ANNUAL REPORT 1991

SALICK HEALTH CARE, INC.

Salick Health Care is a leading provider of disease-specific, outpatient health care services. The Company operates eight comprehensive cancer diagnostic and treatment centers across the country and eight outpatient artificial kidney (dialysis) centers, with 170 licensed treatment stations, in Southern California. The company also provides inpatient dialysis services and distributes medical supplies.

FINANCIAL HIGHLIGHTS 1991

	Years Ended August 31, (In thousands except per share amounts)				
	1991	1990	1989	1988	1987
Operating revenues, net (1)	$73,773	$64,775	$48,502	$36,016	$20,151
Operating income	$ 9,134	$ 7,420	$ 7,061	$ 6,894	$ 3,856
Income before taxes and extraordinary item	$ 7,236	$ 6,100	$ 6,025	$ 4,354	$ 5,541
Extraordinary item, net of income tax effects		$ 528			
Net income	$ 4,518	$ 4,150	$ 3,383	$ 1,860	$ 3,273
Earnings per share:					
Primary:					
Income before extraordinary item	$ 0.80	$ 0.65	$ 0.60	$ 0.33	$ 0.60
Extraordinary item		$ 0.09			
Net earnings per share	$ 0.80	$ 0.74	$ 0.60	$ 0.33	$ 0.60
Fully diluted:					
Income before extraordinary item	$ 0.75	$ 0.65	$ 0.60	$ (2)	$ 0.60
Extraordinary item		$ 0.07			
Net earnings per share	$ 0.75	$ 0.72	$ 0.60	$ (2)	$ 0.60

	Years Ended August 31, (In thousands)				
	1991	1990	1989	1988	1987
Working capital	$26,719	$28,866	$29,835	$29,221	$34,622
Total assets	$87,819	$77,858	$72,720	$68,054	$65,946
Long-term debt and capitalized leases	$32,541	$32,393	$33,969	$34,069	$34,035
Stockholders' equity	$39,262	$34,690	$30,528	$26,161	$23,895

(1) Amounts previously included as medical supplies and services have been reclassified as contractual allowances in determining net operating revenues to reflect the nature of the underlying contractual arrangements.

(2) Fully diluted earnings per share is anti-dilutive.

TO OUR SHAREHOLDERS

We are pleased to report that fiscal 1991 was the most productive year in the Company's history. The key financial measurements of performance — revenues, operating income, net income, shareholders' equity, and assets — all reached record levels.

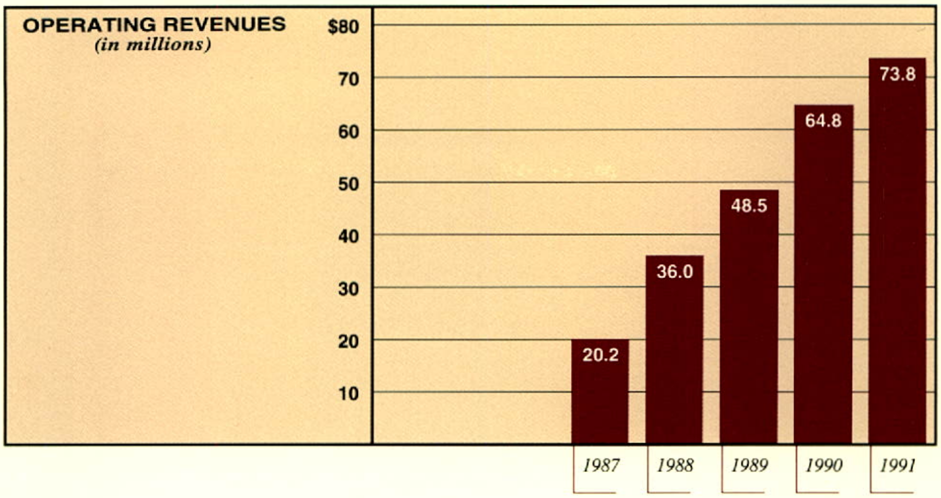
The past year was notable for Salick Health Care in other ways as well. We continued to strengthen our operations by adding proven professionals to our management team and highly-regarded physicians to our cancer centers' staff, by introducing new and expanded services, and by opening the eighth cancer center in our national network of cancer diagnostic and treatment facilities.

Consistent with the trend of recent years, we have positioned and strengthened the Company for sound, consistent long-term growth and enhanced shareholder value.

FINANCIAL PERFORMANCE

For the year ended August 31, 1991, net operating revenues rose 14% to $73,773,000 from $64,775,000 last year. Net income from operations increased 25% to $4,518,000, or $0.80 a share, from $3,622.000, or $0.65 a share, in fiscal 1990. A year ago, an extraordinary gain resulting from the early retirement of $2.57 million of our 7.25% Convertible Debentures added $528,000, or $0.09 a share, to net income. This year's first quarter results included an after-tax gain from early retirement of the debentures of $146,000, or less than $0.03 a share.

As in the case with other health care providers, a significant portion of our business is affected by government-mandated reimbursement rates. During the year, we were able to achieve a 23% gain in operating income, despite a general decrease in reimbursement which affected substantially all outpatient health care providers.



This year's record levels of revenue and income strengthened our already sound balance sheet. Shareholders' equity rose 13% to $39,262,000, total assets rose 13% to $87,819,000 and our long-term debt-to-equity ratio decreased from 84% to 72%.

By the end of fiscal 1991, 99% of the Company's portfolio was represented by investment-grade securities.

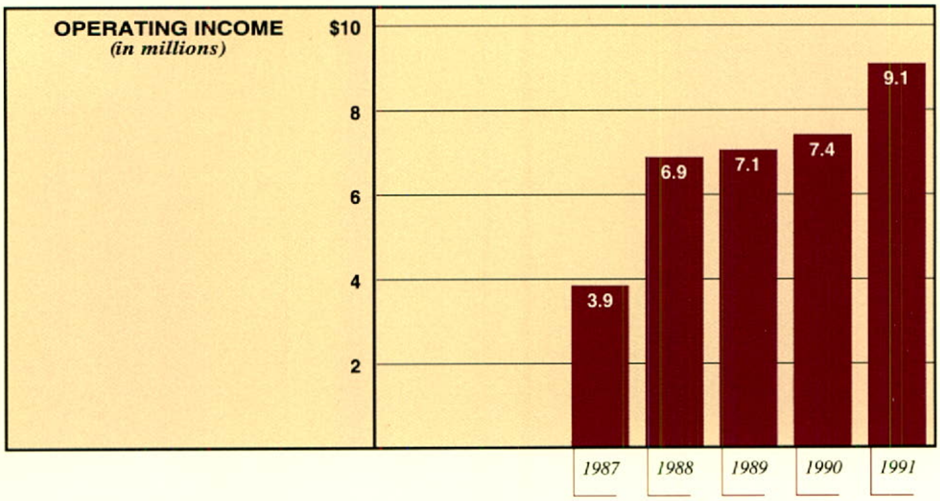
FISCAL 1991 HIGHLIGHTS

Fiscal 1991's financial and operational achievements were the result of our continuing focus on what we do best: aggressively pursuing our strategy of developing the nation's premier, high-quality, nationwide network of outpatient disease-specific diagnostic and treatment centers. Among the noteworthy accomplishments of the past year, the following deserve special mention:

CANCER CENTERS

During the year, we opened our eighth comprehensive cancer center, in interim space, on the premises of Alta Bates-Herrick Hospital in Berkeley, California. This 512-bed acute care facility is part of the Alta Bates Corporation which operates hospitals, long-term care facilities, home-care services and free-standing facilities throughout the San Francisco/Oakland East Bay area. Opening with nine highly-regarded oncologists, the Berkeley-based facility was a strong performer during its first year of operation.

Sound and sustained growth in the outpatient cancer center business doesn't mean just adding new centers each year. It also requires substantial investments to support existing facilities and programs to assure their leadership positions in the communities in which they operate. Over the course of a year, we continued to add new services and affiliate new physicians to better serve our patients and their families.



Among other noteworthy activities undertaken by the Company were the expansion of our cancer centers , the enhancement of our breast cancer program, the implementation of stereotactic radiosurgery and stem cell pheresis procedures and our active participation in an expanding number of clinical research trials.

