(174,878)	193,646
Accrued compensation and benefits	4,448	56,856	3,819	2,059	-	7,966	-	287	13	-	-	75,448
Estimated settlements with third-party payors	-	8,306	33	240	-	-	-	-	-	-	-	8,579
Other current liabilities	5,060	-	1,734	-	-	-	91	-	-	-	-	6,885
Total current liabilities	124,853	266,855	14,050	17,026	1,000	31,590	337	4,277	330	609	(174,913)	286,014
Long-term debt and capital lease obligations – net of current portion	-	1,282	160	253	562	15,261	-	-	-	-	(15,514)	2,004
Revolving credit facility	96,331	-	-	-	-	-	-	-	-	-	-	96,331
Estimated settlements with third-party payors – net of current portion	-	9,051	-	-	-	-	-	-	-	-	-	9,051
Professional liability costs	-	-	-	-	-	-	47,873	-	-	-	-	47,873
Deferred taxes	19,725	-	-	-	-	-	-	-	-	-	-	19,725
Pension liabilities	19,745	221,143	-	370	-	22,319	-	415	-	-	-	263,992
Other liabilities	59,897	114,833	22,211	5,634	203	-	398	569	2,766	3,068	(200,161)	9,418
Total liabilities	320,551	613,164	36,421	23,283	1,765	69,170	48,608	5,261	3,096	3,677	(390,588)	734,408
Member's equity:												
Common membership interests; 100 interests authorized, issued and outstanding	-	-	-	-	-	-	-	-	-	-	-	-
Contributed capital	247,280	149	-	-	1,251	-	10,521	4,587	(351)	-	(11,921)	251,516
Accumulated (deficit) earnings	(72,291)	(15,914)	(1,359)	1,695	917	3,209	(3,228)	177	(132)	1,361	15,078	(70,487)
Accumulated other comprehensive (deficit)	(57,076)	(42,956)	-	(163)	(1,350)	(4,568)	-	(99)	-	-	49,037	(57,175)
Total member's equity	117,913	(58,721)	(1,359)	1,532	818	(1,359)	7,293	4,665	(483)	1,361	52,194	123,854
Total liabilities and member's equity	$ 438,464	$ 554,443	$ 35,062	$ 24,815	$ 2,583	$ 67,811	$ 55,901	$ 9,926	$ 2,613	$ 5,038	$ (338,394)	$ 858,262

Steward Healthcare System LLC

Supplemental Consolidating Schedule – Statement of Operations Information

Year Ended September 30, 2011 (Amounts in thousands)

	Steward Health Care System, LLC	**Steward Hospital Holdings, LLC**	**Steward Medical Holdings, LLC**	**Steward Operations Holdings, LLC**	**Steward Imaging & Radiology Holdings, LLC**	**Steward Medical Group, Inc.**	**TRACO**	**Laboure College, Inc.**	**Caritas Por Cristo**	**Steward Research & Special Projects Group**	**Eliminations**	**Total**
Patient service revenues	$ 72	$ 992,668	$ 38,633	$ 28,961	$ 4,891	$ 145,777	$ -	$ -	$ -	$ -	$ (16,825)	$ 1,194,177
Less: provision for bad debts	-	(28,285)	(1,529)	(388)	(7)	(21,855)	-	(61)	-	-	73	(52,052)
Patient service revenues, net	72	964,383	37,104	28,573	4,884	123,922	-	(61)	-	-	(16,752)	1,142,125
Premium revenue	127,808	1,528	-	-	-	-	14,695	-	-	-	(9,486)	134,545
Research	-	2,267	-	-	-	-	-	-	-	5,032	-	7,299
Other	81,477	28,242	928	16,644	-	66,266	(1,279)	7,466	860	-	(156,913)	43,691
Total revenues	209,357	996,420	38,032	45,217	4,884	190,188	13,416	7,405	860	5,032	(183,151)	1,327,660
Expenses:												
Salaries, wages, and fringe benefits	69,824	535,564	21,010	22,599	1,044	148,542	-	6,037	443	2,562	30	807,655
Supplies and other expenses	58,663	421,784	16,404	18,864	2,784	34,653	16,246	1,136	457	1,109	(164,662)	407,438
Purchased provider services and other expenses related to premium revenue	78,304	-	-	-	-	-	-	-	-	-	(16,825)	61,479
Depreciation and amortization	13,741	46,282	1,205	1,538	116	1,679	-	55	92	-	-	64,708
Interest	935	119	26	(1)	23	636	-	-	-	-	(704)	1,034
Reorganization expenses	3,513	8,411	746	522	-	1,124	-	-	-	-	-	14,316
Acquisition-related expenses	24,717	174	-	-	-	345	-	-	-	-	-	25,236
Equity in earnings of subsidiaries	15,670	-	-	-	-	-	-	-	-	-	(15,670)	-
Total expenses	265,367	1,012,334	39,391	43,522	3,967	186,979	16,246	7,228	992	3,671	(197,831)	1,381,866
(Loss) income before income taxes	(56,010)	(15,914)	(1,359)	1,695	917	3,209	(2,830)	177	(132)	1,361	14,680	(54,206)
Income tax expense	2,706	-	-	-	-	-	398	-	-	-	(398)	2,706
Net (loss) income	$ (58,716)	$ (15,914)	$ (1,359)	$ 1,695	$ 917	$ 3,209	$ (3,228)	$ 177	$ (132)	$ 1,361	$ 15,078	$ (56,912)

