HEALTH SERVICES HOLDINGS, INC.
HEALTH SERVICES ADVISORY GROUP, INC.
AND
FLORIDA MEDICAL QUALITY ASSURANCE, INC.

CONSOLIDATED FINANCIAL STATEMENTS
AND ADDITIONAL INFORMATION

Years Ended June 30, 2008 and 2007

HEALTH SERVICES HOLDINGS, INC.
HEALTH SERVICES ADVISORY GROUP, INC.
AND
FLORIDA MEDICAL QUALITY ASSURANCE, INC.

(hereinafter referred to as
"Health Services Holdings, Inc. and Subsidiaries")

CONSOLIDATED FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

Years Ended June 30, 2008 and 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of

HEALTH SERVICES HOLDINGS, INC. AND SUBSIDIARIES

We have audited the accompanying consolidated balance sheets of ***Health Services Holdings, Inc. and Subsidiaries*** at June 30, 2008 and 2007, and the related consolidated statements of income and retained earnings and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ***Health Services Holdings, Inc. and Subsidiaries*** at June 30, 2008 and 2007, and the results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Phoenix, Arizona
January 16, 2009

Mayer Hoffman McCann P.C.

HEALTH SERVICES HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

June 30, 2008 and 2007

ASSETS

	2008	2007
CURRENT ASSETS		
Cash and cash equivalents	$ 8,215,984	$ 2,910,120
Receivables	9,684,489	7,876,730
Prepaid expenses and other current assets	802,804	675,599
State income taxes receivable	17,028	-
Deferred income taxes	499,275	139,100
TOTAL CURRENT ASSETS	19,219,580	11,601,549
PROPERTY AND EQUIPMENT, net	2,797,998	3,109,845
DEFERRED INCOME TAXES	47,808	-
INTANGIBLE ASSET, net	164,355	558,804
OTHER ASSETS	113,260	113,260
TOTAL ASSETS	$ 22,343,001	$ 15,383,458

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES		
Accounts payable	$ 1,786,550	$ 1,574,829
Accrued expenses	7,794,235	3,714,314
Deferred revenues	3,564,002	2,329,496
Income taxes payable	440,729	406,908
Other current liabilities	1,225,000	370,000
Current portion of capital lease obligation	117,737	104,775
TOTAL CURRENT LIABILITIES	14,928,253	8,500,322
ACCRUED LITIGATION COSTS	200,000	115,000
DEFERRED RENT	867,377	1,010,709
CONTINGENT LIABILITY	-	250,302
DEFERRED INCOME TAXES	-	20,000
CAPITAL LEASE OBLIGATION, less current portion	216,913	334,649
TOTAL LIABILITIES	16,212,543	10,230,982
COMMON STOCK, par value $1, authorized 1,000,000 shares, issued and outstanding 3,232 shares	3,232	3,232
RETAINED EARNINGS	6,127,226	5,149,244
TOTAL STOCKHOLDERS' EQUITY	6,130,458	5,152,476
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 22,343,001	$ 15,383,458

See Notes to Consolidated Financial Statements

HEALTH SERVICES HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

Years Ended June 30, 2008 and 2007

	2008	2007
SERVICE REVENUES		
Federal contracts	$ 24,344,523	$ 24,765,163
State and corporate contracts	23,104,295	14,716,810
TOTAL SERVICE REVENUES	47,448,818	39,481,973
DIRECT EXPENSES	29,160,582	27,779,326
GROSS MARGIN	18,288,236	11,702,647
ADMINISTRATIVE EXPENSES	15,884,813	9,746,979
INCOME FROM OPERATIONS BEFORE AMORTIZATION EXPENSE	2,403,423	1,955,668
INTANGIBLE ASSET AMORTIZATION EXPENSE	394,449	394,449
INCOME FROM OPERATIONS	2,008,974	1,561,219
OTHER INCOME (EXPENSE)	(9,958)	(33,132)
INCOME BEFORE INCOME TAXES	1,999,016	1,528,087
INCOME TAXES		
Current provision	1,449,017	539,600
Deferred provision	(427,983)	227,700
TOTAL INCOME TAXES	1,021,034	767,300
NET INCOME	977,982	760,787
RETAINED EARNINGS, BEGINNING OF YEAR	5,149,244	4,388,457
RETAINED EARNINGS, END OF YEAR	$ 6,127,226	$ 5,149,244

