PENNSYLVANIA INSURANCE DEPARTMENT

ADDENDUM NO. 5 TO AMENDMENT NO. 2 TO FORM A

STATEMENT REGARDING THE ACQUISITION OF CONTROL OF OR MERGER WITH DOMESTIC INSURERS:

HIGHMARK INC.,
a Pennsylvania nonprofit corporation licensed to operate a hospital plan and a professional health services plan

FIRST PRIORITY LIFE INSURANCE COMPANY, INC.,
a Pennsylvania stock insurance company

GATEWAY HEALTH PLAN, INC.,
a Pennsylvania business corporation and licensed health maintenance organization

HIGHMARK CASUALTY INSURANCE COMPANY,
a Pennsylvania stock insurance company

HIGHMARK SENIOR RESOURCES INC.,
a Pennsylvania stock insurance company

HM CASUALTY INSURANCE COMPANY,
a Pennsylvania stock insurance company

HM HEALTH INSURANCE COMPANY,
d/b/a HIGHMARK HEALTH INSURANCE COMPANY,
a Pennsylvania stock insurance company

HM LIFE INSURANCE COMPANY,
a Pennsylvania stock insurance company

HMO OF NORTHEASTERN PENNSYLVANIA, INC.,
d/b/a FIRST PRIORITY HEALTH,
a Pennsylvania nonprofit corporation and licensed health maintenance organization

INTERCOUNTY HEALTH PLAN, INC.,
a Pennsylvania nonprofit corporation licensed to operate a professional health services plan

INTERCOUNTY HOSPITALIZATION PLAN, INC.,
a Pennsylvania nonprofit corporation licensed to operate a hospital plan

KEYSTONE HEALTH PLAN WEST, INC.,
a Pennsylvania business corporation and licensed health maintenance organization

UNITED CONCORDIA COMPANIES, INC.,
a Pennsylvania stock insurance company

UNITED CONCORDIA DENTAL PLANS OF PENNSYLVANIA, INC.,
a Pennsylvania business corporation and licensed risk-assuming PPO

UNITED CONCORDIA LIFE AND HEALTH INSURANCE COMPANY,
a Pennsylvania stock insurance company

BY

UPE,
a Pennsylvania nonprofit corporation

Filed with the Insurance Department
of the Commonwealth of Pennsylvania

March 27, 2013

TAB E

SUPPLEMENTED OVERVIEW OF HIGHMARK'S STRATEGIC VISION

INTRODUCTION

On November 7, 2011, UPE submitted a Form A filing to the Pennsylvania Insurance Department ("Department") in which it requested that the Department authorize a change in control of Highmark Inc. ("Highmark") whereby UPE would become its sole corporate member. As set forth in the Form A, UPE proposed the change in control as part of a strategy to implement an integrated delivery network ("IDN"). The Form A included an "Overview of Highmark's Strategic Vision" which identified the case for change in the western Pennsylvania health care market and a plan of action to create the necessary change. A principal component of the IDN strategy is the proposed affiliation of Highmark with West Penn Allegheny Health System, Inc. ("WPAHS") combined with additional affiliations with Jefferson Regional Medical Center ("JRMC") and Saint Vincent Health System / Saint Vincent Health Center ("SVHS/SVHC"). The second amendment to the Form A filing reiterates Highmark's commitment to the creation of an integrated health network with WPAHS as a cornerstone and reflects the amended status of the Affiliation Agreement between Highmark and WPAHS, including financial matters related to that affiliation.

A combination of marketplace forces and health care reform is forcing participants in the health care industry to change the way they do business. Highmark is firmly committed to working with all segments of the community to make necessary changes to the way it does business to help control health care costs; improve quality of patient care; preserve options and choice for individuals, employers, physicians and other health care practitioners; and ultimately create a better patient experience. The changes occurring in health care are also forcing health care delivery systems and physician practices, nationally and in Pennsylvania, to explore new approaches to enhance clinical services, improve quality and coordination of care for patients, and maintain financial soundness over the short and long term.

Highmark's vision and mission have always been to provide access to affordable, high quality care. Fee-for-service reimbursement and a lack of information transparency in the market have made fulfillment of that mission increasingly difficult. In the context of the currently changing environment, Highmark believes an opportunity exists to make the fundamental changes needed to protect policyholders and subscribers for years to come. Highmark's strategy seeks to address the shortcomings pervasive in the current system by creating a structure that coordinates care, integrates

services as appropriate, aligns physician incentives, introduces innovation and choice, and promotes evidence-based care and a differentiated patient experience. Highmark will bring the more progressive participants in the provider community together in a full-service integrated network that operates according to these principles. This structure will provide Highmark policyholders and subscribers with a unique healthcare experience – more affordable, more efficient, more satisfying and higher quality – throughout the western Pennsylvania market.

SUMMARY OF THE STRATEGIC VISION

Highmark's IDN strategy has not changed since it was first announced in the fall of 2011. The purpose of the strategy is to preserve and promote choice and competition in the western Pennsylvania health care market. The strategy involves a multi-faceted approach including: securing access to a "full-service" patient-centered network of lower-cost, high-quality, highly efficient care providers; building platforms to support care redesign and cost reduction; promoting the introduction of innovative care models and lower-cost sites of treatment; focusing on improved coordination of care; re-aligning provider incentives through new reimbursement models; and developing new insurance product designs that create incentives for value conscious decision-making by consumers, coupled with access to the next generation of cost and quality transparency tools. As part of the strategy, the IDN has been developing support services, such as physician practice management capabilities, information technology capabilities and group purchasing capabilities, to help providers lower their costs and improve the quality of the care they provide. The strategy also contemplates that the IDN will continue to develop and enhance relationships with independent physicians and community hospitals, which will complement the IDN's overall goals and activities. All of these elements of the strategy are underway and remain unchanged.

To implement this IDN strategy, Highmark is focused on five (5) critical strategic objectives – strengthen and grow the IDN, build access and service, reduce care costs, improve quality, and enhance customer satisfaction. The affiliations with WPAHS, JRMC and SVHS/SVHC, along with Highmark's overall provider network strategy, significantly advance the company's objectives.

Strengthen and Grow the Integrated Delivery Network. Highmark is working diligently to preserve healthcare choice for policyholders, employers, physicians and clinicians in western Pennsylvania. Its recently concluded affiliation with JRMC, its proposed affiliations with WPAHS and SVHS/SVHC, and its continued affiliations with physician practices are all components designed to

preserve choice. Highmark's greater purpose, however, is to create an IDN that will transform healthcare financing and delivery in western Pennsylvania. Highmark is accomplishing this by aligning physicians, hospitals, and other providers of medical care to work towards common goals of quality and efficiency. Highmark also believes in community-based care, and knows that community facilities deliver higher value (i.e., higher quality and lower cost), keep patients closer to their families and homes, and support the local economy in ways that larger, non-community based facilities do not. The IDN is a transformational system focused on wellness and prevention and a comprehensive set of holistic, ambulatory, in-home, virtual, and community-based services.

For the past 18 months, Highmark has been developing the core components of its IDN. In late 2011, Highmark launched Physician Landing Zone PC ("PLZ"), a Pennsylvania company formed as Highmark's physician organization, the umbrella group that employs Highmark-affiliated physicians and professional staff. To accelerate the growth of the physician organization, Highmark affiliated with Premier Medical Associates and Lake Erie Medical Group, now subsidiaries of PLZ, adding 74 physicians to the organization. Also in 2011, Highmark executed a term sheet with WPAHS for the proposed affiliation and announced a partnership with MedExpress to build new urgent care centers to address critical gaps in access to medical care.

In 2012, Highmark worked with WPAHS to reopen the West Penn Hospital Emergency Department ("ED"), completed a revitalization effort at Forbes Hospital and acquired potential sites for ambulatory care facilities, beginning the development of another key component of the strategy. It also announced its proposed affiliations with JRMC and SVHS/SVHC and continued its alignment with physician practices. In addition, Highmark launched companies to support the IDN entities in achieving the strategic objectives of reducing costs and improving quality. Among these companies are Promedix LLC ("Promedix") and Provider PPI LLC ("Provider PPI"). Promedix is Highmark's physician-facing practice management group that develops, distributes and implements support products and services for doctors. Promedix now employs approximately 100 practice staff across 16 practices. Provider PPI is Highmark's group purchasing organization, supply chain management and distribution entity which will help affiliated and non-affiliated hospitals control rapidly increasing costs of goods and services.

These efforts form a solid foundation of the IDN on which Highmark continues to build and positions the entities for growth while securing access to healthcare for policyholders and subscribers in western Pennsylvania.

Build Access and Service. Ultimately, this network will expand access and service for Highmark's policyholders and subscribers so that they can continue to receive the care they need and have a choice of providers. In certain sub-markets, a reconstituted network will mean the difference between a network with limited capacity fully controlled by University of Pittsburgh Medical Center ("UPMC") and a robust and vibrant network with meaningful choice in key service lines. The investments in community based facilities and services in community hospitals will also improve access for certain policyholders and subscribers.

Reduce Care Costs. Health care costs for Highmark's Pennsylvania policyholders and subscribers have been rising at a rate of nearly 6% per year over the past five (5) years, a rate that is unsustainable in the longer term. Annual health care costs for a family of four in southwestern Pennsylvania in 2012 were approximately $17,500. Highmark estimates that, unless something is done to make a less costly alternative available, by 2016, the annual costs for the same family will be over $24,000. The over $6,500 increase (which represents an annual growth rate of over 8 percent (8%)). is driven, in large part, by excessive reimbursement demands of UPMC, UPMC's growing footprint in the region, and UPMC's success at redirecting care from community hospitals into its own system at significantly higher charges. Highmark's interest in creating the IDN, including the proposed affiliation with WPAHS, is driven by a desire to control the rate of growth of these costs by making less costly choices available to consumers. Highmark anticipates that the rate of increase in health care spending for consumers participating in IDN products in 2016 will be cut nearly in half, with a family of four paying under $21,000, an overall savings of more than ten percent (10%).

Highmark's intent is not to reduce the level of care delivery, but to take a balanced approach that protects community hospitals, sustains WPAHS, and reduces the growth rate of health care expenditures to a level that still provides for a robust health system, but also leaves individuals and employers with meaningful lower cost alternatives. Highmark believes this goal can be accomplished by changing a reimbursement structure which incentivizes providers to provide the most care, whether needed or not, to a structure that creates the most value by delivering the appropriate, highest quality care in the most efficient setting. By moving to this structure, Highmark anticipates that inpatient admissions can be reduced 5 - 10% by reducing readmissions and unnecessary admissions through coordinated, preventative outpatient care. Highmark also believes that unnecessary ED admissions can be reduced 10 - 20% by expanding access to urgent care centers and primary care offices, when appropriate.

A shift from the inpatient setting to the outpatient setting for cases that can be effectively and efficiently performed on an outpatient basis will also occur. Surgeries that can be performed more efficiently and with a better patient experience in ambulatory surgery centers or office settings will be encouraged. Highmark further estimates that diagnostic tests, including high cost procedures such as MRI's and CT scans, could be reduced by more than 10% as duplicative and unnecessary tests are avoided. Highmark believes this level is achievable as evidenced by data for the southwestern Pennsylvania region showing diagnostic testing utilization at a level more than 20% higher than the mid-Atlantic average and more than 40% higher than the national average.

In order to accomplish its objectives, Highmark must assure that its policyholders and subscribers have the ability to obtain care from the right providers, in the right setting and at the right price. Incentives of providers also must be properly aligned such that cost, quality and efficiency all are properly recognized and rewarded. With the proper programs in place to address these issues, Highmark believes that the IDN can deliver a higher quality product at a lower cost, with both direct and indirect benefits to its own patients, policyholders, subscribers and the region. By developing programs and processes to achieve high quality, lower cost provider product delivery, Highmark should be able to control premium costs. This will in turn benefit not only Highmark subscribers, but consumers generally as other insurers in the market react to Highmark's actions. In this vein, Highmark has been working diligently to develop programs that will assist it in meeting its objectives.

In 2012, Highmark introduced Patient Centered Medical Home ("PCMH") and Accountable Care Alliance ("ACA") products into the market to begin transforming the market from traditional fee-for-service to new pay-for-value reimbursement methodologies. Both PCMH and ACA models contemplate tiered incentive payments to providers based on achievement of certain quality and cost standards. To date, Highmark has executed PCMH or ACA contracts with over 1,200 physicians representing 250,000 members. Highmark is currently in or will soon begin discussion with another 1,100 physicians representing an additional 240,000 members. Highmark's three-year business plan objective is to have 75% of Highmark subscribers in its service footprint using a primary care physician practice that has executed either a PCMH or ACA contract with Highmark. Highmark has reached agreement with WPAHS regarding WPAHS's entry into an ACA contract, positioning Highmark to meet its objective.

Similar to the CareFirst model and the Seattle Group Health Cooperative, Highmark's PCMH model supports primary care and family practice physicians. By coordinating all aspects of a patient's care with a team of physicians, advance practice nurses and other medical professionals, ensuring follow-up and compliance with clinical protocols and pharmaceuticals, and educating and engaging patients and their support systems. Patients remain healthier and ED visits and hospitalizations are minimized. Early results from a similar model used by the Seattle Group Health Cooperative indicated that patients enrolled in that program required 29% fewer emergency room visits and 6% fewer inpatient admissions. Industry benchmarks suggest that care costs for policyholders and subscribers being treated under a PCMH model could be as much as 9% lower.

Highmark has also developed a network of providers to support one or more select network products, including a product known as Community Blue effective in the market January 1, 2013. Community Blue is available at a premium rate that is up to 25% lower than other options. The lower cost of the Community Blue product reflects the commitment to reduce the cost of care and insurance by introducing a product that supports the use of lower cost providers in a coordinated care network. Community Blue reimbursement rates are negotiated on a provider-by-provider basis. Highmark's objective is to secure a distinct and sustainable difference in reimbursements between its wide access PPO product and the Community Blue product over time. WPAHS is a key provider within Highmark's Community Blue network.

