

ROTECH MEDICAL CORPORATION AND SUBSIDIARIES
(Wholly Owned by Integrated Health Services, Inc.)

Consolidated Financial Statements

Years ended December 31, 1999, 2000 and 2001 (As Restated)

(With Independent Auditors' Report Thereon)

ROTECH MEDICAL CORPORATION AND SUBSIDIARIES
(Wholly Owned by Integrated Health Services, Inc.)

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Independent Auditors' Report

The Board of Directors and Shareholder
Rotech Medical Corporation:

We have audited the accompanying consolidated balance sheets of Rotech Medical Corporation and subsidiaries (the Company) as of December 31, 2000 and 2001, and the related statements of operations, changes in shareholder's equity and cash flows for each of the years in the three-year period ended December 31, 2001. 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 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 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 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 consolidated financial position of Rotech Medical Corporation and subsidiaries at December 31, 2000 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements referred to above have been restated as discussed in note 2.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 1 to the financial statements, the Company's parent and substantially all of its subsidiaries, including the Company and its subsidiaries, filed separate voluntary petitions for relief under Chapter 11 of the U.S. Bankruptcy Code on February 2, 2000, and continue to operate as debtors-in-possession under the protection of the Chapter 11 proceeding. This raises substantial doubt about the Company's ability to continue as a going concern. On November 23, 2001, the parent company filed a plan of reorganization for the Company and its subsidiaries, which was confirmed by the U.S. Bankruptcy Court on February 13, 2002. Subject to the resolution of certain conditions, the plan of reorganization is expected to become effective in March 2002. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty or the effects of applying the provisions of the plan, the related financing transactions and the adoption of fresh-start accounting.

KPMG LLP

Baltimore, Maryland
February 22, 2002, except for
note 2 which is as of
August 28, 2002

ROTECH MEDICAL CORPORATION AND SUBSIDIARIES
(Wholly Owned by Integrated Health Services, Inc.)
(Debtor-in-Possession as of February 2, 2000)

Consolidated Balance Sheets

December 31, 2000 and 2001

(Dollars in thousands)

Assets	2000 (as restated)	2001 (as restated)
Current assets:		
Cash and cash equivalents	\$ 15,111	4,970
Accounts receivable, net (note 4)	109,516	117,405
Other accounts receivable	2,181	2,283
Inventories, net	11,933	22,312
Prepaid expenses	3,206	2,955
Deferred income taxes (note 10)	19,738	24,705
Total current assets	161,685	174,630
Property and equipment, net (note 7)	232,069	257,338
Intangible assets (less accumulated amortization of \$89,278 in 2000 and \$139,577 in 2001)	836,207	783,429
Other assets	8,682	13,299
	\$ 1,238,643	1,228,696
Liabilities and Shareholder's Equity		
Current liabilities:		
Accounts payable	\$ 11,972	20,659
Accrued expenses (note 8)	13,579	18,855
Total current liabilities	25,551	39,514
Liabilities subject to compromise (note 1)	50,038	48,373
Due to parent company, net (note 6)	430,977	394,354
Deferred income taxes (note 10)	53,687	58,359
Commitments and contingencies (notes 1, 9, 12, 13, and 14)		
Shareholder's equity:		
Common stock, par value \$.0002 per share, 50,000,000 shares authorized, 1,000 shares issued in 2000 and 2001	1	1
Additional paid-in capital	565,893	565,893
Retained earnings	112,496	122,202
Total shareholder's equity	678,390	688,096
	\$ 1,238,643	1,228,696

See accompanying notes to consolidated financial statements.

ROTECH MEDICAL CORPORATION AND SUBSIDIARIES
(Wholly Owned by Integrated Health Services, Inc.)
(Debtor-in-Possession as of February 2, 2000)

Consolidated Statements of Operations

Years ended December 31, 1999, 2000 and 2001

(Dollars in thousands)

	<u>1999 (as restated)</u>	<u>2000 (as restated)</u>	<u>2001 (as restated)</u>
Net revenues	\$ 586,809	568,704	614,487
Costs and expenses:			
Cost of net revenues	126,092	116,063	97,167
Provision for doubtful accounts	26,791	27,352	20,917
Selling, general and administrative	292,601	315,106	329,516
Depreciation and amortization	55,108	87,337	105,415
Interest expense (income)	43	(46)	(322)
Provision for settlement of government claims	15,000	2,176	2,516
Provision for inventory losses (note 2)	23	211	2,141
Total costs and expenses	<u>515,658</u>	<u>548,199</u>	<u>557,350</u>
Earnings before reorganization items and income taxes	71,151	20,505	57,137
Reorganization items (note 1)	<u>—</u>	<u>17,191</u>	<u>17,107</u>
Earnings before income taxes	71,151	3,314	40,030
Federal and state income taxes (note 10)	<u>33,860</u>	<u>12,081</u>	<u>30,324</u>
Net earnings (loss)	<u>\$ 37,291</u>	<u>(8,767)</u>	<u>9,706</u>

See accompanying notes to consolidated financial statements.

ROTECH MEDICAL CORPORATION AND SUBSIDIARIES
(Wholly Owned by Integrated Health Services, Inc.)
(Debtor-in-Possession as of February 2, 2000)

Consolidated Statements of Changes in Shareholder's Equity

Years ended December 31, 1999, 2000 and 2001

(Dollars in thousands)

	<u>Common stock</u>		<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total shareholder's equity</u>
	<u>Shares</u>	<u>Amount</u>			
Balance at January 1, 1999	1,000	\$ 1	565,893	83,972	649,866
Net earnings (as restated)	—	—	—	37,291	37,291
Balance at December 31, 1999 (as restated)	1,000	1	565,893	121,263	687,157
Net earnings (loss) (as restated)	—	—	—	(8,767)	(8,767)
Balance at December 31, 2000 (as restated)	1,000	1	565,893	112,496	678,390
Net earnings (as restated)	—	—	—	9,706	9,706
Balance at December 31, 2001 (as restated)	<u>1,000</u>	<u>\$ 1</u>	<u>565,893</u>	<u>122,202</u>	<u>688,096</u>

See accompanying notes to consolidated financial statements.