See Notes to Consolidated Financial Statements

HEALTH SERVICES HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 977,982	$ 760,787
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,362,817	1,255,600
Change in deferred income taxes	(427,983)	227,700
Loss on disposition of fixed assets	2,759	10,269
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Receivables	(1,807,759)	(1,938,923)
Prepaid expenses and other current assets	(127,205)	(97,897)
Income taxes receivable	(17,028)	-
Increase (decrease) in:		
Accounts payable	211,721	610,281
Accrued expenses	4,079,921	1,237,522
Deferred revenues	1,234,506	671,895
Income taxes payable	33,821	(323,871)
Other current liabilities	855,000	370,000
Accrued litigation costs	85,000	(225,000)
Deferred rent	(143,332)	(108,213)
Contingent liability	(250,302)	(220,000)
Net cash provided by operating activities	6,069,918	2,230,150
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(659,280)	(573,510)
Change in other assets	-	(98,500)
Net cash used in investing activities	(659,280)	(672,010)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on capital lease obligation	(104,774)	(93,241)
Proceeds from notes payable	-	2,850,000
Payments on notes payable	-	(2,850,000)
Payments on long-term debt	-	(387,500)
Net cash used in financing activities	(104,774)	(480,741)
NET CHANGE IN CASH AND CASH EQUIVALENTS	5,305,864	1,077,399
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,910,120	1,832,721
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 8,215,984	$ 2,910,120
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 49,567	$ 117,358
Cash paid for income taxes	$ 1,061,269	$ 199,690

See Notes to Consolidated Financial Statements

(1) Company operations and summary of significant accounting policies

Company operations - ***Health Services Holdings, Inc. and Subsidiaries*** (the "Company") is engaged in providing health care information in Arizona, California, Colorado, Florida, Georgia, Hawaii, Illinois, Michigan, Nevada, Ohio, Tennessee, Vermont and Washington. Company efforts are designed to improve the quality of health care through the study of information.

The significant accounting policies followed by the Company are summarized below:

Principles of consolidation - The accompanying consolidated financial statements include the accounts of ***Health Services Holdings, Inc.*** ("HSH"), ***Health Services Advisory Group, Inc.*** ("HSAG") and ***Florida Medical Quality Assurance Inc*** ("FMQAI"). In February 2004, HSH was established as a holding company of HSAG and FMQAI. The transactions to establish HSH resulted in the stockholders of HSAG becoming the majority stockholders of HSH. This transaction was accounted for under the rules applying to reverse acquisition accounting, under which HSAG's historical financial statement balances are carried forward as the financial reporting parent under the legal parent entity's name (HSH). All significant intercompany transactions and accounts have been eliminated in consolidation.

Management's use of estimates - The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition - The Company recognizes revenue as services are performed. Revenue received for future services is deferred until the service has been performed. The Company's contract with the Department of Health and Human Services is on a cost-plus-fee basis. Therefore, revenues for the contract are recognized to the extent reimbursable costs incurred plus estimated fees are earned. Billings in excess of reimbursable costs incurred plus estimated fees are recorded as deferred revenue. Provisions for estimated losses on contracts are recognized in the period in which such losses are determined.

Costs related to certain contracts are subject to adjustment based on negotiations with, and the audits of the Company's records by its customers, including representatives of the federal government. Revenues for such contracts are recorded in amounts that are expected to be realized. It is reasonably possible that some portion of revenues recorded in the current period may be disallowed in future periods through the audits done by the Company's customers. These disallowed revenues may be required to be refunded to the customer upon final settlement of the contract.

Cash and cash equivalents - Cash includes cash and, at times, cash equivalents which consist of highly liquid debt instruments purchased with original maturities of three months or less. Cash deposits are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC).

