

**VIII. Appendix**

**Blackstone**

**A. Supplemental Financial Information**



A. Supplemental Financial Information  
**Overview of Highmark Combined Debt**

**Highmark had approximately \$1.1 billion in debt as of 12/31/2012, with \$903 million being obligations of core insurance entities and \$215 million being obligations of entities whose debt obligations are not guaranteed by the core insurance entities.**

**Overview of Highmark Combined Debt and Debt-like Obligations as of 12/31/2012**  
*(\$ in millions)*

Tranche	Maturity	Interest Rate	Principal
Unsecured Senior Notes	August 15, 2013	6.80%	\$305.5
Unsecured Senior Notes	May 15, 2021	4.75%	348.8
Unsecured Senior Notes	May 15, 2041	6.13%	248.4
<b>Total Debt of Core Regulated Insurance Entities</b>			<b>\$902.7</b>
HVHC Revolving Credit Facility	June 1, 2016	LIBOR plus 1.75%	\$210.1
HVHC Capital Leases	Through 2017	Ranges from 6.00% to 17.60%	4.4
HWV Capital Leases	Through June 2016	Ranges from 5.19% to 17.60%	0.5
<b>Total Debt of Non-Core Entities</b>			<b>\$215.0</b>
<b>Total Highmark Debt</b>			<b>\$1,117.7</b>

Source: Highmark



A. Supplemental Financial Information

Highmark Liquidity Position as of December 31, 2012

Excluding balances from entities that are not cross-collateralized with Highmark's primary insurance entities regulated by the PID, Highmark reported approximately \$3.0 billion of net liquid assets in excess of liabilities at 12/31/12, comprising approximately 58% of Highmark's reported total net worth.

Highmark Modified Combined Balance Sheet

(\$ in millions)	as of 12/31/2012					12-Entity Modified Combined Highmark <sup>(1)</sup>
	15-Entity Combined Highmark	Less: HVHC	Less: HWV	Less: HDE	Plus: HVHC / HWV / HDE Eliminations	
Cash <sup>(2)</sup>	\$1,153.1					\$986.9
Unearned Revenue	(291.8)					(275.2)
Amounts Held For Others	(603.2)					(506.1)
<b>Net Cash</b>	<b>\$258.1</b>					<b>\$205.6</b>
Available for Sale Securities	5,218.8					4,615.0
Net Securities Lending	-					-
Receivables	2,454.3					2,146.9
<b>Gross Liquid Assets</b>	<b>\$7,931.2</b>					<b>\$6,967.5</b>
Claims	(2,401.9)					(2,191.3)
Benefit Plan Liabilities	(334.7)					(248.9)
Other Payables	(875.8)					(653.7)
<b>Net Working Capital</b>	<b>\$4,318.8</b>					<b>\$3,873.6</b>
<b>Total Debt</b>	<b>(\$1,117.7)</b>					<b>(\$902.8)</b>
<b>Net Liquid Assets</b>	<b>\$3,201.1</b>					<b>\$2,970.8</b>
Investments In Subs. and Affiliates	490.4					1,555.9
Provider Investments	-					-
Tax Receivable (Payable)	41.3					38.4
Deferred Tax Asset (Liability)	104.8					83.2
Premium Deficiency Reserve	(155.9)					(155.9)
<b>Semi-Liquid Assets</b>	<b>\$480.6</b>					<b>\$1,521.6</b>
Unrealized Gains (Losses)	78.5					64.8
Net PP&E	624.2					384.6
Goodwill and Intangibles	906.4					145.8
Other Assets <sup>(3)</sup>	200.2					69.0
<b>Non-Liquid Assets</b>	<b>\$1,809.3</b>					<b>\$664.2</b>
<b>Total Net Worth</b>	<b>\$5,491.0</b>					<b>\$5,156.6</b>
<b>Net Liquid Assets as % of Total Net Worth</b>						<b>57.6%</b>

(1) Note that "Modified Combined Highmark" excludes HVHC, HWV, and HDE entities because Highmark's core group of insurance entities offering commercial health insurance in Pennsylvania do not guarantee their debts and there is no cross-collateralization of debt.  
 (2) Includes Cash Surrender Value of \$75 million.  
 (3) Excludes Cash Surrender Value of \$75 million.



## A. Supplemental Financial Information

### Highmark's Total IDN Capital Commitment

**Highmark's total capital commitment related to the provider strategy may exceed \$1.8 billion.**

#### Highmark's Capital Commitment in the Transaction Scenario

(\$ in millions)

WPAHS	
1st Funding - Grant (6/28/2011)	\$50.0
50% of 2nd Funding - Grant (10/31/2011)	50.0
Transfer to WPAHS at Close (formerly Med School Grant)	75.0
<b>Total WPAHS Grants</b>	<b>\$175.0</b>
50% of 2nd Funding - Loan (10/31/2011)	50.0
3rd Funding - Loan (4/27/2012)	50.0
4th Funding - Loan (At Close, on or before 4/30/2013) <sup>(1)</sup>	100.0
5th Funding - Loan (Latter of Close or 4/1/2014)	100.0
<b>Total WPAHS Loans</b>	<b>\$300.0</b>
<b>Total WPAHS Grants and Loans</b>	<b>\$475.0</b>
Tender Offer for WPAHS 2007A Bonds <sup>(2)</sup>	646.4
Other Grants to WPAHS (Cash Advance and A&M Fees) <sup>(3)</sup>	33.0
<b>Total WPAHS Financial Exposure<sup>(4)</sup></b>	<b>\$1,154.4</b>
WPAHS Unfunded Pension Liability as of 1/31/2013	274.2
Other Liabilities as of 1/31/2013 <sup>(5)</sup>	315.0
Physician Network	
Unrestricted Grant to UPE for Non-WPAHS Purposes	\$94.0
Highmark Payments to PLZ for Participation in Network	123.0
MSO Development Expense	8.0
<b>Total Physician Network Grants</b>	<b>\$225.0</b>
Highmark Loan to [ ] and [ ] - for Physician Affiliations	83.0
<b>Total Physician Network Financial Exposure</b>	<b>\$308.0</b>

#### Community Hospitals / Outpatient Services

Highmark Unrestricted Grant to JRMCM	\$75.0
Highmark Capex Grant to JRMCM <sup>(6)</sup>	100.0
Highmark Unrestricted Payments to SVHS	30.0
Highmark Capex Grant to SVHS	5.0
[ ] / Center of Innovation	5.0
<b>Total Community Hospital / Outpatient Services Grants</b>	<b>\$215.0</b>
Highmark Loan to Provider PPI LLC (Formation of GPO)	18.0
JRMCM Guarantee Provisions	NA
<b>Total Comm. Hospital / Outpatient Services Financial Exposure</b>	<b>\$233.0</b>

#### Medical Malls

Highmark Line of Credit to HMPG to Finance Medical Malls	\$107.0
HMPG Investments - for Real Estate Acquisitions <sup>(7)</sup>	32.0
<b>Total Medical Malls Financial Exposure</b>	<b>\$139.0</b>

**Estimated Highmark Total Financial Commitment:  
\$1.834 billion<sup>(4)</sup>**

Source: Highmark.

- (1) Highmark has placed \$50 million into an escrow account to secure Highmark's performance with regard to the tender offer. If the closing occurs on or before April 30, 2013, or any agreed upon extension of that date, the \$50 million and another \$50 million from Highmark will be advanced to WPAHS at the closing in the form of a loan. If the closing does not occur by April 30, 2013, or any agreed upon extension of that date, the \$50 million escrow amount will be paid to WPAHS, absent default by WPAHS.
- (2) Assumes 76.74% of bondholders tender at 87.5% of par, which is assumed to be \$709.7 million at the time of the Tender Offer. Also assumes Highmark pays accrued interest and purchases the remainder of the bonds at par.
- (3) Includes \$25 million cash advance paid to WPAHS for West Penn Hospital and Allegheny General Hospital on 4/18/2011 and \$8 million unrestricted payment to WPAHS for fees to A&M paid on 4/18/2012.
- (4) Does not include WPAHS' unsecured liabilities of \$589.2 million, of which \$274.2 million is WPAHS' unfunded pension liability, and does not include contingent liabilities, as of 1/31/2013.
- (5) Includes Deferred Revenue, Self-Insurance Liabilities and Other Liabilities; Assumes Accrued Salaries and Vacation are assumed by the buyer in a restructuring scenario and the Floating Rate Restructuring Certificates are extinguished.
- (6) \$100m represents the maximum potential capital expenditures grant to JRMCM, of which Highmark projections assume \$45m will be funded.
- (7) Highmark considers the \$32 million of HMPG investments for real estate acquisitions to be an unrestricted grant, and thus unrecoverable to Highmark, for the purposes of this analysis.



