PENNSYLVANIA INSURANCE DEPARTMENT

ADDENDUM NO. 4 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 8, 2013

On January 22, 2013, UPE provided the Pennsylvania Insurance Department (PID) with a "Supplemented Overview of Highmark's Strategic Vision" (Supplemented Overview). The Supplemented Overview included a description of a vision for an integrated delivery network (IDN) that would assure that consumers in western Pennsylvania have choices in healthcare providers. As set forth in the Supplemented Overview, the IDN has at its core an affiliation between Highmark and West Penn Allegheny Health System (WPAHS). The Supplemented Overview described the benefits of having a second IDN in the western Pennsylvania market and, specifically, of the affiliation between Highmark and WPAHS. The Supplemented Overview also included financial projections for UPE, Highmark and UPE Provider Sub (with WPAHS as a subsidiary) in a scenario that, as a result of UPMC's consistent public statements, assumed that the provider contracts between Highmark and UPMC are terminated effective December 31, 2014 (the "UPMC Out of Network Projections").

Notwithstanding the assumptions in the UPMC Out of Network Projections, Highmark has consistently taken the position, contrary to UPMC's, that a long term contract between Highmark and UPMC is in the best interest of consumers and the western Pennsylvania community. In October and November 2011, while it was in the process of finalizing its affiliation agreement with WPAHS, Highmark ran ads in the local Pittsburgh media stating, "At Highmark we . . . have a plan. It has always been to assure the community has affordable access to all community healthcare assets, regardless of their insurance affiliation, and to give patients a choice. The Highmark plan is based on two fundamental elements. The first is to negotiate a fair contract with UPMC to guarantee our customers have access to the hospitals built by and for the community. The second is to reinvigorate the West Penn Allegheny Health System to assure there are alternatives in healthcare delivery." In November 2011, shortly after the announcement of the signing of the affiliation agreement, Highmark's then-President and CEO, testifying before the Pennsylvania Senate Banking and Insurance Committee, said, ". . . I would propose that Mr. Romoff [UPMC's CEO] and I issue a joint statement telling the community that, despite our current disagreements, Highmark and UPMC are committed to signing a new contract that benefits the entire community by making healthcare more affordable and preserving the access western Pennsylvania residents have enjoyed for nearly a century." In May 2012, shortly after Highmark and UPMC signed an agreement in principle to extend their contractual arrangements through December 2014, Highmark's Division President of Health Services and Executive Vice President wrote in a letter to customers, "I want to stress that a multi-year contract agreement between Highmark and UPMC beyond 2014 is still a priority for Highmark, and the western Pennsylvania community fully supports our efforts to maintain a choice of healthcare providers throughout our region – including affordable access to UPMC hospitals and physicians over the long term." Highmark's current CEO has consistently and repeatedly said that Highmark wishes to have a stable, long term, market-based agreement with UPMC that serves the broader community and that allows for consumer choice and affordable healthcare. Highmark has never wavered in its position in this regard.

Highmark also has been consistent in its view that a contract between Highmark and UPMC will not deter or harm the turnaround of WPAHS.

Highmark previously has provided the PID's advisors with projections for WPAHS indicating that, even in a scenario which posits that UPMC remains in Highmark's network, the turnaround of WPAHS will occur, albeit at a slower pace than if Highmark were not to have a UPMC contract. The current projections for this scenario reflect that WPAHS will produce positive results by fiscal year 2015, enabled by the many opportunities that lie within WPAHS and through the development of provider activities within the IDN, which support growth at WPAHS. The UPE enterprise, and Highmark in particular, are stronger in a scenario that contemplates the continuation of the provider contracts between Highmark and UPMC.

At the request of the PID, UPE is now providing financial projections for UPE, Highmark, UPE Provider Sub, as well as WPAHS, that assume the continuation of a Highmark / UPMC contract beyond December 31, 2014 (the "UPMC In Network Projections"). Below is a summary of the assumptions and considerations utilized in the development of the UPMC In Network Projections and the relevant financial conclusions.

Assumptions and Considerations

- Highmark / WPAHS Affiliation Agreement - The projections assume the closing of the transactions contemplated by the affiliation agreement between Highmark and WPAHS, as amended, as was outlined in the filing on January 22, 2013. The projections incorporate the terms of that agreement and assumptions regarding the bond tender and related Highmark financing, all of which are described in the filing on January 22, 2013.