Receivables - Receivables are carried at the outstanding balances less an allowance for doubtful accounts. The Company evaluates the collectibility of its receivables based on a combination of factors. In circumstances where it is aware of a specific customer's inability to meet its financial obligations, the Company records a specific reserve to reduce the amounts recorded to what is estimated to be collected. Accounts are charged off against the allowance when they are deemed to be uncollectible. Accounts receivable at June 30, 2008 and June 30, 2007 are considered by management to be collectible in full and, accordingly, an allowance for doubtful accounts is not necessary.

(1) Company operations and summary of significant accounting policies (continued)

Depreciation and amortization - Depreciation and amortization is computed using straight-line and accelerated methods over the following estimated useful lives:

Furniture and equipment	3 - 10 years
Leasehold improvements	7 - 9 years
Equipment held under capital lease	5 years

Intangible asset - In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, *Goodwill and Other Intangible Assets.* SFAS No. 142 discontinued the practice of amortizing goodwill and indefinite lived intangible assets. It requires finite lived intangibles to be amortized over their estimated useful lives and requires companies to evaluate goodwill and indefinite lived intangible assets for impairment annually.

As a result of the purchase of FMQAI in fiscal year 2003, the Company recorded an intangible asset of $2,169,471 related to the contract that FMQAI had with the Department of Health and Human Services based upon the present value of operating cash flows expected to be realized over its remaining contractual term of two years and six months, plus the award of the next three year contract which was awarded to FMQAI based upon their performance on the previous contract. Amortization expense charged to operations was $394,449 for the periods ended June 30, 2008 and 2007. Accumulated amortization expense at June 30, 2008 was $2,005,116 and June 30, 2007 was $1,610,667. The remaining asset balance of $164,355 at June 30, 2008 will be amortized in full during the year ending June 30, 2009.

Impairment of long-lived assets - The Company accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets.* SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded for the years ended June 30, 2008 and 2007.

Deferred rent - Deferred rent represents the difference between the total rent payments amortized using the straight-line method over the life of the leases and the actual cash expenditures.

Income taxes – The Company follows SFAS No. 109, *Accounting for Income Taxes.* SFAS No. 109 requires an asset and liability approach for financial accounting and reporting for income tax purposes. This statement recognizes (a) the amount of taxes payable or refundable for the current year, and (b) deferred tax liabilities and assets for future tax consequences of events that have been recognized in the financial statements or tax returns.

(2) Receivables

Receivables consist of:	2008	2007
Contracts receivable:		
State and corporate contracts	$ 5,226,934	$ 3,730,812
Federal contracts	4,448,025	4,119,368
Total contracts receivable	9,674,959	7,850,180
Income taxes receivable	-	23,442
Other receivable	9,530	3,108
Total receivables	$ 9,684,489	$ 7,876,730

The contracts receivable amounts above include billed and unbilled amounts as follows:

Billed	$ 8,496,406	$ 6,334,806
Unbilled	1,178,553	1,515,374
Total contracts receivable	$ 9,674,959	$ 7,850,180

(3) Property and equipment

Property and equipment consists of:	2008	2007
Cost:		
Furniture and equipment	$ 3,676,908	$ 4,266,892
Leasehold improvements	1,479,927	1,413,967
Equipment held under capital lease	573,969	573,969
Total cost	5,730,804	6,254,828
Accumulated depreciation and amortization	(2,932,806)	(3,144,983)
Net property and equipment	$ 2,797,998	$ 3,109,845

Depreciation and amortization expense charged to operations was $968,368 for the year ended June 30, 2008 and $861,151 for the year ended June 30, 2007.

Included in accumulated depreciation and amortization above is $277,419 and $162,625 of accumulated amortization from equipment held under capital lease as of June 30, 2008 and 2007, respectively.

