

November 24, 2008

SUBJECT: Trinity-Health – Quarterly Newsletter

Dear Sir/Madam:

Fiscal Year 2009 – First Quarter Results

Trinity Health's consolidated operating income for the first three months ended September 30, 2008 totaled \$60 million reflecting an operating cash flow margin of 10.6% and operating margin of 3.6%. Performance remains strong, although operating income is \$23 million lower than for the first three months of FY 2008.

Operating revenue increased 8 percent to \$1,675 million in the first quarter of FY 2009 relative to \$1,551 million in the first quarter of FY 2008, including a 3.5% increase related to the acquisition of **Hackley Health System Inc and Affiliates** ("Hackley") during the fourth quarter of 2008. Total expenses were up 9.7%, 3.9% of which related to the acquisition of Hackley, and a 4.6% increase in labor expenses and 4.7% increase in supply costs excluding the impact of Hackley. The decline in margin also reflects an increase in total uncompensated care (charity care revenue allowances and provision for bad debts) of 9.7% excluding Hackley.

Net loss for the quarter was \$273 million, which was unfavorable by \$383 million relative to the same period in FY 2008. The decrease was primarily a result of investment losses of \$334 million in the first quarter FY 2009 compared to investment gains of approximately \$38 million for the corresponding period in the prior fiscal year. These investment losses were a result of the general decline in the global investment markets. Unrestricted cash and Days Cash at September 30, 2008 were \$3.4 billion and 205 days respectively compared to \$3.6 billion and 231 days at June 30, 2008.

Trinity Health successfully launched a \$1.3 billion debt transaction during November. The financing included \$492 million of fixed rate debt and \$785 million of Variable Rate Demand Obligations. Approximately \$175 million of new debt was issued and the balance of the issuance enabled Trinity Health to restructure existing variable rate debt. Prior to this transaction, Trinity Health senior management met with the rating agencies and credit-line banks to review FY 2008 financial results. Following the meetings, **Moody's, Standard & Poor's and Fitch** confirmed Trinity Health's long term debt ratings of **Aa2, AA, and AA** respectively with a stable outlook.

The unprecedented turmoil in the national and world financial markets have had an operational and financial impact on health care organizations, including Trinity Health. During this time of uncertainty, our patients and communities are depending on us to continue to serve them. Trinity Health is better positioned than most hospitals to respond and adapt to these challenges. While we are still in a strong financial position, we are taking decisive action to sustain and advance our health care ministry, including our ability to meet community needs and fulfill our mission. Because the economic, operational and financial challenges are directly affecting our health ministry, we will be taking immediate steps to improve operating performance and curtail capital spending. Plans are under development to improve our operating performance, while insuring that we continue to provide excellent patient care and community services. These plans will include examining staffing levels, purchased services, supplies, contracted services, travel, consulting and capital expenses.

Corporate Highlights – First Quarter 2009

Trinity Health's eighth annual **Clinical Conference** attracted more than 500 clinical and executive leaders who celebrated and learned from the best and most innovative thinking across the enterprise on Oct. 14-15 in Chicago. With the theme, "It's All Connected: Our Sacred Work is the Care Experience," the conference showcased a wide array of clinical processes, community outreach initiatives, patient safety and workflow programs.

In the keynote presentation, **Michael Slubowski**, President, Hospital and Health Networks, Trinity Health, described how all Ministry Organizations are operating as a Unified Enterprise Ministry® to advance quality and safety strategies, and supporting Trinity Health's Mission of service for everyone.

Trinity Health's Chief Medical Officer, **Terrence O'Rourke, MD**, emphasized the importance of mutual trust as a key component of a successful hospital/physician partnership. O'Rourke noted substantial progress in severity adjusted mortality and CMS core clinical indicators. This year, Trinity Health placed a strong emphasis on the National Quality Forum's list of 28 "never events," those preventable adverse outcomes that should never occur in a health care setting.

Websites across the Unified Enterprise Ministry are being retooled onto a common platform that will give patients, families and visitors enhanced interactivity and a consistent online experience. Part of a multi-phase portal strategy that has been in the works for two years, new internet services will deliver functions that today's consumers expect. These include buying gifts and sending flowers, donating to the foundation, paying bills, and seeing the new baby in the family. By standardizing online consumer functionality for every Ministry Organization, Trinity Health will be able to move forward to even higher levels, such as online prescription refills and physician searches across the UEM.

For the second consecutive year, **Mercy Medical Center – Dubuque, Iowa** has received national recognition for the quality of its cardiac care. Mercy participates in “Get with the Guidelines,” the hospital-based quality improvement program from the American Heart Association/American Stroke Association, which helps ensure that every patient is consistently treated according to the most recent evidence-based guidelines. MMC-Dubuque moved up to the Gold Level for 2008, recognizing sustained performance for two years at 85 percent or higher adherence to all performance measures related to coronary artery disease.

Mercy Medical Center – North Iowa has been recognized by the Premier Healthcare Alliance as a winner of the Premier Award for Quality (AFQ), becoming one of only 27 winners out of a pool of 3,800.

Saint Joseph Regional Medical Center in South Bend and Plymouth, Ind. assigned, for the second consecutive year, as one of the nation’s performance improvement leader hospitals by Thomson Reuters, a source of intelligent information for businesses and professionals. SJRMC was recognized for being one of 100 hospitals making the greatest progress in improving hospital-wide performance over five consecutive years (2002-2006).

