J. Robert Baum, Ph.D.:

Okay, welcome everybody, this is a great day, I hope you are as excited about this as we are. We have a lot of information for you and a strong question and answer period will be available as well. My name is Bob Baum and I'm Chairman at Highmark. This always happens when I talk, it's great, I love it.

On my right is Dr. Ken Melani and he's President and CEO of Highmark, Inc. and on my left is Jack Isherwood, Jack is Chairman of the Board, West Penn Allegheny Health System and beside Jack is Dr. Keith Ghezzi, Keith is the Interim President and CEO of the West Penn Allegheny Health System. We have a little bit of fun with that interim phrase before this all started because I think it indicates temporary or something, but we're all interim, Ken is interim, I'm interim, Jack is interim, we are all interim, so there.

Okay, I just wanted to mention that we have some folks on the phone and so when we get to the Q and A section then we'll be taking them after we take care of people in the room.

On June 28th we met over at the Allegheny General Hospital and announced to you then that we had resolved a term sheet and those of you who are familiar with the process know that term sheets are a very high level review of the things that might lead to a successful deal and a statement of intentions. So we stated our intentions to get to an affiliation.

The goal for all of us was that we wanted to preserve the West Penn Allegheny Health System as a choice for the Pittsburgh region, so we at that point we are at the first step and we had done much due diligence and had explored the vision and mission of each of the companies, looked at financial – the financial conditions and resources and so on and, and came to conclusions that this is a project, a deal that could work and add a lot of value. Highmark during that process it should be obvious has a 75 year history of paying attention to healthcare in terms of affordability and access and support systems for quality healthcare, and we also have more recently than 75 years come to the realization that we need to collaborate more closely with providers, the doctors, hospitals, all sorts of providers. And that fits very much what this, this project is all about. At the same time, we recognized that West Penn Allegheny Health System had a century or more of serving this community and serving it with a special focus on personal healthcare and a very good reputation across many of their projects. So we, we came away from this first step, the June 28th step excited that this could go forward.

Now we are at the second step and in the meantime between the June date and now the boards of directors and the management teams from both institutions spent a lot of time going over details and we're very happy to announce that yesterday we signed the agreement to affiliate with details

specified out that should guide the transaction. So it's a great day and we move on now to the next step, the next step in the process for us is that we need to gain approvals, we need to gain approvals from the Insurance Department, Pennsylvania Insurance Department, Pennsylvania Attorney General's Office and of course the IRS as well. We know that these reviews will be thorough but we also feel that we have a compelling story and that there are more reasons than we can list to go forward with this as soon as possible. So we do need the resolution of the reviews quickly so that we can get to work.

The next thing that we were going to do is proceed, we are going to proceed quickly now with the plans that you are going to hear more about, and I'd just like to say thanks to folks who have been involved with this. First of all Jack Isherwood, Chairman of the West Penn Allegheny Health System, Jack's patience and also his understanding of doing deals was just essential to bringing this to a close at this point; and Dave McClenahan, the former Chairman of the Board of the West Penn Allegheny Health System also came and was a very active participant in the process, he brought knowledge and of course as you all must know a deep affection for the West Penn Allegheny Health System. So we were grateful to have partners like that dealing with this, this project. Also the Board of Directors at the West Penn Allegheny Health System moved forward as, as planned and also the Highmark Board of Directors was very efficient and addressed issues giving as much time as was required to get here. So we are delighted, we think we have a great story and we're just so happy that you could be with us today. So I'm going to hand it over to Dr. Melani, our CEO and President, and Ken will give you some details about the affiliation agreement and also the corporate strategy and then finally our provider strategy, which is an essential guide for this whole process. Thanks.

Kenneth A. Melani, M.D.:

Thanks Bob, good morning everybody. If you didn't recognize the music, that was a UPMC commercial.

Anyway, you know as Bob mentioned, we have signed a definitive agreement and that occurred yesterday here at the Highmark offices. Our next step will be to file a Form A filing with the Pennsylvania Insurance Department, and we anticipate doing that sometime within the next week. Once we make that filing we certainly look forward to working with the Department ensuring transparency throughout the review process and to echo what Bob said, we expect the regulatory review and the approval process to be thorough, but we also hope that it will be done expeditiously, it's very important that that occur. Once the fining is submitted to the Department information from the filing will be available for public review by visiting the News Room section of our Corporate Website at highmark.com. We expect it will be posted to our website within a day or so after we submit the filing to the Department.

As we noted in our initial announcement in June, this affiliation brings with it a number of benefits to the community. First of all it preserves a vital not-for-profit community asset, and that's very important. This affiliation provides peace of mind for the tens of thousands of patients with established relationships with physicians and who depend on the West Penn Allegheny System for their healthcare services. In addition it's especially meaningful to the nearly 12,000 employees at West Penn Allegheny whose families all rely on their jobs and to local businesses and the people living in the communities surrounding these hospitals, but more importantly at a time when our population is aging and the need for healthcare services is on the rise we're kind of in a critical stage here in Western PA facing shortages with physicians and other healthcare workers, overcrowded emergency rooms and healthcare costs that are becoming even more unaffordable. In these times it's vitally important to have a healthcare system that provides choice and a healthy level of competition for people in our communities who are seeking high quality, affordable healthcare services. With that in mind this affiliation will bring with it a unique opportunity to change the way healthcare is delivered in Western Pennsylvania.

