
UNAUDITED QUARTERLY REPORT

For the quarterly period ended
September 30, 2011

Catholic Healthcare West
and Subordinate Corporations

The information in this report
has been provided by
Catholic Healthcare West

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

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CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONDENSED CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2011 AND JUNE 30, 2011

(In thousands)

	As of September 30, 2011	As of June 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	\$ 411,205	\$ 704,044
Short-term investments	780,987	825,849
Collateral held under securities lending program	329,405	290,526
Assets limited as to use	1,003,797	828,632
Patient accounts receivable, net of allowance for doubtful accounts of \$347,060 and \$297,294 at September 30, 2011 and June 30, 2011, respectively	1,267,134	1,257,296
Other current assets	844,967	743,086
Total current assets	4,637,495	4,649,433
Assets limited as to use:		
Board-designated assets (including \$337,537 and \$308,202 of assets loaned under securities lending program at September 30, 2011 and June 30, 2011, respectively) for:		
Capital projects	2,680,765	3,139,101
Workers' compensation	425,288	367,554
Hospital professional and general liability	167,832	162,091
Under bond indenture agreements for:		
Capital projects	49,592	51,679
Debt service	3,725	190,975
Bond reserves	21,546	26,387
Donor-restricted	425,160	439,932
Other	68,549	68,213
Less amount required to meet current obligations	(1,003,797)	(828,632)
Net assets limited as to use	2,838,660	3,617,300
Property and equipment, net	4,115,066	4,102,551
Ownership interests in health-related activities	551,230	558,178
Other long-term assets, net	190,006	196,163
Total assets	\$ 12,332,457	\$ 13,123,625

(Continued)

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONDENSED CONSOLIDATED BALANCE SHEETS AS OF SEPTEMBER 30, 2011 AND JUNE 30, 2011

(In thousands)

	As of September 30, 2011	As of June 30, 2011
Liabilities and Net Assets		
Current liabilities:		
Current portion of long-term debt	\$ 317,381	\$ 107,381
Demand bonds subject to short-term liquidity arrangements	574,000	574,000
Accounts payable	363,157	418,155
Payable under securities lending program	329,976	291,148
Accrued salaries and benefits	420,281	507,915
Accrued workers' compensation	37,647	31,647
Accrued hospital professional and general liability	61,304	61,304
Pension and other postretirement liabilities	278,532	278,369
Other accrued liabilities	653,439	871,042
Total current liabilities	3,035,717	3,140,961
Other liabilities:		
Workers' compensation	345,546	234,938
Hospital professional and general liability	220,893	228,559
Pension and other postretirement liabilities	591,041	598,697
Other	116,347	115,823
Total other liabilities	1,273,827	1,178,017
Long-term debt, net of current portion	3,257,766	3,556,817
Total liabilities	7,567,310	7,875,795
Net assets:		
Unrestricted - attributable to CHW	4,239,845	4,715,076
Unrestricted - noncontrolling interest	101,764	98,304
Temporarily restricted	315,377	326,503
Permanently restricted	108,161	107,947
Total net assets	4,765,147	5,247,830
Total liabilities and net assets	\$ 12,332,457	\$ 13,123,625

(Concluded)

See notes to unaudited condensed consolidated financial statements.

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2011 AND 2010 (In thousands)

	September 30,	
	2011	2010
Unrestricted revenues and other support:		
Net patient revenue	\$ 2,264,156	\$ 2,227,021
Premium revenue	148,747	132,503
Revenue from health-related activities, net	7,886	27,281
Other operating revenue	54,035	50,588
Contributions	<u>3,577</u>	<u>3,095</u>
Total unrestricted revenues and other support	<u>2,478,401</u>	<u>2,440,488</u>
Expenses:		
Salaries and benefits	1,308,074	1,255,458
Supplies	349,931	354,782
Provision for bad debts	231,188	211,349
Purchased services and other	474,053	455,671
Depreciation	108,080	107,880
Interest expense, net (Note 10)	140,825	87,633
Special charge for software development abandonment (Note 4)	<u>19,091</u>	<u>-</u>
Total expenses	<u>2,631,242</u>	<u>2,472,773</u>
Operating loss	(152,841)	(32,285)
Other income:		
Investment income (loss), net	<u>(322,834)</u>	<u>315,339</u>
Excess (deficit) of revenues over expenses	<u>\$ (475,675)</u>	<u>\$ 283,054</u>

(Continued)

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2011 AND 2010 (In thousands)

	Three-Month Periods Ended September 30,	
	2011	2010
Unrestricted net assets:		
Excess (deficit) of revenues over expenses	\$ (475,675)	\$ 283,054
Change in net unrealized gains (losses) on available-for-sale investments	(6,719)	3,719
Net assets released from restrictions used for purchase of property and equipment	4,242	1,127
Gain from discontinued operations	522	229
Change in noncontrolling interests	3,460	2,112
Change in ownership interests held by controlled subsidiaries	869	2,324
Change in accumulated unrealized derivative gains, net	671	2,159
Donated property and equipment	1,269	2,538
Other	<u>(410)</u>	<u>(639)</u>
Increase (decrease) in unrestricted net assets	<u>(471,771)</u>	<u>296,623</u>
Temporarily restricted net assets:		
Contributions	9,209	7,147
Net realized and unrealized gains (losses) on investments	(3,819)	3,362
Net assets released from restrictions	(7,605)	(4,917)
Change in interest in net assets of unconsolidated foundations	(9,124)	9,934
Other	<u>213</u>	<u>(175)</u>
Increase (decrease) in temporarily restricted net assets	<u>(11,126)</u>	<u>15,351</u>
Permanently restricted net assets:		
Contributions	106	58
Net realized and unrealized gains on investments	13	22
Change in interest in net assets of unconsolidated foundations	94	4,608
Other	<u>1</u>	<u>(137)</u>
Increase in permanently restricted net assets	<u>214</u>	<u>4,551</u>
Increase (decrease) in net assets	(482,683)	316,525
Net assets, beginning of period	<u>5,247,830</u>	<u>3,905,807</u>
Net assets, end of period	<u>\$ 4,765,147</u>	<u>\$ 4,222,332</u>

(Concluded)

See notes to unaudited condensed consolidated financial statements.

