DISCLOSURE MEMORANDUM - NOT A NEW ISSUE—BOOK ENTRY ONLY

RATINGS: Moody's: Aa3
S&P: A+
Fitch: AA-
(See "RATINGS" herein)

On the date of original issuance of the Bonds, Houston Harbaugh, P.C. (" Bond Counsel") issued an opinion stating that, under then-existing existing laws, regulations and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes. Furthermore, in the opinion of Bond Counsel, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals ond corporations, and such interest is not taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on such corporations. Furthermore, in the opinion of Bond Counsel, under the laws of the Commonwealth of Pennsylvania, as in effect on the date of original issuance, the Bonds are exempt from personal property taxes in Pennsylvania and interest on the Bonds is exempt from Pennsylvania personal income tax and from Pennsylvania corporate net income tax. Bond Counsel's opinion is subject to continuing compliance with tax covenants contained in the Bond Indenture and the Agreement to satisfy certain provisions of the Internal Revenue Code of 1986, as amended (See "TAX EXEMPTION AND OTHER TAX MATTERS" herein).

$65,000,000
ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
UNIVERSITY OF PITTSBURGH MEDICAL CENTER REVENUE BONDS,
SERIES 2007B-2 (INDEX RATE)

The University of Pittsburgh Medical Center Revenue Bonds, Series 2007B-2 (the "***Bonds***"), were issued by Allegheny County Hospital Development Authority (the "***Authority***") on July 18, 2007, as fully registered bonds, registered in the name of Cede & Co., as nominee for The Depository Trust Company ("**DTC**"), New York, New York which acts as securities depository for the Bonds. Purchasers will not receive certificates representing their ownership interest in the Bonds. So long as Cede & Co. is the registered owner, as nominee of DTC, references herein to "Owners", "registered owners" or "Bondholders" shall mean Cede & Co., as aforesaid, and shall not mean the beneficial owners of the Bonds. Beneficial ownership of the Bonds may be acquired in denominations of $100,000 or any multiple thereof.

Principal and redemption price of and interest on the Bonds will be paid by The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania, as trustee and paying agent (the "***Bond Trustee***"). So long as DTC or its nominee, Cede & Co., is the registered owner, such payments will be made directly to Cede & Co. Disbursements of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the beneficial owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein. The Bonds bear interest at the Index Rate, as described in the Bond Indenture hereinafter mentioned. While the Bonds are in the Index Rate Mode, as described in the Bond Indenture, interest will be payable on the first business day of each month, commencing on May 3, 2010, by check or draft mailed to the registered owners as of the close of business on the applicable record date preceding each Interest Payment Date. The Bonds are subject to optional and mandatory tender and to redemption prior to maturity as set forth herein. *This Disclosure Memorandum in general describes the Bonds only while the Bonds bear interest at the Index Rate, as described in the Bond Indenture, until the special mandatary tender dote of August 1, 2014.*

The Bonds were issued pursuant to a Trust Indenture, dated as of July 1, 2007, as amended by a First Supplemental Trust Indenture dated as of March 1, 2010, a Second Supplemental Trust Indenture dated as of March 24, 2010 and a Third Supplemental Trust Indenture dated as of March 31, 2010 (the "***Bond Indenture***"), between the Authority and the Bond Trustee. The principal of, premium, if any, and interest on the Bonds are payable solely from, and secured by, the Authority's pledge and assignment to the Bond Trustee of the Trust Estate, which includes payments made under a Loan Agreement, dated as of July 1, 2007 (the "***Agreement***"), between the Authority and UPMC (the "***Corporation***"), a Pennsylvania nonprofit corporation. The payment obligations of the Corporation under the Agreement are evidenced and secured by, among other things, the issuance by the Corporation of a promissory note (the "***2007 MTI Note***") to the Authority and assigned to the Bond Trustee, pursuant to the terms of a Master Indenture, dated as of May 1, 2007, as previously supplemented (the "***2007 Master Indenture***"), between the Corporation and The Bank of New York Mellon Trust Company, N.A., as master trustee. The Corporation, UPMC Presbyterian Shadyside, Magee-Womens Hospital of University of Pittsburgh Medical Center, UPMC Passavant and UPMC St. Margaret are the sole members of the obligated group under the 2007 Master Indenture (the "***2007 Obligated Group***"). The 2007 MTI Note is an obligation issued under the 2007 Master Indenture secured by a pledge of the 2007 Obligated Group's gross revenues.

UPMC | University of Pittsburgh Medical Center

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE TRUST ESTATE. NEITHER THE PRINCIPAL OF THE BONDS, NOR THE INTEREST ACCRUING THEREON, SHALL EVER CONSTITUTE A GENERAL INDEBTEDNESS OF THE AUTHORITY OR AN INDEBTEDNESS OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER OR SHALL EVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL

SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, NOR WILL THE BONDS BE, OR BE DEEMED TO BE, AN OBLIGATION OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY. THE AUTHORITY HAS NO TAXING POWER.

The date of this Disclosure Memorandum is March 31, 2010.

REGARDING USE OF THIS DISCLOSURE MEMORANDUM

The information set forth herein under the captions "THE AUTHORITY" and "MATERIAL LITIGATION – The Authority" has been provided by the Authority. The information set forth herein under the caption "BOOK-ENTRY ONLY SYSTEM" has been furnished by The Depository Trust Company. All other information set forth herein has been provided by the Corporation or obtained from other sources identified herein that are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Disclosure Memorandum, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in the affairs of the Authority, The Depository Trust Company, the Corporation or any other entity referred to or described herein since the date hereof. No person has been authorized to give any information or to make any representation other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority, the Corporation or any other person. This Disclosure Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person in any jurisdiction in which it is unlawful for such person to make such an offer, solicitation or sale.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, NOR HAVE THE BOND INDENTURE OR THE MASTER INDENTURES BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, AS AMENDED, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. NO FEDERAL OR STATE AGENCY HAS PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS DISCLOSURE MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS DISCLOSURE MEMORANDUM

Certain statements included or incorporated by reference in this Disclosure Memorandum constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Section 27A of the United States Securities Act of 1933, as amended (the "Securities Act"). Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS DEPENDS, AMONG OTHER THINGS, ON KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS TO BE MATERIALLY DIFFERENT FROM ANY ANTICIPATED FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CORPORATION DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR.

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$65,000,000
ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY
University of Pittsburgh Medical Center Revenue Bonds, Series 2007B-2

INTRODUCTION

This Introduction is subject in all respects to the more complete information set forth in this Disclosure Memorandum. The descriptions and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each such document for the complete details of all terms and conditions. All statements herein regarding any such document are qualified in their entirety by reference to such document. See APPENDIX C for the definitions of certain capitalized terms used herein. Each of the Appendices hereto is an integral part of this Disclosure Memorandum and should be read in its entirety.

Purpose of the Disclosure Memorandum. The purpose of this Disclosure Memorandum, including the cover page and Appendices hereto (the "***Disclosure Memorandum***"), is to furnish certain information with respect to $65,000,000 aggregate principal amount of Allegheny County Hospital Development Authority, University of Pittsburgh Medical Center Revenue Bonds, Series 2007B-2 (the "***Bonds***").

Plan of Financing. The Bonds were issued on July 18, 2007 under a Trust Indenture dated as of July 1, 2007, as amended by a First Supplemental Trust Indenture dated as of March 1, 2010, a Second Supplemental Trust Indenture dated as of March 24, 2010 and a Third Supplemental Trust Indenture dated as of March 31, 2010 (the "***Bond Indenture***"), by and between the Allegheny County Hospital Development Authority (the "***Authority***") and The Bank of New York Mellon Trust Company, N.A., as trustee (in such capacity, the "***Bond Trustee***"). Proceeds of the Bonds were loaned by the Authority to UPMC, a Pennsylvania nonprofit corporation doing business as the University of Pittsburgh Medical Center (the "***Corporation***"), pursuant to a Loan Agreement, dated as of July 1, 2007 (the "***Loan Agreement***"), by and between the Authority and the Corporation.

The Corporation and System. The Corporation is a Pennsylvania nonprofit corporation which was established in 1982 exclusively for charitable, educational and scientific purposes and is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "***Code***"), as an organization described in Section 501(c)(3) of the Code. The Corporation is a supporting organization pursuant to Section 509(a)(3) of the Code with respect to its affiliated exempt hospitals and with respect to the University of Pittsburgh -- Of the Commonwealth System of Higher Education (the "***University***"). The Corporation is the parent corporation of its Subsidiary Hospitals (as defined below) and other owned and controlled entities (collectively, the "***System***"). The System is the largest health care system in Pennsylvania and operates primarily in western Pennsylvania, while providing specialized services to patients from throughout the United States and the world.

The System includes UPMC and the following hospitals in western Pennsylvania: UPMC Presbyterian Shadyside, Children's Hospital of Pittsburgh of the UPMC Health System ("***Children's***"); UPMC Bedford Memorial; UPMC Horizon; UPMC McKeesport; UPMC Mercy; UPMC Northwest; UPMC Passavant; UPMC St. Margaret; and Magee-Womens Hospital of University of Pittsburgh Medical Center (each a "***Subsidiary Hospital***" and collectively, the "***Subsidiary Hospitals***").

The Corporation, UPMC Presbyterian Shadyside, Magee-Womens Hospital of University of Pittsburgh Medical Center, UPMC Passavant and UPMC St. Margaret are the only obligated group members under the 2007 Master Indenture (defined below). The Corporation and UPMC Presbyterian Shadyside are also obligated group members under the 1995 Master Indenture (defined below).

The Authority. The Authority is a body politic and corporate, constituting a public instrumentality of the Commonwealth of Pennsylvania, and created pursuant to the Pennsylvania Municipality Authorities Act, as amended. See "THE AUTHORITY" herein for certain information concerning the Authority.

Sources of Payment and Security for the Bonds. The Bonds are limited obligations of the Authority, payable solely from the Trust Estate created under the Bond Indenture which includes payments to be made by the Corporation under the Loan Agreement. Under the Loan Agreement, the Corporation is obligated to make loan payments which have been scheduled to be sufficient to pay, inter alia, the principal of and interest on the Bonds, when due, and certain other payments.

The payment obligations of the Corporation under the Loan Agreement with respect to the Bonds are secured by the issuance of a promissory note issued under the 2007 Master Indenture (as hereinafter defined) and a promissory note issued under the 1995 Master Indenture (as hereinafter defined), each in the aggregate principal amount of the Bonds.

The promissory note issued under the 2007 Master Indenture (the ***"2007 MTI Note"***) was issued pursuant to a Master Trust Indenture, dated as of May 1, 2007, as supplemented (the "***2007 Master Indenture***"), between the Corporation, on behalf of itself and as Obligated Group Agent, as defined therein, and The Bank of New York Mellon Trust Company, N.A., as master trustee thereunder. As of the date of this Disclosure Memorandum, the Corporation, UPMC Presbyterian Shadyside (which includes Western Psychiatric Institute and Clinic, the former UPMC Presbyterian, UPMC Shadyside, Eye and Ear Hospital and UPMC Montefiore), Magee-Womens Hospital of University of Pittsburgh Medical Center, UPMC Passavant and UPMC St. Margaret constitute the members of the obligated group under the 2007 Master Indenture (such obligated group of members, together with any future members of such obligated group, is hereafter referred to herein as the "***2007 Obligated Group***"). The 2007 MTI Note is an obligation of the 2007 Obligated Group, issued in favor of the Authority, assigned to the Bond Trustee and secured by a lien upon the gross revenues of the 2007 Obligated Group. See "SOURCES OF PAYMENT AND SECURITY FOR THE Bonds" herein.

The promissory note issued under the 1995 Master Indenture (the "***1995 MTI Note***") was issued pursuant to the Master Trust Indenture, dated as of December 1, 1995, as amended (the "***1995 Master Indenture***"), between the Corporation, on behalf of itself and as Obligated Group Representative, as defined therein, and The Bank of New York Mellon Trust Company, N.A. (successor master trustee to Mellon Bank, N.A.), as master trustee thereunder. As of the date of this Disclosure Memorandum, the Corporation and UPMC Presbyterian Shadyside constitute the members of the obligated group under the 1995 Master Indenture (such obligated group of members, together with any future members of such obligated group, is hereafter referred to herein as the "***1995 Obligated Group***"). The 1995 MTI Note is an obligation of the 1995 Obligated Group, issued in favor of the Authority, assigned to the Bond Trustee and secured by a lien upon the gross revenues of the 1995 Obligated Group.

Prior to the final maturity date of the Bonds, the 1995 MTI Note may be defeased. Upon such defeasance, the 1995 MTI Note will no longer secure the Corporation's payment obligations under the Loan Agreement and will no longer provide security for payment of the Bonds. **BY PURCHASING THE BONDS, OWNERS OF THE BONDS CONSENT TO THE RELEASE AND DISCHARGE OF THE 1995 MTI NOTE AND THE 1995 MASTER INDENTURE WITHOUT ANY FURTHER NOTICE. THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE MAY BE RELEASED WITHOUT NOTICE TO THE BONDHOLDERS, WHO SHOULD NOT RELY ON THE PROVISIONS OF THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE WHEN PURCHASING THE BONDS.** See APPENDIX C hereto for summaries of certain provisions of the 2007 Master Indenture. The provisions of the 1995 Master Indenture are not summarized in this Disclosure Memorandum.

The 1995 MTI Note and the 2007 MTI Note are being issued on a parity basis with certain other outstanding indebtedness of the Corporation. See "SOURCES OF PAYMENT AND SECURITY FOR THE BONDS" herein.

Limited Obligations. THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE. NEITHER THE PRINCIPAL OF THE BONDS, NOR THE INTEREST ACCRUING THEREON, SHALL EVER CONSTITUTE A GENERAL INDEBTEDNESS OF THE AUTHORITY OR AN INDEBTEDNESS OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER OR SHALL EVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, NOR WILL THE BONDS BE, OR BE DEEMED TO BE, AN OBLIGATION OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY. THE AUTHORITY HAS NO TAXING POWER.

THE BONDS

General Description

Subject to the provisions discussed under "BOOK-ENTRY ONLY SYSTEM," the Bonds are being issued only as fully registered Bonds without coupons in denominations of $100,000 or any multiple of $5,000 in excess thereof, except that one Bond in the Index Rate Mode (hereafter defined) may be issued in a different denomination.

The ownership of each Bond shall be recorded in the registration books of the Authority, which books shall be kept by the Bond Trustee at its designated office and shall contain such information as is necessary for the proper discharge of the Bond Trustee's duties under the Bond Indenture as trustee, registrar, paying agent and transfer agent. Any Bond may be transferred if endorsed for such transfer by the holder thereof and surrendered by such holder or his duly appointed attorney at the designated office of the Bond Trustee, whereupon the Bond Trustee shall authenticate and deliver to the transferee a new Bond or Bonds of the same maturity and in the same denomination as the Bond surrendered for transfer or in other authorized denominations of the same maturity equal in the aggregate to the principal amount of the surrendered Bond. Any Bond or Bonds of a particular maturity may be exchanged for one or more Bonds of the same maturity and in the same principal amount but in different authorized denominations of the same maturity. Each Bond so to be exchanged shall be surrendered by the holder thereof or his duly appointed attorney at the designated office of the Bond Trustee, whereupon a new Bond or Bonds shall be authenticated and delivered to the holder. The Bond Trustee shall not be required to register the transfer or exchange of any Bond (i) during a period beginning at the opening of business fifteen days before the day of the mailing of notice of redemption of the Bonds and ending at the close of business on the day of such mailing, (ii) at any time following the selection of such Bond, in whole or in part, for redemption, or (iii) during the period commencing on a record date and ending on the corresponding Interest Payment Date.

The interest rate on the Bonds will converted from a Term Rate to an Index Rate Mode on March 31, 2010. ***This Disclosure Memorandum describes the Bonds only during the period until August 1, 2014 (such date being referred to herein as the "Special Mandatory Tender Date") in which they bear interest at the Index Rate.*** The Bonds are subject to mandatory tender for purchase on the Special Mandatory Tender Date at a purchase price of 100% of the principal amount thereof plus accrued interest to the Special Mandatory Tender Date. The Bonds will mature on April 15, 2039.

As used herein:

"**Alternate Index**" means on any Index Rate Determination Date, (i) if One Month LIBOR is less than 1.00%, 100% of One Month LIBOR, and (ii) if One Month LIBOR is equal to or more than 1.00%, 72% of One Month LIBOR.

"**Applicable Spread**" means the Applicable Spread specified in the chart below which corresponds to the lowest rating assigned by Moody's, S&P or Fitch to the Bonds or to any indebtedness of the Corporation which ranks on parity with the Bonds, without regard to third-party credit enhancement:

Moody's	S&P	Fitch	Applicable Spread
A1 or higher	A+ or higher	A+ or higher	135 bps
A2	A	A	160 bps
A3	A-	A-	185 bps
Baa1 or below	BBB+ or below	BBB+ or below	Maximum Rate less the SIFMA Municipal Index

"**Bondholder Agreement**" means the Bondholder Agreement dated as of March 31, 2010 between the Corporation and the Initial Purchaser, as amended from time to time.

"**Bondholder Agreement Demand**" means a written notice from the Initial Purchaser to the Bond Trustee, stating that a Bondholder Agreement Event of Default has occurred and directing the Bond Trustee to take one or both of the following actions (i) increase the interest rate on the Bonds to the Maximum Rate and/or (ii) declare all Outstanding principal of the Bonds to be due and payable on the date specified in such notice.

"**Bondholder Agreement Event of Default**" has the meaning ascribed to such term in the Bondholder Agreement.

"**Initial Purchaser**" means RBC Capital Markets Corporation ("RBCCMC") and any subsequent bondholder acquiring the Bonds, including without limitation any affiliate of RBCCMC, any trust or partnership established by RBCCMC or any such affiliate.

"**Maximum Rate**" means the lesser of 15% per annum and the maximum rate permitted by law.

"**One Month LIBOR**" means the one-month London Interbank Offered Rate quoted at approximately 11:00 a.m. London time as quoted by the British Bankers' Association as set forth on Bloomberg BBAM Page 3750 (or such other page as may replace Bloomberg BBAM Page 3750 or such other service or services generally available that displays or publishes the London interbank offered rates for United States dollar deposits), on the second London business day before the relevant interest period begins (or, if not so reported, then as determined by the Bondholder). Such interest based on One Month LIBOR shall be computed on an actual days per month/360-day year basis.

"**SIFMA Municipal Index**" means the SIFMA Municipal Swap Index as of the most recent date for which such index was published or such other weekly, high-grade index comprised of seven-day, tax-exempt variable rate demand notes produced by Municipal Market Data, Inc., or its successor, or otherwise designated by the Securities Industry and Financial Markets Association; provided, that if such index is no longer produced by Municipal Market Data, Inc., or its successors, then "SIFMA Municipal Index" shall mean the Alternate Index.

While in the Index Rate Mode, interest on the Bonds will be payable monthly, on the first Business Day of each month, commencing on May 3, 2010, and on the maturity date of the Bonds (each, an "***Interest Payment***

Date"). So long as the Bonds remain in the Index Rate Mode, interest on the Bonds will be computed on the basis of a 365 or 366-day year, for the actual number of days elapsed. Interest shall be paid on each Interest Payment Date for the interest accrual period commencing on the first Business Day of each month to but not including the first Business Day of the next following month. The record date for the Bonds in the Index Rate Mode is the Business Day immediately preceding each Interest Payment Date with respect thereto. Defaulted interest with respect to any Bond shall cease to be payable to the holder of such Bond as of the relevant regular record date and shall be payable to the holder in whose name such Bond is registered at the close of business on a special record date for the payment of such defaulted interest, which special record date shall be a date fixed by the Bond Trustee that is not less than not less than 10 days prior to the date of the proposed payment of such defaulted interest.

Subject to the provisions discussed under "BOOK-ENTRY ONLY SYSTEM," the principal of and premium, if any, on each Bond shall be paid by the Bond Trustee by check or draft payable to the registered owner of such Bond. Said check or draft shall be delivered to the registered owner or such owner's duly authorized agent on or after the stated maturity date of such Bond or, if earlier, any applicable redemption date (which has not been voided or cancelled as described herein and provided notice of redemption has been duly given to the registered owner of such Bond) or any date of acceleration of principal of the Bonds following an event of default, but only upon the presentation for payment and the surrender of such Bond at the Dallas, Texas, agency payment office of the Bond Trustee or at such other location designated in writing by the Bond Trustee, notice of which designation shall be given to each registered owner; provided, that any registered owner of $1,000,000 or more in aggregate principal amount of Bonds may be paid principal of and premium, if any, by wire transfer to an account in the United States, but only upon the presentation for payment and surrender of such Bonds at the Dallas, Texas, agency payment office of the Bond Trustee or at such other location designated in writing by the Bond Trustee, notice of which designation shall be given to each registered owner, and only if such registered owner makes a written request of the Bond Trustee, received before the close of the Bond Trustee's business on the record date immediately preceding the date scheduled for the payment of such principal and premium, if any, which request shall specify the account address.

So long as The Depository Trust Company ("***DTC***"), New York, New York, or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal or redemption price of and interest on the Bonds will be made by the Bond Trustee directly to Cede & Co. Disbursements of such payments to the DTC Participants (as hereinafter defined) is the responsibility of DTC. Disbursement of such payments to the owners of beneficial interests in the Bonds is the responsibility of the DTC Participants and the Indirect Participants (as hereinafter defined). See "BOOK-ENTRY ONLY SYSTEM" below.

Determination of Index Rate

The Index Rate applicable to the Bonds effective March 31, 2010 shall be 1.64% per annum. The Index Rate for each period thereafter from and including each Thursday to and including the next following Wednesday (each such period being referred to herein as an "***Index Rate Period***"), shall be determined by The Bank of New York Mellon Trust Company, N.A., as calculation agent (together with such other calculation agent as may be selected by the Initial Purchaser and the Corporation, the "***Calculation Agent***"), on the Wednesday immediately prior to such Index Rate Period (such determination date being referred to as an "***Index Rate Determination Date***"). The Calculation Agent shall determine the Index Rate and shall certify the same to the Bond Trustee, the Corporation and to the registered owners of the Bonds, by Electronic Means. Such determination shall be conclusive and binding upon the Corporation, the Issuer, the Bond Trustee, and the holders of the Bonds.

The Index Rate for each Index Rate Period prior to the Special Mandatory Tender Date shall be the SIFMA Municipal Index for the applicable Index Rate Determination Date plus the Applicable Spread in effect for such Index Rate Period; provided, however, that (a) upon delivery to the Bond Trustee of a Bondholder Agreement Demand which directs the Bond Trustee to increase the interest rate to the Maximum Rate, the interest rate for any Bonds in the Index Rate Mode shall be the Maximum Rate, and (b) upon receipt by the

Trustee of a written notice from the Initial Bond Purchaser indicating that a Tax Event (as defined in the Bondholder Agreement) has occurred, then the interest rate for any Bonds in the Index Rate Mode shall be equal to One Month LIBOR plus the Applicable Spread (the "**Taxable Rate**"). In no event will the Index Rate exceed the Maximum Rate. Bonds bearing interest at the Taxable Rate shall be considered Bonds in the Index Rate Mode.

While the Bonds bear interest at an Index Rate, at least one Business Day prior to each Interest Payment Date for the Bonds, the Bond Trustee shall notify the holders of the Bonds, by Electronic Means, of the effective interest rate of the Bonds during the interest accrual period for such Interest Payment Date.

Conversion of Bonds to Other Interest Rate Modes

On any Business Day after March 31, 2013, the Bonds may, at the direction of the Corporation, be converted to any other interest rate Mode (a "***Conversion Date***"); provided, however, that if the Bonds bear interest at the Maximum Rate by reason of the occurrence of a Bondholder Agreement Event of Default, the Corporation has the option to convert the interest mode prior to March 31, 2013. The Bond Trustee is required to give notice to the holders of the Bonds not less than 30 days prior to the proposed Conversion Date. The Bonds will be subject to mandatory tender for purchase on the Conversion Date as described below under "Mandatory Tender for Purchase." Each conversion of the Bonds from one Mode to another Mode shall be subject to the conditions set forth in the Bond Indenture. A condition to conversion from the Index Rate Mode to another Mode is that all Bonds are remarketed. In the event that the conditions for a proposed conversion to a new Mode are not met, the new Mode shall not take effect on the proposed Conversion Date, notwithstanding any prior notice to the registered owners of such conversion, and the mandatory purchase on the proposed Conversion Date shall be cancelled.

