Prospect EOGH, Inc.

Consolidated Financial Statements

As of and for the Years Ended
September 30, 2018 and 2017

(With Independent Auditor's Report Thereon)

The report accompanying these financial statements was issued by
BDO USA, LLP, a Delaware limited liability partnership and the U.S. member of
BDO International Limited, a UK company limited by guarantee.

Prospect EOGH, Inc.

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As of and for the Years Ended September 30, 2018 and 2017

Prospect EOGH, Inc.

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Independent Auditor's Report

Board of Directors
Prospect EOGH, Inc.
East Orange, New Jersey

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Prospect EOGH, Inc. (the "Company"), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, member's (deficit) equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Prospect EOGH, Inc. as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the Company is financially dependent on its parent, Prospect Medical Holdings, Inc., which has agreed to provide the financial support necessary for the operations of the entity. The accompanying consolidated financial statements do not reflect any adjustments or disclosures that would be required should the parent company discontinue its financial support.

BDO USA, LLP

March 28, 2019

Prospect EOGH, Inc.

Consolidated Balance Sheets
(in thousands)

September 30,		**2018**		2017
Assets				
Current assets				
Cash and cash equivalents	**$**	**595**	$	-
Patient accounts receivable, less allowance for doubtful accounts of $50,836, and $37,582, respectively		**16,312**		17,228
Other receivables		**1,164**		229
Due from government payers		**199**		3,710
Inventories		**1,454**		1,217
Prepaid expenses and other current assets		**933**		1,229
Total current assets		**20,657**		23,613
Property, improvements and equipment, net		**60,651**		42,789
Goodwill		**-**		4,572
Intangible assets, net		**1,797**		2,039
Deferred tax assets		**-**		3,337
Other assets		**164**		165
Total assets	**$**	**83,269**	**$**	**76,515**

See accompanying notes to consolidated financial statements.

Prospect EOGH, Inc.

Consolidated Balance Sheets
(in thousands)

September 30,		**2018**		2017
Liabilities and Member's (Deficit) Equity				
Current liabilities				
Accounts payable and other accrued liabilities	**$**	**15,448**	$	11,916
Accrued salaries, wages and benefits		**4,436**		4,224
Due to government payers		**1,479**		1,994
Due to affiliated companies, net		**60,661**		23,218
Current portion of capital leases		**405**		448
Total current liabilities		**82,429**		41,800
Capital leases, net of current portion		**584**		217
Malpractice reserves		**2,312**		2,850
Note payable		**952**		952
Other long-term liabilities		**1,407**		3,401
Total liabilities		**87,684**		49,220
Commitments and contingencies				
Member's (deficit) equity:				
Member contributions		**32,719**		32,719
Accumulated deficit		**(37,134)**		(5,424)
Total member's (deficit) equity		**(4,415)**		27,295
Total liabilities and member's (deficit) equity	**$**	**83,269**	$	76,515

See accompanying notes to consolidated financial statements.

Prospect EOGH, Inc.

Consolidated Statements of Operations
(in thousands)

For the years ended September 30,		**2018**		2017
Revenues:				
Net patient service revenues	**$**	**88,334**	$	97,900
Provision for bad debts		**(7,388)**		(5,150)
Net patient service revenues less provision for bad debts		**80,946**		92,750
Other revenues		**803**		929
Grant revenues		**788**		2,427
Total net revenues		**82,537**		96,106
Operating Expenses:				
Salaries, wages and benefits		**51,092**		52,964
Supplies		**12,072**		11,413
Purchased services		**4,643**		11,995
Taxes and licenses		**1,215**		1,569
Goodwill impairment		**4,572**		-
Depreciation and amortization		**5,033**		4,817
Professional fees		**11,889**		4,401
Other		**1,113**		2,139
Management fees		**4,464**		4,882
Utilities		**1,594**		1,447
Grant expense		**1,314**		2,223
Insurance		**2,394**		1,083
Lease and rental		**562**		388
Repairs and maintenance		**6,294**		4,819
Registry		**1,559**		634
Total operating expenses		**109,810**		104,774
Operating loss		**(27,273)**		(8,668)
Other expense:				
Interest expense		**763**		471
Other expense, net		**151**		83
Net loss before income tax provision (benefit)		**(28,187)**		(9,222)
Tax provision (benefit)		**3,523**		(3,651)
Net loss	**$**	**(31,710)**	$	(5,571)

See accompanying notes to consolidated financial statements.

Prospect EOGH, Inc.

Consolidated Statements of Member's (Deficit) Equity
(in thousands)

	Member Contributions	Retained Earnings (Accumulated Deficit)	Total Member's Equity
Balance at October 1, 2016	$ 32,719	$ 147	$ 32,866
Net loss	-	(5,571)	(5,571)
Balance at September 30, 2017	32,719	(5,424)	27,295
Net loss	-	(31,710)	(31,710)
Balance at September 30, 2018	$ 32,719	$ (37,134)	$ (4,415)

See accompanying notes to consolidated financial statements.

Prospect EOGH, Inc.

