Q2 Summary of Key Volume Impacts Detailed by Region

Southern States Region

Targeted Growth Initiative: Southern States Region has not started the TGI process. There has been no dedicated effort to de-emphasize select service lines based upon TGI type data at this time however we are reviewing Enterprise Wide Reporting data coupled with population growth statistics and MD need data for the 2007-2009 business plan process.

INPATIENT Admission Overview

The Southern States Region inpatient admissions for the second quarter of 2006 increased from 27,558 (Q2, 2005) to 27,849 (Q2 2006) for a positive variance of 291 or 1.06%. 5 of the 10 SSR hospitals experienced negative admission variances of (391) while 5 had gains totaling 682 admissions. A significant amount of the overall loss was due to .

Losses in Admissions

AMC: (-16 or .45%) Psych census was capped due to CMS surveys resulting in 55 fewer admissions in 2nd quarter. Gained 100 OB deliveries and 100 OB non-delivery patients from prior year Q2. AMC has an ongoing relationship with Clinica de la Mama (OB clinics for Hispanic patients) that results in an excellent referral source for deliveries. Rehab cases are down year-over-year due to increased competition in the area.
East Cooper: (-16 or 1.22%) Decrease in admissions appears to be related to a slower than usual flu season. Also, due to CQI focus, observation patients are correctly being classified as outpatients. One surgeon who does VNUS closures has shifted these cases from inpatient to outpatient status..
Hilton Head: (-65 or 5.76%) Volume down 5.76% due to retooling of CV services (little or no surgical resources). Other service lines performing mostly at expected levels.
Piedmont: (-208 or 5.02%) Cardiology admissions down but despite talks with cardiologists, no specific reasons for decline were specifically noted. An internal medicine physician is out for 4 months of maternity leave. Another IM group sold the practice to competitor. Psych admissions down due to instability in availability of physician resources; issue has been addressed. Same with plastic surgery.
South Fulton: (-86 or 4.02%) One of their top cardiologists was out of the country for two weeks; one neurosurgeon out for 3 months of maternity leave. Case management in ED is appropriately directing patients to observation status versus inpatient.

Increases in Admissions

Brookwood: (+163 or 2.44%) Orthopedic and Neurosurgery admission growth due to redirection from Health South however facility has experienced a decrease in Cardiology due to competitor opening Cardiac Services in key geographic area.

North Fulton: (+209 or 10.11%) Expected to pick up a general/bariatric surgeon who didn't make the move. Having difficulty staffing rehab area to meet demand. OB continues to be strong. The hospital also has an affiliation with Clinica de la Mama for Hispanic patients. Hospital sees about 40% commercial pay OB patients (60% Hispanic/Medicaid) and Medicaid is a strong payer in the Atlanta market. However, Northside remains the major OB player in the market.
FRYE: (+252 or 7.54%) Opening of 4th Cardiac Cath Laboratory and recruitment of additional Cardiologist has resulted in growth of Cardiology business.

OUTPATIENT

The Southern States Region's outpatient visits were down by 1,695 visits (224,135 in 2005 versus 222,440 in 2006) or a decrease of 0.76%. Six of 10 SSR hospitals had negative variances (5,603) while four reported gains (3,908)). A significant amount of the regional loss was due to:

AMC: Radiation Oncology is down 25% due to the loss of one physician and coverage of only 2 days per week. Outpatient PT is down 23% due to increased competition.
Brookwood: April 06 - 7 BMC surgeons moved OP surgery volume to a physician-owned surgery center managed by Symbion. Two physician practices purchased MRIs in December 2005 and redirected volumes from BMC to their units (there are now 5 physician owned MRIs within a five mile radius of BMC).
Central Carolina: Admissions are up 25 or 2.09% however, OP visits and ER visits have been declining due to the physician climate. Many of the physicians were (and in some cases still are) referring patients out of town. This issue is also being complicated by our perceived pricing strategy within general radiology procedures (CT and MRI not part of the problem). The community and physician perception of our pricing structure has patients going to other facilities for services. We are currently addressing both of these issues and have engaged MedAssets for market comparative pricing models. There have not been shifts in our services and due to the climate, the physician calls have not been conducted.
East Cooper: (1,220 or 9.18%) Large growth in pediatric rehab (new service stated May 13, 2006). Also increase in number of procedures due to new 16-slice CT scanner which was installed in January. Mammography visits are up due to the exit of a major competitor in the market last December. Hospital has a new, aggressive radiology group that is generating more business.
Frye: (-960 or 2.65%) Outpatient visits down to increased competition – three new fixed MRI units in the market; 2 of hospital's CT units being relocated due to installation of 64-slice unit; Catawba has opened new outpatient center and has a better nuclear medicine camera. Occupational and physical therapy programs on hold. Loosing therapist to competitor. Compensation options being reviewed at regional level.
North Fulton: (-1,094 or 6.54%) Hospital is undergoing significant construction in many areas of the hospital which is having a negative impact on outpatient visits. Pain Center is at capacity and changes in requirements for pre-certification will have a negative impact on visits.