Steward Hospital Holdings, LLC

Supplemental Consolidating Schedule – Balance Sheet Information

September 30, 2011 (Amounts in thousands)

	Steward St. Elizabeth's Medical Ctr. of Boston, Inc.	**Steward St. Anne's Hospital Corporation**	**Steward Holy Family Hospital, Inc.**	**Steward Carney Hospital, Inc.**	**Steward Norwood Hospital, Inc.**	**Steward Good Samaritan Medical Ctr., Inc.**	**Eliminations**	**Total**
Assets								
Cash and cash equivalents	$ 43	$ 14	$ 108	$ 12	$ 38	$ 27	$ -	$ 242
Patient accounts receivable, less allowance for uncollectible accounts	31,197	16,835	15,407	9,447	15,571	18,018	-	106,475
Other accounts receivable	3,161	486	7,271	1,731	885	1,714	-	15,248
Other current assets	4,832	2,318	3,420	1,994	2,548	3,250	-	18,362
Total current assets	39,233	19,653	26,206	13,184	19,042	23,009	-	140,327
Property and equipment – net	98,472	61,946	62,637	36,920	52,125	52,226	-	364,326
Other assets	23,149	3,574	2,117	6,010	12,621	4,085	(12,555)	39,001
Goodwill	-	5,578	5,211	-	-	-	-	10,789
Total assets	$ 160,854	$ 90,751	$ 96,171	$ 56,114	$ 83,788	$ 79,320	$ (12,555)	$ 554,443
Liabilities and member's equity								
Current liabilities:								
Current portion of long-term debt and capital lease obligations	$ 320	$ -	$ -	$ -	$ 272	$ 261	$ -	$ 853
Accounts payable and accrued expenses	50,410	38,578	39,010	19,185	21,925	31,732	-	200,840
Accrued compensation and benefits	14,240	5,115	7,430	6,353	11,627	12,091	-	56,856
Estimated settlements with third-party payors	2,126	2,943	-	375	614	2,248	-	8,306
Total current liabilities	67,096	46,636	46,440	25,913	34,438	46,332	-	266,855
Long-term debt and capital lease obligations – net of current portion	742	168	-	-	118	254	-	1,282
Estimated settlements with third-party payors – net of current portion	29	2,601	1,454	1,309	1,812	1,846	-	9,051
Pension liabilities	84,160	21,028	24,430	22,520	58,207	10,798	-	221,143
Other liabilities	47,443	11,547	31,375	12,034	2,429	22,560	(12,555)	114,833
Total liabilities	199,470	81,980	103,699	61,776	97,004	81,790	(12,555)	613,164
Member's equity:								
Contributed capital	123	-	-	-	26	-	-	149
Accumulated (deficit) earnings	(20,930)	12,664	(2,198)	(1,281)	(4,277)	108	-	(15,914)
Accumulated other comprehensive (deficit)	(17,809)	(3,893)	(5,330)	(4,381)	(8,965)	(2,578)	-	(42,956)
Total member's equity	(38,616)	8,771	(7,528)	(5,662)	(13,216)	(2,470)	-	(58,721)
Total liabilities and member's equity	$ 160,854	$ 90,751	$ 96,171	$ 56,114	$ 83,788	$ 79,320	$ (12,555)	$ 554,443

Steward Hospital Holdings, LLC

Supplemental Consolidating Schedule – Statement of Operations Information

Year Ended September 30, 2011 (Amounts in thousands)

