Maxim Healthcare Services, Inc. and Subsidiaries

Consolidated Financial Statements
December 31, 2011 and 2010

Maxim Healthcare Services, Inc. and Subsidiaries
Index
December 31, 2011 and 2010

Report of Independent Auditors

To the Stockholders of Maxim Healthcare Services, Inc. and Subsidiaries:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, changes in stockholders' equity and cash flows present fairly, in all material respects, the financial position of Maxim Healthcare Services, Inc. and Subsidiaries (the "Company") as of December 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for revenue recognition in 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2013 on our consideration of the Company's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

PricewaterhouseCoopers LLP

January 16, 2013

PricewaterhouseCoopers LLP, 100 E. Pratt Street, Suite 1900, Baltimore, MD 21202
T: (410) 783-7600, F: (410) 783-7680, www.pwc.com

Maxim Healthcare Services, Inc. and Subsidiaries
Consolidated Balance Sheets (in thousands)
December 31, 2011 and 2010

	2011	2010
Assets		
Current assets		
Cash and cash equivalents	$ 10,093	$ 30,775
Accounts receivable, less allowance for doubtful accounts of $21,181 and $28,472 in 2011 and 2010, respectively	210,689	214,451
Inventory	889	3,354
Prepaid expenses	5,190	25,033
Other current assets	10,893	11,612
Total current assets	237,754	285,225
Property and equipment, net	22,654	17,928
Other assets, net	50,444	52,515
Total assets	$ 310,852	$ 355,668
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 12,429	$ 4,681
Accrued compensation and related costs	42,636	36,858
Due to affiliate	115	196
Deferred compensation	19,206	9,718
Other accrued expenses	58,011	125,829
Credit facility	15,908	-
Total current liabilities	148,305	177,282
Other accrued expenses	71,168	71,309
Deferred compensation	59,233	67,688
Total liabilities	278,706	316,279
Stockholders' equity		
Common stock	4	4
Additional paid-in capital	152	152
Retained earnings	35,538	76,014
Stockholder tax advances	(3,548)	(36,781)
Total stockholders' equity	32,146	39,389
Total liabilities and stockholders' equity	$ 310,852	$ 355,668

The accompanying notes are an integral part of these consolidated financial statements.

Maxim Healthcare Services, Inc. and Subsidiaries
Consolidated Statements of Operations (in thousands)
Years Ended December 31, 2011 and 2010

	2011	2010
Revenues	$ 1,341,647	$ 1,391,267
Operating expenses	1,350,696	1,337,813
Goodwill impairment	2,687	-
(Loss) income from operations	(11,736)	53,454
Investment income	269	188
Interest expense	(2,498)	(1,413)
(Loss) income before provision for income taxes	(13,965)	52,229
Benefit for income taxes	346	367
(Loss) income from continuing operations	(13,619)	52,596
Loss from discontinued operations, net of taxes	-	(222)
Net (loss) income	$ (13,619)	$ 52,374

The accompanying notes are an integral part of these consolidated financial statements.

Maxim Healthcare Services, Inc. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity (in thousands)
Years Ended December 31, 2011 and 2010

	Common Stock	Additional Paid-in Capital	Retained Earnings	Stockholder Tax Advances	Total
Balance, December 31, 2009	$ 4	$ 152	$ 54,225	$ (42,940)	$ 11,441
Stockholder tax advances	-	-	-	(24,426)	(24,426)
Dividends on common stock and repayments of stockholder advances	-	-	(30,585)	30,585	-
Net income	-	-	52,374	-	52,374
Balance, December 31, 2010	4	152	76,014	(36,781)	39,389
Stockholder tax advances	-	-	-	(7,768)	(7,768)
Dividends on common stock and repayments of stockholder advances	-	-	(26,857)	41,001	14,144
Net loss	-	-	(13,619)	-	(13,619)
Balance, December 31, 2011	$ 4	$ 152	$ 35,538	$ (3,548)	$ 32,146

The accompanying notes are an integral part of these consolidated financial statements.