Piedmont: (+2,113 or 7.37%) Began offering hyperbaric services again in April. Expanded outpatient reference lab services this year. Outpatient surgery visits were 182 over budget in 2nd quarter. Expanding mammography services into Fort Mills and will be opening a PCP office in Fort Mills.
South Fulton: (+474 or 2.46%). New Senior Health Clinic having positive impact on outpatient and inpatient volume (generated 12 surgeries in June). Will be opening new outpatient diagnostic center in growth area near Atlanta airport in October. Have issues with medical director of rehab unit that the hospital is working to resolve.
Spalding Regional: (-893 or 3.9%) Hospital is facing significant competition from physician owned outpatient imaging centers. (One family practice physician has a CT in his practice.) Outpatient rehab is growing.

ER

AMC: Contract with AirRescue resulting in increase in major trauma visits. New ED is now fully functioning however implementation of MedHost resulted in some short term inefficiencies and back logs.
East Cooper: Growth in ED visits due to population increase in service area.
North Fulton: Hospital has been in construction of a larger ED/Trauma Center which opened in July with 10 new beds. Despite construction, hospital has seen an increase in ED visits. AMC's contract with AirRescue also having positive impact on North Fulton's volume.
South Fulton: Seeing an increase in unfunded ED patients that is probably due to Grady Hospital's new policy of charging non-Fulton County residents for services.

2nd Quarter 2006 versus 2nd Quarter 2005
Volumes
Southern States Region

	Admits				Outpatient Visits			
	Actual 06	Actual 05	Variance	%	Actual 06	Actual 05	Variance	%
AMC	3,506	3,522	(16)	-0.45%	18,635	20,223	(1,588)	-7.85%
Brookwood	6,845	6,682	163	2.44%	28,205	28,332	(127)	-0.45%
Central Carolina	1,223	1,198	25	2.09%	16,136	17,077	(941)	-5.51%
East Cooper	1,296	1,312	(16)	-1.22%	14,516	13,296	1,220	9.18%
Frye	3,595	3,343	252	7.54%	35,229	36,189	(960)	-2.65%
Hilton Head	1,064	1,129	(65)	-5.76%	21,575	21,474	101	0.47%
North Fulton	2,277	2,068	209	10.11%	15,625	16,719	(1,094)	-6.54%
Piedmont	3,938	4,146	(208)	-5.02%	30,781	28,668	2,113	7.37%
South Fulton	2,055	2,141	(86)	-4.02%	19,747	19,273	474	2.46%
Spalding	2,050	2,017	33	1.64%	21,991	22,884	(893)	-3.90%
Total SSR	27,849	27,558	291	1.06%	222,440	224,135	(1,695)	-0.76%

Payor Mix Trends for Southern States Region

For 2nd Quarter, there has not been a significant shift in inpatient payor mix based upon admissions. However our growth, especially in the Atlanta Market for AMC and North Fulton has been within the OB Medicaid population resulting in the movement from 16.98% of total admissions to 17.88%. Please note that the Net Revenues associated with the Medicaid OB plans are generally above those for Commercial Managed Care.