## A. Supplemental Financial Information

### Detail of Adjustments to Highmark's 12-Entity Modified Combined Balance Sheet

#### Non-Transaction-Contingent Adjustments<sup>(1)</sup>

(\$ in millions)

Non-Transaction-Contingent Adjustments	
<i>Cash: Adjustments in 2013 and Beyond</i>	
Grants to WPAHS (Surplus Transfer to WPAHS at Closing)	(\$33.6)
50% of 4th Funding Commitment - Escrow (At Closing, on or before 4/30/2013)	(50.0)
Grants to JRMC <sup>(2)</sup>	(175.0)
Grants to SVHS	(35.0)
Undefined Community Hospital/Outpatient Services Development/Partnerships	(191.4)
Additional Unrestricted Grant to UPE for Non-WPAHS Purposes	(94.0)
Highmark Payments to PLZ in Exchange for Participation in Network	(120.0)
Highmark Line of Credit to HMPG to Finance Medical Malls	(107.0)
<b>Total Non-Transaction Contingent Adjustments to Cash</b>	<b>(\$806.0)</b>
<i>Provider Investments: Adjustments in 2013 and Beyond</i>	
Highmark Line of Credit to HMPG to Finance Medical Malls	\$107.0
<b>Total Non-Transaction Contingent Adjustments to Provider Investments</b>	<b>\$107.0</b>
<i>Total Net Worth: Adjustments in 2013 and Beyond:</i>	
Grants to WPAHS (Surplus Transfer to WPAHS at Closing)	(\$33.6)
50% of 4th Funding Commitment - Escrow (At Closing, on or before 4/30/2013)	(50.0)
Grants to JRMC <sup>(2)</sup>	(175.0)
Grants to SVHS	(35.0)
Undefined Community Hospital/Outpatient Services Development/Partnerships	(191.4)
Additional Unrestricted Grant to UPE for Non-WPAHS Purposes	(94.0)
Highmark Payments to PLZ in Exchange for Participation in Network	(120.0)
<b>Total Non-Transaction Contingent Adjustments to Total Net Worth</b>	<b>(699.0)</b>

#### Transaction-Contingent Adjustments<sup>(1)</sup>

(\$ in millions)

Transaction-Contingent Adjustments	
<i>Cash: Adjustments in 2013 and Beyond</i>	
Grants to WPAHS (Surplus Transfer to WPAHS at Closing)	(\$41.4)
Community Hospital/Outpatient Services Development/Partnerships - Not Spent	191.4
50% of 4th Funding Commitment - Loan (At Closing, on or before 4/30/2013)	(50.0)
5th Funding Commitment - Loan (Latter of Closing or 4/1/2014)	(100.0)
<b>Total Transaction Contingent Adjustments to Cash</b>	<b>-</b>
<i>Total Debt: Adjustments in 2013 and Beyond</i>	
Tender Offer for WPAHS 2007A Bonds <sup>(3)</sup>	\$646.4
<b>Total Transaction-Contingent Adjustments to Total Debt</b>	<b>\$646.4</b>
<i>Provider Investments: Adjustments in 2013 and Beyond</i>	
50% of 4th Funding Commitment - Escrow Becomes Loan	\$50.0
50% of 4th Funding Commitment - Loan	50.0
5th Funding Commitment - Loan (Latter of Closing or 4/1/2014)	100.0
Tender Offer for WPAHS 2007A Bonds <sup>(3)</sup>	\$646.4
<b>Total Transaction Contingent Adjustments to Provider Investments</b>	<b>\$846.4</b>
<i>Total Net Worth: Adjustments in 2013 and Beyond:</i>	
Grants to WPAHS (Surplus Transfer to WPAHS at Closing)	(\$41.4)
Community Hospital/Outpatient Services Development/Partnerships - Not Spent	191.4
50% of 4th Funding Commitment - Escrow Becomes Loan	50.0
<b>Total Transaction Contingent Adjustments to Total Net Worth</b>	<b>\$200.0</b>

(1) Adjustments exclude impact of WPAHS's unfunded pension liability of \$274m, other unsecured liabilities of \$315m and contingent liabilities as of 1/31/2013. Adjustments also exclude Highmark's Transaction-related expenditures prior to 12/31/2012.

(2) \$175m includes the maximum potential capital expenditures commitment of \$100m to JRMC, versus Highmark's projections, which assume a \$45m capital expenditures grant to JRMC (and a total JRMC commitment of \$120m).

(3) Assumes 76.74% of bondholders tender at 87.5% of par, which is assumed to be \$709.7 million at the time of the Tender Offer. Assumes Highmark pays accrued interest and purchases the non-tendered bonds at par.



## A. Supplemental Financial Information

### Timing Details of Highmark's IDN Grants and Investments

#### Schedule of Highmark's Planned IDN Grants and Investments Over Time

(\$ in millions)

	Total Transaction Capital Commitments	Capital Outlay Prior to 12/31/2012	Capital Outlay in 2013 and Beyond	Non-Transaction-Contingent Capital Commitments in 2013 and Beyond	Transaction-Contingent Capital Commitments in 2013 and Beyond
1st Funding Commitment - Grant (6/28/2011)	\$50.0	(\$50.0)	-	-	-
50% of 2nd Funding Commitment - Grant (10/31/2011)	50.0	(50.0)	-	-	-
Other Grants to WPAHS (Cash Advance and A&M Fees) <sup>(1)</sup>	33.0	(33.0)	-	-	-
Surplus Transfer to WPAHS at Closing (previously Medical School Grant)	75.0	-	75.0	(33.6)	41.4
4th Funding - Escrow <sup>(2)</sup>	-	-	-	(50.0)	(50.0)
<b>Total WPAHS Grants</b>	<b>\$208.0</b>	<b>(133.0)</b>	<b>75.0</b>	<b>(83.6)</b>	<b>(8.6)</b>
Additional Unrestricted Grant to UPE for Non-WPAHS Purposes	\$94.0	-	\$94.0	(\$94.0)	-
Highmark Payments to PLZ in Exchange for Participation in Network	123.0	(3.0)	120.0	(120.0)	-
MSO Development Expense	8.0	(8.0)	-	-	-
Highmark Unrestricted Grant to JPMC	75.0	-	75.0	(75.0)	-
Highmark Capex Grant to JPMC <sup>(3)</sup>	100.0	-	100.0	(100.0)	-
Highmark Unrestricted Payment to SVHS	30.0	-	30.0	(30.0)	-
Highmark Capex Grant to SVHS	5.0	-	5.0	(5.0)	-
[ ] / Center of Innovation	5.0	(5.0)	-	-	-
HMPG Investments - for Real Estate Acquisitions <sup>(4)</sup>	32.0	(32.0)	-	-	-
Undefined Community Hospital Development/Partnerships	-	-	-	(191.4)	(191.4)
<b>Total Non-WPAHS Grants</b>	<b>\$472.0</b>	<b>(48.0)</b>	<b>\$424.0</b>	<b>(\$615.4)</b>	<b>(\$191.4)</b>
<b>Total Grants</b>	<b>\$680.0</b>	<b>(\$181.0)</b>	<b>\$499.0</b>	<b>(\$699.0)</b>	<b>(\$200.0)</b>
50% of 2nd Funding Commitment - Loan (10/31/2011)	\$50.0	(50.0)	-	-	-
3rd Funding Commitment - Loan (4/27/2012)	50.0	(50.0)	-	-	-
4th Funding Commitment - Loan (At Closing, on or before 4/30/2013) <sup>(5)</sup>	100.0	-	100.0	-	100.0
5th Funding Commitment - Loan (Letter of Closing or 4/1/2014)	100.0	-	100.0	-	100.0
<b>Total WPAHS Loans</b>	<b>\$300.0</b>	<b>(\$100.0)</b>	<b>\$200.0</b>	<b>-</b>	<b>\$200.0</b>
Tender Offer for WPAHS 2007A Bonds <sup>(6)</sup>	646.4	-	\$646.4	-	\$646.4
<b>Total WPAHS Debts</b>	<b>\$946.4</b>	<b>(\$100.0)</b>	<b>\$846.4</b>	<b>-</b>	<b>\$846.4</b>
<b>Total Grants and WPAHS Debts</b>	<b>\$1,626.4</b>	<b>(\$281.0)</b>	<b>\$1,345.4</b>	<b>(\$699.0)</b>	<b>\$646.4</b>
Highmark Line of Credit to HMPG to Finance Medical Malls	\$107.0	-	107.0	(107.0)	-
Highmark Loan to [ ] and [ ] - for Physician Affiliations	83.0	(83.0)	-	-	-
Highmark Loan to Provider PPI LLC (Formation of GPO)	18.0	(18.0)	-	-	-
<b>Total Other UPE Loans</b>	<b>\$208.0</b>	<b>(\$101.0)</b>	<b>\$107.0</b>	<b>(\$107.0)</b>	<b>-</b>
<b>Total Grants and Highmark Loans</b>	<b>\$1,834.4</b>	<b>(\$382.0)</b>	<b>\$1,452.4</b>	<b>(\$806.0)</b>	<b>\$646.4</b>
WPAHS Unfunded Pension Liability as of 1/31/2013	\$274.2	-	274.2	-	274.2
Other WPAHS Unsecured Liabilities as of 1/31/2013 <sup>(7)</sup>	315.0	-	315.0	-	315.0
<b>Total Grants and WPAHS Liabilities, Including Unfunded Pensions</b>	<b>\$2,423.6</b>	<b>(\$382.0)</b>	<b>\$2,041.6</b>	<b>(\$806.0)</b>	<b>\$1,235.6</b>

(1) Includes \$25 million cash advance paid to WPAHS for West Penn Hospital and Allegheny General Hospital on 4/18/2011 and \$8 million unrestricted payment to WPAHS for fees to Alvarez & Marsal paid on 4/18/2012.

(2) If the Transaction is consummated, Highmark's unrestricted grants to WPAHS will increase by \$41 million but will be offset by the conversion of Highmark's \$50 million escrow payment into a loan, which will become potentially recoverable to Highmark and result in a transaction-contingent net benefit of \$9 million if the loan is repaid.

(3) \$100m represents the maximum potential capital expenditures grant to JPMC, of which Highmark projections assume \$45m will be funded.

(4) Highmark considers the \$32 million of HMPG investments for real estate acquisitions to be an unrestricted grant, and thus unrecoverable to Highmark, for the purposes of this analysis.

(5) Highmark has placed \$50 million into an escrow account to secure Highmark's performance with regard to the tender offer. If the closing occurs on or before April 30, 2013, or any agreed upon extension of that date, the \$50 million and another \$50 million from Highmark will be advanced to WPAHS at the closing in the form of a loan. If the closing does not occur by April 30, 2013, or any agreed upon extension of that date, the \$50 million escrow amount will be paid to WPAHS, absent default by WPAHS.

(6) Assumes 76.74% of bondholders tender at 87.5% of par, which is assumed to be \$709.7 million at the time of the Tender Offer. Assumes Highmark pays accrued interest and purchases the non-tendered bonds at par.

