

Nine Month Period Ended June 30, 2010 as Compared with the Nine Month Period Ended June 30, 2009

Utilization

Inpatient volumes for the Hospitals were down slightly from the prior period. Specifically, the Hospitals experienced a decrease in admissions of 9.1% to 14,753 and a decrease in inpatient days of 9.3% to 62,293 in the current period. Despite the softening of inpatient volumes, overall acuity of patients receiving care, as measured by the case mix index, increased 7.3% over the comparable prior year period. Outpatient visits for the period also lessened, with a decrease of 0.7% over the prior year period to 285,461.

Net Patient Service Revenue

During the nine months ended June 30, 2010, the Corporation generated net patient service revenue of \$578.8 million, which represents a 0.8% or \$4.5 million increase from the \$574.3 million generated during the nine months ended June 30, 2009. This growth in net patient service revenue is predominately the result of annual price increases and patient case mix changes from the prior year period, offset by declining inpatient and outpatient volumes.

Total Operating Expenses

Total operating expenses of \$578.3 million for the nine months ended June 30, 2010 is an increase of 0.4% or \$2.2 million from the nine months ended June 30, 2009. Salaries and wages decreased 2.8% or \$6.0 million, with salaries and wages as a percent of net patient service revenue for the nine months ended June 30, 2010 equal to 36.2%, a decrease from 37.5% from the nine months ended June 30, 2009. Benefit costs increased 9.9% or \$6.2 million from the prior period, resulting from increased costs associated with the health, pension and postretirement benefit plans. Medical supply and drug costs increased \$1.7 million and 1.9% from the prior period. As a result of the State's approval of changes to the Medicaid program, the corporation was assessed an \$11.4 million Medicaid Hospital tax during the nine month period ended June 30, 2010, which is offset by \$8.6 million in additional Medicaid payments from the program, resulting in a net loss of \$2.8 million for the period. In comparison, during the nine months ending June 30, 2009, the corporation had a net gain of \$593,000 due to Medicaid program payments received in excess of the Medicaid Hospital tax. The provision for bad debts increased 0.4% or \$0.1 million due to the impact of current economic conditions on patients in the Corporation's service area. Depreciation and interest expense increased 10.6% or \$5.1 million from the prior period resulting from additional interest expense associated with the 2009 bond financing, as well as increased depreciation expense associated with completed construction projects.

Operating Income

The operational financial performance of the corporation strengthened during the nine months ended June 30, 2010. Specifically, the corporation generated \$21.4 million of income from operations during the nine months ended June 30, 2010, which is a 30.5% increase from the prior period. This increase in income from operations is predominately the result of increases in net patient service revenue and other operating revenue, offset by the increase in total expenses as described above.

Nonoperating Gains and Losses

Nonoperating losses decreased by approximately \$15.5 million during the nine month period ended June 30, 2010 as compared to the nine month period ended June 30, 2009. This change is the result of improvements in the equity markets resulting in increased realized investment income in the current period, offset by unrealized gains on investments and swaps recognized in the current period.

Revenues and Gains in Excess of (Less Than) Expenses

For the nine months ended June 30, 2010, the corporation recorded revenues and gains in excess of expenses of \$14.7 million which represents an increase from the \$5.8 million revenues and gains less than expenses recorded in the prior period. This increase is predominately due to the decrease in nonoperating losses noted above, as well as the improved income from operations during the current period.

Unrestricted Cash and Investments

The Corporation has \$356.8 million of unrestricted cash and investments as of June 30, 2010, which is a 41.2% or \$104.1 million increase compared to the \$252.7 million of unrestricted cash and investments as of June 30, 2009. This increase in unrestricted cash and investments is predominately the result of a sale and subsequent leaseback of property and realized and unrealized gains during the last twelve months.