	Steward St. Elizabeth's Medical Ctr. of Boston, Inc.	Steward St. Anne's Hospital Corporation	Steward Holy Family Hospital, Inc.	Steward Carney Hospital, Inc.	Steward Norwood Hospital, Inc.	Steward Good Samaritan Medical Ctr., Inc.	Eliminations	Total
Patient service revenues	$ 253,413	$ 159,512	$ 148,457	$ 103,895	$ 151,872	$ 175,519	$ -	$ 992,668
Less: provision for bad debts	(4,834)	(5,184)	(7,063)	(3,643)	(4,952)	(2,609)	-	(28,285)
Patient service revenues, net	248,579	154,328	141,394	100,252	146,920	172,910	-	964,383
Premium revenue	1,450	-	-	26	52	-	-	1,528
Research	1,736	508	23	-	-	-	-	2,267
Other	6,076	2,880	4,338	6,262	2,756	6,528	(598)	28,242
Total revenues	257,841	157,716	145,755	106,540	149,728	179,438	(598)	996,420
Expenses:								
Salaries, wages, and fringe benefits	143,944	69,085	79,309	60,997	87,769	94,460	-	535,564
Supplies and other expenses	119,459	69,063	59,744	41,813	56,335	75,968	(598)	421,784
Depreciation and amortization	13,158	6,273	7,745	3,689	8,478	6,939	-	46,282
Interest	54	12	-	(9)	29	33	-	119
Reorganization expenses	2,156	619	1,155	1,331	1,220	1,930	-	8,411
Acquisition-related expenses	-	-	-	-	174	-	-	174
Total expenses	278,771	145,052	147,953	107,821	154,005	179,330	(598)	1,012,334
(Loss) income before income taxes	(20,930)	12,664	(2,198)	(1,281)	(4,277)	108	-	(15,914)
Income tax expense	-	-	-	-	-	-	-	-
Net (loss) income	$ (20,930)	$ 12,664	$ (2,198)	$ (1,281)	$ (4,277)	$ 108	$ -	$ (15,914)

Steward Medical Holdings, LLC

Supplemental Consolidating Schedule – Balance Sheet Information

September 30, 2011 (Amounts in thousands)

	Steward Merrimack Valley Hospital, Inc.	Steward Nashoba Valley Medical Ctr., Inc.	Total
Assets			
Cash and cash equivalents	$ 10	$ 10	$ 20
Patient accounts receivable, less allowance for uncollectible accounts	5,809	4,744	10,553
Other accounts receivable	359	228	587
Other current assets	1,686	798	2,484
Total current assets	7,864	5,780	13,644
Property and equipment - net	10,660	10,754	21,414
Other assets	4	-	4
Total assets	$ 18,528	$ 16,534	$ 35,062
Liabilites and member's equity			
Current liabilities:			
Current portion of long-term debt and capital lease obligations	$ 209	$ 258	$ 467
Accounts payable and accrued expenses	4,626	3,371	7,997
Accrued compensation and benefits	2,513	1,306	3,819
Estimated settlements with third-party payors	33	-	33
Other current liabilities	690	1,044	1,734
Total current liabilities	8,071	5,979	14,050
Long-term debt and capital lease obligations – net of current portion	58	102	160
Other liabilities	11,565	10,646	22,211
Total liabilities	19,694	16,727	36,421
Member's equity:			
Accumulated deficit	(1,166)	(193)	(1,359)
Total member's equity	(1,166)	(193)	(1,359)
Total liabilities and member's equity	$ 18,528	$ 16,534	$ 35,062

Steward Medical Holdings, LLC

Supplemental Consolidating Schedule – Statement of Operations Information

Year Ended September 30, 2011 (Amounts in thousands)

	Steward Merrimack Valley Hospital, Inc.	Steward Nashoba Valley Medical Ctr., Inc.	Total
Patient service revenues, net	$ 22,039	$ 16,594	$ 38,633
Less: provision for bad debts	(963)	(566)	(1,529)
Patient service revenues, net	21,076	16,028	37,104
Other	401	527	928
Total revenues	21,477	16,555	38,032
Expenses:			
Salaries, wages, and fringe benefits	12,357	8,653	21,010
Supplies and other expenses	8,915	7,489	16,404
Depreciation and amortization	636	569	1,205
Interest	11	15	26
Reorganization expenses	724	22	746
Total expenses	22,643	16,748	39,391
(Loss) income before income taxes	(1,166)	(193)	(1,359)
Income tax expense	-	-	-
Net (loss)	$ (1,166)	$ (193)	$ (1,359)

Steward Operations Holdings, LLC

Supplemental Consolidating Schedule – Balance Sheet Information

September 30, 2011 (Amounts in thousands)