(7) Includes Deferred Revenue, Self-Insurance Liabilities and Other Liabilities; Assumes Accrued Salaries and Vacation are assumed by the buyer in a restructuring scenario and the Floating Rate Restructuring Certificates are extinguished.



## A. Supplemental Financial Information

### Highmark and WPAHS Projected Financials in the Transaction / "UPMC-In" Scenario

#### Highmark Projections: Transaction / "UPMC-In" Scenario

(\$ in millions)

Income Statement - GAAP Basis	2012E	2013E	2014E	2015E	2016E
Subscription Revenue					
Net Patient Service Revenue					
Management Services Revenue					
Other Operating Revenue					
<b>Total Operating Revenue</b>	<b>\$14,866</b>	<b>\$15,614</b>	<b>\$16,833</b>	<b>\$17,970</b>	<b>\$18,736</b>
Claims Expense					
Operating Expense					
<b>Total Operating Expense</b>	<b>(\$14,405)</b>	<b>(\$15,300)</b>	<b>(\$16,385)</b>	<b>(\$17,389)</b>	<b>(\$18,103)</b>
<b>Operating Income</b>	<b>\$461</b>	<b>\$314</b>	<b>\$448</b>	<b>\$582</b>	<b>\$634</b>
Change in PDR					
<b>Adjusted Operating Income</b>					
Investment Results					
Net Assets of BCBSA Acquired					
Other Expense					
Equity Income of Subs/Affiliates					
Income Before Income Tax	\$544	\$234	\$516	\$671	\$729
Income Tax Provision (Benefit)	(132)	(128)	(169)	(229)	(246)
<b>Net Income</b>	<b>\$413</b>	<b>\$106</b>	<b>\$347</b>	<b>\$442</b>	<b>\$483</b>
<b>Operating Margin %</b>	<b>3.1%</b>	<b>2.0%</b>	<b>2.7%</b>	<b>3.2%</b>	<b>3.4%</b>
<b>Net Income (Loss) as a % of Revenue</b>	<b>2.8%</b>	<b>0.7%</b>	<b>2.1%</b>	<b>2.5%</b>	<b>2.6%</b>
<b>Key Balance Sheet Items</b>	<b>2012E</b>	<b>2013E</b>	<b>2014E</b>	<b>2015E</b>	<b>2016E</b>
Cash and Investments	\$6,854	\$7,226	\$7,489	\$7,400	\$7,972
Property and Equipment, net	626	557	626	573	553
Goodwill and Other Intangibles	904	838	833	828	828
Debt	1,118	1,322	1,254	599	599
Reserves	5,444	5,444	5,776	6,209	6,676
RBC					

#### WPAHS Projections in Transaction / "UPMC-In" Scenario<sup>(1)</sup>

(\$ in millions)

Income Statement	FY2013E	FY2014E	FY2015E	FY2016E	FY2017E
<b>Total Net Patient Revenue</b>	<b>\$1,559</b>	<b>\$1,757</b>	<b>\$1,986</b>	<b>\$2,142</b>	<b>\$2,223</b>
Provision for Bad Debts					
Other Operating Revenue					
Net Assets Released from Restrictions					
<b>Total Revenue and Gains</b>	<b>\$1,548</b>	<b>\$1,736</b>	<b>\$1,954</b>	<b>\$2,104</b>	<b>\$2,183</b>
<b>Total Operating Expense</b>	<b>(\$1,657)</b>	<b>(\$1,774)</b>	<b>(\$1,927)</b>	<b>(\$2,062)</b>	<b>(\$2,152)</b>
Operating Income / (Loss)					
(+) Depreciation & Amortization					
(+) Interest Expense					
<b>EBIDA</b>	<b>\$3</b>	<b>\$83</b>	<b>\$160</b>	<b>\$203</b>	<b>\$209</b>
<b>Net Income</b>	<b>(\$97)</b>	<b>(\$26)</b>	<b>\$40</b>	<b>\$118</b>	<b>\$46</b>
<b>Balance Sheet</b>					
Cash and Cash Equivalents					
Other Current Assets					
Assets Restricted As to Use					
PPE					
Other Long-Term Assets					
<b>Total Assets</b>	<b>\$1,298</b>	<b>\$1,376</b>	<b>\$1,462</b>	<b>\$1,509</b>	<b>\$1,551</b>
Total Current Liabs (excl. CP of LT Liabs)					
Long-Term Debt					
Accrued Pension Obligation					
Other Non-Current Liabilities					
<b>Total Liabilities</b>	<b>\$1,541</b>	<b>\$1,645</b>	<b>\$1,690</b>	<b>\$1,619</b>	<b>\$1,615</b>
<b>Total Net Assets (Deficit)</b>	<b>(\$243)</b>	<b>(\$268)</b>	<b>(\$228)</b>	<b>(\$110)</b>	<b>(\$64)</b>
<b>Total Liabilities &amp; Net Assets</b>	<b>\$1,298</b>	<b>\$1,376</b>	<b>\$1,462</b>	<b>\$1,509</b>	<b>\$1,551</b>
<b>Selected Operational Metrics</b>					
<i>EBIDA Margin</i>	0.2%	4.8%	8.2%	9.6%	9.6%
<i>Operating Margin</i>	(7.1%)	(2.2%)	1.4%	2.0%	1.4%
<i>Net Income Margin</i>	(6.3%)	(1.5%)	2.1%	5.6%	2.1%
<i>Bad Debt as % of Net Patient Revenue</i>	5.5%	5.5%	5.5%	5.4%	5.4%
<i>Salaries/Benefits as % of Net Patient Rev.</i>	60.0%	56.6%	53.0%	51.3%	50.6%
<i>Cash-to-Debt</i>	30.1%	26.8%	31.9%	32.4%	36.1%
<i>Debt-to-Capitalization</i>	133.0%	132.2%	125.5%	111.9%	106.7%
<i>Debt-to-Total Revenue</i>	63.3%	63.5%	57.4%	49.3%	46.8%
<i>Days Cash on Hand</i>	82	76	82	73	76
<i>Debt Service Coverage</i>	0.3x	1.7x	2.7x	3.6x	3.3x

Source: Highmark financial projections as of 3/7/2013.

(1) As prepared by Highmark.



## A. Supplemental Financial Information

### Blackstone's Modified Recovery Analysis for the Base Case Scenario

H2C analyzed the recoverable value of Highmark's investments into WPAHS at various future dates based on projected financial metrics and priority of claims. The analysis below builds upon H2C's analysis, but also includes the potential impact of Highmark having to pay unsecured creditors (including the PBGC), who may pursue Highmark for claims and damages in a restructuring scenario.

#### Total Due to Highmark Calculation

(\$ in millions)

	1/31/2013					
	LTM	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Remaining Principal on WPAHS						
2007A Bonds <sup>(3)</sup>	\$641.6	\$641.6	\$641.6	\$641.6	\$641.6	\$641.6
Other Highmark Secured Loans to WPAHS	100.0	200.0	300.0	300.0	300.0	300.0
Accrued Interest <sup>(4)</sup>	4.8	4.8	4.8	4.8	4.8	4.8
<b>Total Due to Highmark</b>	<b>\$746.4</b>	<b>\$846.4</b>	<b>\$946.4</b>	<b>\$946.4</b>	<b>\$946.4</b>	<b>\$946.4</b>

#### Blackstone's Modified Recovery Calculation – Base Case Scenario

(\$ in millions)

	1/31/2013					
	LTM	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Total Revenue	\$1,637.9	\$1,633.5	\$1,832.9	\$2,127.6	\$2,351.1	\$2,436.3
Multiple of Revenue	0.35x	0.35x	0.35x	0.35x	0.35x	0.35x
<b>Available Proceeds</b>	<b>\$573.3</b>	<b>\$571.7</b>	<b>\$641.5</b>	<b>\$744.7</b>	<b>\$822.9</b>	<b>\$852.7</b>
Plus: Cash and Investments	174.6	373.9	374.3	463.9	505.1	602.4
<b>Total Proceeds</b>	<b>\$747.9</b>	<b>\$945.6</b>	<b>\$1,015.8</b>	<b>\$1,208.6</b>	<b>\$1,328.0</b>	<b>\$1,455.1</b>
Mortgage	(27.7)	(27.7)	(23.3)	(12.0)	(2.5)	(2.3)
503(b)(9) Claims	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)
Bankruptcy Costs	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)
<b>Net Recoverable Pre-Unsecured Other Claims</b>	<b>\$640.2</b>	<b>\$837.9</b>	<b>\$912.5</b>	<b>\$1,116.6</b>	<b>\$1,245.5</b>	<b>\$1,372.8</b>
Assumed PBGC Settlement	-	-	-	-	-	-
Other Unsecured Settlement <sup>(2)</sup>	-	-	-	-	-	-
Total Unsecured Settlement	-	-	-	-	-	-
<b>Total Net Proceeds</b>	<b>\$640.2</b>	<b>\$837.9</b>	<b>\$912.5</b>	<b>\$1,116.6</b>	<b>\$1,245.5</b>	<b>\$1,372.8</b>
Implied Highmark Recovery \$	\$640.2	\$837.9	\$912.5	\$946.4	\$946.4	\$946.4
Implied Highmark Loss \$	(106.2)	(8.5)	(33.9)	-	-	-
Implied Highmark Recovery %	85.8%	99.0%	96.4%	100.0%	100.0%	100.0%
Implied Unsecured Recovery \$	-	-	-	\$170.2	\$299.1	\$426.4
Implied Unsecured Recovery %	-	-	-	32.9%	56.6%	79.3%

Source: Highmark report as of 1/16/2013 and H2C's Fairness Opinion, date 2/5/2013.

(1) Per Highmark's projected WPAHS balance sheet as of 1/31/2013.

