

PATIENT SERVICES, INC.

**Consolidated Financial Statements
December 31, 2009**

PATIENT SERVICES, INC.

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Independent Auditors' Report

The Board of Directors
Patient Services, Inc.
Midlothian, Virginia

We have audited the accompanying statement of financial position of Patient Services, Inc. and Positodes Pharmacy, Inc. (collectively, the "Organization") as of December 31, 2009, and the related statements of activities, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 Patient Services, Inc. and Positodes Pharmacy, Inc. at December 31, 2009, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Cherry, Bekaert + Holland, LLP

Richmond, Virginia
April 27, 2010

Patient Services, Inc.

Consolidated Statement of Financial Position December 31, 2009

ASSETS

CURRENT ASSETS

| | |
|-----------------------------|---------------|
| Cash and cash equivalents | \$ 18,334,140 |
| Contract fees receivable | 23,069,774 |
| Accounts receivable - other | 490,360 |
| Other prepaid expenses | 15,706 |

Total current assets 41,909,980

PROPERTY AND EQUIPMENT

| | |
|--------------------------|-----------|
| Land | 482,307 |
| Buildings | 2,968,107 |
| Furniture and equipment | 3,205,700 |
| Construction in progress | 130,609 |

6,786,723

Less accumulated depreciation 2,992,573

Total property and equipment 3,794,150

OTHER ASSETS

| | |
|-----------------------------|---------|
| Intellectual property | 476,000 |
| Prescription drug inventory | 228,579 |
| Deferred financing costs | 5,495 |
| Deposits | 58,929 |

Total other assets 769,003

Total assets \$ 46,473,133

Patient Services, Inc.

Consolidated Statement of Financial Position
December 31, 2009

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

| | |
|-----------------------------------|----------------|
| Current portion of long-term debt | \$ 1,595,863 |
| Accounts payable | 248,920 |
| Accrued expenses | <u>807,364</u> |

Total current liabilities 2,652,147

OTHER LIABILITIES

| | |
|--|----------------|
| Long-term debt, net of current portion | <u>276,905</u> |
|--|----------------|

Total liabilities 2,929,052

NET ASSETS

| | |
|-----------------------------------|-------------------|
| Unrestricted net assets | |
| Undesignated | 6,046,459 |
| Board designated | 92,794 |
| Temporarily restricted net assets | <u>37,404,828</u> |

Total net assets 43,544,081

Total liabilities and net assets \$ 46,473,133

Patient Services, Inc.

Consolidated Statement of Activities Year Ended December 31, 2009

| | Unrestricted | Temporarily Restricted | Total |
|---|--------------|---------------------------|---------------|
| REVENUES AND OTHER SUPPORT | | | |
| Contributions | \$ 5,519,833 | \$ 54,157,494 | \$ 59,677,327 |
| In-kind contribution prescription drugs | - | 576,034 | 576,034 |
| Fees for contracted services | 439,204 | 1,110,537 | 1,549,741 |
| Interest income | 17,773 | 3,522 | 21,295 |
| Miscellaneous income | 15,703 | - | 15,703 |
| Net assets released from restrictions | 32,356,453 | (32,356,453) | - |
| | 38,348,966 | 23,491,134 | 61,840,100 |
| EXPENSES | | | |
| Program services | 35,083,119 | - | 35,083,119 |
| Fund-raising | 623,678 | - | 623,678 |
| Management and general | 2,870,678 | - | 2,870,678 |
| | 38,577,475 | - | 38,577,475 |
| NON-OPERATING | | | |
| Unrealized gain on investments | - | 10,320 | 10,320 |
| | (228,509) | 23,501,454 | 23,272,945 |
| NET ASSETS | | | |
| Beginning of year | 6,274,968 | 13,996,168 | 20,271,136 |
| Ending | \$ 6,046,459 | \$ 37,497,622 | \$ 43,544,081 |

Patient Services, Inc.

Consolidated Statement of Cash Flows Year Ended December 31, 2009

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|---|---------------|
| Change in net assets | \$ 23,272,945 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | |
| Depreciation expense | 775,204 |
| Amortization expense | 4,346 |
| Changes in assets and liabilities: | |
| Contract fees receivable | (23,069,774) |
| Accounts receivable - other | (243,683) |
| Other prepaid expenses | 34,850 |
| Inventory | (228,579) |
| Vendor deposits | (58,931) |
| Accounts payable | 196,361 |
| Accrued expenses | 588,186 |
| | <hr/> |
| Net cash provided by operations | 1,270,925 |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---------------------------------------|-----------|
| Purchase of property and equipment | (255,345) |
| Accrued interest payable | 6,320 |
| | <hr/> |
| Net cash used in investing activities | (249,025) |

