**BEFORE THE INSURANCE DEPARTMENT
OF THE
COMMONWEALTH OF PENNSYLVANIA**

Statement Regarding the Acquisition of Control of or Merger with
Domestic Insurers:

Highmark Inc.; First Priority Life Insurance Company; Inc.;
Gateway Health Plan, Inc.; Highmark Casualty Insurance Company;
Highmark Senior Resources Inc.; HM Casualty Insurance Company;
HM Health Insurance Company, d/b/a Highmark Health Insurance Company;
HM Life Insurance Company; HMO of Northeastern Pennsylvania, Inc.,
d/b/a First Priority Health; Inter-County Health Plan, Inc.;
Inter-County Hospitalization Plan, Inc.; Keystone Health Plan West, Inc.;
United Concordia Companies, Inc.; United Concordia Dental Plans of Pennsylvania, Inc.;
United Concordia Life and Health Insurance Company

By UPE, a Pennsylvania nonprofit corporation

**RESPONSE TO SUPPLEMENTAL REQUEST 4.3.13.1 FROM THE
PENNSYLVANIA INSURANCE DEPARTMENT**

REQUEST 4.3.13.1:

Discuss any changes in credit rating or outlook for Highmark, any Highmark Affiliate, WPAHS and/or WPAHS Affiliate related to the Transaction.

SUPPLEMENTAL REQUEST 4.3.13.1 VIA LETTER FROM PID DATED NOVEMBER 12, 2012:

On November 12, 2012, the Department requested that WPAHS certify the completeness of its response to this request (as of the date of the original response) and provide additional responsive information if such information becomes available.

RESPONSE:

Please see attached. Please see separate omnibus certification for requested certification.

West Penn Allegheny Health System
30 Isabella St., Suite 300
Pittsburgh, PA 15212

FitchRatings

FITCH DOWNGRADES WEST PENN ALLEGHENY HEALTH SYSTEM (PA) REVS TO 'CCC' FROM 'B+'

Fitch Ratings-New York-25 October 2012: Fitch Ratings has downgraded West Penn Allegheny Health System's (WPAHS) approximately $737 million series 2007A health system revenue bonds issued by the Allegheny County Hospital Development Authority outstanding debt to 'CCC' from 'B+'. The rating is removed from Rating Watch Negative.

SECURITY
Security comprises a pledge of gross revenues, a mortgage on the system hospital facilities and a debt service reserve fund.

KEY RATING DRIVERS

AFFILIATION UNCERTAINTY RAISES RESTRUCTURING POSSIBILITY: The downgrade to 'CCC' reflects the increased possibility of a debt restructuring, coupled with and arising from heightened uncertainty about the progress of WPAHS's affiliation with insurer Highmark, Inc. The previous rating was predicated on the expected benefits of the affiliation agreement, which offset WPAHS's extremely poor liquidity, coverage and profitability metrics. The hospital's recent notice to Highmark terminating the affiliation agreement and its stated intention to pursue other affiliation opportunities at best signal an elevated and material possibility that the Highmark affiliation will not close by the April 30, 2013 implementation deadline, leaving WPAHS with limited options for addressing its precarious financial situation.

CREDIT SUMMARY
On June 21, 2012 Fitch affirmed the 'B+' rating on WPAHS's series 2007A revenues bonds and revised the Outlook to Stable in large part based on the continuing progress of the affiliation with Highmark. In our commentary, however, we noted that 'WPAHS's viability hinges on the successful execution of the affiliation with Highmark. If the affiliation agreement is not finalized, a multi-notch negative rating action is likely to occur.' On Sept. 28, 2012 Fitch placed the 'B+' rating on Rating Watch Negative in response to WPAHS's announcement that it had notified Highmark that 'the System is released from its obligation under the Affiliation Agreement signed by the two companies in Nov 2011.' Both parties have initiated litigation, and it is unknown whether the agreement will be upheld, whether WPAHS will be allowed to pursue other partners, and how certain funds advanced to WPAHS by Highmark will be treated.

Notwithstanding the uncertainty, Fitch believes that debt restructuring is now a greater possibility than it was several months ago based both on public statements from WPAHS and Highmark, and on the weakness of WPAHS's financial profile. In its public statement, WPAHS cited as a primary factor for terminating the agreement that "Highmark has specifically demanded, among other things, that WPAHS restructure through bankruptcy." Although denying the allegation, Highmark has identified debt restructuring as an option to be considered in the process of completing the affiliation.

Although the rating is removed from Rating Watch, the credit situation remains volatile and dependent on the outcome of litigation, the involvement of government entities, the release of financial information by WPAHS, and the possible resumption of discussions between WPAHS and Highmark. Fitch will monitor developments, including the release of audited and unaudited financial and operating results, and will take rating action as appropriate.

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Additional information is available at www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria' (June 12, 2012);
--'Nonprofit Hospitals and Health Systems Rating Criteria' (July 23, 2012).