Health care expenses have exceeded GDP growth by 2.5 times over the last several decades. Highmark believes that any future health care offering will need to slow the recent pattern of perpetual and excessive cost inflation. If current trends continue, this cost inflation will make health care increasingly unaffordable to families, employers, and individuals. Controlling the excess growth of provider costs is the only way to reduce the rate of projected unsustainable cost increases. This struggle to control costs led Highmark and UPMC to a dispute over their 2012 facility contract renewals. In a mediated conclusion to the UPMC contract dispute with Highmark, UPMC received annual increases in commercial facility payments for each of three consecutive years beginning July 1, 2012, increasing consumer costs beyond standard medical inflation. A viable alternative to UPMC must be pursued to address the principal drivers of the excessive cost inflation in the southwestern Pennsylvania market. This will be done, as discussed above, by providing access and choice, better aligning incentives across the value chain, facilitating the coordination of care, and encouraging more value conscious decision-making on the part of providers and policyholders and subscribers.

Improve Quality. From 2008 - 2012, Highmark's *Quality Blue* hospital pay-for-performance program, which now includes 91 hospitals in Pennsylvania, West Virginia and New York, including WPAHS, has averted 3,402 healthcare acquired infections and resulted in total care cost savings of over $56 million due to infection prevention. Hospitals that have participated in the readmissions indicator part of the program for three years showed a statistically significant decrease in 30-day inpatient and observation readmissions rates in 2012 compared to 2011. *Quality Blue* physician pay-for-performance programs have raised compliance with, and exceeded national standards for, key performance measures such as asthma medication management, breast cancer screenings, cervical cancer screenings and strep testing. Highmark's ACA and PCMH initiatives create a unified structure built on primary care and these existing *Quality Blue* programs. Together with a health information exchange ("HIE") backbone, the IDN and its participation in the ACA and PCMH models will lead to improved coordination of care, which will reduce duplication of services and reduce medical errors.

Highmark believes that the protocols that can be developed and implemented by an integrated network will also result in a significant improvement in the quality of care. Together, WPAHS and Highmark will establish and disseminate evidence-based protocols that have been proven to improve outcomes in care delivery, which will result in greater coordination of care for patients. Highmark believes that this greater coordination will result in improved quality of care, such as reductions in unnecessary diagnostic tests, inpatient admissions, avoidable readmissions and emergency room services, thereby reducing costs and improving outcomes. For example, Geisinger's ProvenHealth Navigator program, an integrated approach to care delivery, has resulted in reductions of up to 30% in hospital readmissions and 20% in acute admissions.

Enhance Customer Satisfaction. An integrated network will also have significant benefits for the experience of Highmark's policyholders and subscribers. Care will be better coordinated as patient medical information is shared across an aligned group of providers. Policyholders and subscribers will experience more seamless transfers between providers (e.g., from a PCP to specialist) and will have a dedicated team of providers who know them and their health. In 2012, an annual customer satisfaction study conducted by J. D. Power and Associates to assess consumer satisfaction with various providers of health insurance discovered that customer satisfaction tends to be higher for integrated delivery networks (e.g., Kaiser Permanente) than for standalone plans.

Highmark has already implemented several initiatives to improve overall policyholder and subscriber experience and satisfaction. These strategies draw on several sophisticated consumer segmentation

initiatives. Segmentation at Highmark entails collecting policyholder/subscriber attitudes, beliefs and values about their health, grouping like policyholders and subscribers and creating segment-specific marketing, communications, products and programs designed to encourage particular health and utilization behaviors. Once developed, the segments are filtered through consumer-facing channels such as the internet, customer service, and care management, so staff can accurately tailor their messaging and programs to better meet the needs of the policyholder or subscriber. Among these consumer initiatives, Highmark has opened retail distribution channels (including brick-and-mortar retail stores) and enhanced direct-to-consumer communications. Highmark has also developed consumer-centered care delivery models such as a nurse hotline targeting diabetic and heart disease policyholders and subscribers. Leveraging consumer insights, Highmark has been able to improve member satisfaction and participation in care management models. Drawing on this expertise and capability, Highmark anticipates building a similarly differentiated experience for patients across the integrated system.

IMPLEMENTATION PROGRESS OF THE IDN STRATEGY

Highmark has made significant progress in developing its IDN, fortifying its footprint by aligning strategic partners and building core assets to form its delivery network in western Pennsylvania. An update on the core entities within the IDN strategy is included below.

West Penn Allegheny Health System. As indicated above, a principal component of the Highmark IDN strategy is the proposed affiliation between Highmark and WPAHS. As has been well documented, WPAHS has a recent history of financial challenges.

To date, Highmark has advanced $200 million to WPAHS in accordance with the terms of the Affiliation Agreement to complete initiatives identified in the turnaround plan submitted to the Department in November 2011. With the financial support from Highmark, WPAHS reopened the West Penn Hospital ED on February 14, 2012. Since then, ED utilization has exceeded expectations and the patient wait time for admission from ED has been reduced from 2.5 hours to 30 minutes. Office renovations at West Penn Hospital are on schedule for April 2013 to accommodate returning and new physicians, and plans for adding more services are underway. At Forbes Hospital, facility improvements and preparedness have resulted in less loss of business than anticipated due to the opening of UPMC East.

Alternatives for improving the financial outlook of WPAHS have been assessed. Options from restructuring the health system's debt through bankruptcy, developing a consensual plan with existing bondholders, or leaving the existing debt in place were evaluated based on the costs, benefits, timeframe, risks and potential stakeholder reaction. It was determined that the timeline for restructuring the debt was a critical factor to avoid further deterioration of the health system assets, including the potential loss of valuable physicians and staff of WPAHS. With the timeline as a key concern, an agreement was reached with the WPAHS bondholders to restructure the debt.

In connection with an amendment to the WPAHS Affiliation Agreement, Highmark intends to offer to acquire all of the outstanding WPAHS bonds in a tender offer. Launching the tender offer is conditioned upon the holders of at least seventy-three and one half percent (73.5%) of the aggregate outstanding principal amount of the WPAHS bonds agreeing to tender their bonds into Highmark's tender offer. The tender offer will be an all cash offer at $0.875 per $1.00 of principal plus accrued interest, an approximately $65 million to $89 million discount. Highmark will borrow the funds required to purchase the WPAHS bonds, or it will use its own funds to do so. Principal and interest payments from WPAHS will be deferred until July 1, 2015 on Highmark-held bonds. The consensual plan requires an escrow of $50 million that is forfeited if closing does not occur by April 30, 2013, under certain circumstances. Prior to and as a condition to the tender and purchase of the WPAHS bonds, the existing holders of the WPAHS bonds, as the holders of a majority in principal amount of the WPAHS bonds and as the beneficial holders of a majority in principal amount of the obligations issued and outstanding under the Master Trust Indenture, will consent to certain amendments to the Master Trust Indenture and the Bond Indenture. At a later date, following the consummation of the proposed affiliation between Highmark and WPAHS, the WPAHS bonds will be refinanced or refunded with the proceeds of new tax-exempt bonds issued under more favorable terms.

Highmark will also fund $200 million of additional loans as contemplated in the Affiliation Agreement. Funding in the amount of $75 million, per the Affiliation Agreement for medical education, will be redirected as a grant to be used for, among other purposes, making capital improvements and funding the continuing operations of WPAHS. Highmark will forgive interest on the $300 million of total loans outstanding if a debt service coverage ratio of 3.0 is not achieved. As a component of Highmark's provider rate negotiations, it will also provide $10 million of supplemental payments to WPAHS in each of the next five (5) years, which is equivalent to the standard medical index. Together, these steps are designed to put WPAHS back on a path to financial stability and viability and provide the necessary capital to upgrade equipment and facilities to allow

the system to be a viable competitor in the market. Highmark and WPAHS remain committed to supporting medical education in the region, once WPAHS is financially stable.

Jefferson Regional Medical Center. On June 11, 2012, Highmark announced that it had reached an agreement in principle with respect to a proposed affiliation with JRMC, a hospital system in southern Allegheny County. On August 13, 2012, the parties executed a definitive agreement with respect to this proposed affiliation. The affiliation became effective March 1, 2013.

The affiliation between Highmark and JRMC is another important step in Highmark's strategy to create an integrated health care delivery and financing system in western Pennsylvania. The affiliation with JRMC preserves provider choice for Highmark policyholders and subscribers, especially those living in the southern region of the Greater Pittsburgh area, and ensures that they will continue to have access to high-quality services at one of the Pittsburgh region's leading community hospitals. The affiliation between Highmark and JRMC will seek to stem the unnecessary migration of certain health services out of the southern region of Greater Pittsburgh, creating greater convenience for patients and maintaining the economic vitality of local communities.

As part of the affiliation with JRMC, Highmark has committed to support a series of facility improvements and additions at JRMC, including a renovated ED, expanding services to JRMC's Bethel Park outpatient campus to complement the existing diagnostic center and physician office complex, and enhancing clinical services such as neurosurgery and gynecology. The scope of the service expansions will be determined based on the cost of the services and programs, but will include an emphasis on health and wellness, oncology and women's care. Highmark will assure the completion by JRMC of these important capital projects by providing funding, in an amount not to exceed $100 million, to cover the costs of the projects to the extent JRMC excess cash flows are insufficient to do so. It is anticipated that, through the creation of additional service lines at JRMC and the development of insurance products that optimize utilization in the system, cash flow will be further enhanced, and, as a result, Highmark will not be obligated to fund the full $100 million.

Also as part of the affiliation, Highmark will contribute $75 million to the JRMC Foundation to improve the health and wellness of the communities served by JRMC. Highmark also will guarantee that JRMC is able to satisfy its liabilities as of March 31, 2012, including debt and pension. JRMC is a financially stable institution with a debt rating of Baa2 as of August 2012. As such, Highmark does not anticipate that JRMC will be unable to satisfy it debt obligations as they become due.

The affiliation between Highmark and JRMC is not an alternative to the proposed Highmark-WPAHS affiliation. When the affiliation with JRMC was consummated, JRMC became another core component of the IDN envisioned by Highmark for western Pennsylvania. It complements the proposed affiliation between Highmark and WPAHS, as WPAHS does not currently have full service provider capabilities in the geographic area served by JRMC. Thus, a Highmark-JRMC affiliation fills a potential gap in Highmark's IDN and enhances WPAHS through the development of clinical partnerships that will benefit WPAHS's tertiary services.

The JRMC affiliation was not dependent on the Department's approval of the pending Form A.

Saint Vincent Health System. The proposed affiliation with SVHS/SVHC is another important step in Highmark's IDN strategy. The proposed affiliation between Highmark and SVHS/SVHC will seek to stem the unnecessary migration of certain health services out of the Erie, PA region, creating greater convenience for Erie-area patients, providing access to high-quality services at one of Erie's leading tertiary hospitals and maintaining the economic vitality of the local community and northwestern Pennsylvania.

The proposed affiliation is also designed to help SVHS/SVHC strengthen its hospital inpatient and outpatient services and improve health and wellness services in the community while continuing to assure the delivery of high-quality care across the entire health system. Highmark has agreed to make certain payments in connection with the SVHS/SVHC affiliation transaction, including $10 million to the Sisters of Saint Joseph of Northwestern Pennsylvania (the "SSJ Member"), $5 million for capital projects for SVHS to support the healthcare mission of SSJ Member and $20 million for SVHS to improve its existing facilities and invest in new assets for the Erie and northwestern Pennsylvania regions. All of these payments are grants from Highmark.

In addition, Highmark will permit SVHS/SVHC to invest approximately $40 million over three years to improve its existing facilities and invest in new assets for the Erie and northwestern Pennsylvania regions.

The SVHS/SVHC affiliation is not dependent on the Department's approval of the pending Form A, and Highmark intends to consummate the SVHS/SVHC affiliation regardless of whether the Form A is approved.

Medical Malls and Ambulatory Care. The outpatient and ambulatory settings that Highmark is developing are aimed at filling gaps in outpatient care in the community. Highmark's plan is to work with community hospitals and a broad spectrum of providers to identify opportunities to develop more innovative ways to deliver cost-effective care in the most appropriate settings, building on existing resources in the community wherever possible.

Highmark is responding to consumer preference and demand in the market by encouraging the construction of integrated outpatient centers incorporating laboratory services, diagnostic imaging, physician practices, pharmacy, and other services. This model has proven to be both efficient and convenient for policyholders and subscribers. By placing these services in key geographic areas Highmark can provide policyholders and subscribers with ready access to essential services and preclude the expansion of more expensive inpatient capacity that will ultimately drive premium increases for Highmark's policyholders and subscribers and employer customers.

In 2012, Highmark acquired potential sites for such facilities. The initial conceptual designs for these facilities were finalized and planning has begun for locations in Monroeville, Bethel Park and Wexford, PA. Construction of the Monroeville and Wexford projects is underway.

Physician Organization. Highmark understands that physicians are key to the success of the healthcare delivery system. Highmark's physician organization has announced affiliations with a number of large physician practices including Premier Medical Associates, Lake Erie Medical Associates, Orthopedic Associates of Pittsburgh and Arthritis & Rheumatic Disease Associates as well as a number of other smaller groups and individual physician practices. The physician organization currently employs 145 physicians.

Promedix LLC. As referenced above, Highmark has created a new company to provide management services to affiliated and non-affiliated physician practices. Promedix is Highmark's physician-facing practice management group that develops, distributes and implements support products for doctors. Promedix now employs approximately 100 practice staff managing 16 practices within Highmark's physician organization. Promedix will work with the IDN's physician organization to improve operational efficiency of the physician practices and provide the infrastructure to coordinate care and reduce costs.

Provider PPI LLC. Highmark is also developing capabilities as part of its overall strategy to help hospitals affiliated with the IDN, including WPAHS, JRMC and SVHS/SVHC, operate more efficiently, achieve administrative cost savings and improve patient care. Provider PPI, a supply chain services organization and an indirectly wholly-owned subsidiary of Highmark, is designed to help hospitals manage the supply chain and handle purchasing associated with all facets of hospital operations – medical surgical supplies, biomedical engineering, implantable devices, capital equipment and purchased services. Through supply chain management, Provider PPI is designed to aid the IDN-affiliated hospitals optimize purchasing, inventory management, warehousing, distribution, receiving and customer service. Recent projections indicate that through its relationship with Provider PPI LLC, WPAHS will realize significant savings by leveraging the products and services contracts of the group purchasing organization.