Consolidated Statements of Cash Flows
(in thousands)

For the years ended September 30,	**2018**	2017
Operating activities		
Net loss	**$ (31,710)**	$ (5,571)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	**5,033**	4,817
Goodwill impairment	**4,572**	-
Provision for bad debts	**7,388**	5,150
Loss on sale of property, improvements and equipment	**-**	81
Deferred income taxes, net	**3,337**	(3,337)
Changes in operating assets and liabilities:		
Patient accounts receivable and other receivables	**(7,407)**	(11,505)
Due to/from government payers, net	**2,996**	(7,575)
Inventories	**(237)**	29
Prepaid expenses and other assets	**297**	(18)
Accounts payable and other accrued liabilities	**2,783**	819
Malpractice reserve	**(538)**	631
Net cash used in operating activities	**(13,486)**	(16,479)
Investing activities		
Purchases of property, improvements and equipment	**(5,825)**	(8,158)
Net cash used in investing activities	**(5,825)**	(8,158)
Financing activities		
Change in due to affiliated companies, net	**20,615**	24,265
Borrowings from notes payable	**-**	1,000
Repayments of notes payable	**-**	(48)
Repayments of capital leases	**(709)**	(699)
Net cash provided by financing activities	**19,906**	24,518
Change in cash and cash equivalents	**595**	(119)
Cash and cash equivalents, beginning of year	**-**	119
Cash and cash equivalents, end of year	**$ 595**	$ -
Supplemental disclosure of cash flow information		
Capital expenditures financed by affiliated companies	**$ 16,828**	$ -
Reclassifications to finalize purchase price allocation	**$ -**	$ 1,041

See accompanying notes to consolidated financial statements.

1. Organization

Prospect EOGH, Inc. ("EOGH" or the "Company") is a wholly-owned subsidiary of Prospect NJ, Inc. ("PNJ"). PNJ is wholly owned by Prospect Medical Holdings, Inc. ("Prospect"). EOGH operates a 211-bed acute care general hospital which provides healthcare services in East Orange, New Jersey and surrounding communities.

Admitting physicians are primarily practitioners in the local area. The hospital has payment arrangements with Medicare, Medicaid and other third-party payers, including commercial insurance carriers, health maintenance organizations ("HMOs") and preferred provider organizations ("PPOs").

The Company is dependent on Prospect to fund ongoing operations. As of September 30, 2018, the Company had a liability of $60,661,000 to Prospect, which is payable on demand, does not bear interest, and is included in due to affiliated companies, net in the accompanying consolidated balance sheets. Prospect does not intend to have the Company repay the liability in a manner which would impair the Company's ability to maintain sufficient liquidity to sustain ongoing operations.

2. Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and include the accounts of EOGH's wholly-owned subsidiary, Prospect EOGH Hospital Properties Urban Renewal, LLC, but do not include the accounts of PNJ or Prospect. All significant intercompany balances and transactions have been eliminated in consolidation.

Revenues

Net Patient Service Revenues

Operating revenue consists primarily of net patient service revenue. The Company reports net patient service revenue at the estimated net realizable amounts from patients and third-party payers and others in the period in which services are rendered. The Company has agreements with third-party payers, including Medicare, Medicaid, managed care and other insurance programs that are paid at negotiated rates. These payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges and per diem payments, as further described below. Estimates of contractual allowances are based upon the payment terms specified in the related contractual agreements. The Company accrues for amounts that it believes may ultimately be due to or from the third-party payers. Normal estimation differences between final settlements and amounts accrued in previous years are reported as changes in estimates in the current year. Outstanding receivables, net of allowances for contractual discounts and bad debts, are included in patient accounts receivable in the accompanying consolidated balance sheets.

The following is a summary of sources of net patient service revenues (net of contractual allowances and discounts) after provision for bad debts (in thousands):

For the year ended September 30,		**2018**		2017
Medicare	**$**	**40,405**	$	44,705
Medicaid		**26,264**		29,773
Managed Care		**10,047**		12,242
Self-Pay/Other		**4,230**		6,030
Total	**$**	**80,946**	$	92,750

A summary of the payment arrangements with major third-party payers follows:

Medicare: Medicare is a federal program that provides certain hospital and medical insurance benefits to persons aged 65 and over, some disabled persons with end-stage renal disease and certain other beneficiary categories. Inpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge, according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient services are paid based on a blend of prospectively determined rates and cost-reimbursed methodologies. The Company is also reimbursed for various disproportionate share and Medicare bad debt components at tentative rates, with final settlement determined after submission of the annual Medicare cost report and audit thereof by the Medicare fiscal intermediary. Normal estimation differences between filed settlements and amounts accrued are reflected in net patient service revenue in the year the settlement occurs.

Cost report settlement estimates are recorded based upon as-filed cost reports and are adjusted for tentative settlements, if any, and when a final Notice of Program Reimbursement (“NPR”) is issued in the year the settlement occurs.

Medicaid: Medicaid is a joint federal-state funded healthcare benefit program that is administered by states to provide benefits to qualifying individuals who are unable to afford care. The Company receives reimbursements under the Medicaid program at prospectively determined rates for both inpatient and outpatient services. Similar to Medicare, cost report settlements are recorded based upon as-filed cost reports and adjusted for tentative and final settlements, if any, in the year the settlement occurs.

The New Jersey Health Care Reform Act of 1992 established Health Care Subsidy Funds to provide certain hospitals in New Jersey with funds necessary to provide charity care and other forms of uncompensated care. EOGH recognized revenue related to this program of $815,000 and $5,203,000 for the years ended September 30, 2018 and 2017, respectively.