Mandatory Tender for Purchase

So long as the Bonds bear interest at the Index Rate, all Outstanding Bonds shall be subject to mandatory tender for purchase on August 1, 2014 (the Special Mandatory Tender Date) or, if earlier by reason of a Bondholder Agreement Event of Default, on the effective date (or proposed effective date) of a conversion to another Variable Rate Mode or a Fixed Rate Mode by the Beneficial Owners thereof (if such Purchase Date will occur prior to the Book-Entry Termination Date).

Optional Tender for Purchase when the Bonds Bear Interest at the Taxable Rate

At any time while the Bonds bear interest at the Taxable Rate, the Initial Purchaser shall have the right to tender its Bonds for purchase upon not less than 180 days prior notice of such intention to tender, and on the Purchase Date designated in such notice (which shall be a Business Day) such Bonds shall be purchased by the Corporation at a price equal to the principal amount of such Bonds plus accrued interest on the Purchase Date.

Purchase of Bonds Upon Optional or Mandatory Tender

The Bond Trustee shall purchase all Bonds tendered or deemed tendered on any Purchase Date no later than 2:30 p.m., New York City time, on such Purchase Date, at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if applicable, to the Purchase Date.

Payment of the purchase price of any Bonds tendered or deemed tendered due to a conversion to a Fixed Rate Mode shall be made only from the proceeds of the sale of the Bonds as Fixed Rate Bonds delivered to the Bond Trustee by the investment bankers pursuant to a Fixed Rate Commitment. Payment of the purchase price of any Bonds tendered or deemed tendered due to any other event shall be made with money derived from the

following sources and in the following priority: (1) money derived from remarketing proceeds and held in the Remarketing Proceeds Purchase Account under the Bond Indenture; (2) proceeds of draws under any applicable Liquidity Support Facility and held in the Liquidity Support Facility Purchase Account; (3) if a Liquidity Support Facility is not required pursuant to the Bond Indenture or upon any failure by the Liquidity Support Provider to make payment when due in respect of any draw with respect to such Liquidity Support Facility, from funds provided by the Corporation and held in the Corporation Purchase Account. The Bond Trustee shall not have any obligation to expend its own funds in connection with any such purchase, nor any obligation to pay the purchase price in any type of funds other than that received (i) as remarketing proceeds, (ii) as proceeds of draws under any applicable Liquidity Support Facility, or (iii) from the Corporation in the absence of funds specified in (i) and (ii) for such purpose as aforesaid.

Any payment of purchase price required to be made pursuant to the Bond Indenture shall be made to the applicable registered owner or Beneficial Owner of the Bonds to whom such purchase price payment is due, or the duly authorized agent of such registered owner, but only upon (a) (if such Purchase Date occurs prior to the Book-Entry Termination Date), delivery by or on behalf of such Beneficial Owner to the Custodian of a Delivery Order directing the Custodian to transfer beneficial ownership of such tendered Bond to or upon the order of the Bond Trustee upon receipt of such purchase price by or on behalf of such Beneficial Owner in accordance with the Letter of Representation; or (b) (if such Purchase Date occurs on or after the Book-Entry Termination Date) delivery to the Bond Trustee of the applicable Bond(s) to be purchased.

Any Bonds that are not properly tendered (by physical delivery, Delivery Order or otherwise) to the Bond Trustee for purchase on or prior to any Purchase Date applicable to such Bonds, for which the Bond Trustee holds in trust an amount sufficient to pay the purchase price thereof, including accrued interest, if any, to such Purchase Date (such Bonds being referred to as "***Untendered Bonds***"), shall be deemed to have been properly tendered (by physical delivery, Delivery Order or otherwise) to the Bond Trustee for purchase on the applicable Purchase Date. The registered owner or Beneficial Owner, as the case may be, of such Untendered Bonds shall not be entitled to any payment (including any interest to accrue from and after the Purchase Date) other than the respective purchase prices of such Untendered Bonds, and such Untendered Bonds shall not be entitled to any lien, benefit or security of the Bond Indenture, except for payment of such purchase price out of the money deposited for such payment as aforesaid.

Effect of Inadequate Funds to Purchase Bonds

If the funds available for purchase of Bonds upon mandatory tender are inadequate for the purchase of all Bonds tendered on any Purchase Date, no conversion of interest rate on such Bonds shall occur, no purchase shall be consummated and the Bond Trustee shall, after any applicable grace period, (a) return all tendered Bonds to the holders thereof, (b) return all moneys which are remarketing proceeds to the applicable Remarketing Agent for return to the persons providing such moneys, and (c) return all moneys drawn on any Liquidity Facility to the Liquidity Facility Provider. If there is a failure to purchase the Bonds on the Special Mandatory Tender Date because of insufficient funds provided to the Bond Trustee, the Bonds shall bear interest at the Maximum Rate for each day from and including the Special Mandatory Tender Date until such time as sufficient funds to pay the purchase price are delivered to the Trustee.

Redemption of the Bonds

Optional Redemption. The Bonds are subject to optional redemption by the Authority prior to maturity, at the written request of the Corporation, in whole or in part on any date on any Interest Payment Date occurring after January 1, 2014, at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date. The particular Bonds to be redeemed shall be selected by the Bond Trustee by lot.

The Bonds are also subject to optional redemption prior to their Stated Maturity Date at the written request of the Corporation, in whole, on any Interest Payment Date when the Bonds are in the Index Rate Mode

and interest on such Bonds is at the Maximum Rate by reason of the occurrence of a Bondholder Agreement Event of Default, at a redemption price equal to 100% of the principal amount to be redeemed, plus interest accrued to the date fixed for redemption.

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory sinking fund redemption prior to maturity, in part, on April 15 in the years 2027 through 2039, inclusive, in the amounts set forth below (subject to reductions arising from the acquisition and surrender or the optional redemption of Bonds, as described in the Bond Indenture), at a redemption price equal to 100% of the principal amount thereof, plus accrued interest to the redemption date:

Date	Principal Amount	Date	Principal Amount
April 15 2027	$ 10,000.00	April 15 2033	7,120,000.00
April 15 2028	215,000.00	April 15 2034	10,455,000.00
April 15 2029	2,555,000.00	April 15 2035	9,030,000.00
April 15 2030	1,895,000.00	April 15 2036	6,470,000.00
April 15 2031	2,955,000.00	April 15 2037	6,855,000.00
April 15 2032	9,250,000.00	April 15 2038	5,430,000.00
		April 15 2039*	2,760,000.00

*Maturity Date.

The Bond Trustee shall apply the principal amount of any Bonds which have been optionally redeemed or acquired by the Corporation and surrendered to the Bond Trustee for cancellation, as a credit, to the extent such amounts have not previously been so credited, against the applicable mandatory sinking fund redemption amount scheduled as described in the preceding paragraph.

Notice of Redemption. Prior to the Book-Entry Termination Date, the Bond Trustee shall give notice of a call for redemption of any Bonds to the Custodian, as the registered owner thereof, in accordance with the applicable Letter of Representation. From and after the Book-Entry Termination Date, notice of any call for redemption of Bonds prior to maturity shall be given by or on behalf of the Bond Trustee by first class mail, postage prepaid, at least once, not less than 30 days nor more than 60 days before the applicable redemption date to the respective registered owners of any Bonds designated for redemption at their addresses shown on the registry books maintained by the Bond Trustee on the applicable record date.

If at the time of mailing of any notice of redemption the Authority shall not have deposited with the Bond Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice shall state that it is subject to the deposit of the redemption moneys with the Bond Trustee not later than the opening of business on the redemption date and shall be of no effect unless such moneys are so deposited.

Cancellation of Redemption. With respect to optional redemptions only, if the Corporation shall have delivered to the Bond Trustee, no later than the fifth Business Day prior to the applicable redemption date, written notice of its decision to cancel its prior request for redemption, then the purported optional redemption shall be cancelled and any prior notice thereof shall be void, and the Bond Trustee shall return to the Corporation any funds which had been deposited by the Corporation with the Bond Trustee for the purpose of effecting such optional redemption. Immediately upon receipt of the Corporation's cancellation notice, the Bond Trustee shall give or cause to be given written notice of such cancellation, if prior to the Book-Entry Termination Date, to the Custodian, as the registered owner of the Bonds which were to have been redeemed, in accordance with the Letter of Representation, and from and after the Book-Entry Termination Date, the respective registered owners of any Bonds which were to have been redeemed. Such notice shall be given by first class mail, postage prepaid, by the Bond Trustee to the Custodian (if prior to the Book-Entry Termination Date) and the affected registered owners prior to the Redemption Date; *provided, however*, that such notice of

cancellation shall be effective to cancel such redemption whether or not it is received by the Custodian (if prior to the Book-Entry Termination Date) or such registered owners, and such occurrence shall not constitute a default or an Event of Default.

Optional Purchase of Bonds by Corporation. The Authority and, by their acceptance of the Bonds, the holders of the Bonds, irrevocably grant to the Corporation and any assigns of the Corporation with respect to this right, the option to purchase, at any time and from time to time, any Bond which is redeemable pursuant to optional redemption at a purchase price equal to the redemption price therefor. To exercise such option, the Corporation shall deliver a written request to the Bond Trustee exercising such option, and the Bond Trustee shall thereupon give the holders of the Bonds to be purchased notice of such purchase in the same manner as though such purchase were a redemption and the purchase of such Bonds shall be mandatory and enforceable against the holders. All such purchases are subject to the condition that money for the payment of the purchase price therefor is available on the date set for such purchase. If at the time the Trustee gives holders of the Bonds to be purchased notice of such purchase, the Corporation shall not have deposited with the Trustees moneys sufficient to purchase all such Bonds to be purchased, then such notice shall state that it is subject to the deposit of moneys with the Trustee no later than the date fixed for purchase and shall be of no effect unless such moneys are so deposited. On the date fixed for purchase pursuant to any exercise of such option, the Corporation shall pay the purchase price of the Bonds then being purchased to the Bond Trustee in immediately available funds, and the Bond Trustee shall pay the same to the sellers of such Bonds against delivery thereof. Following such purchase, the Bond Trustee shall cause such Bonds to be registered in the name of the Corporation or its nominee and shall deliver them to the Corporation or its nominee. No purchase of the Bonds pursuant to the exercise of this right shall operate to extinguish the indebtedness of the Authority evidenced thereby. Notwithstanding the foregoing, no such purchase by the Corporation shall be made unless the Corporation shall have delivered to the Bond Trustee and the Authority concurrently therewith (i) an opinion of nationally recognized bankruptcy counsel to the effect that such purchase will not constitute an avoidable preference under Section 547 of the United States Bankruptcy Code in the event that the Corporation should become a debtor in proceedings commenced thereunder, and (ii) a Favorable Opinion of Bond Counsel with respect to such purchase.

BOOK-ENTRY ONLY SYSTEM

THE INFORMATION PROVIDED UNDER THIS CAPTION CONCERNING DTC AND DTC's BOOK-ENTRY SYSTEM HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY OR THE CORPORATION AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

The Depository Trust Company ("***DTC***"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds set forth on the inside front cover page of this Disclosure Memorandum, each in the aggregate principal amount of such maturity and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC participants ("***Direct Participants***") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need

for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("***DTCC***"). DTCC is the holding company of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("***Indirect Participants***"). DTC has Standard & Poor's highest rating: AAA. The DTC rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about the DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("***Beneficial Owner***") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry only system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts such bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Bond Trustee on the

payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Bond Trustee, the Authority or the Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee. Disbursement of such payments to Direct Participants will be the responsibility of DTC and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The requirement for physical delivery of Bonds in connection with a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Bond Trustee's DTC account.

DTC may discontinue providing its service as securities depository with respect to the Bonds at any time by giving reasonable notice to the Authority and the Bond Trustee, or the Authority, at the written direction of the Corporation, may terminate its participation in the system of book-entry transfer through DTC at any time by giving notice to DTC. In either event, the Authority may retain another securities depository for the Bonds or may direct the Bond Trustee to deliver bond certificates in accordance with instructions from DTC or its successor.

The Authority may decide to discontinue use of the system of book-entry-only transfers through DTC (or successor securities depository). In that event Bond certificates will be printed and delivered to DTC.

The above information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority and Corporation believe to be reliable but neither the Authority nor the Corporation take any responsibility for the accuracy thereof.

NEITHER THE AUTHORITY NOR THE BOND TRUSTEE NOR THE CORPORATION WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO PARTICIPANTS, BENEFICIAL OWNERS OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS FOR (1) SENDING TRANSACTION STATEMENTS; (2) MAINTAINING, SUPERVISING OR REVIEWING, OR THE ACCURACY OF, ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT OR OTHER NOMINEES OF SUCH BENEFICIAL OWNERS; (3) PAYMENT OR THE TIMELINESS OF PAYMENT BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNER, OF ANY AMOUNT DUE IN RESPECT OF THE PRINCIPAL OF OR REDEMPTION PREMIUM, IF ANY, OR INTEREST ON BOOK-ENTRY BONDS; (4) DELIVERY OR TIMELY DELIVERY BY DTC TO ANY PARTICIPANT, OR BY ANY PARTICIPANT OR OTHER NOMINEES OF BENEFICIAL OWNERS TO ANY BENEFICIAL OWNERS, OF ANY NOTICE (INCLUDING NOTICE OF REDEMPTION) OR OTHER COMMUNICATION WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND INDENTURE TO BE GIVEN HOLDERS OR OWNERS OF BOOK-ENTRY BONDS; (5) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF BOOK-ENTRY BONDS; OR (6) ANY ACTION TAKEN BY DTC OR ITS NOMINEE AS THE REGISTERED OWNER OF BOOK-ENTRY BONDS.

So long as Cede & Co. is the registered owner of the Bonds, as nominee for DTC, references herein to the Bondholders or registered owners of the Bonds (other than under the caption "TAX EXEMPTION AND OTHER TAX MATTERS" herein) shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Bonds.

SOURCES OF PAYMENT AND SECURITY FOR THE BONDS

General. The Bonds are limited obligations of the Authority, equally and ratably secured under the Bond Indenture, and payable solely from the Trust Estate created and pledged under the Bond Indenture. The Authority has pledged and assigned to the Bond Trustee its interest in the Trust Estate as security for the payment of the Bonds and the performance and observance of the covenants in the Bond Indenture.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE. NEITHER THE PRINCIPAL OF THE BONDS, NOR THE INTEREST ACCRUING THEREON, SHALL EVER CONSTITUTE A GENERAL INDEBTEDNESS OF THE AUTHORITY OR AN INDEBTEDNESS OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER OR SHALL EVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, NOR WILL THE Bonds BE, OR BE DEEMED TO BE, AN OBLIGATION OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY. THE AUTHORITY HAS NO TAXING POWER.

Loan Agreement and Master Trust Indentures. In connection with the issuance of the Bonds, the Authority and the Corporation entered into the Loan Agreement under which the Corporation agreed to make installment payments sufficient to pay, inter alia, the principal of, interest on, and redemption price of the Bonds as and when due.

The payment obligations of the Corporation under the Loan Agreement with respect to the Bonds will be secured by the 2007 MTI Note issued pursuant to the 2007 Master Indenture and by the 1995 MTI Note issued pursuant to the 1995 Master Indenture. Both the 2007 MTI Note and the 1995 MTI Note shall be issued in favor of the Authority and assigned to the Bond Trustee. The 2007 MTI Note is an obligation of the 2007 Obligated Group secured by a lien upon the gross revenues of the 2007 Obligated Group. As of the date of this Disclosure Memorandum, the Corporation, UPMC Presbyterian Shadyside, Magee-Womens Hospital of University of Pittsburgh Medical Center, UPMC Passavant and UPMC St. Margaret constitute the members of the 2007 Obligated Group under the 2007 Master Indenture. The 1995 MTI Note is an obligation of the 1995 Obligated Group secured by a lien upon the gross revenues of the 1995 Obligated Group. As of the date of this Disclosure Memorandum, the Corporation and UPMC Presbyterian Shadyside constitute the members of the 1995 Obligated Group under the 1995 Master Indenture.

The Corporation anticipates that the 1995 MTI Note may be defeased prior to the final maturity date of the Bonds. Upon such defeasance the 1995 MTI Note will no longer secure the Corporation's payment obligations under the Loan Agreement and will no longer provide security for payment of the Bonds. **BY PURCHASING THE BONDS, OWNERS OF THE BONDS CONSENT TO THE RELEASE AND DISCHARGE OF THE 1995 MTI NOTE AND THE 1995 MASTER INDENTURE WITHOUT FURTHER NOTICE. THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE MAY BE RELEASED WITHOUT NOTICE TO THE BONDHOLDERS, WHO SHOULD NOT RELY ON THE PROVISIONS OF THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE WHEN PURCHASING THE Bonds.** See APPENDIX C hereto for summaries of certain provisions of the 2007 Master Indenture. The provisions of the 1995 Master Indenture are not summarized in this Disclosure Memorandum.

The Loan Agreement is an obligation of the Corporation and is not an obligation of the Subsidiary Hospitals or other affiliates. The 2007 MTI Note is an obligation of the 2007 Obligated Group and is not an obligation of any Subsidiary Hospital or other affiliate that is not a member of the 2007 Obligated Group and no such Subsidiary Hospital or other affiliate is contractually obligated to make payments on the 2007 MTI Note,

the Loan Agreement or the Bonds. Likewise, the 1995 MTI Note is an obligation of the 1995 Obligated Group and is not an obligation of any Subsidiary Hospital or other affiliate that is not a member of the 1995 Obligated Group and no such Subsidiary Hospital or other affiliate is contractually obligated to make payments on the 1995 MTI Note, the Loan Agreement or the Bonds. See APPENDIX C for a description of the 2007 Master Indenture.

The 2007 MTI Note is issued on a parity basis with certain other indebtedness of the 2007 Obligated Group, including, without limitation, notes that have been issued under the 2007 Master Indenture prior to and after the date of issuance of the Bonds, notes being issued concurrently with the 2007 MTI Note to secure the other Series Bonds (as hereinafter defined) and notes to be issued in the future under the 2007 Master Indenture, if any.

The 1995 MTI Note is issued on a parity basis with certain other indebtedness of the 1995 Obligated Group, including, without limitation, notes that have been issued under the 1995 Master Indenture prior to and after the date of issuance of the Bonds, notes being issued concurrently with the 1995 MTI Note to secure the other Series Bonds and notes to be issued in the future under the 1995 Master Indenture, if any.

The Corporation, its Subsidiary Hospitals and other owned and controlled entities had approximately $3.21 billion in outstanding long-term debt as of December 31, 2009 on a consolidated basis. The amount of debt and other obligations outstanding as of December 31, 2009 was approximately $1.77 billion for the 2007 Master Indenture and $2.74 billion for the 1995 Master Indenture (which includes the $1.77 billion also outstanding for the 2007 Master Indenture).

ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth the amount required to be made available for the payment of principal of and interest on the Bonds during each fiscal year of the Corporation.

Year Ending June 30	Principal	Interest[1]	Total Debt Service
2010	$	$ 403,463	$ 403,463
2011		2,301,000	2,301,000
2012		2,305,220	2,305,220
2013		2,296,780	2,296,780
2014		2,301,000	2,301,000
2015		2,301,000	2,301,000
2016		2,305,220	2,305,220
2017		2,296,780	2,296,780
2018		2,301,000	2,301,000
2019		2,301,000	2,301,000
2020		2,305,220	2,305,220
2021		2,296,780	2,296,780
2022		2,301,000	2,301,000
2023		2,301,000	2,301,000
2024		2,305,220	2,305,220
2025		2,296,780	2,296,780
2026		2,301,000	2,301,000
2027	10,000	2,300,953	2,310,953
2028	215,000	2,303,846	2,518,846

2029	2,555,000	2,276,687	4,831,687
2030	1,895,000	2,193,582	4,088,582
2031	2,955,000	2,121,462	5,076,462
2032	9,250,000	1,990,784	11,240,784
2033	7,120,000	1,666,487	8,786,487
2034	10,455,000	1,401,714	11,856,714
2035	9,030,000	1,038,379	10,068,379
2036	6,470,000	732,364	7,202,364
2037	6,855,000	499,039	7,354,039
2038	5,430,000	264,121	5,694,121
2039	2,760,000	84,588	2,844,588
	$65,000,000	$56,093,470	$121,093,470

(1) Assumes 3.54% interest rate; 2.19% (10 year average SIFMA) plus 135 basis points.

THE CORPORATION

The Corporation is the parent corporation of the System. The System is the largest health care system in Pennsylvania and operates primarily in western Pennsylvania, while providing specialized services to patients from throughout the United States and the world. The System includes UPMC and the following hospitals in western Pennsylvania: UPMC Presbyterian Shadyside; Children's; UPMC Bedford Memorial; UPMC Horizon; UPMC McKeesport; UPMC Mercy; UPMC Northwest, UPMC Passavant; UPMC St. Margaret; and Magee-Womens Hospital of University of Pittsburgh Medical Center.

The Corporation is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "***Code***"), is exempt from federal income taxation under Section 501(a) of the Code, except for unrelated trade or business income, and is not a private foundation within the meaning of Section 509(a) of the Code. See APPENDICES A, B and E hereto for further information regarding the Corporation.

Except as disclosed herein, the Corporation believes, as of the date hereof, that there has been no material adverse change in its financial condition since June 30, 2009, which is the most recent fiscal year for which audited financial statements are available. There can be no assurance that the financial results achieved in the future will be similar to historical results. Such future results will vary from historical results, and actual variations may be material. The historical operating results of the Corporation contained in this Disclosure Memorandum cannot be taken as a representation that the Corporation will be able to generate sufficient revenues in the future to make principal and interest payments.

THE AUTHORITY

The Authority is a body corporate and politic, constituting a public instrumentality of the Commonwealth of Pennsylvania (the "***Commonwealth***"), created pursuant to the Pennsylvania Municipality Authorities Act, as amended (the "***Act***"). The Authority was created in 1971. An amendment to the Authority's Articles of Incorporation was filed by the Authority with the Secretary of the Commonwealth on May 9, 1995, extending the Authority's existence for 50 years from that date. The Authority is empowered under the Act, among other things, to acquire, finance, construct, improve, maintain, own, operate, and lease, in the capacity as lessor or lessee, hospitals and health centers and other projects acquired, constructed or improved for hospital purposes. The Authority's address is 425 Sixth Avenue, Suite 800, Pittsburgh, Pennsylvania 15219. Resolutions authorizing the issuance of the Bonds have been adopted by the Authority.

The governing body of the Authority is a board consisting of up to twelve members (the "***Authority Board***"), presently appointed by the Chief Executive of the County with the approval of County Council. Members of the Authority Board are appointed for staggered terms and may be reappointed. The present members of the Authority Board* are as follows:

Name	**Title**
James M. Edwards	Chairman
John Brown, Jr.	Vice Chairman
Marilyn Liggett	Treasurer
Victor Diaz	Secretary
Mark Jones	Assistant Secretary-Treasurer
Lorna W. Wise	Member
Barney C. Guttman	Member

*As of March 15, 2010, there were five (5) Authority Board Member vacancies.

The Authority has previously issued revenue bonds and notes for various projects. The bond and note issues are payable from receipts and revenues derived by the Authority from the entity on whose behalf the bonds or notes were issued and is secured separately and distinctly from the issues of every other entity. The Authority expects from time to time to enter into separate indentures or other agreements for projects that will provide for the issuance of bonds or notes to be secured by revenues derived from such entities.