Health Information Exchange. Highmark is also working to develop an HIE designed to facilitate the secure sharing of patient information across multiple health systems. JRMC and SVHS/SVHC are among the first institutions to join the Highmark HIE. Patients should benefit from the HIE through fewer duplicate diagnostic tests, faster retrieval of clinical information, stronger patient safety measures and better coordination of care.

Provider Reimbursements. As referenced above, Highmark introduced new physician reimbursement methodologies to the market in 2011 through pilot programs to support the PCMH care model. Highmark also introduced accountable care reimbursement models to the market in late 2012. Products to promote value conscious decision-making on the part of the consumer have also been developed and will be supported by consumer transparency tools.

Following this initial phase of the IDN strategy, Highmark will focus on integration across its delivery system, with a commitment to reduce the rapid escalation in healthcare costs. To meet this goal, Highmark will use provider payment methods focusing on wellness and quality. Highmark will expand its services and solutions to other markets, ensuring the highest patient experience for its regional and national customers. Together, Highmark and its provider partners can transform the healthcare financing and delivery system in western Pennsylvania into a system that is physician-led and patient-centric.

THE IMPORTANCE OF WPAHS TO THE IDN STRATEGY

A close and sustainable partnership with WPAHS is a core and necessary component to Highmark's vision of building an integrated health system. WPAHS provides significant primary and specialty care in the southwestern Pennsylvania market and, importantly, maintains the only quaternary referral hub in the region, Allegheny General Hospital ("AGH"), other than UPMC. Affiliation between WPAHS and Highmark, supported by Highmark's broader provider network strategy, will not only ensure WPAHS's long-term viability, but will help to ensure that Highmark policyholders and subscribers continue to have access to critical, affordable, quaternary and tertiary services in network.

WPAHS is very much aligned with Highmark's stated objective in developing an IDN. WPAHS has demonstrated its relentless focus on quality outcomes and is recognized as a national leader in many clinical areas. WPAHS has also expressed a strong desire to lower care costs through new care delivery models while preserving and enhancing the quality embedded in its service offerings. In order for Highmark to meet its policyholder and subscriber's needs, and drive patient satisfaction, it must be able to offer these high quality services in its provider network. A vibrant WPAHS will enable Highmark to provide access to high-quality health care services built around products that highlight quality and cost through transparency tools available to policyholders and subscribers. As Highmark makes more cost and quality-based information available to its policyholders and subscribers, they will become more informed health care consumers and be able to make health care choices that best meet their needs. A healthy WPAHS is uniquely valuable among the providers in the market for several reasons.

WPAHS is a necessary high-acuity provider. For many high-acuity clinical services, WPAHS (and AGH in particular) is the only realistic alternative to UPMC as a provider in the market. Highmark believes that if WPAHS scaled back any of its services (or ceased to make them available due to financial constraints), UPMC would gain additional market power around these services that it could use to extract above average rate increases from Highmark and other insurers. Moreover, it is unclear that there would be enough market capacity in certain high-end services to serve the community were WPAHS unable to provide these services.

WPAHS is a necessary secondary, tertiary, and quaternary provider alternative in certain markets. For the geographies in which the WPAHS hospitals operate, WPAHS serves as a necessary alternative to UPMC's hospitals. Highmark believes that, as with the high-end services broadly, a decrease in the

provider capacity or ability to offer certain services in these geographies would increase UPMC market power and limit the capacity for patients to be served in the geographies where they are currently seeking care.

WPAHS is a major employer of physicians. Given that physicians will play a central role in the transformation of the care network, WPAHS's employment of many of the area's local physicians increases its importance to the network. WPAHS physicians have indicated a willingness to participate in alternative reimbursement structures and shared service platforms, helping to carry out the necessary changes in the system.

WPAHS willingly supports Highmark's efforts to change the healthcare market in southwestern Pennsylvania. Alongside its physicians, WPAHS has indicated a willingness to participate with Highmark in its network, helping to demonstrate to the community the benefits of Highmark's strategy. WPAHS's scale, research and education programs and shared service platforms provide a great foundation to use in implementing quality improvement programs consistent with evidence-based medicine, experimenting with innovative reimbursement structures, and integrating care delivery. The fact that these strategies will be important for improving the strategic and economic viability of WPAHS provides further impetus for WPAHS to consider these programs.

WPAHS is a key community partner. WPAHS is a key employer in the region and another non-profit entity with a mission to provide members of the community with access to high-quality healthcare. WPAHS today employs over 10,500 people, including over 3,000 nurses and 600 physicians in southwestern Pennsylvania. Its research and education programs attract additional talent into the region. Any erosion in the viability or strength of WPAHS may jeopardize its ability to fulfill that community mission.

Highmark believes that WPAHS will not be able to continue as a nonprofit, five-hospital, quaternary facility without the affiliation. Failure of the proposed affiliation will result in higher costs, reduced access, and greater consolidation of the provider market, as WPAHS likely would be forced to shut down additional services or possibly to seek a for-profit partner, which likely would demand higher provider rates to meet required returns on capital. This situation will likely drive more volume to UPMC and poses a threat to the affordability of and access to healthcare in the region. UPMC's market position would grow even greater without a strong, competitive tertiary alternative, and costs inevitably would increase further as UPMC would be unchecked in its ability to make whatever rate

demands it chooses. Other regions with a dominant health system, such as Washington, DC, Columbus, OH, Lancaster, PA, Minneapolis, MN and Salt Lake City, UT, have inpatient admissions costs nearly double the Pittsburgh region, as shown by Milliman in their annual Group Insurance Survey.

Affordability and Access to Healthcare. Affordability of healthcare in the southwestern Pennsylvania market is the primary challenge threatening the continued economic viability of both the community and Highmark. To understand the significance of the healthcare affordability issue, it should be noted that per capita healthcare spending in the Pittsburgh Metropolitan Statistical Area ("MSA") constituted 25% of family income in 2010. This is higher than comparable MSA's across the nation as well as larger MSA's like Philadelphia, Washington D.C. and Chicago. The main driver of this difference is not only the cost of care but also the volume of care delivered per person. The utilization rate for care delivery in the region drives much of the affordability issue.

As discussed in Highmark's public statement of its strategic vision, in 2010, Highmark approached UPMC with an offer to change the basis of its contract to align with Highmark's strategy. UPMC refused to engage in this conversation and insisted on a large increase on its entire Highmark revenue base unrelated to Highmark goals of rewarding performance around quality, appropriate utilization, or patient experience. Highmark calculated that the increase requested by UPMC would have represented $400 million in additional costs per year for Highmark policyholders and subscribers (a 40% increase in the commercial facility contracts which UPMC threatened to terminate). UPMC first threatened that it would not participate in Highmark's networks if it did not receive this outrageous increase. Subsequently, UPMC advised Highmark that it was unwilling to participate in Highmark's networks at any price and that it was terminating a majority of its facility contracts, effective June 30, 2012. UPMC then indicated that it also intended to terminate most of its physician contracts, thereby removing UPMC physicians from the Highmark network as well. Had UPMC been permitted to follow through on its threats, Highmark subscribers would have been left with the choice of remaining with Highmark but with no access to UPMC providers, or signing up with other carriers that had recently established relationships with UPMC and that, according to published reports, were paying rates that were 20-30% above the rates than being paid by Highmark. Highmark believes that the rates UPMC was able to demand from these other carriers is indicative of the level of increases it will seek from insurers (other than its own captive insurer) in the absence of any check on its monopolistic pricing practices.

Without an alternative provider system to force UPMC to behave more rationally toward pricing to non-affiliated insurers, Highmark anticipates the healthcare expenditures for people living in southwestern PA will exceed 30% of family income in less than five (5) years.

In contrast to UPMC, Milliman estimates that Allegheny General Hospital's ("AGH") (WPAHS's flagship facility) normalized payments from insurers are 17% lower than Presbyterian / Shadyside (UPMC's flagship facility). Projecting this to July 1, 2014 to reflect the UPMC mediated agreement and contracted AGH reimbursement changes, the estimated difference grows to 33% lower than Presbyterian / Shadyside. Highmark policyholders and subscribers would realize a significant savings from the survival of WPAHS and the formation of the new IDN.

In projections previously provided to the Department, Highmark has estimated the expected savings that Highmark members receive once the IDN is fully deployed. For a family of four (4), Highmark estimates that annual savings for policies supported by a Highmark IDN with WPAHS as the "hub" would be approximately $3,000 lower than comparable premiums without the affiliation. This estimated savings and the need for all members in the Community to have access to alternatives to UPMC are paramount.

The potential loss of UPMC facilities and physicians from Highmark's networks creates the threat of an access issue for Highmark policyholders and subscribers. In addition, UPMC's actions with respect to provider reimbursement are creating unsustainable cost escalations. This situation is untenable for Highmark and its policyholders and subscribers. It is in this context that Highmark now seeks to execute the affiliation with WPAHS and ensure a competitive environment in which Highmark and other insurance plans can compete fairly for groups, policyholders and subscribers.

Concurrent to the UPMC contract issues described above, WPAHS's financial condition has continued to deteriorate. A financially deteriorating WPAHS would risk further consolidation of UPMC's dominant position in the market which continues to expand with acquisitions such as the Altoona Hospital System. Without WPAHS, Highmark's policyholders and subscribers in certain geographic micro-markets would find themselves without meaningful options for some clinical services. If UPMC carries through on its threat not to participate in Highmark's provider network, and WPAHS is unavailable, access to a number of critical services (including OB/GYN and oncology services, among others) in which Highmark has historically made investments on behalf of the community would be seriously curtailed for Highmark policyholders and subscribers. Highmark

believes that further consolidation will almost certainly ensure unsustainable cost trends in the market given UPMC's lack of alignment with Highmark's vision for improving value within the healthcare system and, moreover, its dominant market presence. Highmark further believes that UPMC's control over the physician base will also increase the reliance of community hospitals on UPMC specialists to fill gaps, making it difficult for community hospitals to remain independent.

Facing the combination of these factors, Highmark believes that it is compelled to take action to preserve its ability to deliver value in the face of market discontinuities. Given UPMC's dominant position in the health care provider market in its service area (approximately 60% in Allegheny County and approximately 40% in southwestern Pennsylvania), Highmark believes that the absence of UPMC from the Highmark network, when coupled with the current weakened financial position of WPAHS, leads to a significant threat of disruption for Highmark's policyholders and subscribers. After careful consideration of the strategic implications, Highmark believes that it is uniquely positioned as a partner to WPAHS for both sustainably improving its financial and strategic position and, importantly, for ensuring that WPAHS moves forward as a nonprofit entity serving the mission of providing choice and access to affordable, high-quality healthcare to the population of the region.

STAKEHOLDERS OF THE WPAHS AFFILIATION

The success of Highmark's IDN strategy has implications across a broad array of stakeholders. Not only is there substantial value of the affiliation to Highmark and to WPAHS, but also to Highmark's policyholders and subscribers, other providers in the region, the employees of both entities, and the community at large. Even other payors will benefit from more choice and competition in the area and the cost reductions that will be achieved.

VALUE TO HIGHMARK POLICYHOLDERS AND SUBSCRIBERS

Highmark's strategy seeks to address the shortcomings pervasive in the current health care delivery system by creating a structure that coordinates care, aligns physician incentives, introduces innovation, and promotes evidence-based protocols and a differentiated patient experience. The development of a second, high-quality IDN in western Pennsylvania provides significant strategic value to Highmark and eliminates its dependency on UPMC and its contract demands.

Highmark policyholders and subscribers fundamentally benefit from choice and competition in the market. If Highmark cannot undertake its IDN strategy with WPAHS as a key component, the market will be dominated by one provider system and ultimately costs, and premiums, will increase. Highmark does not believe there is another party willing to invest to make WPAHS a viable, high quality competitor to UPMC with the objective of lowering the cost of care. When the affiliation with WPAHS is complete and other elements of the strategy are in place, Highmark policyholders and subscribers in western Pennsylvania will realize several major benefits.

Lower premiums. Highmark believes that its affiliation with WPAHS will help stabilize WPAHS's financial position and preserve WPAHS as an essential choice in the western Pennsylvania market. A vibrant WPAHS will give Highmark's policyholders and subscribers access to high-quality healthcare services built around a commercial product that will be less expensive than any product that includes UPMC. Highmark estimates that without the actions contemplated in this strategy, annual premiums for a family of four will be $3,000 higher than they would be with an affiliation between Highmark and WPAHS. The implementation of an alternative integrated delivery system in the market, creating the ability to reduce the rate of increase of healthcare costs, will reduce the rate of increase of insurance premiums. In addition, national healthcare reform will require that Highmark offer products costing less through state-based exchanges. Consumers in other states like Massachusetts, which has implemented similar sets of reforms, have demonstrated that they prefer insurance products that are 10-15% less expensive even if the provider network excludes several hospitals and doctors.

Choice will provide the checks necessary to assure that costs are controlled which in turn helps Highmark remain competitive. Highmark engaged a consulting firm to analyze the impact of the IDN strategy on the cost of care. The results of that work have been presented previously to the Department. Based on this work, Highmark's actuaries have determined that, overall, the savings associated with Highmark operating as an integrated delivery and financing system will be more than 10% by 2015 for consumers electing to participate in IDN products. Highmark estimates that medical costs can be reduced by 2 - 6% simply by redirecting to appropriate, lower cost settings, while assuring quality and likely improving patient experience. Highmark further believes that improvements in the quality and coordination of care will result in cost savings estimated at more than $200 million per year.

More transparency and, ultimately, higher quality. WPAHS and other community hospitals already have agreed to engage in a quality-based reimbursement system linking payments directly to the provision of quality health care. This reimbursement system, the quality metrics of which will be broadly available to every policyholder and subscriber for evaluation, induces providers, including community hospitals, to adhere to the highest standards of medicine and to ensure that the policyholder/subscriber knows much more precisely what he or she is consuming and what the cost of services are.

