

This document is dated May 14, 2010.

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
Three Months Ended March 31, 2010**



A. Excess of Revenues over Expenses

For the three months ended March 31, 2010, excess of revenues over expenses (excluding the change in Swaps market value) was \$78.4 million, which was \$113.3 million higher than the same period in 2009. The excess of revenues over expenses including the change in market value of interest rate swaps was \$75.8 million compared to a loss of \$11.3 million at March 31, 2009. The increase is primarily attributed to improved operating performance and improved performance of investments.

B. Income from Operations

Through March 31st, operating income was \$43.8 million, an increase of \$35.8 million over March 2009; and operating margin of 6.0%, an increase of 4.7% over March 2009. The operating income and margin increases are attributed to revenue growth, continued efforts in expense management, improved performance in investments recognized (in accordance with GAAP) as operating revenue, and proceeds of \$7.2 M from the sale of the Kirkwood property.

The System's net patient service revenue (NPSR), operating income, and operating margin all exceeded the same period results of 2009. Specifically, NPSR was \$683 million, an increase of \$39.8 million. The increase in NPSR is attributed to increased admissions (2.1%) and outpatient surgeries (9.7%), along with an increase in the intensity of inpatient services as measured by the case mix index (CMI) which increased to 1.38 from 1.35 during the same period in 2009.

	YTD Actual 2010 As Compared To <u>Prior Year</u>
Acute admissions	2.1%
Adjusted equivalent admissions	6.9%
Adjusted patient days	3.1%
Inpatient surgeries	-0.5%
Outpatient surgeries	9.2%
Outpatient visits	-8.9%
Emergency visits	4.1%

Salary and supply expenses, our largest expense categories, were 2.1% and 0.4% lower as a percent of net revenue than the same period in 2009.

We continue to provide discounts to uninsured patients, regardless of their 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 the periods January 1 – March 31, 2010 and 2009, all stated at gross charges.

	<u>(Dollars in thousands)</u>	
	<u>2010</u>	<u>2009</u>
Provision for charity	\$32,942	\$30,702
Self-pay discount	28,264	25,967
Provision for bad debts	<u>28,095</u>	<u>27,306</u>
Total	<u>\$89,301</u>	<u>\$83,975</u>
Total as a % of gross revenue	4.9%	5.2%

The total discounts for uninsured patients increased by \$5 million over the same period in 2009 while the estimated cost of care provided was approximately \$33 million using fully allocated costs for the three months ended March 31, 2010 and 2009.

C. Investments

I. Fair Value Summary

In accordance with GAAP, all financial instruments are disclosed at fair value where it is practicable to measure the value.

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 assets and liabilities measured at fair value by the level of significant input:

(Dollars in Thousands)

	Fair Value			
	Level 1	Level 2	Level 3	Total
Assets:				
Cash & Cash Equivalents	\$ 7,616	\$ -	\$ -	\$ 7,616
Short-Term Investments	209,990	-	-	209,990
Investments	675,306	717,917	246,075	1,639,298
Securities Lending	163,569	41,649	-	205,218
Assets	\$ 1,056,481	\$ 759,566	\$ 246,075	\$ 2,062,122
Liabilities:				
Interest Rate Swaps	\$ -	\$ 46,598	\$ -	\$ 46,598
Asset Retirement Obligations	-	-	10,453	10,453
Liabilities	\$ -	\$ 46,598	\$ 10,453	\$ 57,051

II. Income Summary

Net realized and unrealized investment gains (losses) are summarized as follows:

	<u>(Dollars in millions)</u>	<u>2010</u>	<u>2009</u>
Interest, dividends and realized gains (losses), net		\$15.7	(\$26.8)
Change in unrestricted unrealized gains (losses), net from prior year end		28.4	(25.3)
Total investment return		<u>\$44.1</u>	<u>(\$52.1)</u>

Overall, total investment income for the period was \$96.2 million higher than the previous year loss of \$52.1 million.

The table below shows the operating and non-operating components of the \$44.1 million net investment income as of March 31, 2010.

Investment Gain (Loss) Classification	Interest & Dividends	Realized Gain	Unrealized Gain	Total
Operating	\$5.1	\$1.1	\$3.3	\$ 9.5
Non-operating	<u>3.2</u>	<u>6.3</u>	<u>25.1</u>	<u>\$34.6</u>
Total	<u>\$8.3</u>	<u>\$7.4</u>	<u>\$28.4</u>	<u>\$44.1</u>

D. Key Ratios

Total cash and investments, excluding restricted and trusteed funds, increased 40.1%, from \$1,064 million at March 31, 2009 to \$1,491 million at March 31, 2010. Through operating earnings, investment earnings, and cash management, days cash on hand increased from 160 to 213 days.

The debt service ratio (as based on the adjusted calculation methodology of our Master Trust Indenture) was 4.9 at March 31, 2010 compared to 1.2 at March 31, 2009.

As of March 31, 2010, days in accounts receivable were 48 days; 6 days lower than prior year.

E. Strategic Matters

Major Capital Projects

Several projects are currently under construction or in the planning stages:

- SSM Health Care of Wisconsin continues 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). The opening date of the hospital is now set for January 2012.
- St Mary's Good is scheduled to start construction of a replacement hospital at the Mount Vernon campus this spring. The hospital is expected to open in 2013.

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 forty-seven physician locations (comprising 209 providers) and nine hospitals (comprising of the seven St. Louis and two Wisconsin hospitals). EHR is scheduled to be operational at all of our facilities by 2013.

Capital Spending

Through March 2010, capital expenditures totaled \$10.7 million, a \$41.0 million decrease over March 2009.