Managed Care: The Company has also entered into payment agreements with certain commercial insurance carriers, HMOs, and PPOs. The basis for payment under these agreements is in accordance with negotiated contracted rates or at the Company’s standard charges for services provided.

Self-Pay: Self-pay patients represent those patients who do not have health insurance and are not covered by some other form of third party arrangement. Such patients are evaluated, at the time of services or shortly thereafter, for their ability to pay based upon federal and state poverty guidelines, qualifications for Medicaid, as well as the Company's indigent and charity care policy.

Charity Care

The Company provides charity care to patients who lack financial resources and are deemed to be medically indigent based on criteria established under the Company's charity care policy. This care is provided without charge or at amounts less than the Company's established rates. Because the Company does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as revenue. The direct and indirect costs related to this care totaled $4,631,000 and $4,011,000 for the years ended September 30, 2018 and 2017, respectively. In addition, the Company provides services to other medically indigent patients under various state Medicaid programs. Such programs pay amounts that are less than the cost of the services provided to the recipients. The Company has not changed its charity care or uninsured discount policies during the years ended September 30, 2018 or 2017.

Provisions for Contractual Allowances and Doubtful Accounts

Collection of receivables from third-party payers and patients is the Company's primary source of cash and is critical to its operating performance. The Company closely monitors its historical collection rates, as well as changes in applicable laws, rules and regulations and contract terms, to assure that provisions for contractual allowances are made using the most accurate information available. However, due to the complexities involved in these estimations, actual payments from payers may be materially different from the amounts management estimates and records. The Company's primary collection risks relate to uninsured patients and the portion of the bill which is the patient's responsibility, primarily co-payments and deductibles. Payments for services may also be denied due to issues over patient eligibility for medical coverage, the Company's ability to demonstrate medical necessity for services rendered and payer authorization of hospitalization.
Accounts receivable are reduced by an allowance for doubtful accounts. Valuation of the collectability of accounts receivable and provision for bad debts is based on historical collection experience, payer mix and the age of the receivables. Management routinely reviews accounts receivable balances in conjunction with these factors and other economic conditions which might ultimately affect the collectability of the patient accounts, and makes adjustments to the Company's allowances as warranted. For receivables associated with services provided to patients who have third-party coverage, management analyzes contractually due amounts and subsequently calculates an allowance for doubtful accounts and provision for bad debts once the age of the accounts reaches a specific age category based on historical experience. For receivables associated with self-pay patients, management records a significant provision for bad debts beginning in the period services were provided based on past experience that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible.

Other Revenues

Other revenues totaled $1,591,000 and $3,356,000 for the years ended September 30, 2018 and 2017, respectively, which includes grant revenues of $788,000 and $2,427,000, respectively, and other revenues of $803,000 and $929,000, respectively. Management has evaluated the collectability of other receivables consisting primarily of other revenues and grant revenues and determined no allowance is necessary as of September 30, 2018 and 2017, respectively.

Property, Improvements and Equipment

Property, improvements and equipment are stated on the basis of cost or, in the case of acquisitions, at their acquisition date fair values. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, and amortization of leasehold improvements is provided using the straight-line basis over the shorter of the remaining lease period or the estimated useful lives of the leasehold improvements. Building improvements are generally depreciated over seven years, buildings are depreciated over 10 years, equipment is depreciated over three to seven years and furniture and fixtures are depreciated over five to seven years. Equipment capitalized under capital lease obligations are amortized over the lesser of the life of the lease or the useful life of the asset.

Goodwill

Goodwill represents the excess of the consideration paid and liabilities assumed over the fair value of the net assets acquired, including identifiable intangible assets.

Goodwill is not amortized; rather it is reviewed annually for impairment for each reporting unit, or more frequently if impairment indicators arise. Impairment is the condition that exists when the carrying amount of goodwill exceeds its implied fair value.

Through the year ended September 30, 2017, the Company tested for goodwill impairment as of September 30 each year. During the year ended September 30, 2018, the Company changed the date of the annual goodwill impairment test to July 1. The Company does not believe that the change in assessment date represents a material change in the application of applicable accounting literature. Impairment of goodwill is tested at the reporting unit level, by comparing the reporting unit's carrying amount, including goodwill, to the fair value of the reporting unit. The fair value of the reporting units are estimated. In evaluating whether indicators of impairment exist, the Company considers adverse changes in market value, laws and regulations, profitability, cash flows, ability to maintain enrollment and renew payer contracts at favorable terms, among other factors. The Company has adopted new literature during the year ended September 30, 2018 which changes the goodwill impairment test from a two-step process to a one-step process, which consists of estimating based on a weighted combination of (i) the guideline company method that utilizes revenue or earnings multiples for comparable publicly-traded companies, and (ii) a discounted cash flow model. If the estimated fair value of the reporting unit is less than its carrying value, this indicates that goodwill is impaired, and impairment is recorded based on the deficiency of fair value compared to the carrying value. The Company's impairment test related to goodwill during the year ended September 30, 2018 resulted in a full impairment of goodwill. There were no impairment charges during the year ended September 30, 2017.