Maxim Healthcare Services, Inc. and Subsidiaries
Consolidated Statements of Cash Flows (in thousands)
Years Ended December 31, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Net (loss) income	$ (13,619)	$ 52,374
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities		
Depreciation and amortization	9,748	11,012
Deferred taxes	(263)	(1,178)
Stock-based compensation	6,340	4,472
Deferred compensation payments	(5,307)	(6,203)
Loss on sale of assets	65	272
Goodwill impairment	2,687	-
Changes in operating assets and liabilities		
Decrease (increase) in:		
Accounts receivable, net	3,762	25,553
Inventory	2,465	(2,784)
Prepaid expenses	19,843	(19,588)
Other current assets	719	(135)
Increase (decrease) in:		
Accounts payable	7,748	2,192
Accrued compensation and related costs	5,778	4,789
Due to affiliate	(81)	20
Other accrued expenses	(67,697)	(4,518)
Net cash (used in) provided by operating activities	(27,812)	66,278
Cash flows from investing activities		
Purchases of fixed assets	(13,101)	(11,359)
(Increase) decrease in other assets	(19)	(1,993)
Net cash used in investing activities	(13,120)	(13,352)
Cash flows from financing activities		
Borrowings under credit facility	384,000	-
Payments under credit facility	(368,092)	(10,903)
Payments made for financing fees	(2,034)	(67)
Stockholder tax advances	(7,768)	(24,426)
Repayments of stockholder tax advances	14,144	-
Net cash provided by (used in) financing activities	20,250	(35,396)
Net (decrease) increase in cash and cash equivalents	(20,682)	17,530
Cash and Cash Equivalents		
Beginning of year	30,775	13,245
End of year	$ 10,093	$ 30,775
Supplemental cash flow information		
Cash paid for		
Interest	$ 3,325	$ 73
Taxes	438	1,031

The accompanying notes are an integral part of these consolidated financial statements.

1. Business Description

Maxim Healthcare Services, Inc. and Subsidiaries (collectively, "Maxim" or the "Company") provide temporary nursing and other medical personnel services to individuals, hospitals, nursing homes and other facilities throughout the United States. In addition, Maxim administers and delivers vaccination and wellness services.

Maxim's wholly owned subsidiaries include the following: Maxim Health Systems, LLC; Maxim of New York, LLC; Care Focus, Inc.; Maxim Government Services, LLC; Professional Healthcare Associates, LLC; TimeLine Recruiting, LLC; Maxim Physician Resources, LLC; Centrus Premier Home Care, Inc.; Maxim Home Health Resources, LLC; Reflectxion Resources II, Inc.; and Orbis Clinical, LLC. The accompanying consolidated financial statements include the accounts of Maxim Healthcare Services, Inc. and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation.

2. Summary of Significant Accounting Policies and Practices

Basis of Accounting
The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("USA").

Change in Accounting Principle
Effective January 1, 2011, the Company elected to change its accounting policy for revenue recognition for its homecare services business. Revenues associated with unbilled receivables are now recognized in the fiscal year that services are provided, so long as the related perfunctory supporting documentation is obtained prior to the financial statement issuance date. Previously, revenues were not recognized until perfunctory documentation was received, even if services had been provided. The new policy is preferable and improves the transparency of the Company's operating results as the revenues will be matched with the underlying costs of providing the services.

The Company has applied this change in accounting policy retrospectively. The impact of this adjustment to the financial statements for the year ended December 31, 2010 is summarized below (in thousands):

		Previously Reported		Revised		Effect of Change
Consolidated Balance Sheet:						
Accounts receivable, less allowance for doubtful accounts	$	209,751	$	214,451	$	4,700
Other accrued expenses		125,778		125,829	$	51
Retained earnings		71,365		76,014		4,649
Consolidated Statement of Operations:						
Revenues	$	1,390,067	$	1,391,267	$	1,200
Income from operations		51,866		53,454		1,588
Income before provision for income taxes		51,029		52,229		1,200
Income from continuing operations		51,410		52,596		1,186
Net income		51,188		52,374		1,186
Consolidated Statement of Cash Flows:						
Net income	$	51,188	$	52,374	$	1,186
Decrease in accounts receivable, net		26,753		25,553		(1,200)
Deferred taxes		(1,192)		(1,178)		14
Net cash provided by operating activities		66,278		66,278		-
Consolidated Statement of Changes in Stockholders' Equity						
Retained earnings - beginning of year	$	50,763	$	54,225	$	3,462
Retained earnings - end of year		71,365		76,014	$	4,649

Had this change not been made in 2011, revenues and accounts receivable would have been $1.340 billion and $208.6 million, respectively, compared to the amounts actually recorded of $1.342 billion and $210.7 million, respectively.

Discontinued Operations
In February 2009, the Company finalized an agreement to sell CareMax Medical Resources, LLC and SNI Healthcare Technologies, LLC ("CareMax") to Option Care Enterprises, Inc. (Delaware). Loss from discontinued operations presented in the Consolidated Statements of Operations relates to the CareMax sale.

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the USA requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements and in the disclosures of contingent assets and liabilities. Actual results could differ from those estimates.