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

(In thousands)

	Three-Month Periods Ended	
	September 30,	
	2011	2010
Cash flows from operating activities:		
Change in net assets	\$ (482,683)	\$ 316,525
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	108,080	107,880
Amortization	42	569
Equity in losses (earnings) of health-related activities	4,457	(20,655)
Gain (loss), net, on disposal of assets	(127)	58
Software development abandonment	19,091	-
Restricted contributions and investment income	(10,048)	(8,116)
Change in net realized and unrealized (gains) losses on investments	347,143	(295,872)
Undistributed portion of change in net assets of unconsolidated foundations	9,030	(14,542)
Change in fair value of swaps	93,275	35,637
Changes in certain assets and liabilities:		
Accounts receivable, net	(9,777)	(77,687)
Accounts payable	(45,369)	(15,724)
Workers' compensation and hospital professional and general liabilities	7,624	6,390
Accrued salaries and benefits	(87,839)	(30,749)
Pension and other postretirement liabilities	(7,493)	3,893
Other accrued liabilities	(37,167)	(42,853)
Other, net	<u>(23,676)</u>	<u>(117,392)</u>
Cash used in operating activities	<u>(115,437)</u>	<u>(152,638)</u>

(Continued)

CATHOLIC HEALTHCARE WEST AND SUBORDINATE CORPORATIONS

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE THREE-MONTH PERIODS ENDED SEPTEMBER 30, 2011 AND 2010

(In thousands)

	Three-Month Periods Ended September 30,	
	2011	2010
Cash flows from investing activities:		
Net proceeds from sale of investments	37,825	119,553
Cash proceeds on disposal of assets	1,064	221
Investment in health-related activities	-	(212)
Cash distributions from health-related activities	3,205	-
Additions to operating property and equipment	(144,880)	(138,174)
Increase in securities lending collateral	(38,828)	(19,982)
Other, net	8,832	(10,464)
Cash used in investing activities	(132,782)	(49,058)
Cash flows from financing activities:		
Borrowings	441,433	-
Repayments	(534,514)	(55,382)
Increase in payable under securities lending program	38,828	19,982
Restricted contributions and investment income	10,048	8,116
Deferred financing costs	(415)	(2,525)
Cash used in financing activities	(44,620)	(29,809)
Net decrease in cash and cash equivalents	(292,839)	(231,505)
Cash and cash equivalents at beginning of period	704,044	796,034
Cash and cash equivalents at end of period	\$ 411,205	\$ 564,529
Components of cash and cash equivalents and investments at end of period:		
Cash and cash equivalents	\$ 411,205	\$ 564,529
Short-term investments	780,987	653,261
Board-designated assets for capital projects	2,680,765	2,930,053
Total	\$ 3,872,957	\$ 4,147,843
Supplemental disclosures of cash flow information:		
Cash paid for interest, net of capitalized interest	\$ 86,280	\$ 90,892
Supplemental schedule of noncash investing and financing activities:		
Assets acquired through capital lease or note payable	\$ 5,602	\$ 33,589
Donated property and equipment	\$ 1,269	\$ 2,538
Accrued purchases of property and equipment	\$ 40,498	\$ 58,999
Net due from/(to) brokers for unsettled investment trades	\$ 257,285	\$ (92,915)
		(Concluded)

See notes to unaudited condensed consolidated financial statements.

Catholic Healthcare West and Subordinate Corporations

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of Catholic Healthcare West and Subordinate Corporations (“CHW”) as of September 30, 2011, and for the three-month periods ended September 30, 2011 and 2010, should be read in conjunction with the audited financial statements as of and for the year ended June 30, 2011. Certain footnotes and disclosures that are required in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been omitted as they substantially duplicate the disclosures contained in the annual financial statements.

CHW is responsible for the accompanying unaudited condensed consolidated financial statements. These condensed consolidated financial statements include all normal and recurring adjustments that are considered necessary for the fair presentation of financial position and operating results in accordance with GAAP. Certain estimates and assumptions are made that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenue and expenses for the periods presented. Actual results could differ from estimates.

Operating results for the three-month period ended September 30, 2011, are not necessarily indicative of the results that may be expected for any future period or for a full fiscal year as revenues, expenses, assets, and liabilities can vary during each quarter of the year.

Certain reclassifications and changes in presentation were made in the condensed consolidated financial statements for the three-month period ended September 30, 2010, to conform to the presentation for the three-month period ended September 30, 2011.

In preparing the accompanying unaudited condensed consolidated financial statements, CHW has evaluated subsequent events occurring between the end of the most recent fiscal quarter and November 17, 2011, the date the condensed consolidated financial statements were issued.

2. RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS

In September 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-08, *Testing Goodwill for Impairment*. The objective of ASU 2011-08 is to simplify how entities test goodwill for impairment. The update permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The provisions of ASU 2011-08, which are to be applied prospectively, are effective for CHW July 1, 2012. The adoption of ASU 2011-08 is not expected to have a material impact on CHW’s consolidated financial statements.

3. NET PATIENT REVENUE

In January 2010, the State of California enacted legislation that provided for supplemental Medi-Cal payments to certain hospitals funded by a quality assurance fee paid by participating hospitals and matching federal funds (“the 2010 Hospital Fee Program”). The legislation covered the period of April 1, 2009 through December 31, 2010. The Centers for Medicare & Medicaid Services (“CMS”) approved the 2010 Hospital Fee Program in its entirety in December 2010, at which time

all activity of the program, net of grant payments to the California Health Foundation and Trust (“CHFT”), was recognized, resulting in net additional income of \$198.8 million.