ROTECH MEDICAL CORPORATION AND SUBSIDIARIES
(Wholly Owned by Integrated Health Services, Inc.)
(Debtor-in-Possession as of February 2, 2000)

Consolidated Statements of Cash Flows

Years ended December 31, 1999, 2000 and 2001

(Dollars in thousands)

	<u>1999 (as restated)</u>	<u>2000 (as restated)</u>	<u>2001 (as restated)</u>
Cash flows from operating activities:			
Net earnings (loss)	\$ 37,291	(8,767)	9,706
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:			
Reorganization items	—	17,191	17,107
Depreciation and amortization	55,108	87,337	105,415
Deferred income taxes	17,296	5,277	(295)
Changes in operating assets and liabilities:			
Decrease (increase) in accounts receivable	1,975	32,930	(11,290)
Decrease (increase) in other receivables	969	(1,724)	(782)
Decrease (increase) in inventories	1,988	1,423	(10,696)
Decrease (increase) in prepaid expenses	(878)	(984)	251
Increase (decrease) in accounts payable and accrued expenses	9,973	(12,827)	9,276
Increase (decrease) in liabilities subject to compromise	—	41,781	(2,565)
Net cash provided by operating activities	<u>123,722</u>	<u>161,637</u>	<u>116,127</u>
Net cash used by discontinued operations (note 11)	(6,099)	—	—
Net cash used by reorganization items	—	(795)	(2,158)
Net cash provided by operating activities, discontinued operations and reorganization items	<u>117,623</u>	<u>160,842</u>	<u>113,969</u>
Cash flows from investing activities:			
Purchases of property and equipment	(60,976)	(71,557)	(79,765)
Business acquisitions (note 5)	(13,748)	—	(607)
Decrease (increase) in other assets	4,750	(261)	(4,617)
Net cash used in investing activities	<u>(69,974)</u>	<u>(71,818)</u>	<u>(84,989)</u>
Cash flows from financing activities:			
Repayments on long term borrowings	(210)	—	—
Distributions to parent company, net	(53,852)	(74,982)	(39,121)
Net cash used in financing activities	<u>(54,062)</u>	<u>(74,982)</u>	<u>(39,121)</u>
Increase (decrease) in cash and cash equivalents	(6,413)	14,042	(10,141)
Cash and cash equivalents, beginning of period	7,482	1,069	15,111
Cash and cash equivalents, end of period	<u>\$ 1,069</u>	<u>15,111</u>	<u>4,970</u>

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

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Years ended December 31, 1999, 2000 and 2001

(1) Petitions for Reorganization under Chapter 11 and Other Information

Rotech Medical Corporation (the "Company" or "Rotech") was incorporated on September 1, 1981. The Company, through its subsidiaries, provides respiratory and other home medical equipment and services to patients in the home throughout the United States through its over 600 branch locations. In 1997, the Company entered into a definitive merger agreement pursuant to which Rotech Medical Corporation merged with Integrated Health Services, Inc. ("IHS") effective as of October 21, 1997.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern.

On February 2, 2000, IHS and substantially all of its subsidiaries, including Rotech and its subsidiaries, filed separate voluntary petitions for relief under Chapter 11 ("Chapter 11") of the United States Bankruptcy Code (the "Bankruptcy Code") with the United States Bankruptcy Court in the District of Delaware (the "Bankruptcy Court") and continue to operate as debtors-in-possession under the Chapter 11 proceeding. This raises substantial doubt about the Company's ability to continue as a going concern. On November 23, 2001, IHS filed a plan of reorganization for Rotech and its subsidiaries, which was approved by the creditors and confirmed by the Bankruptcy Court on February 13, 2002. Subject to the resolution of certain conditions, the plan of reorganization is expected to become effective in late March of 2002. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classifications of liabilities that might result from the outcome of these uncertainties, or the effects of applying the provisions of the plan, the related financing transactions and the adoption of fresh-start accounting (see note 18).

Except as may be otherwise determined by the Bankruptcy Court overseeing the Chapter 11 filings, the automatic stay protection afforded by the Chapter 11 filings prevents any creditor or other third parties from taking any action in connection with any defaults under prepetition obligations of the Company and those of its subsidiaries which are debtors in the Chapter 11 filing.

For financial reporting purposes, the accompanying consolidated financial statements for the years ended December 31, 2000 and 2001 have been prepared in accordance with Statement of Position 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code* ("SOP 90-7").

The Company has received approval from the Bankruptcy Court to pay pre-petition and post-petition employee wages, salaries, benefits and other employee obligations. The Bankruptcy Court also approved orders granting authority, among other things, to pay pre-petition claims of certain critical vendors, utilities and patient obligations. All other unsecured pre-petition liabilities (other than those paid pursuant to such authority) are classified in the consolidated balance sheet as liabilities subject to compromise.

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Claims classified as liabilities subject to compromise under the Chapter 11 filings as of December 31, 2001 consist of accounts payable to vendors of \$23,303, convertible subordinated debentures of \$1,979, Medicare and other government claims of \$17,000, and notes payable to sellers of businesses acquired by the Company of \$6,091.

Additional claims may be or have been asserted with respect to various obligations. The last day on which these claims could be filed against the Company, with certain exceptions, was August 29, 2000. These claims, if allowed, will ultimately be treated in accordance with the Company's plan of reorganization.

In February 2002, Rotech settled all outstanding government litigation and pre-petition and certain post-petition claims arising from Medicare payments made to certain of the Company's operating centers as well as claims in unliquidated amounts for a cash settlement of \$17 million.

In addition, IHS and its subsidiaries, including the Company, entered into a stipulation with the Centers for Medicare and Medicaid Services, or CMS, whereby CMS was permitted to set off certain underpayments to IHS with certain overpayments to the Company in exchange for a full release of all CMS claims against IHS and its subsidiaries, including the Company, to the effective date of the stipulation, which was February 13, 2002.