Credit Risk
The Company's accounts receivable are primarily with third-party payor commercial insurance companies, individuals and the Medicare and Medicaid programs. At December 31, 2011 and 2010, the Medicare and Medicaid programs represented approximately $73.7 million (36%) and $82.6 million (40%), respectively, of accounts receivable balances. Management believes that its concentration of credit risk is limited due to the Company's number of payors as well as their dispersion across different geographic regions.

Revenue Recognition
Services are provided to certain patients covered by third-party payor programs, including various managed care organizations and the Medicare and Medicaid programs. Services are also provided to certain patients on a private pay basis. Revenues are recognized on the accrual basis at the time services are provided and are reported net of provisions for contractual allowances from third-party payors. Sales are also recognized net of allowances for differences between the amounts billed to third party payors and estimated program payment amounts. Adjustments to the estimated payment amounts based on final settlement with the programs are recorded upon settlement as an adjustment to revenue. For services that are billed directly to the patient, the Company records revenues based on the net amount which is reasonably assured of collection at the outset. See additional discussion above related to revenue recognition associated with unbilled receivables in the Company's homecare services business.

Cash and Cash Equivalents
Cash and cash equivalents include demand deposits and short-term investments with maturities of three months or less.

Accounts Receivable Net of Allowance for Doubtful Accounts
Accounts receivable are reported at net realizable value, net of contractual allowances and allowances for doubtful accounts. The Company has implemented a standardized approach to estimate the impact of such allowances based on a number of factors, including historical collection trends, the aging of accounts, current economic conditions, regulatory changes and payor reimbursement experience. The Company regularly assesses the state of its billing operations in order to identify issues which may impact the collectability of receivables or reserve estimates. Account balances are written off against the allowance when management believes it is probable the receivable will not be recovered.

Total unbilled trade accounts receivable as of December 31, 2011 and 2010 was $8.5 million and $26.4 million, respectively.

Inventory
Inventory consists of medical supplies and vaccines used to provide wellness services and are stated at the lower of cost, determined using the average cost method, or market.

Prepaid Expenses
Prepaid expenses consist primarily of prepayments made on insurance policies and lease obligations. Prepaid workers' compensation and general and professional liability insurance premiums were $81.0 thousand and $21.2 million for the years ended December 31, 2011 and 2010, respectively.

Other Current Assets
Other current assets include receivables due from employees and insurance companies, financing collateral and security deposits.

Long-lived Assets

Long-lived assets are reviewed for impairment annually for goodwill and indefinite-lived intangibles and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable for all other long-lived assets.

Property and Equipment

Property and equipment are stated at original cost, net of accumulated depreciation and amortization. Depreciation for all property and equipment other than leasehold improvements is calculated over the estimated useful lives of the assets, ranging from three to five years, using the straight-line method. Amortization of leasehold improvements is calculated using the straight-line method over the shorter of the lease term or the estimated life of the improvements.

Other Assets

Goodwill and indefinite-lived intangible assets are not amortized, but rather must be tested for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Goodwill must be tested for impairment utilizing a two-step methodology. The initial step requires the Company to determine the fair value of the Company's individual reporting units and compare the fair value to the carrying value (including goodwill) of such units. If the fair value exceeds the carrying value, no goodwill impairment loss is recognized. However, if the carrying value of a reporting unit exceeds its fair value, the goodwill of the unit could be impaired. The amount, if any, of the impairment must be measured in the second step by comparing the implied fair value of the goodwill (which the Company estimates via a discounted cash flow methodology) to its carrying amount. For other non-amortizable intangible assets, the Company estimates the fair value of each asset via a discounted cash flow methodology and compares this to its carrying amount to determine if an impairment has occurred.

Acquired intangibles, other than goodwill and indefinite-lived intangibles, are stated at original cost, net of accumulated amortization. Costs incurred in arranging financing agreements are deferred and amortized using the effective interest method over the term of the financing.

Capitalized Software Costs

The Company capitalizes certain internal-use software costs once certain criteria are met. Capitalized costs include external direct costs of materials and services consumed in developing or obtaining internal-use software, payroll costs for employees who are directly involved with the project and interest costs on qualifying expenditures. Capitalization of such costs ceases when the project is substantially complete and ready for its intended purpose. Capitalized software costs are amortized using the straight-line method over the estimated useful life of the underlying system. Preliminary project activities, training and post-implementation activities, such as maintenance, are expensed as incurred.

Other Comprehensive Income

The Company does not have any items of other comprehensive income, other than net income, for the years ended December 31, 2011 and 2010.

Fair Value Information

The carrying amounts of cash, accounts receivable, other receivables and accounts payable are considered to be representative of their respective fair values due to their short-term nature. The carrying value of the Company's debt approximates fair value given the variable nature of the interest rate.