In April 2011, the State of California enacted legislation that continues the provider fee program covering the period of January 1, 2011, through June 30, 2011, subject to review and approval by CMS (the “2011 Provider Fee Program”). The legislation was implemented beginning in May 2011, and, as such, CHW received \$185.3 million in supplemental payments, paid fees of \$121.2 million, and paid \$5.2 million into a grant fund established by CHFT prior to June 30, 2011, with additional supplemental payments received of \$10.7 million and additional grant funds paid of \$2.5 million during the three months ended September 30, 2011. As final approval from CMS was not obtained prior to September 30, 2011, recognition of these revenues and expenses in the consolidated statements of operations and changes in net assets has been deferred and the amounts are recorded in other current liabilities and other current assets, respectively. Remaining net supplemental payments anticipated to be received under the program of approximately \$34.0 million and anticipated additional payments to the CHFT grant fund of approximately \$1.0 million have not been recorded as of September 30, 2011, pending final approval by CMS. Total net income anticipated to be recognized in fiscal 2012 related to the 2011 Provider Fee Program is approximately \$100.0 million.

Payments related to Medicaid provider fee programs are matched through the Federal Medical Assistance Program. More than twenty-two states, including California, have a provider fee program that is specific to hospitals. In September 2011, the State of California enacted an additional 30-month program that, upon final approval by CMS, will cover the period from July 1, 2011 through December 31, 2013.

Net patient revenue also included \$1.6 million related to unfavorable prior years’ reimbursement settlements from Medicare, Medicaid and other programs during the three-month period ended September 30, 2011, and \$1.3 million related to favorable prior years’ reimbursement settlements from Medicare, Medicaid and other programs during the three-month period ended September 30, 2010.

4. SPECIAL CHARGE FOR SOFTWARE DEVELOPMENT ABANDONMENT

In September 2011, CHW made a change in strategic direction and vendor for clinical systems. As part of the change, \$19.1 million of software development costs that had been previously capitalized were abandoned.

5. SELF-INSURANCE PLANS

CHW maintains self-insurance programs for workers’ compensation benefits for employees and for hospital professional and general liability risks. Self-insurance expense decreased \$6.0 million and increased \$3.1 million during the three-month periods ended September 30, 2011 and 2010, respectively, related to revisions to prior years’ actuarially estimated liabilities.

In July 2011, CHW discontinued the application of a discount factor and confidence level in determining its actuarially estimated liabilities and changed to present the liabilities on an expected, undiscounted basis, which caused a \$3.5 million increase in self-insurance expense during the three-month period ended September 30, 2011. In addition, CHW adopted the provisions of ASU 2010-24, *Health Care Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries*, beginning July 2011. This resulted in the reclassification of \$101.3 million in anticipated insurance recoveries from excess workers’ compensation insurers, which were previously netted against liabilities for self-insurance programs, to a receivable within board-designated assets limited as to use for workers’ compensation. This change had no effect on expenses or net assets.

6. FAIR VALUE MEASUREMENTS

CHW accounts for certain assets and liabilities at fair value or on a basis that approximates fair value. A fair value hierarchy for valuation inputs prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels and is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets and liabilities in Level 1 include U.S. Treasury securities and listed equities.

Level 2: Pricing inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Financial assets and liabilities in this category generally include asset-backed securities, corporate bonds and loans, municipal bonds and interest rate swaps.

Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques. Financial assets in this category include alternative investments.

The following represents assets and liabilities measured at fair value on a recurring basis and certain assets accounted for under the equity method as of September 30, 2011 and June 30, 2011 (in thousands):

	Fair Value Measurements at September 30, 2011 Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance at September 30, 2011
Assets				
Cash and cash equivalents	\$ 493,480	\$ -	\$ -	\$ 493,480
U.S. government securities	394,061	117,636	-	511,697
U.S. corporate bonds	61,705	423,848	3,305	488,858
U.S. equity securities	1,135,582	231,531	-	1,367,113
Foreign government securities	44	155,364	-	155,408
Foreign corporate bonds	4,635	3,898	-	8,533
Foreign equity securities	330,014	1,126	-	331,140
Asset-backed securities	-	31,875	-	31,875
Structured debt	-	275,321	-	275,321
Private equity investments	-	-	112,748	112,748
Multi-strategy hedge fund investments	-	-	255,748	255,748
Real estate	6,395	-	160,439	166,834
Collateral held under securities lending program	-	329,405	-	329,405
Other fund investments	7,977	-	-	7,977
Total assets	\$ 2,433,893	\$ 1,570,004	\$ 532,240	\$ 4,536,137
Liabilities				
Interest rate swap instruments	\$ -	\$ 203,969	\$ -	\$ 203,969

Fair Value Measurements at June 30, 2011 Using

	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance at June 30, 2011
Assets				
Cash and cash equivalents	\$ 579,206	\$ -	\$ -	\$ 579,206
U.S. government securities	392,981	510,507	-	903,488
U.S. corporate bonds	62,061	573,974	-	636,035
U.S. equity securities	1,461,940	204,750	-	1,666,690
Foreign government securities	5,896	237,433	-	243,329
Foreign corporate bonds	-	7,369	-	7,369
Foreign equity securities	400,339	-	-	400,339
Asset-backed securities	-	36,938	-	36,938
Structured debt	-	105,106	-	105,106
Private equity investments	-	-	102,944	102,944
Multi-strategy hedge fund investments	-	-	107,889	107,889
Real estate	6,805	-	155,819	162,624
Collateral held under securities lending program	-	290,526	-	290,526
Other fund investments	8,724	-	-	8,724
Total assets	<u>\$ 2,917,952</u>	<u>\$ 1,966,603</u>	<u>\$ 366,652</u>	<u>\$ 5,251,207</u>
Liabilities				
Interest rate swap instruments	<u>\$ -</u>	<u>\$ 110,694</u>	<u>\$ -</u>	<u>\$ 110,694</u>

Assets and liabilities measured at fair value on a recurring basis and certain assets accounted for under the equity method are reported in short-term investments, assets limited as to use, and other accrued liabilities in the consolidated balance sheet. Such amounts do not include donor-restricted funds or interests in unconsolidated foundations.

There were no significant transfers to or from Levels 1 or 2 during the periods presented.