More choice of, and access to, providers. Preserving the financial integrity of WPAHS will permit policyholders and subscribers and patients from all insurance carriers, not just Highmark, to have greater access and choice in western Pennsylvania.

More integrated care and better subscriber experience. By developing a system that can coordinate health insurance and health provision and by introducing reimbursement structures that reward care coordination and the patient's experience, Highmark is creating an organization that improves the overall satisfaction and clinical outcomes of its policyholders and subscribers when they seek care.

Right care, in the right place, at the right time. An integrated delivery model offers the ability to move funds around in the healthcare delivery closed loop to incent the right behaviors for the benefit of patients. Moreover, because the overall care provided will be less expensive, Highmark's product will be less expensive and therefore more attractive to employers, whether self-insured or purchasing a fully insured product. Assuming a competitive insurance market, the hospitals within the system will succeed because of the higher volumes of Highmark insurance enrollees and not from the outdated model of driving higher utilization of services. The physicians engaged in the PCMH model will be incented to select the highest quality, lowest cost setting for services, so hospitals will compete for physician business. Once Highmark and WPAHS are affiliated, Highmark believes that it can jointly accelerate the quality-cost initiatives and incent all parties to focus on providing to patients the right care, at the right time, in the right setting.

Valuable Assets. Following the affiliation and the transaction with WPAHS's current bondholders, Highmark will hold an investment in the bonds of WPAHS, a financial asset on Highmark's balance sheet, and will be a secured creditor for the bonds. The value of the assets of WPAHS will support the cost of Highmark's "investment" in WPAHS. In addition, the other investments Highmark is making as part of the IDN strategy – JRMC, SVHS/SVHC and the physician organization – are all

financially stable assets, often whose book value exceeds the transaction amounts. When the WPAHS assets are included with other assets that are components of the IDN strategy, the IDN is an asset of significant value and has the potential to generate substantially more.

VALUE TO WPAHS

WPAHS is an important component to Highmark's IDN strategy and the realization of the strategy's objectives. WPAHS will benefit from the affiliation through critical financial support, increased patient volume, participation in innovative models of healthcare delivery and financing, enhanced clinical protocols, capital improvements and innovative technology.

Critical and Immediate Financial Support. Highmark has provided $200 million in funding support to WPAHS since June 2011. This intervention, however, only preserved a fragile financial status quo for a limited time. An affiliation between Highmark and WPAHS will stabilize WPAHS and provide much needed access to funding for the health system to retool to meet the emerging needs of the market. The strategic partnership will preserve WPAHS as an essential choice in the market and as the anchor to a higher-performing network based on the efficient market principles described throughout this document: pay for performance, transparency, and value-based exchange of services for dollars. WPAHS will benefit from being aligned with a partner that can offer financial incentive through product and benefit design and innovative reimbursement strategies.

Increased Patient Volume. Highmark expects that its plans to enhance the WPAHS facilities and its partnerships with other community hospitals, once executed, will help increase referrals over time from independent physicians and non-UPMC facilities. The IDN provider organization, integrated together with the WPAHS physician organization will serve as a critical source of patient volume to the WPAHS facilities. In addition, part of the strategy and proposed affiliation with WPAHS is to attract new clinical partners to the region, for example, hiring and relocating new oncology experts, as well as creating the physical capacity and technology to handle an increase in patient flow. Highmark is also in a unique position to work with WPAHS and other aligned community hospitals to increase patient volume through a suite of product designs that promote value and optimize utilization in the IDN as a whole.

Innovative Models of Healthcare Delivery. WPAHS will derive value from its participation in the pay for performance reimbursement structure giving it the opportunity to raise reimbursement levels

for certain procedures by lowering costs elsewhere in the system, adhering to evidence-based care, participating in a set of shared services, and improving first-time outcomes. The ACA and PCMH models will help WPAHS deliver the right care, to the right place, at the right time, thereby lowering its cost structure.

Evidence Based Protocols. A robust network of aligned primary care physicians and facilities, financially encouraged to improve quality and reduce costs, will enhance adherence to evidence-based protocols, deepen prevention and screening efforts, and foster closer coordination and collaboration across the care continuum. Incentives will promote the adoption of new protocols and/or alter care offerings. Access to certain shared service platforms, such as clinical protocols and other supporting information embedded in electronic health records, will be built at a scale that WPAHS could not independently create and will help to realign the WPAHS operating model to compete more effectively in a future environment.

Innovation and Improvements. As stated earlier, WPAHS has already realized value from this affiliation through various capital projects contemplated and underway, from the new ED at West Penn Hospital to the facility improvements at Forbes Hospital. There are also key information technology projects that have been initiated as part of the IDN strategy from which WPAHS will also benefit. Health information exchanges, electronic medical records and new network and infrastructure resources will help facilitate the integration and communication among constituents in the healthcare delivery cycle, improving member and patient experiences and removing costs from the process.

VALUE TO PROVIDERS

In addition to the organizations with which Highmark is affiliating, Highmark is convinced that many other providers (physicians, community hospitals, ancillary care providers) in Pennsylvania are aligned with this mission, as evidenced by collaborative arrangements Highmark is already pursuing in areas such as HIE infrastructure, physician services, accountable care organizations, patient centered medical homes and other innovative reimbursement models. There are many benefits for providers joining this "virtual" network (meaning full participation without having to be legally integrated):

A pay-for-performance ("P4P") reimbursement structure for hospitals will provide the opportunity to raise reimbursement levels for certain procedures by lowering costs elsewhere in the system, adhering to evidence-based care, participating in a set of shared services, and improving first-time outcomes.

A similar reimbursement structure for their affiliated physicians will create financial incentives to reduce unnecessary utilization, reduce variability in practice, manage length of stay more effectively, and select cost efficient options.

Shared service platforms (e.g., clinical protocols and other supporting information, HIE's, revenue cycle solutions) will be built at a scale that providers could not independently create, helping providers to realign their operating models to compete more effectively.

University-affiliated educational programs and residents in training will be sponsored by WPAHS with the goal of giving students a diverse set of experiences by working across the region and ultimately keeping more physicians in the region long-term.

Highmark continues to welcome all providers to join in this network, with the hope that they will share the aspiration of providing the community lower-cost, high-quality, patient-centered healthcare and with the understanding that consumers prefer to have more choice. Highmark will offer products and tools making the differences in cost and performance relevant and transparent, giving policyholders and subscribers full freedom of choice with the information and incentive to use the better performing or higher value providers.

Highmark is contributing to the development of this network with four initiatives addressing the provider community. Highmark is (1) re-aligning the incentives for physicians through new reimbursement models; (2) securing access to a "full-service" network of lower-cost, highly efficient care providers; (3) promoting the introduction of innovative care models and lower-cost sites of treatment; and (4) building platforms to support care redesign and cost reduction within the provider community.

VALUE TO EMPLOYEES

Preservation of WPAHS is critical to the people of the communities that it serves and to the over 10,500 people that it employs. This affiliation provides WPAHS with the best opportunity available

to continue to service all of the communities that it currently serves, while maintaining its not for profit mission and continuing its support of the employment base in western Pennsylvania. For employees, an important benefit of this affiliation is that the WPAHS pension will remain in place, and they will ultimately be employed by a viable, financially stable entity that has access to capital and the potential to grow and thrive. Subsequent to the affiliation, it is anticipated that WPAHS will transition to a growth strategy and expand its employee base.

Preservation of WPAHS as a community asset also will help the economic state of the region beyond the employment provided by WPAHS. Employers in western Pennsylvania have recognized the importance of WPAHS as a community asset and, particularly, as an alternative to the UPMC Health System, to enable healthy competition to hold down increases in the cost of health care. Without WPAHS as a viable alternative to UPMC, there will be few checks on cost increases. Employers have expressed to Highmark their concern that, without an alternative system, the cost of health care in the region will increase to unaffordable levels, forcing them to relocate, which would result in the loss of new and/or existing jobs in the region.

Highmark's focus on the creation of the IDN has resulted in its assembling a staff of over 200 since the proposed affiliation with WPAHS was announced. In addition, Highmark, secured by the benefits of an IDN, is a more viable employer for its nearly 10,000 health plan employees.

VALUE TO THE COMMUNITY

Choice and Competition. Highmark believes that its affiliation with WPAHS will help stabilize WPAHS's financial position and preserve WPAHS as an essential choice in the western Pennsylvania market. The need to maintain provider choice and competition in the market is critical, not only for Highmark and its policyholders and subscribers, but also for all other insurers and their policyholders and subscribers and the local communities in which all these organizations operate. This balance is essential to a well performing health services market. Without choice and competition, the price of healthcare in the market will be largely driven by a single dominant health care system and consumer costs will escalate. Competition will provide the checks necessary to assure that costs are controlled.

Employer Cost Savings. Employers in the region will benefit from increased access to care and competition among providers in the region. Pittsburgh has the highest healthcare costs as a percent of median household income. Without the IDN, Highmark projects that the healthcare costs will

continue to grow at approximately 6% per year, the rate at which they have grown over the last five (5) years. While this trend will result in healthcare becoming unaffordable for many individuals, it will also place significant pressure on employers, particularly those in self-funded groups. Employers in the community will benefit from the affiliation from lower healthcare costs, a higher standard of care and fewer employee absences.

Other Regions. Regions proximate to Pittsburgh will benefit from the cost-efficient care at WPAHS facilities. Assuming that the insurance market is competitive and insurance companies can compete to attract and retain subscribers, completing the IDN will ensure that Highmark's core health services markets thrive and that policyholders and subscribers in other areas will continue to receive the high levels of service, access at affordable premiums and community participation that are Highmark's hallmarks. Additionally, the knowledge, innovations and new technology gained through the development of the IDN will be leveraged across all other regions in which Highmark operates.

Community Programs. Highmark is driven by a mission to be the leading health and wellness company in the communities it serves and a vision for all members of the community to have access to affordable, quality health care. The company's commitment to its mission and vision has been among its highest priorities. WPAHS's mission is to practice medicine, educate and conduct research as an integrated team of physicians, nurses and support professionals who are committed to improving the health of its patients. Its defined purpose is to improve the health of the people in the western Pennsylvania region. If the affiliation is approved, it will allow Highmark and the hospital systems with which it is affiliated to combine their community efforts to provide an even greater impact on western Pennsylvanians. If the affiliation is not approved, many of the community programs that WPAHS and others historically provided and that the community has come to rely upon may not be offered.

Helping to build stronger communities of healthier people has been the cornerstone of the missions of Highmark, WPAHS, JRMC and SVHS/SVHC since their respective inceptions. For many years, these organizations have made substantial community contributions through the provision of free and reduced-cost health care and financial support of health-related programs. Since its inception, Highmark and its subsidiaries and affiliates have partnered with countless schools, businesses and charitable organizations to provide access to affordable, quality health care and to inspire healthy living in the communities they serve.

In 2011, Highmark and its subsidiaries and affiliates contributed $174 million for community-related activities, including support for programs to help hold down the cost or expand access to individual health insurance programs for lower-income families and older adults. Highmark companies also provided grants to, and worked collaboratively with, many health and human services programs in central and western Pennsylvania, West Virginia and Delaware to help address a variety of community health needs, including health, dental and vision screenings, childhood nutrition and bullying prevention, community rural health, senior wellness education and immunizations for seniors. In 2011, the WPAHS and its subsidiaries and affiliates provided $68 million in community benefit services and nearly $66.7 million in uncompensated patient care to the western Pennsylvania community. Both Highmark and WPAHS are unwavering in their commitment to their charitable and community activities. Both organizations intend to maintain their respective commitments to providing funding, supporting and inspiring good health in their shared local community, and the IDN is critical to enabling them to do so.

HIGHMARK IS THE BEST PARTNER FOR WPAHS

Highmark believes that it is the only partner that can intervene in a way that preserves the value of WPAHS for today and transforms it as necessary for future healthcare. Given the size of the funding commitment Highmark is making to WPAHS as part of the affiliation and WPAHS's history, Highmark also believes the only prudent and efficient way for it to proceed is with a direct affiliation.

Highmark has the tools necessary to ensure a robust turnaround for WPAHS without resorting to reimbursement increases (e.g., ability to realign reimbursement incentives, align independent physicians, and deploy shared service platforms). WPAHS has asserted its willingness to engage in Highmark's new approach to reimbursement, consumer engagement, choice and transparency. A direct affiliation reduces traditional barriers to speedy and effective implementation of these changes.

Highmark believes that other partnership options would irreparably damage WPAHS's ability to serve as an anchor in the transformation of the healthcare system, or would create delays that the system cannot afford. Highmark believes that ongoing uncertainty as to the extent and timing of a WPAHS turnaround will only amplify the crisis of confidence among WPAHS stakeholders and make decisive action by WPAHS management more difficult.

At a basic level, in order to restore financial and strategic health, WPAHS needs to both increase its overall revenue and reposition its cost structure. In pursuit of the former, WPAHS could seek (as do many providers in financial distress) to increase its commercial reimbursements from the insurers in the market. Highmark believes, however, that this course would not be in the best interest of Highmark's policyholders and subscribers-or the community at large. No other hospital system or partner can bring the same benefits to WPAHS. By including WPAHS as a significant part of a redesigned, high-value network, Highmark can increase the strategic relevance of WPAHS to physicians and other provider partners in the market.

From a cost perspective, Highmark's ability to realign incentives provides WPAHS with the necessary impetus and incentive to engage employed, affiliated and independent physicians to reduce unnecessary utilization and eliminate clinical waste. No other partner can offer this capability to WPAHS. Highmark's scale also allows it to invest across the market in the shared service platforms that will have the effect of assisting WPAHS in reducing its costs and increasing the promotion of evidence-based care. Highmark is unique in its ability to offer a comprehensive solution that links WPAHS with independent physicians and providers in this manner. As affiliated entities, Highmark and WPAHS will be more attractive to other world-class clinical partners who could bring other benefits to the system.