Self-Insurance Reserves
The Company is self-insured (up to certain limits) for employee medical claims. Reserves are determined based on a number of assumptions and factors, including historical payment trends and claims history. These liabilities are not discounted.

Stock Based Compensation
The Company accounts for incentive investment units ("units") granted under its Incentive Investment Plan ("IIP Plan") and stock appreciation rights ("SARs") under its Incentive Appreciation Rights Plan ("SAR Plan") as liability awards. Units granted under the IIP Plan and SAR Plan are valued initially at their intrinsic value, subsequently valued each year end and recognized to expense on a straight-line basis over the service periods of each award (see Note 7).

Income Taxes
Maxim has elected to be treated as an S Corporation for federal and state income tax purposes, where available. As an S Corporation, the individual stockholders report their pro rata share of Maxim's taxable income on their individual income tax returns. The Company provides for income taxes in certain states that do not recognize the federal income tax status of S Corporations. The provision for state income taxes will vary based on income earned within these states.

Deferred taxes reflect the impact of temporary differences between the assets and liabilities recognized for financial reporting purposes and amounts recognized for state tax purposes based on tax laws currently enacted, as the Company prepares its tax returns using the cash method of accounting. The primary components of the Company's deferred tax assets and liabilities at December 31, 2011 and 2010 are accounts receivable, liabilities for its stock-based compensation plans and litigation matters (see Notes 7 and 8) which are not considered material for separate disclosure. The Company has recorded a non-current deferred tax asset of $1.8 million and a current deferred tax liability of $1.7 million associated with these timing differences and available state tax loss carryforwards, net of the valuation allowance described below.

Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Due to the Company's current year loss and its cumulative three year loss position, management has determined that a full valuation allowance is required for the entire net deferred tax asset as of December 31, 2011 in the amount of $453 thousand. The valuation allowance resulted in an increase to income tax expense of $453 thousand for the year ended December 31, 2011. The Company intends to maintain a valuation allowance until sufficient positive evidence exists to support a reversal.

Maxim had a tax net operating loss ("NOL") as of December 31, 2011 of $11.4 million. As an S Corporation, Maxim will not carry forward the tax NOL for federal tax purposes. However, Maxim will carry forward the tax NOL for state income tax purposes in several states. Any unused state NOLs will begin to expire in 2018.

Reclassification
Certain prior year balances have been reclassified to conform to the current year presentation.

3. Accounts Receivable Net of Allowance for Doubtful Accounts

Changes in the allowance for doubtful accounts during the years ended December 31, 2011 and 2010 consisted of the following (in thousands):

Balance, December 31, 2009	$ 34,309
Additions	15,821
Write offs, net of recoveries	(21,658)
Balance, December 31, 2010	28,472
Additions	6,414
Write offs, net of recoveries	(13,705)
Balance, December 31, 2011	$ 21,181

4. Property and Equipment

Property and equipment at December 31, 2011 and 2010 consisted of the following (in thousands):

	2011	2010
Computers and office equipment	$ 59,258	$ 49,560
Furniture and fixtures	11,004	10,089
Leasehold improvements	6,684	6,048
Vehicles	282	286
Total property and equipment	77,228	65,983
Less - accumulated depreciation and amortization	(54,574)	(48,055)
Property and equipment, net	$ 22,654	$ 17,928

Depreciation and amortization expense on property and equipment totaled $8.3 million and $8.7 million for the years ended December 31, 2011 and 2010, respectively.

5. Other Assets

Other assets at December 31, 2011 and 2010 consisted of the following (in thousands):

	2011	2010
Goodwill	$ 45,361	$ 48,048
Intangible assets - non-amortizable	423	423
Intangible assets - amortizable	10,641	10,520
Deferred financing fees	3,280	1,245
Deferred tax asset, net of valuation allowance	1,759	1,861
Total other assets	61,464	62,097
Less - accumulated amortization	(11,020)	(9,582)
Other assets, net	$ 50,444	$ 52,515

Amortization expense totaled $1.4 million and $2.3 million for the years ended December 31, 2011 and 2010, respectively.

Changes in carrying value of certain intangible assets are as follows (in thousands):

	Goodwill	Intangible assets non-amortizable	Intangible assets amortizable
Balance, December 31, 2009	$ 47,007	$ 423	$ 10,718
Additions, net	1,041	-	(198)
Balance, December 31, 2010	48,048	423	10,520
Additions, net	-	-	121
Impairment loss	(2,687)	-	-
Balance, December 31, 2011	$ 45,361	$ 423	$ 10,641

Goodwill and certain intangible asset additions in each year shown above relate to current acquisitions or contingent purchase price payments made on previous acquisitions (see Note 11).

