

This document is dated July 29, 2009.

SPECIAL NOTE CONCERNING FORWARD LOOKING STATEMENTS.

Certain of the discussions included in the following Management Discussion and Analysis (“Analysis”) may include certain forward-looking statements which involve known and unknown risks and uncertainties inherent in the operation of health care operations. Actual actions or results may differ materially from those discussed in the Analysis. Specific factors that might cause such differences include, but are not limited to: competition from other health care providers, economic conditions in the communities SSM Health Care serves, state and federal regulation and the policies and practices of private insurers regarding payment for medical services. In particular, statements preceded by, followed by or that include the words “believes”, “estimates”, “expects”, “anticipates”, “plans”, “intends”, “scheduled”, “projects” or other similar expressions constitute forward-looking statements.

SSM HEALTH CARE

Management Discussion

concerning the

**Consolidated Financial Statements for the
Six Months Ended June 30, 2009**



A. Income from Operations

Through June 30th, our net patient service revenue (NPSR), operating income, and operating margin all exceed the same period results of 2008. Specifically, NPSR (of \$1,304 million) increased by \$38.1 million (3.0%); operating income (of \$66.0 million) increased by \$50.4 million; and, our operating margin (of 4.9%) increased by 3.7%.

The increase in NPSR is attributed to the increased intensity of inpatient services as demonstrated by the case mix index increase of 1.36 compared to 1.33 during the same period in 2008. Additionally, the NPSR increase is attributed to increases in outpatient revenue (8.9%) and adjusted equivalent admissions (3.4%) over the same period in 2008.

The operating income and margin increase are attributed to effective operating expense management; improved performance in investments recognized (in accordance with GAAP) as operating revenue; and, a favorable (\$16 million) adjustment to insurance reserves based on a recent actuarial report. Salary and supply expenses, our largest expense categories, were 3.1% and 0.4% lower as a percent of net revenue than the same period in 2008.

	YTD Actual 2009 As Compared To <u>Prior Year</u>
Acute admissions	-2.9%
Adjusted equivalent admissions	3.4%
Adjusted patient days	-0.8%
Inpatient surgeries	-6.7%
Outpatient surgeries	-4.7%
Outpatient visits	-2.5%
Emergency visits	-1.2%

We continue to provide discounts to all uninsured patients, regardless of ability to pay. The discount rate is determined locally for each network and freestanding campus based on managed care contract rates and other relevant circumstances. The hospitals provide additional discounts (charity) to make free or lower-cost care available to those patients who cannot afford to pay the full amount of their bills.

The table below compares the total discounts provided for charity care and self-pay patients plus the provision for bad debts, for periods January 1 – June 30, 2009 and 2008, all stated at gross charges.

	<u>(Dollars in thousands)</u>	
	<u>2009</u>	<u>2008</u>
Provision for charity	\$67,286	\$64,034
Self-pay discount	53,461	54,842
Provision for bad debts	<u>50,333</u>	<u>42,792</u>
Total	<u>\$171,080</u>	<u>\$161,668</u>
Total as a % of gross revenue	5.2%	5.1%

The increase of \$3.3 million (5.1%) in charity care for 2009, compared to the same period in 2008, is an example of our continued commitment to the communities we serve. The estimated cost of the charity care, self-pay discounts and uncollectible accounts was approximately \$66 million and \$64 million using fully allocated costs for the six months ended June 2009 and June 2008, respectively; a 2.4% increase from prior year.

B. Investments

I. Fair Value Summary

In accordance with GAAP fair value disclosure requirements for all financial instruments for which it is practicable to measure that value, below is a summary as of June 30, 2009.

Inputs used to measure fair value are as follows: quoted prices in active markets for identical assets or liabilities (level 1), significant other observable inputs (level 2) and significant unobservable inputs (level 3). The fair value measurement is assigned an overall input.

The following is a summary of investments by the level of significant input:

(Dollars in Thousands)

	Fair Value			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash & Cash Equivalents	\$ 12,926	\$ -	\$ -	\$ 12,926
Short-Term Investments	169,124	-	-	169,124
Investment Securities	539,314	464,332	247,155	1,250,801
Securities lending	111,951	39,851	-	151,802
Pledges	-	-	4,949	4,949
Deferred compensation assets	49,087	-	-	49,087
Pension restoration assets	9,504	2,384	4,220	16,108
Total Assets	\$ 891,906	\$ 506,567	\$ 256,324	\$ 1,654,797
Liabilities:				
Securities lending	\$ 111,951	\$ 39,851	\$ -	\$ 151,802
Deferred compensation liability	49,087	-	-	49,087
Interest rate swaps	-	32,627	-	32,627
Total Liabilities	\$ 161,038	\$ 72,478	\$ -	\$ 233,516

*Fair value is equal to carrying (book) value.