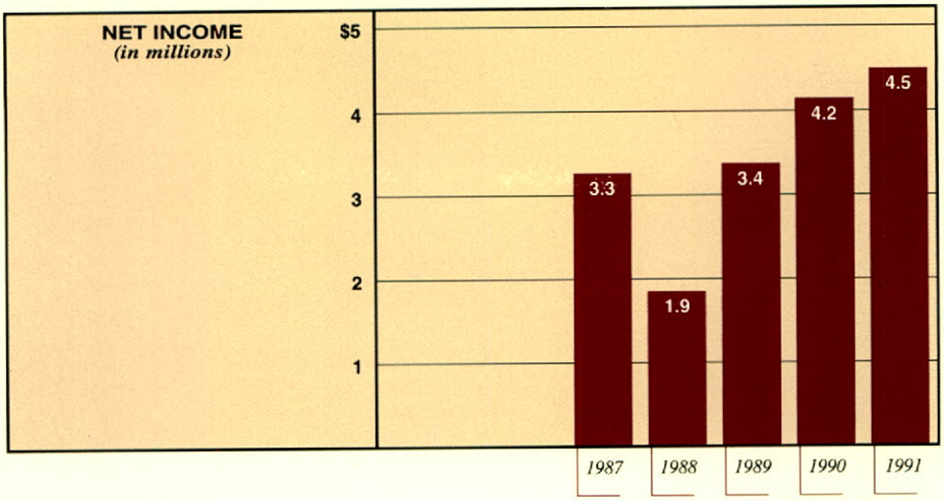
DIALYSIS OPERATIONS

The Company's dialysis business continues to perform strongly, despite adverse reimbursement changes. Additional physicians continue to affiliate with and treat an increasing number of patients at our dialysis centers. The Company's recently acquired Palm Springs dialysis facility, adjacent to our Desert Hospital Comprehensive Cancer Center, is achieving sound and steady growth, consistent with our expectations.

OTHER DEVELOPMENTS

Over the past six years, the Company's revenues have grown at an annual average rate of 33%, supported by additional physicians affiliating with our centers, the opening of new centers and the ongoing development and expansion of facilities, services, and programs at existing facilities. A growth rate of this magnitude places substantial demands on a company, requiring not only the availability of financial and other resources, but also solid controls and the maintenance of a high degree of operational flexibility in order to quickly take advantage of new opportunities as they arise.

To assure that the needed resources and operational flexibility for expansion will be available to us in the future, the Company undertook several important actions. One such step was the continued strengthening of our management team, where we were able to recruit experienced and highly-regarded professionals in the areas of development, center operations and quality assurance.



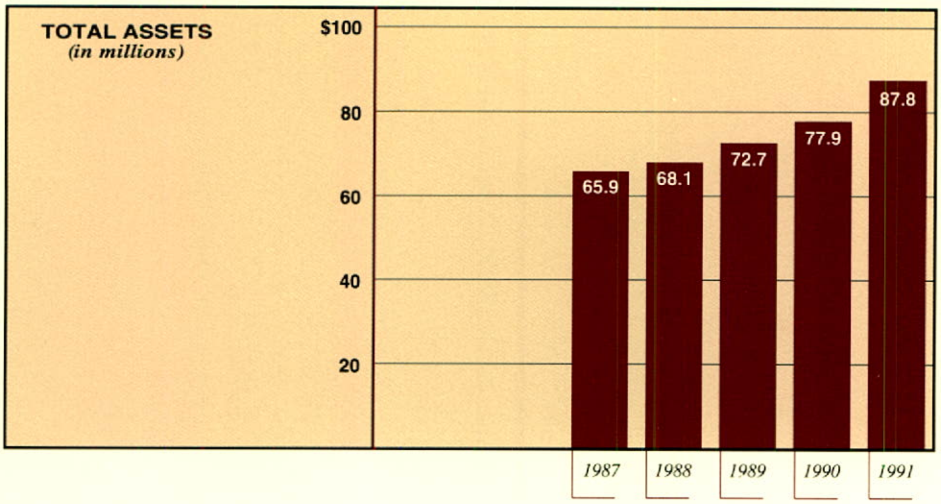
To facilitate the expansion of the Company's operations and to enable management to carry out its business strategy and long-term planning, Salick Health Care's shareholders, prior to the close of the fiscal year, overwhelmingly approved the Company's reincorporation in Delaware and merger into a newly-formed, wholly owned corporation. Many major corporations have for years taken advantage of Delaware's comprehensive, modern and flexible corporate laws, which are periodically updated to meet changing business needs.

The relocation of the Company's corporate offices to expanded space in Los Angeles, California was completed in August. The move will enable us to handle our current activities in a more productive manner, while allowing us to accommodate our anticipated growth more efficiently and cost-effectively.

We have also acquired an 80% interest in, and assumed the management and operation of, a well established radiation therapy center in North Miami Beach, adjacent to our cancer center at Parkway Regional Medical Center. This move broadens the programs and services we provide to the medical and patient communities in the area, creating a greater awareness of and accessibility to our cancer diagnostic and treatment capabilities.

OUTLOOK

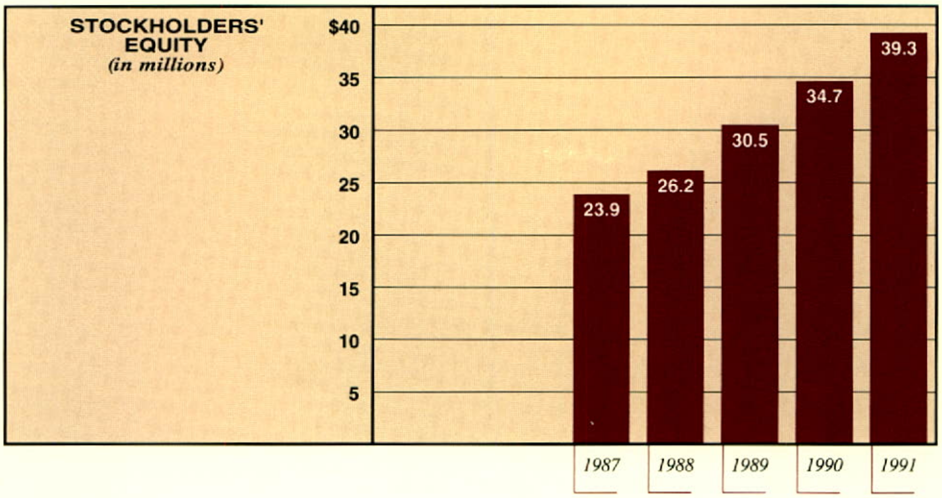
With the overall costs of cancer well in excess of $100 billion — reflecting more than one million newly-diagnosed cancer cases each year and the rate of increase approaching ten percent annually — it is obvious that major changes are necessary in the way the country addresses the issue of cancer care. Because we believe that many cancers can be dealt with effectively, given early diagnosis and professional, quality treatment, the lives of hundreds of thousands of cancer victims could be greatly enhanced and the costs to deliver the care substantially reduced by a national cancer program which provides greater accessibility to all



Americans at risk. Our goal is to help make that accessibility a reality. As opportunities arise, we will continue to add to our traditional base of large, comprehensive cancer centers affiliated with major urban and teaching hospitals, fulfilling a critical goal of providing substantially all of the outpatient health care facilities necessary to meet the needs of cancer patients and their physicians. In addition, we are in the process of building permanent cancer centers at Mount Sinai Medical Center in Miami, Temple University Medical Center in Philadelphia and Alta Bates-Herrick Hospital in Berkeley. These permanent facilities, which will replace our present facilities, will provide the additional space required to support the programs and services provided to our growing number of patients.

In the continuing expansion of the Company's operations, we expect to develop additional smaller — and substantially less-costly— facilities consistent with this Company's long-term objectives. These include infusion centers, comprehensive breast centers, home care and alliances with HMO's and other managed-care provider plans.

Our smaller cancer centers will enable us to provide critical diagnostic and therapeutic services in areas around the country that do not meet our demographic criteria for a large center. Such centers, moreover, can also serve as satellites to the larger facilities when their particular expertise or services are needed. Salick's infusion centers will be low-cost, low-overhead centers for cancer and other disease-specific patients. They differ from other, generalized, programs by emphasizing quality and comprehensive service, their linkage to our network of full service facilities programs and services and they are staffed by dedicated, experienced professionals. It has been our



experience that a significant percentage of patients treated in the home are better served by such facilities where appropriate, experienced professional support is available at all times.

Approximately one in nine women in this country will develop breast cancer during their lifetimes. The overall costs associated with breast cancer are estimated to be well in excess of $5 billion annually. While the incidence of breast cancer continues to increase, early detection and improved treatment have kept mortality rates stable for many years. To meet this need, we are expanding our breast cancer program and anticipate establishing a number of breast centers affiliated with our cancer centers.

The Company's breast centers will bring essential examination and counselling offices for women closer to home, providing education, genetic risk assessment counseling, diagnosis and limited treatment. We are fortunate in being able to include — among the many capabilities we bring to our breast cancer program — leading experts in the field of breast center operations and programs and cancer-related genetic risk assessment.