During the year ended December 31, 2011, the Company recorded a goodwill impairment loss of $2.7 million associated with the Reflectxion Resources II, Inc. acquisition.

6. Credit Facility

Effective December 30, 2009, the Company executed a credit agreement ("Credit Agreement") with two lenders, each of which severally provides revolving commitments. The revolving commitments included a revolving line of credit and a letter of credit subfacility. In addition, one of the lenders has provided a swingline loan subfacility.

Revolving Lines of Credit

Under the Credit Agreement, the lenders collectively committed to provide a maximum borrowing of $40.0 million to the Company in the form of a revolving line of credit. The revolving line of credit was comprised of alternate base rate loans and LIBOR Rate loans. The line of credit bore interest at either (i) the prime rate plus four percent per annum ("the Alternate Base Rate") or (ii) LIBOR, (subject to a two percent minimum), plus five percent per annum ("the LIBOR Rate"). At its option, the Company was able to convert Alternate Base Rate loans to LIBOR Rate loans subject to the provisions of the Credit Agreement. The Credit Agreement's original maturity date was December 30, 2010 ("the Maturity Date"). On October 14, 2010, the Maturity Date was extended to March 1, 2011 and subsequently, on March 1, 2011, was extended to March 1, 2012.

Effective September 15, 2011, the Company amended the Credit Agreement ("Amended and Restated Credit Agreement"). The Amended and Restated Credit Agreement includes modifications to financial covenants and borrowing rates along with an increase in the maximum allowable indebtedness to $125.0 million. The Amended and Restated Credit Agreement bears interest, at the borrower's election, at either (i) the prime rate plus three percent per annum ("the Alternate Base Rate") or (ii) LIBOR plus four percent per annum ("the LIBOR Rate"). In addition, the Amended and Restated Credit Agreement includes an extension of the Maturity Date to December 30, 2013. This amendment was accounted for as a modification.

Total outstanding borrowings under the revolving lines of credit were $15.9 million and $0 at an interest rate of 6.25% and 7.25% as of December 31, 2011 and 2010, respectively.

Letters of Credit
Letters of credit obligations were provided to the Company under a credit agreement executed on April 5, 2004. This credit agreement was terminated in November 2009, except for the letters of credit obligations. These letters of credit were assumed under the Amended and Restated Credit Agreement.

The Amended and Restated Credit Agreement provides for a $4.0 million letter of credit subfacility. The lender charges a fee, for outstanding letters of credit, of 50% of the applicable margin (as defined) with respect to revolving LIBOR rate loans. The terms include a maximum maturity of one year from the date of issuance, with no minimum amount requirement.

Total letters of credit outstanding as of December 31, 2011 and 2010 were $2.8 million and $2.1 million, respectively.

Swingline Loans
The Amended and Restated Credit Agreement provides for a $4.0 million swingline loan subfacility. Swingline loan borrowings are due and payable on the Maturity Date. However, the swingline lender could, at any time, demand repayment of its swingline loan by way of revolving loan borrowings. Swingline loans bear interest at the same rate as the Alternate Base Rate loans on the revolving line of credit. There were no borrowings under the swingline loan subfacility as of December 31, 2011 and 2010.

Commitment Fees
The Amended and Restated Credit Agreement provides for an unused commitment fee for the line of credit, letters of credit and swingline loans of either .50% or .75%, depending on the level of the unused commitment.

Covenants and Repayment Guarantees
Under the Amended and Restated Credit Agreement, the Company is required to maintain various affirmative and negative covenants of a financial and non-financial nature. As of December 31, 2011 and 2010, the Company was in full compliance with such covenants, but did not meet certain financial covenants throughout 2012. The Company renegotiated the Amended and Restated Credit Agreement, including certain financial covenants, in December 2012 (see Note 13).

Repayment of any outstanding borrowings is guaranteed by all of Maxim's subsidiaries.

Financing Fees
To secure the Credit Agreement, the Company incurred $1.2 million in financing fees. The fees were fully amortized as of December 31, 2010. Additional financing fees of $2.0 million and $66.7 thousand were paid in 2011 and 2010, respectively, to amend the Credit Agreement. The fees are being amortized through the Maturity Date under the effective interest method.

The unamortized balance of deferred financing fees as of December 31, 2011 and 2010 was $1.6 million and $66.7 thousand, respectively. This balance is included within the Company's Other Assets in the accompanying consolidated balance sheets.