In 1999, the Company recorded a provision of \$15,000 based on a preliminary evaluation of the government's estimated claims. The Company revised this estimate and recorded an additional provision of \$2,000 in 2001; related legal costs incurred were \$2,176 in 2000 and \$516 in 2001. The Department of Justice had filed proofs of claim relating to alleged civil fraud claims concerning Rotech in the approximate amount of \$48 million, including proposed treble damages.

While the Company believes it complies in all material respects with all applicable regulatory requirements, an adverse determination in governmental investigations, whether currently asserted or arising in the future, could have a material adverse effect on the Company (see note 14).

During the years ended December 31, 2000 and 2001, the Company recorded the following as reorganization items:

	2000	2001 (as restated)
Severance and terminations	\$ 3,470	753
Legal, accounting and consulting fees	325	3,815
Loss on closure of discontinued branch operations and discontinued product lines, long term incentive compensation and other charges resulting from reorganization and restructuring	13,396	12,539
	<u>\$ 17,191</u>	<u>17,107</u>

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During the fourth quarter of 2000, in connection with the reorganization, management of Rotech finalized a plan of restructuring to eliminate and discontinue certain product lines and branch locations used in the operations of its business. The plan specifically identified products and branches that would not be continued. The Company recorded a write-off for assets impaired in connection with the product lines and branches discontinued. The write-off is not associated with or does not benefit activities that will be continued. Accordingly, the Company has recorded a loss of \$13,396 in 2000 associated with the discontinued activities under Emerging Issues Task Force Issue 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (Including Certain Costs Incurred in a Restructuring)* ("EITF 94-3"). In 2001, the loss includes a provision for the closure and consolidation of billing centers of \$4,161, a provision for discontinued life insurance on a former employee of Rotech of \$1,055 and a provision for the sale of pharmacies of \$3,732.

Reorganization expense in 2001 also includes the long-term incentive portion of the CEO's total compensation package provided in the employment agreement approved by the Bankruptcy Court in May 2000. Such portion ceases upon the effective date of Rotech's plan of reorganization. The long-term incentive provision of the compensation package was negotiated because Rotech was in Chapter 11 and unable to offer an equity incentive plan. Therefore, Rotech considers this provision to be an expense resulting from the reorganization of the business and directly associated with the Chapter 11 proceeding. Accordingly, the provision for long-term incentive bonus of \$3,591 in 2001 has been accounted for as a reorganization item in the consolidated statement of operations.

On July 26, 2000, the Bankruptcy Court approved the separation agreement with Stephen P. Griggs, President of Rotech. IHS agreed to pay Mr. Griggs \$3,000 in the following manner: \$1,000 which was paid in September 2000, and \$2,000 which will be paid in equal monthly installments over a period of three years. The agreement imposes upon Mr. Griggs various post termination obligations, including non-compete, non-solicitation and confidentiality requirements. Mr. Griggs also waived all claims against IHS and relinquished his restricted stock rights in IHS under his pre-petition agreements with IHS.

(2) Restatement

In June 2002, the Company discovered that an independent contractor (a former employee) had falsified sales to the Department of Veterans Affairs (VA), and the Company commenced a comprehensive internal investigation by special counsel and government contracting specialists. The investigation confirmed the existence of a pattern of falsified sales of equipment (bulk sales) to VA as well as other irregularities in reporting VA service revenues. Accordingly, the Company has restated its consolidated financial statements for each of the years ended December 31, 1999, 2000 and 2001.

The accompanying financial statements have been restated to reflect the adjustments discussed above.

The principal adjustments comprising the restatements are as follows:

- Reduction of net revenues from VA of \$555 in 1999, \$7,825 in 2000 and \$24,689 in 2001.

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- Reduction of cost of sales of equipment related to the falsified bulk sales to VA of \$257 in 1999, \$2,393 in 2000 and \$10,257 in 2001, and provision for inventory losses related to the medical equipment on hand which was purchased for bulk sales to VA of \$23 in 1999, \$211 in 2000 and \$2,141 in 2001.
- Reduction of incentive bonus accruals related to the adjustments described above of \$1,855 in 2001 (none in 1999 and 2000).
- Related adjustments to income tax provisions of \$126 in 1999, \$2,222 in 2000 and \$6,393 in 2001.

The reduction of net revenues from VA reduced accounts receivable by \$8,380 at December 31, 2000 and \$33,069 at December 31, 2001. The adjustments for cost of sales, net of provisions for inventory losses, increased inventory at December 31, 2000 and 2001 by \$2,416 and \$10,532, respectively. In addition, cash balances of \$3,688 at December 31, 2001 were reclassified to accounts receivable and included in the reduction discussed above.

The effects of these restatements on the consolidated financial statements are set forth below:

Consolidated Balance Sheets:	December 31,	
	2000	2001
Cash and cash equivalents:		
As previously reported	\$ 15,111	8,658
As restated	\$ 15,111	4,970
Accounts receivable, net:		
As previously reported	\$ 117,896	146,786
As restated	\$ 109,516	117,405
Inventories, net:		
As previously reported	\$ 9,517	11,780
As restated	\$ 11,933	22,312
Deferred income tax assets:		
As previously reported	\$ 19,695	24,522
As restated	\$ 19,738	24,705
Total assets:		
As previously reported	\$ 1,244,564	1,251,050
As restated	\$ 1,238,643	1,228,696
Accrued expenses:		
As previously reported	\$ 13,579	20,710
As restated	\$ 13,579	18,855
Due to parent company:		
As previously reported	\$ 433,282	402,912
As restated	\$ 430,977	394,354
Retained earnings:		
As previously reported	\$ 116,112	134,143
As restated	\$ 112,496	122,202
Total shareholder's equity:		
As previously reported	\$ 682,006	700,037
As restated	\$ 678,390	688,096