(4) Notes payable

The Company has a $1,000,000 revolving line of credit expiring in March 2009 with interest charged on borrowings at the prime rate plus 0.5% (5% at June 30, 2008). The line is secured by property and equipment, receivables and deposit accounts, with interest payable monthly. At June 30, 2008 and 2007 there were no borrowings outstanding on this line of credit.

The Company has an additional $600,000 line of credit available expiring in March 2009 with interest charged on borrowings at the prime rate plus 0.5%. The line is secured by property and equipment, receivables and common stock of the Company. Interest on any outstanding balance is payable monthly. At June 30, 2008 and 2007 there were no borrowings outstanding on this line of credit

(5) Other current liabilities

During the year ended June 30, 2007, the Defense Contract Audit Agency ("DCAA"), working under directive from CMS, audited the costs charged to a CMS contract and recommended to CMS that $780,000 of costs be disallowed. The disallowed costs relate to the final settlement of a lawsuit from one former executive and the partial settlement of a lawsuit from another executive. While CMS is not obligated to follow the recommendations of the DCAA, management has determined that CMS will disallow the costs. In addition to these disallowed costs, during the year ended June 30, 2008 the Company has accrued additional settlement costs and made additional payments to the former employee, which management expects to be additional disallowed costs. The amount of total estimated disallowed costs included in other current liabilities as of June 30, 2008 and 2007 was $1,075,000 and $220,000, respectively.

During the year ended June 30, 2007, the Company recovered $150,000 of the costs noted above through insurance proceeds. While these costs were included in the CMS contract billing above, their subsequent recovery does not result in additional liability due to CMS above and beyond the disallowed costs noted above. This amount was included in other current liabilities as of June 30, 2008 and 2007.

(6) Capital lease obligations

The Company entered into a non-cancelable capital lease agreement that expires in 2011 for its copy and publication equipment.

The future minimum lease payments and capital lease obligation under this capital lease are as follows:

Years Ending June 30,	
2009	$ 292,224
2010	292,224
2011	170,464
Total future minimum lease payments	754,912
Less executory costs	(365,428)
Net minimum lease payments	389,484
Less amounts representing interest	(54,834)
Present value of minimum lease payments	334,650
Less current portion of capital lease obligation	(117,737)
Capital lease obligation, long term portion	$ 216,913

(7) Other income (expense)

Other income (expense) consists of:	2008	2007
Interest expense	$ (48,673)	$ (86,918)
Interest income	53,651	52,390
Other income (expense)	(14,936)	1,396
Total other income (expense)	$ 9,958	$ (33,132)

(8) Income taxes

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred income taxes related primarily to differences between the financial and tax basis of property and equipment, deferred rent and certain accrued expenses, and the availability of net operating loss carryovers. The deferred taxes represent the future tax return consequences of these differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Deferred income tax assets are attributable to the following:

- Federal operating loss carryovers of approximately $65,000 as of June 30, 2008 and $165,000 as of June 30, 2007 provide future income tax benefits as they are applied against future federal taxable income. The carryovers expire in various years from 2021 to 2023.
- State operating loss carryovers of approximately $716,000 as of June 30, 2008 and $816,000 as of June 30, 2007 provide future income tax benefits as they are applied against future state taxable income. The carryovers expire in various years from 2021 to 2023.
- Obligations for certain accrued expenses have no tax basis. Those accrued expenses will be deductible as payments are made in future periods.
- Expenses recorded for rents related to the deferred rent liability have no tax basis. The rent expense will be deductible as payments are made in future periods.

Deferred income tax liabilities are attributable to the following:

- Charitable contributions deductible for tax purposes have no book basis. The contributions will have a book basis in the period the promise to give was made.
- The basis of property and equipment for financial reporting exceeds its basis for tax purposes by the cumulative amount of the income tax depreciation over financial reporting depreciation. The excess will be taxable in future periods through reduced depreciation deductions for tax purposes.