7. Deferred Compensation Plans

Stock-Based Compensation Plans
Maxim maintains an IIP Plan for certain key employees of the Company. Under the IIP Plan, each unit is deemed to have a value equivalent to the fair market value of one share of common stock of Maxim, as determined by the Board of Directors. The IIP Plan also provides for adjustments to the unit value equivalent to any dividends declared and paid on the common stock of Maxim but not paid

to IIP Plan participants. The Company awards units that vest immediately and are expensed in the period the award is made. The Company also awards units that vest over defined periods of time. All units that are subject to time-based vesting are charged to expense over the period between the award date and final vesting date, based on the vesting schedule. Benefits under the IIP Plan are required to be paid only upon the retirement, death, permanent disability or termination of employment. Benefits paid to participants under the IIP Plan in 2011 and 2010 were $5.1 million and $6.2 million, respectively.

In October 2004, the Company granted incentive appreciation rights ("IARs") to several members of senior management under Incentive Appreciation Rights Agreements (“IAR Agreements”). Each IAR entitles the holder to future cash benefits based on appreciation in the value of the units in the Company's IIP Plan. The appreciation for all IARs is based on the difference of the current IIP unit value and the IIP value of $10.04 at the date of the award. The IARs were scheduled to vest 20% each year end for the five years subsequent to the award date. Like the IIP Plan, payment for the IARs will be made only upon the retirement, death, permanent disability or termination of employment of the participants. All IARs awarded were made available to these employees at the same time and were vested concurrently through the final vesting date. The Company accounted for compensation expense under the IAR Agreements over the vesting period through December 2008 and subsequently recognizes any changes in fair value as compensation expense since vesting is complete, so long as the associated cash benefits have not been paid. Compensation expense totaled $0 for the years ended December 31, 2011 and 2010. At December 31, 2011 and 2010, the Company had 625.0 thousand IARs outstanding with a value of $5.9 million.

In January 2006, the Company created the SAR Plan for key employees not generally eligible to participate in the IIP Plan. Each SAR entitles the holder to future cash benefits based on appreciation in the value of the units in the Company's IIP plan. The appreciation for all SARs is based on the difference of the current IIP unit value and the IIP unit value at the date of the award. The SARs issued under the SAR Plan have various vesting periods. All SARs that are subject to vesting are charged to expense ratably over the period between the award date and final vesting date. Benefits under the SAR Plan are required to be paid only upon retirement, death, permanent disability or termination of employment.

Compensation expense with respect to SARs of $7.0 thousand and $7.3 thousand was recorded for the years ended December 31, 2011 and 2010, respectively. At December 31, 2011 and 2010, the Company had 67.3 thousand and 109.7 thousand SARs outstanding with a value of $90.2 thousand and $264.7 thousand, respectively. Benefits paid to participants under the SAR Plan were $181.6 thousand and $38.1 thousand in 2011 and 2010, respectively.

Defined Contribution Plan

Maxim participates in a multi-employer defined contribution 401(k) savings and investment plan (the “401(k) Plan”) which covers substantially all of its employees. The 401(k) Plan provides for an employer matching contribution. For the years ended December 31, 2011 and 2010, the Company incurred matching contributions of $1.8 million and $1.6 million, respectively.

In January 2009, the Company created a Performance Award Plan, to supplement the employer match under its 401(k) Plan, for employees generally not eligible to participate in the IIP or SAR Plans. The Company contributes a fixed dollar allocation equal to a specified percentage of the base award amount for the plan year, based on the participant’s years of employment. The base award amount is specified by the Company at its discretion. For the years ended December 31, 2011 and 2010, the Company incurred contributions of $0 and $840.9 thousand, pursuant to the Performance Award Plan, respectively.

8. Commitments and Contingencies

Worker's Compensation Programs

The Company maintained a reserve of $685.7 thousand and $1.2 million as of December 31, 2011 and 2010, respectively, related to its 2000-2002 workers' compensation programs. These amounts represented the actuarially determined amount of future obligations for certain losses in excess of per-claim deductible amounts and aggregate limits ("Excess Losses"). The Company determined that these reserves were necessary because the deteriorating financial condition of the original insurer on these Excess Losses, and the limited (if any) coverage available to the Company from state insurance guarantee funds if the original insurer fails to pay these Excess Losses, may force the Company to be responsible for paying these Excess Losses.

The Company has accrued a liability of $6.0 million and $3.4 million as of December 31, 2011 and 2010, respectively, related to its current workers' compensation programs.

Leases

Maxim conducts its operations in office facilities under operating leases expiring through 2020. The leases require the Company to assume a proportionate share of costs associated with the facilities, as defined in the lease. Several of the leases contain renewal options ranging from two to five years.

Future minimum annual lease payments under noncancelable operating leases consisted of the following at December 31, 2011 (in thousands):

2012	$	19,078
2013		16,347
2014		12,954
2015		6,321
2016		2,313
Thereafter		331
	$	57,344

Total rent expense was $19.7 million and $19.2 million for the years ended December 31, 2011 and 2010, respectively.

