

**NASSAU HEALTH CARE CORPORATION
& SUBSIDIARIES**

Report on Operations

FISCAL YEAR ENDED DECEMBER 31, 2009

The Nassau Health Care Corporation (NHCC) has certainly seen its “ups and downs” during 2008. In March of 2008, the credit crisis on Wall Street marked the beginning of what has been a very bumpy road in 2008. NHCC’s auction rate security bonds needed to be restructured resulting in approximately \$1 million of unanticipated interest cost. The New York State budget cuts in June cost NHCC approximately \$3 million. Several malpractice cases deteriorated resulting in an additional \$5-\$7 million of reserves. By mid-year these unexpected costs would have NHCC projecting a \$21 million loss for 2008. On the positive side, we were successful in receiving \$34 million of HEAL IV funds to redeem taxable bonds, and reduced interest expense by \$800,000 in 2008. NHCC was notified in September that A. Holly Patterson will receive a retroactive IGT adjustment of approximately \$27 million for 2006, 2007 and 2008, \$25 million of which will be received in 2008. Fifty percent, or \$12.5 million, will be recorded as revenue in 2008, with the County’s 50% received from tobacco proceeds and recorded as additions to fixed assets. Finally, Nassau University Medical Center (NUMC) was successful in three Medicare Disproportionate Share Appeals for years 2002, 2004 and 2005, generating approximately \$2 million of incremental revenue. With these adjustments and other operational ups and downs at NUMC and AHP, NHCC is projecting a \$4-6 million loss for 2008, before other potential rate appeals currently being discussed with the New York State Department of Health (DOH) and the pending HEAL 8 announcement. If successful, these two remaining adjustments, and assuming no major fluctuations in volume or case mix, NHCC could potentially breakeven in 2008 and would be the first time since its inception in 1999. One final exposure area is the reset rates for the tax exempt variable rate demand obligations (“VRDO”) (VRDO’s are currently \$219 million of NHCC’s \$245 million outstanding bonds). The reset rates historically have been covered by the terms of NHCC’s swap. However, due to the recent turmoil on Wall Street, NHCC recently experienced a weekly reset of 6.7% vs. 2.15% (62% of LIBOR plus 23 basis points - current swap terms). While we expect the reset rates to normalize, particularly with the recent government bailout plan announced, NHCC will continue to monitor the situation closely and react appropriately.

NHCC’s projected \$4.8 million loss for 2008, before “Other Operating Items” and any other VRDO exposure described above, is comprised of net income (loss); NUMC (\$16.8) million; AHP \$14.6 million; and Community Health Centers (\$2.6) million.

In accordance with NHCC's Strategic Plan issued in August 2007, NHCC has made the following progress on its long-term strategic initiatives:

- Received the AHP Replacement Certificate of Need (CON) approval from the New York State Department of Health (NYS DOH) on June 30, 2008, and is currently exploring several financing options with the hope of beginning construction in 2009.
- Received a CON approval from the NYS DOH in support of operating a satellite dialysis division at AHP which, in turn, will further support AHP's inpatient vent unit, and will commence operations December 1, 2008.
- Received a CON approval from NYS DOH in support of pouring the 3 vacant shell floors at NUMC and was completed by 2008.
- Secured new locations for both the Hempstead and Freeport Community Health Centers. Construction and/or acquisition are anticipated to be completed within 3-9 months.
- Completed construction of new Breast Imaging Center and commenced operations in June 2007.
- Completed construction/renovation of new 13-bed inpatient Child Behavior Health Unit and commenced operations in December 2006. Unit is currently above 95% occupancy.
- Completed construction of new 30-bed Drug and Alcohol Rehabilitation Unit and commenced operations in May 2007. Unit is currently above 95% occupancy.
- Completed construction of new 35 bed inpatient Adult Behavioral Health Unit and commenced operations in November 2007. Unit is currently above 95% occupancy.
- Completed construction of a new 10-bed inpatient Burn Unit and commenced operations in November 2007.
- Completed construction of the Center for Hypertension, Diabetes and Vascular Disease and commenced operations in 2008.
- Completed the Courtyard Remediation during 2008.
- Redeemed \$33.7 million of taxable bonds increasing NHCC fund balance, and reducing interest expense by \$1.6 million on an annual basis.

Each of these programs adds significantly to patient volumes and related revenue and have been factored into the 2009 budget accordingly.

The 2009 budget (“budget”), after trending revenues and expenses accordingly and assuming relatively consistent patient volumes compared to 2008 results in a baseline deficit of approximately \$30.9 million (“the baseline gap.”). Management has identified approximately \$22 million of gap closing revenue and expense initiatives to essentially produce an \$8.6 million budget deficit for 2009.

Historically, NHCC management was successful in achieving approximately \$230 million of its previous year’s initiatives, which have cumulatively yielded ongoing bottom line improvement. The values of these past initiatives by year are: \$36 million in 2001, \$26 million in 2002, \$41 million in 2003, \$54 million in 2004, \$15 million in 2005, \$16 million in 2006, \$21 in 2007 and \$21 million in 2008.

NHCC is budgeted to produce a consolidated baseline net loss of \$30 million during fiscal year 2009 before revenue and expense initiatives, and \$8.6 million deficit after the successful implementation of such initiatives (before non-cash items including: 1) change in fair value of derivative instruments and 2) amortization of refunding loss and 3) other post-employment benefits. This consolidated deficit is divided among the enterprises as follows: Nassau University Medical Center (“NUMC”), A. Holly Patterson Extended Care Facility (“AHPECF”), the Community Health Centers (“CHC’s”) and NHCC, Ltd. (“LTD”) are projected to produce net income (losses) of (\$15.6) million, \$7.1 million, (\$1.4) million, \$1.3 million, respectively.

Consolidated cash flow from operations is budgeted at positive \$4.6 million. Investment income is projected to generate \$2.1 million, and budgeted capital expenditures from operations are projected at \$7 million, resulting in a projected ending unrestricted cash balance of \$2.7 million.

The 2009 budget will be an ongoing process and is presented as a working document. Management will be continually reviewing areas of possible expense reduction and revenue enhancement throughout the year. To assure fiscal responsibility and accountability on behalf of NHCC, all expenditures and staffing requirements as presented in this budget will be subject to the review, evaluation and approval of management.