Our partnership with the West Penn Allegheny System will serve as the foundation of our provider strategy as we look to build a world class delivery system that creates value for the community by providing differentiated services and experiences and improved health outcomes while lowering costs for our health plan members and our patients. When we began thinking about the new delivery system there were several core components that we wanted at the heart of this new venture and they included the following: that our system would be patient-centric and physician-led with high levels of patient engagement; that we will deliver high quality services to those in need of care that will align incentives and focus more resources on wellness and prevention. We'll have a special focus on providing care in the most convenient and economical setting, and it will be based on innovative research and advanced academics. Most importantly the new system will be one of the first in the nation directly – to directly be aligned with health plans and will include incentives for both members and providers to deliver quality care at the appropriate and most cost effective location.

I'm happy to say that we have a leader for our new organization and the Highmark provider organization will be led by John Paul. John is in the room back there. John is a good friend of mine and I'm sure many of you know John and I can tell you from my own personal experience that he brings a great deal of knowledge and insight to our team. In a moment I'm going to turn the microphone over to Jack Isherwood, who will provide more details on their plans for the coming months, but before that I'd like to briefly discuss the state of West Penn Allegheny.

Over a year ago Highmark made the decision that we could not stand by idly and watch one of our most valued and most historical community assets decline any further. As a result of that decision we brought in Alvarez and Marsal, we refer to them as A&M, one of the top turnaround organizations in the country to perform a financial and operational assessment to help with the due

diligence and to develop the financial projections for the West Penn Allegheny Health System as part of the Highmark delivery system. A&M is a global professional services firm specializing in turnaround and interim management performance improvement and business advisory services. Leading that team from A&M was Keith Ghezzi, who is seated here today. And I'm happy to say that Keith and I share a number of things. Keith and I are both from Western Pennsylvania, we've grown up in the local marketplace, I from Cheswick, Keith from Johnstown. We're both physicians, we've been trained as physicians, practiced as physicians, moving into administration which gives us I think a distinct advantage knowing what it's like to take care of patients, understanding patient needs. We're both graduates of Washington and Jefferson College, and we're both on the Board of Washington and Jefferson College. By far that's the most important thing that we share. So through this methodical and well executed work that Keith and the rest of his team from A&M completed, I'm convinced more than ever before that our investment in this hospital system will provide tremendous benefits for Highmark, West Penn Allegheny and most importantly the people of Western Pennsylvania. When Keith speaks this morning you'll hear his passion for this region and the tremendous potential he sees in this health system. I do want to take this opportunity to thank Bob, to thank Jack, the Board Members of both Highmark, West Penn Allegheny for their leadership and the many others who have worked tirelessly on helping to get this definitive agreement in place over the past months. It's taken a lot of hard work on behalf of many people from both organizations to get to this point, and we have much more to accomplish all very good. Now I'll turn things over to Jack.

Jack Isherwood:

Good morning. Thank you, Ken, for your kind words and your tenacious leadership that brought us to this great day. And it is a great day for Pittsburgh and the nearly 12,000 employees of the West Penn Allegheny Health System who are a very special group of people that have not wavered in their commitment and devotion to excellent patient care in spite of numerous challenges over the past 12 years. I'd like to underscore the point that the West Penn Allegheny Health System is about people and patient care. Our nearly 12,000 physicians, nurses and staff live in this region, care for our families, friends, neighbors and coworkers. Ken described the deep dive review of West Penn Allegheny Health System that Dr. Ghezzi and his team from Alvarez and Marsal conducted last spring. While their findings include fiscal and organizational challenges, it's important to note that they were equally focused on our strong clinical foundation, our excellent clinical programs that have stood the test of time and remain solid. But as an organization before we can build we need to stabilize the organization. And today we are a step closer to achieving stability with our partner Highmark, the resources they are committing and with the expertise that Dr. Ghezzi and his firm, Alvarez and Marsal, bring to our situation.

I want to be clear that Alvarez and Marsal are turnaround experts. They have an impressive track record in many industry sectors, their expertise in healthcare is noteworthy but the real advantage

of engaging this firm for this critical task is the deep understanding that they've developed of the challenges and opportunities within the West Penn Allegheny Health System, their understanding of this marketplace, their understanding of our regional strategy, their industry knowledge and their track record in moving organizations from fiscally distressed to financial viable and sustainable.

In keeping with our belief in physician leadership, I am pleased to introduce Dr. Keith Ghezzi as the Interim President and CEO of the West Penn Allegheny Health System. Keith will report directly to the West Penn Allegheny Board and have primary responsibility for implementing a turnaround plan for our system. Keith has impeccable credentials as a practicing emergency room physician, a hospital turnaround specialist. His biography includes a medical degree from Georgetown, a Wharton MBA, leadership positions at important hospitals around our nation and a track record of turning around organizations like the West Penn Allegheny Health System. What I'm most pleased to tell you today is that Keith hails from Western Pennsylvania, he's a diehard Steeler fan, graduated from W&J and has embraced this opportunity to return to his roots. We are confident that the community will extend a warm welcome to Keith and his wife Lisa, who is at the back of the room. But I have one question for you, Keith, before I turn the podium over to you, are you going to root for the Steelers on Sunday?