The provision for income taxes consist of:	2008	2007
Current provision:		
Federal	$ 1,201,228	$ 464,800
State	247,789	74,800
Total current provision	1,449,017	539,600
Deferred provision:		
Federal	(368,406)	196,000
State	(59,577)	31,700
Total deferred provision	(427,983)	227,700
Total income taxes	$ 1,021,034	$ 767,300

(8) Income taxes (continued)

The components of deferred tax assets and liabilities included in the accompanying balance sheets are as follows:

	2008	2007
Current deferred income tax assets (liabilities):		
Accrued expenses	$ 499,275	$ 220,000
Charitable contributions	-	(80,900)
Net current deferred income tax assets	$ 499,275	$ 139,100
Noncurrent deferred income tax assets (liabilities):		
Property and equipment	$ (130,554)	$ (231,500)
Net operating loss carryovers	61,505	101,000
Deferred rent	116,857	110,500
Net noncurrent deferred income tax assets (liabilities)	$ 47,808	$ (20,000)

The provision for federal income taxes differs from that computed by applying federal statutory rates to income before federal income tax expense, as indicated in the following analysis:

Federal statutory income tax at 34%	$ 721,271	$ 519,500
Effect of book amortization not deductible for tax	134,113	134,100
Effect of state income taxes	148,497	106,500
Effect of non deductible meals, travel, and entertainment	9,349	21,500
Other	7,804	(14,300)
Total provision for income taxes	$ 1,021,034	$ 767,300

(9) Leases

The Company leases office space and equipment under operating leases expiring in various years through 2014. Minimum future rental payments under noncancellable operating leases having remaining terms in excess of one year including leases entered into by the Company through the date of this report, are as follows:

Years Ending June 30,	
2009	$ 1,934,427
2010	1,912,616
2011	858,797
2012	759,025
2013	758,026
Thereafter	774,870
Total minimum future rental payments	$ 6,997,761

Total rental expense under operating leases with terms in excess of one month was $2,064,321 for the year ended June 30, 2008 and $1,821,249 for the year ended June 30, 2007.

Some of the operating leases above contain renewal options while others make no provision for renewal options. In the normal course of business the Company will either renew leases or seek other arrangements.

(10) Employee benefit plans

The Company has a profit-sharing plan covering employees who meet specified age and service requirements. Contributions to the profit-sharing plan are determined annually at the discretion of the Company's Board of Directors. There was no profit-sharing contribution for the year.

The profit-sharing plan also allows for employees to make salary deferrals. Eligible employees may elect to defer a portion of their salary on a before-tax basis subject to specific dollar and percentage limits as determined by the Internal Revenue Service. The plan provides for the Company to match up to 50% of the employee's contribution limited to 3% of their total compensation. The matching contributions made by the Company were $342,238 for the year ended June 30, 2008 and $300,881 for year ended June 30, 2007.

The Company has an employee stock ownership plan (ESOP) covering employees who meet specified age and service requirements. Contributions are determined annually at the discretion of the Company's Board of Directors. The Company made contributions to the ESOP of $826,716 for the year ended June 30, 2008 and $715,835 for the year ended June 30, 2007.

(11) Concentrations

The Company generates a substantial portion of its revenues from a contract with the federal government. The Company is the sole provider of Quality Improvement Organization (QIO) review services, formerly Peer Review Organization (PRO), in Arizona and Florida under specific contracts with the federal government's Centers for Medicare & Medicaid Services (CMS), formerly Health Care Financing Administration (HCFA). The Company is responsible under its Arizona and Florida QIO contract to promote effective, efficient and economical delivery of quality health care services to Medicare beneficiaries.

During the year ended June 30, 2008, revenues from contracts with CMS were $24,344,523 and during the year ended June 30, 2007 revenues from contracts with CMS were $24,765,163. At June 30, 2008, amounts due from contracts included in receivables were $4,448,025 and at June 30, 2007 amounts due from the contracts included in receivables were $4,119,368.

If the Company were unable to maintain current or future contracts, the Company's operations would be substantially affected.