- Highmark's contracting position with UPMC - While UPMC has to date refused to discuss contract extensions with Highmark, the UPMC In Network Projections requested by the PID assume that Highmark is successful in achieving its goal of a long term contract with UPMC. Because of the negative effect that contracts restricting transparency and consumer choice have on consumers' ability to make informed decisions, the projections also assume that UPMC is not permitted to continue its anti-competitive practice of prohibiting Highmark from offering products that allow consumers to lower their healthcare costs by choosing providers based on cost and quality measures.

- Highmark's competitive position – The continuation of a Highmark / UPMC provider contract minimizes the disruption for Highmark policyholders / subscribers and, as a result, Highmark has higher projected enrollment in the UPMC In Network Projections than it does in the UPMC Out of Network Projections.

- Care Costs in the Community and for Highmark Policyholders / Subscribers – With the exception of reduced emergency care costs, the source and value of savings associated with UPE's IDN are unchanged between the UPMC Out of Network and UPMC In Network Projections. Care costs are reduced in the IDN by aligning provider incentives to deliver patient value rather than utilization volume.

- Corporate Structure - The projections assume that Highmark continues to pursue the same corporate structure proposed in the prior PID filings.

- The cost of the IDN strategy to Highmark – Highmark's assumed total investment in the IDN strategy remains unchanged at approximately $1 billion. Additionally, the details regarding the projected allocation of the $1 billion remain unchanged from the filing on January 22, 2013.

- The turnaround of WPAHS – As stated above, in a scenario that contemplates a Highmark / UPMC contract continuation beyond December 31, 2014, the UPMC In Network Projections reflect the turnaround of WPAHS will occur, albeit at a slower pace. Detailed assumptions regarding the WPAHS projections are provided as Exhibit E.

- Healthcare reform is implemented and healthcare exchanges are implemented in 2014.

The UPMC In Network Projections for UPE, Highmark, UPE Provider Sub and WPAHS for the period 2012 through 2016 are provided in Exhibits A, B, C and D, respectively.

Financial Conclusions

- UPE - 2013 results for UPE reflect 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 approach 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 results that increase over time due in part to the anticipated turnaround of WPAHS and the further development of assets that are part of the IDN strategy, as well as improved results for Highmark associated with higher health enrollment and the completion of certain initatives in 2013, including the preparation for healthcare reform. By 2016, UPE is projected to generate a margin of approximately 2.5%. Projected UPE results are more favorable in the UPMC In Network Projections than in the UPMC Out of Network Projections due to an improvement in the results of Highmark, which is partially offset by lower projected results at WPAHS.

- Highmark – The projected results of $106 million in 2013 are significantly impacted by investments in the provider strategy. The projected margin for 2014 through 2016 ranges from approximately 2.0% to 2.5%. The projected results in the UPMC In Network Projections are higher than in the UPMC Out of Network Projections, due to higher projected Highmark health enrollment. The projections through 2016 in the UPMC In Network Projections indicate that Highmark will remain a financially strong company with results 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 of 550 to 750%, which is deemed sufficient by the PID. Management completed stress testing on Highmark's financial results, assuming various factors, and determined that, in these cases, Highmark's financial strength would continue to remain in the sufficient range as defined by the PID.

- UPE Provider Sub – UPE Provider Sub projected to produce a net loss in 2013, primarily as a result of continued losses at WPAHS and the start of certain provider activities. 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 its depth and size. The magnitude of the improvement in financial performance of UPE Provider Sub is less in the UPMC In Network Projections than in the UPMC Out of Network Projections, primarily as a result of lower projected discharges.

- WPAHS – In a scenario that contemplates a Highmark / UPMC contract continuation beyond December 31, 2014, WPAHS still captures adequate volume to produce positive results and generate the cash flow necessary to meet its obligations while continuing to invest in capital improvements at a level that exceeds the investments made in the recent past.