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(Dollars in thousands)

Years ended December 31, 1999, 2000 and 2001

Consolidated Statements of Operations:		1999	2000	2001
Net revenues:				
As previously reported	\$	587,364	576,529	639,176
As restated	\$	586,809	568,704	614,487
Cost of net revenues:				
As previously reported	\$	126,349	118,456	107,424
As restated	\$	126,092	116,063	97,167
Selling, general and administrative expenses:				
As previously reported	\$	292,601	315,106	329,814
As restated	\$	292,601	315,106	329,516
Provision for inventory losses:				
As previously reported	\$	—	—	—
As restated	\$	23	211	2,141
Earnings before reorganization items and income taxes:				
As previously reported	\$	71,472	26,148	73,412
As restated	\$	71,151	20,505	57,137
Reorganization items:				
As previously reported	\$	—	17,191	18,664
As restated	\$	—	17,191	17,107
Earnings before income taxes:				
As previously reported	\$	71,472	8,957	54,748
As restated	\$	71,151	3,314	40,030
Federal and state income taxes:				
As previously reported	\$	33,986	14,303	36,717
As restated	\$	33,860	12,081	30,324
Net earnings (loss):				
As previously reported	\$	37,486	(5,346)	18,031
As restated	\$	37,291	(8,767)	9,706
Consolidated Statements of Cash Flows:				
Net cash provided by operating activities:				
As previously reported	\$	123,600	159,454	113,562
As restated	\$	123,722	161,637	116,127
Net cash used in financing activities:				
As previously reported	\$	53,940	72,799	32,868
As restated	\$	54,062	74,982	39,121

(3) Summary of Significant Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements include the accounts of Rotech Medical Corporation and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

The consolidated financial statements include allocations of selling, general and administrative expenses from the IHS corporate office. Such corporate office allocations represent expenses applicable to Rotech based on determinations that management believes to be reasonable. The allocations are for services provided by IHS to the Company, including financial, legal, accounting,

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human resources, information systems and corporate compliance services. Accordingly, expense allocations to the Company may not be representative of costs of such services to be incurred in the future (see note 16).

(b) Revenue Recognition

Revenues are recognized on the date services and related products are provided to patients and are recorded at amounts estimated to be received under reimbursement arrangements with third-party payors. Revenues derived from capitation arrangements are insignificant.

Due to the nature of the industry and the reimbursement environment in which the Company operates, certain estimates are required to record net revenues and accounts receivable at their net realizable values. Inherent in these estimates is the risk that they will have to be revised or updated as additional information becomes available. Specifically, the complexity of many third-party billing arrangements and the uncertainty of reimbursement amounts for certain services from certain payors may result in adjustments to amounts originally recorded. Such adjustments are typically identified and recorded at the point of cash application, claim denial or account review.

Management performs analyses to evaluate the net realizable value of accounts receivable. Specifically, management considers historical realization data, accounts receivable aging trends, other operating trends and relevant business conditions. Because of continuing changes in the healthcare industry and third-party reimbursement, it is possible that management's estimates could change, which could have an impact on operations and cash flows.

The Company adopted Staff Accounting Bulletin No. 101, *Revenue Recognition in Financial Statements* ("SAB 101"), in the fourth quarter of 2000. SAB 101 provides guidance on the proper timing of revenue recognition in accordance with generally accepted accounting principles. The adoption of SAB 101 did not have a material effect on the Company's consolidated results of operations or financial position.

(c) Cash Equivalents

Cash equivalents consist of highly liquid debt instruments with original maturities of three months or less at the date of investment by the Company.

Under a cash management facility provided by IHS, the Company's operating cash balances are generally transferred to a centralized account and applied to reduce balances due to the parent company. The Company's cash needs for operating and other purposes are similarly provided through an increase in balances due to the parent company.

(d) Concentrations of Credit Risk

The Company's revenue is generated through over 600 locations in 47 states. The Company generally does not require collateral or other security in extending credit to patients; however, the Company routinely obtains assignment of (or is otherwise entitled to receive) benefits receivable

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under the health insurance programs, plans or policies of patients (e.g. Medicare, Medicaid, commercial insurance and managed care organizations). Revenues were derived from the following payor sources for the years ended December 31:

	<u>1999</u>	<u>2000 (as restated)</u>	<u>2001(as restated)</u>
Medicare, Medicaid and other federally funded programs (primarily Veterans Administration)	61.7%	64.7%	66.9%
Private pay	9.3%	8.0%	7.2%
Commercial payors	29.0%	27.3%	25.9%
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

(e) Fair Value of Financial Instruments

The Company believes the carrying amounts of cash, patient accounts receivable, other accounts receivable, accounts payable and accrued expenses approximate fair value because of the short-term nature of these instruments.

It is not practicable to estimate the fair value of investments in management agreements since they are not traded, no quoted values are readily available for similar financial instruments and the Company believes it is not cost-effective to have valuations performed. However, management believes that there has been no permanent impairment in the value of such investments.

As a result of the Chapter 11 filing, fair value of long-term debt cannot be determined. At December 31, 2000 and 2001, all of the Company's long-term debt is classified as liabilities subject to compromise.

(f) Inventories

Inventories consist principally of medical supplies, medical equipment related to bulk sales (see note 2) and pharmaceutical products and are stated at the lower of cost (first-in, first-out method) or market.

(g) Property and Equipment

Property and equipment are stated at cost. Patient service equipment represents medical equipment rented or held for rental to in-home patients. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, seven years for patient service equipment, seven years for furniture and office equipment, seven years for vehicles and the shorter of the remaining lease term or the estimated useful life for leasehold improvements.

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(h) Intangible Assets

Intangible assets represent the excess of cost over the fair value of assets acquired and liabilities assumed in business combinations. Such assets are amortized on a straight-line basis. Prior to the fourth quarter of 1999, the Company used an estimated life of 40 years. However, as a result of an evaluation of the impact of the Balanced Budget Act and other factors affecting the industry, the Company changed the estimated life to 20 years. This change has been treated as a change in accounting estimate and is being recognized prospectively beginning October 1, 1999.