(12) Accrued litigation costs

FMQAI is a defendant in a lawsuit alleging wrongful termination and malicious prosecution by a former executive. Management is vigorously defending the claim. It was estimated by the Company's management and its legal counsel that the Company may be obligated to pay approximately $425,000 and $340,000 in total settlement costs for this lawsuit as of June 30, 2008 and 2007, respectively. During 2007, the Company paid $225,000 to the plaintiff as a partial settlement of this lawsuit. These amounts are included in accrued litigation costs on the accompanying consolidated balance sheets as of June 30, 2008 and 2007.

(13) Purchase agreement contingency

In conjunction with the purchase of FMQAI in 2003, the Company is liable for holdbacks and claims related to the final closing. The recorded balances of $0 and $250,302 as of June 30, 2008 and 2007, respectively, may be payable to the former owner of FMQAI, upon the resolution of certain contingencies as outlined in the stock purchase agreement. During the years ended June 30, 2008 and 2007, the Company paid settlement cost related to these contingencies, which resulted in a direct reduction of the holdback due to the former owner of FMQAI as provided in the stock purchase agreement.

(14) Commitments and contingencies

Contract revenue received on government contracts is subject to future audit and adjustment by government audit agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the Company. The amount of costs and related revenue that may be disallowed by future government audits cannot be determined at this time. However, the Company expects such amounts, if any, to be immaterial.

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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors and Stockholders of

HEALTH SERVICES HOLDINGS, INC. AND SUBSIDIARIES

Our report on our audits of the basic consolidated financial statements of ***Health Services Holdings, Inc. and Subsidiaries*** for the year ended June 30, 2008 and 2007 appears on page 1. Those audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidating balance sheet on page 14 and the consolidating statement of income and retained earnings on page 15 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies. Such information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

Phoenix, Arizona
January 16, 2009

Mayer Hoffman McCann P.C.

HEALTH SERVICES HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING BALANCE SHEET

June 30, 2008

ASSETS

	Health Services Holding, Inc.	Health Services Advisory Group, Inc.	Florida Medical Quality Assurance, Inc.	Eliminations	Consolidated totals 2008	Consolidated totals 2007
CURRENT ASSETS						
Cash and cash equivalents	$ 203,885	$ 6,434,884	$ 1,577,215	$ -	$ 8,215,984	$ 2,910,120
Receivables	600	5,647,744	4,122,681	(86,536)	9,684,489	7,876,730
Due from affiliates	3,115,722	103,608	-	(3,219,330)	-	-
Prepaid expenses and other current assets	108,664	403,028	291,112	-	802,804	675,599
State income taxes	-	-	17,028	-	17,028	-
Deferred income taxes	18,260	87,387	393,628	-	499,275	139,100
TOTAL CURRENT ASSETS	3,447,131	12,676,651	6,401,664	(3,305,866)	19,219,580	11,601,549
INVESTMENT IN SUBSIDIARY	654,184	-	-	(654,184)	-	-
PROPERTY AND EQUIPMENT, net	79,987	1,503,065	1,214,946	-	2,797,998	3,109,845
DEFERRED INCOME TAXES	1,961	-	211,237	(165,390)	47,808	-
INTANGIBLE ASSET, net	-	-	164,355	-	164,355	558,804
OTHER ASSETS	-	113,260	-	-	113,260	113,260
TOTAL ASSETS	$ 4,183,263	$ 14,292,976	$ 7,992,202	$ (4,125,440)	$ 22,343,001	$ 15,383,458