Keith Ghezzi:

You will not see me in purple and black.

Well, thanks, Jack, for your kind introduction and I want to echo your statement that this is a great day for Western Pennsylvania and the 12,000 employees and physicians that make up the West Penn Allegheny Health System. And I want to first again thank Ken for having the vision and the drive to make this affiliation possible.

Ken and Jack have referred to my many months of performing due diligence along with my team here in the hospitals and departments that makeup the system, I learned a lot about the structure and the processes that shape the framework of the organization, and there's much to be said about both but today I'd like to share a few of my observations about the people that form the heart of the West Penn Allegheny Health System.

The nurses, physicians and staff at Allegheny General reflect in their words and actions that they are advancing the art and science of medicine every day. They treat patients with the most complex medical problems with the utmost of dignity and warmth and respect, and the enthusiasm – they enthusiastically embrace the missions of training tomorrow's providers while at the same time advancing scientific discovery.

Forbes Regional Hospital in Monroeville is standing tall in the face of a mammoth challenge, all the while staying true to the commitment of two groups of religious women to provide a hospital in the community for the community. And as a team they've expanded services for their neighbors and are eager to put their best foot forward for the good of each and every patient, each and every day. Allegheny Valley is rich in traditions and gleaming with pride over its recent renovations, the unwavering community connection is evident in the family feeling among the nurses, physicians, staff and the volunteers. Canonsburg General is a gem with deep ties to southern Allegheny and northern Washington counties and areas Ken mentioned that I'm quite familiar with. The area, as you know, is booming with new businesses and housing and Canonsburg is responding to the healthcare needs of old and new residents, ushering in a new model of outpatient services at Peters Township and providing personalized care for every hospitalized patient. And finally perhaps West Penn Hospital is in the most unique position among the 5 hospitals where the hallways are quieter and the ORs are not as busy as they were in the heyday, the soul of West Penn Hospital is still vibrant. The nurses there honored by the magnet hospital designation are unwavering in their devotion to patient care and the employees have maintained dignity through very difficult times and we are very grateful for that. Based on these observations many data points and countless hours of study in collaboration with Highmark will develop specific plans for the facilities, programs and people of the West Penn Allegheny Health System. And there are a few areas that I'd like to touch on that we know where we need to move forward.

Partnering with and giving voice to the West Penn Allegheny physicians under the leadership of Dr. Tony Farah who is here in the audience, Dr. Farah is President of the physician organization and the system's Chief Medical Officer, and I very much look forward to partnering with Tony and the physicians going forward, the reinstatement of services including the emergency department at West Penn Hospital, which would be critical to the fulfillment of Highmark's regional strategy, building on the rich traditions and innovation in education at Allegheny General Hospital, continuing to find new and novel ways to treat disease and ease suffering, establishing a trauma program and growing specialty services such as cardiovascular disease at Forbes, partnering with local employers to improve the health of their workers in the community at Allegheny Valley Hospital and increasing neurosurgical and spine capabilities at Canonsburg to complement the superb rehabilitation services that are already in place. While the people of West Penn Allegheny Health System continue to deliver outstanding patient care each and every day the community will soon be able to witness the physical transformation of our system. We'll be back to talk about specific projects over the ensuing weeks and months, and I want to thank you all for the warm welcome back to Western Pennsylvania.

J. Robert Baum, Ph.D.:

Thank you Keith, we're glad to have you back too. I believe that many of you in the press know Aaron Bilger. Aaron is right back there and Aaron is going to manage the question and answer session beginning with questions from this room and then we'll take questions from the phone.

Aaron Bilger:

And we'll need to use the microphones so the people on the phone can hear. So the first question? Kris, if you can give your name.

Kris Mamula:

Kris Mamula from the Pittsburgh Business Times. Dr. Melani, you mentioned that, that moving forward the new system will provide the most convenient, provide care in the most convenient and economical settings. Could you describe that, or go into that a little bit what partnerships might be involved with that?

Kenneth A. Melani, M.D.:

I'll give you a good example, Kris. Recently a lot of the provider systems in order to maximize revenue had been moving care more into the hospital setting, which is the antithesis of what was occurring in the industry. It's mainly an attempt to just increase revenue, so you are getting people that are now going into facilities where you could actually do more harm, more hospital acquired infections, not as patient-centric, not community disbursed and instead of doing things out in the community like chemotherapy being moved into the hospital setting instead of being done in the physician office and/or the home, which is actually safer and more convenient. We are not going to be driven by the economics of boosting revenue, we are going to be driven by principles that are geared around making sure the patients are at the center of what we do and we understand the economic impact, the emotional impact to those people. And so we want it to be convenient, we want it to be effective and we want it to be efficient, economically efficient. And that's what we are going to do, and that's the difference in a system that's led by physicians and led by a health plan where the focus is on those kinds of issues where you can then drive difference, the different performance in what we currently see where a system is driven mainly by trying to increase revenue, and that's the major focus that it has. So that's the big difference, Kris.