We believe that the depth and range of resources we currently bring to our business — including the experience, skills, and know-how of the professionals in our organization — are unique. But even though their duplication would represent a significant barrier to entry by potential competitors, we cannot rest on our past performance.

Thus, as we have indicated, shareholders can look in fiscal 1992 and beyond to Salick Health Care's aggessively building on our progress to date.

We anticipate maintaining our growth momentum in the coming year and we remain deeply appreciative of all those who played a role in our record results of fiscal 1991: our employees, our partner hospitals and their professional and medical staffs, and our shareholders. We thank you for your help and your encouragement, and we look forward to your continuing support in the current year.

November 30, 1991

Bernard Salick, M.D.
Chairman of the Board
and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

FISCAL YEAR 1991 COMPARED TO 1990 For fiscal 1991, operating revenues increased by 13.9% to $73,773,000 from $64,775,000 for fiscal 1990. Operating income increased by 23.1% to $9,134,000 versus $7,420,000 for the previous year. In the fiscal year's fourth quarter, operating income increased 22.5% over the prior year's fourth quarter. Income before taxes increased 18.6% to $7,236,000 from $6,100,000 in fiscal 1990. Net income increased 8.9% to $4,518,000 as compared to $4,150,000 for the prior year and represented 6.1% and 6.4%, respectively, of operating revenues in the corresponding periods. Primary earnings per share increased 8.1% to $0.80 from $0.74 for the previous year. Fully diluted earnings per share increased 4.2% to $0.75 from $0.72 for the previous year. Fiscal 1990 net income included an extraordinary gain of $528,000, net of income taxes of $367,000, from early extinguishment of debt or $0.09 primary earnings per share and $0.07 fully diluted earnings per share. Income before extraordinary item, increased 24.7% for fiscal 1991 from the previous year. The results reflect continued growth at established facilities as well as increasing contributions from the new Cancer Centers opened during the past 21 months at Desert Hospital in Palm Springs, California and Alta Bates-Herrick Hospital in Berkeley, California. The increases in revenues and income were achieved despite the effect of Medicare reimbursement changes mentioned below. The income statement reflects a reclassification and reduction of amounts previously included in medical supplies and services and a corresponding reduction in net operating revenues of $6,156,000, $4,953,000 and $3,549,000 for years ended August 31, 1991, 1990 and 1989, respectively. In management's opinion the reclassification reflects the nature of the underlying contractual arrangements.

Operating results have been and will continue to be adversely affected by reductions in reimbursement rates mandated by Congress, including those pursuant to the Omnibus Budget Reconciliation Act of 1990 which impacts health care providers for many services provided Medicare beneficiaries. The principal reductions applicable to the Company are a 5.8% reduction on outpatient cost based programs effective October 1, 1990, continuation of the prior years' 2% reduction in reimbursement under Medicare Part B for services furnished during November and December 1990 only, an additional reduction in reimbursement for radiology and radiation therapy services and a change in the manner of reimbursement for Erythropoietin for dialysis patients, effective January 1, 1991. There was also a change in the method for reimbursing medications provided to Medicare dialysis patients from reimbursement based upon charges to reimbursement based upon reasonable cost which adversely affected the Company. The Company has implemented strategies, including programs to increase both Medicare and non-Medicare patient volume and the implementation of cost control programs that have mitigated the effect of those changes. See "Impact of Inflation and Changing Regulation".

Operating revenues and income were positively affected by a substantial recovery in the volume of business at the Company's JFK Cancer Center which had been reduced since February 1990, as the result of a of non-recurring and unusual events, primarily the relocation of offices and practices in February 1990, the termination of agreements by certain medical oncologists with whom the Company contracted, and the expense of litigation instituted and being actively pursued against these doctors by the Company as the result of those terminations and other conduct. The Company instituted several measures to restore the revenues affected by such doctors' conduct including the recruitment of a new Medical Director who joined the Company on July 1, 1990 and an additional full time medical oncologist who joined the Company on December 1, 1990, as well as general operating cost reductions and renegotiation of certain fixed obligations

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

under its agreement with the hospital. The impact of these measures resulted in the recovery to approximately 77% of pre-February 1990 operating revenues in the current year.

Total expenses relative to operating revenues for the year decreased .9%, before interest and investment expense, as compared to the prior year. Operating income, as a percentage of operating revenues, increased .9% over the previous year. Medical supplies expense increased by $1,258,000 during the period, a less than 1% increase as a percentage of net revenues, resulting from increased activity at the Company's Cancer Centers. Salaries and related costs including additional professional, corporate, administrative and other personnel necessitated by expansion and growth, primarily in Cancer Center operations, and increases in compensation and payroll taxes, rose $5,324,000 in the period or 2.2% as a percentage of operating revenues. As compared to the prior year, other administrative expenses relative to operating revenues decreased by 1.7%, primarily due to the incremental effect of increased operations. Contract and occupancy costs decreased on a relative basis by 0.8% during the period, as a percentage of net operating revenues, principally resulting from the existing Cancer Centers' expansion of services and programs. Depreciation and amortization increased by $70,000 during the period due to amortization of pre-operating costs and depreciation of additional clinic equipment placed in service during the past year. The pre-operating and start-up costs of the Company's outpatient Comprehensive Cancer Centers are being amortized over three years, beginning with the commencement of operations.

Income taxes are calculated at a 37.6% rate in fiscal 1991 versus 40.6% in fiscal 1990. The lower rate in 1991 is due primarily to the favorable outcome of Internal Revenue Service audits of tax years 1983 through 1988. No known issues remain outstanding with the Internal Revenue Service as a result thereof. The Company continues to have available a capital loss carryforward, future utilization of which has the potential for reducing the Company's tax rates and increasing cash flow to the extent this carryforward can be used to offset future capital gains.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes. SFAS 96 mandates the liability method for computing deferred income taxes. The Company intends to adopt SFAS 96 in 1993. Adoption of SFAS 96 is not expected to have a significant effect on the Company's financial position or results of operations.

Fiscal 1991 results include a gain, net of taxes, of $146,000 in the first quarter from the repurchase of $580,000 face amount of the Company's outstanding 7 1/4% Convertible Subordinated Debentures Due 2001. This gain substantially offsets losses incurred in continued restructuring activities to upgrade the quality of the Company's investment portfolio. See "Liquidity and Capital Commitments".

Governmental regulations, primarily reductions in reimbursement rates, can and have adversely affected revenues and profits. See "Business-Governmental Regulation".

FISCAL YEAR 1990 COMPARED TO 1989 Compared to fiscal 1989, operating revenues for fiscal 1990 increased 33.6% and operating income for fiscal 1990 rose 5.1%. In the fiscal year's fourth quarter, operating income increased 16.7% over the prior year's fourth quarter. The increase in revenues was primarily due to the continued strong performance of the Company's previously existing and newly established Cancer Centers and dialysis operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The income statements for each of fiscal 1990 and 1989 reflect a reclassification and reduction of amounts previously included in medical supplies and services and corresponding reductions in net operating revenues of $4,953,000 for fiscal 1990 and $3,549,000 for fiscal 1989. In management's opinion, the reclassification reflects the nature of the underlying contractual arrangements.

Operating revenues and income for fiscal 1990 were affected by a substantial reduction in business at the Company's JFK Cancer Center for the reasons described above in the fiscal 1991 to 1990 comparative periods. In fiscal 1990, the cost of the litigation against the terminating oncologists (described above) was approximately $175,000 and was expensed. The Company implemented several measures to restore the revenues, including the recruitment of a new Medical Director and additional Medical Oncologists, general operating cost reductions and renegotiation of certain fixed obligations under its agreement with the hospital.

Operating revenues were also affected by reductions in reimbursement to all health care providers for services provided Medicare patients mandated by Congress pursuant to the Balanced Budget and Emergency Deficit Control Act of 1985 ("Gramm-Rudman") as well as an approximate 8% reduction in reimbursement for the technical component of radiation therapy and radiologic service charges, which occurred in October 1989. The Company's ability to increase the number of patients treated at the Cancer Centers, together with cost reductions and other strategies that were implemented, significantly mitigated the effect of those changes.

