

**This document is dated October 20, 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  
Nine Months Ended September 30, 2009**



## A. Income from Operations

Through September 30<sup>th</sup>, the System's net patient service revenue (NPSR), operating income, and operating margin all exceed the same period results of 2008. Specifically, NPSR (of \$1,972 million) increased by \$84.1 million (4.5%); operating income (of \$108.9 million) increased by \$93.2 million; and, our operating margin (of 5.2%) increased by 4.4%.

The increase in NPSR is attributed to rate increases, along with an increase in the intensity of inpatient services as measured by the case mix index (CMI) increase of 1.35 compared to 1.33 during the same period in 2008. The higher CMI helped offset the decrease in admissions, surgeries, and outpatient visits.

The operating income and margin increases are attributed to continued efforts in 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 our most recent actuarial report due to lower claims expenses than previously projected. Salary and supply expenses, our largest expense categories, were 3.7% and 0.3% 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	-1.9%
Adjusted equivalent admissions	4.3%
Adjusted patient days	0.8%
Inpatient surgeries	-4.4%
Outpatient surgeries	-0.7%
Outpatient visits	-1.8%
Emergency visits	2.2%

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 periods January 1 – September 30, 2009 and the same period in 2008, all stated at gross charges.

	<u>(Dollars in thousands)</u>	
	<u>2009</u>	<u>2008</u>
Provision for charity	\$96,850	\$99,674
Self-pay discount	83,374	79,952
Provision for bad debts	<u>78,654</u>	<u>62,866</u>
Total	<u>\$258,878</u>	<u>\$242,492</u>
Total as a % of gross revenue	5.2%	5.1%

The gross charges for uninsured patients increased by \$16 million over the same period in 2008; while the estimated cost of care provided was approximately \$100 million and \$96 million using fully allocated costs for the nine months ended September 2009 and September 2008, respectively...a 3.5% 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 September 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
<b>Assets:</b>				
Cash & Cash Equivalents	\$ 12,122	\$ -	\$ -	\$ 12,122
Short-Term Investments	158,617	-	-	158,617
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	51,349	-	-	51,349
Pension restoration assets	9,504	2,384	4,220	16,108
<b>Total Assets</b>	<b>\$ 882,857</b>	<b>\$ 506,567</b>	<b>\$ 256,324</b>	<b>\$ 1,645,748</b>
<b>Liabilities:</b>				
Securities lending	\$ 111,951	\$ 39,851	\$ -	\$ 151,802
Deferred compensation liability	51,349	-	-	51,349
Interest rate swaps	-	71,986	-	71,986
<b>Total Liabilities</b>	<b>\$ 163,300</b>	<b>\$ 111,837</b>	<b>\$ -</b>	<b>\$ 275,137</b>

\*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		(\$48.8)	\$31.0
Change in unrestricted unrealized gains (losses), net from prior year end		217.0	(212.5)
<b>Total investment return</b>		<b><u>\$168.2</u></b>	<b><u>(\$181.5)</u></b>

With significant activity in the investment market, investment income in 2009 increased by \$168.2 million over the same period in 2008. Our investments' realized losses increased, while unrealized gains increased significantly during the period compared to the previous year same period. Overall, total investment income for the period, compared to 2008, was \$349.7 million higher.

The table below shows the operating and non-operating components of the \$168.2 million net investment gain described, including the net unrealized gains on unrestricted cash and investments as of September 30, 2009.

Investment Gain (Loss) Detail	Interest & Dividends	Realized Gain (Loss)	Unrealized Gain (Loss)	Total
Operating	\$13.2	(\$13.7)	\$42.2	\$ 41.7
Non-operating	<u>12.4</u>	<u>(60.7)</u>	<u>174.8</u>	<u>\$126.5</u>
Total	<u>\$25.6</u>	<u>(\$74.4)</u>	<u>\$217.0</u>	<u>\$168.2</u>

### C. Excess of Revenues over Expenses

For the nine months ended September 30, 2009, our excess of revenues over expenses (excluding the change in Swaps market value) was \$232.1 million, which was \$383.9 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 \$270.7 million compared to a loss of \$164.8 million at September 30, 2008. The increase as stated earlier in the document attributed to improved operating performance, improved performance of investments, and swaps market value change.

### D. Key Ratios

Total cash and investments, excluding restricted and trustee funds, decreased 2.0%, from \$1,337 million at September 30, 2008 to \$1,332 million at September 30, 2009. Our investment losses of \$270 million that were incurred between October 2008 and February 2009 have nearly been erased through operating earnings, investment earnings, capital spending, and cash management. As a result, our days cash on hand decreased from 206 to 201 days. The decrease was attributed to the market performance of investments.

The end of September 2009 debt service ratio (as based on the adjusted calculation methodology of our Master Trust Indenture) was 2.8 compared to 2.2 in the same period in 2008. In accordance with the MTI definition, unrealized losses in 2008 (\$212.5 million) and unrealized gains in 2009 (\$217.0 million) are not included.

As of September 30, 2009, days in accounts receivable were 49.9 days; 6 days lower than prior year.

## **E. Strategic Matters**

### Major Capital Projects

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

- SSM Health Care of Wisconsin started 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). The completion date of the hospital is now set for late 2011.
- We remain committed to our previously announced plans for replacement hospitals for Good Samaritan (Mt. Vernon, Illinois) and St. Mary's (Jefferson City, Missouri) and expect to release public announcements on the projects in December 2009.

### 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 nine physician locations (comprising 167 physicians) and six 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, St. Clare Hospital in Baraboo, and DePaul Health Center in Bridgeton). Additionally, go-live at St. Mary's Health Center in St. Louis is scheduled on November 7, 2009. EHR is scheduled to be operational at all of our facilities by 2011.

Capital Spending

Through September 2009, capital expenditures totaled \$123.6 million, a \$46.9 million decrease over September 2008. The 2009 capital budget was programmed at \$169 million because of the completion of the St. Claire new hospital construction and reservations about the economic recession. Management continues to monitor the budget and is prepared to adjust as necessary. Future capital spending will depend on future operating results