Summary and Conclusion

Highmark continues to believe that its goal of creating a second IDN in the western Pennsylvania market, anchored by its affiliation with WPAHS, is in the best interest of the community and the best hope for enabling consumers in the market a choice of providers. It further continues to believe that choice will enable consumers, when properly informed, to make decisions that will help bring healthcare costs in line. Highmark believes that its further objective of having a long-term contract with UPMC is not in any way inconsistent with its goal of building a second IDN, but rather complements its plan to afford consumers with meaningful choice among healthcare providers. Finally, Highmark believes that the data it has submitted to the PID proves that its plan for restoring WPAHS to financial health is achievable, with or without a UPMC contract, and that a UPMC contract ensures a stronger Highmark.

UPE
Combined Balance Sheets
UPMC In Network Projections
Internal Unaudited Projections
(In Millions)

Exhibit A

	2012	2013	2014	2015	2016
Cash and Investments	$ -	$ 7,230.2	$ 7,563.9	$ 8,030.8	$ 8,669.3
Accounts Receivable	-	2,457.7	2,493.4	2,554.2	2,725.7
Property and Equipment, net	-	1,462.9	1,569.5	1,511.2	1,477.7
Goodwill and Other Intangibles	-	1,178.7	1,170.5	1,162.4	1,159.2
Other Assets	-	986.7	1,025.5	1,036.5	1,044.2
TOTAL ASSETS	$ -	$ 13,316.2	$ 13,822.8	$ 14,295.1	$ 15,076.1
Claims Outstanding	-	2,525.6	2,600.3	2,668.3	2,884.5
Unearned Revenue	-	399.1	424.7	446.7	462.9
Other Payables and Accrued Expenses	-	2,249.5	2,268.2	2,305.8	2,334.1
Benefit Plan Liabilities	-	554.1	549.9	563.3	562.9
Debt	-	1,841.8	1,872.7	1,622.2	1,585.5
TOTAL LIABILITIES	-	7,570.1	7,715.8	7,606.3	7,829.9
TOTAL RESERVES	-	5,746.1	6,107.0	6,688.8	7,246.2
TOTAL LIABILITIES AND RESERVES	$ -	$ 13,316.2	$ 13,822.8	$ 14,295.1	$ 15,076.1

UPE
Combined Income Statements
UPMC In Network Projections
Internal Unaudited Projections
(In Millions)

	2012	2013	2014	2015	2016
Total Revenue	-	$ 11,723.2	$ 19,026.9	$ 20,420.2	$ 21,269.3
Total Expenses	-	11,656.5	18,508.6	19,621.6	20,466.7
Income Before Income Taxes	-	66.7	518.3	798.6	802.6
Income Tax Provision	-	67.7	168.3	233.6	253.7
Net Income (Loss)	$ -	$ (1.0)	$ 350.0	$ 565.0	$ 548.9

Statements do not reflect fair value accounting associated with the hospital affiliations.

Exhibit B

Highmark Inc.
Combined Balance Sheets
UPMC In Network Projections
Internal Unaudited Projections
(In Millions)

	2012	2013	2014	2015	2016
Cash and Investments	$ 6,853.8	$ 7,226.2	$ 7,489.0	$ 7,400.3	$ 7,972.3
Accounts Receivable	2,307.7	2,302.6	2,311.5	2,356.3	2,514.9
Property and Equipment, net	625.5	557.3	625.9	573.0	553.3
Goodwill and Other Intangibles	903.7	838.1	833.3	828.4	828.4
Other Assets	675.1	808.6	834.7	837.8	840.1
TOTAL ASSETS	$ 11,365.8	$ 11,732.8	$ 12,094.4	$ 11,995.8	$ 12,709.0
Claims Outstanding	$ 2,234.7	$ 2,585.5	$ 2,665.5	$ 2,741.5	$ 2,964.1
Unearned Revenue	298.3	346.4	371.5	393.5	409.6
Other Payables and Accrued Expenses	2,002.7	1,841.4	1,820.2	1,831.0	1,838.4
Benefit Plan Liabilities	268.6	193.9	207.8	221.7	221.7
Debt	1,117.7	1,322.0	1,253.5	599.0	599.0
TOTAL LIABILITIES	5,922.0	6,289.2	6,318.5	5,786.7	6,032.8
TOTAL RESERVES	5,443.8	5,443.6	5,775.9	6,209.1	6,676.2
TOTAL LIABILITIES AND RESERVES	$ 11,365.8	$ 11,732.8	$ 12,094.4	$ 11,995.8	$ 12,709.0