	Steward St. Elizabeth's Realty Corp.	Steward Fall River Management Care Services, LLC	Steward Valley Regional Ventures, Inc.	Steward New England Initiatives, Inc.	Steward Good Samaritan Occupational Health Services, Inc.	Steward Good Samaritan Radiation Oncology Center, Inc.	Steward Home Care, Inc.	Steward Network Services, Inc.	Total
Assets									
Cash and cash equivalents	$ -	$ 11	$ -	$ -	$ -	$ 2,127	$ 51	$ -	$ 2,189
Patient accounts receivable, less									
allowance for uncollectible accounts	-	-	-	-	-	129	3,777	-	3,906
Other accounts receivable	302	-	-	45	(11)	-	71	7,736	8,143
Other current assets	106	1	1	14	-	-	110	8	240
Total current assets	408	12	1	59	(11)	2,256	4,009	7,744	14,478
Property and equipment - net	4,370	337	2,657	353	-	-	1,205	136	9,058
Other assets	(2,619)	477	779	62	1,192	-	-	1,388	1,279
Total assets	$ 2,159	$ 826	$ 3,437	$ 474	$ 1,181	$ 2,256	$ 5,214	$ 9,268	$ 24,815
Liabilities and member's equity									
Current liabilities:									
Current portion of long-term debt									
and capital lease obligations	$ -	$ 35	$ -	$ -	$ -	$ -	$ -	$ -	$ 35
Accounts payable and accrued expenses	288	12	3,883	636	458	1,077	3,126	5,212	14,692
Accrued compensation and benefits	-	1	-	-	62	160	1,836	-	2,059
Estimated settlements with third-party payors	-	-	-	-	-	-	240	-	240
Total current liabilities	288	48	3,883	636	520	1,237	5,202	5,212	17,026
Long-term debt and capital lease obligations – net of									
current portion	-	253	-	-	-	-	-	-	253
Pension liabilities	-	-	-	-	-	-	370	-	370
Other liabilities	1,565	546	-	448	1,374	435	1,235	31	5,634
Total liabilities	1,853	847	3,883	1,084	1,894	1,672	6,807	5,243	23,283
Member's equity:									
Accumulated earnings (deficit)	306	(21)	(446)	(610)	(713)	584	(1,430)	4,025	1,695
Accumulated other comprehensive deficit	-	-	-	-	-	-	(163)	-	(163)
Total member's equity	306	(21)	(446)	(610)	(713)	584	(1,593)	4,025	1,532
Total liabilities and member's equity	$ 2,159	$ 826	$ 3,437	$ 474	$ 1,181	$ 2,256	$ 5,214	$ 9,268	$ 24,815

Steward Operations Holdings, LLC

Supplemental Consolidating Schedule – Statement of Operations Information

Year Ended Septemer 30, 2011 (Amounts in thousands)

	Steward St. Elizabeth's Realty Corp.	Steward Fall River Management Care Services, LLC	Steward Valley Regional Ventures, Inc.	Steward New England Initiatives, Inc.	Steward Good Samaritan Occupational Health Services, Inc.	Steward Good Samaritan Radiation Oncology Center, Inc.	Steward Home Care, Inc.	Steward Network Services, Inc.	Total
Patient service revenues	$ -	$ -	$ -	$ -	$ 1,275	$ 4,362	$ 23,324	$ -	$ 28,961
Less: provision for bad debts	-	-	-	-	(130)	(160)	(98)	-	(388)
Patient service revenues, net	-	-	-	-	1,145	4,202	23,226	-	28,573
Other	1,837	142	32	352	(2)	(2)	65	14,220	16,644
Total revenues	1,837	142	32	352	1,143	4,200	23,291	14,220	45,217
Expenses:									
Salaries, wages, and fringe benefits	53	-	-	-	948	465	18,601	2,532	22,599
Supplies and other expenses	948	146	33	807	769	3,151	5,366	7,644	18,864
Depreciation and amortization	547	17	429	155	-	-	371	19	1,538
Interest	(17)	-	16	-	-	-	-	-	(1)
Reorganization expenses	-	-	-	-	139	-	383	-	522
Total expenses	1,531	163	478	962	1,856	3,616	24,721	10,195	43,522
Income (loss) before income taxes	306	(21)	(446)	(610)	(713)	584	(1,430)	4,025	1,695
Income tax expense	-	-	-	-	-	-	-	-	-
Net income (loss)	$ 306	$ (21)	$ (446)	$ (610)	$ (713)	$ 584	$ (1,430)	$ 4,025	$ 1,695

Ernst & Young LLP

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