As part of its strategy, Highmark will include WPAHS in its initiatives with other providers across the market to promote lower cost, high-value outpatient care facilities and alignment with physicians in outreach and recruitment. As a part of the Highmark network, WPAHS will not be required to make duplicative capital investments to obtain this return. Highmark's ability to convene other parties in its network is a unique ability that only Highmark can offer WPAHS and a critical one for rebuilding the relationships necessary to increase volume.

Highmark was and is able to provide funding to WPAHS on a timely basis, allowing positive change to occur sooner. This sets Highmark apart as a partner to WPAHS and provides value (economic and strategic) to permanently reset the performance level. Without the benefits only it can offer, Highmark believes WPAHS will be forced to consolidate or close parts of its system which would limit its value to Highmark policyholders/subscribers and community members and as a viable provider of choice in the community.

For Profit Buyers. As WPAHS is a troubled asset, other entities would need to realize an increase in revenues and cost reductions to make the transaction viable. Like UPMC, other potential partners will seek increased reimbursements to improve the financial state of WPAHS. It is unlikely that other entities would be focused on reducing care costs in the region. This would drive Highmark costs up and, as a result, increase commercial premiums. Unless WPAHS partners with another large payor organization, it will be unable to link product design and reimbursement strategies to drive value. In addition, for profit organizations will not share or be committed to the social and charitable mission of the WPAHS organization.

Time Sensitivity. WPAHS's financial state continues to suffer and the assets continue to deteriorate. It is uncertain how long it would take to identify and come to agreement with another potential partner. The confidence of physicians and key personnel will be eroded further and cause a migration of key assets to other more stable health systems. In 2002, Saint Francis Health system, at the time the largest hospital in Pittsburgh, was experiencing similar financial difficulties. When its attempts to solicit another Catholic partner failed, it hired consultants to help identify partners. UPMC was reportedly the only bidder for the organization. UPMC's proposal included shutting down the Lawrenceville, PA facility, maintaining and operating a facility in Cranberry, PA, and selling off the New Castle, PA facility to Jameson, which Highmark helped to finance. In 2005, Mercy Hospital was also reported to have experienced difficultly in identifying other partners beyond UPMC. The financial condition of the WPAHS requires an immediate solution that will also provide for the long-term vitality of the health system.

Joint Venture Options. At this time, Highmark believes that a joint venture with another organization and WPAHS will not help to support the efforts to reduce healthcare costs in the region. Without reducing costs, the health system will continue to suffer financially, and joint venture partners will seek to increase reimbursements, thus driving up premium rates and having a negative impact on Highmark's policyholders. Finding interested parties may also require a timeline that would not support maintaining WPAHS's financial viability. This does not preclude potential options to joint venture with other parties in the future once the health system is stabilized.

There are a number of considerations when exploring the options for investors and partners for WPAHS. Many of these options would have a negative impact to the system's immediate financial needs while, at the same time, would limit the ability to reduce the cost of care in the region. Absent a strategic relationship with Highmark, including integration with the IDN and innovative

reimbursement strategies, most other partners will seek to increase revenues of the system by raising reimbursement amounts, which is not in the best interest of the healthcare market in western Pennsylvania.

FINANCIAL PROJECTIONS

As a supplement to its Amendment No. 1 to Form A, UPE provided the Department with certain confidential information reflecting the projected financial performance of UPE, Highmark, UPE Provider Sub and their subsidiaries and affiliates. The following is a summary of the assumptions and considerations that were factored into the projections, as well as a summary of the conclusions.

Assumptions and Considerations. Several major assumptions and considerations are reflected in the financial projections:

- The projections incorporate the agreed upon terms of the amendment to the WPAHS Affiliation Agreement described in Amendment No.2 to Form A dated January 18, 2013, and assumptions regarding the bond tender and related Highmark financing, all of which are described earlier within this document.

- Highmark's contracting position with UPMC – The contract extension between Highmark and UPMC requires Highmark to pay higher contracting rates than it had been paying in order to secure in-network access to UPMC facilities and UPMC physicians through December 2014. Although Highmark intends to continue to pursue a longer term agreement with UPMC, UPMC has publicly stated that it does not intend to renew the contracts. Accordingly, the projections assume that UPMC will not renew the contracts, and access to certain UPMC facilities will be terminated, effective December 31, 2014.

- The cost of the IDN strategy to Highmark – Highmark's assumed total investment in the IDN strategy is currently expected to be approximately $1 billion. Specifically, the projections anticipate the closing of the affiliation with JRMC and the proposed affiliations with WPAHS and SVHS/SVHC.

- The turnaround of WPAHS – Highmark engaged Grant Thornton LLP (GT) to complete financial projections for WPAHS. These projections, which are discussed in more detail in Exhibit D,

have been revised since those presented in the July 2012 filing with the Department and take into account the amendment to the Affiliation Agreement between Highmark and WPAHS, including related financial details, as explained earlier.

- Health care reform is implemented and healthcare exchanges are implemented in 2014.

Highmark estimates the implementation of the IDN strategy will be approximately $1 billion. The table below sets forth the currently anticipated allocation of expenditures by purpose. (Note: precise allocations are subject to change over time as developments warrant.)

PURPOSE	ESTIMATED EXPENDITURE (dollars in millions)
WPAHS	$475
JRMC / SVHS	$155
Expansion of Provider Network - Physicians, community hospitals and ambulatory care facilities	$344
Infrastructure development - MSO, GPO	$26
TOTAL	**$1,000**

To date, Highmark has expended or committed to expend approximately $907 million of the amount it anticipates to spend on the IDN strategy, $311 million of which has been spent. With the exception of the $275 million of the remaining commitment under the existing WPAHS Affiliation Agreement, none of the expenditures or commitments is contingent upon approval of the Form A filing by the Department.

The financial projections further assume the corporate structure outlined in the Amendment No. 1 to Form A in July 2012. The projections assumed that UPE and UPE Provider Sub would become operational on January 31, 2013 upon closing of the then-proposed affiliation with JRMC. Upon closing of the affiliation with WPAHS, which is assumed to be April 30, 2013, all provider activity that was initiated at Highmark will be transferred to UPE Provider Sub. Highmark also will contribute to UPE the portion of the IDN investment that is to be made directly by UPE or UPE

Provider Sub. This amount is estimated at $94 million. The projections for 2012 through 2016 for UPE, Highmark and UPE Provider Sub are provided in Exhibits A, B and C, respectively.

The financial conclusions of the projections are as follows:

- UPE – 2013 results for UPE reflect only a partial year of control related to all entities, including Highmark, and as such do not reflect a full year of operations. UPE is projected to break-even in 2013, due to costs associated with implementation of the IDN strategy and projected losses at WPAHS. The projections for 2014 through 2016 reflect positive net income that increases over time due in part to the anticipated turnaround of WPAHS and the further development of assets that are part of the IDN strategy. By 2016, UPE is projected to generate nearly $660 million in operating gain, or 3.3% of revenue.

- Highmark – The projected net income of $106 million in 2013 is significantly impacted by investments in the provider strategy. The projected net income for 2014 through 2016 returns to a net income margin that approximates 2%. The projections through 2016 indicate that net income is sufficient to keep Highmark's risk-based capital, a measure utilized by regulators to monitor the financial health of an insurance company, in the range deemed sufficient by the Department, which is 550-750%. Highmark will remain a financially strong company subsequent to the implementation of the IDN strategy. Management completed stress testing on Highmark's financial results, assuming various negative factors, and determined that, in these cases, Highmark's financial strength would continue to remain in the sufficient range defined by the Department.

- UPE Provider Sub – UPE Provider Sub is projected to incur a net loss in 2013, primarily as a result of continued losses at WPAHS and provider activities initiated at Highmark that are not yet mature. The projections reflect improvement in 2014 through 2016, as the WPAHS results improve and the IDN capitalizes on the synergies available to an entity of this depth and size.

SUMMARY AND CONCLUSION

Without a Highmark-WPAHS affiliation and a fully developed IDN, choice in the provider market will be limited. The provider market will be dominated by one large provider, UPMC, which will continue to expand and will be unchecked in its ability to set the price for access to its network.

Highmark's weakened competitive position, reduced enrollment and inability to create a differentiated, value oriented product will adversely impact healthcare consumers' ability to make value conscious decisions and to mitigate UPMC's higher costs. The price of Highmark's products will be driven upward by contract increases with limited opportunity to achieve the savings that are projected through an affiliation with WPAHS and a more robust provider network.

The IDN will represent the coming together of multiple organizations dedicated to common goals and objectives, including changing the way in which health care is financed and delivered to their policyholders, subscribers and patients. The participants are committed to improving the quality and affordability of health care and enhancing the patient experience through collaborative relationships with physicians and operational excellence. Highmark believes that the IDN will result in a stable integrated health system which will be a valuable community asset offering high quality, lower cost health services across the continuum of care. As part of the IDN, WPAHS will provide an alternative for community providers with respect to quaternary and tertiary care.

Highmark is convinced that the IDN will provide the fastest and most efficient structure for bringing value to its policyholders, subscribers and the community at large. Moreover, the IDN will ensure that the funds Highmark provides are utilized in a manner that is consistent with its mission, its vision and its values.

By building a network committed to the principles of affordable and accessible care, and the changes in clinical practice, reimbursement, and structural alignment that are required to deliver that care, Highmark believes it can ensure that its current policyholders and subscribers avoid the cycle of unsustainable and increasing premiums for undifferentiated quality. Highmark projects those policyholders and subscribers will not only get lower cost products, but also the security that a robust provider alternative exists for the future. This will ensure that the basic dynamics of market competition will help manage the system better. Policyholders and subscribers in the southwestern Pennsylvania region will have access to care in all areas and services, a situation that is currently at risk. The community will retain WPAHS as a nonprofit community asset, committed to investing in the community and serving its nonprofit mission. Finally, the IDN ensures that the participants will work together in a way that produces a model for how healthcare delivery and financing will work successfully in the future.

1650780

TAB M

AMENDED AND RESTATED

BYLAWS

OF

WEST PENN ALLEGHENY HEALTH SYSTEM, INC.

Effective Date: _____, 20__

TABLE OF CONTENTS

AMENDED AND RESTATED BYLAWS

OF

WEST PENN ALLEGHENY HEALTH SYSTEM, INC.

ARTICLE I

NAME AND PURPOSES

1.1 **Name**.

The name of the Corporation is West Penn Allegheny Health System, Inc. The Corporation may do business under such other names as may be determined by the Board of Directors.

1.2 **Purposes**.

The Corporation is organized under the Pennsylvania Nonprofit Corporation Law, (the "Nonprofit Corporation Law") for scientific, educational and charitable purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code"), and in this connection is organized:

(a) To provide, maintain, operate, and support, directly and through its controlled affiliates, the provision, maintenance, management, and operation of, on a nonprofit basis, in-patient and out-patient hospital facilities and health care services for the benefit of persons who require medical care and services of the kind customarily furnished most effectively by hospitals, without regard to race, creed, color, sex, age, religion, national origin, sexual orientation, ability to pay, or any other criteria not related to medical indications for admission or treatment;

(b) To carry on educational and scientific activities related to the care of the sick and injured;

(c) To carry on scientific research related to the care of the sick and injured;

(d) To carry on activities designed to promote the general health of the communities in which it operates;

(e) To operate as part of the nonprofit regional health care system governed by [*name of Ultimate Parent Entity*], a Pennsylvania nonprofit corporation ("Ultimate Parent"), and support a health care provider network comprised of the Corporation and those corporations and other entities over which the Corporation exercises governance control (the "subsidiaries"), each of which (i) operates, raises funds for, or conducts activities otherwise ancillary to the operation of, health care facilities in order to extend health care to sick, injured and disabled persons, without regard to age, sex, race, religion, national origin or sexual orientation, or (ii) carries on educational and/or scientific research activities related to the causes, diagnosis,

treatment, prevention or control of physical or mental diseases and impairments of persons, and each of which is an organization exempt from taxation under Section 501(c)(3) of the Code and classified as other than private foundations under Section 509(a)(1), 509(a)(2) or 509(a)(3) of the Code;

(f) To carry out such other acts and to undertake such other activities as may be necessary, appropriate or desirable in furtherance of or in connection with the conduct, promotion or attainment of the foregoing purposes, provided, that none of such activities shall be undertaken which would cause the Corporation to lose its status as an organization described in Section 501(c)(3) of the Code, or as an organization contributions to which are deductible under Section 170(c)(2) of the Code; and

(g) To otherwise operate exclusively for charitable, scientific or educational purposes within the meaning of Section 501(c)(3) of the Code.

ARTICLE II

OFFICES

2.1 **Registered Office**.

The registered office of the Corporation shall at all times be within the Commonwealth of Pennsylvania at such address as may be established by the Board of Directors.

2.2 **Business Offices**.

The Corporation may have business offices at such places permitted by law as the business of the Corporation may require.

ARTICLE III

MEMBERS

3.1 **Membership**.

The Corporation shall have one (1) member, which shall be [*name of Provider Subsidiary*] (the "Member"). There shall be no other members or classes of membership. The Chief Executive Officer or the President of the Member shall be entitled to vote on behalf of the Member in accordance with the authority granted to the Chief Executive Officer or the President of the Member unless the Member notifies the Corporation in writing that another officer is authorized to vote on behalf of the Member.

3.2 **Meetings**.

(a) Annual Meeting. The annual meeting of the Member of the Corporation shall be held immediately following the annual meeting of the Board of Directors of the Member, or at such other time as the Member may determine, to elect members of the Board of

Directors and officers of the Corporation, and to transact such other business as may come before the meeting.

(b) Special Meetings. Special meetings of the Member may be called by the Chairperson of the Board of the Corporation, one-third (1/3) of the members of the Board of Directors of the Corporation or by one-third (1/3) of the members of the Board of Directors of the Member.

(c) Notice of Meetings. Notice of any meeting of the Member shall be given by, or at the direction of, the Secretary of the Corporation at least then (10) days prior to the day named for a meeting that will consider a fundamental change under Chapter 59 of the Nonprofit Corporation Law or five days prior to the day named for the meeting in any other case.