(2) Includes Deferred Revenue, Self-Insurance Liabilities and Other Liabilities; Assumes Accrued Salaries and Vacation are assumed by the buyer and Floating Rate Restructuring Certificates are extinguished.

(3) Assumes 76.74% of bondholders tender at 87.5% of par, which is assumed to be \$709.7 million at the time of the Tender Offer. Assumes Highmark pays accrued interest and purchases the non-tendered bonds at par.

(4) Assumes 45 days of Accrued Interest, based on a principal of \$709.7m and interest rate of 5.375%, per H2C's Fairness Opinion.

#### Total Unsecured Liabilities

(\$ in millions)

	Amount
WPAHS Unfunded Pension Liability as of 1/31/2013 <sup>(1)</sup>	\$274.2
Other Unsecured Liabilities as of 1/31/2013 <sup>(2)</sup>	315.0
<b>Total Unsecured Liabilities</b>	<b>\$589.2</b>

#### Total Net Proceeds Sensitivity at 6/30/2015

		Multiple of Revenue		
		0.300x	0.325x	0.350x
Total Unsecured Settlement as a % of	0%	1,010	1,063	1,117
	25%	881	934	987
	50%	752	805	858
	75%	622	676	729
	100%	493	546	600

#### Implied Highmark Loss Sensitivity at 6/30/2015

		Multiple of Revenue		
		0.300x	0.325x	0.350x
Total Unsecured Settlement as a % of	0%	-	-	-
	25%	(65)	(12)	-
	50%	(195)	(142)	(88)
	75%	(324)	(271)	(218)
	100%	(453)	(400)	(347)



## A. Supplemental Financial Information

### Blackstone's Modified Recovery Analysis for the Downside Scenario

**Highmark's potential financial recovery in the WPAHS Downside scenario in 2015 is estimated to be \$476 million, assuming a 0.3x revenue multiple and a 50% settlement to unsecured creditors.**

#### Total Due to Highmark Calculation

(\$ in millions)

	1/31/2013					
	LTM	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Remaining Principal on WPAHS						
2007A Bonds <sup>(1)</sup>	\$641.6	\$641.6	\$641.6	\$641.6	\$641.6	\$641.6
Other Highmark Secured Loans to WPAHS <sup>(1)</sup>	100.0	200.0	300.0	300.0	300.0	328.6
Accrued Interest <sup>(2)</sup>	4.8	4.8	4.8	4.8	4.8	4.8
<b>Total Due to Highmark</b>	<b>\$746.4</b>	<b>\$846.4</b>	<b>\$946.4</b>	<b>\$946.4</b>	<b>\$946.4</b>	<b>\$975.0</b>

#### Blackstone's Modified Recovery Calculation – Downside Scenario

(\$ in millions)

	1/31/2013					
	LTM	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Total Revenue	\$1,637.9	\$1,606.4	\$1,709.5	\$1,849.6	\$1,948.8	\$2,009.4
Multiple of Revenue	0.30x	0.30x	0.30x	0.30x	0.30x	0.30x
<b>Available Proceeds</b>	<b>\$491.4</b>	<b>\$481.9</b>	<b>\$512.9</b>	<b>\$554.9</b>	<b>\$584.6</b>	<b>\$602.8</b>
Plus: Cash and Investments	174.6	362.5	302.6	259.5	217.9	193.3
<b>Total Proceeds</b>	<b>\$666.0</b>	<b>\$844.4</b>	<b>\$815.5</b>	<b>\$814.4</b>	<b>\$802.5</b>	<b>\$796.1</b>
Mortgage	(27.7)	(27.7)	(23.3)	(12.0)	(2.5)	(2.3)
503(b)(9) Claims	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)	(30.0)
Bankruptcy Costs	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)	(50.0)
<b>Net Recoverable Pre-Unsecured Other Claims</b>	<b>\$558.3</b>	<b>\$736.7</b>	<b>\$712.2</b>	<b>\$722.4</b>	<b>\$720.0</b>	<b>\$713.8</b>
Assumed PBGC Settlement	(137.1)	(126.1)	(107.4)	(107.4)	(107.4)	(107.4)
Other Unsecured Settlement <sup>(2)</sup>	(157.5)	(127.4)	(131.8)	(139.4)	(143.4)	(146.9)
<b>Total Unsecured Settlement</b>	<b>(294.6)</b>	<b>(253.5)</b>	<b>(239.2)</b>	<b>(246.7)</b>	<b>(250.8)</b>	<b>(254.3)</b>
<b>Total Net Proceeds</b>	<b>\$263.7</b>	<b>\$483.3</b>	<b>\$473.0</b>	<b>\$475.7</b>	<b>\$469.3</b>	<b>\$459.6</b>
Implied Highmark Recovery \$	\$263.7	\$483.3	\$473.0	\$475.7	\$469.3	\$459.6
Implied Highmark Loss \$	(482.7)	(363.1)	(473.4)	(470.7)	(477.1)	(515.4)
Implied Highmark Recovery %	35.3%	57.1%	50.0%	50.3%	49.6%	47.1%
Implied Unsecured Recovery \$	\$294.6	\$253.5	\$239.2	\$246.7	\$250.8	\$254.3
Implied Unsecured Recovery %	50.0%	50.0%	50.0%	50.0%	50.0%	50.0%

#### Total Unsecured Liabilities

(\$ in millions)

	Amount
WPAHS Unfunded Pension Liability as of 1/31/2013 <sup>(4)</sup>	\$274.2
Other Unsecured Liabilities as of 1/31/2013 <sup>(2)</sup>	315.0
<b>Total Unsecured Liabilities</b>	<b>\$589.2</b>

#### Total Net Proceeds Sensitivity at 6/30/2015

		Multiple of Revenue		
		0.300x	0.325x	0.350x
Total Unsecured Settlement	0%	722	769	815
as a % of	25%	599	645	692
Total Unsecured Liabilities	50%	476	522	568
	75%	352	399	445
	100%	229	275	321

#### Implied Highmark Loss Sensitivity at 6/30/2015

		Multiple of Revenue		
		0.300x	0.325x	0.350x
Total Unsecured Settlement	0%	(224)	(178)	(132)
as a % of	25%	(347)	(301)	(255)
Total Unsecured Liabilities	50%	(471)	(424)	(378)
	75%	(594)	(548)	(502)
	100%	(717)	(671)	(625)

Source: Highmark report as of 3/7/2013 and H2C's "Forecast Scenarios Comparison," dated March 2013.

(1) Per Highmark's WPAHS balance sheet as of 1/31/2013.

(2) Includes Deferred Revenue, Self-Insurance Liabilities and Other Liabilities; Assumes Accrued Salaries and Vacation are assumed by the buyer and Floating Rate Restructuring Certificates are extinguished.

(3) Assumes 76.74% of bondholders tender at 87.5% of par, which is assumed to be \$709.7 million at the time of the Tender Offer. Assumes Highmark pays accrued interest and purchases the non-tendered bonds at par.

(4) Highmark is assumed to fill WPAHS' funding gap of \$28.6 million in 2017 in the Downside scenario.

(5) Assumes 45 days of Accrued Interest, based on a principal of \$709.7 million and interest rate of 5.375%, per H2C's Fairness Opinion.

## **B. H2C Fairness Opinion**



## B. H2C Fairness Opinion

### H2C Fairness Opinion

**On February 5, 2013, H2C Securities, Inc. ("H2C") rendered an opinion concerning the fairness of Highmark's purchase of the WPAHS 2007A bonds and making the secured loans under the Affiliation Agreement, from a financial point of view, on behalf of the subscribers and policyholders of Highmark. H2C concluded that, as of the date of their report, Highmark's purchase of the 2007A bonds and making the secured loans are fair, from a financial point of view, to Highmark's subscribers and policyholders.**

▶ **H2C used the following analysis in arriving at its conclusions:**

- Ability of WPAHS to pay the principal and interest on the 2007A Bonds and the Loans during the FY2013 – FY2017 forecast period
- Evaluation of WPAHS' credit profile at the end of the financial forecast and the likelihood that WPAHS can refinance its bonds without Highmark support, or with limited Highmark support
- Analysis of the value under a discounted cash flow and projected value of WPAHS to support the market value of the 2007A Bonds, the Loans and the unrestricted grants
- Recovery analysis of Highmark's purchase of the 2007A Bonds and the Loans under a restructuring in each of the years ended June 30, 2013, 2014, 2015, 2016 and 2017, including a review of precedent transactions for distressed facilities

▶ **H2C's opinion concluded that:**

- WPAHS can cover the principal and interest on the 2007A bonds and the secured loans over the projection period, and WPAHS should be able to access the capital markets and refinance the 2007A bonds without Highmark support, or with limited Highmark support
- Using a discounted cash flow analysis, WPAHS has an equity value range of (\$37m) - \$363m and, when factoring in restricted assets, WPAHS has an adjusted equity value range of \$229m - \$629m
- Using a range of revenue and EBITDA multiples, WPAHS has an equity value range of \$671m - \$1.4bn and, when factoring in restricted assets, WPAHS has an adjusted equity value range of \$935m - \$1.6bn
- Under a recovery analysis through restructuring based on the proposed security structure, the 2007A bonds and the secured loans have a recovery of 87% to 99% from FY2013 – FY2014, with 100% recovery in FY2015 – FY2017

## **C. Overview of JRMC Transaction**



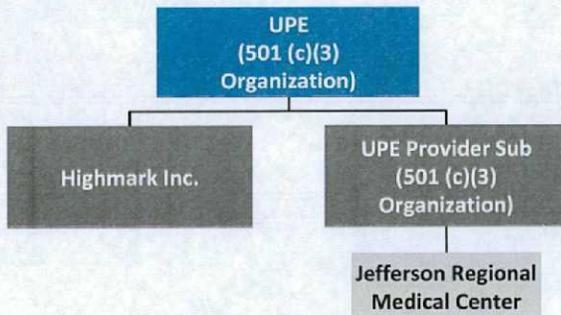
### C. Overview of JRM Transaction

#### Overview of JRM Transaction

UPE, UPE Provider Sub and Highmark entered into an Affiliation Agreement with Jefferson Regional Medical Center (“JRM”), Jefferson Regional Medical Center Foundation (“JRM Foundation”) and various JRM subsidiaries on August 13, 2012. The JRM transaction closed on March 1, 2013.