John Delano:

John Delano, KDKA TV. Gentlemen, I don't have to tell you that tens of thousands of Highmark subscribers are worried about their access to hospitals and physicians at UPMC in the years ahead. Can you give us some update of where you see things standing at the moment and what

would you like to see specifically from legislators in the General Assembly in Harrisburg in response to all of this?

Kenneth A. Melani, M.D.:

John, that's a good question, glad you asked that because you probably watched the football game this weekend and saw the new UPMC ad which is geared at causing a lot of consternation for people in our community unnecessarily. Again, as a physician I have a real problem with that kind of activity. We were trained to do no harm, we were trained to put patients and people at the center of everything we do. This seems to be a move to create chaos, consternation and really isn't thought out very well. It's a – it looks like some administrator who never looked at a patient or touched a patient designed the patient assurance act. If anyone knows, you can't carve someone out who has cancer and just say okay, come contract with the Hillman Cancer Center and everything will be fine. A person that has cancer gets more than just cancer as a problem, they can get heart problems from chemotherapy, they can get kidney problems, they can get lung problems, they can get infections, they can fall and break bones, there's no way you can carve anything out of a system, especially a system that says its integrated like UPMC. They say they are integrated, you can't pull component pieces out if you are integrated and make it work. So their ads don't fit what they've constructed and, and what's in the best interest of people. This community built these assets, the people in this community built all these assets and we believe that the people of our community deserve access to the not-for-profit assets that they built. That's a fundamental issue. We have two separate things going on here. We have Highmark's contract with UPMC which needs to happen for the sake of people in our community to preserve access to that system, and we need to have another system preserved to make sure we have capacity, to make sure we have choice. It's that simple. Everyone in this community deserves both of those, whether you carry an Aetna card, a United card, a Highmark card or a UPMC card, it's that simply, you should have some choice and you should have access to the not-for-profit assets, and you should be allowed to decide where you go. An administrator and a board of a not-for-profit should not be determining that.

John Delano:

For the General Assembly what do you think is the role of the General Assembly on this?

Kenneth A. Melani, M.D.:

I think the General Assembly should listen to the people, it's very clear where this issue lies, it's very clear where the people of this community want things to come out, they want access to UPMC in an affordable way. They want another alternative, they want West Penn Allegheny preserved, and so the legislature and the regulators should make that happen and support that.

Aaron Bilger:

Okay, we have KDKA Radio.

Matt Dilsignore:

Good morning, Matt Dilsignore, KDKA Radio. I was wondering and Dr. Melani I'm not sure if this goes to you or the other guys up here, but you know how, how aggressive do you all plan to be in fighting UPMC for your market share, especially considering the fact that you acknowledge there are some fiscal challenges to deal with here?

Kenneth A. Melani, M.D.:

Yeah, I mean I don't look at this as fighting for market share, I think – I've got to put that aside. The biggest concern here is patient care. We are a not-for-profit that was put in place by doctors and hospitals. You may not realize that, but Highmark was started by doctors and hospitals for the purpose of making sure people in the community had access to affordable high quality healthcare. You have to look at your mission and your purpose. If Highmark can do what it's supposed to do in meeting its mission it will survive as an organization because that's a worthy mission, okay. So our job is to make sure first and foremost those things happen. It's not about market share, it's not about market share. If we had universal healthcare coverage we'd have 100% market share in southwestern PA. It may not be Highmark, but someone would have 100% market share, but our mission would be met. So market share for us is really not the main issue, our issue is preserving access, making sure it's of high quality and making sure it's affordable. Now, why do we have the market share we've had? Because historically we've been able to focus on that more intently than others in the marketplace, we've been able to provide that kind of value for the people. We do compete, we will continue to compete, but again I don't look at this as us competing with UPMC for market share, I mean we have insurance products, we have a delivery system; both of us should take off those corporate hats and put on a community hat and do what's in the best interests of the people of the community and that is make sure there is some choice, make sure quality is high, make sure healthcare is affordable, choice of insurers, choice of healthcare providers.

Aaron Bilger:

And we have a question from the Central Public Radio.

Larkin Paige Jacobs:

Hi, I'm Larkin Paige Jacobs from the Central Public Radio. You mentioned that this deal needs to happen quickly and you said there were a myriad of reason, would you mind just touching on a few of them?

Keith Ghezzi.:

Well, I'll start and I did want to just if I could build on Ken's comments first. But I think one of the financial challenges the system has had is the inability to really highlight the quality programs. I've been truly impressed with the capability of the West Penn Allegheny System and especially at Allegheny General the kind of tertiary quaternary flagship. So when you are constrained you don't have the ability really to market and brand, and I think when the community finds out about the alternatives then there will be really a desire to utilize those facilities and for patients to return to our facilities and we are really planning on and banking on that. In terms of the regulatory process one of the key elements of a turnaround is to establish stability, and the uncertainty that's been in place at West Penn Allegheny for both physicians and patients for a long time has been disruptive. We understand how we can partner with Highmark and we want to make those investments as soon as possible, some of them before the regulatory period is over, and many of them after the regulatory approval is in place. So I think it just allows us to stabilize the facilities and the system's financials more quickly and to go about the business of developing the new programs that we have in mind.

Aaron Bilger:

A question from the Tribune Review.