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681015
Nonprofit Hospitals and Health Systems Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=683418

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades West Penn Allegheny Health System's (PA) bond rating to Ca from Caa1; Outlook remains negative

Global Credit Research - 13 Nov 2012

Action affects $726 million of outstanding debt

New York, November 13, 2012 -- Moody's Investors Service has downgraded West Penn Allegheny Health System's (WPAHS or the System) (PA) bond rating to Ca from Caa1, affecting $726 million of Series 2007 fixed rate bonds issued through the Allegheny County Hospital Development Authority. The outlook remains negative. The rating is removed from review for possible downgrade, where it was placed on September 28, 2012, following the announcement of WPAHS's termination of its agreement with Highmark Inc. and Affiliates (Highmark).

SUMMARY RATING RATIONALE

The Ca rating reflects the severity of the financial status of the System and our belief that there is a high likelihood of a restructuring or bankruptcy filing, with or without the closing of an agreement with Highmark. The rating also incorporates the likelihood of less than full recovery of the bonds in the event of bankruptcy and in the absence of an asset sale. The System's announcement in September to terminate the agreement with Highmark and subsequent lawsuits between WPAHS and Highmark, as well as a longer-than-anticipated process to receive approval from the Pennsylvania Insurance Department (PID), has delayed and complicated the closing of the transaction. The presiding judge of the Allegheny County Court of Common Pleas ruled last Friday that Highmark did not breach the agreement (as asserted by WPAHS) and granted Highmark's request for a preliminary injunction against WPAHS. We believe this ruling is a negative credit development for WPAHS because it prevents WPAHS from seeking other capital partners. WPAHS's operating loss in fiscal year 2012 (based upon unaudited financial information) was very high at $113 million, exceeding the loss in fiscal year 2011. WPAHS's weak unrestricted investment and cash position of $273 million as of June 30, 2012 effectively has been supported by payments from Highmark. WPAHS has received a total of approximately $232 million in grants, loans and other advances and capital support since 2011.

CHALLENGES

*Delays and disruptions in finalizing an agreement with Highmark and receiving approval from the PID, increasing the likelihood of a restructuring or bankruptcy filing

*Very large operating loss in fiscal year 2012 of $113 million, exceeding the fiscal year 2011 operating loss of $75 million (excluding a large non-recurring positive item) primarily driven by a 1% revenue decline

*Continued decline in acute discharges of 6% in fiscal year 2012 (3% decline including observation cases), largely due to the closure and downsizing of services at West Penn Hospital in December 2010 and then, upon reopening of the emergency department on February 14, 2012 and the return of full medical and surgical services at West Penn Hospital, volumes have exceeded expectations at West Penn Hospital; however, volume shortfalls in the latter half of fiscal year 2012 for the System as a whole were reportedly due to Highmark's extension of a contract with University of Pittsburgh Medical Center (UPMC), which retained patient volumes that were anticipated to shift to WPAHS upon termination of the contract

*Weak unrestricted cash position of $273 million or 62 days of cash on hand as of June 30, 2012; Highmark has provided $200 million in payments under the agreement as well as other advances and capital support, suggesting that, without such support, WPAHS would have largely depleted its cash

*As of fiscal yearend 2012, underfunded status of pension plan was large at $279 million, an $82 million increase since fiscal yearend 2011 due to the decline in the discount rate

*Heavy competition from UPMC (Aa3/positive), which is the largest health system in the region and owns a large managed care plan, enabling UPMC to influence health plan membership and volumes; UPMC opened a new hospital competing with WPAHS's Forbes Regional Hospital in July 2012, which has resulted in a significant decline in volumes at that facility, though the decline was less than expected

*High leverage relative to operating performance with 57% debt-to-operating revenues; peak debt service coverage is zero based upon Moody's methodology.

*Challenging demographic service area with declining population trends in the primary service area and an aging patient base

STRENGTHS

*Affiliation agreement with Highmark, executed October 31, 2011, which has provided significant financial support to the System as noted above

*Favorable debt structure with all fixed rate debt and no interest rate derivatives

*System's prominence as the second largest healthcare system in Pittsburgh with 56,000 acute discharges

OUTLOOK

Maintenance of the negative outlook reflects the likelihood of a restructuring or bankruptcy filing over the near-term

WHAT COULD MAKE THE RATING GO UP

With a negative outlook, a rating upgrade in the near-term is not likely. Long-term, an upgrade would be considered with significant and sustained improvement in operating cash flow for several years, at least stability in volumes, significant growth in unrestricted cash, stability or growth in medical staff and closing of the Highmark affiliation.

WHAT COULD MAKE THE RATING GO DOWN

Restructuring or bankruptcy filing

The principal methodology used in this rating was Not-For-Profit Healthcare Rating Methodology published in March 2012. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Information sources used to prepare the rating are the following: parties involved in the ratings, public information, confidential and proprietary Moody's Investors Service information, and confidential and proprietary Moody's Analytics information.

Moody's considers the quality of information available on the rated entity, obligation or credit satisfactory for the purposes of issuing a rating.

Moody's adopts all necessary measures so that the information it uses in assigning a rating is of sufficient quality and from sources Moody's considers to be reliable including, when appropriate, independent third-party sources. However, Moody's is not an auditor and cannot in every instance independently verify or validate information received in the rating process.