#### Structure and Pro Forma Governance

- ▶ UPE Provider Sub is JRM’s sole corporate member
- ▶ Current members of JRM’s Board of Directors will each serve on initial Board post-closing
- ▶ 75% of voting Board members perpetually will be appointed by UPE
- ▶ 25% of voting Board members initially will be appointed by JRM
- ▶ Number of JRM appointees will decline over time to six members who will make up a self-perpetuating class of directors
  - Two of these directors will be President and Vice President of JRM medical staff
  - One of these directors will be a Sister of the religious community of the Sisters of St. Joseph



#### Funding and Other Commitments

- ▶ Highmark will make a grant of up to \$100 million to JRM to fund JRM capital expenditures
- ▶ Highmark will, subject to certain limitations, guarantee JRM’s payment of debt, pensions and other liabilities or provide the same financial support through another structured solutions
- ▶ Highmark will make a \$75 million grant contribution to the JRM foundation
- ▶ UPE Provider Sub intends to bring tertiary care to JRM
- ▶ Highmark has committed to maintain JRM staffing levels



C. Overview of JRMC Transaction

**Overview of JRMC Transaction (cont'd.)**

**JRMC Projection Assumptions**

- ▶ Baseline inflation assumption (Net Patient Revenue and operating expenses) % per year
  - Operating Expenses are % of revenue
- ▶
- ▶ In 2014, JRMC is expected to realize a \$m increase in revenue
  - Using a 50/50 assumption for fixed / variable costs results in a ~\$m improvement in EBITDA compared to 2013
- ▶ Depreciation expense is expected to increase with the additional \$100m in capex with the Affiliation
- ▶ Investment results are expected to remain low based on interest rate assumptions as well as additional investments in capex, increase in 2016
- ▶ Tax Rate (501(c)(3)) is 0%
- ▶ A/R is ~% of Net Patient Service Revenue based on the 2012 Budgeted ratio
- ▶ A/P is ~% of operating expense based on the 2012 Budgeted ratio
- ▶ Debt is assumed to be reduced by debt payments of \$m per year
- ▶ Other assets and benefit plan liabilities are held constant

**JRMC Historical and Projected Financial Metrics**

(\$ in millions)

	June 30,		December 31,			
	2011A	2012A	2013E	2014A	2015E	2016E
<b>Income Statement</b>						
Net Patient Service Revenue	<div style="border: 1px solid black; height: 20px;"></div>					
Other Operating Revenue	<div style="border: 1px solid black; height: 20px;"></div>					
Total Operating Revenue	<div style="border: 1px solid black; height: 20px;"></div>					
Operating Expense	<div style="border: 1px solid black; height: 20px;"></div>					
<b>EBITDA</b>	\$17.2	\$20.0	\$20.1	\$32.6	\$36.6	\$37.6
Depreciation Expense	<div style="border: 1px solid black; height: 20px;"></div>					
Total Operating Expense	<div style="border: 1px solid black; height: 20px;"></div>					
<b>Operating Gain</b>	(\$0.1)	\$2.9	\$3.0	\$7.6	\$8.4	\$6.2
Investment Results	<div style="border: 1px solid black; height: 20px;"></div>					
Interest Expense	<div style="border: 1px solid black; height: 20px;"></div>					
Gifts, Donations and Contrbs.	<div style="border: 1px solid black; height: 20px;"></div>					
Other Income / (Expense)	<div style="border: 1px solid black; height: 20px;"></div>					
Pre-Tax Income (Loss)	<div style="border: 1px solid black; height: 20px;"></div>					
Income Tax Provision	<div style="border: 1px solid black; height: 20px;"></div>					
<b>Net Income (Loss)</b>	\$13.4	\$3.0	\$2.6	\$6.7	\$7.1	\$5.4
<b>EBITDA Margin</b>	6.4%	7.1%	6.9%	9.9%	10.7%	10.5%
<b>Operating Margin</b>	0.0%	1.0%	1.0%	2.3%	2.5%	1.7%
<b>Net Income Margin</b>	4.9%	1.1%	0.9%	2.0%	2.1%	1.5%
<b>Balance Sheet</b>						
Cash and Investments	<div style="border: 1px solid black; height: 20px;"></div>					
Accounts Receivable	<div style="border: 1px solid black; height: 20px;"></div>					
Property and Equipment, Net	<div style="border: 1px solid black; height: 20px;"></div>					
Other Assets	<div style="border: 1px solid black; height: 20px;"></div>					
<b>Total Assets</b>	\$319.7	\$317.6	\$365.0	\$371.6	\$375.7	\$378.7
Total Debt	<div style="border: 1px solid black; height: 20px;"></div>					
Benefit Plan Liabilities	<div style="border: 1px solid black; height: 20px;"></div>					
Other Liabilities <sup>(1)</sup>	<div style="border: 1px solid black; height: 20px;"></div>					
<b>Total Liabilities</b>	\$201.5	\$243.8	\$243.6	\$243.5	\$240.5	\$238.1
<b>Net Assets / Equity</b>	\$118.2	\$73.8	\$121.4	\$128.1	\$135.2	\$140.6

Source: Highmark financial projections.

(1) 2012A "Other Liabilities" include \$34.8 million of "Current Liabilities" and \$17.8 million of "Non-Current Liabilities."

## **D. Overview of SVHS Transaction**



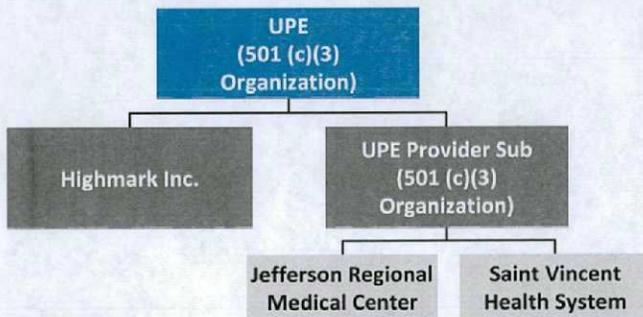
#### D. Overview of SVHS Transaction

### Overview of SVHS Transaction

**Highmark and Saint Vincent Health System (“SVHS”) have signed a binding Affiliation Agreement.**

#### Structure and Pro Forma Governance

- ▶ UPE Provider Sub will become SVHS’s sole corporate member
- ▶ It is presently contemplated that the Pro Forma SVHS Board will be 75% appointed by UPE and 25% appointed by SVHS – with input from Highmark and UPE



#### Funding and Other Commitments

- ▶ Highmark will make a \$10 million payment to the Sisters of St. Joseph of Northwestern Pennsylvania
- ▶ Highmark will make a \$5 million payment to SVHS to support capital projects
- ▶ Highmark will make a \$20 million contribution to SVHS
- ▶ Highmark has committed to supporting SVHS’ long-term capital plan including assistance with capital sourcing and budgeting
- ▶ Highmark has committed to providing assistance to SVHS in extending or replacing its existing lines of credit
- ▶ Highmark has stated that, for three years post-closing, it will not transfer any cash or investments of SVHS to any other Highmark-controlled entity



## D. Overview of SVHS Transaction

### Overview of SVHS Transaction (cont'd.)

#### SVHS Projection Assumptions

- ▶ Net Patient Service Revenue: anticipating a shift away from inpatient care to ambulatory, physician, in-home and other non-hospital ways to keep people healthy
- ▶ Other revenue is based on high-level assumptions about the expected run-off of the Meaningful Use funding, partially offset by inflation on other items
- ▶ Operating expenses are expected to increase with inflation at 2% per year, partially offset by \$m in expense savings through affiliation (IT, insurance, HR, finance, etc.)
- ▶ Depreciation is based on the assumed balance between assets falling off the amortization tables and new capex
- ▶ Investment results based on the expected continuation of very low rates on short and intermediate term fixed income investments
- ▶ Change in A/R is a function of change in total revenue
- ▶ PPE is held constant with the exception of the additional \$5m contribution from Highmark
- ▶ Change in A/P and accrued expenses is a function of change in operating expenses
- ▶ Debt payoff assumed to be consistent with the payoff between 2012 and 2011
- ▶ Contributions from Highmark are assumed to be booked in 2013 as follows:
  - General Balance Sheet: \$20m
  - Capex: \$5m

#### SVHS Historical and Projected Financial Metrics

(\$ in millions)

	June 30,		December 31,			
	2011A	2012A	2013E	2014A	2015E	2016E
<b>Income Statement</b>						
Net Patient Service Revenue						
Other Operating Revenue						
Total Operating Revenue						
Operating Expense						
<b>EBITDA</b>	<b>\$4.8</b>	<b>\$16.2</b>	<b>\$12.9</b>	<b>\$21.4</b>	<b>\$25.0</b>	<b>\$25.8</b>
Depreciation Expense						
Total Operating Expense						
<b>Operating Gain</b>	<b>(\$9.0)</b>	<b>\$1.6</b>	<b>(\$1.1)</b>	<b>\$7.4</b>	<b>\$11.0</b>	<b>\$11.8</b>
<b>Investment Results</b>						
Interest Expense						
Gifts, Donations and Contrbs.						
Other Income / (Expense)						
Pre-Tax Income (Loss)						
Income Tax Provision						
<b>Net Income (Loss)</b>	<b>(\$11.0)</b>	<b>(\$5.3)</b>	<b>(\$6.8)</b>	<b>\$1.7</b>	<b>\$5.2</b>	<b>\$6.1</b>
<b>EBITDA Margin</b>	<b>1.5%</b>	<b>4.9%</b>	<b>4.1%</b>	<b>6.6%</b>	<b>7.5%</b>	<b>7.5%</b>
<b>Operating Margin</b>	<b>-2.8%</b>	<b>0.5%</b>	<b>-0.3%</b>	<b>2.3%</b>	<b>3.3%</b>	<b>3.4%</b>
<b>Net Income Margin</b>	<b>-3.4%</b>	<b>-1.6%</b>	<b>-2.1%</b>	<b>0.5%</b>	<b>1.6%</b>	<b>1.8%</b>
<b>Balance Sheet</b>						
Cash and Investments						
Accounts Receivable						
Property and Equipment, Net						
Other Assets						
<b>Total Assets</b>	<b>\$338.4</b>	<b>\$325.4</b>	<b>\$339.1</b>	<b>\$339.0</b>	<b>\$343.6</b>	<b>\$349.2</b>
Total Debt						
Benefit Plan Liabilities						
Other Liabilities <sup>(1)</sup>						
<b>Total Liabilities</b>	<b>\$246.7</b>	<b>\$280.8</b>	<b>\$276.3</b>	<b>\$274.5</b>	<b>\$273.9</b>	<b>\$273.4</b>
<b>Net Assets / Equity</b>	<b>\$91.6</b>	<b>\$44.6</b>	<b>\$62.8</b>	<b>\$64.5</b>	<b>\$69.7</b>	<b>\$75.8</b>

Source: Highmark financial projections.

