

**NASSAU HEALTH CARE CORPORATION
& SUBSIDIARIES**

Report on Operations

FISCAL YEAR ENDED DECEMBER 31, 2009

The Nassau Health Care Corporation (NHCC) has had another year of “ups and downs” during 2009. In March of 2008, the credit crisis on Wall Street marked the beginning of what has been a very bumpy road in 2008 and continued in 2009. NHCC’s bond standby letters of credit needed to be restructured and replaced by direct pay letters of credit resulting in approximately \$3 million of unanticipated interest cost for the first four months of 2009, and avoided an additional \$4-\$5 million by executing the transaction by April 1, 2009. The New York State budget cuts in June cost NHCC approximately \$11.2 million. By mid-year these unexpected costs would have NHCC projecting a \$30-\$35 million loss for 2009. On the positive side, we were successful in receiving \$5 million of HEAL VIII funds to help A. Holly Patterson with its transition to a 320 bed nursing home, \$3 million of which was recognized in 2009. Management was successful in working with the New York State Department of Health (DOH) in adjusting its Intergovernmental Transfer Payments (IGT) by approximately \$30 million to offset the impact of budget cuts, etc., noted above. Finally, management was successful in executing a \$9 million expense reduction plan, primarily relating to staffing efficiencies, in June 2009.

NHCC’s projected \$384,000 surplus for 2009, before “Other Operating Items” is comprised of net income (loss); NUMC (\$.8) million; AHP \$4.2 million; and Community Health Centers (\$3) 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 seeking Housing and Urban Development (HUD) financing with the expectation of beginning construction in early 2010.
- August 2009 – Opened a state of the art 29 chair satellite dialysis division at AHP.
- Secured new locations for both the Hempstead and Freeport Community Health Centers.

These programs add significantly to patient volumes and related revenue and have been factored into the 2010 budget accordingly.

The 2010 budget (“budget”), after trending revenues and expenses accordingly and assuming relatively consistent patient volumes compared to 2009 results in a baseline deficit of approximately \$19.6 million (“the baseline gap.”). Management has identified approximately \$11.1 million of gap closing revenue and expense initiatives to essentially produce an \$8.5 million budget deficit for 2010.

Historically, NHCC management was successful in achieving approximately \$260 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 million in 2007, \$21 million in 2008 and \$30 million in 2009.

NHCC is budgeted to produce a consolidated baseline net loss of \$19.6 million during fiscal year 2010 before revenue and expense initiatives, and \$8.5 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 (\$17.1) million, \$8.7 million, (\$1.1) million, \$1.0 million, respectively.

Consolidated cash flow from operations is budgeted at positive \$9.1 million. Investment income is projected to generate \$.5 million, and budgeted capital expenditures from operations are projected at \$7 million, resulting in a projected ending unrestricted cash balance of \$7.6 million.

The 2010 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.