Please see the ratings disclosure page on www.moodys.com for general disclosure on potential conflicts of interests.

Please see the ratings disclosure page on www.moodys.com for information on (A) MCO's major shareholders (above 5%) and for (B) further information regarding certain affiliations that may exist between directors of MCO and rated entities as well as (C) the names of entities that hold ratings from MIS that have also publicly reported to the SEC an ownership interest in MCO of more than 5%. A member of the board of directors of this rated entity may also be a member of the board of directors of a shareholder of Moody's Corporation; however, Moody's has not independently verified this matter.

Please see Moody's Rating Symbols and Definitions on the Rating Process page on www.moodys.com for further information on the meaning of each rating category and the definition of default and recovery.

Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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MOODY'S
INVESTORS SERVICE

WPAHS-008528

2001.

Notwithstanding the foregoing, credit ratings assigned on and after October 1, 2010 by Moody's Japan K.K. ("MJKK") are MJKK's current opinions of the relative future credit risk of entities, credit commitments, or debt or debt-like securities. In such a case, "MIS" in the foregoing statements shall be deemed to be replaced with "MJKK". MJKK is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO.

This credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be dangerous for retail investors to make any investment decision based on this credit rating. If in doubt you should contact your financial or other professional adviser.

STANDARD &POOR'S

Global Credit Portal®
RatingsDirect®

May 21, 2012

West Penn Allegheny Health System, PA Series 2007A Bond Rating Lowered To 'B-' On Deterioration Of Overall 2012 Finances

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NEW YORK (Standard & Poor's) May 21, 2012--Standard & Poor's Ratings Services has lowered its long-term rating to 'B-' from 'B+' on Allegheny County Hospital Development Authority, Pa.'s $737 million series 2007A bonds, issued for West Penn Allegheny Health System (WPAHS). The outlook remains developing.

"The downgrade to 'B-' reflects deterioration in WPAHS's overall 2012 finances. Although WPAHS's financial profile suggests that an even lower rating could be justified, the rating remaining in the 'B' category reflects the increased likelihood, since Standard & Poor's last review, that the affiliation with Highmark Inc. will proceed because approval from the Department of Justice and the Internal Revenue Service has been obtained," said Standard & Poor's credit analyst Cynthia Keller. "However, ample regulatory risk remains until approval from the Pennsylvania Department of Insurance is received. Highmark's financial support of WPAHS, as outlined under the affiliation agreement, with $200 million of support expected or already received during fiscals 2011 and 2012, continues to be a positive rating factor. Maintenance of the developing outlook reflects the possibility of continued financial deterioration if the affiliation with Highmark is not approved and the potential for credit quality improvement if the affiliation with Highmark is approved," said Ms. Keller.

The downgrade to 'B-' reflects Standard & Poor's assessment of WPAHS's;

- Significantly escalated operating losses in fiscal 2012 following poor performance in 2011;
- Volume decreases and general turmoil in the Pittsburgh market;
- Relatively weak area demographics; and

- Strained balance sheet with high debt levels, ample capital needs, substantial pension funding requirements, and weakened unrestricted cash and investments.

Rating factors that prevent a lower rating at the current time include:
- All aspects of the potential affiliation with Highmark including previously received and projected financial support, potential post-affiliation strategic initiatives, and receipt of approval for the transaction from two agencies to date; and
- Critical mass of inpatient admissions at the system, despite volume decreases, with potential growth opportunities from physician recruitment and Highmark's outpatient development initiatives in the service area.

The developing outlook reflects Standard & Poor's opinion that the rating and outlook could either improve or deteriorate over the next 12 months. The future direction of this rating depends largely on whether the affiliation agreement with Highmark is approved and how quickly the assumed benefits of the arrangement are realized.

A lower rating is likely if the affiliation is not approved quickly or if WPAHS's financial results do not improve substantially as WPAHS's limited cash flow and low unrestricted cash and investment balances are insufficient to support its capital needs; however, the system has always funded pension and debt service at necessary levels.

A higher rating could be possible after the final affiliation agreement is signed, at which time further transfers from Highmark are secured and the two organizations will be free to implement a more integrated strategy in the Pittsburgh market.

WPAHS operates five acute-care hospitals at five locations in and around Pittsburgh.

RELATED CRITERIA AND RESEARCH
USPF Criteria: Not-For-Profit Health Care, June 14, 2007

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

WPAHS-008533

MOODY'S
INVESTORS SERVICE

Rating Update: MOODY'S DOWNGRADES WEST PENN ALLEGHENY HEALTH SYSTEM'S (PA) BOND RATING TO Caa1 FROM B2; OUTLOOK REMAINS NEGATIVE

Global Credit Research - 22 Nov 2011

ACTION AFFECTS $737 MILLION OF OUTSTANDING DEBT

ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY, PA
Hospitals & Health Service Providers
PA

Opinion

NEW YORK, November 22, 2011 --Moody's Investors Service has downgraded the bond rating for West Penn Allegheny Health System (WPAHS) (PA) to Caa1 from B2, affecting $737 million of Series 2007 fixed rate bonds issued through the Allegheny County Hospital Development Authority. The outlook remains negative.