More than 100 people gathered at **St. Joseph Mercy Hospital in Ann Arbor, Mich.** for a town hall meeting to discuss health care reform. It was one of several town halls nationwide to find a way to improve the system of care in the United States. Speakers included **Joseph Swedish**, President and CEO, Trinity Health; **Garry Faja**, President and CEO Saint Joseph Mercy Health System; Dr. Brent Williams, Medical Director at the Delonis Center homeless shelter; **Dr. Lakshmi Halasyamani**, Vice President of Quality and System Improvement at SJMHS; **Ed Wolking**, Executive Vice President of the Detroit Regional Chamber of Commerce, and State Rep. **Kathy Angerer** (D-Dundee).

Sanctuary at Holy Cross, a long-term care community in South Bend that is operated by Trinity Senior Living Communities, was awarded the Excellence in Service award at the Fall 2008 Indiana Association of Homes and Services for the Aging conference. The award recognizes only one outstanding long-term nursing provider in Indiana each year. Currently, there are 120 similar communities in the state.

Trinity Health received a Platinum Award in the Direct-to-Consumer Marketing category from HealthLeaders Media. Trinity Health’s winning entry – a mammography mailer – was executed in the Fresno, Calif. market in conjunction with the marketing department at **Saint Agnes Medical Center**. The campaign marked the initial use of Trinity Health’s new **Customer Relationship Management database system**, which is now live in seven Ministry Organizations located in Fresno, South Bend, Livonia, Grand Rapids, Battle Creek, Boise, and Columbus.

HealthGrades has awarded **Saint Joseph Regional Medical Center , South Bend, Ind.**, the 2009 clinical excellence awards for orthopedic surgery, joint replacement surgery and spine surgery. The awards place the Ministry Organization in the top 10 percent nationally for each recognized area of care. SJRMC also received a 5-star rating for Treatment of Stroke.

We appreciate your continued support of Trinity Health.

Sincerely,

A handwritten signature in black ink, appearing to read 'E. Chadwick', with a long horizontal line extending to the left.

Edward Chadwick
Senior Vice President and Chief Financial Officer

Attachments

TRINITY HEALTH
SUMMARY CONDENSED CONSOLIDATED BALANCE SHEETS
(\$ in millions)

	June 30, 2008 (AUDITED)	September 30, 2008 (UNAUDITED)		June 30, 2008 (AUDITED)	September 30, 2008 (UNAUDITED)
ASSETS			LIABILITIES AND NET ASSETS		
CURRENT ASSETS:			CURRENT LIABILITIES:		
Cash, cash equivalents and investments	\$ 1,822	\$ 1,595	Commercial paper and line of credit	\$ 161	\$ 217
Security lending collateral	282	226	Short-term borrowings	1,080	1,098
Accounts receivable	839	880	Current portion of long-term debt	42	47
Inventory, prepayments and other	194	215	Accounts payable and other	697	665
	<u>3,137</u>	<u>2,916</u>	Payable under security lending agreements	282	226
Total current assets	<u>3,137</u>	<u>2,916</u>			
			Total current liabilities	<u>2,262</u>	<u>2,253</u>
ASSETS LIMITED OR RESTRICTED AS TO USE:					
Held by trustees under bond indenture agreements	150	151	LONG-TERM DEBT, NET OF CURRENT PORTION	935	910
Self-insurance, benefit plans and other	306	251			
By Board	1,801	1,769	OTHER LONG-TERM LIABILITIES	588	589
By donors	123	121			
	<u>2,380</u>	<u>2,292</u>	Total liabilities	<u>3,785</u>	<u>3,752</u>
Total assets limited or restricted as to use, non-current portion	<u>2,380</u>	<u>2,292</u>			
			EXTERNAL FINANCIAL INTEREST	92	90
PROPERTY AND EQUIPMENT, NET	3,201	3,217			
			NET ASSETS:		
OTHER ASSETS	374	342	Unrestricted	5,076	4,788
	<u>374</u>	<u>342</u>	Restricted	139	137
TOTAL ASSETS	<u>\$ 9,092</u>	<u>\$ 8,767</u>	Total net assets	<u>5,215</u>	<u>4,925</u>
			TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,092</u>	<u>\$ 8,767</u>

TRINITY HEALTH
SUMMARY CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND CHANGES IN UNRESTRICTED NET ASSETS
(\$ in millions)

	THREE MONTHS ENDED September 30, 2007 (UNAUDITED)	THREE MONTHS ENDED September 30, 2008 (UNAUDITED)
UNRESTRICTED REVENUE	\$ 1,551	\$ 1,675
EXPENSES:		
Labor expenses	756	820
Supplies	260	281
Purchased services	154	182
Depreciation and amortization	89	102
Provision for bad debts	65	72
Interest	26	23
Other	123	135
Total expenses	1,473	1,615
OPERATING INCOME BEFORE OTHER ITEMS	78	60
Reduction in insurance expense	5	-
OPERATING INCOME	83	60
NON-OPERATING ITEMS, PRIMARILY INVESTMENT EARNINGS (LOSSES)	27	(333)
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	110	(273)
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Gain on sale of discontinued operation	47	-
Adjustment to initially apply FAS 158 change in measurement date	-	(23)
Other	-	8
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 157	\$ (288)