Management annually evaluates whether events or circumstances have occurred that would indicate an impairment in the value or the life of goodwill. In accordance with Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of* ("SFAS No. 121"), if there is an indication that the carrying value of an asset, including goodwill, is not recoverable, the Company estimates the projected undiscounted cash flows, excluding interest, of the business to determine if an impairment loss should be recognized. In this connection, the Company considers the effects of external changes to the Company's business environment, including competitive pressures, market erosion and technological and regulatory changes. The impairment loss is determined by comparing the carrying amount of the asset to its estimated fair value. The Company performs the impairment analysis at the business segment level.

(i) Investment in Management Agreement

The Company has an investment in a management agreement with a provider of home health care products and services in the amount of \$3,251 and \$5,078 at December 31, 2000 and 2001, respectively. The investment is accounted for using the cost method of accounting and is included in other assets. The Company's share of the operating results pursuant to the agreement is recorded as management fee income, and classified as revenue in the Company's statement of operations. Such management fee income was \$1,942 in 1999, \$2,664 in 2000 and \$1,828 in 2001.

(j) Income Taxes

The Company accounts for income taxes under Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* ("SFAS 109"). Under SFAS 109, the current and deferred tax expense has been allocated among the members of the IHS controlled corporate group, including the Company.

Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

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Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to the taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are recorded for deferred tax assets when it is more likely than not that such deferred tax assets will not be realized.

(k) Use of Estimates

The preparation of financial statements in conformity with 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(l) Segment Information

Rotech operates in the home medical equipment segment of the healthcare industry. Management measures operating results on a geographic basis and therefore views each branch location as an operating unit. All branch locations provide substantially the same services. For financial reporting purposes, all of the Company's operating units are aggregated into one reportable segment.

(m) Comprehensive Income

For the years ended December 31, 1999, 2000 and 2001 there were no differences between comprehensive income and net income.

(n) Recent Accounting Pronouncements

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141, *Business Combinations* ("SFAS No. 141"), and Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. SFAS No. 141 also specifies the criteria intangible assets acquired in a purchase method business combination must meet in order to be recognized and reported apart from goodwill. SFAS No. 142 will require that goodwill and intangible assets with indefinite useful lives no longer be amortized, but instead be tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 will also require that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with Statement of Financial Accounting Standards No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*.

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The Company is required to adopt the provisions of SFAS No. 141 effective July 1, 2001, except with regard to business combinations initiated prior to July 1, 2001, and SFAS No. 142 effective January 1, 2002. Furthermore, goodwill and intangible assets determined to have an indefinite useful life acquired in a purchase business combination completed after June 30, 2001, but before SFAS No. 142 is adopted in full, will not be amortized, but will continue to be evaluated for impairment in accordance with the appropriate pre-SFAS No. 142 accounting literature. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 will continue to be amortized and tested for impairment in accordance with the appropriate pre-SFAS No. 142 accounting requirements prior to the adoption of SFAS No. 142. The adoption of these statements is expected to reduce annual charges for amortization of goodwill by approximately \$48,000.

(o) Reclassifications

Certain amounts presented in 1999 and 2000 have been reclassified to conform with the presentation for 2001.

(4) Accounts Receivable

Accounts receivable, net consist of the following at December 31:

	2000 (as restated)	2001 (as restated)
Patient accounts receivable	\$ 131,191	142,030
Less allowance for doubtful accounts	21,675	24,625
	<u>\$ 109,516</u>	<u>117,405</u>

Patient accounts receivable at December 31, 2000 and 2001 include amounts due from Medicare, Medicaid and other federally funded programs (primarily Veterans Administration) of 51% and 49%, respectively.

Included in accounts receivable are earned but unbilled receivables of \$22,131 at December 31, 2000 and \$24,950 at December 31, 2001. Billing delays, ranging from a day to several weeks, can occur due to delays in obtaining certain required payor-specific documentation from internal and external sources. Earned but unbilled receivables are aged from date of service and are considered in Rotech's analysis of historical performance and collectibility.

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The Company experienced a deterioration in the aging of certain receivables during 2000 due to a variety of factors including the operational effects of the bankruptcy filing. Some of the factors that have negatively affected the billing and collections process include increased loss of office and other personnel, problems experienced in the closure and consolidation of billing locations and systems, and personnel shortages and the competing time demands required in normalizing relations with payors and addressing a variety of vendor issues. In the fourth quarter of 2000, management performed a study and analysis of these issues and their effect, and performed a re-evaluation of the allowance for doubtful accounts and contractual adjustments. Accordingly, the Company recorded an increase to the provision for bad debts of \$5,000 and an increase to contractual adjustments of \$15,000 in the fourth quarter of 2000.

(5) Business Acquisitions

In the fourth quarter of 2001, the Company acquired two businesses for a total cost of \$1,228, of which \$607 was paid in cash and \$621 represented notes payable to the sellers. The allocation of the total costs of the 2001 acquisitions to the assets acquired and liabilities assumed is summarized as follows:

<u>Transaction</u>	<u>Current assets</u>	<u>Property and equipment</u>	<u>Intangible assets</u>	<u>Liabilities</u>	<u>Total cost</u>
Two acquisitions	\$ 78	230	920	—	1,228

There were no acquisitions during the year ended December 31, 2000.