(d) Written Consent. Any action which may be taken at a meeting of the Member may be taken without a meeting if a consent in writing setting forth the action so taken shall be signed by the Member and filed with the Secretary.

3.3 **Powers**.

(a) Reserved Powers of Member. For so long as such rights and powers do not result in the revocation of the Corporation's status as an organization described in Section 501(c)(3) of the Code, the Member shall have the right and power to make recommendations to Ultimate Parent with respect to actions by Ultimate Parent on the matters reserved to Ultimate Parent under Section 3.3(b) of these Bylaws. Ultimate Parent shall have no obligation to approve any such recommendations, and Ultimate Parent may take actions that have not been recommended by, or that are contrary to recommendations of, the Member.

(b) Reserved Powers of Ultimate Parent. For so long as such rights and powers do not result in the revocation of the Corporation's status as an organization described in Section 501(c)(3) of the Code, the following rights and powers are reserved to Ultimate Parent:

(i) Subject to the provisions of Section [4.2 and 4.3] of these Bylaws, to determine the number of directors that will comprise the Board of Directors of the Corporation;

(ii) Subject to the provisions of Section [4.2, 4.3, 4.4 and 4.5] of these Bylaws, to elect the directors of the Corporation;

(iii) Subject to Sections [4.2 and 4.7(b)] of these Bylaws, to remove of any of the directors of the Corporation to replace any such director for the unexpired portion of his or her term;

(iv) To approve the election, re-election and removal of all officers, including the Chief Executive Officer, of the Corporation and the subsidiaries in accordance with Article V;

(v) Subject to Section [7.1(a)] of the Affiliation Agreement, dated as of October 31, 2011, among Ultimate Parent, the Corporation, Highmark Inc., Member,

Canonsburg General Hospital, Alle-Kiski Medical Center and the other WPAHS Subsidiaries as defined therein (the "Affiliation Agreement"), to amend, revise or restate the Corporation's and the subsidiaries' Articles of Incorporation and Bylaws; provided however, that Ultimate Parent shall have no power to amend, revise or restate Section 4.2(b), Section 4.7(b)(i), or this proviso of Section 3.3(b)(v) of these Bylaws, each of which may be amended only upon the concurrent approval of both (a) a majority of those Directors of the Corporation that are elected by UPE to serve as Directors, voting as a class, and (b) a majority of the Self-Perpetuating Directors (as defined in Section 4.2(b)), voting as a class;

(vi) Subject to Section [7.5(i)] of the Affiliation Agreement, to adopt or change the mission, purpose, philosophy or objectives of the Corporation or the subsidiaries;

(vii) Subject to Sections [7.5(i) and 7.6] of the Affiliation Agreement, to change the general structure of the Corporation or any of the subsidiaries as a voluntary, nonprofit corporation;

(viii) Subject to Sections [7.5(i) and 7.6] of the Affiliation Agreement, to (1) dissolve, divide, convert or liquidate the Corporation or the subsidiaries, (2) consolidate or merge the Corporation or the subsidiaries with another corporation or entity, (3) sell or acquire assets, whether in a single transaction or series of transactions, where the consideration exceeds 1% of the Corporation's consolidated total assets;

(ix) To approve the annual consolidated capital and operating plan and budget of the Corporation and the subsidiaries, and any amendments thereto or significant variances therefrom;

(x) Subject to Section [7.6] of the Affiliation Agreement, to approve the incurrence of debt by the Corporation and the subsidiaries or the making of capital expenditures by the Corporation and the subsidiaries during any fiscal year of the Corporation, in either case in excess of one quarter of 1% of the consolidated annual operating budget of the Corporation for such fiscal year, if such debt or capital expenditures are not included in the Corporation's or subsidiaries' approved budgets, whether in a single transaction or a series of related transactions;

(xi) Subject to Section [7.6] of the Affiliation Agreement, to approve any donation or any other transfer of the Corporation's or the subsidiaries' assets, other than to the Member or to the Corporation by the subsidiaries, in excess of $10,000.00, unless specifically authorized in the Corporation's or the subsidiaries' approved budgets;

(xii) Subject to Section [7.5] of the Affiliation Agreement, to approve strategic plans and mission statements of the Corporation and the subsidiaries;

(xiii) To approve investment policies of the Corporation and the subsidiaries;

(xiv) To approve the closure or relocation of a licensed healthcare facility of the Corporation and the subsidiaries;

(xv) Subject to Section [7.5(i) and 7.6)] of the Affiliation Agreement, to approve the formation of subsidiary corporations, partnerships and joint ventures or to make investments in existing subsidiary corporations, partnerships and joint ventures, if the new investments of the Corporation and the subsidiaries in such subsidiary corporations, partnerships and joint ventures during any fiscal year would, in the aggregate, exceed 1% of the Corporation's consolidated total assets at the end of the prior fiscal year of the Corporation;

(xvi) Subject to Section [7.5(i) and 7.6)] of the Affiliation Agreement, to approve the dissolution of subsidiary corporations, partnerships and joint ventures of the Corporation and the subsidiaries, if the aggregate value of the ownership interests of the Corporation and the subsidiaries in such subsidiary corporations, partnerships and joint ventures so dissolved in any fiscal year would exceed 1% of the Corporation's consolidated total assets at the end of the prior fiscal year;

(xvii) To establish and manage the Corporation's program for compliance with all legal requirements applicable to the Corporation and the hospitals operated by the Corporation (the "Corporation Hospitals"), all accreditation and licensing requirements and the conditions of participation in all governmental payor programs applicable to the Corporation or the Corporation Hospitals;

(xviii) To select and appoint auditors and to designate the fiscal year of the Corporation and the subsidiaries; and

(xix) To give such other approvals and take such other actions as are specifically reserved to members of Pennsylvania nonprofit corporations under the Nonprofit Corporation Law.

Except as may otherwise be provided by the Nonprofit Corporation Law, Ultimate Parent shall have the right to both initiate and approve action in furtherance of such reserved powers, as well as the authority to directly bind the Corporation and the subsidiaries on such matters. Any action taken in this regard by Ultimate Parent shall be sufficient to finally approve and adopt such actions and no action of the Board of Directors or other governing body or officer with respect to such action shall be necessary with respect thereto.

ARTICLE IV

BOARD OF DIRECTORS

4.1 **Powers and Duties**.

Subject to Section 3.3 of these Bylaws, all powers of the Corporation shall be vested in the Board of Directors, which shall have charge, control and management of the property, business, affairs and funds of the Corporation and shall have the power and authority to perform all necessary and appropriate functions not otherwise inconsistent with these Bylaws, the Articles of Incorporation or applicable law.

Subject to Section 3.3 of these Bylaws, and without limiting the generality of the foregoing and except as otherwise may be provided in these Bylaws, the Board of Directors shall have full power and the duty:

(a) To set policies and provide for carrying out the purposes of the Corporation;

(b) To make rules and regulations for its own governance and for the governance of the committees appointed by the Board of Directors as provided herein;

(c) To adopt and amend from time to time such rules and regulations for the conduct of the business of the Corporation as may be appropriate or desirable.

(d) To manage the Medical Staffs as contemplated in Article VIII hereof;

(e) To adopt, amend, repeal and restate the Medical Staff Bylaws, as proposed by the Medical Staff pursuant to these Bylaws;

(f) To maintain the quality of patient care; and

(g) To periodically reexamine the relationship of the Board of Directors to the communities of the Corporation Hospitals.

4.2 **Election of Directors**.

(a) General. Subject to the limitations set forth in this Section 4.2 of these Bylaws, Ultimate Parent shall elect all directors.

(b) Self-Perpetuating Directors. Not less than 25% of the Board of Directors shall consist of directors ("Self Perpetuating Directors") who are elected in accordance with this Section 4.2(b). The initial Self Perpetuating Directors shall be designated by the Board of Directors of this Corporation immediately prior to [*Closing Date*] and shall be community representatives and physicians affiliated with the Corporation. Any vacancy in the Board of Directors caused by the death, resignation or removal of a Self-Perpetuating Director or by the expiration of the term of a Self-Perpetuating Director shall be filled by a person designated by a majority of the remaining Self-Perpetuating Directors. If the number of directors is increased or decreased, additional Self-Perpetuating Directors shall be elected or existing Self-Perpetuating Directors may be removed, as the case may be, by a majority of the existing Self-Perpetuating Directors, such that the number of Self-Perpetuating Directors is as close as possible to, but not less than, 25% of all directors on the Board of Directors after such increase or decrease. Until [*date that is four years after the Closing Date*], any new Self-Perpetuating Director must be a community representative or a physician affiliated with the Corporation. At no time shall any Self-Perpetuating Director or his or her successor in perpetuity contemporaneously be a trustee, director, agent or employee of Ultimate Parent, Provider Subsidiary or any of their respective related entities (except for such Self-Perpetuating Directors' service on the Corporation's Board of Directors).

4.3 **Number/Qualifications**.

(a) Composition. Subject to Section 4.2 of these Bylaws, the Board of Directors shall consist of such number of persons as the Ultimate Parent may determine, but in no case less than three (3).

(b) Certain Qualifications. No individual may be elected to the Board of Directors unless the individual is eligible to serve on the Board of Directors pursuant to applicable law, the Articles of Incorporation and these Bylaws. Each director shall be a natural person of at least 18 years of age.

(c) Independence. At least a majority of the directors shall be persons whom the Board of Directors has determined are "independent directors" within the meaning of such term as defined by the Internal Revenue Service for exempt organizations under Section 501(c)(3) of the Code, and as such, are broadly representative of the community. No director, other than the Ex-Officio Director, shall be an officer or employee of the Corporation or any entity controlled by the Corporation.

(d) Common Directors With Member and Ultimate Parent. The members of the Board of Directors must include at least one person who is also serving as a member of the board of directors of Member and Ultimate Parent. The same member of the Board of Directors need not be serving on both such boards.

(e) SEC Actions. Any person who is, or ever has been, subject to an order of a court or the Securities and Exchange Commission prohibiting such person from acting as an officer or director of a public company shall not be eligible to serve as a director.

(f) Age Limitations. No person who is seventy-five (75) years of age or older may be nominated or re-nominated for election or re-election as a director. Any director who reaches the age of seventy-five (75) shall no longer be qualified to serve as a director after the next annual meeting of the Board of Directors.

4.4 **Election and Term**.

(a) Term of Directors. The Board of Directors shall be divided, as evenly as practicable, into three classes and shall serve staggered terms. Except as otherwise indicated in this Section 4.4(a), at the end of their respective initial terms, all directors shall serve for terms of three (3) years or until their successors are elected and have qualified.

(b) Chairperson. The Board of Directors shall elect from among the directors an individual to serve as Chairperson of the Board. The Chairperson shall not be an employee of the Corporation. The Chairperson shall preside at all meetings of the Board of Directors and shall perform all duties incident to the office of Chairperson of the Board and such other duties as may be prescribed by the Board of Directors.

(c) Vice Chairperson. The Board of Directors may elect from among the directors a Vice Chairperson of the Board. The Vice Chairperson shall not be an employee of the Corporation. The Vice Chairperson shall perform the duties of the office of Chairperson of

the Board in the absence of the Chairperson of the Board and such other duties as may be prescribed by the Board of Directors.

4.5 **Vacancies**.

Any vacancy in the Board of Directors caused by the death, resignation or removal of a director or a director ceasing to qualify to serve as a director prior to the expiration of that director's term between annual meetings of Ultimate Parent shall be filled by an individual elected by Ultimate Parent, except as otherwise provided in Section 4.2(b) of these Bylaws with respect to Self-Perpetuating Directors.

4.6 **Meetings**.

(a) Annual Meetings. The annual organizational meeting of the Board of Directors shall be held on such other date as the Board of Directors may determine, at such time and place as shall be determined by the Board of Directors, without further notice than the resolution setting such date, time and place.

(b) Regular Meetings. Regular meetings of the Board of Directors shall be held not less than four (4) times a year, each at such date, time and place as shall be determined by the Board of Directors, without further notice than the resolution setting such date, time and place.

(c) Special Meetings. Special meetings of the Board of Directors may be called at any time by the Chairperson of the Board, the Chief Executive Officer or one-third (1/3) of the members of the Board of Directors, the date, time and place of each such meeting to be designated in the notice calling the meeting. Notice of any special meeting of the Board of Directors shall be given at least forty-eight (48) hours prior thereto and shall state the general nature of the business to be transacted.

(d) Adjournment. When a meeting of the Board of Directors is adjourned, it shall not be necessary to give any notice of the adjourned meeting or the business to be transacted at the adjourned meeting other than by announcement at the meeting at which such adjournment is taken.

(e) Quorum. Directors constituting a majority of the directors in office shall constitute a quorum for the transaction of business at any meeting of the Board of Directors.

(f) Voting and Action. Each director shall be entitled to one vote on any matter submitted to a vote of the Board of Directors, and action by the Board of Directors on any matter shall require the affirmative vote of a majority of the directors in office unless a greater proportion of affirmative votes is required by applicable law, the Articles of Incorporation or these Bylaws.

(g) Use of Conference Telephone. Except as the Board of Directors otherwise may determine, one or more persons may participate in a meeting of the Board of Directors or of any committee thereof by means of conference telephone or similar communications equipment

by means of which all persons participating in the meeting can hear and be heard by each other. Participation in a meeting in such manner shall constitute presence in person at the meeting.

(h) Action by Unanimous Written Consent. Any action which may be taken at a meeting of the Board of Directors may be taken without a meeting if a consent or consents in writing setting forth the action so taken shall be signed by all of the directors in office and filed with the Secretary.

4.7 **Resignation/Removal**.

(a) Resignation. Any director may resign his or her office at any time, such resignation to be made in writing and to take effect immediately or at such subsequent time stated in such writing. Any director who ceases to meet the eligibility requirements contained in applicable law or in these Bylaws to serve as a director forthwith shall resign his or her office, such resignation to be made in writing and to take effect immediately.