The Authority has not prepared or assisted in the preparation of this Disclosure Memorandum except for the statements under this section captioned "THE AUTHORITY" and the statements under the section captioned "MATERIAL LITIGATION – The Authority" and, except as aforesaid, the Authority is not responsible for any statements made herein, and will not participate in or otherwise be responsible for the offer, sale or distribution of the Bonds. Accordingly, except as aforesaid, the Authority disclaims responsibility for the disclosure set forth herein in connection with the offer, sale and distribution of the Bonds.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY PAYABLE SOLELY FROM THE TRUST ESTATE. NEITHER THE PRINCIPAL OF THE BONDS, NOR THE INTEREST ACCRUING THEREON, SHALL EVER CONSTITUTE A GENERAL INDEBTEDNESS OF THE AUTHORITY OR AN INDEBTEDNESS OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY PROVISION WHATSOEVER OR SHALL EVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY, NOR WILL THE BONDS BE, OR BE DEEMED TO BE, AN OBLIGATION OF THE COMMONWEALTH OF PENNSYLVANIA OR ANY POLITICAL SUBDIVISION OR INSTRUMENTALITY THEREOF, INCLUDING THE COUNTY OF ALLEGHENY. THE AUTHORITY HAS NO TAXING POWER.

BONDHOLDERS' RISKS

Payment of the principal of and interest on the Bonds to the registered owners thereof depends entirely upon the ability of the Corporation to make the payments required under the Loan Agreement. The Bonds are limited obligations of the Authority and are secured by and payable solely from the Trust Estate created pursuant to the Bond Indenture which includes payments made by the Corporation pursuant to the Loan Agreement, the 1995 MTI Note and the 2007 MTI Note, and certain funds held by the Bond Trustee pursuant to the Bond Indenture. No representation or assurance can be given to the effect that the Corporation will meet its payment obligations under the Loan Agreement. No representation or assurance can be given to the effect that the Corporation or any other member of the 1995 Obligated Group will generate sufficient revenues to meet its

payment obligations under the 1995 MTI Note or that the Corporation or any other member of the 2007 Obligated Group will generate sufficient revenues to meet its payment obligations under the 2007 MTI Note.

Various factors could adversely affect the Corporation's ability to pay the obligations under the Loan Agreement, the 1995 MTI Note or the 2007 MTI Note. Moreover, such factors could also adversely affect the ability of any other member of the 1995 Obligated Group or 2007 Obligated Group, as applicable, to pay its obligations under the 1995 MTI Note or 2007 MTI Note, as applicable. The future financial condition of the System could be adversely affected by, among other things, economic conditions in the service area, levels and methods of federal reimbursement under Medicare, federal and state reimbursement under Medicaid, reimbursement from other third-party payors, legislation, regulatory actions, increased competition from other health care providers or payors, changes in the demand for health care services, demographic changes, malpractice claims, litigation and changes in the Corporation's relationship with the University of Pittsburgh (the "***University***"). Some of such risk factors are described below.

All of the risk factors described below apply to the System, which is comprised of the Corporation and its operating divisions, including the Subsidiary Hospitals. However, not all of the Subsidiary Hospitals and other affiliates of the Corporation have a direct obligation with respect to the Bonds. The Authority has made no independent investigation of the extent to which any such factors may have an adverse effect on the revenues of the System.

The following is intended only as a summary of certain risk factors attendant to an investment in the Bonds and is not intended to be, and is not, exhaustive or complete. In order to identify risk factors and to make an informed judgment as to whether the Bonds are an appropriate investment, investors should be thoroughly familiar with the entire Disclosure Memorandum, including each Appendix. Investors are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Bonds. See "TAX EXEMPTION AND OTHER TAX MATTERS" herein.

The descriptions set forth below of certain governmental policies affecting health care and other matters are not intended as a complete discussion of all aspects of laws and regulations and such other matters as may affect the financial performance of health care providers such as the Corporation. Health care providers operate in a complicated regulatory environment, many aspects of which may adversely affect the revenues and operations of such providers.

General; Adequacy of Revenues

The System is a health care provider that derives significant portions of its revenues from the federal Medicare program ("***Medicare***"), the Pennsylvania Medical Assistance Program ("***Medicaid***"), Highmark Blue Cross Blue Shield ("***Highmark***"), HMOs and other payors, including those affiliated with the System. The System is subject to governmental regulation applicable to health care providers and the receipt of future revenues by the System is subject to, among other factors, federal and state policies affecting the health care industry and other conditions which are impossible to predict. Such conditions may include limits on increasing charges and fees charged by the System, changes in federal and state laws and regulations affecting payments for health services, the continued increase in managed care or development of new payment policies which reduce provider revenues, competition from other health care providers or payors, and changes in demand for health services. The receipt of future revenues by the System is also subject to demand for System services, the ability to provide the services required by patients, physicians' relationships with the System, management capabilities of the System, economic developments in the service area; the System's ability to control expenses, reimbursement, the continued funding by the Commonwealth for medically indigent patient care, future economic conditions, and other conditions which are impossible to predict.

No assurances can be given that patient utilization or revenues available to the System from its operations will remain stable or increase. The Corporation expects that it will experience increases in operating

costs due to inflation and other factors. There is no assurance that cost increases will be matched by increased patient revenue in amounts sufficient to generate an excess of revenues over expenses.

Discussed below are certain of these factors which could have a significant impact on the future operations and financial condition of the System.

Impact of Market Turmoil

In recent years, the economies of the United States and other countries have experienced severe disruption, prompting a number of banks and other financial institutions to seek additional capital, including capital provided through the federal government, to merge, and, in some cases, to cease operations. These events collectively have led to reductions in lending capacity and the extension of credit, erosion of investor confidence in the financial sector, and historically aberrant fluctuations in interest rates. This disruption of the credit and financial markets has led to volatility in the securities markets, losses in investment portfolios, increased business failures and consumer and business bankruptcies, and is a major cause of the current economic recession.

In 2008 and 2009, federal legislation was enacted and regulatory and other initiatives were implemented by agencies of the Federal government and the Federal Reserve Board with the objective of stabilizing the financial markets by enhancing liquidity, providing additional capital to the financial sector and improving the performance and efficiency of credit markets. Other legislation is pending or under active consideration by Congress, and additional regulatory action is being considered by various Federal agencies and the Federal Reserve Board and foreign governments are implementing actions, all of which are intended to continue and strengthen efforts to restore the domestic and global credit markets. It is unclear whether these legislative, regulatory and other governmental actions will have the positive effect that is intended.

The health care sector has been materially adversely affected by these developments. The consequences of these developments have generally included realized and unrealized investment portfolio losses, reduced investment income, limitations on access to the credit markets, difficulties in extending existing or obtaining new liquidity facilities, difficulties in rolling maturing commercial paper and remarketing revenue bonds subject to tender, requiring the expenditure of internal liquidity to fund principal payments on commercial paper or tenders of revenue bonds, and increased borrowing costs.

The economic recession may also adversely affect the operations of the Obligated Group as a result of, among other factors, increases in the number of uninsured patients or deferral of elective medical procedures. Economic conditions are adversely affecting revenue available to the Commonwealth of Pennsylvania and increasing expenses under various Commonwealth programs, including Medicaid. Stresses on the Commonwealth of Pennsylvania budget may result in delays of payments due under Medicaid and other State programs and reductions in payments or changes in eligibility for Medicaid or other Commonwealth programs.

President Obama signed into law the American Recovery and Reinvestment Act of 2009 (referred to as "***ARRA***"). ARRA includes several provisions that are intended to provide financial relief to the health care sector, including an increase through December 31, 2010 in federal payments to states to fund the Medicaid program, a requirement that states promptly reimburse health care providers, and a subsidy to the recently unemployed for health insurance premium costs. ARRA also establishes a framework for the implementation of a nationally-based health information technology program, including incentive payments commencing in 2011 to health care providers to encourage implementation of certified health information technology and electronic medical records. The incentive payments will be payable through 2014 to hospitals and physicians that comply with federal requirements. The Corporation is unable to determine the cost, if any, of complying with these requirements at this time. Failure to comply by 2015 may result in reduced Medicare and Medicaid revenues in future years.

Health Care Reform

The United States Senate and House of Representatives have each passed their own versions of health care reform legislation. The Senate's version is known as the Patient Protection and Affordable Care Act. The House's version is known as the Affordable Health Care for America Act. The two separate bills may now be subjected to the reconciliation process led by the majority leadership of both houses of Congress. The purpose of the reconciliation process is the development of a single bill that will be acceptable to majorities in both houses, passed and submitted to the President for approval. If utilized, the reconciliation process, particularly in the context of these two bills, may be contentious and may not necessarily result in legislation that will be passed by both houses of Congress or approved by the President.

The two bills include many provisions that are similar in intent and effect, but with variations in details as well as some dissimilar provisions. If utilized, the reconciliation process will attempt to resolve those differences. Assuming enactment, some of the provisions will take effect immediately or within a few months of final approval, while others will be phased in over time, ranging from one year to ten years. Because of the complexity of these two bills and, assuming successful reconciliation, additional legislation is likely to be considered over time. Additionally, any finally approved legislation will require the promulgation of substantial regulations with significant effect on the health care industry. Assuming enactment of the current health care reform legislation, the health care industry will be subjected to significant new statutory and regulatory requirements and consequently to structural and operational changes and challenges for a substantial period of time. Various interested parties have also indicated that they are likely to bring lawsuits to challenge certain provisions should they be included in the final legislation, possibly affecting the timing and/or effectiveness of those provisions.

Management of the Corporation cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation.

A significant component of the proposed legislation is reformation of the sources and methods by which consumers will pay for health care for themselves and their families and by which employers will procure health insurance for their employees and employees' dependents. One of the primary drivers of health care reform legislation is to provide or make available, or subsidize the premium costs of, health care insurance for the millions of currently uninsured or underinsured consumers. The legislation proposes to accomplish that objective through, among other provisions, (i) the creation of active markets (referred to as exchanges) in which individuals and small employers can purchase health care insurance for themselves and their families or their employees and dependents, (ii) mandating that individual consumers obtain and certain employers provide a minimum level of health care insurance, (iii) establishment of insurance reforms that expand coverage generally through such provisions as prohibitions on denials of coverage for pre-existing conditions and elimination of life-time or annual cost caps, (iv) expansion of existing public programs, including Medicaid and CHIP, to cover a substantially larger population of individuals and families, (v) authorization of governmentally owned and operated insurance plans (the "public option") and (vi) expansion of the program of insurance currently available to federal employees.

Some of the specific provisions of the bills that may affect hospital operations, financial performance or financial condition include the following. This listing is not intended to be comprehensive. The two bills are extraordinarily complex and comprehensive, and include a myriad of new programs and initiatives and changes to existing programs, policies, practices and laws. The reader is encouraged to review in the public media summaries and analysis of the two bills and any final bill that emerges from the reconciliation process.

- With varying effective dates, the annual Medicare market basket updates for many providers, including hospitals, would be reduced, and adjustments to payment for expected productivity gains would be implemented.

- Commencing in 2015 (Senate bill) or 2017 (House bill), Medicare disproportionate share hospital ("***DSH***") payments will be reduced to account for reductions in the national percentage

of consumers who do not have healthcare insurance. Commencing in 2011 (Senate bill) or 2017 (House bill), a state's Medicaid DSH allotment from federal funds will also be reduced.

- Commencing in 2012 (Senate bill) or 2011 (House bill), Medicare payments that would otherwise be made to hospitals would be reduced by specified percentages to account for "preventable" hospital readmissions.

- Commencing in 2015 (Senate bill), Medicare payments to certain hospitals for hospital-acquired conditions will be reduced by 1%. Commencing in 2011, federal payments to states for Medicaid services related to health care-acquired conditions (hospital-acquired infections, injury from medication errors, etc.) will be prohibited.

- Effective in 2012 (Senate bill), a value-based purchasing program will be established under the Medicare program designed to pay hospitals based on performance on quality measures.

- With varying effective dates, both bills mandate a reduction of waste, fraud, and abuse in public programs by allowing provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs, and by requiring Medicare and Medicaid program providers and suppliers to establish compliance programs. The Senate bill requires the development of a database to capture and share healthcare provider data across federal healthcare programs. Both bills provide for increased penalties for fraud and abuse violations, and increased funding for anti-fraud activities.

- Effective for tax years commencing immediately after approval (Senate bill), additional requirements for tax-exemption will be imposed upon tax-exempt hospitals, including obligations to conduct a community needs assessment every three years; adopt an implementation strategy to meet those identified needs; adopt and publicize a financial assistance policy; limit charges to patients who qualify for financial assistance to the lowest amount charged to insured patients; and control the billing and collection processes. Failure to satisfy these conditions may result in the imposition of fines.

- Commencing in 2015 (Senate bill), the establishment of an Independent Payment Advisory Board to develop proposals to improve the quality of care and limitations on cost increases. Those proposals would be automatically implemented if Congress does not act to invalidate them.

Both bills provide for the implementation of various demonstration programs and pilot projects to test, evaluate, encourage and expand new payment structures and methodologies to reduce health care expenditures while maintaining or improving quality of care, including bundled payments under Medicare and Medicaid, and comparative effectiveness research programs that compare the clinical effectiveness of medical treatments and develop recommendations concerning practice guidelines and coverage determinations. Other provisions encourage the creation of new health care delivery programs, such as accountable care organizations, or combinations of provider organizations, that voluntarily meet quality thresholds to share in the cost savings they achieve for the Medicare program. The outcomes of these projects and programs, including their effect on payments to providers and financial performance, cannot be predicted.

Nonprofit Health Care Environment

The Corporation is a nonprofit corporation, exempt from federal income taxation as an organization described in Section 501(c)(3) of the Code. As a nonprofit tax-exempt organization, the Corporation is subject to federal, state and local laws, regulations, rulings and court decisions relating to its organization and operation, including its operation for charitable purposes. At the same time, the Corporation conducts large-scale complex

business transactions. There can often be a tension between the rules designed to regulate a wide range of charitable organizations and the day-to-day operations of a complex, health care organization.

Over the past several years, an increasing number of the operations or practices of health care providers have been challenged or questioned to determine if they are consistent with the regulatory requirements for nonprofit tax-exempt organizations. These challenges are broader than concerns about compliance with federal and state statutes and regulations, such as Medicare and Medicaid compliance, and in many cases are examinations of core business practices of the health care organizations. Areas which have come under examination have included pricing practices, billing and collection practices, charitable care, executive compensation, exemption from real property taxation, and others. These challenges and questions have come from a variety of sources, including state Attorneys General, the Internal Revenue Service (the "IRS"), labor unions, Congress, state legislatures, and patients, and in a variety of forums, including hearings, audits and litigation. These challenges or examinations include the following, among others:

Congressional Hearings. A number of House and Senate Committees have conducted hearings and/or investigations into issues related to nonprofit tax exempt healthcare organizations. For example, the House Committee on Energy and Commerce (the "***House Committee***") launched a nationwide investigation of hospital billing and collection practices and prices charged to uninsured patients. Twenty large hospital and health care systems were requested by the House Committee to provide detailed historical charge and billing practice information for acute care services.

The Senate Finance Committee (the "***Senate Committee***") also conducted hearings on required reforms to the nonprofit sector and released a staff discussion draft on proposals for reform in the area of tax-exempt organizations, including a proposal for a five-year review of tax-exempt status by the IRS. Senator Grassley, of the Senate Finance Committee, has from time to time sent letters to various hospitals and hospital systems, requesting certain information about general operating issues, including levels of charitable care and community benefits, and patient billing and collection practices. The IRS has requested information from a number of nonprofit hospitals and health care organizations regarding their charitable activities, patient billing and joint venture activities. It is uncertain if any of the staff proposals will be adopted by the entire Senate Committee or if the Senate Committee will recommend legislative changes as a result of the hearing.

The Senate Committee is also considering a number of policy options regarding health care reform, including a hospital's 501(c)(3) tax-exempt status. See "Charity Care" below.

The House Committee on Ways and Means has held several hearings to examine the tax-exempt sector, hospital tax-exemptions and the use of tax-preferred bond financings. It is uncertain if any of these Committees will pursue further investigations or will recommend legislative changes as a result of its inquiries.

These hearings and investigations may result in new legislation. The effect on the nonprofit health care sector or the System of any such legislation, if enacted, cannot be determined at this time.

Internal Revenue Service Examination of Compensation Practices. In August 2004, the Internal Revenue Service announced a new enforcement effort to identify and halt abuses by tax-exempt organizations that pay excessive compensation and benefits to their officers and other insiders. The IRS announced that it would contact nearly 2,000 charities and foundations to seek more information about their compensation practices and procedures.

In February 2009, the IRS issued its Hospital Compliance Project Final Report (the "***IRS Final Report***") based on its examination of such tax-exempt organizations. The IRS Final Report indicates that the IRS (i) will continue to heavily scrutinize executive compensation arrangements, practices and

procedures and (ii) in certain circumstances, may conduct further investigations or impose fines on tax-exempt organizations.

Revision of IRS Form 990 for Tax-Exempt Organization. The IRS Form 990 is used by most 501(c)(3) not-for-profit organizations exempt from federal income taxation, including the Corporation, to submit information required by the federal government. On December 20, 2007, the IRS released a revised Form 990 that requires detailed public disclosure of compensation practices, corporate governance, loans to management and others, joint ventures and other types of transactions, political campaign activities, and other areas the IRS deems to be compliance risk areas. The revised form also requires the disclosure of a significantly greater amount of information on community benefit and establishes uniform standards for reporting of information relating to tax-exempt bonds, including compliance with the arbitrage rules and rules limiting private use of bond-financed facilities, including compliance with the safe harbor guidance in connection with management contracts and research contracts. The redesigned Form 990 is intended to result in enhanced transparency as to the operations of exempt organizations. It is also likely to result in enhanced enforcement, as the redesigned Form 990 will make detailed information on compliance risk areas available to the IRS and other stakeholders. Nonprofit healthcare organizations also will become subject to additional reporting for tax exempt bonds, the most significant of which will be required for tax years beginning on or after January 1, 2009. These reporting and recordkeeping requirements go beyond what many hospitals have done historically and will require substantial additional efforts on the part of hospitals with outstanding tax exempt bonds. A new schedule to the Form 990 return (Schedule K) is intended to address what the IRS believes is significant noncompliance with recordkeeping, and record retention requirements. These concerns were reinforced, in the IRS's view, by the results of a bond questionnaire distributed to select hospitals in September 2007, the results of which were released in April 2008. Schedule K also focuses on the investment of bond proceeds that could violate the arbitrage rebate requirements and the private use of bond-financed facilities.

Charity Care. The Senate Finance Committee is considering a policy option that would codify organizational and operational requirements for determining whether a hospital is a charitable organization under Section 501(c)(3) of the Code. Such proposed requirements include, among other things, that Section 501(c)(3) hospitals regularly conduct a community needs analysis, provide a minimum annual level of charitable patient care, not refuse service based on a patient's inability to pay and follow certain procedures before instituting collection actions against patients. The proposal also provides for excise taxes or "intermediate sanctions" designed to encourage compliance with the operational requirements. These intermediate sanctions could be imposed in situations where revocation of tax-exempt status is viewed as inappropriate.

Charity care issues also have served as the basis of certain claims against major hospital systems throughout the United States on behalf of uninsured patients. Recent lawsuits filed against non-profit hospitals have raised a number of claims against the hospital defendants, including claims that the defendants, by accepting tax-exempt status, entered into agreements with the federal, state and local governments promising to provide free or reduced care to all those who need it; the defendants engaged in illegal and oppressive tactics against the uninsured, illegal price discrimination by charging the uninsured rates far in excess of the rates charged to such third party payors as Medicare and certain insurers; the defendants violated state consumer fraud statutes; and the defendants allowed a portion of their properties to be used by for-profit entities at less than fair value and engaged in other inappropriate transactions with doctors and certain insiders.

Medicare Reimbursement and Related Federal Legislation

Background. Congress is frequently engaged in intense debate over federal budget commitments, and, in particular, the extent of the government's financial commitment to the Medicare program. Prospective

changes in Medicare payments to providers could have an adverse effect on revenues of the System. The final results of the bills described above under "Healthcare Reform" may change how health care is paid for from what is described below in this section.

Medicare and Medicaid Programs. Medicare and Medicaid are the commonly used names for health care reimbursement or payment programs governed by certain provisions of the federal Social Security Act Amendments of 1965. The federal government uses reimbursement as a key tool to implement health care policies, to allocate health care resources and to control utilization, facility and provider development and expansion, and technology use and development. These programs reflect the national policy that persons who are aged and persons who are poor should be entitled to receive medical care regardless of ability to pay. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital, home health, nursing home care and certain other services, and Medicare Part B covers certain physicians services, medical supplies and durable medical equipment. Medicare Part C, the Medicare Advantage program (formerly known as the Medicare+Choice Program) enables Medicare beneficiaries who are entitled to Part A and are enrolled in Part B to choose to obtain their benefits through a variety of private, managed care, risk-based plans.

In December 2003, the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 ("***MMA***") was signed into law. This law provided for a new Medicare Part D, under which outpatient prescription drug benefits became available to Medicare beneficiaries. MMA also enhanced the Medicare Part C managed care programs.

Medicare reimbursement for outpatient prescription drug benefits provided by private plans became available as of January 1, 2006 through a voluntary enrollment program. The private Medicare Part D plans are funded through premium payments from enrolled Medicare beneficiaries and subsidies from the federal government. Enrollment is available on an ongoing and intermittent basis. While participation in the program is voluntary, those that wait to enroll beyond their initial point of eligibility are penalized with additional surcharges which increase over time.

Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and is administered by an agency of the applicable state.

In Fiscal Year 2009, approximately 42% of net patient service revenues of the System were derived from the Medicare program, and 14% of net patient service revenues of the System were derived from the Medicaid program. See APPENDIX A hereto.

Medicare. Medicare is administered by the Centers for Medicare and Medicaid Services ("***CMS***") of the U.S. Department of Health and Human Services ("***DHHS***"), which delegates to the states the process for certifying those organizations to which CMS will make payment. The DHHS's rule-making authority is substantial and the rules are extensive and complex. Substantial deference is given by courts to rules promulgated by DHHS.

Hospital Inpatient Services. Medicare payments for operating expenses incurred in the delivery of in-patient hospital services are based on a prospective payment system ("***PPS***") which essentially pays hospitals a fixed amount for each Medicare in-patient discharge based upon patient diagnosis and certain other factors used to classify each patient into a Diagnosis Related Group ("***DRG***"). Each DRG is given a relative value from which a fixed payment can then be established. With limited exceptions, such payments are not adjusted for actual costs, variations in intensity of illness, or length of stay. DRG rates are adjusted annually by the use of an "update factor" based on the projected increase in a market basket inflation index which measures changes in the costs of goods and services purchased by hospitals, but the adjustments historically have not kept pace with inflation.

If a hospital treats a patient and incurs less cost than the applicable DRG-based payment, the hospital will be entitled to retain the difference. Conversely, if a hospital's cost for treating the patient exceeds the DRG-based payment, the hospital generally will not be entitled to any additional payment. There can be no assurance that payments under PPS will be sufficient to cover all actual costs of providing in-patient hospital services to Medicare patients.

Going forward, the Deficit Reduction Act of 2005 ("***DRA***") presents several areas of uncertainty for the System with respect to reimbursement. The DRA, much like the revised inpatient prospective payment system, has provided for the redistribution of Medicare funds towards preferred services to the possible detriment of others. Under the DRA, reimbursement for nosocomial infections has been reduced while funds for colorectal screenings, dialysis centers and rural hospitals have been increased. The DRA has also expanded penalties for failure to participate in Medicare quality initiatives. Depending on the mix of future services delivered, the overall result of the DRA may be to reduce Medicare reimbursement to the System.

Hospital Outpatient Services. Effective August 1, 2000, CMS instituted a PPS methodology for Medicare hospital outpatient services. Under the outpatient PPS methodology, procedures, evaluations and management services, and drugs and devices in outpatient departments are classified into one of approximately 750 groups called Ambulatory Payment Classifications ("***APC***"). Services provided within an APC are similar clinically and in terms of the resources they require. Each APC has been assigned a weight derived from the median hospital cost of the services in the group relative to the median hospital cost of the services included in the APC for mid-level clinic visits. CMS determines the portion of the median labor related hospital costs and adjusts those costs for variations in hospital labor costs across geographic regions.

APCs include payment for related ancillary services provided in conjunction with the procedure or medical visit. Although hospitals receive payment for more than one APC for an encounter, payment for multiple surgical APC procedures is subject to substantial discounting.