Total expenses before investment expense relative to operating revenues for fiscal 1990 increased 3.1% as compared to fiscal 1989. Medical supplies expense increased by $3,220,000 or 62.6% over the prior year due to increased treatments at the Company's cancer and dialysis centers. Salaries and related costs including additional professional, corporate, administrative and other personnel necessitated by the expansion and growth in Cancer Center operations and increases in compensation, while increasing in dollar amount, stabilized as a percentage of revenues. Other administrative expenses decreased by 1% relative to operating revenues, primarily due to increased operations. Contract and occupancy costs increased $2,388,000 or 1% as a percentage of net operating revenues principally resulting from the existing Cancer Centers becoming fully operational, the addition of both a cancer and dialysis center in the Palm Springs, California area and the expansion of services and programs. Depreciation and amortization increased by $1,329,000 due to amortization of pre-operating costs and depreciation of additional clinic equipment placed in service during the year.

In fiscal 1990, income after taxes but before the extraordinary gain increased by $239,000. Net income increased $767,000 over fiscal year 1989 and represented 6.4% of operating revenues. Income taxes are calculated at a 41% rate versus 44% in fiscal 1989; the higher rate in 1989 was due to a markdown of the investment portfolio resulting in a capital loss carryforward without a concurrent corresponding tax benefit. Utilization of this markdown has the potential for reducing the Company's tax rates and increasing cash flow to the extent this carryforward can be used to offset future capital gains.

Primary and fully diluted earnings per share for the fiscal year ended August 31, 1990 before an extraordinary gain, net of taxes, of $0.09 per share, increased 8.3% to $0.65 per share from $0.60 per share in the fiscal year ended August 31, 1989. Inclusive of the extraordinary gain, primary earnings per share for fiscal 1990 were $0.74, a 23.3% increase over the prior year.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

LIQUIDITY AND CAPITAL COMMITMENTS Presently existing and internally generated funds and credit facilities are expected to be sufficient to satisfy the Company's requirements for working capital and capital expenditures relating to its present operations in fiscal 1992. Working capital at August 31, 1991 was $26,719,000. The reduction in working capital during fiscal 1991, approximately 7.4%, results from establishment of the Alta Bates-Herrick Hospital facility, expansion of the Desert Hospital facility operations, acquisition of a third linear accelerator for the Cedars-Sinai Comprehensive Cancer Center, and expansion and upgrade of other existing facilities, operations and equipment.

The Company's principal sources of liquidity consist of cash on hand, interest-bearing investments, internal cash flow and bank lines of credit of $30,000,000, drawings under which are at the bank's prime rate of interest, and a lease line of credit of $2,600,000. At August 31, 1991, $6,640,000 had been borrowed under the bank lines of credit and $1,321,000 of the lease line has been used in connection with the acquisition of a linear accelerator for the Company's Cedars-Sinai Comprehensive Cancer Center and stereotactic radiosurgery equipment for the Company's Temple University Cancer Center. The Company may, pursuant to the terms of the bank line of credit, elect to convert up to $10,000,000 in borrowings to long-term debt, at an interest rate of prime plus one-quarter percent, payable in monthly installments.

In the quarter ended November 30, 1990, the Company acquired $580,000 face amount of its outstanding 7 1/4% Convertible Subordinated Debentures Due 2001, for approximately $317,000. The Company utilized funds from its bank line of credit to purchase these Debentures. As a result, the Company recognized an investment gain of $248,000 ($146,000 net of income taxes of $102,000).

At August 31, 1991, the Company held in its portfolio $19,803,000 of cash and government and investment grade securities. These investments represent 99% of the total portfolio at carrying cost and reflect the Company's policy to invest its funds in government and investment grade securities. The remaining 1% is represented by three corporate debt securities rated less than investment grade and carried at their market value of $229,000. The risk of loss to the Company on these securities upon default by the borrower is not material. As of August 31, 1991, the Company's five largest investments in corporate debt securities aggregated $3,492,000 (all of which were investment grade) which had an approximate market value of $3,511,000. The single largest investment in one Company's securities approximated $985,000 at carrying cost.

Capital expenditures for the Company's Cancer Centers and dialysis operations for fiscal 1992 are presently anticipated to be less than $15,000,000. Included are the remaining costs to construct and equip a third linear accelerator facility at the Cedars-Sinai Cancer Center, which costs are expected to be approximately $2,200,000. This includes the cost of equipment, approximately $1,300,000, which has been acquired through the use of the bank lease line of credit. As to future needs, certain equipment and/or facilities may be acquired through leases or purchase-finance agreements. The accelerated development and establishment or acquisition of a significant number of additional Cancer Centers and/or dialysis centers or other acquisitions may require borrowing or equity financing by the Company.

The relocation of the Company's corporate and business offices which occurred in July 1991 provided the Company with additional space essential for the Company's present and future needs. The Company's prior corporate and business office leases expired concurrent with the relocation. The initial year's rent, relocation and related occupancy costs are estimated to increase approximately $600,000 over their fiscal 1991 level.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

IMPACT OF INFLATION AND CHANGING REGULATION A substantial portion of the Company's revenue is subject to reimbursement rates which are regulated by both federal and individual state authorities. These reimbursement rates are also subject to periodic adjustment for certain factors, including those imposed pursuant to Gramm-Rudman, inflation, area wage indexes and costs incurred in rendering the services. The reimbursement rates may in the future, as they have in the past, also be affected by cost containment legislation, competition, third party payor changes or other governmental administrative controls or limitations. Medicare regulations dealing with reimbursement for both professional fees and technical (facility) charges for radiology and radiation therapy service provided by freestanding as well as hospital-based facilities were phased in over a two-year period which began October 1, 1988. The radiology/radiation therapy reimbursement adjustment mentioned above has had an adverse effect on the Company's revenues and earnings. The Omnibus Budget Reconciliation Act of 1990 contains provisions reducing reimbursement to health care providers for many services provided to Medicare beneficiaries. The more prominent among these were a 5.8% reduction in reimbursement on outpatient cost based programs effective October 1, 1990, a 2% reduction in reimbursement under Medicare Part B for services furnished during November and December 1990 only, an additional reduction in reimbursement for radiology and radiation therapy services and a change in the manner of reimbursement for Erythropoietin for dialysis patients, effective January 1, 1991. There was also a change in the method for reimbursing medications provided to Medicare dialysis patients from reimbursement based upon charges to reimbursement based upon reasonable cost which adversely affected the Company. Although these have been partially offset by the $1.00 per treatment increase in the composite reimbursement rate for outpatient dialysis services, the overall impact of these changes adversely affected the Company's revenues and earnings. Their effect may be mitigated by the Company's ability to increase its patient volume both at the same sites and at additional centers, to increase its non-Medicare patient volume and to continue implementation of cost controls. See also "Governmental Regulation - Medicare Reimbursement" and "Governmental Regulation - Fraud and Abuse". There is also the possibility of the establishment of a prospective payment system for certain Medicare reimbursed outpatient services which, if adopted, would most likely not be effective until the latter part of 1992. Until a decision has been made it cannot be ascertained what impact it may have on the Company's revenues and earnings.

Labor costs represent the largest dollar component of the Company's total expenses and necessary increases in the number of personnel, salaries, hourly rates and insurance costs have resulted in higher dollar amounts of operating expenses. Rental rates are subject to annual adjustments pursuant to escalation clauses in the respective leases. In addition, suppliers have sought to pass along their rising costs to the Company. A significant portion of these higher costs, however, has been offset by the use of new procedures and equipment, changes in staff scheduling, improvement in purchase price negotiations and utilization of supplies, and by increases in treatment and services volume. Changes in reimbursement rates for Medicare patients have a significant impact on the results of operations. The rate of inflation has not had a significant impact on results of operations.