Alex Nixon:

Yeah, Alex Nixon from the Pittsburgh Tribune Review. Can you describe the structure of the, of the new company once you know approvals are in place and you know boards and all of that?

Kenneth A. Melani, M.D.:

Sure Alex, the – the structure seems to be a little complicated so let me go slowly here. Today we have Highmark, Inc. which is a not-for-profit health plan. The new organization will have a new 501C3 above that that will now become Highmark. Underneath that 501C3 will not only be the not-for-profit health plan as we know it today, but there will be a provider organization, a provider division which will be another 501C3, and underneath will fall a cadre of provider organizations, one of which will be the West Penn Allegheny Health System. But as we continue to develop our delivery system there will be other component pieces, there could be other hospital systems, there

could be physician organizations, physician practices, all sorts of things under that 501C3. So that's the organizational structure we're looking at. Is that understandable?

Alex Nixon:

Yeah. And so there will be one board overseeing the parent Highmark, and then will there be also boards for the various organizations below?

Kenneth A. Melani, M.D.:

There will be boards at very – at all the different levels. The parent board would be at the 501C3, and that would be the ultimate board of the organization. There will be a board over the health insurance – or over the insurance company, I shouldn't say health insurance, it's an insurance company. So there will be a board over that, and that board will have to function somewhat autonomously because of the regulations and the need to make sure their fiduciary responsibility is adhered to. There will be a board over the provider division, which is a 501C3, and then each of the entities underneath that will have its own board. West Penn Allegheny Health System will maintain its own board. The structure of that board will be such that people on that board will be nominated and populated by some of the existing West Penn Allegheny Board Members and by Highmark. So the new West Penn Allegheny Health System Board will be comprised of basically two types of board members, some coming from the existing system and nominated and appointed by them and some coming from appointments by the parent company of Highmark.

Aaron Bilger:

We have a question from KQV Radio.

Delina:

Delina for KQV Radio. How soon after your approvals will you be able to reopen the West Penn Emergency Room and what will that take? Will you be hiring or just reassigning people? What will that look like?

Keith Ghezzi:

We are targeting 2012 for reopening of the West Penn Emergency Department and some of the services there. Part of it depends on regulatory approval from the Health Department and other entities that we need to work with. In the, in the interim we already have a robust staff, we still have maintained a robust staff at West Penn and we are going to count on them to help us reopen. And in the meantime we are going to pull on some of the other resources throughout the system,

but we do anticipate hiring not only as we reopen West Penn but as we bolster other services throughout the system.

Aaron Bilger:

Do we have a question from the Post Gazette?

Sally Kalson:

Sally Kalson from the Post Gazette. I think you know that there have been a lot of complaints about double, double digit rate hikes among Highmark subscribers, small employers and large employers like many of whom self-insure, which means they are actually paying the bills and you guys are doing the administrating. Is this plan going to lower those premiums? If so how? And how is your $4 billion surplus going to be used? Is it going to be used to lower premiums, is it going to be used mostly toward the new hospital system, or do you have some other plan for it? Or are you just going to keep growing it? Thank you.

Kenneth A. Melani, M.D.:

I'll take that one for you, Sally. Let me just first say how right on your articles have been recently. Anyway, let's talk about the surplus first because that issue comes up constantly. You do know that in the healthcare system the only organizations that are highly regulated are the Blue Cross/Blue Shield plans in the state of Pennsylvania. No other insurer is regulated to the degree we are, and no healthcare system is regulated like we are when it comes to financial pricing, when it comes to product design and when it comes to surplus and reserves. All of that is regulated by the state. I need to go on record with that, first and foremost. You also know that this whole issue was contested about 10 years ago and in order to try to put the issue to rest we agreed with the state that we would keep our surplus within a certain range in order to be financially solvent and stable for our subscribers, and we have been almost smack dab in the middle of that range ever since that agreement was struck. So we've not hoarded money, we've not wasted money, we've remained financially stable within the boundaries that were agreed to with the state. The absolute number has increased over the years because the relative cost of healthcare has gone up substantially over the years. So if you are going to protect people against catastrophic activities in healthcare, if your total revenue 10 years ago was 5 billion and your total revenue today is 15 billion, you are going to have to triple your reserves to be in the same place you were 5 years ago. So while our absolute number went up it's relatively hasn't changed at all over that period of time.

The surplus is there to protect subscribers, it is mandatory that all insurance companies have surplus no matter whether you are a life insurance, auto insurance, health insurance you must maintain a reserve, you must maintain a surplus. Those terms are kind of used intertwined. And

you must have it there because people have prepaid you for services that you have not yet been billed for. And should something ever happen that your organization begins to go into default the state wants to make sure that the obligations we made to you as your carrier are fulfilled and we make those payments according to what we promised.

Sally Kalson:

It's like a pension fund.

Kenneth A. Melani, M.D.:

Exactly, Sally, exactly. And especially to providers too, think of what would happen to our hospitals if Highmark collected a billion dollars of revenue in one month and shut its doors and didn't pay the claims. Where would our healthcare system be in southwestern PA? We have enough reserve to go about 3 months roughly, okay. So that's the surplus issue. So the misrepresentation recently in the marketplace by UPMC has been that the increases in healthcare costs which have been going up on average about 7 to 8% per year for the last 5 or 6 years have not been passed on to providers. And that Highmark just simply hoarded all the money, that poor UPMC only got an increase that was equal to inflation because that's what our contract called for, and that's what I thought they were going to get, because that's what our contract called for. Unfortunately for our subscribers, UPMC manipulated where they were providing care, and they continually moved care from lower cost places to higher cost places. So although the unit price only went up at an inflationary rate the actual cost of healthcare payment to UPMC went up 7 to 85 per year, which is why the trends were 7 to 8% per year.