Highmark Inc.
Combined Income Statements
UPMC In Network Projections
Internal Unaudited Projections
(In Millions)

	2012	2013	2014	2015	2016
Total Revenue	$ 15,301.7	$ 15,811.2	$ 17,066.2	$ 18,215.6	$ 18,981.3
Total Expenses	14,757.4	15,577.0	16,550.6	17,544.9	18,252.3
Income Before Income Taxes	544.3	234.2	515.6	670.7	729.0
Income Tax Provision	131.7	128.1	168.5	228.8	245.9
Net Income	$ 412.6	$ 106.1	$ 347.1	$ 441.9	$ 483.1

Exhibit C

UPE Provider Sub
Consolidated Balance Sheets
UPMC In Network Projections
Internal Unaudited Projections
(In Millions)

	2012	2013	2014	2015	2016
Cash and Investments	$ -	$ 901.9	$ 988.5	$ 1,042.0	$ 1,102.1
Accounts Receivable	-	215.0	247.1	271.1	290.4
Property and Equipment, net	-	905.6	943.6	938.2	924.4
Goodwill and Other Intangibles	-	340.6	337.2	334.0	330.8
Other Assets	-	178.1	190.8	198.7	204.1
TOTAL ASSETS	$ -	$ 2,541.2	$ 2,707.2	$ 2,784.0	$ 2,851.8
Unearned Revenue	-	52.7	53.2	53.2	53.3
Other Payables and Accrued Expenses	-	408.1	448.0	474.8	495.7
Benefit Plan Liabilities	-	360.2	342.1	341.6	341.2
Debt	-	1,418.7	1,533.8	1,435.7	1,392.6
TOTAL LIABILITIES	-	2,239.7	2,377.1	2,305.3	2,282.8
TOTAL RESERVES	-	301.5	330.1	478.7	569.0
TOTAL LIABILITIES AND RESERVES	$ -	$ 2,541.2	$ 2,707.2	$ 2,784.0	$ 2,851.8

UPE Provider Sub
Consolidated Income Statements
UPMC In Network Projections
Internal Unaudited Projections
(In Millions)

	2012	2013	2014	2015	2016
Total Revenue	$ -	$ 1,627.5	$ 2,680.3	$ 3,024.7	$ 3,171.4
Total Expenses	-	1,688.6	2,677.6	2,896.8	3,097.8
Income (Loss) Before Income Taxes	-	(61.1)	2.7	127.9	73.6
Income Tax Provision (Benefit)	-	(2.2)	(0.2)	4.8	7.8
Net Income (Loss)	$ -	$ (58.9)	$ 2.9	$ 123.1	$ 65.8

Statements do not reflect fair value accounting associated with the hospital affiliations.

Exhibit D

WPAHS
Consolidated Balance Sheets
Internal Unaudited Projections
(In Millions)

	2012	2013	2014	2015	2016
Cash and Investments	$ -	$ 603.3	$ 676.1	$ 710.6	$ 749.1
Accounts Receivable	-	132.6	149.5	162.9	169.5
Property and Equipment, net	-	452.0	494.2	494.4	494.6
Goodwill and Other Intangibles	-	291.0	291.0	291.0	291.0
Other Assets	-	95.4	100.7	105.8	109.4
TOTAL ASSETS	$ -	$ 1,574.3	$ 1,711.5	$ 1,764.7	$ 1,813.6
Unearned Revenue	-	52.7	52.7	52.7	52.7
Other Payables and Accrued Expenses	-	269.5	295.4	312.1	322.9
Benefit Plan Liabilities	-	231.0	212.9	212.5	212.0
Debt	-	989.8	1,114.3	1,037.3	1,022.7
TOTAL LIABILITIES	-	1,543.0	1,675.3	1,614.6	1,610.3
TOTAL RESERVES	-	31.3	36.2	150.1	203.3
TOTAL LIABILITIES AND RESERVES	$ -	$ 1,574.3	$ 1,711.5	$ 1,764.7	$ 1,813.6

WPAHS
Consolidated Income Statements
UPMC In Network Projections
Internal Unaudited Projections
(In Millions)

	2012	2013	2014	2015	2016
Total Revenue	$ -	$ 1,071.9	$ 1,815.5	$ 2,065.2	$ 2,107.8
Total Expenses	-	1,115.5	1,810.7	1,951.4	2,054.6
Income (Loss) Before Income Taxes	-	(43.6)	4.8	113.8	53.2
Income Tax Provision (Benefit)	-	-	-	-	-
Net Income (Loss)	$ -	$ (43.6)	$ 4.8	$ 113.8	$ 53.2

Statements do not reflect fair value accounting associated with the hospital affiliations.