Acquisitions in 1999 and the manner of payment are summarized as follows:

<u>Month</u>	<u>Transaction description</u>	<u>Cash paid</u>	<u>Notes payable and other accrued liabilities</u>	<u>Total cost</u>
January	Assets of Certified Medical Associates, Inc.	\$ 1,950	810	2,760
March	Stock of Medicare Rental Supply, Inc. d/b/a Andy Boyd's InHome Medical, Andy Boyd's InHome Medical/InHome Medical, Inc., and Andy Boyd's InHome Medical, Inc., West	3,314	1,583	4,897
Various	10 other acquisitions, each with total cost of less than \$2,000	6,547	1,812	8,359
Various	Cash payments of acquisition costs accrued in 1998 and 1999	1,937	(1,937)	—
		\$ 13,748	2,268	16,016

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The allocation of the total costs of the 1999 acquisitions to the assets acquired and liabilities assumed is summarized as follows:

<u>Transaction</u>	<u>Current assets</u>	<u>Property and equipment</u>	<u>Intangible assets</u>	<u>Liabilities</u>	<u>Total cost</u>
Certified Medical Associates, Inc.	\$ 71	77	2,612	—	2,760
Medicare Rental Supply, Inc. d/b/a Andy Boyd's InHome Medical, Andy Boyd's InHome Medical/ InHome Medical, Inc., and Andy Boyd's InHome Medical, Inc., West	270	374	4,253	—	4,897
Other acquisitions	232	752	7,505	(130)	8,359
	<u>\$ 573</u>	<u>1,203</u>	<u>14,370</u>	<u>(130)</u>	<u>16,016</u>

Pro forma results of operations reflecting the 2001 acquisitions as if they had occurred at the beginning of 2000 and 2001 have not been presented since the amounts are immaterial in relation to the Company.

In connection with its business acquisitions, the Company incurs transaction costs, costs to exit certain activities and costs to terminate or relocate certain employees of acquired companies. Liabilities accrued in the acquisition cost allocations represent direct costs of acquisitions, which consist primarily of transaction costs for legal, accounting and consulting fees, of \$510 in 1999 and \$21 in 2001. Accrued acquisition liabilities for exit costs and employee termination and relocation costs are recognized in accordance with Emerging Issues Task Force Issue 95-3, *Recognition Of Liabilities In Connection With A Purchase Business Combination* ("EITF 95-3") and are summarized as follows for the years ended December 31, 1999, 2000 and 2001.

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Balance at December 31, 1998	\$	1,039
Acquired companies — 1999		510
Payments charged against liability		(1,435)
Adjustments recorded to cost of acquisitions		(114)
		<hr/>
Balance at December 31, 1999 and 2000		—
Acquired companies — 2001		21
Payments charged against liability		—
Adjustments recorded to cost of acquisitions		—
		<hr/>
Balance at December 31, 2001	\$	<u>21</u>

The termination plans for the 1999 acquisitions were completed by December 31, 1999. The termination plans at December 31, 1998 related primarily to the following employee groups with the indicated anticipated dates of completion of termination/relocation: Arrowhealth Medical Supply by October 1999; Eastern Home Care and Oxygen by May 1999, First Community Care by May 1999 and Valley Oxygen and Medical Equipment by September 1999.

In addition to the accrued acquisition liabilities described above, the Company allocates the cost of its business acquisitions to the respective assets acquired and liabilities assumed, including pre-acquisition contingencies, on the basis of estimated fair values at the date of acquisition. Often the Company must await additional information for the resolution or final measurement of contingencies and valuation estimates during the allocation period, which usually does not exceed one year from the date of acquisition. Accordingly, the effect of the resolution or final measurement of such matters during the allocation period is treated as an acquisition adjustment primarily to the amount of goodwill recorded. After the allocation period, such resolution or final measurement is recognized in the determination of net earnings. Pre-acquisition contingencies in connection with the Company's business acquisitions primarily relate to Medicare and Medicaid regulatory compliance matters, income tax matters and legal proceedings. During the three years ended December 31, 2001, the Company resolved or completed the final measurement of certain pre-acquisition contingencies related to business acquisitions; however, the effect of such adjustments was immaterial.

(6) Due to Parent Company

Balances due to the parent company bear no interest and have no specified repayment provisions.

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(7) Property and Equipment

Property and equipment consist of the following at December 31:

	2000	2001
Patient service equipment	\$ 279,703	332,399
Furniture and office equipment	33,315	46,297
Vehicles	17,589	28,845
Leasehold improvements	5,345	7,886
	335,952	415,427
Less accumulated depreciation and amortization	103,883	158,089
	\$ 232,069	257,338

The net carrying value of patient service equipment was \$191,248 in 2000 and \$200,224 in 2001.

(8) Accrued Expenses

Accrued expenses consist of the following at December 31:

	2000	2001(as restated)
Accrued salaries and wages	\$ 5,684	11,606
Accrued workers' compensation and other claims	3,330	4,158
Accrued sales tax	1,467	1,455
Other	3,098	1,636
	\$ 13,579	18,855

(9) Lease Commitments

The Company operates principally in leased offices and warehouse facilities. In addition, delivery vehicles and office equipment are leased under operating leases. Lease terms range from one to ten years with renewal options for additional periods. Many leases provide that the Company pay taxes, maintenance, insurance and other expenses. Rentals are generally increased annually by the Consumer Price Index, subject to certain maximum amounts defined within individual agreements.

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Rental expense for building and vehicle leases approximated \$23,859 in 1999, \$24,676 in 2000 and \$23,508 in 2001. Future minimum rental commitments under leases, primarily for branch locations, are as follows:

For the years ending December 31:		
2002	\$	8,488
2003		5,875
2004		2,942
2005		1,827
2006		1,001
Thereafter		<u>915</u>
	\$	<u>21,048</u>

(10) Income Taxes

The Company is included in IHS's consolidated federal income tax return. The allocated provision for current income taxes is applied to increase balances due to the parent company. The allocated provision for income taxes on earnings before income taxes is summarized below for the years ended December 31:

		<u>1999 (as restated)</u>	<u>2000 (as restated)</u>	<u>2001 (as restated)</u>
Current:				
Federal	\$	14,346	5,828	26,253
State		<u>2,219</u>	<u>977</u>	<u>4,366</u>
Total current provision		<u>16,565</u>	<u>6,805</u>	<u>30,619</u>
Deferred:				
Federal		14,830	4,524	(253)
State		<u>2,465</u>	<u>752</u>	<u>(42)</u>
Total deferred provision		<u>17,295</u>	<u>5,276</u>	<u>(295)</u>
	\$	<u>33,860</u>	<u>12,081</u>	<u>30,324</u>