Nearly all the increase that we had in premium was passed on to providers each and every year for the past 5 to 6 years. And that's what you are seeing. So there is a big misrepresentation, another lie that's being perpetuated in the community about what's really gone on. Highmark did not hoard the money, and in fact if you look at Highmark's profits in the last 5 to 6 years, a third of our profit came from the health insurance business which goes far beyond Western PA. We are in West Virginia, Western PA, Central PA, we have customers that we do work for across the country in health insurance working with the Florida plan, the Nebraska plan, the Louisiana plan, it's expansive. One-third of our profit on average over that period of time came from health insurance, one-third came from investment returns and one third-came from our subsidiary companies that operate around the world in fact, the United States especially but some operate around the globe, and they are all profitable. And it was a strategy to do that so that we could offset the need to make profit in health insurance to keep it more affordable. And while we did that strategically and we effectively accomplished that, others in the community chose to manipulate reimbursement and still caused healthcare costs to go up 7 and 8% per year. And so that's the dilemma we face, Sally, it's a travesty.

So now you ask me how are we going to make a difference? We are going to make a difference by doing this, by aligning the insurance company with the providers and making sure you, who we try to do this on behalf of, are seen as the focal point. That your needs are met both as a patient and economically. And we are going to do everything we can to make sure we work in a fashion that gets us as close as we can to inflation as we go forward and hopefully someday beat that, because I don't think the community can afford healthcare costs to go up any more at the rate they've been going up, we need to realign the way we look at healthcare delivery, we need to make sure that physicians and others aren't incentivized and paid based off the volume they generate. They should be incentivized off of the quality of care and the outcomes, and I will tell you if we can do that there's a huge amount of differential there that we can return back to the community, and that's what we are going to try to do.

Sally Kalson:

Can I ask a follow-up? There's been some talk about transparency of pricing, how are you going to do that? Are you going to publish a menu that says if you get a gallbladder operation at Canonsburg it's going to cost you $2,500 but if you get you know a stent replacement at you know West Penn it will cost you this? And is there going to be a comparative chart or how will you do this?

Kenneth A. Melani, M.D.:

That's another great question, Sally. There's already a comparative chart for ambulatory services, you can actually on an ambulatory basis look at if I go get a chest x-ray you know here is the price, because it's a onetime episodic thing and you can compare that price. So that stuff is available, ambulatory outpatient type of services. What gets to be more difficult is when you have to do something that's on an episodic basis, an inpatient stay at a hospital is very difficult to price because many times you don't know what's going on when you get there, you only know when you get discharged. So you have no way to predict the cost going in. What you can do is you can relatively profile providers based on historical performance and say historically based on the units you use and the unit prices you are paid on a episode basis you are relatively X percent higher, and so you can tier people into tiers. You can say this group performs on a clinical outcome and on an episodic cost basis differently than this group. So there can be a tier one, a tier two, maybe even a tier three and then what you can do is you can put cost sharing in place related to where the tier is. So if you choose a tier one provider that high quality, high performance there may be a lower co-pay. If you choose a tier two, you may have to bear some of the brunt of those costs and maybe a higher co-insurance, a higher co-pay. And that's what you will probably start to see in the marketplace are those kinds of programs. Very hard for you to pull out a menu when you get hit by a car, or when you are holding your chest and you are having a heart attack, real hard to go to

the internet and see what the price difference is between MIs at West Penn Allegheny or somewhere else, but it's very easy for you to have a benefit program that says well, I know when I go in West Penn Allegheny is a tier one, Joe Blow is a tier two, it's a little easier to understand that and effectively make that work. So that's where the products will be heading in the future in more of the kind of tiering products I just got done talking about, and there will be more innovative things than that as we go forward. Does that help you?

Sally Kalson:

Well, does that mean that you have to buy – does that mean you have to buy a particular kind of policy to cover this tier or a different policy to cover that tier? Or will there be a policy that covers all tiers?

Kenneth A. Melani, M.D.:

You will likely see all kinds of policies, policies for patients who really don't want to pay attention to the tiers, who will just say I'm willing to pay more and not have to worry about it. You will see policies where people say I'm willing to work within the tiers because it's going to be less expensive for me to do that, so I'm willing to take that on. And then you'll see other policies that say by the way if you just use tier one that may even just be the cheapest of all. So you are going to see all kinds of stuff around it, Sally.

Keith Ghezzi:

I think several of them, the first is there's been tremendous turnover evidenced today in leadership and uncertainty in terms of the future of the hospital, there's been inability to capitalize and invest in certain programs and in certain facilities, there's been a lack of certainty about the future direction that's made it very, very difficult to recruit and retain high quality physicians and staff, and they all lead to kind of you know – it becomes kind of a positive feedback loop or an endless cycle of uncertainty. I think there are several things that you know going forward that we should talk about today that are different. The first is we have Highmark as a partner who is willing to invest not only in the facilities but in the people, the programs and the services to expand them, and as Ken mentioned, to transform the delivery system ultimately from what it is today inpatient focused to medicine in the future which is really ambulatory and outpatient focused.