Long-Lived Assets and Amortizable Intangibles

Intangible assets include trade names. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. The Company considers assets to be impaired and writes them down to fair value if estimated undiscounted cash flows associated with those assets are less than their carrying amounts. Fair value is based upon the present value of the associated cash flows. Changes in circumstances (for example, changes in laws or regulations, technological advances or changes in strategies) may also reduce the useful lives from initial estimates. Changes in planned use of intangibles may result from changes in customer base, contractual agreements, or regulatory requirements. In such circumstances, management will revise the useful life of the long-lived asset and amortize the remaining net book value over the adjusted remaining useful life. Other than the adjustment to goodwill discussed above, there were no impairments recorded during the years ended September 30, 2018 or 2017.

Insurance Reserves

Medical Malpractice Liability Insurance

The individual physicians who contract with EOGH carry their own medical malpractice insurance, some of which may be purchased from Connecticut Healthcare Insurance Company ("CHIC"), a captive insurance company owned by Prospect. The Company carries professional and general liability insurance to cover medical malpractice claims under claims-made policies. Under the policies, insurance premiums cover only those claims actually reported during the policy term. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims related to occurrences during the policy term but reported subsequent to the policy's termination may be uninsured.

During the year ended September 30, 2018, CHIC provided malpractice and general liability ($2,000,000 per occurrence) coverage. CHIC also provided an excess healthcare professional liability and umbrella liability insurance policy on a claims-made basis covering healthcare professional liability, general liability, automobile liability, employers' liability, helipad liability and non-owned aircraft liability. The limit provided was $60,000,000 for each loss event and in the annual aggregate excess of the primary coverage layers described above. This coverage was fully reinsured by third party carriers.

GAAP requires that a health care organization record and disclose the estimated costs of medical malpractice claims in the period of the incident of malpractice, if it is reasonably possible that liabilities may be incurred and losses can be reasonably estimated. The Company recognizes an estimated liability for incurred but not reported claims and the self-insured risks (including deductibles and potential claims in excess of policy limits) based upon an actuarial valuation of the Company's historical claims experience of the Company's hospitals. The Company's gross claims liability was $2,312,000 and $2,850,000 as of September 30, 2018 and 2017, respectively. The gross claims liability for September 30, 2018 and 2017 was estimated using a discount factor of 4% and are included within long-term assets and long-term liabilities, respectively, in the accompanying consolidated balance sheets.

Workers' Compensation Insurance

The Company was fully insured for workers' compensation claims with no deductible during the years ended September 30, 2018 and 2017.

Reserve Methodology

The claims reserve is based on the best data available to the Company. The estimate, however, is subject to a significant degree of inherent variability. The estimate is continually monitored and reviewed, and as the reserve is adjusted, the difference is reflected in current operations. While the ultimate amount of medical malpractice liability is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims. Management is not aware of any potential medical malpractice claims whose settlement, if any, would have a material adverse effect on the Company's financial position, results of operations or cash flows.

Employee Health Plans

The Company maintains self-insured exclusive provider organization ("EPO")/HMO and PPO plans for all eligible employees. Employee health benefits are administered by a third-party claims administrator, based on plan coverage and eligibility guidelines determined by the Company, as well as by collective bargaining agreements. Commercial insurance policies cover per occurrence losses in excess of $160,000. An actuarially estimated liability of approximately $806,000 and $763,000 for incurred but not reported claims due to Prospect has been included in accounts payable and other accrued liabilities on the consolidated balance sheets as of September 30, 2018 and 2017, respectively.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments with initial maturities of 90 days or less to be cash equivalents. Cash and cash equivalents are primarily comprised of deposits with banks. The Company maintains its cash at banks with high credit-quality ratings.

Inventories

Inventories of supplies are valued at the lower of amounts that approximate the weighted average cost or market. Inventories consist primarily of medical and surgical supplies and pharmaceuticals.

Income Taxes

Deferred income tax assets and liabilities are recognized for differences between financial and income tax reporting bases of assets and liabilities based on enacted tax rates and laws. To the extent a deferred tax asset cannot be recognized under the preceding criteria, allowances must be established. The impact on deferred taxes of changes in tax rates and laws, if any, are applied to the years during which temporary differences are expected to be settled and reflected in the financial statements in the period of enactment. The Company recognizes interest and penalties associated with income tax matters and unrecognized tax benefits in the income tax expense line item of the statements of operations. For the years ended September 30, 2018 and 2017, the Company did not incur any interest and penalties related to income taxes.

An entity is required to evaluate its tax positions using a two-step process. First, the entity should evaluate the position for recognition. An entity should recognize the financial statement benefit of a tax position if it determines that it is more likely than not that the position will be sustained on examination. Next, the entity should measure the amount of benefit that should be recognized for those tax positions that meet the more likely than not test.

The Company files separate state tax returns for New Jersey. Prospect files consolidated federal and state tax returns, which includes the Company. Relevant accounting literature requires that the consolidated amount of current and deferred tax expense for a group that files a consolidated tax return be allocated among the group members when those members issue separate financial statements. The Company is a member of a consolidated group which files combined returns for federal and state, respectively, for its ultimate parent company. The Company adopts the separate return method modified for benefits-for-loss in provisioning for current and deferred income taxes. Under this method, the subsidiary is assumed to file a separate return with the taxing authority, thereby reporting its taxable income or loss and paying the applicable tax to or receiving the appropriate refund from the parent. However, when the benefit of the net operating loss and other tax attributes is recognized in the consolidated financial statements, the subsidiary would generally reflect a benefit in its financial statements. The Company's filed tax returns are generally subject to examination by the Internal Revenue Service ("IRS") and state tax boards for 3 to 4 years.

