

This document is dated May 15, 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
Three Months Ended March 31, 2009**



A. Income from Operations

Net patient service revenue of \$644 million was \$8.1 million higher (1.3%) than the prior year, same period. Through March 31, 2009, our operating margin and income were 1.2% and \$8.0 million, respectively. The results reflect an improvement of 0.8% and \$5.6 million in operating margin and income over the same period last year. The operating income amount is net of \$10.0 million loss from investments recognized, in accordance with GAAP, as operating revenue. The operating investment loss was \$3.9 million higher than the prior year, same period.

The increases in operating margin and income are attributed to a) reduction in operating expenses of \$4.7 million from prior year, and b) increased net patient service revenue primarily in outpatient services.

Our hospitals experienced the same downturn other healthcare organizations had during the quarter and last six months. Volume decreases (largely due to the recession) started last Fall, and showed a positive turnaround in March. March volumes, included in the chart below, all exceeded plan with the exception of outpatient visits.

	YTD Actual 2009 As Compared To <u>Prior Year</u>
Acute admissions	-3.9%
Adjusted equivalent admissions	1.1%
Adjusted patient days	-2.3%
Inpatient surgeries	-7.2%
Outpatient surgeries	-6.4%
Outpatient visits	-1.9%
Emergency visits	-5.1%

We continue to provide a discount 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 – March 31, 2009 and 2008, all stated at gross charges.

	<u>(Dollars in thousands)</u>	
	<u>2009</u>	<u>2008</u>
Provision for charity	\$30,703	\$27,741
Self-pay discount	25,967	26,087
Provision for bad debts	<u>27,306</u>	<u>25,079</u>
 Total	 <u>\$83,976</u>	 <u>\$78,907</u>
 Total as a % of gross revenue	 5.2%	 5.0%

The \$3.0 million (10.7%) increase in charity care for 2009, compared to same period in 2008, exemplifies the economic recession and our continued commitment to the communities served. The uninsured charges increase from 5.0% of gross revenue at March 2008 to 5.2% at March 2009 is also an example of the previous statement. The estimated cost of the charity care, self-pay discounts and uncollectible accounts was approximately \$33 million and \$32 million using fully allocated costs for the three months ended March 2009 and March 2008, respectively; a 3% increase from prior year.

B. Investments

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		(\$26.8)	\$30.7
Change in unrestricted unrealized gains (losses), net from prior year end		(25.3)	(78.1)
Total investment return		<u>(\$52.1)</u>	<u>(\$47.4)</u>

Our investments realized losses increased, while unrealized losses decreased during the period compared to the previous year same period. Overall, total investment loss for the period, compared to 2008, was \$4.7 million higher.

The table below shows the operating and non-operating components of the \$52.1 million net investment loss described, including the net unrealized gains and losses on unrestricted cash and investments as of March 31, 2009.

Investment Gain (Loss) Detail	Interest & Dividends	Realized Gain (Loss)	Unrealized Gain (Loss)	Total
Operating	\$4.7	(\$6.5)	(\$8.2)	(\$10.0)
Nonoperating	<u>4.5</u>	<u>(29.5)</u>	<u>(17.1)</u>	<u>(\$42.1)</u>
Total	<u>\$9.2</u>	<u>(\$36.0)</u>	<u>(\$25.3)</u>	<u>(\$52.1)</u>

C. Excess of Revenues over Expenses

For the three months ended March 31, 2009, our excess of revenues over expenses before change in market value of interest rate swaps was a loss of \$34.9 million, or (5.7%) net margin, as compared to a loss of \$42.1 million, or (6.3%) net margin, for the same period of the previous year. The \$7.2 million favorable loss reduction between years is primarily due to a decrease in operating expenses and an increase in patient revenue.

D. Key Ratios

Total cash and investments, excluding restricted and trusteed funds, decreased 26.6%, from \$1,451 million at March 31, 2008 to \$1,064 million at March 31, 2009. As a result, days' cash on hand decreased from 215 to 162 days. The decrease was attributed to the market performance of investments. The market performance also affected SSMHC's debt service coverage ratio.

The investment losses over the past 12 months, coupled with operating losses in 2008, resulted in the end of March 2009 debt service ratio of 1.2 compared to 3.2 in the same period in 2008.

As of March 31, 2009, days in accounts receivable were 55 days; the same as the period in the prior year.

E. Strategic Matters

Major Capital Projects

Construction of SSM St. Clare Health Center in Fenton, Missouri was completed, and the hospital opened in March 2009.

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

- SSM Health Care of Wisconsin has announced 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).
- 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 thirteen physician locations (comprising 109 physicians) and four hospitals (St. Joseph Hospital West in Lake St. Louis, St. Mary's Hospital in Madison, St. Joseph Health Center in St. Charles and St. Clare Hospital in Fenton). Additionally, go-live at St. Clare Hospital in Baraboo is scheduled for April 18, 2009. EHR is scheduled to be operational at all of our facilities by 2011.

Capital Spending

Due to extreme volatility in investment returns, and related unrealized losses, along with uncertainty in credit markets, we have reduced our 2009 capital budget. Additionally, senior management is individually reviewing and approving those projects that meet a patient safety or regulatory need, or have a significant short-term growth impact. The period of time this process will continue is unclear at the current time, and will depend on future operating results, as well as access to planned borrowing at acceptable terms and investment returns.