SSR Payor Mix Detail Includes Sylvan and Alexander

	Admits			
	Actual 06	Actual 05	Variance	%
Medicare	10,636	10,602	34	0.32%
Medicaid	4,998	4,701	297	6.32%
Comm Mdg Care	9,753	9,872	(119)	- 1.21%
Other	2,573	2,514	59	2.35%
Total	27,960	27,689	271	0.98%

	Percentage of Total Admits by Payor			
	Actual 06	Actual 05	Variance	%
Medicare	38.04%	38.29%	-0.25%	- 0.65%
Medicaid	17.88%	16.98%	0.90%	5.29%
Comm Mdg Care	34.88%	35.65%	-0.77%	- 2.16%
Other	9.20%	9.08%	0.12%	1.35%

Effective June 1, 2006 Georgia Medicaid moved to an HMO model resulting in a shift of business out of traditional Medicaid and into Managed Medicaid. Increased costs of health insurance coverage coupled with increased costs of transportation and utilities could be resulting in a shift from Commercial Managed Care to Other/Self Pay/Uninsured. This is being experienced with lower scale blue collar workers where decisions concerning purchasing healthcare coverage are being weighed. This value is difficult to quantify on a global perspective and is more antidotal.

PHYSICIAN SALES CALLS

Four Southern States Hospitals (Brookwood, East Cooper, Frye and South Fulton) have existing personnel who are dedicated to making physician sales calls. Hilton Head and North Fulton are currently hiring personnel to start their physician liaison offices.

East Cooper: Have visited 222 targeted active medical staff members and year-to-date have made 179 face-to-face visits with these staff members. They have redirected four general surgeons, 7 neurologists, nephrologists, and an ENT however these volumes are not materializing in terms of admissions; however stronger outpatient visits and outpatient surgeries have been noted. They have recruited two colorectal surgeons. Many of these new physicians won't be in place until 3rd quarter.

Frye: 212 visits with 350 physicians targeted with five issues being identified as key to improving physician relations (1) Emergency Room over crowding and throughput (MedHost approved with bolus capital); (2) Pulmonologist recruitment; (3) new technology needs; (4) antiquated information systems; (5) results reporting to consulting physicians.

Hilton Head's A-team averaging about 125 calls per month with some positive correlations in volume.

North Fulton has noticed that without an active sales staff for rehab that they have been losing cases. The hospital is currently hiring personnel for these positions.

Piedmont: Average 10 physician visits per month. No detectable correlation between visits and volume as yet.

South Fulton has one full-time physician liaison and is seeing good results from this program. Liaison has made 380 physician/office manager calls since January. Quarterly office staff manager meetings have about 80 attending. In addition to the A-team members making calls, the director of the Senior Health Center makes sales calls when no patients are scheduled in the clinic.

Market Trends

Atlanta Market: Increase in Hispanic population in Atlanta. We've seeing an increase in the number of OB deliveries from Hispanic populations. While primarily Medicaid, this remains a strong payer with case rate greater than $4,000. However, Georgia moved to a Medicaid managed care model June 1, 2006 with an anticipated negative impact on net reimbursement after factoring managed care planned denials.

According to Georgia state data, Grady Hospital experienced a loss of market share (6.5%) but many of these patients are charity cases from outside of Fulton County after Grady started charging non-Fulton County patients for care.

We expect the legislature to address CON changes that might open the door to increased competition in the outpatient surgery arena. North Fulton is experiencing increased competition as two new hospitals are opening in their primary service area.

Overall, Atlanta remains a growth market. The Atlanta market hospitals all participate in a direct mail campaign that focuses on new movers. This tool has been seeing good results and is generating outpatient and ED visits in the first year with some increase in inpatient volumes after 12 months.

Earnings Growth without Volume Growth—a required focus on improving key service lines and efficiencies within these key service lines, the possibility of improving earnings growth without volume growth is real. LOS initiative can play a part in this but only if the managed care contracting strategy is in line with LOS reduction and thus moving to DRG based reimbursements. Areas with minimal volumes resulting in high cost core staffing costs must be evaluated for closure and/or development of partnering activities to retain service; however this must be reviewed with a total book of business approach and not just key DRGs that comprise a single service line. In addition, long term retention of recruited physicians should become a focus. Pro-active handling of the recruitment process and possible payback calculation could improve our relationships resulting in less post agreement leakage and higher long term retention rates.