Fair Value of Financial Instruments

Financial instruments consist primarily of cash and cash equivalents, restricted cash, patient and other accounts receivables, accounts payable and accrued expenses, accrued salaries and benefits, amounts due from/to government payers, capital lease obligations, and other liabilities. The carrying amounts of current assets and liabilities approximate their fair value due to the relatively short period of time between the origination of the instruments and their expected realization.

Nonfinancial assets such as goodwill and identifiable intangible assets are measured at fair value when there is an indicator of impairment and recorded at fair value only when impairment is recognized. The Company performs an annual impairment test on the goodwill, and performs an impairment test on the intangible assets when there are indications of impairment.

During the year ended September 30, 2018, the Company recorded approximately $4.6 million of impairment relating to goodwill, which is reflected in the accompanying consolidated statements of operations.

The Company uses the discounted cash flow approach, the guideline public company approach and the guideline transactions approach to estimate the residual value of the Company's goodwill. The measurement of goodwill is a Level 3 measurement. The following table provides quantitative information related to the significant unobservable inputs to determine fair value and impairment of goodwill as of September 30, 2018:

Residual Value of Goodwill	Valuation Technique	Unobservable Input	Rates
$ -	Discounted Cash Flow	Weighted average cost of capital	9.3%
		Revenue growth rate	(1.8)% - 11.2%
	Guideline Public Company	LTM and NTM Revenue multiple	0.5x

There were no nonrecurring measurements as of September 30, 2017.

Concentrations of Credit Risk

Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits of $250,000 per depositor of each financial institution. The Company has not experienced any losses to date related to these balances.

Financial instruments that potentially subject the Company to concentrations of credit risk consist of receivables due from Medicare and Medicaid. The Company received revenues from Medicare and Medicaid as follows (in thousands):

		2018	**% of Net Patient Services Revenues**		2017	% of Net Patient Services Revenues
Medicare	**$**	**40,405**	**50%**	$	44,705	48%
Medicaid		**26,264**	**32%**		29,773	32%
Total	**$**	**66,669**	**82%**	$	74,478	80%

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities at the dates, and for the periods, that the consolidated financial statements are prepared. Actual results could materially differ from those estimates. Principal areas requiring the use of estimates include amounts due from/to government payers, allowances for contractual discounts and doubtful accounts, professional and general liability claims, and impairment of long-lived assets, goodwill and intangible assets.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)” which defers the effective date of the revenue standard ASU 2015-14. The core principle of ASU 2014-09 is built on the contract between a vendor and a customer for the provision of goods and services, and attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, (v) recognize revenue when (or as) the entity satisfies a performance obligation. Nonpublic entities will apply the new standard for annual periods beginning after December 15, 2018, including interim periods therein. Three basic transition methods are available — full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. GAAP at the date of initial application (e.g. October 1, 2019) and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. That is, prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. GAAP. Early adoption is permitted for fiscal years beginning after December 15, 2016. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842)”. The core principle of ASU 2016-02 is that a lessee should recognize the assets and liabilities that arise from leases, including operating leases. Under the new requirements, a lessee will recognize in the statement of financial position a liability to make lease payments (the lease liability) and the right-of-use asset representing the right to the underlying asset for the lease term. For leases with a term of 12 months or less, the lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from previous GAAP. The standard is effective for nonpublic entities for fiscal years beginning after December 15, 2019. Early application of the amendment is permitted. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows (Topic 230)”. The updated standard addresses eight specific cash flow issues with the objective of reducing diversity in practice. ASU 2016-15 is effective for non-public business entities for annual reporting periods beginning after December 15, 2018, including interim periods within those annual reporting periods. Early adoption is permitted. The Company is currently evaluating the standard and the impact on its consolidated financial statements and footnote disclosures.

In January 2017, the FASB issued ASU 2017-04, “Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment)”. The new guidance is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017, and the Company will adopt this standard effective for the year ending September 30, 2018. The new guidance simplifies the current two-step goodwill impairment test by eliminating Step 2 of the test. The new guidance requires a one-step impairment test in which an entity compares the fair value of a reporting unit with its carrying amount and recognizes an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value, if any. The Company early adopted this standard in the current fiscal year.

Reclassifications

Certain amounts included in the fiscal year 2017 consolidated financial statements have been reclassified to conform to the fiscal year 2018 presentation.

3. Property, Improvements and Equipment, Net

Property, improvements and equipment, net consisted of the following (in thousands):

September 30,		**2018**		2017
Property, improvements and equipment:				
Land and land improvements	**$**	**4,152**	$	3,958
Buildings and improvements		**38,409**		34,515
Equipment		**12,991**		9,279
Less: accumulated depreciation		**(11,378)**		(7,133)
Construction in Progress		**16,477**		2,170
Property, improvements and equipment, net	**$**	**60,651**	$	42,789

At September 30, 2018 and 2017, the Company had assets under capitalized leases of approximately $8,944,000 and $8,146,000 and related accumulated depreciation of $7,490,000 and $7,262,000 respectively.