Additionally, CMS has adjusted the reimbursement rates for Ambulatory Surgery Centers to reflect the reimbursement for equivalent procedures being delivered in hospital outpatient departments. Overall, these changes to the outpatient prospective payment system may result in decreased reimbursement for services, depending on the service mix that the System is called upon to deliver in the future.

Under PPS, a hospital with costs exceeding the applicable payment rate would incur losses on such services provided to Medicare beneficiaries. There can be no assurance that outpatient PPS payments will be sufficient to cover all of the System's actual costs of providing hospital outpatient services to Medicare patients.

Physician Payments. Payment for physician fees is covered under Part B of Medicare. Under Part B, physician services are reimbursed in an amount equal to the lesser of actual charges or the amount determined under a fee schedule known as the "resource-based relative value scale" or "RBRVS". RBRVS sets a relative value for each physician service; that value is then multiplied by a geographic adjustment factor and a nationally-uniform conversion factor to determine the amount Medicare will pay for each service.

The relative values for physician services contained in the RBRVS are based on a work component intended to reflect the time and intensity of effort required to provide the service; a practice expense component which includes costs such as office rents, allied health support salaries, equipment and supplies; and a component for the cost of malpractice insurance.

The new methodology for computing practice expense relative value units ("***RVUs***") provides for higher practice expense RVUs for services performed in a doctor's office, the patient's home, or a facility or institution other than a hospital, skilled nursing facility (SNF) or ambulatory surgical center (ASC), and lower practice expense RVUs for services furnished to hospital, SNF, and ASC patients. The data upon which the RVUs are based is several years old and does not necessarily reflect current market conditions, particularly with respect to the malpractice expense RVUs. The formulae used to calculate physician payments under the RBRVS

methodology do not necessarily reflect the actual costs of such services. There can be no assurance that payments to the System under the Medicare program will be adequate to cover the System's costs of providing physician services.

Hospital Capital Expenditures. Medicare payments for capital costs are based upon a PPS system similar to that applicable to operating costs. Effective for cost reporting periods beginning on or after October 1, 2001, payment for capital related costs for all hospitals is determined based on a standardized amount referred to as the federal rate.

Under PPS, payments for capital costs are calculated by multiplying the federal rate by the DRG weight for each discharge and by a geographical adjustment factor. The payments are subject to further adjustment by a disproportionate share hospital factor that contemplates the increased capital costs associated with providing care to low income patients, and an indirect medical education factor that contemplates the increased capital costs associated with medical education programs.

There can be no assurance that payments under the PPS inpatient capital regulations will be sufficient to fully reimburse the System for its capital expenditures.

Medical Education Costs. Under PPS, teaching hospitals receive additional payments from Medicare for certain direct and indirect costs related to their graduate medical education ("***GME***") programs. Direct graduate medical education ("***DGME***") payments compensate teaching hospitals for the cost directly related to educating residents. Such costs include the residents' stipends and benefits, the salaries and benefits of supervising faculty, other costs directly attributable to the GME program, and allocated overhead costs. Payment for direct medical education costs are calculated based upon set formulae taking into account hospital-specific medical education costs associated with each resident, the number of full-time equivalent residents, and the proportion of Medicare inpatient days to non-Medicare inpatient days. Indirect medical education payments compensate teaching hospitals for the higher patient care costs they incur relative to non-teaching hospitals. Those indirect payments are issued as a percentage adjustment to the PPS payments. The calculation for both the direct part and the indirect part of Medicare payments for GME includes certain limitations on the number and classification of full-time equivalent residents reimbursed by Medicare.

The formulae used to determine payments for medical education do not necessarily reflect the actual costs of such education, and the federal government will continue to evaluate its policy on graduate medical education and teaching hospital payments. There can be no assurance that payments to the System under the Medicare program will be adequate to cover its direct and indirect costs of providing medical education to interns, residents, fellows and allied health professionals.

Outlier Payments. As noted above, hospitals are eligible to receive additional payments under the Inpatient PPS for individual cases incurring extraordinarily high costs. Historically, the amount of an outlier payment was based, in part, on the hospital charges for a particular case as compared to that hospital's cost-to-charge ratio. As the hospital specific cost-to-charge ratio was calculated based on the most recently settled cost report, it was typically many months or years old and out of date.

Following an audit of aggressive pricing strategies at one of the nation's largest hospital chains, and a determination that some hospitals might be manipulating current hospital charge data to maximize reimbursement from Medicare under the outlier payment provisions, the Office of the Inspector General of DHHS ("***OIG***") began investigating past outlier billing practices, and CMS amended the regulations on how outlier payments were to be calculated in the future.

The OIG continues to scrutinize outlier payments in an effort to determine whether outlier payments to the hospitals were paid in accordance with Medicare regulations or whether such payments were the result of potentially abusive billing practices. While the System believes that it has calculated its outlier payments appropriately, there can be no assurance that the System will not become the subject of an investigation or audit

with respect to its past outlier payments, or that such an audit would not have a material adverse impact on the System.

The new methodology for calculating outlier payments went into effect in August 2003. It was designed to prevent hospitals from manipulating the outlier formula to maximize reimbursement and allows for recovery of overpayments in certain cases. There can be no assurance that any future revisions to the formula for calculating outlier payments will not reduce the payments to the System, or that any such reduction will not have a material adverse impact on the System.

Mental Health Services. In-patient psychiatric services began a transition from cost reimbursement subject to a per-case limit, to a prospective payment methodology beginning July 1, 2005. The phase-in of a case-mix adjusted prospective payment system was fully implemented by June 30, 2008.

These changes in Medicare inpatient psychiatric payments dramatically affect the way psychiatric hospitals and units are paid for Medicare psychiatric inpatient services.

There can be no assurance that the Medicare psychiatric PPS payments will be sufficient to cover all of the actual costs in providing inpatient psychiatric hospital services.

Skilled Nursing Care Services. Medicare reimburses skilled nursing facilities for costs, including routine service costs, ancillary costs and capital-related costs of covered services under various per diem rates known as RUGs (Resource Utilization Groups). Each of the 53 RUG payment groups reflects different levels of resource utilization for each patient day based on periodic assessments of the patient's needs. There can be no assurance that payments under this system will be sufficient to cover all of the actual costs in providing skilled nursing care to Medicare patients.

Home Health. Under the prospective payment system, all home health goods and services provided during a 60-day episode of home health care are included in the PPS payment rate. The rates are case-mix adjusted by an 80-category classification system called the Home Health Resource Group ("***HHRG***") as determined based upon patient assessment at admission. As with any prospective payment system, there can be no assurance that the payments under this system will be sufficient to cover all of the actual costs of providing home health services to Medicare patients.

Medicare Managed Care Program. BBA-97 established a new Part C of the Medicare program, with a Medicare managed care program called "Medicare+Choice." Since January 1, 1999, every individual entitled to Medicare Part A benefits, and who is enrolled in Medicare Part B, with the exception of individuals who suffer from end stage renal disease, may elect coverage under either the traditional Medicare fee for service program (Parts A and B) or a Medicare managed care (Part C) program. The shift of Medicare eligible beneficiaries from traditional Part A and Part B coverage to Part C Medicare Advantage programs is intended to increase competitive pressure to improve benefits, reduce premiums and effect cost reductions. These changes may result in reduced utilization of health care services and have a material negative impact upon the revenue of the System.

Audits, Exclusions, Fines and Enforcement Actions. Hospitals participating in Medicare are subject to audits and retroactive audit adjustments by fiscal intermediaries under the Medicare program. From an audit, a fiscal intermediary may conclude that a patient discharge has been claimed under an incorrect DRG, that services may not have been provided under the direct supervision of a physician (to the extent so required), that a patient should not have been characterized as an inpatient, that certain services provided prior to admission as an inpatient should not have been billed as outpatient services or that certain required procedures or processes were not satisfied. As a consequence, payments may be retroactively disallowed. Under certain circumstances, payments made may be determined to have been made as a consequence of improper claims subject to the federal False Claims Act or other federal statutes, subjecting the hospital to civil or criminal sanctions.

Medicaid Reimbursement

Medicaid is a jointly funded federal and state health insurance program for certain low-income and medically needy people. Under federal guidelines, each state establishes eligibility standards, scope of services, payment rates for services, and an administrative framework for management of the program. The Pennsylvania Department of Public Welfare ("***DPW***") administers the Medicaid program in the Commonwealth.

Federal cost cutting initiatives and the Commonwealth's current budget shortfall in Medicaid revenues may lead the Commonwealth to reduce the Medicaid reimbursement received by hospitals. Other reform measures may necessitate changes to the Pennsylvania Medicaid system and such changes may affect hospital reimbursement. Similar changes have occurred in the past and can be expected to occur in the future, particularly in response to federal and state budgetary constraints, coupled with increased costs for covered services. The final results of the bills described above under "Healthcare Reform" is likely to substantially change how healthcare is paid for from what is described below in this section.

Inpatient Services. Medicaid payment for acute care services in the Commonwealth is based on a prospective payment system similar to the federal Medicare DRG-based prospective payment system explained above.

Disproportionate Share Payments (DSH) and Medical Education Payments. DSH and medical education payments are paid to providers under the traditional medical assistance payment contract. Provider eligibility for inpatient DSH payments is based on an annual redetermination formula, while payments are based on prior period payouts with small increases as determined per the contract.

Outpatient Services. Medicaid generally pays for hospital outpatient services rendered based on the lower of the usual charge to the general public for the same service or the Medicaid maximum allowable fee, or the upper limit established by Medicare or Medicaid.

Inpatient Mental Health and Rehabilitation Services. Medicaid provides payment for inpatient mental health and rehabilitation services rendered to eligible recipients by private psychiatric hospitals and rehabilitation distinct part units at a per diem rate.

HealthChoices. The Commonwealth has instituted a program for Medicaid recipients called HealthChoices, which requires Medicaid recipients to enroll in managed care plans. Under HealthChoices, Medicaid recipients receive physical health services through one managed care organization and behavioral health services through another managed care organization. The implementation of HealthChoices results in providers contracting with the managed care organizations which are responsible for providing health services to Pennsylvania Medicaid recipients. There can be no assurance that the System will be successful in contracting with the assigned managed care organizations or that the reimbursements from these managed care organizations will be sufficient to cover the costs of delivering care to the Commonwealth's Medicaid recipients.

Other DPW Funding. In addition to the funding described above, DPW also provides funding to hospitals that provide a significant amount of uncompensated care. Funding for this includes payments by DPW to hospitals for inpatient and outpatient DSH and Community Access Funds (CAF). These payments are based on historic levels of care provided to indigent patients. Eligibility for participation in this funding is determined based on data provided to DPW through annual cost reports. Funding for DSH payments is dependent on Federal Medicare and Medicaid funding and regulations. The MMA included revisions to state DSH allotment levels. There can be no assurance that DPW's funding levels will remain at current levels.

Also, as a result of the national class action tobacco settlement, DPW has created an uncompensated care pool to provide grants to hospitals that meet certain levels of uncompensated care. DPW began funding

these grants in 2002. There can be no assurance that this resource will be available at current levels, if at all, in the future.

Third Party Reimbursement

A significant portion of the net patient service revenue of the System is received from Highmark and other non-governmental payors, which provide third-party reimbursement for patient care on the basis of various formulae. Renegotiations of such formulae and changes in such reimbursement systems may reduce such third-party reimbursements to the System. The reimbursement currently paid by Highmark is likely to be subject to more restrictions in the future, and there can be no assurance that such payments will be adequate to cover the cost of care for the beneficiaries in the future. The final results of the bills described above under "Healthcare Reform" are likely to substantially change how health care is paid for from what is described below in this section.

The Corporation holds various interests in health care financing products and network care delivery operations, as more fully described in APPENDIX A. Membership in the UPMC health insurance companies totaled approximately 1.4 million as of December 31, 2009. Utilization by members of the UPMC Health Plan represented nine percent of UPMC patient service revenue for the fiscal year ended June 30, 2009. See APPENDIX A hereto.

Certain private insurance companies contract with hospitals on an exclusive or preferred-provider basis, and some insurers have introduced plans known as preferred provider organizations ("***PPOs***"). Under these plans, there may be financial incentives for subscribers to use only those hospitals and physicians which contract with the plans. Under an exclusive provider plan, which includes most health maintenance organizations ("***HMOs***"), private payors limit coverage to those services provided by network hospitals and physicians. With this contracting authority, private payors may direct patients away from hospitals not in the network by denying coverage for services provided by them.

Most PPOs and HMOs currently pay hospitals on a discounted fee-for-service basis or on a discounted fixed rate per day of care. The discounts offered to HMOs and PPOs may result in payment at less than actual cost, and the volume of patients directed to a hospital under an HMO or PPO contract may vary significantly from projections. Therefore, the financial consequences of such arrangements cannot be predicted with certainty and may be different from current or prior experience. Some HMOs offer or mandate a "capitation" payment method under which hospitals are paid a predetermined periodic rate for each enrollee in the HMO who is "assigned" to, or otherwise directed to receive care at, a particular hospital. In a capitation payment system, the hospital assumes an insurance risk for the cost and scope of care given to such HMO's enrollees. If payment under an HMO or PPO contract is insufficient to meet the hospital's costs of care, or if use by enrollees materially exceeds projections, the financial condition of the hospital may be adversely affected.

The current Highmark indemnity and managed care hospital contracts for the Subsidiary Hospitals (except Children's and UPMC Mercy) are effective through June 30, 2012. The Security Blue acute care hospital contracts, which relate to Medicare recipients, are effective through January 1, 2011 and renew automatically for additional one-year periods unless terminated by either party. Children's has a separate contract with Highmark which expires on June 30, 2022 and UPMC Mercy has a separate contract with Highmark which expires on June 30, 2015. There is no assurance that the Subsidiary Hospitals will maintain such contracts or obtain other similar contracts in the future. Failure to maintain such Highmark contracts could have the effect of reducing the revenues of the System.

There is no assurance that contracts of the System or its physicians with Highmark, HMOs, PPOs or other payors will be maintained or that other similar contracts will be obtained in the future, or that payments from such payors will be sufficient to cover all of the costs of the System or its physicians in providing services to its or their patients. Failure to execute and maintain such contracts could have the effect of reducing the

patient base and gross revenues of the System. Conversely, participation may maintain or increase the patient base, but may result in reduced payments.

The System also may be affected by the financial instability of HMOs and other third-party payors with which the System contracts and/or from which it receives reimbursement for furnished health care services. For example, if regulators place a financially-troubled HMO into rehabilitation under state law, or if a third-party payor files for protection under the federal bankruptcy laws, it is unlikely that health care providers will be reimbursed in full for services furnished to enrollees of the HMO or third-party payor. Also, health care providers may be required by law or court order to continue furnishing health care services to the enrollees of an insolvent HMO or third-party payor, even though the providers may not be reimbursed in full for such services.

Private employers have begun to revise the way in which health care benefits are provided to their employees in order to create incentives for cost containment and to reduce their costs of providing health care benefits. Traditional health insurance programs, which pay for services on a fee-for-service basis and allow employees to elect which hospitals they utilize, are being supplemented or replaced by a wide range of health insurance programs being offered with economic incentives for employees to choose those plans which promise to be most cost efficient. These types of insurance programs are expected to cover an increasing share of health care services being provided in the future.

HMOs and other third-party payors that contract on a discounted fee-for-service or discounted fixed rate-per-day basis also exert strong controls over the utilization of health care resources. Strong utilization management by managed care plans has led to a reduction in the number of hospitalizations and lengths of hospital stays, both of which may reduce patient service revenue to hospitals. Furthermore, shortened hospital lengths of stay have not necessarily been accompanied with a reduced demand for services while a patient is hospitalized and in fact may lead to more intensive hospital visits and correspondingly increased costs to hospital providers.

Retroactive Adjustments of Payments

Funds received from Medicare, Medicaid and some third-party payors relating to certain types of services and years may be subject to audit. These audits can result in retroactive adjustments of payments received. If an audit determines that an overpayment was made, the excess amount must be repaid. If, on the other hand, it is determined that an underpayment was made, payors will make additional payments to the provider. Provisions for adjustments related to these programs are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Final settlements may differ materially from amounts currently recorded.

Regulatory Environment

The System and the health care industry in general are subject to regulation by a number of governmental agencies, including those that administer the Medicare and Medicaid programs, federal, state and local agencies responsible for administration of health care planning programs, and other federal, state and local governmental agencies. As a result, the health care industry is sensitive to legislative and regulatory changes in such programs, and is affected by reductions and limitations in government spending for such programs as well as changing health care policies. Over the past several years, Congress has consistently attempted to curb the growth of federal spending on health care programs. In addition, Congress and governmental agencies have focused on the provision of care to indigent and uninsured patients, the prevention of the transfer of such patients to other hospitals in order to avoid the provision of uncompensated care, activities of tax-exempt institutions that are unrelated to their exempt purposes, and other issues. Some of the legislation and regulations affecting the health care industry are discussed below.

Additionally, laws and regulations require that hospitals meet various detailed standards relating to the adequacy of medical care, equipment, personnel, operating policies and procedures, maintenance of adequate records, utilization, rate setting, compliance with building codes and environmental protection laws, and numerous other matters. Failure to comply with applicable regulations can jeopardize a hospital's licenses, ability to participate in the Medicare and Medicaid programs, and ability to operate as a hospital. These laws and regulations, as well as similar laws and regulations now in effect, and the adoption of additional laws and regulations in these and other areas, could have an adverse effect on the results of operations of the System.

Federal False Claims Act and Civil Money Penalties Law. There are multiple federal laws concerning the submission of inaccurate or fraudulent claims for reimbursement and errors or misrepresentations on cost reports by hospitals and other providers. The coding, billing and reporting obligations of Medicare providers are extensive, complex and highly technical. In some cases, errors and omissions by billing and reporting personnel may result in liability under one of the federal False Claims Acts or similar laws, exposing a health care provider to civil and criminal monetary penalties, as well as exclusion from participation in the Medicare and Medicaid programs.

The federal Civil False Claims Act prohibits knowingly filing a false or fraudulent claim for payments made by the United States. This statute is violated if a person acts with actual knowledge, or in deliberate ignorance or reckless disregard of the falsity of the claim. Penalties under the Civil False Claims Act include fines of up to $10,000, plus treble damages. Under the federal Criminal False Claims Act, anyone who knowingly makes a false statement or representation in any claim to the Medicare or Medicaid programs is subject as well to fines and imprisonment.

The threats of large monetary penalties and exclusion from participation in Medicare, Medicaid and other federal health care programs, and the significant costs of mounting a defense, create serious pressures on providers who are targets of false claims actions or investigations to settle. Therefore, an action under the Civil or Criminal False Claims Acts or Civil Money Penalties Law could have an adverse financial impact on the System, regardless of the merits of the case.

"Fraud and Abuse" Laws and Regulations. Federal law (known as the Anti-Kickback Law) prohibits the knowing and willful offer, solicitation, payment or receipt of remuneration in exchange for or as an inducement to make or influence a referral of a patient for goods or services, or the purchase, lease, order or arrangement for the provision of goods or services, that may be reimbursed under Medicare, Medicaid or other health benefit programs funded by the federal government. The scope of the Anti-Kickback Law is very broad, and it potentially implicates many practices and arrangements common in the health care industry, including space and equipment leases, personal services contracts, purchase of physician practices, joint ventures, and relationships with vendors. Penalties for violation of the Anti-Kickback Law include criminal prosecution, civil penalties of up to $50,000 per violation and damages of up to three times the amount of the illegal remuneration, as well as exclusion from the federal health care programs.

Safe harbor regulations describe certain payment practices that will be exempt from prosecution or other enforcement action under one of the federal laws prohibiting referrals in exchange for remuneration. In the fall of 2006, CMS added two new safe harbors to the existing anti-kickback regulations. One safe harbor protects certain arrangements involving the distribution of electronic prescribing technology to physicians and the other protects the provision of information technology necessary to create electronic health records. The new rule with respect to prescribing technology classifies technology necessary and used solely to receive and transmit any prescription information as protected non-monetary remuneration. The final safe harbor involving electronic health records software protects arrangements that provide physicians with information technology and training services necessary and used predominantly to create, maintain, transmit, or receive electronic health records.

Notable recent cases of fraud in other hospitals include billing for observation services, billing for unwarranted expenses and accounting fraud associated with submitted cost reports. As the exceptions are narrowly drawn, there can be no assurances that the System will not be found to be in violation of the Anti-

Kickback Law. If such a violation were found, any sanctions imposed could have a material adverse effect upon the future operations and financial condition of the System.

Restrictions on Referrals. Current federal law (the "***Stark Law***") prohibits a physician who has a financial relationship with an entity that provides certain health services from referring Medicare and Medicaid patients to that entity for the provision of such health services, with limited exceptions. These restrictions currently apply to referrals for a number of health services and goods, including clinical laboratory services, physical therapy services, occupational therapy services, radiology or other diagnostic services, durable medical equipment, radiation therapy services, parenteral and enteral nutrients, equipment and supplies, prosthetics, orthotics and prosthetic devices, home health services, outpatient prescription drugs, and inpatient and outpatient hospital services.

Unlike the Anti-Kickback Law, which is an intent-based statute, the Stark Law absolutely prohibits specific referral arrangements and the accompanying claims for payment from Medicare or Medicaid by the provider unless an exception applies. Sanctions for violations of the Stark Law include refunds of the amounts collected for services rendered pursuant to a prohibited referral, civil money penalties of up to $15,000 for each claim arising out of such referral, plus up to three times the reimbursement claimed, and exclusion from the Medicare and Medicaid programs. The Stark Law also provides for a civil penalty of up to $100,000 for entering into an arrangement with the intent of circumventing its provisions.

Because of the complexity of the Stark Law and the evolving nature of quality improvement and cost-reduction efforts, there can be no assurances that the System will not violate the Stark Law. If such a violation were found to have occurred, any sanctions imposed could have a material adverse effect upon the future operations and financial condition of the System.

Expanded Enforcement Activity. Congress enacted The Health Insurance Portability and Accountability Act of 1996 ("***HIPAA***") in August 1996 as part of a broad health care reform effort. Among other things, HIPAA established a program administered jointly by the Secretary of DHHS and the United States Attorney General designed to coordinate federal, state and local law enforcement programs to control fraud and abuse in connection with the federal health care programs. In addition, in HIPAA, Congress greatly increased funding for health care fraud enforcement activity, enabling the OIG to substantially expand its investigative staff and the Federal Bureau of Investigation to plan to quadruple the number of agents assigned to health care fraud. The result has been a dramatic increase in the number of civil, criminal and administrative prosecutions for alleged violations of the laws relating to payment under the federal health care programs, including the Anti-Kickback Law and the Civil and Criminal False Claims Acts. This expanded enforcement activity, together with the whistleblower provisions of the Civil False Claims Act, has significantly increased the likelihood that all health care providers, including the System, could face inquiries or investigations concerning compliance with the many laws governing claims for payment and cost reporting under the federal health care programs.

Emergency Medical Treatment and Active Labor Act. In 1986, Congress enacted the Emergency Medical Treatment and Active Labor Act ("***EMTALA***"), in response to allegations of inappropriate hospital transfers of indigent and uninsured emergency patients. EMTALA imposes strict requirements on hospitals in the treatment and transfer of patients with emergency medical conditions.

EMTALA requires hospitals to provide a medical screening examination to any individual who comes to the hospital's emergency department for treatment, without regard to ability to pay, to determine whether the individual suffers from an emergency medical condition within the meaning of EMTALA. A participating hospital may not delay providing a medical screening examination in order to inquire about method of payment or insurance status. If an emergency medical condition is present, the hospital must provide such additional medical examination and treatment as may be required to stabilize the emergency medical condition. If the hospital deems it in the best interest of the individual to transfer the individual to another medical facility, the

treating physician must execute a transfer certificate complying with the standards of EMTALA and must provide a medically appropriate transfer.

EMTALA imposes significant costs on hospitals, including the costs of treatment of individuals who may not be able to pay for required services, costs of development and implementation of protocols concerning medical screening examinations and stabilization and appropriate transfers and, in some cases, costs associated with assuring on-call availability of specialty physicians. In addition, the expansion of the requirements of EMTALA to off-campus departments may result in significant costs in the training of personnel and the development of protocols for screening, stabilization and transportation of patients.