RATINGS RATIONALE

The Caa1 rating and downgrade reflect the severity of the financial status of the system and our belief that, without the financial support of Highmark (Baa2/stable), the system would have been forced to restructure earlier in the year, which without such support, may have resulted in a bond payment default as Moody's has seen in other similar circumstances. While a new affiliation agreement with Highmark has provided significant cash to WPAHS to remain viable, the affiliation may not close until 2013 and, therefore, we are only partly incorporating the benefit of the Highmark affiliation at this time. Without the affiliation agreement and financial support of Highmark, and in the event the agreement is terminated, the rating would be lower.

WPAHS reported a very large $75 million operating loss in fiscal year 2011 (excluding approximately $23 million in a non-recurring positive item included in operating revenue), driven by a significant 15% decline in discharges. Unrestricted cash at fiscal yearend 2011 was only $5 million below the prior fiscal yearend 2010 because of $85 million in several cash infusions; without these payments, cash would have declined by 37%. Continuing a history of management turnover, a new interim management team was recently engaged at WPAHS, but has not yet had time to fully develop revised financial projections. The system's overall strategy in the affiliation with Highmark has changed from one of downsizing to targeted expansion, which creates a high degree of uncertainty and execution and financial risks, although the magnitude of financial risk is difficult to assess at this time without revised financial projections.

CHALLENGES

*Uncertainty related to the viability of a new strategy to expand rather than downsize, given the very recent arrival of a new interim management team and absence of revised financial projections; risks relate to reversing the strategy to regain volumes and investing in recruiting physicians while reducing financial losses

*Very large operating loss in fiscal year 2011 of $75 million (excluding a large non-recurring positive item) and quarterly run rate of over $20 million in operating losses in the latter quarters; revenue declined 3.5% in 2011

*Significant decline in acute discharges of 15% in fiscal year 2011, largely due to the closure and downsizing of services at West Penn Hospital and inability to retain volumes within the system

*Weak unrestricted cash position of 55 days of cash on hand as of fiscal yearend June 30, 2011 (excluding trustee-held project funds), which represented a $5 million decline from fiscal yearend 2010; cash would have declined by $90 million (37%) without $85 million in one-time cash payments (including $50 million from a Highmark unrestricted payment); without further support from Highmark, we expect cash to continue to decline at a fairly rapid rate until operating losses are stemmed

*As of fiscal yearend 2011, underfunded status of pension plan was large at almost $200 million, even though decreasing from $300 million at fiscal yearend 2010; the system made large required pension payments in fiscal year 2011

*Heavy competition from UPMC Health System (Aa3/positive), which is the largest health system in the region and owns a large managed care plan, enabling UPMC to influence health plan membership and volumes

*High leverage relative to operating performance with 51% debt-to-operating revenues and peak debt service coverage under one time in fiscal year 2011 by Moody's calculation

*Challenging demographic service area with declining population trends in the primary service area and an aging patient base

STRENGTHS

*Affiliation agreement with Highmark, executed October 31, 2011, which provides significant financial and management support to the system; as of the execution date, the system received $150 million in unrestricted payments or loans from the insurer

*Favorable debt structure with all fixed rate debt and no interest rate derivatives

*System's prominence as the second largest healthcare system in Pittsburgh with almost 60,000 acute discharges

DETAILED CREDIT DISCUSSION

WPAHS-008534

LEGAL SECURITY: Joint and several obligation of the Obligated Group with mortgage lien on certain real property, including the primary hospital facilities, and gross revenue pledge; debt service reserve fund present; limitations on additional indebtedness and withdrawal from obligated group permitted if a combination of certain coverage and financial ratio tests are met. Days cash on hand covenant liberal with definition including project funds.

INTEREST RATE DERIVATIVES: None

RECENT DEVELOPMENTS/RESULTS

WPAHS signed an affiliation agreement with Highmark on October 31, 2011. On October 20, 2011, a new nonprofit parent company, Ultimate Parent Entity (UPE), was established. UPE became the sole corporate member of a new nonprofit subsidiary, UPE Provider Sub (Provide Sub), which was also established on October 20, 2011. Upon closing of the transaction, Provider Sub will become the sole member of WPAHS. Closing of the transaction is subject to regulatory approvals with a closing date targeted for May 1, 2013. Highmark has committed a total of $475 million in unrestricted payments or loans to WPAHS over a period starting June 2011 to April 2014.

The affiliation with Highmark is positive for WPAHS in the short-term because of the unrestricted payments provided to the healthcare system that we believe prevented a restructuring and possible bond payment default as discussed previously and continue to support the system to date. Over the longer-term, in addition to the unrestricted payments or loans provided to date, the affiliation provides the system with management support and oversight. However, we are only partly incorporating the benefit of the Highmark affiliation into our rating assessment at this time because of the extent and length of the approval process and the dependence WPAHS has on the closing of the affiliation to remain viable.