Exhibit E

WPAHS Summary of Projection Assumptions

Below is a summary of the process and the related assumptions that were utilized to prepare revised projections related to WPAHS assuming the UPMC provider contract with Highmark is renewed effective January 2015.

The revised projections are based on WPAHS's (sometimes herein, "the System") and Highmark's collective development of an integrated delivery network ("IDN") to reduce the trend in the increase in the cost of healthcare in Southwestern Pennsylvania and reflect the following assumptions:

- Highmark's provider contracts continue indefinitely with certain UPMC hospitals and UPMC physicians. While Highmark's existing provider contract with UPMC is scheduled to expire on December 31, 2014, for the purposes of this report, it is assumed that Highmark and UPMC will agree to an extension or new provider contract so that current Highmark members will continue to have access to UPMC facilities and employed physicians;
- Highmark's ongoing affiliation efforts continue with physicians in southwestern Pennsylvania;
- West Penn Hospital's Emergency Department remains open and other services are also introduced;
- New Highmark products are introduced;
- Productivity improvement is achieved in the physician organizations; and
- Other initiatives may be undertaken.

Projections of Patient Volume and Related Revenue

Future patient volumes and revenues were projected based on historical patient volume and revenue, and the estimated impact of the initiatives and external factors, including:

i. Physician Alignment – UPE has undertaken a multi-year plan to develop affiliations with a wide range of physicians across various specialties. This strategic alignment is expected to supplement the System's physician organization and bring expanded service offerings that drive growth at WPAHS.

   Patient volumes were estimated based on an assessment of the likelihood of recruiting physicians identified in the recruiting pipeline and recruiting plan. An analysis of publicly available data was used to estimate the referrals to the system related to recruited physicians. This analysis was extended to encompass additional expected future recruitment and hiring.

ii. Physician Organization (PO) – The turnaround strategies for WPAHS have identified the WPAHS PO as a focus area. There are efforts underway to improve the productivity of the existing physicians, which are expected to increase the volume within WPAHS. Improved management of the PO and investments in additional

personnel and systems to improve internal communications and facility utilization are expected to improve collaboration and increase productivity.

Historical data and industry benchmarks were used to estimate the potential increase in patient volumes from these efforts.

iii. West Penn Reopening – The Emergency Department of West Penn Hospital was reopened in February 2012 and other services are expected to return to West Penn Hospital within the next year. The estimated patient volumes from the reopening of the Emergency Department and other services were projected based on historical information.

iv. Highmark Product Changes – Anticipated volume changes associated with the introduction of new insurance products were incorporated into the projections.

v. Other Initiatives and Environmental Factors – Other factors which are expected to have an effect on volumes also were identified and analyzed. These include changing demographics in the relevant market and the effectiveness of the IDN in changing care patterns, both of which are projected to have a negative effect on the volume at WPAHS.

vi. Increased Competition – The projected negative effects of actions by competitors on patient volume also were considered and estimated.

The Projections reflect an increase in inpatient discharges from approximately 57,000 in the fiscal year ending June 30, 2012 to approximately 83,000 in the fiscal year ending June 30, 2017, which is substantially greater than a breakeven level.

Outpatient volumes were projected using the historical relationships of outpatient registrations to inpatient discharges for each hospital.