If a hospital violates EMTALA, whether knowingly and willfully or negligently, it is subject to a civil money penalty of up to $50,000 per violation. Failure to satisfy the requirements of EMTALA may also result in termination of the hospital's provider agreement with Medicare. In addition, EMTALA creates a private cause of action for individuals who suffer personal harm as a result of an EMTALA violation, and for any hospital that suffers financial loss as a result of another hospital's violation of EMTALA. Enforcement activity with respect to EMTALA violations has increased dramatically in recent years, and because of the broad interpretation of the reach of EMTALA, there can be no assurance that the System will not have been found to have violated EMTALA, and if such a violation were found, that any sanctions imposed would not have a material adverse effect upon the future operations and financial condition of the System.

HIPAA's Administrative Simplification Provisions. In addition to the expanded enforcement activity noted above, the "Administrative Simplification" provisions of HIPAA mandate the use of uniform standard electronic formats for certain administrative and financial health care transactions, the adoption of minimum security standards for individually identifiable health information maintained or transmitted electronically, and compliance with privacy standards adopted to protect the confidentiality of personal health information. The Administrative Simplification provisions apply to health care providers, health plans, and healthcare clearinghouses (collectively "***Covered Entities***"). Various requirements of HIPAA apply to virtually all healthcare organizations, and significant civil and criminal penalties may result from a failure to comply with the Administrative Simplification regulations. Compliance requires changes in information technology platforms, major operational and procedural changes in the handling of data, and vigilance in the monitoring of ongoing compliance with the various regulations. The financial costs of compliance with the Administrative Simplification regulations are substantial.

Covered Entities are now required to conduct certain electronic transactions in compliance with the applicable transactions and code sets standards published by DHHS, and are also required to comply with the privacy regulations. Compliance with the electronic security regulations has been required since April 20, 2005. The System is actively engaged in maintaining compliance with the HIPAA regulations; however, in light of the complexity of the regulations, and the absence of further guidance from DHHS with respect to numerous provisions of the regulations, it is impossible to accurately assess the financial and operational impact HIPAA has on the System.

Patient Records and Confidentiality. HIPAA also established, among other things, a program to address the confidentiality and security of individuals' health information. Disclosure of certain broadly defined protected health information is prohibited unless expressly permitted under the provisions of the HIPAA statute and regulations or authorized by the patient. HIPAA's confidentiality and electronic data security requirements extend not only to patient medical records, but also to a wide variety of health care clinical and financial transactions where patient privacy restrictions often impose new communication, operational, accounting and billing restrictions. These add costs and create potentially unanticipated sources of legal liability.

HIPAA imposes civil monetary penalties for violations and criminal penalties for knowingly obtaining or using individually identifiable health information. The penalties range from $50,000 to $250,000 and/or imprisonment if the information was obtained or used with the intent to sell, transfer or use the information for commercial advantage, personal gain or malicious harm.

A 2006 regulation adopted by DHHS amends the existing rules relating to the investigation of noncompliance to make them apply to all of the HIPAA Administrative Simplification rules, rather than exclusively to the privacy standards.

Environmental Laws Affecting Health Care Facilities. Hospitals are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, hospital operations or facilities and properties owned or operated by hospitals. In their role as owners and/or operators of properties or facilities, hospitals may be subject to liability for investigating and remedying any hazardous substances that may be located on the property, including any such substances that may have migrated off the property. Typical hospital operations include the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants, or contaminants. For these reasons, hospital operations are particularly susceptible to the practical, financial, and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property, or the environment; may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines; or may trigger investigations, administrative proceedings, penalties or other governmental agency actions. There can be no assurance that the System will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the System.

Transparency in Pricing. Recent federal legislation has been introduced that would require states to publicly report hospital charges for inpatient and outpatient services. In August 2006, President Bush signed an executive order requiring the same public reporting of cost and quality data at four federal agencies. CMS, per the DRA, has made outcomes reporting a condition of Medicare participation going forward. These examples illustrate a trend in which hospitals will be required to divulge proprietary information to the general public in order to participate in federal programs. The disclosure of proprietary information may have a negative impact on the System's ability to gain advantages in negotiations with payors. This, in turn, could negatively influence the System's revenues. Due to the relative novelty of these requirements, it is impossible to predict the effect, if any, that cost and outcomes reporting will have on the System's finances.

Future Federal Legislation. Future legislation, regulation, or other actions by the federal government are expected to continue the trend toward reduced reimbursement for hospital services and more pervasive regulation of operations. At present, no determination can be made concerning whether, or in what form, such legislation could be introduced and enacted into law. Similarly, the impact of future cost control programs and future regulations upon the forecasted financial performance of the System cannot be determined at this time.

Any future changes to the Medicare and Medicaid programs could result in substantial reductions in the amounts of public and private payments to hospital providers, which could substantially reduce the revenues available to the System. Any reduction in the levels of payment in these government payment programs could substantially adversely affect the System's financial condition.

Medical Care Availability and Reduction of Error Act. In March 2002, the Commonwealth enacted the Medical Care Availability and Reduction of Error Act (the "***Mcare Act***"). The Mcare Act includes significant patient safety initiatives, professional liability tort reforms, professional liability insurance reforms, and administrative requirements. Although the new law was initially intended to address the malpractice insurance crisis that was developing in Pennsylvania, it was substantially revised by the Pennsylvania Senate before being signed into law, and the law as signed imposes numerous burdens on health care providers in the Commonwealth.

Under the Mcare Act, hospitals are required to develop and implement patient safety plans, appoint patient safety officers, form patient safety committees, and engage in mandatory reporting of serious events, incidents, and infrastructure failures in the hospital. Furthermore, hospitals are required to provide written notice to patients affected by serious events. Hospitals, ambulatory surgical centers, and birth centers are subject to

administrative fines of $1,000 per day for failure to comply with the patient safety requirements of the Mcare Act.

The Mcare Act also eliminated the Pennsylvania Medical Professional Liability Catastrophe Loss Fund (the "***CAT Fund***") and established the Medical Care Availability and Reduction of Error Fund (the "***Mcare Fund***"). The Mcare Fund provides coverage for professional liability claims in excess of a basic limit of insurance, and participation in the Mcare Fund is mandatory for licensed health care providers. The Mcare Act provides for the transition of all professional liability coverage from the Mcare Fund to commercial insurance by 2009. The liabilities of the CAT Fund, which are estimated at over two billion dollars, were transferred into the Mcare Fund and will be paid through the imposition of annual assessments on health care providers in the Commonwealth until such time as all liabilities are satisfied. The administrative provisions under the Mcare Act require physicians in the Commonwealth to report to the appropriate licensing board each time they are named in a lawsuit, and provide for additional civil penalties of up to $10,000 for violations of the Mcare Act by licensees. The administrative and financial burdens imposed on health care providers by the Mcare Act are substantial, and there can be no assurance that compliance with the Mcare Act will not have a material adverse effect upon the future operations and financial condition of the System.

Foreign Corrupt Practices Act. The Foreign Corrupt Practices Act (the "***FCPA***") prohibits corrupt payments to foreign officials for the purpose of obtaining or keeping business. The United States Department of Justice is the chief enforcement agency, with a coordinate role played by the Securities and Exchange Commission. The System may be subject to the FCPA in connection with its dealings with officials in foreign countries.

Regulatory Inquiries

The laws and regulations governing federal reimbursement programs and the laws governing the healthcare industry generally (such as the Civil and Criminal False Claims Acts, the Civil Money Penalties Law, the Anti-Kickback Law and the Stark Law) are complex and subject to varying interpretations, and the System is subject to contractual reviews and program audits in the normal course of business. Penalties for violations of federal regulations governing healthcare providers can be severe, including treble damages, fines, and suspension from federal reimbursement programs such as Medicare and Medicaid. Federal agencies have initiated nationwide investigations into several areas of concern, including, among others: (i) teaching hospitals, (ii) home healthcare services, (iii) investigational devices, (iv) laboratory billing, (v) cost reporting, and (vi) the FCPA. The System expects that the level of review and audit to which it and other healthcare providers are subject will increase. The System has compliance programs that are designed to detect and correct potential violations of laws and regulations applicable to its programs. Regulatory authorities have discretion to assert claims for noncompliance with applicable requirements based upon their interpretation of those requirements. Because these complex program requirements are subject to varying interpretations and because, in some instances (e.g., the Anti-Kickback Law, the Stark Law and the FCPA), there is little clear regulatory or judicial guidance, there can be no assurance that regulatory authorities will not challenge the System's compliance with these requirements and assert claims or penalties, and it is not possible to determine the impact (if any) any such claims or penalties would have upon the System.

Deficit Reduction Act of 2005 Quality Reporting Requirements

The Deficit Reduction Act of 2005 (the "***DRA***") includes significant new quality reporting initiatives for hospitals. Under the DRA, the System is required to submit quality performance measures. The penalty for hospitals not reporting quality measures is a reduction in federal funding.

The DRA has established requirements for states participating in the Medicaid program to impose obligations on health care providers and others that receive at least $5 million annually in Medicaid payments to establish written policies and procedures to educate their employees (and certain contractors and agents) and to

provide detailed information about the federal False Claims Act, the federal Program Fraud Civil Remedies Act, various other federal and state laws pertaining to civil or criminal penalties for false claims and statements, any whistleblower protections provided under such laws, the role of such laws in preventing and detecting fraud, waste and abuse, and the provider (or other party's) policies and procedures that are in place for the prevention and detection of fraud, waste and abuse. Additionally, covered health care providers and other applicable parties are required to make specific revisions to their existing employee handbooks to incorporate the above items, and to specifically disseminate pertinent information regarding these items to all employees and certain categories of contractors and agents making sure that covered contractors and agents agree to the adoption of certain policies and procedures. These DRA mandates went into effect on January 1, 2007, although additional federal and/or state guidance regarding compliance with these mandates is expected to be forthcoming. Because compliance with these DRA requirements is a condition of payment under Medicaid, providers and other covered parties that do not adequately update their compliance policies, handbooks and other training materials or otherwise abide by these requirements run the risk of losing their entitlement to receive Medicaid reimbursements to which they otherwise would be entitled and/or risk potential liability under the False Claims Act and other federal and state fraud and abuse authorities.

Tax-Exempt Status of Interest on the Bonds

The Code imposes a number of requirements that must be satisfied for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds of the Bonds, limitations on the investment earnings of proceeds of the Bonds prior to expenditure, a requirement that certain investment earnings on proceeds of the Bonds be paid periodically to the United States, and a requirement that the Authority file an information report with the IRS. The Authority, to the extent so required, and the Corporation have covenanted in the documents relating to the Bonds, that they will comply with such requirements. Future failure by the Corporation to comply with the requirements stated in the Code and related regulations, rulings and policies may result in the treatment of interest on the Bonds as taxable, retroactively to the date of issuance. In such event, the Bond Indenture does not contain any specific provision for mandatory acceleration of the Bonds nor does it provide that any additional interest will be paid to the holders of the Bonds.

Future legislation, if enacted into law, may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislation may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any pending or proposed federal tax legislation.

Internal Revenue Service officials have recently indicated that more resources will be invested in audits of tax-exempt bonds in the charitable organization sector with specific review of private use. In addition, the Internal Revenue Service has sent several hundred post-issuance compliance questionnaires to nonprofit corporations that have borrowed on a tax-exempt basis regarding their post-issuance compliance with various requirements for maintaining the federal tax exemption of interest on their bonds. The questionnaire includes questions relating to the borrower's (i) record retention, which the IRS has particularly emphasized, (ii) qualified use of bond-financed property (iii) arbitrage yield restriction and rebate requirements, (iv) debt management policies and (v) voluntary compliance and education.

The opinion of Bond Counsel with respect to the Bonds represents Bond Counsel's judgment as to the proper treatment of interest on the Bonds for federal income tax purposes. It is not binding on the IRS or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Corporation or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof, or the enforcement thereof by the IRS.

Tax-Exempt Status of the Corporation and Subsidiary Hospitals

The tax-exempt status of the Bonds presently depends upon the maintenance by the Corporation and its Subsidiary Hospitals that receive proceeds of the Bonds of their status as organizations described in Section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation for charitable and educational purposes and their avoidance of transactions which may cause their earnings or assets to inure to the benefit of private individuals. As these general principles were developed primarily for public charities which do not conduct large-scale technical operations and business activities, they often do not adequately address the myriad of operations and transactions entered into by modern health care organizations.

In order to retain tax-exempt status under Section 501(c)(3) of the Code, a hospital must satisfy a "community benefit" standard, set out initially in IRS Revenue Ruling 69-545, issued in 1969, and refined in Revenue Ruling 83-157, issued in 1983. The standard is applied on a facts and circumstances basis, and there is no bright-line test that determines when the standard is met. Elements include the operation of an emergency

room open to all regardless of ability to pay; participation in public programs, such as Medicare and Medicaid; use of revenues to support medical training, research and education; an open medical staff policy; and a board drawn from the community. While the standard does not specifically require the provision of medical care to indigents outside the emergency room context, this may be an important factor in the analysis. At the federal level, the IRS has ruled in Revenue Ruling 69-545 that the tax-exempt status of non-profit hospitals is not dependent upon their acceptance of patients who cannot pay. This holding may also apply to other healthcare facilities. It is also possible that future legislative, administrative or judicial proceedings will have the effect of requiring the System to increase its services to indigent patients to retain its tax-exempt status. Increased services to indigent patients could have an adverse effect on the revenues of the System. With increasing frequency, the IRS has imposed substantial monetary penalties and future charity care or public benefit obligations on tax-exempt organizations that own and operate hospitals in lieu of revoking tax-exempt status, as well as requiring that certain transactions be altered, terminated or avoided in the future and/or requiring governance or management changes. These penalties and obligations typically are imposed on the tax-exempt organization pursuant to a "closing agreement." The System may be at risk for incurring monetary and other liabilities imposed by the IRS. These liabilities could be materially adverse.

In recent years, the IRS has issued a number of formal and informal statements of policy and interpretation that have increased uncertainty over the IRS's position on a wide variety of activities commonly undertaken by health care organizations. As a result, tax-exempt hospitals and other providers currently are subject to an increased degree of scrutiny and potential enforcement by the IRS concerning transactions with physicians. The IRS has also recently increased the frequency and scope of its audit and other enforcement activity regarding tax-exempt health care organizations. The primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in inurement or unlawful private benefit or a violation of certain regulations or rulings is the revocation of tax-exempt status. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of tax-exempt organizations that own and operate hospitals, it could do so in the future.

As an alternative or in addition to such revocation in instances involving inurement or unlawful private benefit, the IRS may impose intermediate sanctions against persons related to the exempt organization. In 1996, Congress enacted legislation creating a monetary penalty for use by the IRS as an alternative to revoking an organization's exempt status. The monetary penalty, referred to as intermediate sanctions, may be made against certain individuals or entities who receive "excess benefits" from an exempt organization or who participate in an excess benefit transaction. The intermediate sanctions law defines an "excess benefit transaction" to mean (1) a transaction in which an economic benefit is provided directly or indirectly to or for the use of a disqualified person; (2) by certain tax-exempt organizations; (3) if the value of the economic benefit provided to the disqualified person exceeds the value of the consideration (including the performance of services) received for such benefit. The term "disqualified person" includes any person who was in a position to exercise substantial influence over the affairs of an organization.

The loss of tax-exempt status by the Corporation or any Subsidiary Hospital receiving proceeds of the Bonds could result in loss of tax-exemption of interest on the Bonds retroactively to the date of issuance, and defaults in covenants regarding the Bonds would likely result. Loss of tax-exempt status could also result in substantial tax liabilities on income of the System. For these reasons, loss of the tax-exempt status of the Corporation or any Subsidiary Hospital receiving proceeds of the Bonds could have a material adverse effect on the financial condition of the System.

Other Legislative and Regulatory Actions

The System is subject to regulation, certification and accreditation by various federal, state and local government agencies and by certain nongovernmental agencies such as The Joint Commission and the American Medical Association. No assurance can be given as to the effect on future hospital operations of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards.

Legislative proposals which could have an adverse effect on the System include: (a) any change in the taxation of not-for-profit corporations or in the scope of their exemption from income or property taxes; (b) limitations on the amount or availability of tax-exempt financing for charitable organizations described in Section 501(c)(3) of the Code; (c) regulatory limitations affecting the ability of the System to undertake capital projects or develop new services; and (d) a requirement that not-for-profit health care institutions pay real estate property tax and sales tax on the same basis as for-profit entities.

Healthcare reform has been identified as a priority by business leaders, public advocates, political leaders and candidates for office at the federal, state and local levels. Proposals include: (1) establishing universal healthcare coverage or purchasing pools; (2) modifying how hospitals, physicians and other healthcare providers are paid; and (3) evaluating hospitals, physicians and other healthcare providers on a variety of quality and efficacy standards to support pay-for-performance systems. See the section captioned "Healthcare Reform" above. Other initiatives affecting hospitals as major employers include: (1) imposing higher minimum or living wages; (2) enhancing occupational health and safety standards; and (3) penalizing employers of undocumented immigrants. Legislation or regulation on any of the above or related topics could have a material adverse effect on the System.

Antitrust

The System, like other providers of health care services, is subject to antitrust laws. Those laws generally prohibit agreements that restrain trade and prohibit the acquisition or maintenance of a monopoly through anticompetitive practices. The legality of particular conduct under the antitrust laws generally depends on the specific facts and circumstances and cannot be predicted in advance. Antitrust actions against health care providers have become increasingly common in recent years. Antitrust liability can arise in a number of different contexts, including medical staff privilege disputes, third-party payor contracting, joint ventures and affiliations between health care providers, and mergers and acquisitions by health care providers. Actions can be brought by federal and state enforcement agencies seeking criminal and civil penalties and, in some instances, by private plaintiffs seeking damages for harm from allegedly anticompetitive behavior.

Recent judicial decisions have permitted physicians who are subject to disciplinary or other adverse actions by a hospital at which they practice, including denial or revocation of medical staff privileges, to seek treble damages from the hospital under the federal antitrust laws. The Federal Health Care Quality Improvement Act of 1986 provides immunity from liability for discipline of physicians by hospitals under certain circumstances, but courts have differed over the nature and scope of this immunity. In addition, hospitals occasionally indemnify medical staff members who incur costs as defendants in lawsuits involving medical staff privilege decisions. Recent court decisions have also permitted recovery by competitors claiming harm from a hospital's use of its market power to obtain unfair competitive advantage in expanding into ancillary health care businesses. Antitrust liability in any of these contexts can be substantial, depending upon the facts and circumstances involved.

In 1983, the United States Department of Justice and the Federal Trade Commission issued "Statements of Antitrust Enforcement Policy in the Health Care Area" and these statements have been revised from time to time. The statements generally describe certain analytical principles which the agencies will apply to certain factual situations and also establish certain "antitrust safety zones". Conduct within the safety zones will not be challenged by the agencies, absent extraordinary circumstances. Many activities frequently engaged in by health care providers fall outside of the zones but are not challenged, and failure to fall within a safety zone does not mean that a participant will be investigated or prosecuted, or even that the activity violated the antitrust laws. There cannot be any assurances that enforcement authorities or private parties will not assert that the System, or any transaction in which it is involved, is in violation of the antitrust laws.

Licensing, Surveys and Accreditations

Health care facilities, including the System, are subject to numerous legal, regulatory, professional and private licensing, certification and accreditation requirements. Those requirements include, but are not limited to, requirements relating to Medicare and Medicaid participation and payment, state licensing agencies, private payors, The Joint Commission, the National Labor Relations Board and other federal, state and local government agencies. Renewal and continuance of certain of these licenses, certifications and accreditations is based on inspections, surveys, audits, investigations or other reviews. These activities are generally conducted in the normal course of business of health care facilities. Nevertheless, an adverse result could be the cause of loss or reduction in a facility's scope of licensure, certification or accreditation, which in turn could reduce payments received. The System currently expects to renew or maintain all material currently held licenses, certifications and accreditations. However, there can be no assurance that the requirements of present or future laws, regulations, certifications, and licenses will not materially and adversely affect the operations of the System.

Medical Professional Liability Insurance Market

Deteriorating underwriting results have generated substantial premium increases and coverage reductions in the medical professional liability insurance marketplace in recent years. A rise in claim severity nationwide coupled with the lower investment returns available to insurers have resulted in substantial reductions in medical professional liability insurance capacity. Several major medical professional liability insurance carriers have been forced into rehabilitation and/or liquidation, or have voluntarily withdrawn from this line of business. The insurance carriers who are still writing medical professional liability coverage are requiring substantial premium increases, reductions in the breadth of coverage afforded by the policy(ies), more stringently enforced policy terms, and increases in required deductibles or self-insured retentions. Health care entities that have self-funded programs are also experiencing similar difficulties with respect to fronting carriers, reinsurance on their captive insurance companies and/or with respect to insurance placements in excess of the primary coverage layers. Furthermore, insurance carrier insolvencies are forcing health care providers to either repurchase insurance coverage from new carriers at substantially higher rates, or self insure exposures for which they had previously purchased insurance. The effect of these developments has been to increase the operating costs of hospitals. In addition, the dramatic increase in the cost of professional liability insurance may have the effect of causing established physicians to leave the most heavily affected geographical regions, including Pennsylvania, and of preventing new physicians from establishing their practices in the System's region. There can be no assurance that the unpredictability and increasing severity of jury awards and claims payouts, the reduction of coverage availability, and/or the rising cost of professional liability insurance coverage will not adversely affect the operations or financial condition of the System.

Insurance Coverage Limits

The System may be required to maintain prescribed levels of professional liability and property hazard insurance. The System believes that present insurance coverage limits are sufficient to cover any reasonably anticipated malpractice or property hazard exposures. No assurance can be given, however, that the System will always be able to procure or maintain such levels of insurance in the future.

The System is occasionally named as a defendant in malpractice actions and there remains a risk that individual or aggregate judgments or settlements will exceed the System's coverage limits, or that some allegations or damages will not be covered by the System's existing insurance coverages. To the extent that the professional liability insurance coverage maintained by the System is inadequate to cover settlements or judgments against it, claims may have to be discharged by payments from current funds and such payments could have a material adverse impact.

Nursing Shortage

The health care industry is facing a nationwide shortage of nursing professionals, including registered nurses. Nurses are leaving the profession citing stress, irregular working hours, high nurse to patient ratios, deteriorating working conditions, and low morale as some of the reasons. Additionally, the average age of the existing workforce has risen substantially over the last two decades. As a result of these factors, the health care industry is facing a severe nursing shortage. A shortage of nursing staff could result in escalating labor costs, delays in providing care, and patient care management issues, among other adverse effects. Although legislation has been introduced at both the state and federal level to mitigate the impact of the existing and projected nursing shortages, there can be no assurance that a nursing shortage will not adversely affect the operations or financial condition of the System.

Fluctuations in Market Value of Investments

Earnings on its investments provide the System an important source of funds to support its programs and services, to finance its capital expenditures and to build its cash reserves. The current market is unstable and the value of the System's investment securities have fluctuated and, in some instances, the fluctuations have been significant. No assurances can be given that the market value of the System's investments will not decline in the future. Any such decline could adversely affect the financial condition of the System.

Changes in market interest rates and fluctuations in the value of investment securities also potentially could have an impact on the System's pension fund liabilities and its requirements for funding its related pension expenses. Like any other entity with pension fund liabilities, the System finds that increases or decreases in interest rates have an impact on the assumed earnings rates on pension assets needed to match pension fund liabilities, which accordingly affects the levels of actuarial pension investment assets required to meet future pension obligations. Consequently, any decline in long-term interest rates or the value of investment securities could have the effect of increasing the System's current pension funding requirements. No assurance can be given that the System will not be required to make increased pension funding payments.

Potential Effects of Bankruptcy

If the System were to file a petition for relief under the federal Bankruptcy Code, the filing would act as an automatic stay against the commencement or continuation of judicial or other proceedings against the petitioner and its property.