The second thing that we have is we have tremendous expertise on our side which we didn't have before in terms of John Paul and the people that he's brought in to help us. Many of you know John is a force in healthcare nationally and in this region, and the only thing I can say it's tremendous to have John on our side and I'm really pleased that he's not on the other side.

And the third thing is we've got Tony Farah here and other physicians, physician leader. You know there was talk in the past about West Penn Allegheny being physician led, physician led doesn't mean a physician in this chair, it means valuing the input of physicians who are the primary, primarily responsible for care and giving them a meaningful say in terms of the healthcare delivery system going forward. You know administrators don't care, take care of patients, doctors do. So those are some of the things we are going to do to address the, the structural issues but the real – you can't shrink your way to greatness, and I think what we are trying to do in partnership with Highmark is stabilize the operations and look for our opportunities to grow strategically and, as Ken mentioned, responsibly.

Aaron Bilger:

We have a question from WTAE TV.

Bob Mayo:

Hi, Bob Mayo from WTAE TV. For people whose heads may be spinning from the various things that have been happening over the past year, what advice can you give to patients, people trying to make decisions about what the train is going to be like over the next year? You said in answer to an earlier question that you'd like to see some action from the legislature. Absent that action, what do people need to be on guard about in making these decisions, what guidance can you give them about what the, the train is going to be like for that?

Kenneth A. Melani, M.D.:

Bob, you are talking about in buying their health insurance product?

Bob Mayo:

Yeah, and in seeking care, help them choose which side of the chessboard they are going to be aligned with.

Kenneth A. Melani, M.D.:

Absolutely. For 1012 they are secure that nothing is changing. Our contract with UPMC, although the technical term of the contract expires June of 2012 there is a one year run-out period, all things continue to exist until June of 2013. So 2012 is a nonissue.

Aaron Bilger:

We have a question from the Tribune Review.

Luis Fabregas:

Hi, good morning, Luis Fabregas from the Pittsburgh Tribune Review. Dr. Ghezzi, just to build on Mr. Tolan's question earlier about the challenges facing the system I think it was last week we reported about a 15% drop in patient discharges over at I think system wide, so the question is once you start thinking about the reopening of West Penn Hospital where are the patients going to come from?

Keith Ghezzi:

When – part of the reason when you look at the drop statistically is that when West Penn had to be closed or many of the services had to be closed, there wasn't at the time either an adequate plan or the ability in place to move those patients within the system, so many of them leaked out. The other thing that has happened is that there are a lot of physicians and patients who would like to continue to get their care at West Penn and haven't been able to. We've Dr. Bill Goldfarb in the audience here, Bill is a noted burn surgeon at the facility and he's spent a lot of time in the community talking with physicians and people who would like to come back. We know that in a Highmark delivery system that we enjoy, meaning West Penn Allegheny, a significant cost advantage versus our competitor, we want to be able to build upon that cost advantage and in the transparency that Ken talked about to give patients those choices, and we feel that some of the volume of patients that we sort of unfortunately could not care for want to come back. Many people that I've talked to during the 6 or 8 months that I've been here are looking for alternative in the community and want choice, and we want to provide that.

Aaron Bilger:

We'll take questions from the telephone. Operator, could you please provide the reporter's name and their publication?

Operator:

(Inaudible) is now open for questions. If you do have a question, please press the number 7 on your telephone keypad. Questions will be taken in the order they are received. Now if at any point your question has been answered, you may press 7 again to disable your request. Now if you are using a speakerphone we do ask that while posing your question you pick-up your handset to provide favorable sound quality. Our first question is from Christian Morrow of the New Pittsburgh Career. Christian, please state your question.

Christian Morrow:

Yes, Dr. Ghezzi, with regard to West Penn, when it closed in June of – when the Emergency Room closed in June of 2010, that was concurrent with a layoff of 1500 employees. How many of those might return?

Keith Ghezzi:

It's – the question was you know how many of the employees would return and at this point it's premature for us to guess because we're still in the process of planning for the reopening of West Penn and what services that we plan to offer there. In the beginning we plan to reinstate the Emergency Department, General Medical/Surgical Services with a heavy emphasis on women's services. And one of the other things that we need to do in a Highmark relationship is prepare for some of the eventual volume that would occur from working with Highmark and kind of reapportion our services among the various facilities. So I think over the ensuing months and – weeks and months we'll have more information about the reopening of West Penn, a more definitive schedule and be able to give you a better sense for the services and the, and the capabilities that we'll have there.

Christian Morrow:

Thank you.

Operator:

Our next question comes from Paula Wade of the Health Leaders Inner Study. Paula, please state your question.

Paula Wade:

Hi, thank you. The structure that you've described, the business structure that you've described sounds a lot like the structure of the Kaiser Permanente uses with you know the larger entity on top and then the health plan and the physicians group below. Are you working toward, or do you envision that you are working towards an integrated type of a model like that and will you be hiring large numbers of physicians and buying up physician groups to, to have that kind of an integrated structure ultimately? Is that what you envision?