II. Summary

Net realized and unrealized investment amounts are summarized as follows:

	<u>(Dollars in millions)</u>	<u>2009</u>	<u>2008</u>
Interest, dividends and realized gains (losses), net		(\$58.2)	\$34.6
Change in unrestricted unrealized gains (losses), net from prior year end		106.6	(108.6)
Total investment return		<u>\$48.4</u>	<u>(\$74.0)</u>

Our investments realized losses increased, while unrealized losses decreased significantly during the period compared to the previous year same period. Overall, total investment income for the period, compared to 2008, was \$122.4 million higher.

The table below shows the operating and non-operating components of the \$48.4 million net investment gain described, including the net unrealized gains on unrestricted cash and investments as of June 30, 2009.

Investment Gain (Loss) Detail	Interest & Dividends	Realized Gain (Loss)	Unrealized Gain (Loss)	Total
Operating	\$6.9	(\$12.8)	\$20.0	\$14.1
Non-operating	<u>8.8</u>	<u>(61.1)</u>	<u>86.6</u>	<u>\$34.3</u>
Total	<u>\$15.7</u>	<u>(\$73.9)</u>	<u>\$106.6</u>	<u>\$48.4</u>

C. Excess of Revenues over Expenses

For the six months ended June 30, 2009, our excess of revenues over expenses (excluding the change in Swaps market value) was \$97.8 million, and \$155.3 million higher than the same period in 2008. The excess of revenues over expenses including the change in market value of interest rate swaps was \$175.8 million compared to a loss of \$57.6 million at June 30, 2008. The increase is attributed to improved operating performance, improved performance of investments, and swaps market value change.

D. Key Ratios

Total cash and investments, excluding restricted and trusteed funds, decreased 21.0%, from \$1,511 million at June 30, 2008 to \$1,193 million at June 30, 2009. As a result, our days cash on hand decreased from 228 to 180 days. The decrease was attributed to the market performance of investments.

The lingering effect of 2008 investment losses (unrealized gains are not included) resulted in the end of June 2009 debt service ratio (as based on the adjusted calculation methodology of our Master Trust Indenture) was 2.2 compared to 3.1 in the same period in 2008.

As of June 30, 2009, days in accounts receivable were 52 days; 4 days lower than prior year.

E. Strategic Matters

Major Capital Projects

Several projects have been announced, which are expected to be under construction in the future:

- SSM Health Care of Wisconsin has announced plans to proceed with the construction of a new 50 bed hospital in Janesville, Wisconsin, where we already have a significant presence through Dean Health Insurance, Dean Health System, and St. Mary's Dean Ventures (all entities in which we have ownership interest). Ground will be broken in October 2009 with a completion date now set for late 2011.
- While we remain committed to our previously announced plans for replacement hospitals for Good Samaritan (Mt. Vernon, Illinois) and St. Mary's (Jefferson City, Missouri) timing will continue to be evaluated during economic recovery and is subject to the process described on the "Capital Spending" section below.

Project Beacon

Project Beacon is a multi-phase clinical transformation initiative that together with cultural and process changes will assist in providing safer, higher quality patient care delivered in a more efficient manner.

The current phase involves implementation of an extensive electronic health record (EHR) which provides patient health information at the point-of-care, reducing the opportunity for medical errors and increasing patient safety. EHR implementation design has been completed, as well as, successful implementation of twenty four physician locations (comprising 155 physicians) and five hospitals (St. Joseph Hospital West in Lake St. Louis, St. Mary's Hospital in Madison, St. Joseph Health Center in St. Charles, St. Clare Hospital in Fenton, and St. Clare Hospital in Baraboo). Additionally, go-live at DePaul Health Center is scheduled for August 1, 2009 and at St. Mary's Health Center in St. Louis on November 7, 2009. EHR is scheduled to be operational at all of our facilities by 2011.

Capital Spending

Through June 2009, our capital expenditures totaled \$94.1 million, a \$8.2 million decrease over June 2008. However, due to the continued recession, our 2009 capital budget of \$180 million is significantly lower than the 2008 actual capital of \$260 million. Management continues to monitor the budget and is prepared to adjust as necessary. Future capital spending will depend on future operating results.