Depreciation expense was $4,791,000 and $4,575,000 for the years ended September 30, 2018 and 2017, respectively.

4. Goodwill and Intangible Assets, Net

The changes in the carrying amount of goodwill for the years ended September 30, 2018 and 2017 are as follows (amounts in thousands):

September 30,		**2018**		2017
Balance, beginning of year	**$**	**4,572**	$	3,531
Adjustments to prior year acquisition		**-**		1,041
Impairment		**(4,572)**		-
Balance, end of year	**$**	**-**	$	4,572

Identifiable intangible assets are comprised of tradenames (in thousands):

	Amortization Period	**September 30, 2018**		September 30, 2017
Total acquisition cost of intangible assets	10 years	**$ 2,039**	$	2,423
Less accumulated amortization		**(242)**		(384)
Intangible assets, net		**$ 1,797**	$	2,039

Amortization is recognized on a straight-line basis (management's best estimate of the period of economic benefit) over the respective useful lives. Amortization expense was $4,814,000 and $242,000 for the years ended September 30, 2018 and 2017, respectively.

Estimated amortization expense for each future fiscal year is as follows (in thousands):

Year ended September 30, 2018		
2019	$	242
2020		242
2021		242
2022		242
2023		242
Thereafter		587
Total	$	1,797

The weighted-average remaining useful life for the intangible assets was approximately 7 years as of September 30, 2018.

5. Related Party Transactions

The Company has transactions with Prospect and fellow subsidiaries of Prospect related to payments that may be made on behalf of the Company, and vice versa, and Prospect pushes down various corporate expenses (largely related to salaries and wages). For the year ended September 30, 2018, Prospect financed capital expenditures on behalf of the Company totaling $16,428,000. At September 30, 2018 and 2017, the Company had a net payable due to Prospect in the amount of $60,661,000 and $23,218,000, respectively, which is reflected in due to affiliated companies, net on the accompanying consolidated balance sheets.

6. Income Taxes

The components of the income tax provision (benefit) are as follows (in thousands):

For the years ended September 30,		**2018**		2017
Current:				
Federal	**$**	**186**	$	(265)
State		**-**		(49)
		186		(314)
Deferred:				
Federal		**3,337**		(2,582)
State		**-**		(755)
		3,337		(3,337)
Total:				
Federal		**3,523**		(2,847)
State		**-**		(804)
	$	**3,523**	$	(3,651)

Temporary differences and carry forward items that result in deferred income tax balances as of September 30, 2018 and 2017, respectively, are as follows (in thousands):

September 30,		**2018**		2017
Deferred tax assets:				
Allowances for bad debts	**$**	**2,612**	$	1,630
Prepaid		**-**		213
Malpractice Reserve		**27**		1,254
Intangibles		**-**		107
Vacation accrual		**371**		-
Severance accruals		**1,040**		-
Net operating loss carryforwards		**7,754**		-
Fixed assets		**-**		961
Deferred tax assets		**11,804**		4,165
Valuation allowance		**(10,022)**		-
Net deferred tax assets		**1,782**		4,165
Deferred tax liabilities:				
State taxes		**(56)**		(353)
Vacation accrual		**-**		(393)
Fixed assets		**(1,457)**		-
Intangibles		**(86)**		-
Prepaids		**(183)**		-
Deferred revenue		**-**		(82)
Deferred tax liabilities		**(1,782)**		(828)
Net deferred tax assets	**$**	**-**	$	3,337

Deferred tax assets and liabilities reflect the effect of temporary differences between the assets and liabilities recognized for financial reporting purposes and the amounts recognized for income tax purposes.

Management assesses the available positive and negative evidence to estimate whether sufficient future pretax income will be generated to permit use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative pretax losses incurred over the three-year period ended September 30, 2018. Such objective evidence limits the ability to consider other subjective evidence, such as the Company's projections for future growth. On the basis of this evaluation, at September 30, 2018, a full valuation allowance of approximately $10.0 million has been recorded to recognize only the portion of the deferred tax asset that is more likely than not to be realized. The amount of the deferred tax asset considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased or if negative objective evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as the Company's projections for growth.

As of September 30, 2018, the Company does not have material unrecognized tax benefits. The Company believes that it is reasonably possible that an increase in unrecognized tax benefits may be necessary within the coming year, and these unrecognized tax benefits would primarily impact deferred taxes and taxes payable, and the expected range of potential increase in the unrecognized tax benefits is not expected to be material to the balance sheet nor the income statement.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Act") was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, limitations on various business deductions such as executive compensation under Internal Revenue Code §162(m), the transition of U.S international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. The United States federal income tax rate reduction was effective as of January 1, 2018. Accordingly, the Company's federal statutory income tax rate for fiscal 2018 reflected a blended rate of approximately 24.5%. As the Company does not have profitable foreign subsidiaries, it does not anticipate any impacts as a result of the mandatory deemed repatriation of cumulative foreign earnings.

7. Commitments and Contingencies

Leases

The Company leases various office facilities and equipment from third parties under non-cancelable operating and capital lease arrangements expiring at various dates through November 2021. Capital leases bear interest at rates ranging from 4.45% to 11.48% per annum.