CONSOLIDATED BALANCE SHEETS

ASSETS

	August 31, 1991	August 31, 1990
Current assets:		
Cash	$ 565,000	$ 483,000
Marketable securities (Note 1)	20,032,000	18,661,000
Accounts receivable, less allowance for doubtful accounts of $3,157,000 and $2,789,000	18,405,000	17,054,000
Inventories	1,116,000	1,262,000
Prepaid expenses	1,351,000	974,000
Current portion of notes receivable (Note 2)	172,000	231,000
Other current assets	780,000	976,000
Deferred income taxes (Note 7)	314,000	
Total current assets	42,735,000	39,641,000
Notes receivable (Note 2)	744,000	779,000
Property and equipment, at cost, less accumulated depreciation and amortization of $12,866,000 and $10,237,000 (Notes 1 and 3)	32,793,000	27,712,000
Pre-operating costs (Note 1)	731,000	971,000
Deposits	2,307,000	1,639,000
Goodwill, net (Notes 1 and 8)	4,670,000	4,533,000
Other assets	3,839,000	2,583,000
	$87,819,000	$77,858,000

LIABILITIES AND STOCKHOLDERS' EQUITY

	August 31, 1991	August 31, 1990
Current liabilities:		
Notes payable to bank (Note 4)	$ 6,640,000	$ 5,000,000
Accounts payable and accrued liabilities	6,984,000	4,170,000
Income taxes payable (Note 7)	1,706,000	310,000
Deferred income taxes (Note 7)		791,000
Current portion of long-term obligations (Notes 3 and 5)	686,000	504,000
Total current liabilities	16,016,000	10,775,000
Capitalized lease obligations, less current portion (Note 3)	4,215,000	3,320,000
Long-term debt, less current portion (Note 5)	28,326,000	29,073,000
Total liabilities	48,557,000	43,168,000
Commitments and contingencies (Notes 2 and 3)		
Stockholders' equity (Note 6)		
Preferred stock, $.001 par value (1991) and no par value (1990), 5,000,000 and 1,000,000 shares authorized, none issued		
Common stock, $.001 par value, 25,000,000 shares authorized, 5,528,027 shares issued and outstanding	6,000	
Common stock, no par value, 15,000,000 shares authorized, 5,518,027 shares issued and outstanding		16,772,000
Additional paid in capital	16,820,000	
Retained earnings	22,436,000	17,918,000
Total stockholders' equity	39,262,000	34,690,000
	$87,819,000	$77,858,000

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended August 31,		
	1991	1990	1989
Revenues:			
Operating revenues, net (Note 1)	$73,773,000	$64,775,000	$48,502,000
Expenses:			
Medical supplies and services	9,622,000	8,364,000	5,144,000
Salaries and related costs	32,041,000	26,717,000	19,928,000
Other administrative expenses	10,818,000	10,619,000	8,431,000
Contract and occupancy costs (Notes 2 and 3)	7,942,000	7,509,000	5,121,000
Depreciation and amortization (Note 1)	4,216,000	4,146,000	2,817,000
Total expenses	64,639,000	57,355,000	41,441,000
Operating income	9,134,000	7,420,000	7,061,000
Net interest expense	(1,303,000)	(1,272,000)	(706,000)
Net investment income (expense) (Notes 1,3,4 and 5)	(595,000)	(48,000)	(330,000)
Income before income taxes and extraordinary item	7,236,000	6,100,000	6,025,000
Provision for income taxes (Note 7)	2,718,000	2,478,000	2,642,000
Income before extraordinary item	4,518,000	3,622,000	3,383,000
Extraordinary item:			
Gain on early extinguishment of debt, net of income tax effect (Note 5)		528,000	
Net income	$ 4,518,000	$ 4,150,000	$ 3,383,000
Earnings per share (Note 1)			
Primary:			
Income before extraordinary item	$ 0.80	$ 0.65	$ 0.60
Extraordinary item		0.09	
Net earnings per share	$ 0.80	$ 0.74	$ 0.60
Fully diluted:			
Income before extraordinary item	$ 0.75	$ 0.65	$ 0.60
Extraordinary item		0.07	
Net earnings per share	$ 0.75	$ 0.72	$ 0.60
Weighted average number of shares used in computing earnings per share:			
Primary	5,648,000	5,583,000	5,604,000
Fully diluted	7,543,000	7,476,000	7,707,000

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended August 31, 1991	1990	1989
Cash flow provided (used) by operations:			
Income before extraordinary item	$ 4,518,000	$ 3,622,000	$ 3,383,000
Depreciation and amortization	4,216,000	4,146,000	2,817,000
Amortization of debt issue costs	80,000	142,000	74,000
Deferred income taxes	(1,105,000)	(355,000)	(46,000)
Gain on extinguishment of debt	(248,000)		
Changes in assets and liabilities:			
Accounts receivable	(1,351,000)	(1,970,00)	(5,066,000)
Inventories	146,000	(131,000)	(375,000)
Prepaid expenses	(377,000)	158,000	277,000
Refundable income taxes		437,000	(437,000)
Other current assets	196,000	436,000	(95,000)
Pre-operating costs	(180,000)	(248,000)	(407,000)
Deposits and other assets	(706,000)	(530,000)	(461,000)
Accounts payable and accrued liabilities	2,814,000	557,000	576,000
Income taxes payable	1,396,000	310,000	(550,000)
Net cash flow provided (used) by operations	9,399,000	6,574,000	(310,000)
Cash flow provided (used) by investing activities:			
(Increase) decrease in marketable securities	(1,371,000)	(3,693,000)	7,982,000
Additions to property and equipment	(7,186,000)	(6,097,000)	(4,888,000)
Decrease in notes receivable	94,000	111,000	6,000
Payment for purchase of acquisitions	(1,712,000)	(1,068,000)	(408,000)
Net cash flow (used) provided by investing activities	(10,175,000)	(10,747,000)	2,692,000
Cash flow provided (used) by financing activities:			
Issuance of common stock	54,000	12,000	984,000
Reduction of capitalized lease obligations	(337,000)	(309,000)	(255,000)
Increase (decrease) of long-term debt	(499,000)	(803,000)	(166,000)
Notes payable to bank, net	1,640,000	2,000,000	348,000
Net cash flow provided by financing activities	858,000	900,000	911,000
Increase (decrease) in cash	82,000	(3,273,000)	3,293,000
Cash, beginning of period	483,000	3,756,000	463,000
Cash, end of period	$ 565,000	$ 483,000	$ 3,756,000
Schedule of non-cash investing and financing activities:			
Capital lease obligations incurred for property and equipment	$ 1,426,000	$ 104,000	$ 392,000

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-In-	Retained
	Shares	Par Value	Capital	Earnings
Balance at August 31, 1988	5,400,718	$	$15,776,000	$10,385,000
Shares issued on exercise of stock options (Note 6)	114,559		765,000	
Tax benefit from exercise of stock options			219,000	
Net income				3,383,000
Balance at August 31, 1989	5,515,277		16,760,000	13,768,000
Shares issued on exercise of stock options (Note 6)	2,750		12,000	
Net income				4,150,000
Balance at August 31, 1990	5,518,027		16,772,000	17,918,000
Shares issued on exercise of stock options (Note 6)	10,000		54,000	
Effect on stockholders' equity of the reincorporation in Delaware		6,000	(6,000)	
Net income				4,518,000
Balance at August 31, 1991	5,528,027	$ 6,000	$16,820,000	$22,436,000

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1
Summary of Significant Accounting Policies

PRINCIPLES OF CONSOLIDATION The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All material intercompany items have been eliminated.

OPERATING REVENUES Operating revenues are recorded, net of contractual allowances and allowances for doubtful accounts from standard treatment rates, when treatments are rendered to patients. These allowances were $38,084,000, $32,928,000 and $19,881,000 for the years ended August 31, 1991, 1990 and 1989, respectively. A substantial portion of the Company's revenues is dependent on reimbursement programs administered by Medicare and other governmental agencies.

MARKETABLE SECURITIES The marketable securities portfolio includes brokerage cash funds and corporate and government bonds. Marketable securities are stated at cost of $20,032,000 and $18,661,000, as of August 31, 1991 and 1990, net of valuation allowances of $1,024,000 and $956,000, respectively. Valuation allowances of $448,000 and $427,000 are included in net investment expense for fiscal 1991 and 1989, respectively. Market value at August 31, 1991 and 1990 of these securities was $20,056,000 and $17,234,000, respectively. The use of a valuation allowance by the specific identification basis, to approximate market value, reflects projected liquidation requirements to fund the Company's future expansion and the market posture of the securities at that date. Net realized losses of $183,000, gains of $48,000, and losses of $16,000 for the years ended August 31, 1991, 1990 and 1989, respectively, are recorded in net investment expense. The costs of marketable securities sold are determined by the specific identification method.

INVENTORIES Inventories, which are comprised of medical supplies, are stated at the lower of cost (FIFO) or market.

PROPERTY AND EQUIPMENT Property and equipment is stated at cost less accumulated depreciation. Depreciation is generally provided on the straight-line method over the estimated useful life of the asset. The components of property and equipment and the estimated useful lives by asset category are as follows:

	Estimated Useful Lives	August 31, 1991	August 31, 1990
Buildings	20 to 25 years	$17,782,000	$17,782,000
Leasehold improvementss	3 to 25 years	4,319,000	3,347,000
Clinic equipment	5 to 10 years	12,248,000	9,434,000
Furniture and fixtures	5 to 10 years	5,901,000	4,439,000
Automobiles and trucks	3 to 4 years	454,000	432,000
		40,704,000	35,434,000
Less accumulated depreciation and amortization		(12,866,000)	(10,237,000)
		27,838,000	25,197,000
Construction in progress		4,955,000	2,515,000
		$32,793,000	$27,712,000

The above summary of property and equipment includes capitalized leases (Note 3).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1
Summary of Significant Accounting Policies (continued)

INCOME TAXES Deferred income taxes are provided for timing differences between the recognition of revenue and expense for income tax and financial statement purposes.