CASH FLOWS FROM FINANCING ACTIVITIES

| | |
|---|-----------|
| Principal repayment of long-term debt | (158,271) |
| | <hr/> |
| Net cash used in financing activities | (158,271) |
| | <hr/> |
| Net increase in cash and cash equivalents | 863,629 |

CASH AND CASH EQUIVALENTS

| | |
|-----------|---------------------------|
| Beginning | <hr/> 17,470,511 |
| Ending | <hr/> <hr/> \$ 18,334,140 |

SUPPLEMENTAL CASH FLOW DISCLOSURES

| | |
|--|------------------------|
| Cash paid for interest | <hr/> <hr/> \$ 133,374 |
| Noncash contributions - Prescription drugs | <hr/> <hr/> \$ 576,034 |

Patient Services, Inc.

Consolidated Statement of Functional Expenses Year Ended December 31, 2009

| | Program Services | Fund - Raising | Management and General | Total |
|--------------------------------------|----------------------|-------------------|---------------------------|----------------------|
| DIRECT EXPENSES | | | | |
| Premiums/co-payment assistance | \$ 29,238,942 | \$ - | \$ - | \$ 29,238,942 |
| In-kind prescription drug assistance | 347,455 | - | - | 347,455 |
| Pagers | 3,940 | - | - | 3,940 |
| MedicAlert | 4,659 | - | - | 4,659 |
| Medical supplies | 58,343 | - | - | 58,343 |
| | <hr/> | | | |
| Total direct expenses | 29,653,339 | - | - | 29,653,339 |
| INDIRECT EXPENSES | | | | |
| Advertising | 11,896 | 4,349 | 542 | 16,787 |
| Bank fees | 3,633 | 25 | 2,547 | 6,205 |
| Conferences and travel | 143,114 | 63,567 | 96,299 | 302,980 |
| Continuing education | 4,227 | - | 3,961 | 8,188 |
| Depreciation | 419,807 | 1,966 | 353,431 | 775,204 |
| Dues and subscriptions | 16,190 | 2,298 | 4,390 | 22,878 |
| Gifts and incentives | 21,061 | 721 | 11,133 | 32,915 |
| Insurance | 10,574 | 98 | 8,759 | 19,431 |
| Interest expense | 142,522 | 947 | 93,572 | 237,041 |
| Legal and accounting | 110,808 | 582 | 61,944 | 173,334 |
| Meals | 25,046 | 5,885 | 22,451 | 53,382 |
| Miscellaneous | 8,901 | - | 9,045 | 17,946 |
| Network | 262,848 | 4,987 | 111,784 | 379,619 |
| Occupancy | 173,210 | 2,287 | 87,818 | 263,315 |
| Office expense | 181,745 | 4,239 | 67,189 | 253,173 |
| Patient representation | 40,427 | - | - | 40,427 |
| Registration fees | 296,512 | 44,626 | 41,461 | 382,599 |
| Salaries and benefits | 3,249,293 | 414,733 | 1,682,186 | 5,346,212 |
| Subcontractors | 208,628 | 54,253 | 181,118 | 443,999 |
| Taxes and licenses | 36,318 | 7 | 10,498 | 46,823 |
| Telecommunications | 47,170 | 5,795 | 20,462 | 73,427 |
| Contributions | 8,850 | - | - | 8,850 |
| Penalties | - | - | 88 | 88 |
| Scholarship costs | - | 4,431 | - | 4,431 |
| Scholarships awarded | 7,000 | - | - | 7,000 |
| Golf fund costs | - | 7,882 | - | 7,882 |
| | <hr/> | | | |
| Total indirect expenses | 5,429,780 | 623,678 | 2,870,678 | 8,924,136 |
| | <hr/> | | | |
| TOTAL FUNCTIONAL EXPENSES | \$ 35,083,119 | \$ 623,678 | \$ 2,870,678 | \$ 38,577,475 |

PATIENT SERVICES, INC.

Notes to Financial Statements
December 31, 2009

Note 1 – Nature of Operations and Significant Accounting Policies

Patient Services, Inc. (“PSI”) is a national non-profit organization based in Midlothian, Virginia. PSI provides financial support to patients and families affected by Acromegaly, Advanced Idiopathic Parkinson's Disease, Alpha 1 Antitrypsin Deficiency, Bone Metastases, Chronic Myelogenous Leukemia, Cutaneous T-Cell Lymphoma (CTCL), Cystic Fibrosis (with Pseudomonas), Fabry Disease, Gastrointestinal Stromal Tumors, Hemophilia, Hereditary Angioedema (C1 Inhibitor Deficiencies), Medicare Part D Beneficiaries with HIV/AIDS, Inhibitors in Hemophilia, Insulin like Growth Factor 1 Deficiency (IGF1), MPS 1, Pompe Disease, Primary Immune Deficiency, Severe Congenital Protein C Deficiency, and von Willebrand Disease. In addition, PSI provides compassionate prescription drugs through the PSI-PI Pharmacy (a non-profit pharmacy) as well as helps with advocacy with Social Security Disability through it's A.C.C.E.S.S.[®] (Advocating for Chronic Conditions, Entitlements and Social Services) Program.