The future minimum annual lease payments required under leases in effect at September 30, 2018, are as follows (in thousands):

For the years ending September 30,	Capital Leases	Operating Leases
2019	$ 482	$ 49
2020	436	49
2021	184	33
2022	10	-
Total minimum lease payments	1,112	$ 131
Less: amounts representing interest	(123)	
Sub-total	989	
Less: current portion	(405)	
Total	$ 584	

Lease and rental expense was $562,000 and $388,000 for the years ended September 30, 2018 and 2017, respectively.

Contingent Liability for Borrowings by Prospect

The Company is contingently liable as a guarantor among others for amounts borrowed by Prospect on senior secured borrowings and credit facilities as of September 30, 2018 and 2017. The obligations and related interest expense related to these credit facilities are not reflected in the Company's consolidated financial statements as of September 30, 2018 and 2017, as the borrowings are reflected in the separate consolidated financial statements of Prospect.

Total borrowings outstanding as of September 30, 2018 and 2017, reflected in the consolidated financial statements of Prospect, but for which the Company is contingently liable as a guarantor, were (in thousands):

September 30,	**2018**	2017
Senior secured term notes (net of discount of $20,085 and $7,374)	**$ 1,094,315**	$ 609,813
Less: deferred financing costs	**(16,214)**	(9,906)
	$ 1,078,101	$ 599,907

On June 30, 2016, Prospect entered into a six-year $625 million senior secured term loan B (the "Original Term Loan"), the proceeds of which were used to repay $425 million of Prospect's existing 8.375% senior secured notes due during 2019; to repay $60 million of borrowings under Prospect's existing revolving credit facility (the "Replaced Revolver"); to fund acquisitions; and to finance transaction fees and expenses. The Original Term Loan bore interest at LIBOR (subject to a 1.0% floor) plus 6.0%. The Original Term Loan was issued with an original discount of 1.5%, or $9,375,000. Additionally, Prospect refinanced the Replaced Revolver with a new $100 million asset-based revolving credit facility ("Original ABL Facility" and together with the Original Term Loan, the "New Senior Secured Credit Facilities"). Pursuant to various amendments from August 2016 through October 2017, the aggregate commitment amount under the Original ABL facility was increased in stages to $175 million. The maturity date for the Original ABL Facility was June 30, 2021, and the maturity date for the Term Loan was June 30, 2022.

On February 22, 2018, Prospect refinanced and replaced both the Original Term Loan and the Original ABL Facility, and entered into an Amended and Restated Term Loan Credit Agreement (the "Amended TL Agreement"), by and among Prospect (as the borrower), the lenders party thereto and JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent and collateral agent. The Amended TL Agreement replaced the Original Term Loan with a new Term B-1 Loan ("Term B-1 Loan"). The principal amount of the Term B-1 Loan is $1,120 million and such loan bears interest at LIBOR (subject to a 1.0% floor) plus 5.5%, which as of September 30, 2018 was 7.625%. The Term B-1 Loan was issued with an original discount of 2% and matures on February 22, 2024.

Additionally, on February 22, 2018, Prospect entered into an Amended and Restated ABL Credit Agreement (the "Amended ABL Agreement"), by and among Prospect (as the borrower), the lenders party thereto and JPMorgan, as administrative agent and collateral agent. The Amended ABL Agreement replaced the Original ABL Facility. Under the Amended ABL Agreement, the maximum revolving commitment is $250.0 million with ability to expand the facility to $325.0 million, and the new ABL facility (the "New ABL Facility") bears interest at a variable base rate plus an applicable spread that is based on excess availability under the New ABL Facility, as further described in the

Amended ABL Agreement, which was 3.875% as of September 30, 2018. The New ABL Facility matures on February 22, 2023. As of September 30, 2018, the available balance on the new ABL facility was $41.0 million.

Other Commitments

The Company has additional commitments for reagents that are based on tests performed. They are non-cancelable agreements but the future dollar commitments are not quantifiable as they are volume-driven.

Litigation

The Company is subject to a variety of claims and suits that arise from time to time in the ordinary course of its business, acquisitions, or other transactions. While the Company's management currently believes that resolving all of these matters, individually or in the aggregate, will not have a material adverse impact on the Company's consolidated financial position or results of operations, the litigation and other claims that the Company faces are subject to inherent uncertainties and management's view of these matters may change in the future. Should an unfavorable final outcome occur, there exists the possibility of a material adverse impact on the Company's consolidated financial position, results of operations and cash flows for the period in which the effect becomes probable and reasonably estimable.

Legislation and HIPAA

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has continued with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

The Company believes that it is in compliance with fraud and abuse regulations as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

The Health Insurance Portability and Accountability Act ("HIPAA") assures health insurance portability, reduces healthcare fraud and abuse, guarantees security and privacy of health information, and enforces standards for health information. The Health Information Technology for Economic and Clinical Health Act ("HITECH Act") expanded upon HIPAA in a number of ways, including establishing notification requirements for certain breaches of protected health information. In addition to these federal rules, states have also developed their own standards for the privacy and security of health information as well as for reporting certain violations and breaches which in some cases are more stringent. Other federal privacy laws may also apply to certain services provided by the Company, including 42 C.F.R. Part 2, which addresses the confidentiality of substance use disorder records. The Company may be subject to significant fines and penalties if found not to be compliant with these state or federal provisions.