Stock Repurchase Agreements

Maxim and certain stockholders are parties to agreements requiring Maxim to redeem, at fair value, shares of common stock under certain conditions, as defined in the stock repurchase agreements. Total shares of 0 and 200 thousand were subject to these agreements for the years ended December 31, 2011 and 2010, respectively.

Litigation

Maxim is involved in various legal matters arising out of the normal course of business. In management's opinion, the Company's ultimate liability or loss, if any, resulting from such legal matters will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Notwithstanding the above, in May 2005, the U.S. Attorney's Office for the District of New Jersey (USAO), with assistance from the U.S. Department of Health and Human Services Office of Inspector General (HHS-OIG) and in coordination with the United States Department of Justice Civil Division (DOJ), commenced a civil investigation of alleged improper billing, among other issues, under federal and state funded programs. USAO began a parallel criminal investigation in 2006. The Company executed various agreements with the USAO, DOJ and HHS-OIG effective September 6, 2011. An initial settlement payment of $70.0 million plus $1.9 million in interest was paid in September 2011. At December 31, 2011 and 2010, respectively, the Company has a recorded liability of $71.5 million and $142.4 million, within Other Accrued Expenses associated with the settlement of the investigation. Of this liability, $71.2 million and $71.3 million are classified as long-term as of December 31, 2011 and 2010, respectively. The agreement also provided for interest to accrue during the period of negotiation from June 2010 through execution. The Company accrued interest of $961.9 thousand within Other Accrued Expenses as of December 31, 2010. An additional $6.1 million is estimated to be the future interest cost associated with the settlement. The Company believes its current liquidity and credit facility (see Notes 6 and 13) will enable them to meet this obligation.

9. Common Stock

On December 31, 2011 and December 31, 2010, Maxim had 20.0 million authorized shares of common stock with a par value of $0.0002 per share. Shares issued and outstanding as of December 31, 2011 and 2010 were 18.7 million.

The Board of Directors of Maxim declared and paid dividends on the issued and outstanding common stock of Maxim of $1.44 and $1.64 per share during 2011 and 2010, respectively. Included in these amounts were dividends declared to provide liquidity to common stockholders to fund their expected income tax liability resulting from the statutory “pass-through” of taxable income to its stockholders (“tax dividends”) (see Note 2). Respectively, common and tax dividends per share were $0 and $1.44 in 2011 and $0.60 and $1.64 in 2010.

10. Income Taxes

The components of the (provision) benefit for state income tax expense for the years ended December 31, 2011 and 2010 were as follows (in thousands):

	2011	2010
Current	$ 84	$ (812)
Deferred	262	1,179
	$ 346	$ 367

The Company has not recorded a liability for unrecognized income tax benefits and does not anticipate a significant change to the total amount of unrecognized tax benefits within the next twelve months.

The Company elects to recognize interest and penalties related to unrecognized income tax benefits in income tax expense. During the years ended December 31, 2011 and 2010, the Company did not recognize interest and penalties associated with unrecognized tax benefits in the results of operations.

The Company files income tax returns in U.S. federal and various state jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state, and local examinations by tax authorities for years before 2007. Several ordinary course examinations by state tax authorities are in progress as of December 31, 2011, as well as a federal examination by the Internal Revenue Service of Reflectxion Resources II, Inc.

11. Acquisitions

In February 2009, Maxim purchased one hundred percent (100%) of the issued and outstanding limited liability company interests of Orbis Clinical, LLC ("Orbis"), a national provider of drug safety consulting services. The base purchase price was $6.8 million, subject to a 10% holdback and a net working capital adjustment. Total payments made for the acquisition during 2009 were $7.1 million. In addition, the purchase price was subject to a contingent payment of up to two times the amount of the aggregate adjusted earnings before interest, income taxes, depreciation and amortization ("EBITDA") for the years ending December 31, 2010 or December 31, 2011, if Orbis exceeded 10% of the compound annual growth rate of the baseline EBITDA for those periods. Orbis did not attain this goal for the year ended December 31, 2010. At December 31, 2010, the Company recorded a contingent purchase price accrual of $3.7 million. In September 2011, the Company amended the earn-out provisions of the Purchase Agreement to allow for payment of $4.0 million plus the amount by which the 2011 adjusted EBITDA exceeds $2.0 million. Payment of the contingent purchase price in the amount of $4.0 million was made in September 2011. The amount of the payment that exceeded the 2010 contingent purchase price accrual was recorded as operating expense in 2011 in accordance with revised purchase accounting guidance. At December 31, 2011, the Company has recorded a contingent purchase price accrual of $116.7 thousand, representing the final installment on the earn-out.