WPAHS has struggled with management turnover and inconsistent strategies. Very recently, a new interim management team at WPAHS has been retained for the turnaround but has not yet had time to fully develop financial projections for a new strategy.

With the affiliation agreement and new team, the system is reversing strategy to move toward targeted expansion of services, rather than downsizing, which was the prior strategy. Without further details, it is unclear whether this strategy will be successful. Significant challenges include redirecting the system, investing in facilities to accommodate expansion, and recruiting and retaining physicians to regain lost volumes, simultaneously with reducing operating losses. The system is beginning with a revitalization project for West Penn Hospital, which will occur in three phases over the next 18 months to transition the hospital back to a full service community hospital. Initiatives include reopening the emergency department in early 2012 and expanding the hospital's overall capacity to 300-350 private patient rooms. Phase two of the project for West Penn Hospital will involve enhancements to the hospital's women and infants program, including expansion and renovation of its labor and delivery facilities and neonate intensive care unit. Other existing services are expected to grow at this location. Additionally, the system will expand and enhance service capabilities at its other hospitals, including Forbes and Canonsburg, to more effectively compete.

Excluding $23 million of a non-recurring positive item and including restructuring costs, WPAHS had an operating loss of $75 million (-4.8%) in fiscal year 2011, compared with $30 million (-1.8% margin) in fiscal year 2010 (also excluding non-recurring items). Operating cash flow was a weak $23.3 million (1.5%) in fiscal year 2011, compared with $85.2 million (5.2%) in fiscal year 2010. Revenue declined by a large 3.5% in fiscal year 2011 due to significant volume declines. The revenue decline would have been greater without the benefit of revenue from the Medicaid Modernization Act and higher third-party settlements; excluding revenue from MMA, net patient revenue was down 5.8%. Additional MMA income and third-party settlements provided approximately $20 million in incremental income in 2011. A revised fiscal year 2012 budget is not yet available; the system's quarterly run rate in the latter part of fiscal year 2011 was an operating loss exceeding $20 million.

Acute discharges declined 15% in fiscal year 2011 (12% including an increase in observation cases) with quarterly declines from the prior year averaging 17% in the last three quarters. This decline followed a decline of 7.4% in acute discharges in fiscal year 2010. Outpatient surgeries declined 4.6% in fiscal year 2011. The decline is primarily due to the closure and downsizing of services and the inability to retain volumes within the system. Additionally, a weak economy contributed somewhat to softness in volumes in the region. Predicting volumes for the system over the next couple of years is difficult due to a number of factors including the ability to regain volumes with a new strategy and the impact on WPAHS of any disruption in Highmark's contract with UPMC. Since WPAHS's largest insurance contract is with Highmark, any loss in Highmark's market share if UPMC and Highmark do not renew their contract, will be disruptive to patient referrals starting in 2013, pending the outcome of contract discussions between UPMC and Highmark.

WPAHS's unrestricted cash (excluding project funds) declined modestly to $241 million (55 days cash on hand) at fiscal yearend 2011, compared with $246 million (57 days cash on hand) as of fiscal yearend 2010. The system received $85 million in one-time cash payments in fiscal year 2011, including a $50 million unrestricted payment from Highmark, a $25 million advance from a payer contract and $10 million from the sale of a dialysis center. In fiscal year 2011, the system used approximately $35 million in project funds for capital projects, which helped to maintain cash. Conversely, approximately $45 million in additional pension funding was made on fiscal year 2011. Based on the operating loss run rate in fiscal year 2011, cash will decline further without support from Highmark. Highmark did make a $100 million payment ($50 million unrestricted payment and $50 million loan) on October 31, 2011 as part of the affiliation agreement. The remainder of Highmark's $475 million commitment is expected to be funded between April 2012 and 2014. As of June 30, 2011, according to management, 77% of unrestricted cash and investments were invested in cash and 16% was invested in fixed income.

The system's pension obligation decreased as of fiscal yearend 2011, but remains large and future contributions are uncertain. As of fiscal yearend 2011, the underfunded status of the pension plan was almost $200 million, compared with almost $300 million at the prior fiscal yearend 2010. In fiscal year 2011 the system made about $45 million in contributions to the plan in excess of pension expense. Pension funding in fiscal year 2012 is expected to be close to pension expense, but will be dependent on asset values and other assumptions. WPAHS's pension fund currently has a relatively high allocation to equities, exposing future funding levels to market volatility.

Outlook

Maintenance of the negative outlook reflects the substantial execution and financial risks as the system reverses strategy, and a weak operating performance and cash position that leave little flexibility to absorb any unexpected challenges, such as continued volume declines.

WHAT COULD MAKE THE RATING GO UP

With a negative outlook, a rating upgrade in the near-term is not likely. Long-term, an upgrade would be considered with significant and sustained improvement in operating cash flow for several years, at least stability in volumes, significant growth in unrestricted cash, stability or growth in medical staff and closing of the Highmark affiliation.