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES						
Notes payable	$ -	$ -	$ -	$ -	$ -	$ -
Accounts payable	4,266	772,066	1,096,751	(86,533)	1,786,550	1,574,829
Accrued expenses	4,776,657	1,670,874	1,346,704	-	7,794,235	3,714,314
Deferred revenues	-	2,610,178	831,459	122,365	3,564,002	2,329,496
Income taxes payable	404,246	36,483	-	-	440,729	406,908
Other current liabilities	-	-	1,225,000	-	1,225,000	370,000
Current maturities of long-term debt	-	-	-	-	-	-
Current portion of capital lease obligation	-	117,737	-	-	117,737	104,775
Due to affiliates	662,366	776,901	1,780,067	(3,219,334)	-	-
TOTAL CURRENT LIABILITIES	5,847,535	5,984,239	6,279,981	(3,183,502)	14,928,253	8,500,322
ACCRUED LITIGATION COSTS	-	-	200,000	-	200,000	115,000
DEFERRED RENT	-	9,340	858,037	-	867,377	1,010,709
CONTINGENT LIABILITY	-	-	-	-	-	250,302
DEFERRED INCOME TAXES	-	165,390	-	(165,390)	-	20,000
CAPITAL LEASE OBLIGATION, less current portion	-	216,913	-	-	216,913	334,649
TOTAL LIABILITIES	5,847,535	6,375,882	7,338,018	(3,348,892)	16,212,543	10,230,982
COMMON STOCK	-	3,232	10,000	(10,000)	3,232	3,232
ADDITIONAL PAID-IN CAPITAL	-	-	2,173,300	(2,173,300)	-	-
RETAINED EARNINGS (ACCUMULATED DEFICIT)	(1,664,272)	7,913,862	(1,529,116)	1,406,752	6,127,226	5,149,244
TOTAL STOCKHOLDERS' EQUITY (DEFICIT)	(1,664,272)	7,917,094	654,184	(776,548)	6,130,458	5,152,476
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$ 4,183,263	$ 14,292,976	$ 7,992,202	$ (4,125,440)	$ 22,343,001	$ 15,383,458

See Independent Auditors' Report on Additional Information

HEALTH SERVICES HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATING STATEMENT OF INCOME AND RETAINED EARNINGS

Year Ended June 30, 2008

	Health Services Holdings Inc.	Health Services Advisory Group, Inc.	Florida Medical Quality Assurance Inc.	Eliminations	Consolidated totals 2008	Consolidated totals 2007
SERVICE REVENUES						
Federal contracts	$ -	$ 8,609,718	$ 15,734,805	$ -	$ 24,344,523	$ 24,765,163
State and corporate contracts	-	18,444,737	5,005,575	(346,017)	23,104,295	14,716,810
TOTAL SERVICE REVENUES	-	27,054,455	20,740,380	(346,017)	47,448,818	39,481,973
DIRECT EXPENSES	-	15,712,968	13,671,266	(223,652)	29,160,582	27,779,326
GROSS MARGIN	-	11,341,487	7,069,114	(122,365)	18,288,236	11,702,647
ADMINISTRATIVE EXPENSES	368,912	8,332,619	7,183,282	-	15,884,813	9,746,979
INCOME FROM OPERATIONS BEFORE AMORTIZATION EXPENSE	(368,912)	3,008,868	(114,168)	(122,365)	2,403,423	1,955,668
INTANGIBLE ASSET AMORTIZATION EXPENSE	-	-	394,449	-	394,449	394,449
INCOME FROM OPERATIONS	(368,912)	3,008,868	(508,617)	(122,365)	2,008,974	1,561,219
OTHER INCOME (EXPENSE)	(458,376)	(9,961)	3	458,376	(9,958)	(33,132)
INCOME BEFORE INCOME TAXES	(827,288)	2,998,907	(508,614)	336,011	1,999,016	1,528,087
INCOME TAXES						
Current provision	(106,341)	1,363,832	191,526	-	1,449,017	539,600
Deferred provision (benefit)	(79,821)	(106,397)	(241,765)	-	(427,983)	227,700
TOTAL INCOME TAXES	(186,162)	1,257,435	(50,239)	-	1,021,034	767,300
NET INCOME	(641,126)	1,741,472	(458,375)	336,011	977,982	760,787
RETAINED EARNINGS, BEGINNING OF YEAR	(1,023,146)	6,172,390	(1,070,741)	1,070,741	5,149,244	4,388,457
RETAINED EARNINGS, END OF YEAR	$ (1,664,272)	$ 7,913,862	$ (1,529,116)	$ 1,406,752	$ 6,127,226	$ 5,149,244

See Independent Auditors' Report on Additional Information