EARNINGS PER SHARE Earnings per share, assuming no dilution, is calculated based upon the weighted average number of common and common equivalent shares outstanding during each year. Earnings per share, assuming full dilution, is computed as above and assumes conversion of the convertible subordinated debentures (Note 5).

PRE-OPERATING COSTS The Company defers certain pre-operating costs related to the development of Cancer Centers. Amortization of these costs occurs over a three year period upon the commencement of operations of a Cancer Center. Amortization of these pre-operating costs was $419,000, $647,000 and $301,000 during the years ended August 31, 1991, 1990 and 1989, respectively. Unamortized pre-operating costs were $731,000 and $971,000 at August 31, 1991 and 1990, respectively.

DEBT ISSUE COSTS Debt issue costs associated with the issuance of the Company's 7.25% Convertible Subordinated Debentures in 1986 (Note 5) were $1,145,000. These costs, included in other assets, have been deferred and are being amortized over the fifteen year term of the debentures. Amortization of debt issue costs was $59,000, $72,000 and $74,000 during the years ended August 31, 1991, 1990 and 1989, respectively. Debt issue costs were also reduced by $22,000 and $70,000 associated with early extinguishment of a portion of the debentures during fiscal 1991 and 1990.

GOODWILL Goodwill represents the excess of the purchase price over the fair value of net assets previously acquired and those acquired in the purchase transactions described in Notes 2 and 8. Goodwill is amortized on a straight line basis over a period of forty years. Amortization of goodwill during the years ended August 31, 1991, 1990 and 1989 was $119,000, $100,000 and $83,000, respectively.

INCOME STATEMENT PRESENTATION The reporting format of the accompanying Consolidated Statements of Income has been reclassified and amounts previously included as medical supplies and services have been reclassified as contractual allowances in determining net operating revenues to reflect the nature of the underlying contractual arrangements. Prior years' consolidated financial statements have been reclassified accordingly.

NOTE 2
Related Party Transactions

LEASES The Company and its subsidiaries leased corporate office space for the majority of fiscal 1991 from an entity owned by its principal stockholder and an unrelated third party under various operating leases containing operating cost escalation provisions. Aggregate minimum annual rentals for the years ended August 31, 1991, 1990 and 1989 were approximately $741,000, $611,000 and $521,000, respectively. During 1991, the Company relocated its corporate headquarters to a larger, more efficient, building owned by its principal stockholder which was renovated for the Company's use at an approximate annual gross rental of $906,000 on a triple net basis plus annual operating cost escalation provisions. The lease has a remaining term of approximately 20 years. The Company also leases a dialysis treatment center from its principal stockholder, as more fully described in Note 3.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2
Related Party Transactions (continued)

NOTES RECEIVABLE Notes receivable are comprised of the following:

	August 31, 1991	August 31, 1990
Note receivable from principal stockholder	$ 479,000	$ 575,000
Notes receivable from employees and consultants	437,000	435,000
	916,000	1,010,000
Less current portion	(172,000)	(231,000)
	$ 744,000	$ 779,000

The note receivable from the principal stockholder is secured by real property. The terms of the note presently provide for repayment in ten annual installments which began November 1, 1986 bearing interest at the prime lending rate (8.5% at August 31, 1991).

The notes receivable from employees and consultants bear interest at rates varying from 7.62% to the prime interest rate and provide for monthly payments of interest. Principal repayments are due in varying terms of five to seven years or upon termination of the employee or consultant agreement. Notes receivable from employees and consultants of $330,000 are secured by real property.

ACQUISITION OF NERVE CONDUCTION AND EEG BUSINESS In December 1986, the Company acquired from its principal stockholder for $1,750,000 with an additional $250,000 payable over the two succeeding years and contingent upon the business reaching a certain earnings level, which has been attained, substantially all of the business, personnel, assets and goodwill of a business providing nerve conduction and electroencephalogram testing services. This business was operated by an entity wholly owned by the principal stockholder. The price and terms of the acquisition were negotiated on an arm's length basis, taking into account good faith estimates of the market value of the business acquired.

NOTE 3
Leases and Commitments

The Company leases from its principal stockholder a chronic dialysis treatment center at minimum annual rental of $548,000. The lease has a remaining term of approximately 15 years and is recorded as a capital lease at an imputed interest rate of 13.8%. The Company also leases certain clinic equipment under the terms of capital leases with unrelated third parties.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3
Leases and Commitments (continued)

Annual future minimum lease payments as of August 31, 1991 are as follows:

Year Ending August 31,	Operating Leases	Capital Leases
1992	$ 1,815,000	$ 1,051,000
1993	1,518,000	917,000
1994	1,350,000	794,000
1995	1,188,000	724,000
1996	1,090,000	693,000
Thereafter	14,891,000	4,944,000
Total minimum lease payments, including $20,055,000 under operating leases and $6,588,000 under capital leases payable to the Company's principal stockholder	$21,852,000	9,123,000
Less interest and executory costs		(4,389,000)
Present value of minimum lease payments		4,734,000
Less current portion		(519,000)
		$ 4,215,000

Interest rates on capital leases are 9% except as described above. The following is an analysis of capitalized lease assets included in property and equipment:

	August 31, 1991	August 31, 1990
Clinic Equipment	$ 2,858,000	$ 2,858,000
Buildings	2,883,000	1,457,000
	5,741,000	4,315,000
Less accumulated amortization	(1,545,000)	(1,228,000)
	$ 4,196,000	$ 3,087,000

During the years ended August 31, 1991, 1990 and 1989 rent expense under operating leases totalled $1,989,000, $1,798,000 and $1,590,000, respectively.

Under the terms of certain agreements that the Company has at various of its Cancer Centers, it has in total annual commitments of up to $3,213,000 plus amounts based on center performance. These agreements terminate at various dates through 2005, subject to renewal provisions.

NOTE 4
Bank Agreements

The Company has agreements with a bank, which are subject to renewal annually, for lines of credit of $30,000,000 with interest payable at the bank's prime rate. In addition, the Company may at its option convert up to $10,000,000 in borrowings to long-term debt payable monthly beginning February 28, 1992 at an interest rate of prime plus one-quarter percent. At August 31, 1991, there were $6,640,000 in borrowings under the lines of credit. During the year ended August 31, 1991 the Company paid $408,000 in interest expense relating to these lines of credit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4
Bank
Agreements

The Company also has an equipment lease agreement with a bank in the amount of $2,600,000, $1,321,000 of which has been utilized for clinical equipment at the Cedars-Sinai and Temple University Comprehensive Cancer Centers. The terms of the lease provide for monthly interest payments at the bank's prime rate (8.5% at August 31, 1991) until the leases are formalized, when monthly payments of principal and interest will commence.

NOTE 5
Long-Term
Debt

Long-term debt consists of the following:

	August 31, 1991	August 31, 1990
13.5% unsecured sinking fund bond	$ 1,167,000	$ 1,334,000
Equipment purchase debt	1,409,000	1,409,000
7.25% convertible subordinated debentures	25,917,000	26,497,000
Total long-term debt	28,493,000	29,240,000
Less current portion	(167,000)	(167,000)
	$28,326,000	$29,073,000

The 13.5% unsecured sinking fund bond is payable in annual installments of $167,000 beginning May 13, 1987 through May 13, 1992. In September 1991, the Company exercised its option to call and retire the 13.5% unsecured sinking fund bonds.

Equipment purchased under an agreement from a hospital at which the Company operates a Cancer Center becomes payable in full, including accrued interest, upon opening of the permanent Cancer Center, which is presently expected in fiscal 1993. Interest under the agreement accrues at the prime rate of interest which was 8.5% at August 31, 1991.

The 7.25% convertible subordinated debentures are due January 31, 2001. Interest is payable semi-annually on February 1 and August 1. The debentures are convertible at any time prior to maturity into shares of common stock of the Company at a conversion price of $14 per share, subject to adjustment under certain conditions.

The debentures are redeemable at any time at the option of the Company. Mandatory annual redemption payments sufficient to retire 16% of the principal amount of debentures issued, commencing February 1, 1996, are required to retire 80% of the issue prior to maturity. The Company may deliver debentures (including converted debentures) in lieu of cash as a credit against mandatory redemption payments.

The debentures are unsecured and subordinated in right of payment to all senior debt (as defined) of the Company. As of August 31, 1991 the Company's senior debt was approximately $12,541,000.