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Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31 are as follows:

	<u>2000 (as restated)</u>	<u>2001 (as restated)</u>
Deferred tax liabilities:		
Excess of book over tax basis of property and equipment	\$ 39,442	38,511
Excess of book over tax basis of intangible assets	14,245	16,446
Other	—	3,402
Total deferred tax liabilities	<u>53,687</u>	<u>58,359</u>
Deferred tax assets:		
Restructuring costs	(3,239)	(5,957)
Bad debt reserves	(7,755)	(8,729)
Other accrued liabilities	(2,689)	(3,000)
Other	(6,055)	(7,019)
Total deferred tax assets	<u>(19,738)</u>	<u>(24,705)</u>
Net deferred tax liabilities	<u>\$ 33,949</u>	<u>33,654</u>

A reconciliation of tax expense computed at the statutory federal tax rate on earnings before income taxes to the actual income tax expense is as follows for the years ended December 31:

	<u>1999 (as restated)</u>	<u>2000 (as restated)</u>	<u>2001 (as restated)</u>
Tax provision computed at the statutory rate	\$ 24,903	1,161	14,011
State income taxes, net of federal income tax benefit	3,045	1,124	2,810
Intangibles amortization and other book expenses not deductible for tax purposes	5,912	9,796	13,503
Total income tax expense	<u>\$ 33,860</u>	<u>12,081</u>	<u>30,324</u>

(11) Obligation Related to Discontinued Operations

In 1997 the Company sold the capital stock of two subsidiaries engaged in the managed health care business to two corporations owned by the Company's former Chief Executive Officer and entered into funding agreements pursuant to which the Company was obligated to provide cash necessary to operate the business until certain managed care contracts were terminated. Also, the Company discontinued its physician practice operations in 1997. Amounts charged against the obligation related to the discontinued operations were \$6,099 in 1999.

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(12) Other Commitments and Contingencies

The Company is subject to workers' compensation and employee health benefit claims, which are primarily self-insured; however, the Company does maintain certain stop-loss and other insurance coverage which management believes to be appropriate. Provisions for estimated settlements relating to the workers' compensation and health benefit plans are provided in the period of the related claim on a case-by-case basis plus an amount for incurred but not reported claims. Differences between the amounts accrued and subsequent settlements are recorded in operations in the period of settlement.

From time to time, the Company and its subsidiaries have been parties to various legal proceedings in the ordinary course of business. In the opinion of management, except with respect to the Chapter 11 proceedings, there are currently no proceedings which individually, after taking into account the insurance coverage maintained by the Company, would have a material adverse effect on the Company's financial position or results of operations.

(13) Insurance Coverages

The Company, through its parent IHS, currently purchases professional and general liability insurance through a third party insurance company. The Company currently maintains a \$2,000 and \$1,000 self-insured retention per occurrence for professional and general liability insurance, respectively. Provisions for estimated settlements, including incurred but not reported losses, are provided on an undiscounted basis in the period of the related coverage, subject to total policy aggregate. These provisions are based on internal and external evaluations of the merits of the individual claims, analysis of claims history and the estimated reserves assigned by the Company's independent actuaries. The methods of making such estimates and establishing the resulting accrued liabilities are reviewed frequently with any adjustments resulting therefrom reflected in current earnings. Claims are paid over varying periods that generally range from one to six years.

The Company's professional and general liability insurance includes aggregated loss features limiting the Company's out-of-pocket exposure. The total annual exposure for professional and general liability claims is limited to \$420 for 1999, 2000 and 2001. In addition, the Company has aggregate stop-loss insurance for all policy years from 1991 through 2001.

In 1999, 2000 and 2001, the Company, through its parent IHS, purchased a fully-insured workers' compensation policy with no deductible or retention, except in a limited number of states, such as Texas, where the Company is a non-subscriber to workers' compensation, but has in place an employee benefit plan providing for employer-paid benefits comparable to those provided under the Texas workers' compensation program, with an employer's liability policy providing for catastrophic losses.

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(14) Certain Significant Risks and Uncertainties

The Company and others in the healthcare business are subject to certain inherent risks, including the following:

- Substantial dependence on revenues derived from reimbursement by the Federal Medicare and state Medicaid programs which have been reduced in recent years and which entail exposure to various healthcare fraud statutes;
- Government regulations, government budgetary constraints and proposed legislative and regulatory changes; and
- Lawsuits alleging malpractice and related claims.

Such inherent risks require the use of certain management estimates in the preparation of the Company's financial statements and it is reasonably possible that a change in such estimates may occur.

The Company receives payment for a significant portion of services rendered to patients from the Federal government under Medicare and other federally funded programs (primarily Veterans Administration) and from the states in which its facilities and/or services are located under Medicaid. Revenue derived from Medicare, Medicaid and other federally funded programs represented 61.7% of the Company's patient revenue for the year ended December 31, 1999, 64.7% of the Company's patient revenue for the year ended December 31, 2000, and 66.9% of the Company's patient revenue for the year ended December 31, 2001. The Company's operations are subject to a variety of Federal, state and local legal and regulatory risks, including without limitation the federal Anti-Kickback statute and the federal Ethics in Patient Referral Act (so-called "Stark Law"), many of which apply to virtually all companies engaged in the healthcare services industry. The Anti-Kickback Statute prohibits, among other things, the offer, payment, solicitation or receipt of any form of remuneration in return for the referral of Medicare and Medicaid patients. The Stark Law prohibits, with limited exceptions, financial relationships between ancillary service providers and referring physicians. Other regulatory risks assumed by the Company and other companies engaged in the health care industry are as follows:

- False Claims — "Operation Restore Trust" is a major anti-fraud demonstration project of the Office of the Inspector General. The primary purpose for the project is to scrutinize the activities of healthcare providers which are reimbursed under the Medicare and Medicaid programs. False claims are prohibited pursuant to criminal and civil statutes and are punishable by imprisonment and monetary penalties.
- Regulatory Requirement Deficiencies — In the ordinary course of business, health care facilities receive notices of deficiencies for failure to comply with various regulatory requirements. In some cases, the reviewing agency may take adverse actions against a facility, including the imposition of fines, temporary suspension or decertification from participation in the Medicare and Medicaid programs and, in extreme cases, revocation of a facility's license.