The Level 2 and 3 instruments listed in the fair value hierarchy tables above use the following valuation techniques and inputs:

For marketable securities such as U.S. and foreign government securities, U.S. and foreign corporate bonds, U.S. and foreign equity securities, asset-backed securities, and structured debt, in the instances where identical quoted market prices are not readily available, fair value is determined using quoted market prices and/or other market data for comparable instruments and transactions in establishing prices, discounted cash flow models and other pricing models. These inputs to fair value are included in industry-standard valuation techniques such as the income or market approach. CHW classifies all such investments as Level 2.

For investments such as private equity funds, multi-strategy hedge funds, real estate funds, and other limited partnership investments, fair value is determined using the calculated net asset value ("NAV") provided by the fund. The value of underlying investments in private equity funds are estimated based on recent filings, operating results, balance sheet stability, growth, and other business and market sector fundamentals. Real estate investments are priced using valuation techniques that include income, sales comparison (market), and cost approaches. Significant inputs include contract and market rents, operating expenses, capitalization rates,

discount rates, sales of comparable properties, market rent growth trends, as well as the use of the value of the property plus the cost of building a similar structure of equal utility. Hedge funds and other limited partnership investments typically value underlying securities traded on a national securities exchange or reported on a national market at the last reported sales price on the day of the valuation. Underlying securities traded in the over-the-counter market and listed securities for which no sale was reported on the valuation date are typically valued at the mean between representative bid and ask quotes obtained. Where no fair value is readily available, the fund or investment manager may determine, in good faith, the fair value using models that take into account relevant information considered material. Due to the significant unobservable inputs present in these valuations, CHW classifies all such investments as Level 3.

The fair value of collateral held under securities lending program classified as Level 2 is determined using the calculated NAV. The collateral held under this program is placed in commingled funds whose underlying investments are valued using techniques similar to those used for the marketable securities noted above. Amounts reported do not include non-cash collateral of \$25.1 million and \$23.7 million as of September 30, 2011 and June 30, 2011, respectively.

The fair value of interest rate swap instruments classified as Level 2 is determined using an industry standard valuation model, which is based on a market approach. A credit risk spread (in basis points) is added as a flat spread to the discount curve used in the valuation model. Each leg is discounted and the difference between the present value of each leg's cash flows equals the market value of the swap.

Included within the assets above are investments in certain entities that report fair value using a calculated NAV or its equivalent. The following tables and explanations identify attributes relating to the nature and risk of such investments as of September 30, 2011 and June 30, 2011 (in thousands):

		As of September 30, 2011			
		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
<u>Level 2</u>					
Debt securities	(1)	\$ 88,113	\$ -	Daily, Semi-Monthly	1 - 5 days
Equity securities	(2)	230,811	-	Daily, Semi-Monthly, Monthly	1 - 30 days
Collateral held under securities lending	(3)	<u>329,405</u>	-	Daily	10 days
Total Level 2		<u>\$ 648,329</u>	<u>\$ -</u>		
<u>Level 3</u>					
Multi-strategy hedge funds	(4)	\$ 255,748	\$ -	Monthly, Quarterly, Semi-Annually, Annually	20 - 370 days
Private equity	(5)	112,748	118,971	-	-
Real estate	(6)	160,439	-	Quarterly	90 days
Debt securities	(7)	<u>3,305</u>	<u>19,315</u>	Daily	1 - 5 days
Total Level 3		<u>\$ 532,240</u>	<u>\$ 138,286</u>		
Total Level 2 and Level 3		<u>\$ 1,180,569</u>	<u>\$ 138,286</u>		
		As of June 30, 2011			
		Fair Value	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
<u>Level 2</u>					
Debt securities	(1)	\$ 202,794	\$ -	Daily, Semi-Monthly	1 - 5 days
Equity securities	(2)	203,352	-	Daily, Semi-Monthly, Monthly	1 - 30 days
Collateral held under securities lending	(3)	<u>290,526</u>	-	Daily	10 days
Total Level 2		<u>\$ 696,672</u>	<u>\$ -</u>		
<u>Level 3</u>					
Multi-strategy hedge funds	(4)	\$ 107,889	\$ -	Quarterly, Semi-Annually, Annually	60 - 370 days
Private equity	(5)	102,944	116,595	-	-
Real estate	(6)	<u>155,819</u>	-	Quarterly	90 days
Total Level 3		<u>\$ 366,652</u>	<u>\$ 116,595</u>		
Total Level 2 and Level 3		<u>\$ 1,063,324</u>	<u>\$ 116,595</u>		

(1) This category includes investments in commingled funds that invest primarily in domestic and foreign debt and fixed income securities, the majority of which are traded in over-the-counter markets.