WHAT COULD MAKE THE RATING GO DOWN

Decline in unrestricted cash (excluding project funds), continued large operating losses and volume declines; failure to close the Highmark affiliation

KEY INDICATORS

Assumptions & Adjustments:

-Based on financial statements for West Penn Allegheny Health System

-First number reflects audit year ended June 30, 2010

-Second number reflects draft of audit year ended June 30, 2011 (audit has not yet been signed by auditors)

-Investment returns smoothed at 6% unless otherwise noted

-Non-recurring items adjusted: 2010 - $10.7 million related to a FICA refund added back to expenses; 2011 - $23 million gain from the termination of a joint venture with a payer removed from revenue; restructuring costs reclassified to operating expenses for all periods

*Inpatient acute discharges: 70,790; 59,972

*Total operating revenues: $1.63 billion; $1.57 billion

*Moody's-adjusted net revenue available for debt service: $101.1 million; $38.2 million

*Total debt outstanding: $813 million; $807 million

*Total comprehensive debt: $1,394 million; $1,278 million

*Maximum annual debt service (MADS): $53.9 million; $53.9 million (excluding balloon payments in 2015 and 2016 related to a financing for helicopters, which would increase MADS by approximately $5 million and $3 million, respectively, in these years)

*MADS coverage based on reported investment income: 1.9 times; 0.7 times

*Moody's-adjusted MADS coverage with normalized investment income: 1.9 times; 0.7 times

*Debt-to-cash flow: 13.5 times; over 1,000 times

*Days cash on hand (excluding project funds): 57 days; 55 days

*Cash-to-debt: 30%; 30%

*Cash-to-comprehensive debt: 18%; 19%

*Operating margin: -1.8%; -4.8%

*Operating cash flow margin: 5.2%; 1.5%

RATED DEBT

-Series 2007 fixed rate bonds ($737 million): Caa1

CONTACTS

Issuer: Douglas X. Womer, Interim Chief Financial Officer, 412-330-2419

The principal methodology used in this rating was Not-for-Profit Hospitals and Health Systems published in January 2008. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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FITCH DOWNGRADES WEST PENN ALLEGHENY HEALTH SYSTEM (PA) BONDS TO 'B+' FROM 'BB-'; OUTLOOK EVOLVING

Fitch Ratings-New York-23 December 2011: As part of its ongoing surveillance effort Fitch Ratings has downgraded to 'B+' from 'BB-' the rating on approximately $737 million series 2007A health system revenue bonds issued by Allegheny County Hospital Development Authority for the benefit of West Penn Allegheny Health System (WPAHS).

The bonds are removed from Rating Watch Evolving and assigned an Evolving Rating Outlook, which indicates that the rating may be raised, lowered or affirmed.

SECURITY

Security is provided via a pledge of gross revenues and a mortgage on the system hospital facilities.

KEY RATING DRIVERS

SIGNIFICANT DETERIORATION IN OPERATING PERFORMANCE: The rating downgrade reflects the significant deterioration in operating performance in fiscal 2011 and first quarter of 2012. The decline in operating performance was primarily driven by a drop in volume and physician losses. Operating losses accelerated in the first quarter of fiscal 2012 with operating loss of $27 million, for a negative 7% operating margin compared to negative 4.8% operating margin for the 2011 fiscal year (unaudited) on operating loss of $75 million (includes $27 million of restructuring expenses and excludes $23 million of non-recurring revenues).
AFFILIATION AGREEMENT WITH HIGHMARK INC.: The Oct. 31, 2011 signing of an Affiliation Agreement (the agreement) with Highmark Inc. (Highmark), in which Highmark commits to provide a total of $475 million to WPAHS over a period of three years, is a positive development and, if fully executed, should be of significant benefit to both parties. The affiliation still requires regulatory approval, which may take 12 months or longer to obtain. The failure to execute the affiliation would likely result in downward pressure on the rating.
INTERIM MANAGEMENT IN PLACE: WPAHS engaged the services of a management company with turnaround experience - Alvarez and Marsall (A&M), and the CEO, CFO, and COO at WPAHS have been replaced with interim cadre provided by A&M. Allegheny General Hospital, the system's flagship, is also headed by an interim CEO. The interim management team is aggressively pursuing cost and revenue initiatives and is implementing plans to reopen West Penn Hospital's emergency department by March 1, 2012.
PHYSICIAN RECRUITMENT AND RETENTION KEY: Fitch sees the ability to retain and recruit physicians as central to the improvement in WPAHS's finances. A 15% decline in discharges in 2011 was to a large degree caused by loss of physicians as the system reorganized and consolidated several of its inpatient services among its urban hospitals.
MANAGEABLE DEBT LOAD: WPAHS has a conservative debt structure with all fixed-rate debt and maximum annual debt service (MADS) represented a manageable 3.5% of revenues. Debt service coverage by EBITDA was adequate at 1.6 times (x) in fiscal 2011; however, it dropped significantly to 0.2x through the three months ended Sept. 30, 2011 due to the continued deterioration in operations.
VERY THIN LIQUIDITY: Cash and unrestricted investments were at $242.9 million, equal to 58.4 days cash on hand (DCOH), 30.7% cash to debt and 4.4x cushion ratio at 2011 fiscal year end, but declined to $168.6 million at the end of the first quarter of 2012 ended Sept. 30, equating to 40.3 DCOH, 21% cash to debt and 3.1x cushion ratio.