In July 2007, Maxim purchased the outstanding shares of common stock of Reflectxion Resources II, Inc. ("RRI"), a national provider of travel therapy services. The purchase price was $10.6 million. The purchase price was subject to a contingent payout of up to 20% of the amount by which the aggregate adjusted earnings for the travel therapy business EBITDA exceeded three times the baseline EBITDA for the year ended July 31, 2010. In addition, the purchase price was subject to a contingent payout of up to two times the adjusted EBITDA of the non-travel therapy business for the year ended July 31, 2010, which is under the direction of the RRI management team who became employees of the Company. At December 31, 2009, the Company had recorded a contingent purchase price accrual of $3.5 million. Payment of the contingent purchase price and the related broker fee in the amount of $4.5 million was made in October 2010 and recorded as goodwill.

12. Transactions with Affiliates and Stockholders

Maxim has amounts due to a company under common control by certain stockholders of Maxim. These amounts are due on demand and are settled in the ordinary course of operations. The fair value of these amounts approximates their carrying value.

Approximately 5.0% (900 shares) of the outstanding shares of common stock held by two minority stockholders were purchased by a majority stockholder as of December 31, 2010. The Company was not a party to the transaction.

Approximately 1.07% (200 shares) of the outstanding shares of common stock held by a minority stockholder was purchased by another stockholder as of June 30, 2011. The Company was not a party to the transaction.

Maxim makes short-term advances to its stockholders to fund estimated income tax payment obligations incurred by the stockholders resulting from the Company's election as an S Corp for income tax purposes. These advances are repaid by the stockholders from proceeds of tax dividends (see Note 9) declared and paid by Maxim and by withholding amounts from other dividends declared and paid by Maxim to such stockholders.

Substantially all of the Company's workers' compensation coverage is provided by unrelated insurance carriers. Premiums paid for this coverage are based on expected loss payments for the year plus applicable costs, but may adjust based on loss development above or below certain thresholds; if so, these adjustments are reflected in the financial statements for the year of such determination. These insurance carriers reinsure a substantial portion of this coverage with a company owned by certain stockholders of the Company. This related company maintains statutorily required minimum capital levels as deemed necessary by applicable regulatory agencies.

13. Subsequent Events

The Company has evaluated significant events through January 16, 2013, the date the financial statements were available to be issued.

On March 30, 2012, the Company entered into a Sale and Asset Purchase Agreement with a third party for the disposal of home care services related to the Carolina Habilitation Services, Inc. acquisition for cash consideration of $1.4 million. The sale was completed during July 2012.

On September 30, 2012, the Company performed an impairment review of a long-lived computer software asset, triggered by a change in the manner in which the asset was being used. The asset was deemed abandoned, resulting in a disposal loss of $7.5 million.

On November 2, 2012, the Company instituted litigation in U.S. District Court to obtain a report prepared by the Civil Division of the U.S. Department of Justice that will provide information that may result in a change in the deferred tax asset associated with the government settlement (see Note 8).

On December 19, 2012, the Company entered into a Second Amendment to the Credit Agreement (see Note 6). In connection with this amendment, total available indebtedness was reduced from $125.0 to $75.0 million, which includes the letters of credit and swingline loan subfacilities. The amended annual interest rates vary for the Alternate Base Rate loans (Prime plus 3% to 3.5%) or the LIBOR Rate loans (LIBOR plus 4% to 4.5%) depending on EBITDA levels or other circumstances. The lender also waived certain financial covenant violations throughout 2012 and revised certain financial covenants commencing with the quarter ended December 31, 2012. The Company believes it will be in compliance with these covenants for the foreseeable future. In connection with this amendment, a related party provided a guarantee of $10.0 million and is also obligated to make up to two separate capital contributions of $10.0 million in the event Liquidity, as defined, falls below certain levels and a demand notice is issued by the lender or agent.

Report of Independent Auditors on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Stockholders of Maxim Healthcare Services, Inc. and Subsidiaries:

We have audited the consolidated financial statements of Maxim Healthcare Services, Inc. and Subsidiaries (the "Company") as of December 31, 2011 and 2010 and for the years then ended, and have issued our report thereon dated January 16, 2013. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the Company's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Company's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PricewaterhouseCoopers LLP, 100 E. Pratt Street, Suite 1900, Baltimore, MD 21202
T: (410) 783-7600, F: (410) 783-7680, www.pwc.com

pwc

This report is intended solely for the information and use of the Company's management, Board of Directors and other state officials and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

January 16, 2013