In order to estimate the effect on revenue of projected patient volumes, publicly available data and data provided by WPAHS were reviewed for certain key components of revenue. These key components greatly influence how projected patient volume is converted into revenue. Among the key components were:

i. Payor Mix – Reimbursement rates for services performed vary based on whether the payor is Medicare, Medicaid, commercial insurance providers, Medicare managed care providers, Medicaid managed care providers or the patient. The payor mix is affected by many factors including demographics, regulation, and hospital or System initiatives. The historical payor mix was reviewed, as were estimated changes to the mix based on certain known or expected changes.

ii. Reimbursement Rates – For each class of payor, historical and anticipated rate changes were used to project reimbursement rates for the projection period (note that changes in

government reimbursement, such as for Medicare and Medicaid, could differ materially from the assumed changes).

iii. Case Mix Index (CMI) – CMI is a commonly used industry metric which is used to assess the severity, acuity, and/or complexity of patient volume at a hospital. In general, the higher the CMI, the greater the reimbursement rates and related revenue received for providing care and the greater the cost to serve the patient. Historical CMI data for each hospital was analyzed to estimate the effect of anticipated volume changes on CMI. Generally, CMI is projected to increase over time, as less acute patients are managed outside of the hospital setting, resulting in a higher average acuity within the hospital.

Projected net patient service revenue was estimated by applying the expected payor mix, reimbursement rates and CMI to the projected inpatient and outpatient volume levels.

Other revenues related to certain governmental programs including Disproportionate Share Hospital ("DSH") payments were also included in the revenue projections.

Projected Costs

An analysis was performed on the main drivers and components of historical costs, cost savings already achieved, and additional potential cost savings. Among the key components analyzed were:

i. Salaries, wages, and fringe benefits – The historical salaries and benefits for each hospital or other business unit were analyzed to estimate the cost to provide care and related support services for the projected patient volumes. In addition, the Projections reflect the assumption that significant "catch-up payments" will be made to improve the funding of the System's defined benefit pension plans.

ii. Supplies/Drug Cost – WPAHS and Highmark have worked together to institute a new purchasing program for supplies and drugs. It is anticipated that this new purchasing program, along with an increased management focus on costs, will result in near-term cost savings which will be magnified further as volume increases. The potential savings from these efforts are reflected in the projections.

iii. Case Mix Index – As described previously, changes to CMI based on the volume initiatives were estimated. The estimated CMI was used as a component to derive the cost to deliver care.

iv. Average Length of Stay – One of the primary metrics used to derive the cost of inpatient care in the average length of stay for patients who are admitted to hospitals in the System. The impact of the previously described patient volume initiatives on average length of stay was estimated and incorporated in the projections. Average length of stay is generally expected to increase slightly over the projection period.

v. Fixed and Variable Costs – The fixed and variable components of the System's cost structure for each of the main cost drivers, such as salaries and supplies for each hospital and business unit including support services, were estimated. Fixed costs were increased for expected inflation during the projection period. Variable costs were projected based on incremental patient volumes and increased for expected inflation.

vi. Depreciation and Amortization of Fixed Assets – The System has recently made and plans to make significant increases in capital investments in infrastructure and technology over the amounts that the System has invested historically. From FY 2005 to FY 2010 the system invested an average of approximately $66 million per year in fixed assets. The System invested an average of $125 million per year in FY 2011 and FY 2012, with Highmark contributing to the FY 2012 investment. The Projections reflect the assumption that the System will invest an average of approximately $119 million annually for a grand total of over $833 million from FY 2011 through FY 2017.

    These investments are expected to increase capacity and improve efficiency, communication and collaboration throughout the System. Projected capital expenditures include both specifically-identified investments and, in later years, estimates of expenditures. Depreciation and amortization are based on historical information, projected capital expenditures and estimated future asset lives.

vii. Interest Expense – Interest expense was projected based on WPAHS's historical and projected debt levels, including existing and planned future loans from Highmark as appropriate.

Financing

Highmark, WPAHS and certain holders of the System's bonds have agreed to a restructuring plan which is expected to be effectuated in April 2013. Key financing elements are described in the Supplemented Overview of Highmark's Strategic Vision, Tab E to Amendment No. 2 to Form A, and include additional Highmark loans and grants and the purchase of a portion of the outstanding WPAHS bonds by Highmark. Additionally, it should be noted that the projections assume that subsequent to close of the affiliation with Highmark, the principal and interest payments on the ACHDA Revenue Bonds held by Highmark will be deferred until July 1, 2015. It is assumed that there will be a new tax-exempt facility/security issued in July of 2015 to refinance the 2007 Bonds. WPAHS is not projected to require any additional cash needs.