(b) Removal. Any director may be removed, with or without cause, by Ultimate Parent; provided, that only a majority of the other Self-Perpetuating Directors may remove a Self-Perpetuating Director, whether with or without "cause." For this purpose "cause" shall mean:

a) the director is declared of unsound mind by an order of court;

b) the director is indicted for, or convicted of, or enters a plea of guilty or nolo contendere to, a felony;

c) the director engages in fraudulent or dishonest acts or in any act of moral turpitude;

d) the director engages in gross abuse of authority or discretion with respect to the Corporation;

e) the director violates the Corporation's Code of Conduct Policy;

f) the director fails to attend four consecutive meetings of the Board of Directors;

g) the director engages in other conduct that is detrimental to the best interests of the Corporation or its reputation; or

h) the director has breached such director's duties under Section 5712 of the Nonprofit Corporation Law.

4.8 **Limitation of Liability**.

(a) Limitation of Liability. To the fullest extent that the laws of the Commonwealth of Pennsylvania, as now in effect or as hereafter amended, permit elimination or

limitation of the liability of directors, no director of the Corporation shall be personally liable for monetary damages as such for any action taken, or any failure to take any action, as a director.

(b) Nature and Extent of Rights. The provisions of this Section 4.8 shall be deemed to be a contract with each director of the Corporation who serves as such at any time while this Section is in effect and each such director shall be deemed to be so serving in reliance on the provisions of this Section. Any amendment or repeal of this Section or adoption of any Bylaw or provision of the Articles of the Corporation which has the effect of increasing director liability shall operate prospectively only and shall not affect any action taken, or any failure to act, prior to the adoption of such amendment, repeal, Bylaw or provision.

4.9 **Compensation**.

The Board of Directors may determine the compensation of directors for their services as directors, members of committees of the Board of Directors or otherwise, and also may determine the compensation of persons who are not directors who serve on any committees established by the Board of Directors; provided that such compensation is reasonable compensation within the meaning of Section 4958 of the Code.

ARTICLE V

OFFICERS

5.1 **Officers; Election**.

The principal officers of the Corporation shall be a Chief Executive Officer, a Chief Financial Officer, a Treasurer and a Secretary, each of whom shall be elected by the Board of Directors, subject to the approval of Ultimate Parent, and such other officers as the Board of Directors, subject to the approval of Ultimate Parent, may elect, which may include one or more Presidents, one or more Executive, Senior or Corporate Vice Presidents, and one or more Assistant Treasurers or Assistant Secretaries. Each such officer shall hold office for a term of one year (or such other term as the Board of Directors shall determine for any office from time to time) and until his or her successor has been selected and qualified or until his or her earlier death, resignation or removal. Any number of offices may be held by the same person.

5.2 **Responsibilities of Officers**.

(a) Chief Executive Officer. The Chief Executive Officer shall be responsible for the general and active management of the business and affairs of the Corporation and shall exercise general supervision and authority over all of its agents and employees and shall perform all duties incident to the office of Chief Executive Officer and such other duties as may be assigned by the Member or the Board of Directors. The Chief Executive Officer shall supervise the implementation of all policies, orders and resolutions of the Board of Directors and shall execute all contracts and agreements authorized by the Board of Directors, except that he or she may delegate to other officers of the Corporation the power to execute contracts in the ordinary course of business or as otherwise may be authorized by the Board of Directors.

(b) President(s). The President(s) shall be responsible for the direct administration, supervision and control of such activities in the management of the Corporation as may be assigned by the Chief Executive Officer or the Board of Directors.

(c) Chief Financial Officer. The Chief Financial Officer shall be responsible for financial accounting and reporting for the Corporation and such other duties as may be assigned by the Chief Executive Officer or the Board of Directors.

(d) Vice Presidents. Each Vice President shall perform such duties as may be assigned by the Chief Executive Officer or the Board of Directors.

(e) Treasurer. The Treasurer shall, in accordance with the policies of the Board of Directors and under the direction of the Chief Executive Officer or the Chief Financial Officer, have general charge and custody of and be responsible for all funds and securities of the Corporation, and shall make such reports in such form and manner as the Chief Executive Officer, the Chief Financial Officer or the Board of Directors may direct. The Treasurer shall receive and give receipts for monies due and payable to the Corporation and deposit such monies in the name of the Corporation in such banks, trust companies or other depositories as may be selected in accordance with the provisions of these Bylaws. The Treasurer shall keep account of such receipts and deposits and approve expenditures of the Corporation and shall perform all duties incident to the office of Treasurer and such other duties as may be assigned by the Chief Executive Officer, the Chief Financial Officer or the Board of Directors.

(f) Secretary. The Secretary shall keep the minutes of the meetings of the Board of Directors and its committees in one or more books provided for that purpose, shall notify members of the Board of Directors of their election, shall see that all notices are duly given in accordance with the provisions of these Bylaws, shall be custodian of the corporate records and of the seal of the Corporation, and shall see that the seal of the Corporation is affixed, when necessary, to all instruments and documents the execution of which has been authorized by the Board of Directors or a committee thereof, shall keep a record of the address of each director, and shall perform all duties incident to the office of Secretary and such other duties as may be assigned by the Chief Executive Officer or the Board of Directors. In the absence of the Secretary or in the event of his or her inability to act, the Chairperson of the Board of Directors shall appoint an individual to discharge the duties of the Secretary.

(g) Assistant Secretaries and Assistant Treasurers. The Assistant Secretaries and Assistant Treasurers shall perform such duties as may be assigned by the Secretary or the Treasurer, respectively, or by the Chief Executive Officer or the Chief Financial Officer, as appropriate, or the Board of Directors.

5.3 **Removal of Officers**.

Any officer of the Corporation (including the Chief Executive Officer) may be removed, with or without cause, by the Board of Directors, subject to the approval of Ultimate Parent, without prejudice to such officer's contractual rights, if any.

5.4 **Bonds**.

The Board of Directors may require any officer to give bond and security in such sum and with such surety or sureties as the Board of Directors may determine.

ARTICLE VI

COMMITTEES

6.1 **Committees**.

(a) Standing Board Committees. The Board of Directors shall have a Corporate Governance and Nominating Committee, an Audit Committee and a Personnel and Compensation Committee and the Board of Directors may establish such other standing committees as it deems to be necessary or desirable (the "Standing Board Committees"). All Standing Board Committees shall be comprised solely of directors and shall have charters governing their powers and duties, which charters shall be approved by the Board of Directors. The Board of Directors shall appoint the members and a chairperson and a vice chairperson of each Standing Board Committee.

(b) Special Committees and Program Committees. The Board of Directors may establish one or more special committees of directors ("Special Committees") to advise the Board of Directors and to perform such other functions as the Board of Directors determines, including without limitation a Medical Education and Research Committee and a Quality and Satisfaction Committee. The Board of Directors may establish one or more committees, which may include directors and persons who are not directors, to assist it with aspects of the Corporation's operations ("Program Committees"). Subject to the provisions of these Bylaws, the Board of Directors may delegate such authority to a Special Committee or a Program Committee as it deems to be appropriate and desirable and as is not prohibited by applicable law. The Board of Directors shall establish the manner of selecting members, chairpersons and vice chairpersons, if any, and the terms of office of the members of each Special Committee and Program Committee.

6.2 **Term**.

Except as otherwise provided in these Bylaws, each member of a Standing Board Committee shall continue as such until the next annual meeting of the Board of Directors or until a successor has been appointed as provided herein, unless such person resigns, is removed or otherwise ceases to serve on such Standing Board Committee for any reason.

6.3 **Quorum and Action**.

Except as otherwise provided in these Bylaws or the charter of a committee approved by the Board of Directors, a majority of the members comprising any committee appointed by the Board of Directors pursuant to these Bylaws shall constitute a quorum for the transaction of business, and the acts of a majority of committee members present at a meeting at which a quorum is present shall constitute the acts of the committee, unless a greater proportion is required by applicable law, the Articles of Incorporation or these Bylaws.

6.4 **Action by Unanimous Written Consent**.

Except as otherwise provided in these Bylaws or a charter of a committee approved by the Board of Directors, any action which may be taken at a meeting of any committee appointed by the Board of Directors pursuant to these Bylaws may be taken without a meeting if a consent or consents in writing setting forth the action so taken shall be signed by all of the members of such committee and filed with the Secretary.

6.5 **Removal**.

Any member of a Standing Board Committee, Special Committee or Program Committee may be removed at any time, with or without cause, by the Board of Directors at any regular or special meeting.

6.6 **Vacancies**.

Any vacancy in any Standing Board Committee, Special Committee or Program Committee caused by the death, resignation or removal of a member of such committee prior to the expiration of that member's term shall be filled by another person appointed by the Board of Directors. The member so appointed shall serve the remaining unexpired term of the member so replaced.

6.7 **Exclusions from Committee Membership**.

Physicians who receive compensation from the Corporation, whether directly or indirectly or as employees or independent contractors, are precluded from membership on any committee whose jurisdiction includes compensation matters. No physician, either individually or collectively, is prohibited from providing information to any committee regarding physician compensation.

6.8 **Corporate Governance and Nominating Committee**.

(a) Composition. The Corporate Governance and Nominating Committee shall consist of such number of directors, but in no case less than three (3), as may be determined by the Board of Directors. None of the members of the Corporate Governance and Nominating Committee shall be employees of the Corporation or of any entity controlled by the Corporation.

(b) Responsibilities. In addition to any responsibilities delegated to it by the Board of Directors, the Corporate Governance and Nominating Committee shall be responsible for:

(i) Recommending candidates for election as directors at each annual meeting of [*Ultimate Parent Entity*];

(ii) Recommending to [*Ultimate Parent Entity*] candidates for election as directors to fill any vacancies occurring on the Board of Directors; and

(iii) Recommending candidates for election or reelection as Chairperson of the Board and Vice Chairperson of the Board.

(c) Timing. At least fifteen (15) days before each annual, regular or special meeting of the Member, the Corporate Governance and Nominating Committee shall recommend the requisite number of individuals who satisfy the qualifications established in these Bylaws for election as directors of the Corporation.

6.9 **Audit Committee**.

(a) Composition. The Audit Committee shall consist of such number of directors, but in no case less than three (3), as the Board of Directors shall determine. None of the members of the Audit Committee shall be employees of the Corporation or of any entity controlled by the Corporation.

(b) Responsibilities. In addition to any responsibilities delegated to it by the Board of Directors, the Audit Committee shall be responsible for accepting the annual independent audit report of the Corporation's financial statements, as prepared by the external auditors, and render or cause to be rendered an audit report to the Board of Directors at its annual meeting.

6.10 **Personnel and Compensation Committee**.

(a) Composition. The Personnel and Compensation Committee shall consist of such number of directors, in no case less than three (3), as the Board of Directors shall determine. None of the members of the Personnel and Compensation Committee shall be employees of the Corporation or of any entity controlled by the Corporation or of any entity controlled by the Corporation and none may have a conflict of interest as defined in Section 4958 of the Code and applicable regulations.

(b) Responsibilities. In addition to any responsibilities delegated to it by the Board of Directors, the Personnel and Compensation Committee shall be responsible for:

(i) Evaluating the performance of the principal officers of the Corporation; and

(ii) Recommending to the Board of Directors for recommendation to Ultimate Parent the selection and compensation of the principal officers of the Corporation.

ARTICLE VII

INDEMNIFICATION OF DIRECTORS, OFFICERS AND OTHERS

7.1 **Right to Indemnification - General**.

Any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (whether brought by or in the name of the Corporation or

otherwise), by reason of the fact that he or she is or was a representative of the Corporation, or is or was serving at the request of the Corporation as a representative of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified by the Corporation to the fullest extent now or hereafter permitted by applicable law in connection with such action, suit or proceeding arising out of such person's service to the Corporation or to such other corporation, partnership, joint venture, trust or other enterprise at the Corporation's request. The term "representative," as used in this Article VII, shall mean any director, officer, member of a committee created by or pursuant to these Bylaws, and any other person who may be determined by the Board of Directors to be a representative entitled to the benefits of this Article VII.

7.2 **Right to Indemnification - Third Party Actions**.

Without limiting the generality of Section 7.1 of these Bylaws, any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation), by reason of the fact that he or she is or was a representative of the Corporation, or is or was serving at the request of the Corporation as a representative of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified by the Corporation against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him or her in connection with such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

7.3 **Right to Indemnification - Derivative Actions**.

Without limiting the generality of Section 7.1 of these Bylaws, any person who was or is a party, or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he or she is or was a representative of the Corporation, or is or was serving at the request of the Corporation as a representative of another corporation, partnership, joint venture, trust or other enterprise, shall be indemnified by the Corporation against expenses (including attorneys' fees) actually and reasonably incurred by him or her in connection with the defense or settlement of such action, suit or proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, the best interests of the Corporation; except, however, that indemnification shall not be made under this Section 7.3 in respect of any claim, issue or matter as to which such person has been adjudged to be liable to the Corporation unless and only to the extent that the Court of Common Pleas of the county in which the registered office of the Corporation is located or the court in which such action, suit or proceeding was brought determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to

indemnity for such expenses that the Court of Common Pleas or such other court shall deem proper.

7.4 **Advance of Expenses**.

Unless in a particular case advancement of expenses would jeopardize the Corporation's tax exempt status under Section 501(a) of the Code or result in the Corporation's failure to be described in Section 501(c)(3) of the Code, expenses (including attorneys' fees) incurred by any representative of the Corporation in defending any action, suit or proceeding referred to in this Article VII shall be paid by the Corporation in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the representative to repay such amount if it is ultimately determined that he or she is not entitled to be indemnified by the Corporation as authorized in this Article VII or otherwise.

7.5 **Procedure for Effecting Indemnification**.

Unless ordered by a court, any indemnification under Section 7.1, Section 7.2 or Section 7.3 of these Bylaws shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the representative is proper in the circumstances because he or she has met the applicable standard of conduct set forth in such subsections. Such determination shall be made:

(a) By the Board of Directors by a majority of a quorum consisting of directors who were not parties to such action, suit or proceeding; or

(b) If such a quorum is not obtainable, or if obtainable and a majority vote of a quorum of disinterested directors so directs, by independent legal counsel in a written opinion.