All of the Company's hospital facilities are subject to the Emergency Medical Treatment and Active Labor Act ("EMTALA"). This federal law requires any hospital that participates in the Medicare program to conduct an appropriate medical screening examination of every person who presents to the hospital's emergency department for treatment and, if the patient is suffering from an emergency medical condition, to either stabilize that condition or make an appropriate transfer of the patient to a facility that can handle the condition. The obligation to screen and stabilize emergency medical conditions exists regardless of a patient's ability to pay for treatment. There are severe penalties under EMTALA if a hospital fails to screen or appropriately stabilize or transfer a patient or if the hospital delays appropriate treatment in order to first inquire about the patient's ability to pay. Penalties for violations of EMTALA include civil monetary penalties and exclusion from participation in the Medicare program. In addition, an injured patient, the patient's family or a medical facility that suffers a financial loss as a direct result of another hospital's violation of the law can bring a civil suit against that other hospital. The Company believes that it is in compliance with EMTALA and is not aware of any pending or threatened EMTALA investigations involving allegations of potential wrongdoing that would have a material effect on the Company's consolidated financial statements.

Affordable Care Act

The Patient Protection and Affordable Care Act ("PPACA") has made significant changes to the United States health care system. The legislation impacted multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Under this legislation, 33 states have expanded their Medicaid programs to cover previously uninsured childless adults, and four additional states voted in 2018 to expand Medicaid or to elect a governor that pledged to expand Medicaid. In addition, many uninsured individuals have had the opportunity to purchase health insurance via state-based marketplaces, state-based marketplaces using a federal platform, state-partnership marketplaces or the federally-facilitated marketplace. PPACA also implemented a number of health insurance market reforms, such as allowing children to remain on their parents' health insurance until age 26 or prohibiting certain plans from denying coverage based on pre-existing conditions. Nationally, these reforms have reduced the number of uninsured individuals.

It is unclear what changes may be made to PPACA with the divided Congress, current presidential administration (the "Administration"), and pending litigation over the validity of PPACA. The Administration has promulgated rules to broaden the availability of coverage options that do not comply with the full range of PPACA requirements for individual market coverage, namely Association Health Plans and Short-Term Limited-Duration Insurance. The Administration has also provided additional guidance on state PPACA waivers. These executive actions have been or may be challenged in court. In addition, the Act, passed in December 2017, eliminates the individual mandate penalty under PPACA, effective January 1, 2019. The individual mandate penalty was included in PPACA to address concerns that other market reforms expanding access to coverage might produce adverse selection and higher premiums. The extent to which the repeal of the individual mandate penalty will impact the uninsured rate and 2019 premiums is unclear at this juncture. On December 14, 2018, the United States District Court for the Northern District of Texas ruled that the individual mandate without the penalty is unconstitutional and that PPACA is therefore invalid in its entirety. Litigation on this issue is ongoing, with the Administration indicating it will continue implementing PPACA pending any appeals, the court ordering expedited briefing on a potential stay and certification of an interlocutory appeal, and pending litigation in the United States District Court for the District of Maryland to ensure continued implementation of PPACA. This litigation along with any future legislative changes to PPACA or other federal and state legislation could have a material impact on the operations of the Company. The Company is continuing to monitor the legislative environment and developments in pending litigation for risks and uncertainties.

Provider Contracts

Many of the Company's payer and provider contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of medical services. Such differing interpretations may not come to light until a substantial period of time has passed following contract implementation. Liabilities for claims disputes are recorded when the loss is probable and can be estimated. Any adjustments to reserves are reflected in current operations in the year determined.

8. Defined Contribution Plan

Prospect sponsors defined contribution plans (the "Plans") covering substantially all employees of Prospect who meet certain eligibility requirements, including the Company. Under the Plans, employees can contribute up to 100% of their compensation up to the IRS deferred annual maximum. The Company may make discretionary matching contributions to the Plan. The Company did not make any contributions to the Plan for the years ended September 30, 2018 or 2017.

9. Subsequent Event

The Company has evaluated subsequent events through March 28, 2019, the date the Company's consolidated financial statements were available for issuance. No events arose during the period, other than the event noted below, which would require adjustments or additional disclosures.

On March 1, 2019, Prospect entered into Amendment No. 2 to the Amended and Restated ABL Credit Agreement, by and among Prospect (as the borrower), the lenders party thereto and JPMorgan, as administrative agent and collateral agent. Under this amendment, the maximum revolving commitment is increased from $250.0 million to $280.0 million, and the maximum expansion of the facility has been reduced from $325.0 million to $285.0 million. Additionally, the amendment provides for $40.0 million of a "first in first out" revolving facility, which bears interest at 2.5% or 3.5% per annum depending on whether they are Eurodollar loans or ABR loans.

Further, on March 25, 2019, Prospect entered into Amendment No. 3 to the Amended and Restated ABL Credit Agreement, by and among Prospect (as the borrower), the lenders party thereto and JPMorgan, as administrative and collateral agent. Under this amendment, the maximum revolving commitment is increased from $280.0 million to $285.0 million.