Any petitioner for relief may file a plan for the adjustment of its debts in a proceeding under the federal Bankruptcy Code which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by the court, would bind all creditors who had notice or knowledge of the plan and discharge all claims against the petitioner provided for in the plan. No plan may be confirmed unless certain conditions are met, including that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims will be deemed to have accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the allowed claims of the class that are voted with respect to the plan are cast in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Derivative Products

The System has used, and may in the future use, various derivative contracts in connection with certain prior obligations and investments. Although minimum credit ratings are required for counterparties, this does not eliminate the risk that a counterparty may fail to honor its obligations.

Derivative contracts are subject to periodic "mark-to-market" valuations. A derivative contract may, at any time, have a positive or negative value to the System. In the event that the negative value reached certain thresholds established in the derivative contracts, under certain derivative contracts, the System is required to post collateral, which could adversely affect its liquidity. In addition, if the System were to choose to terminate a derivative contract or if a derivative contract were terminated pursuant to an event of default or a termination event as described in the derivative contract, the System could be required to pay a termination payment to the counterparty, and such payment could adversely affect the System's financial condition.

Enforceability of Certain Covenants

The 1995 MTI Note is an obligation of the 1995 Obligated Group issued under the 1995 Master Indenture secured by a gross revenue pledge of the 1995 Obligated Group. The 2007 MTI Note is an obligation of the 2007 Obligated Group issued under the 2007 Master Indenture secured by a gross revenue pledge of the 2007 Obligated Group. No facilities or other assets of the 1995 Obligated Group or the 2007 Obligated Group are pledged as security for the Bonds. The practical realization of value upon any default will depend upon the exercise of various remedies specified in the 1995 Master Indenture or 2007 Master Indenture, as applicable, and in the Bond Indenture and the Loan Agreement. These and other remedies may, in many respects, require judicial actions which are often subject to uncertainty, expense, discretion and delay. The various legal opinions to be delivered concurrently with the delivery of the Bonds will contain customary qualifications as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies and by bankruptcy, reorganization, fraudulent conveyances, or other laws affecting the enforcement of creditors' rights generally.

There exists common law authority and authority under state statutes for the ability of the courts to terminate the existence of a nonprofit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes. Such a court action may arise on the court's own motion or pursuant to a petition of a state attorney general or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

Facilities

The facilities of the System are not general-purpose buildings and generally would not be suitable for industrial or commercial use. Such facilities are not pledged as security for the 1995 MTI Note, the 2007 MTI Note or the Series Bonds. It could be difficult to find a buyer or lessee for such facilities, and any such sale or lease may not realize an amount equal to the aggregate liabilities of the 1995 Obligated Group or 2007 Obligated Group, as applicable (including liabilities in respect of the defaulted bonds then outstanding) whether pursuant to a judgment against any Subsidiary Hospital, the System or otherwise.

Factors Affecting Real Estate Tax Exemption

In recent years various State and local legislative, regulatory and judicial bodies have reviewed the exemption of nonprofit corporations from real estate taxes. Various state and local government bodies have challenged with increasing frequency and success the tax-exempt status of such institutions and have sought to remove the exemption of property from real estate taxes of part or all of the property of various nonprofit institutions on the grounds that a portion of such property was not being used to further the charitable purposes of the institution. Several of these disputes have been determined in favor of the taxing authorities or have resulted in settlements. No assurance can be given that the System will retain its real estate tax exemptions without challenge throughout the term of the Bonds.

Competition and Integrated Delivery Systems

One of the primary effects of health care reform has been an increase in competition among providers and the initiation of alternative forms of health care delivery. The System could face additional competition in the future from other hospitals, providers and managed care organizations offering similar or new services to the population now being served by the System. This could include the initiation of new health care services and the construction or renovation of hospitals, skilled nursing or subacute care facilities; primary care centers staffed by physicians; ambulatory surgical centers; and private laboratories and imaging centers. Alternative and new forms of health care services are being pursued by providers and payors as a way to reduce costs and improve quality and utilization controls. No assurance can be given that activities of other providers or managed care organizations will not adversely affect the operations or financial condition of the System.

Consolidation of Health Care Market

The health care market has become increasingly dynamic and competitive in recent years. The challenges presented by the movement towards managed care and the uncertainties as to the appropriate response have led health care providers to explore affiliations of various forms and types. Some providers have merged or entered into direct affiliation or similar agreements, leading to predictions by some observers of a significant consolidation in the market to a limited number of networks or systems of health care providers. Other types of relationships are being explored, however, not only with other providers but also with health care insurers. In response to this changing health care market the System continuously conducts discussions with third parties relating to possible additional affiliations and strategic alliances. Any strategic affiliations resulting from such discussions could involve an investment by and/or expense to the System.

Limitations on Security Interests in the Members of the Obligated Group's Revenues

The effectiveness of the security interest in the Gross Revenues of the members of the 1995 Obligated Group and the 2007 Obligated Group, respectively, created by the 1995 Master Indenture and the 2007 Master Indenture, respectively (the "***Gross Revenues***"), may be limited by a number of factors, including: (1) provisions of the Social Security Act that may limit the ability of the Bond Trustee to enforce directly the security interest in any of the Gross Revenues in the form of reimbursement due under the Medicare and Medicaid programs and any other statutory or contractual provisions, grant award conditions, regulations or judicial decisions which may have a comparable effect with respect to any of the Gross Revenues in the form of governmental appropriations, or governmental or private research services; (2) commingling of some or all of the Gross Revenues and other moneys of the members of the applicable Obligated Group not so pledged; (3) present and future statutory liens; (4) rights arising in favor of the United States of America or any agency thereof; (5) rights of third parties in revenues not yet expended; (6) constructive trusts, and equitable or other rights impressed or conferred by federal or state courts in the exercise of equitable jurisdiction; (7) the factors described above under "Enforceability of Obligations Under the Federal Bankruptcy Code"; and (8) rights of third parties in Gross Revenues not in possession of the Bond Trustee.

Additional Debt

The 2007 MTI permits additional indebtedness to be incurred by the Corporation and the other members of the 2007 Obligated Group, and permits additional indebtedness to be secured by additional obligations issued under the 2007 MTI that will be on a parity with the 2007 MTI Note securing the Bonds. See "2007 MASTER INDENTURE – Additional MTI Debt" in APPENDIX C hereto.

Sale, Lease and Disposition of Property; Liens on Property

The 2007 MTI contains restrictions on the ability of the Corporation and the other members of the 2007 Obligated Group to encumber or transfer property. See the information in APPENDIX C under the caption "2007 MASTER INDENTURE – Sale or Other Disposition of Property" and "—Liens on Property".

Amendments and Supplements to 2007 MTI, Bond Indenture and Loan Agreement

Certain amendments to the Bond Indenture and the Loan Agreement may be made with the consent of less than all of the holders of the Bonds, and in some cases without the consent of any of the holders of the Bonds. Certain amendments to the 2007 MTI may be made with the consent of less than all of the holders of the obligations issued thereunder, and in some cases without the consent of any of the holders of such obligations. Such amendments may adversely affect the security of owners of the Bonds. See "2007 MASTER INDENTURE – Supplemental Master Indentures without Consent of Holders" and "—Modification of 2007 Master Indenture with Consent of Holders" in APPENDIX C hereto.

Other Factors

In the future, the following factors, among others, may adversely affect the operations of the System and other health care providers to an extent that cannot be determined at this time:

1. Employment risks including strikes and other related work actions, contract disputes, discrimination claims, personal tort actions, work-related injuries, exposure to hazardous materials, and other risks that may flow from the relationships between employer and employee or among physicians, patients and employees.

2. The fact that the System includes teaching hospitals is of considerable importance in attracting patients and highly qualified and skilled physicians. Consequently, any adverse change in the System's relationship with the School of Medicine of the University or loss of approved status for the System's residency programs could have a significant adverse effect on the System's revenues.

3. Occurrences of natural disasters or acts of terrorism which could damage some or all of the facilities, interrupt utility service to some or all of the facilities or otherwise impair the operation of some or all of the facilities operated by the System or the generation of revenues from some or all of such facilities.

4. Reduced need for hospitalization or other services arising from increased utilization management by third party payors or from future medical and scientific advances.

5. Reduced demand for the services provided by the System that might result from decreased population.

6. Imposition of wage and price controls for the health care industry.

7. Increased unemployment or other adverse economic conditions in the service area of the System which would increase the proportion of patients who are unable to pay fully for the cost of their care.

8. Any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the Subsidiary Hospitals.

9. Efforts by insurers and governmental agencies to limit the cost of hospital services, to reduce the number of beds and to reduce the utilization of hospital facilities by such means as preventive medicine, improved occupational health and safety measures and increased outpatient care.

10. Regulatory actions which might limit the ability of the System to undertake capital improvements to its facilities or to develop new institutional health services.

11. Decreased availability or receipt of grants, or in receipt of contributions or bequests.

12. Inflation, deflation or other adverse economic conditions.

13. Cost and availability of energy.

14. Potential depletion of the Medicare trust fund.

15. A reduction in hospitalization trends as a result of fewer inpatient admissions and shorter lengths of stay for those who are admitted and cost containment by third party payors effectuated by reviewing and questioning the need for certain inpatient admissions and length of hospital stays.

16. Developments adversely affecting the federal or state tax-exemption of municipal bonds.

THE BOND TRUSTEE AND THE MASTER TRUSTEE

The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania is serving as Bond Trustee, registrar and authentication, transfer, paying and tender agent for the Bonds and the Owners thereof. The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania, is also serving as Master Trustee under the 1995 Master Indenture and the 2007 Master Indenture, respectively.

The obligations of the Bond Trustee and the Master Trustee are set forth in the Bond Indenture, the 1995 Master Indenture and the 2007 Master Indenture, respectively. The Bond Trustee and the Master Trustee have undertaken only those duties and obligations which are expressly set forth in the Bond Indenture, the 1995 Master Indenture and the 2007 Master Indenture, respectively. In carrying out the terms of the Bond Indenture, the 1995 Master Indenture, and 2007 Master Indenture, the Bond Trustee and the Master Trustee are not acting in any fiduciary capacity; the Bond Trustee and the Master Trustee act only for their own respective interests, rather than on behalf of the holders or prospective holders of the Bonds. After issuance of the Bonds, the Bond Trustee and the Master Trustee act only pursuant to the specific terms of the Bond Indenture and the applicable Master Indenture, respectively. The Bond Trustee and the Master Trustee have not independently passed upon the validity of the Bonds, the security for the payment thereof, the value or condition of any assets pledged to the payment thereof, the adequacy of the provisions for such payment, the status for federal or state income tax purposes of the interest on the Bonds, or any other matter with respect to the issuance of the Bonds.

MATERIAL LITIGATION

The Authority. Except as described in the next paragraph, there is no litigation pending or, to the best of the Authority's knowledge, threatened against the Authority questioning the Authority's sale, issuance, execution, delivery or payment of the Bonds; the Authority's execution, delivery or performance of the Loan Agreement or the Bond Indenture; the organization, powers or authority of the Authority; or the right of the officers of the Authority to hold their respective offices.

On January 12, 2010, a group of residents of Allegheny County, Pennsylvania (the "***County***") filed a statutory appeal (S.A. No. 10-000038) (the "***Statutory Appeal***") in the Civil Division of the Court of Common Pleas of the County. The Statutory Appeal requests the Court to hold a de novo hearing for the purpose of having Resolution 44-09-RE adopted by the County Council of the County on December 17, 2009 (the "***County Resolution***") invalidated and to reverse the determinations and declarations made therein. Section 5607(b)(2) of the Municipality Authorities Act provides an exception for hospital projects or health centers to the Act's general prohibition of an authority financing projects which duplicate or compete with existing enterprises serving substantially the same purpose if the municipality organizing the authority declares by resolution or ordinance that it is desirable for the health, safety and welfare of the people served by such facilities to have such facilities financed through an authority. The County Resolution declared that it is desirable for the health, safety and welfare of the people of the County to have the Project financed through the Authority. The County believes that the Statutory Appeal has no legal merit and filed a Motion to Dismiss the Statutory Appeal with the

Court of Common Pleas of Allegheny County (the "***Court***") on January 29, 2010. By order of the Court, an argument on the County's Motion to Dismiss the Statutory Appeal was scheduled for March 25, 2010. The County Solicitor issued an opinion that the Statutory Appeal has no legal merit on March 24, 2010.

The Corporation. There is no litigation or proceeding pending or, to the knowledge of management of the Corporation, threatened against the Corporation except (i) litigation in which the probable recoveries will be entirely within the Corporation's applicable insurance policy limits (subject to applicable deductibles) or are not in excess of the total reserves held under its applicable self-insurance program, if any, and (ii) litigation in which the probable recoveries would not have a materially adverse effect on the operations or condition, financial or otherwise, of the Corporation. There is no litigation pending or, to the knowledge of management of the Corporation, threatened which questions in any manner the validity or enforceability of the Loan Agreement, the 1995 MTI Note, or the 2007 MTI Note.

On January 25, 2010, an At-Large Member of Allegheny County Council, without the authority of Council (the "***Original Plaintiff***"), filed a Complaint and parallel Motion for Emergency Temporary/Preliminary Injunction in the Civil Division of the Court of Common Pleas of Allegheny County against the Corporation and the Master Trustee. The Complaint and Motion sought, among other things, a declaratory judgment that the closing of UPMC Braddock Hospital on January 31, 2010 would violate various sections of the 2007 Master Indenture and an injunction preventing the closing of UPMC Braddock Hospital. A Petition to Intervene was filed by a resident of the Borough of Braddock, and by the Borough of Braddock (collectively, the "***Intervenors***"). The Corporation subsequently filed Preliminary Objections to the Complaint, an Opposition to Plaintiff's Motion for a Preliminary Injunction, and other proceedings. On January 29, 2010, the Court granted the petition of the Intervenors to intervene, and ruled that the Original Plaintiff lacked standing to bring the suit. The Court further ruled, among other things, that the 2007 Master Indenture does not require the Corporation to keep the hospital open. The Court granted the Corporation's Preliminary Objections and its Motion to Dismiss the Complaint and also dismissed the Motion for Emergency Temporary/Preliminary Injunction. On February 1, 2010, the Original Plaintiff attempted to file a Notice of Appeal with the Pennsylvania Supreme Court. On February 9, 2010, the Supreme Court transferred the case to the Pennsylvania Superior Court. The Corporation believes that any appeal has no merit and intends to take appropriate action to fight any appeal. On February 17, 2010, the Original Plaintiff, as attorney for certain individual plaintiffs, filed a similar lawsuit seeking the reopening of UPMC Braddock Hospital and challenging the Corporation's tax-exempt status under Pennsylvania law. The Corporation likewise views this action as being without merit and will aggressively defend it.

TAX EXEMPTION AND OTHER TAX MATTERS

In connection with the initial issuance of the Bonds, Houston Harbaugh, P.C., Pittsburgh, Pennsylvania, Bond Counsel, issued the opinion attached hereto as APPENDIX D.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. At the time of the initial issuance of the Bonds, the Authority and Corporation made certain representations and covenanted to comply with certain restrictions, conditions and requirements designated to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in the gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumed the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisers regarding any federal, state or local tax implications with respect to the Bonds.

CONTINUING DISCLOSURE UNDERTAKING

To comply with the requirements of Rule 15c2-12 (the "***Rule***") promulgated by the Securities and Exchange Commission, the Corporation has undertaken in a written agreement (the "***Disclosure Agreement***") to provide to a Dissemination Agent (who is, initially, Digital Assurance Certification, L.L.C., "***DAC***") in a timely manner after the end of each fiscal year of the Corporation, commencing with the fiscal year ending June 30, 2007, certain financial and operating data (referred to herein as "***Annual Information***"), including its annual financial statements prepared in accordance with generally accepted accounting principles, which may be the combined or consolidated financial statements of the System. The Dissemination Agent will file the Annual Information with each nationally recognized municipal securities information repository designated by the Securities and Exchange Commission (the "***Repository***"), and if and when one is established, a Commonwealth of Pennsylvania information depository (the "***State Information Depository***"). The Disclosure Agreement is executed and delivered by the Corporation for the benefit of the owners and Beneficial Owners of the Bonds and in order to assist the Participating Underwriter (as defined in the Disclosure Agreement) in complying with the Rule. The Authority has undertaken no responsibility with respect to any reports, notices or information provided or required under the Disclosure Agreement, and has no liability to any person, including any owner or Beneficial Owner of the Bonds, with respect to any such reports, notices or disclosures.

If, and only if and to the extent that it receives the Annual Information, the Dissemination Agent will provide such information and financial statements, as soon as practicable but in no event later than three business days after receipt thereof, to each Repository and to the State Information Depository, if any. In addition, the Dissemination Agent will provide to each Repository or to the Municipal Securities Rulemaking Board ("***MSRB***"), and to the State Information Depository, in a timely manner, the notices required to be provided by the Rule.

Annual Information. The Annual Information shall consist of audited combined or consolidated financial statements of the System prepared in accordance with generally accepted accounting principles. In addition, the Corporation has covenanted to provide in a timely manner to the Dissemination Agent, who shall thereafter provide such notice to each repository, notice of failure to provide the required Annual Information on or before the date specified in the Disclosure Agreement.

Quarterly Information. Although not required by the Rule, the Corporation will also agree in the Disclosure Agreement to provide quarterly financial and operating data of the System to the Dissemination Agent. The quarterly information will be delivered by the Corporation to the Dissemination Agent within 60 days of the end of each quarter of the fiscal year. The quarterly information (which will be unaudited) includes information relating to consolidated utilization statistics, sources of revenues and consolidated financial information (including combining or consolidating divisional income statements).

Material Event Notices. The notices required to be provided by the Rule, which the Dissemination Agent will undertake to provide as described above, include notices of any of the following events with respect to the Bonds, if material: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancement reflecting financial difficulties; (5) substitution of a credit enhancer or liquidity provider, or its failure to perform; (6) adverse tax opinions or events affecting the tax-exempt status of the Bonds; (7) modification to the rights of registered or beneficial owners of the Bonds; (8) bond redemptions (other than mandatory or sinking fund redemptions); (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds; and (11) rating changes.

Limitations and Amendments. The Corporation has agreed to update information and to provide notices of material events only as described above. The Corporation does not make, and expressly disclaims, any representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date.

The Disclosure Agreement may be amended to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the Corporation. The Corporation may also amend or repeal the Disclosure Agreement if the applicable provisions of the Rule are repealed or a final court judgment is entered that the provisions are invalid, or in any other circumstance or manner, if the agreement, as supplemented or amended, would permit a purchaser to purchase the Bonds in the offering made hereby in compliance with the Rule.

The sole and exclusive remedy for breach or default under the Disclosure Agreement described above is an action to compel specific performance of the undertakings of the Dissemination Agent and the Corporation and no person, including a holder of the Bonds, may recover monetary damages thereunder under any circumstances. A breach or default under the Disclosure Agreement shall not constitute an Event of Default under the Bond Indenture or under the Loan Agreement. The obligations of the Corporation and the Dissemination Agent may be terminated if the Corporation is no longer an "obligated person" as defined in the Rule. In addition, if all or any part of the Rule ceases to be in effect for any reason, then the information required to be provided under the Disclosure Agreement, insofar as the provision of the Rule no longer in effect required the provision of such information, shall no longer be required to be provided.

The Corporation has complied with all of its prior continuing disclosure obligations under the Rule to the best of its knowledge.

RATINGS

The Bonds have been assigned a rating of "Aa3" by Moody's Investors Service, Inc. ("***Moody's***"), a rating of "A+" by Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc ("***Standard & Poor's***"), and a rating of "AA-" by Fitch Ratings ("***Fitch***"). Any explanation of the significance of such ratings must be obtained from Moody's, Standard & Poor's and Fitch. No application has been made to any other rating agency in order to obtain additional ratings on the Bonds. The ratings are not a recommendation to buy, sell or hold the Bonds, and each rating should be evaluated independently. There is no assurance that such ratings will not be withdrawn or revised downward by Moody's, Standard & Poor's or Fitch. Such action, if taken, could have an adverse effect on the market price of the Bonds.

Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies and assumptions by the ratings agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely, if, in the judgment of the agency originally establishing the rating, circumstances so warrant. The Authority and the Corporation have undertaken no responsibility to bring to the attention of the owners of the Bonds any proposed revision or withdrawal of the rating of the Bonds or to oppose any such proposed revision or withdrawal. Any such change or withdrawal of such rating could have an adverse effect on the market price of the Bonds.

INDEPENDENT AUDITORS

The audited consolidated financial statements of the Corporation as of June 30, 2009 and 2008, and for the fiscal years then ended, appearing in Appendix B to this Disclosure Memorandum, have been audited by Ernst & Young LLP, independent auditors, as stated in their report also appearing in Appendix B.

INTERIM FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements of the Corporation for the periods ended December 31, 2009 and 2008 are included in APPENDIX E hereto. The unaudited consolidated interim financial statements were prepared by management of the Corporation in accordance with accounting principles generally accepted in the United States (GAAP). The unaudited interim consolidated financial statements for the Corporation should be read in conjunction with the audited consolidated financial statements, related notes, and other financial information included in this Disclosure Memorandum, including the Appendices. The

unaudited interim financial statements for the periods ended December 31, 2009 and 2008 are not necessarily indicative of the results for the full fiscal year.

FINANCIAL ADVISOR

Melio & Company, LLC, Northfield, Illinois, has been engaged by the Corporation to provide various financial advisory services. Melio & Company, LLC, serves as a financial advisor to not-for-profit healthcare systems focusing, in particular, on the debt capital markets, as well as mergers, acquisitions and joint ventures.

MISCELLANEOUS

All quotations from, and summaries and explanations of, the Act, the Bond Indenture, the Loan Agreement, the 1995 Master Indenture, the 2007 Master Indenture, the 1995 MTI Note, and the 2007 MTI Note and other documents referred to herein do not purport to be complete, and reference is made to said documents for full and complete statements of their provisions. All projections, forecasts, estimates and other statements in this Disclosure Memorandum involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any Bond nor any error in the printing of such number shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any Bonds.

This Disclosure Memorandum is not to be construed as a contract or agreement between the Authority or the Corporation and the purchasers or owners of any of the Bonds.

The Authority has not assisted in the preparation of this Disclosure Memorandum, except for the statements under the sections captioned "THE AUTHORITY" and "MATERIAL LITIGATION – The Authority" herein and, except for those sections, the Authority is not responsible for any statements made in this Disclosure Memorandum. Except for the authorization, execution and delivery of documents required to effect the issuance of the Bonds, the Authority has not otherwise assisted in the public offer, sale or distribution of the Bonds. Accordingly, except as aforesaid, the Authority assumes no responsibility for the disclosures set forth in this Disclosure Memorandum.

The attached Appendices are integral parts of this Disclosure Memorandum.

The execution and delivery of this Disclosure Memorandum has been duly authorized by the Authority and duly approved by the Corporation.

ALLEGHENY COUNTY HOSPITAL DEVELOPMENT AUTHORITY

By: _____
Chairman

Approved:

UPMC

By: _____
Treasurer

APPENDIX A

UPMC

APPENDIX A
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Introduction

UPMC, doing business as the University of Pittsburgh Medical Center, is one of the nation's leading integrated health enterprises. UPMC is based in Pittsburgh, Pennsylvania, and primarily serves residents of Western Pennsylvania. It also draws patients for highly specialized services from across the nation and around the world.

UPMC's 20 hospitals and more than 400 clinical locations compose one of the largest non-profit health care systems in the United States. UPMC also exports its expertise to other parts of the world and the health care industry. About 5,000 physicians are affiliated with UPMC, including more than 2,700 who are employed by the organization. UPMC also offers a variety of insurance products, including UPMC Health Plan, UPMC Health Network and Community Care Behavioral Health, which cover a total of more than 1.4 million persons.

UPMC has evolved over the last two decades from its core as an academic medical center into one of the largest non-profit health care systems in the country. UPMC is widely recognized for its innovations in patient care, research, technology and health care management. UPMC is also:

- The largest healthcare system in Pennsylvania
- The largest employer in the region with approximately 50,000 employees and one of the largest non-governmental employers in Pennsylvania
- Closely affiliated with the University of Pittsburgh of the Commonwealth System of Higher Education (the "University") which is among the top ten recipients of National Institutes of Health ("NIH") research funding with approximately $450 million in funding per year
- One of 21 hospitals nationwide named to the America's Best Hospital's Honor Roll by *U.S. News & World Report* in 2009
- The largest and busiest organ transplant center in the world, performing more than 17,000 transplants since 1981
- One of the largest cancer networks in the country with more than 40 locations and more than 180 employed and affiliated oncologists
- Providing health care services globally with an international footprint established in Italy, Great Britain, Ireland, and Qatar

Total assets and total operating revenues of UPMC were $7.5 billion and $7.7 billion, respectively, for the fiscal year ended June 30, 2009. These total revenues do not include external research funding which is accounted for separately through the University.