In June 1990, the Company acquired $2,573,000 face amount of the debentures for approximately $1,595,000. The Company utilized funds from the line of credit for this acquisition. As a result, the Company recognized a gain of $528,000, net of income taxes of $367,000. In the first quarter 1991, the Company acquired $580,000 face amount of the debentures for approximately $317,000. The Company utilized funds from the line of credit for this acquisition. As a result, the Company recognized a gain of $248,000 ($146,000 net of income taxes of $102,000) which is included in investment income in the accompanying financial statements.

During the years ended August 31, 1991, 1990 and 1989, interest payments made on long-term debt totalled $2,064,000, $2,335,000 and $2,400,000, respectively. During the years ended August 31, 1991, 1990 and 1989, interest expense on the lines of credit,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 5
Long-Term
Debt
(continued)

capital leases and long-term debt totalled $3,051,000, $3,378,000 and $3,211,000, respectively.

Long-term debt maturing during the five years subsequent to August 31, 1991 is as follows:

Year	Amount
1992	$ 167,000
1993	2,409,000
1994	-0-
1995	-0-
1996	4,147,000
	$6,723,000

NOTE 6
Stockholders'
Equity

DESCRIPTION OF CAPITAL STOCK In August 1991, the state of incorporation of the Company was changed from California to Delaware by virtue of the merger of Salick Health Care, Inc. a California Corporation ("Salick California") into the Company. In connection with the merger, the Company's authorized capital increased from 15,000,000 shares of Common Stock, no par value, and 1,000,000 shares of Preferred Stock, no par value, to 25,000,000 shares of Common Stock, $.001 par value, and 5,000,000 shares of Preferred Stock, $.001 par value, respectively. Other changes concerning the Charter and Bylaws of the Company were also affected by the merger.

Subject to certain limitations, holders of shares of Common Stock issued in connection with the merger of Salick California and the Company are entitled to ten votes per share but not in excess of that percentage of the votes eligible to be cast as is equal to that percentage of the total outstanding shares of Common Stock which such shares represented as of the effective time of such merger. In the event of a change in beneficial ownership of any of such shares, the subsequent owners of such shares are entitled to only one vote per share. All other shares of the Common Stock which have been or are issued after the merger are or will be entitled to only one vote per share. All holders of the Common Stock, regardless of the number of votes to which they are entitled, vote together as a single class on all matters submitted to a vote of stockholders.

STOCK OPTIONS The Company has authorized 800,000 shares of common stock to be granted as options under its Stock Option Plan. The Company has granted options at fair market value on the date of the grant. Transactions for fiscal years ended 1989, 1990 and 1991 are as follows:

	Number of Shares	Option Price Range
Balance, August 31, 1989	331,775	
Granted	36,750	$5.50-$10.63
Exercised	(2,750)	$7.00
Forfeited or expired	(1,400)	$7.00
Balance, August 31, 1990	364,375	
Granted	39,500	$4.50-$10.75
Exercised	(10,000)	$5.50
Forfeited or expired	(5,500)	$5.50
	388,375	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 6
Shareholder Equity (continued)

The options become exercisable in varying terms of six to thirty-six months from the grant date and expire five years thereafter. In case of termination of employment, options not yet exercisable and those not exercised as provided in the Stock Option Plan are subject to risk of forfeiture.

In October 1987, options outstanding under the Companys' Stock Option Plan which had been granted at prices ranging from $9.33 to $12.62 per share were cancelled and options at an exercise price of $7.00 to $7.70 per share were granted to the persons whose options were cancelled. Options granted prior to and during the period of September 1, 1987 through May 31, 1990 at exercise prices ranging from $7.00 to $12.50 per share were cancelled and new options issued on June 1, 1990 at exercise prices of $5.50 to $6.05 per share.

In its initial public offering in 1985, the Company issued to representatives of the Underwriters five year warrants to purchase up to an aggregate of 112,500 shares of common stock. The warrant exercise price was $11.20 per share. These warrants expired in March, 1990.

NOTE 7
Income Taxes

The components of the provision for income taxes are as follows:

	Years Ended August 31,		
	1991	1990	1989
Current:			
Federal	$ 3,145,000	$ 2,162,000	$ 2,266,000
State	678,000	671,000	422,000
	3,823,000	2,833,000	2,688,000
Deferred:			
Federal	(1,078,000)	(253,000)	(129,000)
State	(27,000)	(102,000)	83,000
	(1,105,000)	(355,000)	(46,000)
	$ 2,718,000	$ 2,478,000	$ 2,642,000

The reconciliation of the provision for income taxes computed at the federal statutory rate to the reported provision for income taxes as above is as follows:

	Years Ended August 31,		
	1991	1990	1989
Provision computed at statutory rate	$ 2,460,000	$ 2,074,000	$ 2,048,000
State taxes, net of federal income tax benefit	430,000	355,000	333,000
Markdown of investment portfolio	214,000	16,000	151,000
IRS settlement	(460,000)		
Other	74,000	33,000	110,000
	$ 2,718,000	$ 2,478,000	$ 2,642,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7
Income Taxes
(continued)

Deferred taxes result from the following timing differences:

	Years Ended August 31,		
	1991	1990	1989
Capitalized advertising	$ (63,000)	$ (100,000)	$ 162,000
Cash basis accounting for tax reporting purposes	(895,000)	(3,000)	(912,000)
Bad debt reserve	(228,000)	(493,000)	(178,000)
Organization and start-up costs		99,000	133,000
Markdown of investment portfolio	100,000	28,000	125,000
Business expansion costs	(111,000)	(145,000)	590,000
Depreciation	140,000	158,000	26,000
Other	(48,000)	101,000	8,000
	$(1,105,000)	$ (355,000)	$ (46,000)

The markdown of the investment portfolio (see Note 1) represents a capital loss for federal tax purposes which will be utilized against future available capital gains. The effect of the markdown is to increase the effective tax rate for fiscal 1991, 1990 and 1989.

During fiscal 1991, the Company reached a settlement with the Internal Revenue Service (IRS) in connection with the examination of the Company's 1983 through 1986 consolidated income tax returns. The settlement resulted in a $460,000 reduction in the provision for income taxes during the year ended August 31, 1991. In addition, the IRS conducted an examination of the Company's consolidated 1987 and 1988 income tax returns. The proposed adjustments related solely to matters included in the settlement of the 1983 through 1986 audits; therefore, the Company consented to the changes to its income tax.

In December 1987, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 96, Accounting for Income Taxes. SFAS 96 mandates the liability method for computing deferred income taxes. The Company intends to adopt SFAS 96 in 1993. Adoption of the new Statement is not expected to have a significant effect on the Company's financial position or results of operations.

During the years ended August 31, 1991, 1990 and 1989, total tax payments were $2,286,000, $2,764,000 and $3,585,000, respectively.

NOTE 8
Acquisitions

On June 1, 1987, the Company purchased the assets and businesses of Orange County Dialysis, Inc. and Mission Dialysis, Inc. for $2,827,000. The acquisition has been accounted for as a purchase and, accordingly, the purchase price was allocated to identifiable assets based on the estimated fair values at the date of acquisition. The excess of the purchase price over the fair value of identifiable net assets acquired ($1,006,000) has been recorded as goodwill and is being amortized on a straight-line basis over forty years. Additional consideration of $256,000, $286,000 and $405,000 has been paid under an earnout formula for the years ended August 31, 1991, 1990 and 1989, respectively.

On April 13, 1990, the Company purchased the assets and businesses of Desert Dialysis Medical Clinic, Inc. for $1,060,000. The acquired facility provides outpatient kidney

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 8
Acquisitions
(continued)

dialysis services in Palm Springs, California. The acquisition has been accounted for as a purchase. Accordingly, the purchase price was allocated to identifiable assets acquired, based on their estimated fair value ($277,000) and goodwill ($783,000), which is being amortized on a straight-line basis over forty years. The accompanying financial statements of income include the results of operations since the date of acquisition.

In February 1991, the Company purchased for $304,000 a 3.5% limited partnership interest in Magnetic Imaging Associates, a limited partnership located in Alameda County, California and engaged in the business of providing magnetic resonance imaging services to patients and physicians. This agreement also requires that Alta Bates Cancer Centers exclusively use Magnetic Imaging Associates services.

Additionally, in March 1991, the Company purchased for $1,152,000 a 40% limited partnership interest in Alta CT Services, a limited partnership located in Alameda County, California, and engaged in the business of providing CAT scan services. The partnership agreement designates Alta CT Services as the sole provider of CAT scan services to the Company's Alta Bates Cancer Center and requires, among other provisions, that Alta CT Services construct a CAT scan facility at the Alta Bates Cancer Center location.