During 2009 Patient Services, Inc. entered into a sole membership agreement with Positudes, Inc. d/b/a PSI-PI Pharmacy. In the sole membership agreement the majority of the Positudes/PSI-PI Pharmacy is comprised of PSI Board Members. Also, to keep the organizations compliantly separated, an Administration Agreement and Service Agreement have been transacted between the two organizations. Under the sole membership agreements the PSI-PI Pharmacy will distribute compassionate prescription medications for pharmaceutical companies' Patient Assistance Programs. This helps ensure that the uninsured and underinsured can receive the life sustaining medications that they need. The PSI-PI Pharmacy never sells medications and works directly with manufacturers who ship their donated medications directly to our pharmacy. Upon receipt of these medications, we utilize the strictest of inventory controls. When a patient has met certain eligibility criteria for a particular program, and when their doctor has provided a valid and current prescription, we ship the medication either directly to the patient or to their health care provider at no cost to the patient.

As a result of the sole membership agreement PSI has both financial control in terms of support for the Pharmacy and management control with a majority of the PSI-PI Pharmacy board members being PSI board members. PSI's support to the Pharmacy amounted to \$540,000 in 2009. This level of control requires that the financial activities of the PSI-PI Pharmacy be consolidated with those of PSI and have been so consolidated in the above consolidated financial statements. All significant inter-entity transactions and accounts have been eliminated. Prior to 2009 the Pharmacy's accounting was on a modified cash basis therefore comparative 2008 information is not presented above.

Basis of presentation - PSI's consolidated financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). The accrual basis of accounting records revenue in the period in which earned rather than when received and records expenses in the period in which incurred rather than when paid.

In accordance with GAAP, PSI is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Unrestricted net assets include \$92,794 designated by the PSI-PI Pharmacy board for a scholarship program for the benefit of high school seniors with a chronic disorder who will be continuing their education. Total temporarily restricted net assets of \$37,404,828 are restricted by donors for program purposes in the amount of \$32,831,903 and restricted by time for administrative purposes in the amount of \$4,572,925. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restriction.

PATIENT SERVICES, INC.

Notes to Financial Statements
December 31, 2009

Note 1 – Nature of Operations and Significant Accounting Policies (continued)

Cash and cash equivalents - For purposes of reporting cash flows, PSI considers demand deposits and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Use of estimates - The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, the actual results could differ from those estimates. Any adjustments applied to estimated amounts are recognized in the year in which such adjustments are determined.

Promises to give - Contributions are promises to give to PSI that are, in substance, unconditional. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires or is otherwise satisfied, temporarily restricted net assets are reclassified to unrestricted net assets.

Property and equipment - Property and equipment are recorded at cost if purchased or fair value if contributed. Depreciation is computed using an accelerated method for furniture and equipment and the straight-line method for buildings and improvements over estimated useful lives as follows:

| | |
|-------------------------|---------------|
| Furniture and equipment | 5 - 15 years |
| Buildings | 15 - 39 years |

New acquisitions of property and equipment having a cost of less than \$2,500, or which are not expected to last for more than a year, are expensed in the year of acquisition. Depreciation expense was \$775,204 for 2009.

Management reviews the recorded value of the property for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable.

Contract fees receivable - Contract fees receivable consist primarily of amounts due from donors and state government grants. Receivables are recorded at the net realizable value, which approximates their fair value. Due to the nature of the receivables, bad debts are immaterial, and PSI has not established an allowance for doubtful accounts. Management reviews receivables on a regular basis and accounts are written-off once deemed uncollectible.

Functional allocation of expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income taxes - PSI and PIS-PI Pharmacy are exempt from paying income taxes under Internal Revenue Code Section 501(c)(3) and are organizations that are not a private foundation under Section 509(A)(1). No income tax was paid by either organization during the year ended December 31, 2009.

Deferred financing costs - Deferred financing costs are amortized over the life of the related long-term debt using the straight-line method.

Advertising - Advertising costs are expensed as incurred and are included in functional expenses in the accompanying statement of activities. Advertising expense for the year ended December 31, 2009 was \$16,788.

Sole membership - Via the sole membership agreement, PSI and Positudes have an administrative agreement where by PSI provides the accounting/bookkeeping for Positudes and a service agreement where by Positudes provides the dispensing and shipping of free prescription drugs for manufacturer free drug programs.