- (2) This category includes investments in commingled funds that invest primarily in domestic or foreign equity securities with multiple investment strategies. A majority of the funds attempt to match the returns of specific equity indices.
- (3) This category includes investments of collateral held under securities lending program. CHW participates in a securities lending program administered by its custodian as a means to augment income from its portfolio. Securities are loaned to select brokerage firms who in turn post collateral. The collateral is placed in commingled funds that invest primarily in cash and cash equivalents, and domestic and foreign debt securities. The collateral pool is allocated into two separate pools. While CHW can fully withdraw from the program with its custodian at any time, the redemption conditions differ. For the “duration pool”, which represents approximately 5% of the value of this category, CHW can fully withdraw from the program with its custodian, and in return receive proportional distributions of the investments held by the collateral lending fund. For the “liquidity pool”, which represents approximately 95% of the value of this category, no such redemption restrictions apply. The cash flow maturity schedule provided by the custodian anticipates that the cash collateral in the duration pool will fully mature and become available through December 2012, with a majority of the duration pool maturing as of September 30, 2011. Earlier redemption from the duration pool would result in CHW receiving a proportional share of the in-kind cash collateral.
- (4) This category includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. The primary objective for these funds is to seek attractive long-term risk-adjusted absolute returns. A redemption limitation imposed for certain investments representing approximately 1% of the value of this category lapsed on October 1, 2010, at which time liquidity is limited to semi-annual withdrawals with 75 days written notice. A redemption limitation imposed for certain investments representing approximately 1.3% of the value of this category lapsed on March 30, 2011, at which time liquidity is limited to annual withdrawals with 75 days written notice. A redemption limitation imposed for certain investments representing approximately 1% of the value of this category will lapse on March 30, 2013, at which time liquidity is limited to annual withdrawals with 75 days written notice. A redemption limitation imposed for certain investments representing approximately 12% of the value of this category will lapse on July 1, 2012, at which time liquidity is limited to quarterly withdrawals up to one-third of the investor’s shares with 90 days written notice. A redemption limitation imposed for certain investments representing approximately 7.6% of the value of this category will lapse on July 1, 2012, at which time liquidity is limited to quarterly withdrawals with 90 days written notice. A redemption limitation imposed for certain investments representing approximately 4.9% of the value of this category will lapse on July 1, 2013, at which time liquidity is limited to quarterly withdrawals with 90 days written notice. A redemption limitation imposed for certain investments representing approximately 7.5% of the value of this category will lapse on October 1, 2013, at which time liquidity is limited to annual withdrawals with 45 days written notice. A redemption limitation imposed for certain investments representing approximately 7.9% of the value of this category will lapse on July 1, 2013, at which time liquidity is limited to annual withdrawals of up to 50% of the investor’s shares with 60 days written notice. Approximately 23% of the value of this category requires a notice period that ranges from 5 to 60 days for redemption as of September 30, 2011. Approximately 11% of the value of this category requires a notice period of 90 days for redemption as of September 30, 2011. Other investments representing approximately 23% of the value of this category require a notice period of 95 days for redemptions of up to 50% of the investor’s shares and 370 days written notice for redemptions greater than 50% as of September 30, 2011. Under certain circumstances, an otherwise redeemable investment or portion thereof could become restricted. Such restrictions were not applicable at September 30, 2011.

- (5) This category includes several private equity funds that specialize in providing capital to a variety of investment groups, including but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other situations. There are no provisions for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at September 30, 2011, to be over the next 2-12 years.
- (6) This category includes an open-ended real estate fund that invests primarily in institutional quality commercial and residential real estate assets within the United States.
- (7) This category includes a commingled fund that invests primarily in a fixed income fund that provides capital in a variety of mezzanine debt, distressed debt, and other special debt securities situations.

The investments included above are not expected to be sold at amounts that are different from NAV.

7. DEBT

In July 2011, CHW issued \$106.5 million of tax-exempt fixed rate bonds with a premium of \$8.5 million to repay \$115.0 million of previously outstanding bonds. CHW also repaid \$30.5 million of outstanding bonds and a \$45.9 million put bond with a draw on its syndicated line of credit. No loss on early extinguishment of debt was recorded related to these transactions.

In July 2011, in light of the debt ceiling crisis, CHW drew \$250.0 million on its syndicated line of credit facility in order to ensure adequate liquidity in the event of a capital market disruption. In August 2011, subsequent to the successful resolution of the debt ceiling, this amount was repaid.

In November 2011, CHW issued, under the Master Trust Indenture, \$478.3 million of tax-exempt fixed rate bonds to refund \$249.3 million of previously outstanding bonds and accrued interest and \$40.9 million of draws on the line of credit, and to provide funds for capital projects. The bonds were sold at a net premium, bear interest at 3.0% to 5.25%, and mature in installments through March 2041. The proceeds used to refund previously outstanding bonds were placed in an irrevocable trust and the bonds were legally defeased.

In November 2011, CHW issued, under the Master Trust Indenture, \$150.0 million of variable rate demand bonds supported by new letters of credit from a single bank, which expire in November 2016. The bond proceeds will be used for capital projects.

In November 2011, CHW entered into a forward delivery private placement agreement. Subject to the terms, CHW expects to issue \$215.0 million of bonds in June 2012 under the Master Trust Indenture and the proceeds will be used to repay the maturity of put bonds due in July 2012. The obligations of CHW and the placement agent are conditioned on the terms contained in the forward delivery agreement.

No material gain or loss on early extinguishment of debt is expected to be recorded related to the November 2011 transactions.

8. DERIVATIVE INSTRUMENTS

In August 2011, CHW novated swaps with a notional amount of \$343.1 million from Citibank to Deutsche Bank. One of the swaps with a notional amount of \$80.0 million was insured by Assured Guaranty (formerly known as FSA); the insurance was removed at the request of CHW and Deutsche Bank upon the novation. Swaps with a notional amount of \$263.1 million were uninsured and the counterparty's right to terminate the swaps at each five-year anniversary was removed on these swaps with the novation. These swaps, as well as the one with the \$80.0 million notional amount, retain certain early termination triggers caused by an event of default or termination event as described below.

As of September 30, 2011, CHW has 16 floating-to-fixed interest rate swaps. CHW uses floating-to-fixed interest rate swaps to manage interest rate risk associated with outstanding variable rate debt. Under these swaps, CHW receives a percentage of LIBOR ranging from 57.00% to 58.96% plus a spread ranging from 0.13% to 0.32% and pays a fixed rate. Counterparties to these swaps are JPMorgan, Citibank and Deutsche Bank for \$369.8 million, \$227.7 million and \$343.1 million, respectively, of the notional amounts outstanding.