Both investments are accounted for using the equity method. The carrying value, recorded in other assets, of the investments at August 31, 1991 was $339,000 and $1,275,000, respectively.

On October 8, 1991, the Company acquired an 80% ownership interest in the South Florida Radiation Oncology Center in Miami, Florida for $1,315,000 and has assumed management of its operations. The remaining 20% ownership interest has been retained by the previous owners.

NOTE 9
Quarterly
Financial Data
(unaudited)

Summarized unaudited quarterly financial data in thousands, except for per share data, for 1991 and 1990 is as follows:

1991 Quarter	1st	2nd	3rd	4th
Operating revenues, net	$16,371	$18,100	$19,363	$19,939
Operating income	2,038	2,104	2,323	2,669
Net income	1,025	1,089	1,200	1,204
Earnings per share:				
Primary	0.19	0.20	0.21	0.21
Fully diluted	0.18	0.19	0.20	0.20
1990 Quarter				
Operating revenues, net (2)	$15,173	$15,541	$16,465	$17,596
Operating income	1,965	1,266	2,010	2,179
Net income	1,005	565	972	1,608 (1)
Earnings per share				
Primary	0.18	0.10	0.18	0.28 (1)
Fully diluted	0.17	(3)	0.17	0.25 (1)

(1) Includes extraordinary gain on early extinguishment of debt of $528,000 or $0.09 primary earnings per share and $0.07 fully diluted earnings per share.

(2) Amounts previously included as medical supplies and services have been reclassified as contractual allowances in determining net operating revenues to reflect the nature of the underlying contractual arrangements.

(3) Fully diluted earnings per share is anti-dilutive.

FIVE YEARS SELECTED FINANCIAL DATA AND REPORT OF INDEPENDENT ACCOUNTANTS

FIVE YEAR SELECTED FINANCIAL DATA

	Years Ended August 31, (In thousands except per share amounts)				
	1991	1990	1989	1988	1987
Operating revenues, net (1)	$73,773	$64,775	$48,502	$36,016	$20,151
Operating income	$ 9,134	$ 7,420	$ 7,061	$ 6,894	$ 3,856
Income before taxes and extraordinary item	$ 7,236	$ 6,100	$ 6,025	$ 4,354	$ 5,541
Extraordinary item, net of income tax effects		$ 528			
Net income	$ 4,518	$ 4,150	$ 3,383	$ 1,860	$ 3,273
Earnings per share:					
Primary:					
Income before extraordinary item	$ 0.80	$ 0.65	$ 0.60	$ 0.33	$ 0.60
Extraordinary item		$ 0.09			
Net earnings per share	$ 0.80	$ 0.74	$ 0.60	$ 0.33	$ 0.60
Fully diluted:					
Income before extraordinary item	$ 0.75	$ 0.65	$ 0.60	$ (2)	$ 0.60
Extraordinary item		$ 0.07			
Net earnings per share	$ 0.75	$ 0.72	$ 0.60	$ (2)	$ 0.60

	Years Ended August 31 (In thousands)				
	1991	1990	1989	1988	1987
Working capital	$26,719	$28,866	$29,835	$29,221	$34,622
Total assets	$87,819	$77,858	$72,720	$68,054	$65,946
Long-term debt and capitalized leases	$32,541	$32,393	$33,969	$34,069	$34,035
Stockholders' equity	$39,262	$34,690	$30,528	$26,161	$23,895

(1) Amounts previously included as medical supplies and services have been reclassified as contractual allowances in determining net operating revenues to reflect the nature of the underlying contractual arrangements.

(2) Fully diluted earnings per share is anti-dilutive.

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF SALICK HEALTH CARE, INC.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of cash flows and of stockholders' equity present fairly, in all material respects, the financial position of Salick Health Care, Inc., and its subsidiaries at August 31, 1991 and 1990, and the results of their operations and their cash flows for each of the three years in the period ended August 31, 1991, in conformity with generally accepted accounting principles. 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 generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of misstatement. 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 the opinion expressed above.

Price Waterhouse

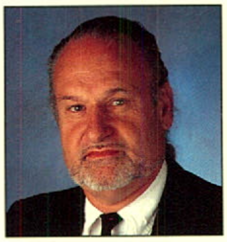
Los Angeles, California
October 11, 1991

BOARD OF DIRECTORS

Bernard Salick, M.D.
Chairman of the Board of Directors
and Chief Executive Officer

Leslie F. Bell
Director: Executive
Vice President, Chief Financial Officer
and Secretary

Barbara Bromley-Williams, R.N.
Director: Senior Vice President–
Professional Services



Thomas Mintz, M.D.
Director: Adult and Child Psychiatrist
and Psychoanalyst

Paul G. Rogers
Director: Attorney, Hogan & Hartson;
Member of Congress (1955-1979)

Regina E. Herzlinger
Director: Nancy R. McPherson
Professor of Business Administration,
Harvard University Graduate School
of Business Administration,
George F. Baker Foundation

CORPORATE INFORMATION

OFFICERS AND MANAGEMENT

Bernard Salick, M.D.
Chairman of the Board of Directors and Chief Executive Officer

Leslie F. Bell
Director: Executive Vice President, Chief Financial Officer and Secretary

Barbara Bromley-Williams, R.N.
Director: Senior Vice President-Professional Services

Michael T. Fiore
Senior Vice President-Director of Operations

Gerald Rosen, M.D.
Medical Director-Comprehensive Cancer Centers, Inc.

Hector Rodriguez, M.D., Ph.D.
Medical Director-Dialysis Centers

Blair L. Hundahl
Vice President and Corporate Controller

Anthony LaMacchia
Vice President-Executive Director-Operations The Cedars-Sinai Comprehensive Cancer Center

Patricia Wilkinson, R.N.
Vice President-Dialysis Operations

Howard Wilner, M.D.
Vice President-Executive Director, The Cedars-Sinai Comprehensive Cancer Center

Robert Scanlon, Ed.D.
Vice President-Executive Director, The Temple University Comprehensive Cancer Center

Richard Daversa
Vice President-Executive Director, The Comprehensive Cancer Center at JFK Medical Center

Patricia Stanfill
Vice President-Executive Director, The South Florida Comprehensive Cancer Centers

Michael S. Goldman
Vice President-Executive Director, The Desert Hospital Comprehensive Cancer Center

Alison G. Edens
Vice President-Executive Director, The Alta Bates-Herrick Comprehensive Cancer Center

Benjamin T. Law
Vice President-Facilities, Standards and Licensing

Barbara Blanchard
Vice President-Human Resources

Judy L. Land
Vice President-Management Information Systems

Ronald Paulus, M.D.
Vice President-Operations

Sandra Aronberg, M.D.
Assistant Vice President-Quality Assurance

Robin Meili
Assistant Vice President-Operations

Christopher Spinella
Assistant Vice President-Development

INDEPENDENT ACCOUNTANTS

Price Waterhouse
400 South Hope Street, Los Angeles, California 90071

LEGAL COUNSEL

Sanders, Barnet, Goldman, Simons & Mosk
1901 Avenue of the Stars, Los Angeles, California 90067

Hogan & Hartson
815 Connecticut Avenue
Washington, D.C. 20006

TRANSFER AGENT AND REGISTRAR

City National Bank
120 South Spalding Drive, Beverly Hills, California 90213

FORM 10-K

A copy of the Company's From 10-K as filed with the Securities and Exchange Commission for the year ended August 31, 1991 is available without charge upon written request to the Corporate Secretary, 8201 Beverly Boulevard, Los Angeles, California 90048.

CORPORATE OFFICE

8201 Beverly Boulevard, Los Angeles, California 90048
(213) 966-3400 Fax: (213) 966-3680

STOCK PRICE SUMMARY

Salick Health Care, Inc. common stock is traded in the over-the-counter market under the NASDAQ symbol SHCI. The following are the high and low sales prices during the past two fiscal years through August 31, 1991 by fiscal quarter and rounded to the nearest one-eighth. No shares of preferred stock have been issued and the Company has paid no cash dividends.

	High	Low
First quarter ended November 30, 1989	11 7/8	9 1/2
Second quarter ended February 28, 1990	11 3/4	8 3/4
Third quarter ended May 31, 1990	9 1/2	5 1/2
Fourth quarter ended August 31, 1990	8 1/2	5 1/2
First quarter ended November 30, 1990	8	4 1/4
Second quarter ended February 28, 1991	8 1/2	5
Third quarter ended May 31, 1991	14	7 3/4
Fourth quarter ended August 31, 1991	14	10 1/4

SALICK HEALTH CARE, INC. • 8201 BEVERLY BOULEVARD • LOS ANGELES, CALIFORNIA 90048-4520 • (213)966-3400