PROHEALTH CARE, INC. AND AFFILIATES

Consolidated Balance Sheet

June 30, 2010

(In thousands)

Assets	June 30, 2010
Current assets:	
Cash and cash equivalents	\$ 27,832
Assets whose use is limited or restricted	9,906
Patient accounts receivable, net of estimated uncollectibles	85,655
Other receivables	5,810
Inventory of supplies	11,243
Prepaid expenses and other current assets	10,861
Total current assets	<u>151,307</u>
Noncurrent assets whose use is limited or restricted	342,691
Debt service and construction funds	24,071
Net property, plant, and equipment	497,999
Other assets:	
Investment in joint ventures	13,469
Goodwill and other	43,062
Total other assets	<u>56,531</u>
Total assets	<u>\$ 1,072,599</u>

Liabilities and Net Assets	June 30, 2010
Current liabilities:	
Current installments of long-term debt	\$ 9,061
Revolving credit agreement	7,250
Accounts payable	21,155
Accrued expenses and other current liabilities	49,768
Estimated settlements to third-party payors	445
Total current liabilities	<u>87,679</u>
Long-term debt, less current installments, and unamortized bond discount	423,785
Postretirement liability	24,056
Pension liability	59,638
Other long-term liabilities	47,085
Total liabilities	<u>642,243</u>
Total net assets	430,356
Total liabilities and net assets	<u>\$ 1,072,599</u>

PROHEALTH CARE, INC. AND AFFILIATES

Consolidated Statements of Operations

Nine Months Ended June 30, 2010 and 2009

(In thousands)

	<u>2010</u>	<u>2009</u>
Net patient service revenue	\$ 578,821	574,259
Other operating revenue	20,834	18,223
Total revenue	<u>599,655</u>	<u>592,482</u>
Expenses:		
Salaries and wages	209,501	215,547
Employee benefits	68,475	62,309
Medical supplies and drugs	93,670	91,956
State tax assessment	11,426	12,286
Contracted services and other	118,752	122,760
Provision for bad debts	23,211	23,118
Depreciation and interest	53,219	48,113
Total expenses	<u>578,254</u>	<u>576,089</u>
Income from operations	21,401	16,393
Nonoperating gains (losses), net	<u>(6,703)</u>	<u>(22,230)</u>
Revenue and gains in excess of (less than) expenses	<u>14,698</u>	<u>(5,837)</u>

OPERATIONS - NUMBER OF AVAILABLE BEDS

As of June 30, 2010, the Hospitals had a total of 371 staffed acute care beds, which were classified as follows:

<u>Service</u>	<u>Number of Available Beds</u>
General Medical/Surgical	236
Intensive, Coronary and Intermediate Care	35
Obstetrics	45
Pediatrics	16
Psychiatric	22
Oncology	17
Total Available Beds	<u><u>371</u></u>

Source: Records of Corporation

OPERATIONS - SELECTED OPERATING STATISTICS

The following table presents certain combined operating statistics of the Hospitals for the period ended June 30, 2010.

	<u>6/30/2010</u>
Inpatient Admissions (1)	14,753
Average Length of Stay (days) (1)	4.22
Average Inpatient Daily Census	228.2
Case Mix Index	1.47
Outpatient Visits	285,461
Emergency Room Visits	42,949
Surgical Cases	
Open Heart	256
Inpatient	4,490
Outpatient	<u>6,056</u>
Total Surgical Cases	10,802
Catherization Lab Procedures	5,461
Medical Oncology Visits	20,823
Radiation Oncology Procedures	10,935
Cardiovascular Procedures	42,066
Radiology Procedures	124,194
CyberKnife Cases (WMH)	36
Clinic Visits	
Waukesha Health Care	225,867
Medical Associates	<u>189,306</u>
Total Clinic Visits	415,173

(1) Figures exclude neonatal intensive care unit and new born activity.

Source: Records of Corporation

Sources of Net Patient Service Revenue

The following table indicate the sources of the Hospitals' net patient service revenues for the nine months ending June 30, 2010

	<u>June 30, 2010</u>
Medicare	28.2%
Commercial Insurance	3.5%
HMO/PPO and other managed care entities	61.1%
Medicaid	5.3%
Self-Pay	1.9%
Total	<u>100.0%</u>

LIQUIDITY AND FUTURE CAPITAL REQUIREMENTS

	<u>6/30/2010</u>
Cash and Cash Equivalents	27,832
Investments	18,709
Assets limited by Board designation	<u>310,276</u>
Total cash and investments	<u><u>356,817</u></u>
Days Cash on Hand	180

Source: Records of Corporation