WHAT COULD TRIGGER A RATING ACTION

A return to a Stable Outlook would be dependent on management's ability to stabilize and improve core operating performance, which would enable the system to rebuild its balance sheet over time and generate sufficient cash flow for much needed capital funding.

Downward rating pressure would occur if there is a further deterioration in financial performance.

CREDIT PROFILE:

AFFILIATION WITH HIGHMARK
On Oct. 31, 2011 the health insurer Highmark Inc. (Highmark) signed an affiliation agreement with WPAHS. The agreement has been formally submitted to the Pennsylvania Department of Insurance for review. Management expects that review may take up to a year or longer. The terms of the Agreement include Highmark's commitment to fund $475 million over a period of three years, with $150 million in unrestricted payments or loans already received ($50 million of which was included in fiscal 2011).

In connection with the Agreement, on Oct.20, 2011, a new non-profit parent company, Ultimate Parent Entity (UPE), was established. UPE became the sole corporate member of a new nonprofit subsidiary, UPE Provider Sub (Provide Sub), which was also established on Oct. 20, 2011. Upon closing of the transaction, Provider Sub will become the sole member of WPAHS. The WPAHS obligated group will stay intact and none of its assets or liabilities are being assumed by Highmark in the proposed transaction.

The goal of the affiliation is to create an integrated health care system using WPAHS facilities and physicians as part of the network. Highmark will also independently pursue investing in expanding the network of outpatient facilities and creating linkages with physicians. The recent announcement that UPMC (rated 'AA-', Stable Outlook by Fitch), WPAHS' primary competitor in the service area, will be terminating its contract with Highmark, should help steer needed volumes to WPAHS facilities, which have been steadily losing market share. As one of the first steps following the affiliation, a decision was made to reopen the West Penn Hospital emergency department, which closed in December of 2010.

Fitch views the affiliation as a positive development, and essential given the acceleration of WPAHS's financial deterioration. The operating loss of $27 million for the first quarter of fiscal 2012 does not reflect the benefit of the $100 million in funding from Highmark which took place on Oct. 31, 2011, nor has the interim management team had sufficient time to produce any material improvement in operations.

The interim A&M management team is developing revised projections for fiscal 2012, which will be available in January 2012. Fitch will closely monitor performance and will assess the turnaround results on a semiannual basis. Failure to produce an improvement in operations in the next 12 months would be viewed negatively.

Headquartered in Pittsburgh, WPAHS is a large, integrated health system now operating five hospitals and other related entities that primarily serve Allegheny County and its five surrounding counties. WPAHS' flagship is the 661-licensed bed Allegheny General Hospital. Total revenues in fiscal 2011 were approximately $1.6 billion. Fiscal 2011 figures are from a draft audit. Disclosure to Fitch and to bondholders has been provided on a quarterly basis and consists of a management discussion and analysis, income statement, balance sheet, cash flow statement, and utilization statistics.

For more detail on WPAHS see Fitch's press releases 'Fitch Places West Penn Allegheny Health system (PA) on Rating Watch Evolving,' dated June 29, 2011 and 'Fitch Affirms West Penn Allegheny Health (PA) at 'BB-'; Maintains Negative Outlook,' dated Jan. 14, 2011, available on the Fitch website at 'www.fitchratings.com'.

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Additional information is available at 'www.fitchratings.com'.The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria', dated June 20, 2011.
--'Nonprofit Hospitals and Health Systems Rating Criteria', dated Aug. 12, 2011.

For information on Build America Bonds, visit www.fitchratings.com/BABs.

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=637130
Nonprofit Hospitals and Health Systems Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=648836

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West Penn Allegheny Health System, PA Bond Rating Lowered To 'CC' On Affiliation-Related Issues And Weak Financial Trend

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NEW YORK (Standard & Poor's) Dec. 4, 2012--Standard & Poor's Ratings Services lowered its rating to 'CC' from 'B-' on $726 million series 2007A bonds issued for West Penn Allegheny Health System (WPAHS) by the Allegheny County Hospital Development Authority, Pa. and removed it from CreditWatch where it had been placed with negative implications on Sept. 28.

"The lower rating reflects our opinion of Highmark Inc.'s desire to have WPAHS declare bankruptcy or otherwise restructure its debt and pension obligations prior to any affiliation and the breakdown of the affiliation discussions after WPAHS notified Highmark that it was in breach of the agreement," said Standard & Poor's credit analyst Cynthia Keller. "Although talks have resumed after a legal ruling prohibited WPAHS from seeking other suitors, there remains significant uncertainty as to whether the parties will reach an agreement that will receive subsequent approval by the Pennsylvania Insurance Department," said Ms. Keller.