(1) 2012A "Other Liabilities" include \$46.8 million of "Current Liabilities" and \$22.8 million of "Non-Current Liabilities."

## **E. Overview of Other Provider Capital Commitments**



## E. Overview of Other Provider Capital Commitments

### Overview of Other Provider Capital Commitments

#### Summary of Highmark 'Other Provider Capital Commitments' Process

- ▶ The process of evaluating physician practices for acquisitions, affiliations and network participation included: an assessment of geographic and specialty gaps in Highmark's provider network (assuming Highmark's contract with UPMC is terminated), collection of historical financial data, productivity levels and legal documents for potential candidates for affiliation or acquisition, and, in some cases, third party valuation analysis
  - To establish physician employment compensation, Highmark used benchmarking data developed by the Medical Group Management Association and peer comparison
- ▶ The process regarding the assessment of medical malls and ambulatory surgery centers involved internal Highmark personnel (Actuarial, Finance and Real Estate Departments), outside management consultants and real estate valuation experts
  - Financial projections and a business plan were developed in order to: assess optimal locations for medical mall facilities and understand capital requirements, volume/revenue estimates, pricing and cost structures
- ▶ Highmark engaged an outside consulting firm to help evaluate the need for a group purchasing organization ("GPO") and distribution center within the IDN strategy.
  - A work group, consisting of internal Highmark personnel and external consultants, was formed and financial modeling was undertaken to assess the financial impact of undertaking an investment in the development of a GPO
- ▶ Execution on each of these strategies involved, depending on the level of investment required, approval from either Highmark's Board of Directors or the Board's Network Strategy Committee

#### Highmark's Financial Commitments in the Transaction Scenario

(\$ in millions)

Funding Recipient	Amount
Total Grants and UPE Loans	\$1,834.4
Less: WPAHS Commitments <sup>(1)</sup>	(1,154.4)
Less: JPMC Commitments <sup>(2)</sup>	(175.0)
Less: SVHS Commitments	(35.0)
<b>Other Provider Spending Subtotal</b>	<b>\$470.0</b>
<b>Breakdown of Other Provider Spending:</b>	
<i>Other UPE Grants</i>	
Unrestricted Grant to UPE for Non-WPAHS Purposes	\$94.0
Highmark Payments to PLZ for Participation in Network	123.0
M50 Development Expense	8.0
<input type="checkbox"/> / Center of Innovation	5.0
HMPG Investments - for Real Estate Acquisitions <sup>(3)</sup>	32.0
<i>Other UPE Loans</i>	
Highmark Loan to <input type="checkbox"/> - for Physician Affiliations	\$83.0
Highmark Loan to Provider PPI LLC (Formation of GPO)	18.0
Highmark Line of Credit to HMPG to Finance Medical Malls	107.0
<b>Total</b>	<b>\$470.0</b>

Source: Highmark.

(1) WPAHS capital outlays include \$475 million Funding Commitment, \$646 Tender Offer for WPAHS Series 2007A Bonds (assuming 76.74% of bondholders tender at 87.5% of par, which is assumed to be \$709.7 million at the time of the Tender Offer, and assuming that Highmark pays accrued interest and purchases the remainder of the bonds at par, and \$33 million in grants to WPAHS for Cash Advances and A&M Fees.

(2) JPMC spending includes \$75 million Unrestricted Grant to JPMC and maximum potential capital expenditures grant to JPMC of \$100 million; Highmark's projections use \$45 million capital expenditures grant.

(3) Highmark considers the \$32 million of HMPG investments for real estate acquisitions to be an unrestricted grant, and thus unrecoverable to Highmark, for the purposes of this analysis.

## **F. Overview of Highmark**

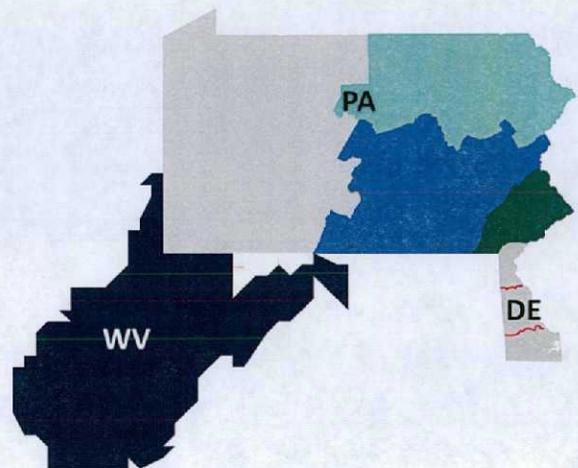


## F. Overview of Highmark

### Highmark Overview

**Highmark is incorporated as a non-profit corporation and operates as a hospital plan and a professional health services plan in the Commonwealth of Pennsylvania. As a licensee of the Blue Cross and Blue Shield Association, Highmark underwrites various indemnity and managed care health insurance products.**

- ▶ Highmark is one of 10 largest health insurance companies in the U.S. in terms of membership and is one of the largest not-for-profit Blue Plans
- ▶ As of December 2011, Highmark offered the nation's:
  - Seventh largest Medicare Advantage plans by membership
  - Third largest vision managed care by membership
  - Third largest optical retail chain by revenue
  - Sixth largest dental insurance by membership
  - Third largest Stop Loss by gross premium
- ▶ The company holds an "A" rating from Standard & Poor's and A.M. Best for its balance sheet, capitalization and market position





F. Overview of Highmark

**Historical Financial Results**

**The following represents Highmark's Combined GAAP financial results for years 2007 – 2011.**

**Highmark's Combined GAAP Financial Results 2007 - 2011**  
 (\$ in millions)

	Year Ended December 31,				
	2007	2008	2009	2010	2011
Premium Revenue	\$10,252	\$11,020	\$11,541	\$12,294	\$12,475
Management Services Revenue	622	626	653	685	716
Vision Revenue	963	1,077	1,126	1,159	1,205
Other Revenue	189	198	213	216	232
<b>Total Operating Revenue</b>	<b>12,026</b>	<b>12,921</b>	<b>13,534</b>	<b>14,354</b>	<b>14,628</b>
Claims Incurred	9,045	9,692	10,223	10,605	10,849
Operating Expenses	2,749	2,978	3,138	3,266	3,410
<b>Total Operating Expenses</b>	<b>11,794</b>	<b>12,671</b>	<b>13,362</b>	<b>13,871</b>	<b>14,259</b>
<b>Operating Income</b>	<b>\$232</b>	<b>\$250</b>	<b>\$172</b>	<b>\$483</b>	<b>\$370</b>
Net Investment Income	235	160	148	143	142
Net Realized Gain (Loss) on Investments	164	(79)	13	99	7
Gain on Sale of Business Interests	—	—	—	—	—
Interest Expense	(68)	(61)	(53)	(42)	(53)
Change in Premium Deficiency Reserves	(2)	(107)	(8)	(46)	11
<b>Income before Income Taxes</b>	<b>559</b>	<b>163</b>	<b>272</b>	<b>637</b>	<b>476</b>
Income Tax Provision	184	69	84	174	31
<b>Net Income</b>	<b>\$375</b>	<b>\$94</b>	<b>\$188</b>	<b>\$463</b>	<b>\$445</b>
Medical Loss Ratio	88.2%	88.0%	88.6%	86.3%	87.0%
Administrative Expense Ratio	22.9%	23.1%	23.2%	22.8%	23.3%
Operating Income Margin	1.9%	1.9%	1.3%	3.4%	2.5%
Net Income Margin	3.1%	0.7%	1.4%	3.2%	3.0%

Note: Sub totals may differ from the sum of amounts shown by +/- 1 due to rounding of decimal places not displayed

Source: Highmark.