Governance

UPMC is governed by a single parent corporation of the same name (the "Corporation") which was established in 1982 as a Pennsylvania nonprofit corporation, exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the "Code"), as an organization described in Section 501(c)(3) of the Code. The Corporation was formerly named UPMC Health System, University of Pittsburgh Medical Center System and Presbyterian University Health System, Inc. The Corporation is operated exclusively for charitable, educational and scientific purposes, and in furtherance of such purposes, guides, directs, develops and supports activities related to the construction, purchase, ownership, maintenance, operation and financing of hospitals and related educational and service facilities. The Corporation provides governance and supervision for UPMC's subsidiary corporations, including, among others, various hospitals (the "Subsidiary Hospitals") for which the Corporation serves as the sole member, holding certain reserved powers and having the power to initiate certain actions, and in several cases any action, at the subsidiary level. The Corporation is a supporting organization pursuant to Section 509(a)(3) of the Code with respect to its affiliated exempt hospitals and with respect to the University. UPMC voluntarily complied with all relevant provisions of the Sarbanes-Oxley Act for its fiscal year ended June 30, 2009. This is the fourth consecutive fiscal year that UPMC has met these provisions.

Board of Directors, Officers & Committees. The Bylaws of the Corporation provide for a Board of Directors (the "Board") consisting of individuals exercising up to ninety votes. Approximately one-third of the Board's total votes are held by individuals appointed by the University, approximately one-third of the total votes are held by individuals elected from the community at-large, and up to one-third of total votes are held by individuals appointed by or historically involved in the governance of Subsidiary Hospitals. Subject to certain exceptions, directors serve a term of three years and are limited to three consecutive terms, subject to a one-year hiatus before being able to serve again. The full Board meets semi-annually.

The officers of the Board include: the Chairperson, First Vice Chairperson, other Vice Chairpersons, and the Chairperson of the Finance Committee. Corporate officers, who are to be elected by the Board, include the President and Chief Executive Officer, Chief Financial Officer, Treasurer, Secretary, and such other officers as the Board may elect from time to time. The following individuals currently hold the offices so noted:

Chairperson
G. Nicholas Beckwith III
Chairman and Chief Executive Officer
Arch Street Management, LLC

First Vice Chairperson
Stephen R. Tritch
Chairman
Westinghouse Electric Company

Second Vice Chairperson
Mark J. Laskow
Chief Executive Officer
Greycourt & Co. Inc

Chairperson, Finance Committee
Robert M. Hernandez
RTI International Metals, Inc

President and Chief Executive Officer
Jeffrey A. Romoff
President and CEO; UPMC

Chief Financial Officer
Robert A. DeMichiei
Chief Financial Officer; UPMC

Treasurer
C. Talbot Heppenstall, Jr.
Treasurer; UPMC

Secretary
Michele P. Jegasothy
Corporate Secretary; UPMC

Standing committees of the Board include: Executive, Finance, Audit, Quality Patient Care, Conflict of Interest, Executive Compensation, Diversity and Nominating. Ad-hoc committees of the Board include: Community Health, Governance Review, Information Technology, Insurance Services Division, Investment Committee, Physician Services Division, International and Commercial Services Division, and Strategic Planning and Operational Effectiveness. The Executive Committee of the Board consists of individuals exercising between nine and forty-two votes. The Executive Committee meets monthly between sessions of the Board and exercises the full powers of the Board except as restricted by law, the Bylaws of the Corporation or a Board resolution. The Executive Committee consists of the following individuals:

Esther Barazzone, Ph.D.
President
Chatham University

G. Nicholas Beckwith III
Chairman and Chief Executive Officer
Arch Street Management, LLC

Timothy R. Billiar, M.D.
George Vance Foster Professor and Chair
Department of Surgery
University of Pittsburgh

Esther L. Bush
President and Chief Executive Officer
Urban League of Greater Pittsburgh

William S. Dietrich
Managing Director
The Dietrich Charitable Trusts

James C. Diggs
Senior Vice President,
General Counsel & Secretary
PPG Industries

Mary Jo Dively
Vice President and General Counsel
Carnegie Mellon University

David B. Fawcett
Senior Partner
Dickie, McCamey & Chilcote

Audrey Hillman Fisher
Retired President
Westminister Designs, Inc

Ira J. Gumberg
President and Chief Executive Officer
J.J. Gumberg Co

Richard S. Hamilton
President and CEO
AAA East Central

Robert G. Lovett
Partner
Lovett Bookman Harmon Marks LLP

John R. McGinley
Partner
Eckert Seamans Cherin & Mellot LLC

Martin G. McGuinn
Former Chairman and CEO
Mellon Financial Corporation

Marlee S. Myers
Managing Partner, Pittsburgh Office
Morgan Lewis & Bockius LLP

Mark A. Nordenberg
Chancellor and CEO
University of Pittsburgh

Morgan K. O'Brien
President and Chief Executive Officer
Duquesne Light Holdings

Robert A. Paul
Chairman and CEO
Ampco – Pittsburgh Corporation

William Pietragallo II
Managing Partner
Pietragallo, Gordon, Alfano, Bosick and Raspanti, LLP

Patricia L. Siger
Senior Vice President and
Chief Development Officer
YMCA of Greater Pittsburgh

Steven D. Shapiro, MD
Jack D. Myers Professor and Chairman, Department of Medicine
University of Pittsburgh

Stephen R. Tritch
Chairman
Westinghouse Electric Company

Howard W. Hanna III
Chairman and Chief Executive Officer
Hanna Holdings

Robert M. Hernandez
Chairman
RTI International Metals Inc.

Margaret P. Joy
Partner
McCarthy, McDonald, Schulberg & Joy

Mark J. Laskow
Chief Executive Officer
Greycourt & Co., Inc.

Arthur S. Levine, M.D.
Senior Vice Chancellor for Health Sciences, Dean School of Medicine
University of Pittsburgh

Thomas J. Usher
Chairman
Marathon Oil Corporation

Neil Y. Van Horn
Managing Director
Guyasuta Investment Advisors

Sunil Wadhwani
Chairman and Co-Founder
iGATE Capital Corporation

Dean George L. W. Werner
Dean Emeritus
Trinity Cathedral, Pittsburgh

Leo Yochum
Former Senior Executive Vice President, Finance
Westinghouse

Sam S. Zacharias
Principal
Gateway Financial Group

Executive Management. The following individuals are responsible for policy implementation and management of the programs, services, facilities and support operations of UPMC:

Jeffrey A. Romoff, President and Chief Executive Officer, UPMC. Bachelor's degree, City College of New York, 1967. Master's Degree, Political Science, Yale University, 1971. Previous positions include: Executive Vice President, UPMC and Vice Chancellor for Health Sciences, University of Pittsburgh; Administrator and Associate Director for Western Psychiatric Institute and Clinic, 1975-1987; Teaching Associate, Yale University, 1970-1971; and Teaching Fellow, Yale University, 1969-1970.

Charles E. Bogosta, Executive Vice President, UPMC; President, International and Commercial Services Division; Executive Vice President, Cancer Services. Bachelor's Degree, State University of New York, 1980. Master's Degree, Bowling Green University, 1981. Previous positions include: Chief Financial Officer and Executive Vice President for Business Development, Corporate Health Dimensions, Inc, 1991-1998; Chief Financial Officer and Chief Operating Officer, Health Enterprises Management, Inc., 1985-1991.

Robert J. Cindrich, Esquire, Senior Vice President, UPMC, and Chief Legal Officer. Wittenberg University, A.B., 1965; University of Pittsburgh School of Law, J.D., 1968. Adjunct Professor, University of Pittsburgh and Duquesne University Schools of Law. Previous positions include: Judge, United States District Court for the Western District of Pennsylvania 1994-2004; United States Attorney, W.D. Pa. 1978-1981. Assistant District Attorney, Allegheny County 1970-1972; Assistant Public Defender, Allegheny County Office of the Public Defender, 1969-1970.

Elizabeth B. Concordia, Executive Vice President, UPMC; President, Hospital and Community Services Division. Bachelor's Degree, Duke University, 1985. Master's Degree, Administrative Science Management, Johns Hopkins University, 1988. Previous positions include: Executive Vice President and Chief Operating Officer and other positions, Johns Hopkins Bayview Medical Center, 1993-2001. Associate and Assistant Director, Montefiore Medical Center, The Jack D. Weiler Hospital of the Albert Einstein College of Medicine, 1990-1993.

Sandra N. Danoff, Senior Vice President, UPMC and Chief Communications Officer. Bachelor's Degree, University of Western Ontario. Master's Degree, Georgia Institute of Technology. Previous positions include: Senior Associate to the President, UPMC, 2005-2007, Director, Planning and Marketing, UPMC, 1993-2005, Manager, Planning and Marketing, UPMC, 1990-1993, Director of Planning, Montefiore Hospital, 1989-1990, Health Care Consultant, 1983-1989.

Robert A. DeMichiei, Senior Vice President, UPMC and Chief Financial Officer. Bachelor's Degree, University of Pittsburgh, 1987. Certified Public Accountant. Previous positions include: Manager of Finance, Global Business Development and Integration, GE Power Systems, 2001-2004. Chief Financial Officer, Global Services Operation and Global Controller, GE Transportation Systems, 1997-2001. Senior Manager and Staff Accountant-Manager, Price Waterhouse, LLP, 1987-1997.

Daniel S. Drawbaugh, Senior Vice President, UPMC and Chief Information Officer. Bachelor's Degree, Temple University, 1982. Master's Degree, Business Administration, Duquesne University, 1992. Previous positions include: Chief Information Officer, Shadyside Hospital, 1992-1997; President, BioTronics, Inc., Shadyside Hospital; and Director, Clinical Engineering, Shadyside Hospital, 1983-1992.

David M. Farner, Senior Vice President, UPMC and Chief of Staff, Office of the President. Bachelor's Degree, Westminster College, 1985. Previous positions include: Associate Executive Vice President, UPMC, 1996-2003; Financial Analyst, Presbyterian University Hospital, 1986-1995; and Staff Auditor, Arthur Andersen & Company, 1985-1986.

C. Talbot Heppenstall, Jr., Senior Vice President, UPMC and Treasurer. Bachelor's Degree, University of Virginia, 1982. Master's Degree, Industrial Administration, Carnegie Mellon University, 1985. Previous positions included Managing Director, RBC Dain Rauscher, Inc., 1999-2003, President, PriMuni LLC, 2001-2003, Senior Vice President and various other positions, PNC Capital Markets, 1989-1999 and Vice President, Butcher & Singer, 1985-1989.

Diane P. Holder, Executive Vice President, UPMC; President, Health Insurance Division; President and CEO, UPMC Health Plan. Master's of Science Degree, Columbia University. Previous positions include: President, Western Psychiatric Institute and Clinic, Senior Vice President, UPMC Presbyterian, Vice President Behavioral Health Services, and President and CEO, Community Care Behavioral Health Organization.

Gregory K. Peaslee, Senior Vice President, UPMC, and Chief Human Resource and Administrative Services Officer. Bachelor's degree, Duquesne University, 1982. Certified Public Accountant. Previous positions include: Executive Director, University of Pittsburgh Physicians, 1996-2000; Executive Director, University Radiologists, 1992-1996; Chief Financial Officer, Montefiore University Hospital/Eye and Ear Hospital, 1987-1992; Chief Financial Officer, Monsour Medical Center, 1985-1987; and Senior Consultant, Ernst & Whinney 1982-1985.

Marshall W. Webster, M.D., Executive Vice President and Chief Medical Officer, UPMC; President, Physician Services Division, UPMC; President, University of Pittsburgh Physicians. Graduate of the Johns Hopkins University School of Medicine. Residency training in General and Thoracic Surgery, UPMC. On the faculty of the University of Pittsburgh since 1973, having previously held the Mark M. Ravitch Chair in Surgery. Past service as Chief of Vascular Surgery, Executive Vice-Chair, and Interim Chair of the Department of Surgery.

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Business Affiliation Agreements

Children's Hospital of Pittsburgh of UPMC. Pursuant to an amended merger and affiliation agreement with Children's Hospital of Pittsburgh of UPMC ("Children's"), the Corporation committed to fund the construction of a new hospital and a new pediatric research facility (the "New Children's Facilities") and to cause funding of pediatric research and clinical programs for Children's to increase by $250 million over a period of ten years commencing in 2003. As of December 31, 2009, both of these commitments had been fulfilled. The Children's Foundation, formed as part of the agreement, has a remaining commitment to reimburse approximately $45 million of the construction costs of the New Children's Facilities.

Mercy Hospital of Pittsburgh. Effective January 1, 2008, the Sisters of Mercy transferred ownership of Mercy Hospital of Pittsburgh ("MHP") to UPMC. The transaction was designed to continue the 160-year-old mission of MHP by operating the renamed UPMC Mercy under the Catholic directives as overseen by the Diocese of Pittsburgh. The Corporation assumed responsibility for substantially all liabilities and assets of MHP and will donate a total of $30 million to the Pittsburgh Mercy Foundation to support its ongoing mission. Payments are to be made in six annual installments of $5 million with the first two payments having been made in January 2009 and 2010. The transaction ensures the region's healthcare consumers continue to have a choice of a Catholic hospital and provides a catalyst to the redevelopment of the Downtown-Oakland corridor.

Related Foundations. The Corporation is party to certain affiliation agreements with separate foundations (the "Foundations") organized exclusively for the benefit of the respective Subsidiary Hospital they were incorporated to support. The assets of the Foundations are restricted for use by the Foundation's respective Subsidiary Hospital and require Foundation board approval. Generally, the Foundation boards are not controlled by UPMC or the Subsidiary Hospitals. The assets of these Foundations total $327 million as of December 31, 2009 and are shown on UPMC's consolidated balance sheet as either beneficial interests in Foundations ($275 million), as part of Board designated, trusteed, restricted and other investments ($34 million) or as part of other noncurrent assets ($18 million). These Foundations include Children's ($187 million), Magee ($44 million), Passavant ($34 million), Northwest ($26 million), Shadyside ($18 million), St. Margaret ($16 million) and Sherwood Oaks ($2 million).

UPMC is in discussions with a variety of regional, domestic and international organizations regarding potential new business affiliation agreements. Except as disclosed herein, none of these discussions have reached the stage of a letter of intent as of the date of this Official Statement.

Operating Structure

UPMC has three major operating components: Provider Services, Insurance Services and International and Commercial Services. Listed below are the major units of each operating component.

Provider Services	Insurance Services	International and Commercial Services
• Academic and Community Hospitals	• UPMC Health Plan	• International
• Regional Hospitals	• UPMC Health Network	• Commercial Services
• Specialty Services/Service Lines	• UPMC For You	• Joint Ventures
• Physician Services	• UPMC Health Benefits	
• Community Provider Services	• Community Care Behavioral Health	
	• UPMC Benefits Management	
	• Ebenefits Solutions	
	• Askesis Development Group	

To support these operating components, UPMC has an array of integrated enterprise capabilities, including information services, human resources, regulatory/compliance, finance, treasury, risk management, facilities, quality and government relations. The costs of these services are allocated to the operating components.

Below is a brief description of each of the operating components followed by a description of certain of UPMC's Enterprise Services.

Provider Services

The major operating units within Provider Services include Academic and Community Hospitals, Specialty Services, Regional Hospitals, Physician Services and Community Provider Services. Before consolidations, Provider Services accounted for approximately $5.4 billion in operating revenues for the fiscal year ended June 30, 2009. UPMC's Subsidiary Hospitals include:

Academic and Community Hospitals	Specialty Facilities	Regional Hospitals
• UPMC Presbyterian Shadyside	• Children's Hospital of Pittsburgh of UPMC	• UPMC Horizon
• UPMC St. Margaret	• Magee-Womens Hospital of UPMC	• UPMC Northwest
• UPMC Passavant	• Western Psychiatric Institute and Clinic	• UPMC Bedford
• UPMC McKeesport	• Hillman Cancer Center	
• UPMC Braddock[1]		
• UPMC Mercy		

[1] UPMC Braddock closed effective January 31, 2010.

Table 1 provides information about these Subsidiary Hospitals and UPMC's two international hospital operations (which are more fully described under International Commercial Services Division) as of December 31, 2009.

Table 1
Subsidiary Hospitals
(Dollars in Thousands)

Legal Entity (Number of Hospital Facilities)	Location	Beds in Service	Revenues for Six Months Ended December 31, 2009	Year of Affiliation
UPMC Presbyterian Shadyside (5)	Pittsburgh	1,515	$886,100	(a)
Children's	Pittsburgh	273	221,182	2001
Magee-Womens Hospital of UPMC	Pittsburgh	304	197,846	1999
UPMC Passavant (2)	Ross/Cranberry	327	152,445	1997
UPMC Mercy	Pittsburgh	461	175,370	2008
UPMC St. Margaret	Pittsburgh	249	122,139	1997
UPMC McKeesport	McKeesport	207	59,755	1998
UPMC Horizon (2)	Greenville/Farrell	198	61,731	1998
UPMC Northwest (2)	Seneca/Oil City	181	53,063	2001
UPMC Braddock (b)	Braddock	154	25,333	1996
UPMC Bedford	Bedford	27	19,141	1998
ISMETT (c)	Palermo, Italy	76	17,763	1997
UPMC Beacon (d)	Dublin, Ireland	111	38,413	2008
Total			**$2,030,281**	

(a) Eye & Ear Hospital, Presbyterian Hospital and WPIC constitute the original hospitals of UPMC. Montefiore Hospital affiliated with UPMC in 1990 and Shadyside Hospital affiliated with UPMC in 1997.
(b) Effective January 31, 2010, UPMC Braddock closed.
(c) Revenues represent management and professional fees paid by ISMETT to UPMC.
(d) Revenues reflect increased ownership of UPMC Beacon as of August 31, 2010.
Source: UPMC Records

UPMC Braddock Hospital closed effective January 31, 2010. UPMC is committed to continue to serve the healthcare needs of the Braddock area through its network of outpatient and community health programs. UPMC is also committed to working with various community groups and political leaders to find an acceptable use for the existing hospital facility and land. An asset impairment charge of $14 million related to UPMC Braddock was recorded in December 2009.

UPMC routinely invests in maintenance and repair of the Subsidiary Hospitals. There are currently two capital projects underway to add capacity to the Subsidiary Hospitals. On Feb 15, 2010, UPMC is expected to open a $ 140 million addition to UPMC Passavant which will include 72 additional inpatient beds, 16 ICU Beds, 6 Operating Rooms and 23 Emergency Department Exam Rooms. In addition, the Cancer Treatment Center has been expanded. UPMC is currently undertaking site work for a new Subsidiary Hospital, UPMC East, to be located in the municipality of Monroeville, Pennsylvania, 15 miles east of downtown Pittsburgh. UPMC East is expected to cost $250 million and to include 140 inpatient beds, 16 ICU Beds, 5 Operating Rooms and 18 Emergency Department Exam Rooms. The hospital will also include a Cancer Treatment Center.

UPMC Presbyterian Shadyside. UPMC Presbyterian Shadyside was created by the merger of UPMC Presbyterian and UPMC Shadyside, two of the largest acute care medical/surgical and quaternary hospitals in Pittsburgh, Pennsylvania. The merger of UPMC Presbyterian and UPMC Shadyside was completed on May 30, 2003. UPMC Presbyterian Shadyside is a Pennsylvania nonprofit corporation whose sole member is the Corporation. The Corporation has broad reserved powers with respect to UPMC Presbyterian Shadyside.

UPMC Presbyterian Shadyside operates facilities on two campuses located approximately two miles apart, referred to as the "Oakland Campus" and the "Shadyside Campus."

The Oakland Campus of UPMC Presbyterian Shadyside includes the following structures: Presbyterian Hospital, Montefiore Hospital, Eye and Ear Institute, Falk Clinic and a distinct-part psychiatric unit known as Western Psychiatric Institute and Clinic ("WPIC"). The University leases WPIC's physical plant from the Commonwealth of Pennsylvania (the "Commonwealth"). UPMC Presbyterian Shadyside operates WPIC under a sublease with the University. Facilities of Magee-Womens Hospital of UPMC ("Magee") and the main campus of the University are also located in the Oakland area. A number of these facilities are connected by a series of walkways, pedestrian bridges and underground tunnels.

The Shadyside Campus includes the main UPMC Shadyside facilities, the Hillman Cancer Center, and the UPMC Cancer Pavilion. The Hillman Cancer Center is a 355,000 square-foot facility dedicated to research and outpatient services for cancer patients. The UPMC Cancer Pavilion is a five-story 100,000 square-foot office building that accommodates administrative and physician offices. Hillman Cancer Center and the UPMC Cancer Pavilion serve as the hub of UPMC's regional cancer network.

UPMC Presbyterian Shadyside is licensed by the Department of Health of the Commonwealth and is fully accredited by the Joint Commission on Accreditation of Health Care Organizations. UPMC Presbyterian Shadyside is accredited by the Pennsylvania Trauma Systems Foundation as a Level I Regional Resource Trauma Center, one of only four in southwestern Pennsylvania.

As an academic medical center, in collaboration with the University, UPMC uses research, educational, and clinical programs to translate advances in medical science into enhanced medical capabilities. UPMC Presbyterian Shadyside is a major resource facility for the extensive research programs of its medical staff, the University's School of Medicine, and the University's Schools of the Health Sciences. In 2009, for the tenth time in 11 years, UPMC earned a place on *U.S. News & World Report* magazine's America's Best Hospitals Honor Roll as one of the top-ranked hospitals in the United States.

UPMC Presbyterian Shadyside is the primary clinical site for students of the University's Schools of Medicine and Nursing. It is also a major clinical practice site for the nursing baccalaureate programs at Duquesne University, Indiana University of Pennsylvania, Carlow University and Franciscan University. UPMC Presbyterian Shadyside offers opportunities to participate in clinical, educational and administrative programs to undergraduates and graduates enrolled in the University's School of Health and Rehabilitation Sciences, the School of Pharmacy, the Graduate School of Public Health, and the School of Dental Medicine. In addition, UPMC Presbyterian Shadyside operates Schools of Nursing and Radiologic Technology and participates in a wide range of training programs with other educational institutions.

Specialty Services

Transplantation Services and the Thomas E. Starzl Transplantation Institute. The Starzl Transplantation Institute at UPMC was the cradle for development of modern organ transplant technology. UPMC's transplant program is the world's largest and busiest, where surgeons perform more types of organ transplants than at any other institution. To date, more than 17,000 transplants have been performed at UPMC, a single-center experience that is unmatched by any other program.

UPMC's transplant programs are internationally renowned for their far-reaching influence on the entire field. UPMC researchers and surgeons have made many of transplantation's most important advances. In recent years, clinical research programs have involved novel approaches to induce tolerance of transplanted organs and pioneering efforts to explore alternative sources to human organs, such as organs from animal donors or artificial organs, and cell therapies as alternatives to conventional transplantation. One of the most important developments in recent years at the Starzl Transplantation Institute has been the institution of protocols for "weaning" patients from antirejection drugs. While these medications make transplantation possible in most cases, higher doses of antirejection drugs can also cause serious long-term side effects. UPMC experts have developed a method designed to minimize or even eliminate antirejection drugs in a way that provides excellent protection against organ rejection and reduces serious side effects.

UPMC's organ transplant expertise extends globally as well. The Mediterranean Institute for Transplantation and Specialized Therapies ("ISMETT") is an international center for specialized medicine serving the people of the Mediterranean region, located in Palermo, Sicily, Italy. With the training of UPMC transplant surgeons, transplantation medicine specialists and other clinical care providers, ISMETT has become a world-class hospital that offers lifesaving transplants to the people of the region. See "International and Commercial Services Division" herein.