7.6 **Indemnification Not Exclusive**.

The indemnification and advancement of expenses provided by or granted pursuant to this Article VII shall not be deemed exclusive of any other rights to which a person seeking indemnification or advancement of expenses may be entitled under any other provision of these Bylaws, agreement, vote of disinterested directors or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding such office shall continue as to a person who has ceased to be a representative of the Corporation and shall inure to the benefit of the heirs and personal representatives of such person.

7.7 **When Indemnification Not Made**.

Indemnification pursuant to this Article VII shall not be made in any case where (a) the act or failure to act giving rise to the claim for indemnification is determined by a court to have constituted willful misconduct or recklessness or (b) indemnification would jeopardize the Corporation's tax exempt status under Section 501(a) of the Code or result in the Corporation's failure to be described in Section 501(c)(3) of the Code.

7.8 **Grounds for Indemnification**.

Indemnification pursuant to this Article VII, under any other provision of these Bylaws, agreement, vote of directors or otherwise may be granted for any action taken or any failure to take any action and may be made whether or not the Corporation would have the power to indemnify the person under any provision of law except as otherwise provided in this Article VII and whether or not the indemnified liability arises or arose from any threatened, pending or completed action by or in the right of the Corporation. The provisions of this Article VII shall be applicable to all actions, suits or proceedings within the scope of Section 7.1, Section 7.2 or Section 7.3 of these Bylaws, whether commenced before or after the adoption hereof, whether arising from acts or omissions occurring before or after the adoption hereof.

7.9 **Power to Purchase Insurance**.

The Corporation may purchase and maintain insurance on behalf of any person who is or was a representative of the Corporation or is or was serving at the request of the Corporation as a representative of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the Corporation would have the power to indemnify him or her against such liability under the provisions of this Article VII.

7.10 **Creation of a Fund to Secure or Insure Indemnification**.

The Corporation may create a fund of any nature, which may, but need not be, under the control of a trustee, or otherwise secure or insure in any manner its indemnification obligations, whether arising under or pursuant to this Article VII or otherwise.

7.11 **Status of Rights of Indemnities**.

The rights to indemnification and advancement of expenses provided by or granted pursuant to this Article VII shall (a) be deemed to create contractual rights in favor of each person who serves as a representative of the Corporation at any time while this Article is in effect (and each such person shall be deemed to be so serving in reliance on the provisions of this Article), and (b) continue as to a person who has ceased to be a representative of the Corporation.

7.12 **Applicability to Predecessor Companies**.

For purposes of this Article VII, references to the "Corporation" includes all constituent corporations or other entities which shall have become a part of the Corporation by consolidation or merger or other similar transaction and their respective current and former affiliates, and references to "representatives" shall include members of any such corporation, entity or affiliate, so that any person who was a member, director, officer, committee member or other representative of such a corporation, entity or affiliate or served as a member, director, officer, committee member or other representative of another corporation, partnership, joint venture, trust or other enterprise at the request of any such corporation, entity or affiliate shall stand in the same position under the provisions of this Article VII with respect to the Corporation as he or she would if he or she had served the Corporation in the same capacity. Without

limitation of the foregoing, each member, director, officer and committee member of each predecessor to the Corporation shall have the same contract rights as are afforded pursuant to Section 7.11 of these Bylaws.

ARTICLE VIII

MEDICAL STAFFS

8.1 Medical Staffs Generally.

The Board of Directors shall create one functional unit within Allegheny General Hospital ("AGH Medical Staff"), one functional unit within The Western Pennsylvania Hospital ("WPH Medical Staff"), and one functional unit within Forbes Regional Hospital ("FRH Medical Staff)"; the AGH Medical Staff, the WPH Medical Staff, and the FRH Medical Staff are sometimes hereinafter referred to collectively as the "Medical Staffs"; each a "Medical Staff". The AGH Medical Staff, the WPH Medical Staff, and the FRH Medical Staff shall each be composed of physicians, dentists, and such other health care practitioners as determined by the Board of Directors. Each Medical Staff shall be delegated the responsibility for making recommendations at their respective Corporation Hospital(s) concerning clinical privileges, the medical staff appointment of practitioners, the quality of medical care delivered in the respective Corporation Hospital(s), and the rules and regulations governing the practice of practitioners within such Corporation Hospital(s). The AGH Medical Staff shall be an internal component of Allegheny General Hospital, the WPH Medical Staff shall be an internal component of The Western Pennsylvania Hospital, and the FRH Medical Staff shall be an internal component of Forbes Regional Hospital. Each Medical Staff shall have bylaws outlining its structure and function so that it may fulfill its delegated responsibilities in an effective fashion. Only such Medical Staff Bylaws as are adopted by the Board of Directors shall be effective. The Board of Directors retains the right to rescind any authority or procedures delegated to any or all of the AGH Medical Staff, the WPH Medical Staff, or the FRH Medical Staff by bylaws or otherwise and to amend the bylaws as necessary for the good operation of the relevant Corporation Hospital. The power of the Board of Directors to adopt or amend Medical Staff bylaws, rules, and regulations, shall not be dependent upon ratification by the respective Medical Staff.

8.2 Organization of Medical Staff.

The AGH Medical Staff, the WPH Medical Staff, and the FRH Medical Staff shall be divided into clinical departments. The appointment of clinical department chairs and of all Medical Staff standing committee chairs for each Medical Staff shall be approved by the Board of Directors.

8.3 Appointment to Medical Staff.

All appointments to the AGH Medical Staff, to the WPH Medical Staff, and to the FRH Medical Staff shall be made by the Board of Directors for a period not to exceed two years. Appointments, reappointments, and the delineation of privileges shall be made in accordance with such Corporation Hospital's policy and/or its Medical Staff bylaws; provided, however, that

nothing therein contained shall limit the legal rights and obligations of the Board of Directors with respect to such matters.

8.4 **Denial of Privileges**.

In the circumstances delineated in, as appropriate, the AGH Medical Staff bylaws, the WPH Medical Staff Bylaws, or the FRH Medical Staff bylaws and to the extent provided therein, an applicant to one of the Medical Staffs or a Medical Staff member affected by an action relating to Medical Staff privileges shall be afforded the opportunity of a full hearing before an appropriately constituted body (which body may be a joint conference of other hospitals comprising part of the System), conducted in such manner as to assure due process and to afford full opportunity for the presentation of all pertinent information, pursuant to the specific Corporation Hospital policy or the respective Medical Staff bylaws. No recommendation or action other than as set forth in the relevant Medical Staff bylaws shall constitute grounds for a hearing.

ARTICLE IX

PATIENT'S BILL OF RIGHTS

The Chief Executive Officer shall designate one or more management individuals with the responsibility of ensuring that a Patient's Bill of Rights for each of the Corporation Hospitals not less in substance and coverage than required by the Pennsylvania Department of Health regulations is disseminated to all patients of the Hospital.

ARTICLE X

CONTRACTS, LOANS, CHECKS AND DEPOSITS

10.1 **Contracts**.

Subject to Section 3.3 of these Bylaws, the Board of Directors may authorize any officer or officers or agent or agents to enter into any contract or execute or deliver any agreement or instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances.

10.2 **Loans**.

Subject to Section 3.3 of these Bylaws and Section 7.6 of the Affiliation Agreement, the Board of Directors may authorize the borrowing by the Corporation of such sum or sums of money as the Board of Directors may deem advisable, and to mortgage or pledge any or all of the real or personal property and any or all of the other available assets of the Corporation in order to secure the payment of the principal amount of any such borrowing and the interest thereon and any and all such other amounts as may become due on account thereof.

10.3 **Checks**.

All checks, drafts or other orders for the payment of money, notes or other evidence of indebtedness shall be issued in the name of the Corporation and shall be signed by such officer or officers or agent or agents of the Corporation and in such manner as from time to time shall be determined by the Board of Directors.

10.4 **Deposits**.

All funds of the Corporation shall be deposited to the credit of the Corporation in such banks, trust companies or other depositories as the Board of Directors may approve.

ARTICLE XI

NOTICE AND CONDUCT OF MEETINGS

11.1 **Written Notice**.

Except as otherwise provided in these Bylaws, whenever written notice is required to be given by any person under the provisions of any statute or these Bylaws, it may be given by sending a copy thereof through the mail or overnight delivery or by hand delivery, in each case with charges prepaid, or by facsimile transmission confirmed by one of the foregoing methods, to the individual's address appearing on the books of the Corporation or supplied by the individual to the Corporation for the purpose of notice.

11.2 **Written Waiver of Notice**.

Whenever any written notice is required as set forth in these Bylaws, a waiver thereof in writing signed by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice.

11.3 **Waiver of Notice by Attendance**.

Attendance of a person in person at any meeting shall constitute a waiver of notice of such meeting except when a person attends the meeting for the express purpose of objecting to the transaction of any business because the meeting has not been lawfully called or convened.

11.4 **Procedure**.

All meetings of the Board of Directors and the committees thereof shall be conducted in an orderly manner with a view to affording full and fair discussion of the matters properly before such meetings.

ARTICLE XII

MISCELLANEOUS

12.1 **No Contract Rights**.

Except as specifically set forth in Sections 4.2, 4.4(b), 4.5, 4.7(b), 4.8 and 7.11 of these Bylaws, no provision of these Bylaws shall vest any property or contract right in any person.

12.2 **Corporate Seal**.

The Board of Directors shall prescribe the form of a suitable corporate seal, which shall contain the full name of the Corporation and the year and state of incorporation.

12.3 **Fiscal Year**.

The fiscal year of the Corporation shall end on such day as shall be fixed by Ultimate Parent.

12.4 **Auxiliary Organizations**.

The Board may provide for the establishment of auxiliary organizations. The bylaws of any such organizations shall be subject to approval by the Board of Directors.

ARTICLE XIII

AMENDMENTS

13.1 **Amendments**.

Subject to Section 3.3 (b)(v) of these Bylaws and Section 7.1(a) of the Affiliation Agreement, these Bylaws may be altered, amended or repealed, or new Bylaws may be adopted, only by Ultimate Parent.

ARTICLE XIV

CONFLICTS OF INTEREST

14.1 **Disclosure**.

In connection with any actual or possible conflict of interest, an interested person must disclose the existence and nature of his or her financial interest to the Board of Directors and any relevant committee members. For this purpose, an interested person shall include any director, officer, or member of a committee of the Corporation or an entity affiliated with the Corporation who has a direct or indirect financial interest in a proposed transaction. A financial interest shall include: (a) an ownership or investment interest in any entity with which the

Corporation has a proposed transaction or arrangement; (b) a compensation arrangement with the Corporation or with any entity or individual with which the Corporation has a proposed transaction or arrangement; and (c) a potential ownership or investment interest in, or compensation arrangement with, any entity or individual with which the Corporation is negotiating a transaction or arrangement. If a person is an interested person with respect to any entity in the health care system of which the Corporation is a part, he or she is an interested person with respect to all entities in the health care system.

14.2 **Recusal and Investigation**.

After disclosure of the financial interest, the interested person shall leave the Board of Directors or committee meeting while the financial interest is discussed and voted upon. The remaining directors or committee members shall decide if a conflict of interest exists. If a conflict of interest exists, the following procedures shall be followed: (a) the Chief Executive Officer shall, if appropriate, appoint a disinterested person or committee to investigate alternatives to the proposed transaction or arrangement; (b) after exercising due diligence, the Board of Directors or committee shall determine whether the Corporation could obtain a more advantageous transaction or arrangement with reasonable efforts from a person or entity that would not give rise to a conflict of interest; and (c) if a more advantageous transaction or arrangement is not reasonably attainable, the Board of Directors or committee shall determine by a majority vote of the disinterested directors whether the transaction or arrangement is in the Corporation's best interests and for its own benefit and whether the transaction is fair and reasonable to the Corporation and shall decide as to whether to enter into the transaction or arrangement in conformity with such determination.

14.3 **Failure to Disclose**.

If a director or committee member has reasonable cause to believe that an interested person has failed to disclose actual or possible conflicts of interest, he shall inform the interested person of the basis of such belief and afford the interested person an opportunity to explain the alleged failure to disclose. If, after hearing the response of the member and making such further investigation as may be warranted in the circumstances, the Board of Directors or committee determines that the interested person has in fact failed to disclose an actual or possible conflict of interest, the Board of Directors shall take appropriate steps to protect the Corporation.

14.4 **Record of Actions**.

The minutes of the Board of Directors and all relevant committees shall contain the following: (a) the names of persons who disclosed or otherwise were found to have a financial interest in connection with an actual or possible conflict of interest, the nature of the financial interest, any action taken to determine whether a conflict of interest was present, and the Board of Directors' or committee's decision as to whether a conflict of interest in fact existed; and (b) the names of the persons who were present for discussions and votes relating to the transaction or arrangement, the content of the discussion, including any alternatives to the proposed transaction or arrangement, and a record of any votes taken in connection therewith.

14.5 **Compensation**.

Special procedures shall be in effect with respect to compensation issues. A voting member of the Board of Directors or any committee whose jurisdiction includes compensation matters and who receives compensation, directly or indirectly, from the Corporation for services is precluded from voting on matters pertaining to that member's compensation. Physicians who receive compensation from the Corporation, whether directly or indirectly or as employees or independent contractors, are precluded from membership on any committee whose jurisdiction includes compensation matters. No physician, either individually or collectively, is prohibited from providing information to any committee regarding physician compensation.

14.6 **Annual Statements**.

Each interested person shall annually sign a statement that affirms that such person (a) has received a copy of the conflicts of interest policy, (b) has read and understands the policy, (c) has agreed to comply with the policy, and (d) understands that the Corporation is a charitable organization and that in order to maintain its federal tax exemption it must engage primarily in activities that accomplish one or more of its tax-exempt purposes. This policy shall be reviewed annually for the information and guidance of members of the Board of Directors, and any new member shall be advised of the policy upon entering on the duties of his office. In addition, the Corporation shall conduct periodic reviews of its activities, including any transactions or arrangements with interested persons, to ensure that its activities in the aggregate promote and further the Corporation's exempt charitable, scientific, and educational purposes.