F. Overview of Highmark

**GAAP Balance Sheet**

**As of December 31, 2011, Highmark had total assets of \$10.6 billion and total reserves of \$5.0 billion.**

**Highmark Combined Balance Sheet – GAAP Basis**

*(\$ in millions)*

	As of December 31,				
	2007A	2008A	2009A	2010A <sup>(1)</sup>	2011A
Cash and Cash Equivalents	\$1,019	\$803	\$989	\$1,143	\$1,116
Investments	3,919	3,459	3,733	4,161	5,064
Accounts Receivable	1,310	1,545	1,580	1,709	1,922
Property and Equipment, Net	354	402	471	489	539
Goodwill and Other Intangibles, Net	830	821	810	852	904
Other Assets	1,494	1,691	1,106	1,046	1,074
<b>Total Assets</b>	<b>\$8,926</b>	<b>\$8,720</b>	<b>\$8,688</b>	<b>\$9,399</b>	<b>\$10,619</b>
Claims Outstanding	1,763	1,822	1,897	1,945	2,078
Unearned Subscription Revenue	360	274	282	317	315
Debt	800	778	795	626	1,120
Other Liabilities	2,026	2,296	1,519	1,886	2,145
<b>Total Liabilities</b>	<b>\$4,949</b>	<b>\$5,169</b>	<b>\$4,494</b>	<b>\$4,774</b>	<b>\$5,657</b>
Accumulated Other Comprehensive Income	106	(414)	42	9	(99)
General Reserves	3,871	3,965	4,153	4,615	5,060
<b>Total Reserves</b>	<b>\$3,977</b>	<b>\$3,551</b>	<b>\$4,195</b>	<b>\$4,625</b>	<b>\$4,961</b>
<b>Total Liabilities and Reserves</b>	<b>\$8,926</b>	<b>\$8,720</b>	<b>\$8,688</b>	<b>\$9,399</b>	<b>\$10,619</b>

Note: Sub totals may differ from the sum of amounts shown by +/- 1 due to rounding of decimal places not displayed

Source: Highmark.

(1) Certain 2010 balances were reclassified to conform to the 2011 presentation.



## F. Overview of Highmark

### Overview of Highmark Entities

**Highmark's financials are comprised of 15 legal entities.**

#### Subsidiaries

##### Keystone Health Plan West (KHPW)

- ▶ Health maintenance organization (HMO) offering commercial, Medicare Advantage (Security Blue) and direct pay coverage to individuals and groups in the 29 county region of Western Pennsylvania

##### HM Health Insurance Company (HHIC)

- ▶ HHIC conducts both direct written and assumed business
  - Direct Written Business
    - Small group market (2-50 members) in Western and Central Pennsylvania and a portion of direct pay guaranteed issue conversion business in Pennsylvania
    - West Virginia Medicare Advantage PPO employer group and direct pay business
    - Medicare Part D prescription drug coverage
  - Assumed Business
    - Effective January 1, 2011, HHIC assumed the remainder of the Pennsylvania insured business of Highmark Inc., with the exception of Medicare Advantage and certain social mission products, through a 100% coinsurance reinsurance agreement; this agreement was terminated on January 1, 2013

##### Highmark Senior Resources (HSR)

- ▶ HSR is not currently active

##### Highmark West Virginia Inc. (HWV)

- ▶ HWV is a nonprofit health service corporation in West Virginia providing or administering insurance coverage, including commercial group and direct pay. HWV also provides coverage to members of the Federal Employees Health Benefits Program

##### United Concordia Companies, Inc. (UCCI)

- ▶ UCCI is one of the nation's largest dental insurers, covering more than 8 million members in the United States and worldwide through a network of more than 72,000 participating dentists



## F. Overview of Highmark

### Overview of Highmark Entities (cont'd.)

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#### Subsidiaries (cont'd.)

##### **HVHC Inc.**

- ▶ HVHC is a for-profit holding company for a portfolio of vision companies including Davis Vision, Inc., Viva Optique, Inc. and Visionworks of America, Inc.
  - Davis Vision, Inc.
    - Davis Vision has been one of the nation's leading vision benefits companies for nearly 50 years. Davis Vision's national provider network includes more than 30,000 independent ophthalmologists and optometrists
  - Viva Optique, Inc. (Viva)
    - Viva has steadily grown to become a worldwide leader in ophthalmic frames and sunglasses distribution and manufacturing.
    - Major brands include GUESS and Harley Davidson
    - In addition to its U.S. operations, Viva currently has six direct sales offices in the United Kingdom, France, Brazil, Canada, Japan and Hong Kong. The company has global distribution in more than 90 countries
  - Visionworks of America, Inc. (Visionworks)
    - Visionworks operates over 500 retail optical stores in 40 states, and is the largest U.S. owned retail vision specialty chain

##### **HM Insurance Group, Inc. (HMIG)**

- ▶ HMIG is a recognized leader in excess loss and reinsurance, including employer stop-loss, provider excess, workers comp and HMO reinsurance. HMIG also offers a product portfolio of health risk solutions that includes HM Worksite Advantage (critical illness, accident, disability income and term life insurance)
- ▶ Through HM Life Insurance Company and HM Life Insurance Company of New York, HMIG holds licenses in 50 states and the District of Columbia and is supported by 24 regional sales offices across the country



## F. Overview of Highmark

### Overview of Highmark Entities (cont'd.)

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#### Subsidiaries (cont'd.)

##### Real Estate Group (Standard Property Corporation (SPC) / Jenkins Empire Associates (JEA))

- ▶ Standard Property manages real estate for Highmark and its subsidiary companies and affiliates and is responsible for the acquisition, management, leasing and disposal of real estate and related assets, along with the design, construction and furnishings of office and related space
- ▶ Jenkins Empire Associates owns and operates Highmark's Fifth Avenue Place Building in downtown Pittsburgh

##### HCI, Inc. (HCI)

- ▶ HCI is a for profit stock corporation domiciled in Vermont serving as a captive insurance company
- ▶ HCI is used to insure certain risks (errors & omissions and directors & officers coverage) for Highmark and its subsidiaries

##### Highmark Ventures Inc. (HVI)

- ▶ HVI is a wholly owned for-profit subsidiary that invests in venture capital investments for strategic operating purposes

#### Affiliates

##### Gateway Health Plan (Gateway)

- ▶ Gateway is a 50% owned affiliate that Highmark jointly owns with Mercy Health Plan
- ▶ Gateway provides managed care services to Medicaid recipients in 22 counties across Pennsylvania as well as insurance to individuals eligible for both Medicaid and Medicare under a Medicare Advantage contract with CMS in 27 Pennsylvania counties

##### First Priority Health (FPH) / First Priority Life Insurance Company (FPLIC)

- ▶ FPH and FPLIC are 40% owned affiliates that Highmark jointly owns with Blue Cross of Northeastern PA
- ▶ Both companies offer commercial and direct pay insurance to members located in Northeastern PA

## **G. Overview of West Penn Allegheny Health System**

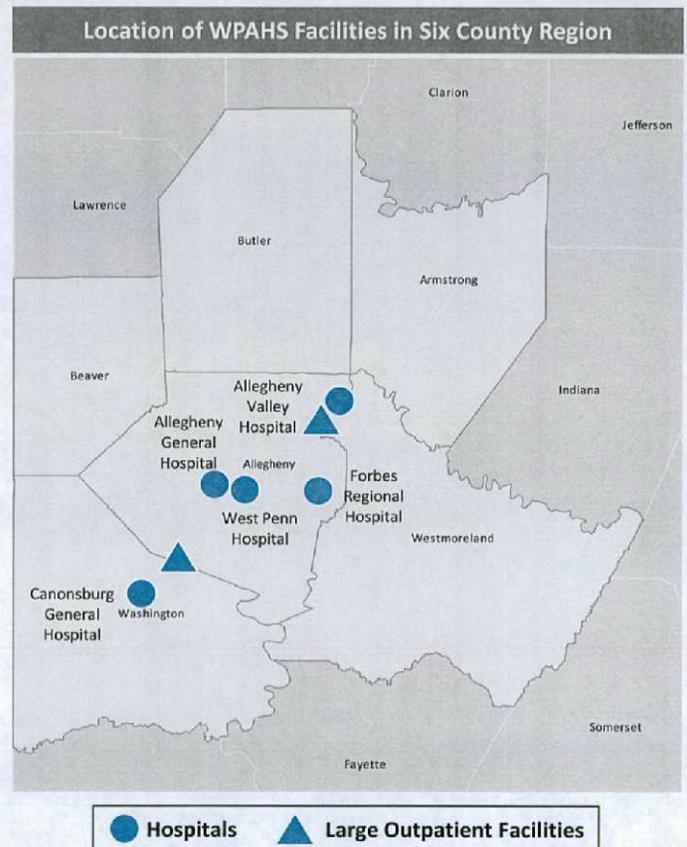


### G. Overview of West Penn Allegheny Health System

## West Penn Allegheny Health System Overview

**West Penn Allegheny Health System ("WPAHS" or "the System") is a regional health provider serving Allegheny, Armstrong, Butler, Beaver, Washington, and Westmoreland counties.**

- ▶ WPAHS is the 2nd largest healthcare provider in the Greater Pittsburgh market
  - Five acute care hospitals operating ~1,600 inpatient beds and providing a full range of clinical services
  - The System's hospitals have over 1,700 physicians on the Medical Staff and the Physician Organization (or "PO") employs 600+ physicians
  - Provides training for 450 medical residents and 250 nursing and allied health students annually
  - ~11,000 employees
  - Provides over \$4 billion of economic value to the communities served<sup>(1)</sup>
  - ~17% of inpatient market share (vs. ~41 % market share of UPMC) in Greater Pittsburgh
  - Major provider of critical community medical services such as Level I trauma, neonatal intensive care, and burn care



Source: WPAHS.

(1) Per Hospital and Health System of Pennsylvania Report, April 2011.