The following table shows the outstanding notional amount of derivative instruments measured at fair value as reported in other accrued liabilities in the condensed consolidated balance sheets as of September 30, 2011 and June 30, 2011 (in thousands):

	Maturity Date of Derivatives	Fixed Rate	Notional Amount Outstanding	Fair Value
September 30, 2011				
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	<u>\$ 940,600</u>	<u>\$ (203,969)</u>
June 30, 2011				
Derivatives not designated as hedges				
Interest rate swaps	2026 - 2042	3.2% - 3.4%	<u>\$ 944,525</u>	<u>\$ (110,694)</u>

Changes in fair value of derivative instruments have been recorded for the three-month periods ended September 30, 2011 and 2010, as follows (in thousands):

	Three-Month Periods Ended September 30, 2011 2010	
Loss reclassified from unrestricted net assets into interest expense, net, related to derivatives in cash flow hedging relationships:		
Interest rate swaps - amortization	<u>\$ 671</u>	<u>\$ 2,159</u>
Loss recognized in interest expense, net:		
Changes in fair value:		
Non-hedged derivatives - interest rate swaps	<u>\$ 93,275</u>	<u>\$ 35,637</u>
Amortization of amounts in unrestricted net assets - interest rate swaps	<u>671</u>	<u>2,159</u>
Total	<u>\$ 93,946</u>	<u>\$ 37,796</u>

Of the amounts classified in unrestricted net assets as of September 30, 2011, CHW anticipates reclassifying approximately \$2.7 million of additional non-cash losses from unrestricted net assets

into interest expense, net, in the next twelve months. Amounts in unrestricted net assets will be amortized into earnings as the interest payments being economically hedged are made.

Of the \$940.6 million notional amount of interest rate swaps held by CHW, \$160.0 million are insured and have a negative fair value of \$41.3 million at September 30, 2011. In the event the insurer, Assured Guaranty, is downgraded below A2/A or A3/A- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps if CHW does not provide alternative credit support acceptable to them within 30 days of being notified of the downgrade. If the insurer is downgraded below the thresholds noted above and CHW is downgraded below Baa3/BBB- (Moody's/Standard and Poor's), the counterparties have the right to terminate the swaps.

CHW has \$780.6 million of interest rate swaps that are not insured. While CHW has the right to terminate the swaps prior to maturity for any reason, certain counterparties have the right to terminate swaps in the outstanding notional amount of \$437.5 million at each five-year anniversary date commencing in 2013. The termination value would be the fair market value or the replacement cost of the swaps, depending on the circumstances. These interest rate swaps have a negative fair value of \$93.4 million at September 30, 2011. The remaining uninsured swaps in the notional amount of \$343.1 million novated to Deutsche Bank as discussed above, have a negative fair value of \$69.3 million. All of the uninsured swaps have certain early termination triggers caused by an event of default or a termination event. The events of default include failure to make payments when due, failure to give notice of a termination event, failure to comply with or perform obligations under the agreements, bankruptcy or insolvency, and defaults under other agreements (cross-default provision). The termination events include credit ratings dropping below Baa1/BBB+ (Moody's/Standard and Poor's) by either party and CHW's cash on hand dropping below 85 days.

CHW, under the terms of its Master Trust Indenture, is prohibited from posting collateral on derivative instruments.

9. NONCONTROLLING INTEREST

Changes in the noncontrolling interests related to revenues, expenses, gains, and losses of consolidated investments in health-related activities of \$3.2 million and \$5.8 million are included in purchased services and other in the condensed consolidated statements of operations and changes in net assets for the three-month periods ended September 30, 2011 and 2010, respectively.

10. INTEREST EXPENSE, NET

The components of interest expense, net, include the following (in thousands):

	Three-Month Periods Ended September 30,	
	2011	2010
Interest and fees on debt and swap cash settlements	\$ 51,710	\$ 55,453
Market adjustment on swaps and amortization of amounts in unrestricted net assets	<u>93,946</u>	<u>37,796</u>
Total interest expense	145,656	93,249
Capitalized interest expense	<u>(4,831)</u>	<u>(5,616)</u>
Interest expense, net	<u>\$ 140,825</u>	<u>\$ 87,633</u>

11. INVESTMENT INCOME, NET

Investment income and losses on assets limited as to use, cash equivalents, collateral held under securities lending program, notes receivable, and investments are comprised of the following (in thousands):

	Three-Month Periods Ended September 30,	
	2011	2010
Interest and dividend income	\$ 28,307	\$ 26,821
Realized gains on sales of securities	106,314	33,002
Net unrealized gains (losses) on securities	(449,651)	259,486
Other, net of capitalized investment income	(7,804)	(3,970)
Investment income (loss), net	<u>\$ (322,834)</u>	<u>\$ 315,339</u>

12. COMMITMENTS, CONTINGENT LIABILITIES AND OTHER

The following summary encompasses matters previously disclosed in CHW's audited financial statements, as well as additional developments since the date of those financial statements.

Litigation, Regulatory and Compliance Matters - General – The healthcare industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions, and in the case of tax-exempt hospitals, the requirements of tax exemption. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations by healthcare providers of reimbursement, false claims, anti-kickback and anti-referral statutes and regulations, and quality of care provided to patients. In addition, during the course of business, CHW becomes involved in litigation. Management assesses the probable outcome of unresolved litigation and investigations and records contingent liabilities reflecting estimated liability exposure. Following is a discussion of matters of note.

Department of Justice and OIG Investigations – CHW and/or its facilities periodically receive notices from governmental agencies, such as the Department of Justice or the OIG, requesting information regarding billing, payment, or other reimbursement matters, or formally or informally initiating investigations, or indicating the existence of qui tam litigation. The healthcare industry in general is experiencing an increase in these activities, as the federal government increases enforcement activity and institutes new programs designed to identify areas of potential reimbursement or quality irregularities. Based on the information received to date from the government, CHW does not presently have information indicating that any of these current matters or their resolution will have a material effect on CHW, taken as a whole. Nevertheless, investigations of this type and scope could lead to civil and/or criminal charges and material penalties or settlements. Consequently, there can be no assurance that the resolution of these matters will not affect the financial condition or operations of CHW, taken as a whole.

Wage and Hour Class Actions and Litigation – Federal law and many states, including California, impose standards related to worker classification, eligibility and payment for overtime, liability for providing rest periods and similar requirements. Large employers with complex workforces, such as hospitals, are susceptible to actual and alleged violations of these standards. In recent years, there has been a proliferation of lawsuits over these “wage and hour” issues, often in the form of large, sometimes multi-state, class actions. For large employers such as hospitals and health systems, such class actions can involve multi-million dollar claims, judgments and/or settlements.