Other rating factors considered by Standard & Poor's include WPAHS':
- Extremely low unrestricted cash and investment balances as of Sept. 30, 2012;
- Continued weak financial performance;
- Insufficient financial and operating benefits from the affiliation agreement and the February reopening of The Western Pennsylvania Hospital (WPH) to reduce the operating losses, which have been stable to slightly increasing for the past three quarters;

- Steady volume declines over the past five year, which continue through the first quarter of 2013;
- Continued presence of interim management although WPAHS has extended the current management contact; and
- Receipt of a Wells notice from the Securities and Exchange Commission with potential future financial penalties.

The negative outlook reflects Standard & Poor's view of the possibility of a bankruptcy filing or debt restructuring given WPAHS's thin financial profile and ongoing losses. Standard & Poor's would assign a lower rating if WPAHS files bankruptcy, restructures its debt, or misses principal or interest payments. A higher rating within the one-year term of the outlook period could be possible if WPAHS consummates its affiliation agreement with Highmark (A/Stable) with no disruption in debt service payments and there is evidence of tangible financial and operating benefits from the affiliation.

WPAHS operates five acute-care hospitals in and around Pittsburgh.

RELATED CRITERIA AND RESEARCH
USPF Criteria: Not-For-Profit Health Care, June 14, 2007

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

STANDARD & POOR'S
RATINGS SERVICES

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Summary:
Allegheny County Hospital Development Authority, Pennsylvania West Penn Allegheny Health System; System

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Allegheny Cnty Hosp Dev Auth (West Penn Allegheny Health System)		
Long Term Rating	CC/Negative	Downgraded

Rationale

Standard & Poor's Ratings Services lowered its rating to 'CC' from 'B-' on the $726 million series 2007A bonds issued for West Penn Allegheny Health System (WPAHS) by the Allegheny County Hospital Development Authority, Pa. and removed it from CreditWatch where it had been placed with negative implications on Sept. 28. The outlook is negative.

The rating downgrade reflects our assessment of:

- Highmark Inc.'s (A/Stable) desire to have WPAHS declare bankruptcy or otherwise restructure its debt and pension obligations prior to any affiliation;
- Breakdown in the affiliation discussions after WPAHS notified Highmark that it was in breach of the agreement. Although talks have resumed after a legal ruling prohibited WPAHS from seeking other suitors, there remains significant uncertainty as to whether the parties will reach an agreement that will be subsequently approved by the Pennsylvania Insurance Department;
- Extremely low unrestricted cash and investment balances as of Sept. 30, 2012 with approximately $233 million equal to 55 days' cash on hand and about one-quarter of outstanding debt ($894 including $100 million owed to Highmark). Without the Highmark transfers, which have totaled at least $200 million over the past two years, WPAHS would have minimal unrestricted reserves remaining and the system still has ample pension and capital needs;
- Continued weak financial performance with 2012's very high $113 million operating loss above 2011's $75 million loss and a bottom line loss of $37 million in 2012 compared with a loss of $17 million in 2011 with $50 million in gifts from Highmark in both years;
- Insufficient financial and operating benefits from the affiliation agreement and the February reopening of The Western Pennsylvania Hospital (WPH) to reduce the operating losses, which have been stable to slightly increasing for the past three quarters. Based on the first quarter 2013 run rate, current year earnings will be insufficient to cover debt service;
- Steady volume declines over the past five years from 2008 through 2012 which continue through the first quarter of 2013 with a 2.2% decline in inpatient admissions and declining births, surgeries, and emergency department visits. While some of the volume loss is attributable to the economy and shift to observation visits -- which rose almost

20% in the first quarter -- the opening of UPMC's facility in competition with Forbes was also a factor;
- Continued presence of interim management although WPAHS has extended the current management contact; and
- Receipt of a Wells notice from the Securities and Exchange Commission with potential future financial penalties.

WPAHS operates five acute-care hospitals in and around Pittsburgh: Allegheny General Hospital, WPH, the Forbes Regional campus of WPH in Monroeville where UPMC recently opened a new hospital, Canonsburg General Hospital, and Alle-Kiski Medical Center doing business as Allegheny Valley Hospital.

Securing the 2007A bonds is a mortgage and gross revenue pledge of the obligated group, which includes all but a few smaller subsidiaries in the system. WPAHS is not a party to any swaps as the majority of its debt is fixed rate. We based all 2012 figures in the report on unaudited financial statements and management indicates that it expects to publish the audit within the time frame required by the bond documents (180 days after the end of the fiscal year). For more information see the articles published Sept. 28, 2012, and May 23, 2012, on RatingsDirect on the Global Credit Portal.

Outlook

The negative outlook reflects our opinion of the possibility of a bankruptcy filing or debt restructuring given WPAHS's thin financial profile and ongoing losses. We would assign a lower rating should WPAHS file bankruptcy, restructure its debt, or miss a principal or interest payment. A higher rating within the one-year term of our outlook period could be possible if WPAHS consummates the affiliation agreement with Highmark with no disruption in debt service payments and there is evidence of tangible financial and operating benefits from the affiliation.

Related Criteria And Research

USPF Criteria: Not-For-Profit Health Care, June 14, 2007

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