## G. Overview of West Penn Allegheny Health System

### Brief History and Reputational Highlights

**WPAHS was formed in 2000 and its current structure is an affiliation of five hospitals.**

► Selected Facility highlights include<sup>(1)</sup>:

- **Allegheny General Hospital ("AGH")** – established in 1885 (Licensed Beds: 631; FY2012 Discharges: 
  - Site of State's first trauma program, heart valve replacement surgery and CT scan; first or among first in country to perform heart transplantation, deep brain stimulation for Parkinson's, robotic kidney nephrectomy, prostate cryosurgery, spine microdiscectomy and air medical transportation
  - Ranked among nation's top 50 programs in cardiology and heart surgery, gastroenterology and orthopedics; offers Spine Surgery Center of Excellence, Primary Stroke Center and Comprehensive Epilepsy Center
- **West Penn Hospital ("WPH")** – established in 1848 (Licensed Beds: 268; FY2012 Discharges: 
  - Pittsburgh's first chartered public hospital and one of the nation's first teaching hospitals, region's first designated Magnet Hospital for nursing excellence
- **Forbes Regional Hospital ("FRH")** – established in 1978 (Licensed Beds: 350; FY2012 Discharges: 
  - Serves Pittsburgh's eastern suburbs and western Westmoreland County; one of region's busiest emergency departments
  - Certified Chest Pain and Stroke Centers; Forbes Regional Heart Surgery Program; Joint and Spine and Women's and Infants Centers
- **Allegheny Valley Hospital ("AVH")** – established in 1909 (Licensed Beds: 258; FY2012 Discharges: 
  - Offers a broad spectrum of inpatient and outpatient programs, including medical and surgical services, psychiatric care, geriatric, cardiology, cancer care and orthopedics
- **Canonsburg General Hospital ("CGH")** – established in 1904 (Licensed Beds: 104; FY2012 Discharges: 
  - Advanced diagnostic and treatment services accessible on inpatient and outpatient basis; 16-bed inpatient rehabilitation unit; advanced orthopedics

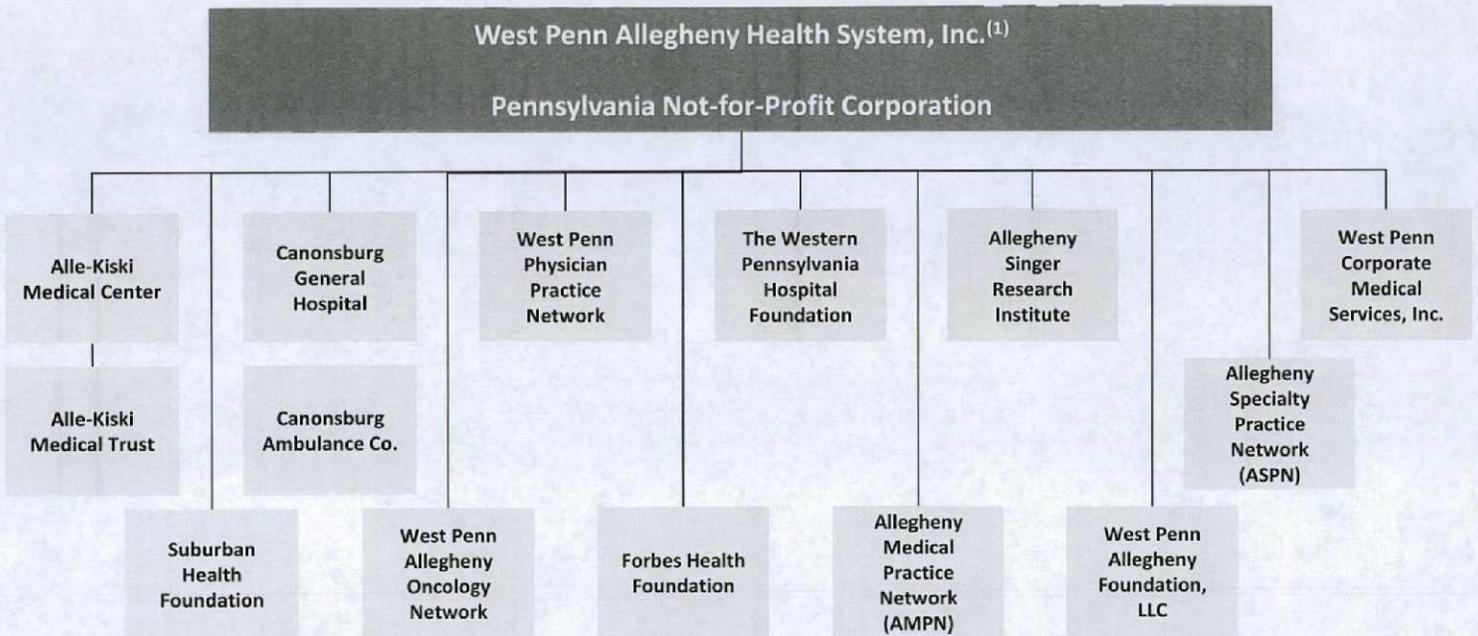
(1) Source: WPAHS.



## G. Overview of West Penn Allegheny Health System

### Corporate Organizational Overview

WPAHS' legal organizational structure is depicted below. Upon closing, UPE Provider Sub, a separate non-profit entity, will be the sole member of West Penn Allegheny Health System, Inc.



Source: Highmark.

(1) WPAHS operates Allegheny General Hospital, the Western Pennsylvania Hospital and Forbes Regional Hospital.



G. Overview of West Penn Allegheny Health System

**Historical Financial Results**

The following represents WPAHS' financial results for years 2007 – 2012.

**WPAHS Consolidated Income Statement**

(\$ in millions)

	Year Ended June 30,					
	2007A	2008A	2009A	2010A	2011A	2012*
Net Patient Service Revenue	\$1,428	\$1,452	\$1,552	\$1,564	\$1,504	\$1,475
Provision for Bad Debts	(44)	(40)	(40)	(69)	(69)	(81)
Other Revenue	54	57	57	62	87	81
Net Assets Released from Restrictions	7	5	5	4	5	4
<b>Total Unrestricted Revenues, Gains and Other Support</b>	<b>1,444</b>	<b>1,474</b>	<b>1,573</b>	<b>1,561</b>	<b>1,527</b>	<b>1,478</b>
Salaries, Wages and Fringe Benefits	827	871	893	858	849	866
Patient Care Supplies	286	293	299	299	275	280
Professional Fees and Purchased Services	106	117	149	156	158	164
General and Administrative	131	146	142	152	171	166
Depreciation and Amortization	62	69	55	74	61	66
Interest	49	67	74	41	38	40
Restructuring	–	–	–	–	27	9
<b>Total Expenses</b>	<b>1,461</b>	<b>1,563</b>	<b>1,612</b>	<b>1,580</b>	<b>1,579</b>	<b>1,591</b>
<b>Operating Income</b>	<b>(\$17)</b>	<b>(\$89)</b>	<b>(\$38)</b>	<b>(\$19)</b>	<b>(\$52)</b>	<b>(\$113)</b>
Impairment Loss	–	–	–	(71)	–	–
Investment Income	23	30	12	26	18	14
Gifts and Donations	–	1	1	1	51	59
Loss on Debt Refinancing	(85)	–	–	–	–	–
Gain from divestiture	–	–	–	–	10	–
Gain (Loss) in Joint Venture Investment	–	–	–	–	(6)	2
<b>(Deficiency)/Excess of Revenues over Expenses</b>	<b>(\$79)</b>	<b>(\$58)</b>	<b>(\$25)</b>	<b>(\$63)</b>	<b>\$20</b>	<b>(\$38)</b>

Source: WPAHS 2007 – 2011 Audited Financial Statements, and WPAHS 2012 Unaudited Financial Statements.

\*Per WPAHS 2012 Unaudited Financial Statements, which can be found at: [http://www.wpahs.org/sites/default/files/file/FY2012\\_annual.pdf](http://www.wpahs.org/sites/default/files/file/FY2012_annual.pdf).



G. Overview of West Penn Allegheny Health System

**Balance Sheet**

**As of June 30, 2012, WPAHS had total assets of \$1.3 billion and total liabilities of \$1.5 billion.**

**WPAHS Consolidated Balance Sheet**

(\$ in millions)

	Year Ended June 30,					
	2007A	2008A	2009A	2010A	2011A	2012*
Cash and Cash Equivalents	\$84	\$79	\$122	\$169	\$165	\$194
Short-term Investments	—	1	6	5	5	5
Net Patient Accounts Receivable	188	171	170	161	132	137
Other Receivables	22	12	9	25	33	25
Inventory	25	27	27	24	23	21
Property and Equipment, Net	579	427	407	319	369	394
Assets Limited or Restricted as to Use	397	490	436	435	431	401
Other Current Assets	12	14	17	22	33	15
Other Noncurrent Assets	73	71	59	59	56	75
<b>Total Assets</b>	<b>\$1,380</b>	<b>\$1,292</b>	<b>\$1,253</b>	<b>\$1,218</b>	<b>\$1,247</b>	<b>\$1,268</b>
Current Portion of Long-Term Debt	4	4	13	13	15	16
Long-Term Debt	829	826	813	800	792	879
Accrued Pension Obligation	129	125	222	298	196	279
Accounts Payable	65	86	79	107	85	87
Other Current Liabilities	95	99	97	85	134	104
Other Noncurrent Liabilities	112	108	116	118	123	138
<b>Total Liabilities</b>	<b>\$1,234</b>	<b>\$1,247</b>	<b>\$1,341</b>	<b>\$1,421</b>	<b>\$1,346</b>	<b>\$1,503</b>
Net Assets (Deficit):						
Unrestricted	(153)	(230)	(312)	(435)	(357)	(481)
Temporarily Restricted	37	33	28	26	23	23
Permanently Restricted	263	242	196	207	234	223
<b>Total Net Assets / (Deficit)</b>	<b>\$146</b>	<b>\$45</b>	<b>(\$88)</b>	<b>(\$202)</b>	<b>(\$99)</b>	<b>(\$235)</b>
<b>Total Liabilities and Reserves</b>	<b>\$1,380</b>	<b>\$1,292</b>	<b>\$1,253</b>	<b>\$1,218</b>	<b>\$1,247</b>	<b>\$1,268</b>

Source: WPAHS 2007 – 2011 Audited Financial Statements, and WPAHS 2012 Unaudited Financial Statements.

\*Per WPAHS 2012 Unaudited Financial Statements, which can be found at: [http://www.wpahs.org/sites/default/files/file/FY2012\\_annual.pdf](http://www.wpahs.org/sites/default/files/file/FY2012_annual.pdf).