In February 2008, a lawsuit was filed against CHW alleging violations of California state wage and hour laws and regulations. The lawsuit is fashioned as a class action on behalf of nurses and medical technicians employed at CHW's California facilities during the previous four years. CHW is evaluating the lawsuit and its implications. Extensive discovery has been taken by plaintiff's counsel, and it is too early to assess any liability exposure from the lawsuit, but lawsuits of this nature have the potential for a material impact on the financial condition or operations of CHW, taken as a whole.

Medicare Certification – In August 2011, CMS informed Saint Francis Memorial Hospital (“SFMH”) that it would take steps to terminate SFMH’s Medicare provider agreement unless SFMH undertook certain corrective actions related to qualification for Medicare participation. The issues relate to three conditions of participation in Medicare, as well as an alleged violation of the Emergency Medical Treatment and Active Labor Act (“EMTALA”). SFMH submitted to CMS its plans of corrective action which are typically followed by CMS validation surveys. The survey for the conditions of participation and the validation survey for the EMTALA violation took place in September 2011; SFMH is awaiting the results. There can be no assurance that the termination notices will be lifted or that further remediation may not be required.

In addition, in September 2011, CMS informed Mercy Hospital (Bakersfield) that it would take steps to terminate Mercy Hospital’s Medicare provider agreement unless Mercy Hospital achieves compliance with eight conditions of participation. Mercy Hospital submitted its plan of correction in mid-September 2011 and was surveyed by CMS in early November 2011. There can be no assurance that the termination notice will be lifted or that further remediation may not be required.

13. SUBSEQUENT EVENT

On October 17, 2011, CHW signed a non-binding letter of intent to sell substantially all land, buildings, equipment, inventory, and certain other property of Saint Mary’s Regional Medical Center, a 380-bed facility located in Reno, Nevada, to an unrelated party. The sale of the facility was approved by CHW’s Board of Directors on October 31, 2011, at which time the assets were recorded as held for sale and from which date forward the operations of the facility will be reflected as discontinued in the statement of operations and changes in net assets for all periods presented. As of September 30, 2011, the carrying value of the property and equipment of the hospital was approximately \$135.0 million and the carrying value of the inventory was approximately \$6.3 million.

Catholic Healthcare West and Subordinate Corporations

Management Discussion and Analysis of Financial Condition and Results of Operations

Overview

Catholic Healthcare West (“CHW”) is a California not-for-profit corporation exempt from federal and state income taxes. CHW operates 40 hospitals in California, Arizona and Nevada and provides a variety of healthcare, education and other benefits to the communities in which it operates. Healthcare services include inpatient, outpatient, sub-acute and home health care services, as well as physician services through CHW Medical Foundation and affiliated medical groups.

Results of Operations

For the three months ended September 30, 2011, operating losses were \$152.8 million compared to \$32.3 million for the same period in the prior year. The results are primarily related to the following:

- Adjusted admissions decreased 2.1% and payor mix was unfavorable, however, these declines were offset by payment rate increases. Net patient and premium revenue per adjusted admission increased 4.4% during the three months ended September 30, 2011, compared to a 1.9% increase during the same period in the prior year.
- Supplies expense decreased by \$4.9 million with supplies per adjusted admission increasing only 0.7%.
- Market adjustments on swaps, recorded in interest expense, net, were \$93.9 million unfavorable compared to unfavorable adjustments of \$37.8 million recorded in the same period in the prior year. Market adjustments on swaps during the month ended October 31, 2011 were approximately \$26.0 million favorable.
- CHW recorded a \$19.1 million special charge for software development abandonment related to a change in strategic direction and vendor for clinical systems.
- Revenue from health-related activities decreased \$19.4 million to \$7.9 million from \$27.3 million in the prior year primarily due to losses related to CHW’s investment in the net assets of Scripps Health of \$0.7 million compared to gains of \$10.9 million in the prior year, and unfavorable non-cash market adjustments on swaps of \$7.4 million impacting the performance of CHW’s investment in Phoenix Children’s Hospital.
- Salaries and benefits increased \$52.6 million, or 4.2%, to \$1.3 billion with salaries and benefits per adjusted admission increasing 6.4%, primarily due to increased wage and benefit costs.
- Provision for bad debts on uncollectible accounts increased \$19.8 million, or 9.4%, to \$231.2 million with provision for bad debts on uncollectible accounts as a percentage of gross revenues increasing to 2.4% from 2.3% in the prior year.
- Purchased services and other increased \$18.4 million to \$474.1 million, or 4.0%, primarily related to increased medical fees, professional services, provider costs, and repairs and maintenance.
- Investment income (loss), net, decreased \$638.2 million to a loss of \$322.8 million, from income of \$315.3 million, primarily due to net unrealized losses of \$449.7 million in the current year as a result of unfavorable market conditions, compared to unrealized gains of \$259.5 million in the same period of the prior year. Unrealized losses were offset by realized gains of \$106.3 million resulting from a high volume of security sales activity as part of realigning the asset allocation

within portfolios. Due to subsequent improvements in the markets, CHW's investment earnings improved by approximately \$200.0 million during the month ended October 31, 2011.

Capital Resources

Cash used in operating activities totaled \$115.4 million for the three months ended September 30, 2011, compared to \$152.6 million for the same period in the prior year. Significant activity for the three months ended September 30, 2011, includes the following:

- A decrease in accrued salaries and benefits of \$87.8 million during the period compared to a decrease of \$30.7 million during the same period in the prior year.
- A decrease in accounts payable of \$45.4 million during the period compared to a decrease of \$15.7 million during the same period in the prior year.

Cash used in investing activities totaled \$132.8 million for the three months ended September 30, 2011, compared to \$49.1 million for the same period in the prior year. Capital expenditures were \$144.9 million during the three months ended September 30, 2011 compared to \$138.2 million during the same period in the prior year. Such capital expenditures primarily relate to expansion and renovation of existing facilities, equipment and systems additions and replacements, and various other capital improvements.

Cash used in financing activities totaled \$44.6 million for the three months ended September 30, 2011, compared to \$29.8 million for the same period in the prior year, primarily due to the following:

- New borrowings of \$441.4 million during the three months ended September 30, 2011.
- Repayments of debt of \$534.5 million during the three months ended September 30, 2011, compared to \$55.4 million during the same period in the prior year.