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- **Changes in laws and regulations** — Changes in laws and regulations could have a material adverse effect on licensure, eligibility for participation in government programs, permissible activities, operating costs and the levels of reimbursement from governmental and other sources.

In response to the aforementioned regulatory risks, the Company formed a Corporate Compliance Department to help identify, prevent and deter instances of Medicare, Medicaid and other noncompliance. Although the Company strives to manage these regulatory risks, there can be no assurance that federal and/or state regulatory agencies that currently have jurisdiction over matters including, without limitation, Medicare, Medicaid and other government reimbursement programs, will take the position that the Company's business and operations are in compliance with applicable law or with the standards of such regulatory agencies (see note 1).

The Company is also subject to malpractice and related claims, which arise in the normal course of business and which could have a significant effect on the Company. As a result, the Company maintains occurrence basis professional and general liability insurance with coverage and deductibles which management believes to be appropriate (see note 13).

The Company is also subject to certain inherent risks related to the acquisition of businesses. Since its inception, the Company has grown through acquisitions, and realization of acquisition costs, including intangible assets of businesses acquired, is dependent initially upon the consummation of the acquisitions and subsequently upon the Company's ability to successfully integrate and manage acquired operations.

The Company believes that adequate provision for the aforementioned items has been made in the accompanying consolidated financial statements and that their ultimate resolution will not have a material effect on the consolidated financial statements.

(15) Retirement Benefits

The Company instituted a 401 (k) Savings Plan ("Savings Plan") on May 1, 1996. The Savings Plan covers all full-time employees who have met certain eligibility requirements and is funded by voluntary employee contributions and by Company contributions equal to a certain percentage of employee contributions. Employees' interests in Company contributions vest over five years. The Company's contribution expense was approximately \$790 in 1999, \$930 in 2000, and \$1,178 in 2001.

(16) Related Party Transactions

Selling, general and administrative expenses include allocations from the IHS corporate office for certain services provided to the Company, including financial, legal, accounting, human resources, information systems and corporate compliance services. Such corporate office allocations, which apply to all IHS divisions, represent expenses clearly applicable to Rotech based on determinations that management believes to be reasonable. Such allocated charges were approximately \$1,200 in 1999, \$1,300 in 2000 and \$1,300 in 2001. Management estimates that the Company's corporate administrative and general expenses on a stand-alone basis would have approximated the amounts allocated.

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(17) Subsequent Events (Unaudited)

The Company has entered into an assumption, sale-leaseback and amendment to master lease agreement which became effective upon the Bankruptcy Court's final order of approval in March 2002. Vehicles purchased by the Company as debtor-in-possession were sold for \$9,700 and leased back along with other vehicles subject to the existing master operating lease. Among other things, the lease provides financial covenants for the maintenance of indebtedness to EBITDA (as defined) not to exceed 4.0 to 1.0. The lease is renewable annually. The Company anticipates recording a loss of approximately \$4,700 associated with the sale/leaseback transaction, which will be classified as a reorganization item.

As a subsidiary of IHS, the Company is provided with certain services, including integrated cash management services and insurance coverage. Upon the Company's emergence from bankruptcy, the Company will no longer be a subsidiary of IHS. As a result, the Company will no longer have an integrated cash management system with IHS and will obtain its own insurance policies. In addition, in connection with a settlement agreement with IHS, among other things, all intercompany claims will be discharged.

(18) Fresh-Start Reporting (Unaudited)

The Company will adopt fresh-start reporting upon its emergence from Chapter 11 (i.e. the effective date of the plan of reorganization). Although the plan of reorganization was confirmed by the Bankruptcy Court on February 13, 2002, under the terms of the confirmation order, the plan will become effective upon the completion of related financing transactions anticipated to occur in March 2002. Under fresh-start reporting, the reorganization value of the Company will be allocated to the Company's assets based on their respective fair values in conformity with the purchase method of accounting for business combinations; any portion not attributed to specific tangible or identified intangible assets will be reported as an intangible asset referred to as "reorganization value in excess of value of identifiable assets." A pro forma condensed balance sheet which reflects the estimated effect of the provisions of the plan, the related financing transactions and the adoption of fresh-start reporting is summarized as follows (in millions) (as restated - see note 2):

Cash and equivalents	\$ 5.0
Accounts receivable	117.4
Other current assets	27.6
Total current assets	<u>150.0</u>
Current liabilities	<u>(39.5)</u>
Working capital	110.5
Property and equipment	257.3
Other assets	24.8
Reorganization value in excess of value of identifiable assets	621.4
Priority tax claim	(14.0)
Long-term debt	<u>(500.0)</u>
Stockholders' equity	<u>\$ 500.0</u>

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The valuations required to determine the fair value of the Company's assets have not been performed and, accordingly, the adjustments reflected in the pro forma data above are preliminary and subject to further revisions and adjustments. For this purpose, the carrying value of property and equipment and other assets was assumed to approximate fair value. The Company has arranged to obtain valuations of significant assets and, upon completion of this process, the reorganization value will be allocated to specific assets. It is anticipated that there will be reductions in the carrying values of certain assets, and the fair value of certain other assets may exceed the carrying values. Accordingly, the final valuation could result in materially different amounts and allocations of reorganization value from the amounts and allocations presented in the pro forma data above, primarily between "reorganization value in excess of value of identifiable assets" and property and equipment. Such different amounts and allocations could result in corresponding changes in depreciation and amortization amounts.