Kenneth A. Melani, M.D.:

Yeah, this is Ken. That structure is very similar to most provider systems that have an integrated financing and delivery component. And when you mention Kaiser the difference would be a couple of things. First of all, we will be doing business with physicians who are not just employed but also physicians who are still in private practice and part of other organizations. We will also be working with other community hospitals and their medical staffs, so that's a little different. The third thing that's different is that while our system will be integrated in many ways, it will not be exclusive to Highmark as an insurance company. The Kaiser Permanente system is exclusive to one insurance vehicle that is not our intent. So those are the differences. However, on the other hand the good things of Kaiser are that they really are a system that is physician led in many ways and we do appreciate that and hope to model some of our activities after that. It's a system that has shown very good clinical performance by way of the integration that it has and the alignment of financial incentives. So there are some good things about Kaiser, we hope to look more closely at replicate and there are other things that we have elected not to mimic.

Operator:

Our next question comes from Seth from the OV Jet Wire.

Seth:

Hi guys. Just turning to the capitalization of this partnership, West Penn has 750 million in bonds outstanding which require about 40 million in debt service a year, will West Penn remain the obligor on this debt?

Keith Ghezzi:

At this point West Penn remains the obligor on the debt and the other are fixed obligations including pension.

Seth:

Do you envision that will change at the end of the regulatory period?

Keith Ghezzi:

I don't envision anything will change at this point.

Seth:

Okay. Will any of the 400 million in money expected to come into West Penn, will any of that be used for debt repayment?

Keith Ghezzi:

The current plan for the funds that will be received, some which have been received from Highmark are to temporarily bolster operations but primarily to invest in the facilities and the reopening of West Penn, the growth of the capabilities at Allegheny General and some of the other changes at Forbes including a new trauma center and some of the other clinical programs that we've discussed.

Seth:

Okay, great. Just one last question, this is in regard to a lawsuit that West Penn filed against Highmark and UPMC a couple of years ago for what sounds like antitrust. Is that pending or will you withdraw that law suit?

Keith Ghezzi:

The lawsuit against Highmark, filings were made yesterday to withdraw that lawsuit, elements of the UPMC lawsuit will continue.

Seth:

Okay, thank you.

Aaron Bilger:

We'll come back to the room here, we have a question from the Post Gazette.

Steve Tweed:

Hi, Steve Tweed, actually my original question has been asked and answered, but one of the charges that UPMC has made is that with this new entity Highmark will be giving preferential rates to the West Penn Allegheny Health System, and that other hospitals will be disadvantaged in that regard. Can you address that?

Kenneth A. Melani, M.D.:

Yeah, I'll address that because it's a Highmark question. We would be silly to give preferential rates to West Penn Allegheny when we are trying to have a more affordable healthcare system. We're trying to make sure West Penn Allegheny can operate far below the rates we pay UPMC.

Aaron Bilger:

Are there any other questions?

Sally Kalson:

Will you be launching your own advertising campaign to answer some of the charges that UPMC is making in its advertising campaign?

Kenneth A. Melani, M.D.:

You know, Sally, we met on that yesterday, and it, it becomes foolish to just get out there in the media and spend money to do point counterpoint. I think what we are going to do is continue to make this an issue that's relevant to the people. And we need to just sit back and say look, there are two simple issues here, we need to stay focused, we need to quit the rhetoric and we need to put the people's interest at the center of this. What is it that the people of our communities need and want? And why don't we do it for them? That's our job, we meaning Highmark, we meaning UPMC, we meaning the legislators and the regulators. It's our job to do what you ask of us. And what you are asking us to do is to make sure healthcare is more affordable, that it's accessible and that you have choice.

Aaron Bilger:

We have time for one last question from the Post Gazette.

Bill Tolen:

Thank you, Bill Tolen again. You – Dr. Melani, you mentioned as part of this explanation, this structural organization of the new company the 501C3 that would oversee the health provider division would include West Penn Allegheny Health System but you also said there could be other hospital systems. Is that something long term, medium term that you guys are looking at exploring possible acquisitions of additional hospital systems?

Kenneth A. Melani, M.D.

We are talking to all the players in this market and other markets about where they are, where they are from the standpoint of their particular strategic objectives and how we can assist in helping to make sure that their community's needs are met, the people in our community. So whatever that may be we are looking to form a relationship to help make that happen, whether that be a contractual relationship, whether it be a joint venture, whether it be a full merger, all those things are being discussed where people are willing to and wanting to have that discussion with us.

Aaron Bilger:

And I misspoke, we have one more question from the Tribune Review and then we are finished.

Tribune Review:

Do you have any projection on how soon you might return to an operating profit in the system?

Keith Ghezzi:

Yeah, it's a little bit premature for us to do that and we are certainly not going to be able to do it overnight, but as I've represented to Ken Melani it's our goal to return to profitability as soon as we can and use as much of the money that we're receiving from Highmark to invest in facilities and programs. So again, I think a little bit more because we have an opportunity to, to get hold of the reins of the system. You know it's a little bit different when you've been a consultant to the system, but we'll be back with you with that information certainly as soon as we can.