CHW's debt-to-capitalization ratio increased to 49.5% from 47.3% as of June 30, 2011, primarily due to investment and operating results.

CHW's EBIDA (earnings before interest expense, net, depreciation, loss on early extinguishment of debt, investment earnings and special charges) decreased \$48.0 million to \$115.2 million during the period from \$163.2 million for the same period in the prior year primarily due to increases in various expenses noted above that outpaced revenue increases. The EBIDA margin percentage decreased to 4.6% from 6.7%.

Business Strategy

To meet the shifting demands of the healthcare environment in advance of healthcare reform's implementation, CHW is moving to integrate its clinical delivery system further with strategic goals for growth, efficiency, quality, physician alignment and IT connectivity. These goals are foundational to CHW's Horizon 2020 strategy, which was launched in September 2010.

Horizon 2020 focuses on six core strategies to achieve CHW's 10-year vision:

1. **Quality:** Achieve top decile performance in clinical quality, patient safety, and service measures based on the metrics used for value-based purchasing in the Patient Protection and Affordable Care Act ("ACA").
2. **Cost:** Lower CHW's costs through changes in administrative processes and through clinical efficiencies.

3. Growth: Expand access and market share within existing service areas and new service areas, and significantly increase community-based wellness, ambulatory care, and non-acute services. This includes expansion beyond CHW's current three-state footprint.
4. Integration: Offer patients the full spectrum of care through new partnerships, greater physician alignment and the development of health plan capacity. CHW currently has joint ventures with imaging and outpatient surgery companies, as well as ownership interests in four health plans with more than 500,000 members. These relationships, as well as participation in a virtual ACO pilot with a health insurer, a physician group and a large employer, serve as a model for ways in which CHW may explore integrated growth in the future.
5. Connectivity: Develop industry-leading levels of electronic connectivity across the care spectrum to achieve higher quality outcomes, more efficient care delivery and superior patient experience.
6. Leadership: Strengthen CHW as an organization through investments in employees and physicians and by taking an active role in advocacy and public policy.

To advance the Horizon 2020 strategies, CHW adopted a new, more streamlined organizational structure in April 2011. CHW's service areas have been reconfigured to focus on leadership and coordinate strategies within ten major markets, each with a Senior Vice President to facilitate growth of its delivery network. The ten market leaders are now integrated into CHW's corporate decision making. This, combined with a return to a single Chief Operating Officer, is designed to increase CHW's agility and responsiveness to market conditions and opportunities.

CHW remains focused on maintaining and improving financial performance and credit quality, and has put in place a wide range of initiatives to accomplish this, including:

1. Transformational Care, CHW's application of Lean, which is a management operating system that includes a process improvement methodology, to improve processes and achieve operational efficiencies;
2. Improved clinical efficiency through employing Lean principles to address clinical variation, cost and quality;
3. Revenue enhancement efforts, including commercial growth as well as a variety of revenue cycle initiatives;
4. Workforce management initiatives focused on productivity, management of salary inflation, and redesign of benefit structures; and
5. Increased connectivity with patients, physicians and communities, through the rapid deployment over the next four years of an electronic health record system across CHW.

CHW's integrated strategic financial plan is developed to support the organization's strategic goals and financial priorities. To that end, management has committed to a capital expenditure level that approximates operating cash flow, in order to maintain a strong overall financial profile. Particular focus was placed during recent years on reducing leverage and funding capital spending from cash flow rather than debt. In addition to certain major inpatient projects that are in progress, significant capital is being committed in the coming years to fund information technology and expansion of non-acute care sites, consistent with CHW's Horizon 2020 strategy.

Forward Looking Statements

Certain of the discussions in this document may include “forward-looking statements” which involve known and unknown risks and uncertainties inherent in the operation of healthcare facilities. Actual actions or results may differ materially from those discussed above, and past or current trends may not continue. Specific factors that might cause such differences include competition from other healthcare facilities in the service areas of Catholic Healthcare West, federal and state regulation of healthcare providers, staffing shortages, organized labor initiatives and reimbursement policies of the state and federal governments and managed care organizations. In particular, statements preceded by, followed by or that include the word “believes,” “estimates,” “expects,” “anticipates,” “plans,” “intends,” “scheduled,” or other similar expressions are or may constitute forward-looking statements.

Catholic Healthcare West and Subordinate Corporations Consolidated Operating Statistics

	Three-Month Periods Ended September 30,	
	2011	2010
Financial Performance:		
Operating loss (before investment earnings)	\$ (152,841)	\$ (32,285)
Margin %	(6.2%)	(1.3%)
EBIDA (earnings before interest expense, net, depreciation, loss on on early extinguishment of debt, investment earnings and special charges)	\$ 115,155	\$ 163,228
Margin %	4.6%	6.7%
Excess (deficit) of revenues over expenses	\$ (475,675)	\$ 283,054
Margin %	(22.1%)	10.3%
Uncompensated Care:		
Charity care, at customary charges	\$ 221,502	\$ 174,272
Charity care, at cost	\$ 60,813	\$ 46,381
Charity care, at cost, as a percentage of total expenses	2.3%	1.9%
Bad debt expense at customary charges	\$ 231,188	\$ 211,349
Productivity:		
Salaries, wages and benefits as a % of net patient and premium revenue	54.2%	53.2%
Supply expense as a % of net patient and premium revenue	14.5%	15.0%
Purchased services as a % of net patient premium revenue	19.6%	19.3%
Capital expense as a % of net patient and premium revenue	10.3%	8.3%
Operations (Hospital Only):		
Acute admissions	99,655	103,776
Adjusted admissions	155,700	159,000
Acute inpatient days	420,555	442,297
Adjusted patient days	703,745	726,644
Acute average length of stay	4.22	4.26
Outpatient revenue as a % of total patient services revenue	36.2%	34.6%
Number of FTEs	47,472	47,384
FTEs per adjusted occupied bed	5.62	5.45