PATIENT SERVICES, INC.

Notes to Financial Statements
December 31, 2009

Note 2- Long Term Debt

Long-term debt as of December 31, 2009 consists of the following:

| | |
|--|--------------------------|
| Note payable dated December 21, 2005 in the principal amount of \$1,400,000; the note is collateralized by real property, bearing interest at 6.875%, due monthly at \$12,563 and matures December 21, 2010. | \$ 1,137,674 |
| Note payable dated December 20, 2006 in the principal amount of \$425,000; the note is collateralized by real property, bearing interest at 7.5%, due monthly at \$4,120 and matures December 21, 2010. | 367,704 |
| Note payable dated December 20, 2006 in the principal amount of \$350,000; the note is collateralized by real property, bearing interest at 6.68%, due monthly at \$3,305 and matures June 23, 2020. | 297,390 |
| Note payable dated November 5, 2007 in the principal amount of \$170,000; the note is collateralized by real property, bearing interest at 6.75%, due annually and matures February 3, 2010. | <u>70,000</u> |
| | 1,872,768 |
| Less current maturities | <u>1,595,863</u> |
| Total long-term debt | <u><u>\$ 276,905</u></u> |

Aggregate maturities required on principal are as follows:

| | |
|------------|----------------------------|
| 2010 | \$ 1,595,863 |
| 2011 | 21,897 |
| 2012 | 23,405 |
| 2013 | 25,017 |
| 2014 | 26,741 |
| Thereafter | <u>179,845</u> |
| | <u><u>\$ 1,872,768</u></u> |

PATIENT SERVICES, INC.

Notes to Financial Statements
December 31, 2009

Note 3 – Intellectual Property

Intellectual property in the amount of \$476,000 was acquired from a member of management of PSI in 2004. In accordance with GAAP, no amortization of intangible assets with an indefinite life has been recorded. PSI assesses intellectual property for impairment annually. No impairment adjustments were recorded during 2009.

Note 4 - Leases

As lessee, PSI has three operating lease for equipment, a month to month lease for storage, and two office leases for its locations in Tampa, Florida and Westbury, New York. Rent expense for 2009 was \$105,519.

Future minimum lease payments to be paid are as follows:

| | |
|------|-------------------|
| 2010 | \$ 117,855 |
| 2011 | 55,623 |
| 2012 | 17,867 |
| 2013 | 5,934 |
| | <u>\$ 197,279</u> |

Note 5 – Fund Raising Expenditures

PSI solicits funds from organizations and individuals within the chronic illness community. Contributions are solicited through attending conferences, direct contact, literature mailings and other methods. Fund-raising expenditures totaled \$623,678 in 2009.

Note 6 – Retirement Plan

Effective January 1, 2004, PSI sponsors a qualified defined contribution plan under section 403(b) of the Internal Revenue Code, which covers eligible full-time employees after six months of continuous service. Voluntary contributions made by PSI are determined annually. Retirement expense for the year ended December 31, 2009 was \$159,626.

Note 7 - Concentrations

PSI maintains several bank accounts at one bank located in Richmond, Virginia. The Federal Deposit Insurance Corporation (FDIC) temporarily increased coverage to \$250,000 for substantially all depository accounts and temporarily provides unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts. The increased coverage is schedule to expire on December 31, 2013, at which time it is anticipated amounts insured by the FDIC will return to \$100,000. Cash at this institution exceeded federally insured limits. The amount in excess of the FDIC limit totaled \$12,280,588 as of December 31, 2009. Other accounts maintained in Florida and New York have balances below the FDIC limit.

PSI maintains money market funds through two financial institutions. The Securities Investor Protection Corporation (SIPC) insures deposits up to \$500,000. The amount in excess of the SPIC limit totaled \$4,867,289 as of December 31, 2009.

For the year ended December 31, 2009, contributions from six grantors comprised approximately 95% of total contributions. In addition, 86% of contract fees receivable are due from one donor as of December 31, 2009.

PATIENT SERVICES, INC.

Notes to Financial Statements
December 31, 2009

Note 8 – Accounting for Uncertainty in Income Tax

PSI is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Management has evaluated the effect of the guidance provided by U.S. Generally Accepted Accounting Principles on Accounting for Uncertainty in Income Taxes that became effective this year. Management believes that the Organization continues to satisfy the requirements of a tax-exempt organization at December 31, 2009. Management has evaluated all other tax positions that could have a significant affect on the consolidated financial statements and determined the Organization had no uncertain income tax positions at December 31, 2009.

Note 9 – Subsequent Events

PSI has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2009 consolidated financial statements through April 27, 2010, the date the consolidated financial statements were available to be issued.