Pediatric Services. Children's Hospital of Pittsburgh of UPMC is the region's only hospital dedicated to the care of children. It is one of the nation's leading pediatric facilities. Children's, a specialty acute care teaching and research hospital, provides a comprehensive range of health care services for infants, children and adolescents and functions as a referral center for secondary, tertiary, and quaternary levels of care. To increase the accessibility and availability of pediatric sub-specialty services within the region, Children's operates three ambulatory and three specialty care centers. The ambulatory care centers are located east, north and south of Pittsburgh, two of which include ambulatory surgery services. The specialty care centers are located in Johnstown and Hermitage, PA, and Wheeling, WV. Pediatric primary care is provided at three primary care centers and via the Ronald McDonald Care Mobile, a "doctor's office on wheels" that visits underserved communities throughout the area. Children's also owns Children's Community Pediatrics ("CCP"), which comprises 22 physician practices consisting of more than 100 physicians practicing at 28 sites throughout the region. CCP is the largest pediatric and adolescent primary care medical network in western Pennsylvania.

Children's is nationally and internationally recognized for its expertise in areas such as cardiology, cardiothoracic surgery, critical care medicine, diabetes, hematology/oncology, neuroscience, organ transplantation, orthopaedics, otolaryngology, minimally invasive pediatric surgery, and general surgery. Children's Pediatric Intensive Care Unit is one of the nation's most comprehensive care facilities of its type. The area's first and only pediatric Cardiac Intensive Care Unit opened at Children's in 2002. The hospital's Benedum Pediatric Trauma Program is the region's only Level I Regional Resource Pediatric Trauma Center.

Children's also functions as a teaching and research institution affiliated with the University's School of Medicine. For the 2008 federal fiscal year, Children's ranked 10th in total pediatric dollars and seventh in number of pediatric awards from the NIH. Children's houses the University's Department of Pediatrics and serves as the primary teaching site for the clinical training of resident pediatric physicians. Children's has consistently been ranked among the "Best Hospitals" for pediatrics by *U.S News & World Report*.

In Children's affiliation agreement with UPMC, the Corporation agreed to construct new facilities for Children's to replace the Oakland Children's facilities campus (See "Governance – Business Affiliation Agreements" above). Children's entered a new era on May 2, 2009 with the opening of its new, technologically innovative campus in Pittsburgh's Lawrenceville neighborhood. The ten-acre, state-of-the-art clinical and pediatric research facilities combine advanced infrastructure and a multitude of family-centered features in 1.5 million square feet of space. Children's is one of the nation's first fully digital pediatric hospitals and one of only eight pediatric hospitals named a Leapfrog Top Hospital for patient safety.

In December 2009, Children's became the first pediatric hospital in the United States to achieve a Stage 7 Award from Healthcare and Information Management System Society (HIMSS) Analytics for achieving a virtually paperless patient record environment and the most comprehensive use of electronic medical records ("EMRs").

Women's Services. As a National Center of Excellence in Women's Health, Magee Womens Hospital of UPMC leads the development of women's health services across UPMC. Consistently ranked among the nation's top hospitals in obstetrics and gynecology, Magee is a pioneer in gender-based medicine with the first interdisciplinary research institute focusing exclusively on the health issues of women and infants and the numerous biological differences that are gender specific. Magee is now a full service acute care, research and teaching center for women, men and newborns, with more than 75,000 outpatient visits a year, 10,000 OB deliveries and more than 17,000 surgeries. Magee's 74-bed neonatology intensive care unit is one of the largest in the country. Magee's main facility is located approximately three blocks from the Oakland Campus. In addition to the main hospital facility, Magee operates a network of suburban Womancare physician offices, women's imaging centers and community neighborhood health centers. Nationally renowned core programs include reproductive science, neonatology and women's cancer, including expansive breast and gynecologic oncology programs, and one of the largest academic bariatric surgery programs in the country. Magee is one of the original six recipients of the U. S. Department of Health and Human Services award as a National Center of Excellence in Women's Health. Additionally, Magee's gynecology services have been ranked among the nation's leading programs in *U.S News & World Report*'s "Best Hospital" rankings for more than 10 consecutive years, placing seventh in the nation in gynecologic care in 2009.

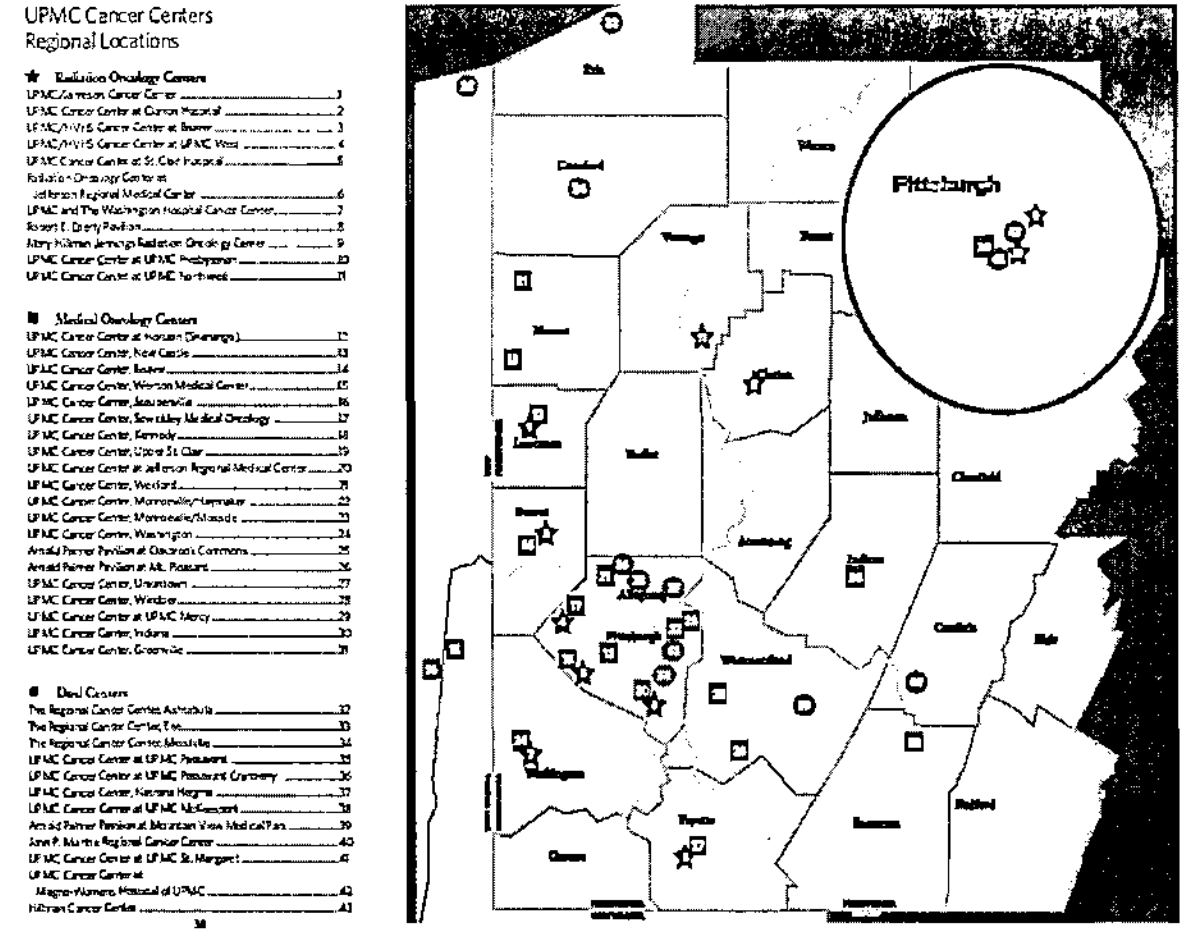
Minimally Invasive Neurosurgery Center. Traditional treatment for serious brain, spine, vascular, and neurological conditions often required extensive, potentially disfiguring surgery and long recovery periods. Due to innovative surgical techniques developed by physicians at UPMC, surgeons can now treat many patients using custom surgical tools and powerful imaging technology to visualize and access hard-to-reach areas with minimal or no incisions. As a result, patients typically can return to normal activities within hours or days of their treatment.

With more than 1,500 patients treated each year, UPMC is one of the leading minimally invasive neurosurgical facilities in the world. The center serves as a local, national and international resource for patients seeking the most current approaches to structural neurologic disorders.

Cancer Services. In an effort to address the needs for cancer care throughout western Pennsylvania, UPMC has coordinated cancer services under one operating unit with the University. The University of Pittsburgh Cancer Institute ("UPCI") consists of more than 500 scientists and health care professionals in more than 30 disciplines. UPCI is designated a Comprehensive Cancer Center by the National Cancer Institute ("NCI") and is the only NCI-designated comprehensive cancer center in the region. UPCI is ranked as one of the top recipients of funding from NCI.

As part of the development of cancer services for the region, in September 2002, UPMC opened the Hillman Cancer Center on the Shadyside Campus. Hillman Cancer Center provides a central location for virtually all of the UPCI programs including cancer care services, research and clinical trials, practitioner training, prevention and early detection services and other aspects of cancer care.

UPMC has partnered with community-based hospitals throughout the region to develop UPMC Cancer Centers, one of the largest integrated community networks of cancer physicians and health care specialists in the country. Along with the Hillman Cancer Center, numerous regional cancer centers and more than 40 sites with approximately 180 affiliated oncologists cover a geographic area of more than 200 miles around greater Pittsburgh. The regional cancer centers house comprehensive cancer treatment services encompassing 13 areas of expertise including medical and radiation oncology, oncology surgical consult services and lab facilities, as well as education and cancer prevention services. The map below shows certain UPMC Cancer Center locations in western Pennsylvania.



Behavioral Health Services. At the core of UPMC's Behavioral Health capabilities is Western Psychiatric Institute and Clinic ("WPIC"), one of the largest academic psychiatric facilities in the United States. With 289 beds in service as of December 31, 2009, WPIC operates as a distinct-part psychiatric unit of UPMC Presbyterian Shadyside.

Behavioral health services offered at WPIC include: childhood and adolescent mood disorders; childhood attention deficit, anxiety and conduct disorders; treatment regimes for dual diagnosis disorders; adult sleep disorders; post-partum depression; adult mood and anxiety disorders; schizophrenia; substance abuse; and eating disorders. WPIC's geriatric psychiatry program offers comprehensive care attuned to the physical and emotional needs of older adults. Researchers at WPIC have also contributed significant advances in understanding the origins of Alzheimer's disease. WPIC is involved with community outreach activities and projects intended to advance the understanding of mental illness and the quality of care for patients.

Through its affiliation with the University's School of Medicine, WPIC is consistently the top-ranked recipient nationally of mental health research funding. In 2009, total research funding to WPIC exceeded $85.6 million. WPIC is ranked as the No. 1 recipient of research funding from the NIH. In 2009, total research funding from the NIH exceeded $70 million, with more than half of the research grants received (56%) awarded by the National Institute of Mental Health ("NIMH"). Funding is also provided by other federal sources, from state and local governments, private foundations and industry sources.

Other specialty services available at UPMC include:

- Center for Sports Medicine
- University of Pittsburgh Institute on Aging
- Cardiovascular Institute
- Comprehensive Lung Center
- The McGowan Institute for Regenerative Medicine
- The Peter M. Winter Institute for Simulation Education and Research
- The Center for Biosecurity
- Lupus Center of Excellence
- Stroke Institute
- University of Pittsburgh Diabetes Institute
- Digestive Disorders Center
- Institute for Rehabilitation and Research
- Heart, Lung, and Esophageal Surgery Institute

Physician Services

UPMC employed more than 2,700 physicians as of December 31, 2009. The majority of these physicians are included in UPMC's faculty practice plan, the University of Pittsburgh Physicians ("UPP") and a network of community physicians called Community Medicine, Inc. ("CMI"). UPP was founded in 1999 through the consolidation of sixteen independent clinical faculty practice plans. At that time, UPP became a subsidiary of UPMC. UPP was created to provide the intellectual and financial resources to support UPMC's academic commitment to the University's School of Medicine and to foster a collegial environment.

CMI was created on January 1, 2001, through the consolidation of over 100 community-based physician practice corporations into one legal, tax-exempt entity. The CMI physician practices are comprised primarily of primary care physicians (representing family medicine and internal medicine), as well as specialists in orthopedic surgery and neurosurgery.

The management staff and practice management functions of UPP and CMI were combined to form the UPMC Physician Services Division to provide centralized management oversight and services to the physicians/practices of UPP, CMI and Emergency Resource Management, Inc. Other employed physicians of UPMC focus on pediatrics, cancer care, and women care.

UPMC and the University's School of Medicine have a cooperative program for the recruitment of physicians and faculty. UPMC's medical staff includes nationally and internationally recognized leaders in their respective fields.

UPMC continues to recruit high profile physicians to lead its acclaimed clinical programs. Notable recent appointments include Dr. Lawrence R. Wechsler, a recognized leader in stroke research as chair of the Department of Neurology, Dr. David A. Lewis, a noted expert on schizophrenia, who was appointed chair of the Department of Psychiatry and medical director of Western Psychiatric Institute and Clinic of UPMC, and Dr. Donald M. Yealy, an award-winning researcher and educator, who was named chair of the Department of Emergency Medicine at the University of Pittsburgh's School of Medicine.

UPMC's Physician Services division recently made several significant additions to the network of employed physicians, expanding the base in primary care and sub-specialty areas. Recent additions during calendar year 2009 include more than 20 existing physician practices throughout western Pennsylvania. Acquisitions include nearly 60 physicians with expertise in areas such as orthopaedics, critical care, anesthesia, obstetrics and gynecology, and internal medicine. In the 2009 "Top Doctors" survey published by *Pittsburgh Magazine*, 103 UPMC or UPMC-affiliated physicians comprise 77% of the list. These UPMC physicians are included in each of the 48 areas of expertise, from adolescent medicine to vascular surgery. The list was compiled by Castle Connolly Medical Ltd., a physician-led research team that scrutinizes a doctor's medical education, training, and experience. The result is a rigorously screened selection of highly ranked doctors on the national and regional levels.

The table below lists the total number of physicians by specialty including their board certification as of December 31, 2009.

Table 2
Medical Staff - UPMC Subsidiary Hospitals

Specialty	Number of Physicians	Number Board Certified	Percent Certified
CRITICAL CARE MEDICINE	46	29	63%
DERMATOLOGY	42	39	93%
EMERGENCY MEDICINE	232	129	56%
FAMILY MEDICINE	366	328	90%
HOSPITAL BASED PHYSICIANS	610	547	90%
MEDICINE			
Cardiology	217	191	88%
Endocrinology	47	41	87%
Gastroenterology	98	84	86%
General Medicine	550	65	85%
Geriatric Medicine	43	33	77%
Hematology/Oncology	136	107	79%
Infectious Disease	39	34	87%
Nephrology	85	68	80%
Pulmonology	113	90	80%
Rheumatology	43	39	91%
NEUROLOGY	67	61	91%
NEUROSURGERY	46	30	65%
OBSTETRICS/GYNECOLOGY	235	180	77%
OPHTHALMOLOGY	150	131	87%
ORAL SURGERY/DENTAL MEDICINE	78	52	67%
ORTHOPAEDICS	259	209	81%
OTOLARYNGOLOGY	67	59	88%
PEDIATRICS	537	445	83%
PHYSICAL MEDICINE/REHABILITATION	65	53	82%
PSYCHIATRY	172	141	82%
SURGERY			
Cardiovascular & Thoracic Surgery	61	33	54%
General Surgery	211	147	70%
Plastic Surgery	54	42	78%
UROLOGY	71	62	87%
TOTAL	**4,740**	**3,869**	**82%**

Source: UPMC Records, Credentials Verification Office

The table below summarizes as of the end of each of the last six fiscal years and as of December 31, 2009, the number of UPMC's employed physicians by specialty.

Table 3
Summary of UPMC Employed Physicians
(Excludes physicians directly employed by UPMC Hospitals)*

	As of June 30,						As of December 31,
	2004	2005	2006	2007	2008	2009	2009
ADMINISTRATION	0	7	5	0	0	0	0
CARDIOLOGY	47	54	70	71	78	82	80
CARDIOVASCULAR AND THORASIC SURGERY	0	0	37	38	38	41	47
CRITICAL CARE MEDICINE	39	44	47	55	58	71	80
DERMATOLOGY	17	23	23	20	23	22	24
EMERGENCY MEDICINE	169	192	186	195	209	223	224
FAMILY MEDICINE	32	30	33	53	43	91	85
HEMATOLOGY ONCOLOGY	88	90	95	93	90	93	92
HOSPITAL BASED PHYSICIANS	325	336	376	416	437	452	488
MEDICINE	471	460	458	505	535	569	590
NEUROLOGY	27	28	29	35	38	35	36
NEUROSURGERY	17	20	26	27	36	37	35
OBSTETRICS /GYNECOLOGY	75	88	95	111	128	141	144
OPHTHALMOLOGY	17	18	19	22	28	29	32
ORTHOPAEDICS	31	29	35	41	46	48	51
OTOLARYNGOLOGY	32	32	36	39	48	48	45
PEDIATRICS	233	249	278	287	299	308	316
PHYSICAL MEDICINE/REHABILITATION	19	18	20	22	22	29	32
PSYCHIATRY	165	159	169	174	178	174	164
SURGERY	112	121	114	131	133	145	144
UROLOGY	12	12	14	15	16	18	19
TOTAL	1,928	2,010	2,165	2,350	2,483	2,656	2,728

Source: UPMC Records
*Excludes hospitalists and physicians based overseas. UPMC's total employed physicians with these additional categories included is more than 2,800 as of December 31, 2009.

Community Provider Services

Community Provider Services includes senior living, skilled nursing, homecare services, and ambulatory rehabilitation. Seventeen facilities listed below, certain of which are joint ventures, provide comprehensive long term care services to support and assist over 2,000 senior residents each day in maintaining their health and quality of life. The levels of care offered include independent living, assisted living, skilled nursing and dementia care. Community Provider Services is also responsible for a continuum of homecare services, a network of over forty ambulatory rehabilitation centers that provide physical and occupational therapy, and the University of Pittsburgh Institute on Aging which offers information, services and programs available for older adults through its toll-free information and referral number.

Facility	Location	County
Beatty Pointe Village	Monroeville	Allegheny
Canterbury Place	Lawrenceville (Pittsburgh)	Allegheny
Cranberry Place	Cranberry Township	Butler
Cumberland Woods Village	McCandless Township	Allegheny
Cumberland Crossing	McCandless Township	Allegheny
Hampton Fields Village	Allison Park	Allegheny
Heritage Place	Shadyside/Squirrel Hill (Pittsburgh)	Allegheny
Lighthouse Pointe Village at Chapel Harbor	O'Hara Township	Allegheny
Seneca Hills Village	Penn Hills	Allegheny
Seneca Manor	Penn Hills	Allegheny
Seneca Place	Penn Hills	Allegheny
Sherwood Oaks	Cranberry Township	Butler
Strabane Trails Village[1]	South Strabane Township	Washington
Strabane Woods of Washington[1]	South Strabane Township	Washington
Sugar Creek Station	Franklin	Venango
Vanadium Woods Village	Scott Township	Allegheny
Weatherwood Manor	Greensburg	Westmoreland

[1] Joint ventures with The Washington Hospital.

Insurance Services

UPMC holds various interests in health care financing products and network care delivery operations. These investments were undertaken in response to the evolving influence of the managed care marketplace and the need to integrate the full continuum of services necessary to effectively meet customer expectations. Insurance Services accounted for approximately $2.95 billion in operating revenues for the year ended June 30, 2009. A significant portion of medical costs of Insurance Services is provided through contracts with the Subsidiary Hospitals and employed physicians in Physician Services. Insurance Services is required to maintain net assets to meet statutory requirements of the Department of Insurance of the Commonwealth as of the end of each calendar year. This requirement was $185 million as of December 31, 2008. The entities in the Insurance Services Division and their current operating status are as follows:

UPMC Health Plan, Inc. UPMC Health Plan, Inc. (the "HealthPlan") is a UPMC-controlled, federally taxable, Pennsylvania non-profit managed care organization. The mission of the HealthPlan is to provide a comprehensive managed care program that will demonstrate measurable improvement in the health status and well being of members while controlling overall health care costs. It is licensed as a Health Maintenance Organization ("HMO") by the

Commonwealth and currently operates three lines of business: (i) commercial fully insured managed care products, (ii) Medicare managed care products, and (iii) Medicare special needs products.

UPMC for You, Inc. UPMC for You, Inc. is a UPMC-controlled, federally tax exempt, Pennsylvania non-profit corporation that offers Medicaid products for eligible beneficiaries who select a managed care program and is licensed as a HMO by the Commonwealth.

UPMC Health Network, Inc. UPMC Health Network, Inc. ("Health Network") is a for-profit corporation that is licensed by the Commonwealth as a risk-bearing Preferred Provider Organization ("PPO"). Health Network offers fully insured products to commercial and Medicare populations.

UPMC Health Benefits, Inc. UPMC Health Benefits, Inc. ("Health Benefits"), a for-profit entity, is licensed by the Insurance Department of the Commonwealth, the West Virginia Office of the Insurance Commissioner, and the Ohio Department of Insurance. Health Benefits provides insurance services primarily to Medicare beneficiaries.

Community Care Behavioral Health. Community Care Behaviorial Health ("Community Care") is a not-for-profit managed care organization that was chartered to meet marketplace demand for the "carve-out" of behavioral health benefits under both governmental and commercial health benefit plans. Community Care is licensed by the Commonwealth as a risk-bearing PPO. Currently, the principal source of business revenue is subcontracting arrangements that cover 35 counties in the Commonwealth, including Allegheny County. These counties, in certain cases through the Commonwealth, contract with Community Care to manage the behavioral health services for all County Medical Assistance eligibles enrolled through a mandatory managed care program. Community Care also has a subcontracting arrangement with UPMC Health Plan for managing the behavioral health benefits of its commercial plan and Medicare enrollees.

EAP Solutions. EAP Solutions operates as a division of Community Care and provides comprehensive employee assistance services to employees and family members under contractual agreements with employer groups.

UPMC Benefits Management, Inc. UPMC Benefits Management, Inc. is a taxable Pennsylvania corporation providing comprehensive and integrated self-insured workers compensation and disability administrative services, health promotion, case management, and medical consultative services to self-insured and fully insured employer groups.

Askesis Development Group, Inc. Askesis Development Group, Inc. ("Askesis") is a UPMC-majority controlled taxable Delaware corporation providing software development and software installation support to behavioral health providers. Askesis has customers in 23 states. Askesis provides software for two UPMC entities: the electronic health records for WPIC and a care management system for Community Care Behavioral Health Organization.

Ebenefits Solutions, LLC. EBenefits Solutions, LLC ("EBenefits") is a wholly-owned subsidiary of UPMC. EBenefits identifies, develops, and markets programs and services which automate functions associated with the selection, enrollment, communication and administration of employee benefits and other human resource functions.

Enrollment Trends. Total enrollment in products offered by Insurance Services has grown substantially. The table below shows the membership, by plan and product, as of December 31 for each of the last ten years.

Table 4
Enrollment in Insurance Service Products

As of December 31,	Commercial – Fully Insured	Commercial – ASO	Medical Assistance	Medicare	Physical Health Subtotal	EAP Solutions	Work Partners	Community Care	Total Enrollment
2009	211,634	146,474	123,485	84,857	566,450	122,333	159,866	578,197	**1,426,846**
2008	192,425	148,368	110,545	82,210	533,548	119,548	129,193	543,804	**1,326,093**
2007	179,484	141,895	99,020	65,550	485,949	105,211	101,924	523,899	**1,216,983**
2006	177,660	127,479	90,910	48,569	444,618	97,479	68,682	352,876	**963,655**
2005	182,665	125,413	99,785	29,620	437,483	107,847	66,682	267,237	**879,249**
2004	204,402	125,008	94,033	22,131	445,574	78,478	65,290	243,297	**832,639**
2003	200,509	110,122	80,968	14,994	406,593	62,348	64,690	201,818	**735,449**
2002	222,210	74,958	72,924	8,717	378,809	55,564	59,000	189,177	**682,550**
2001	196,051	59,907	73,465	1,439	330,862	41,249	58,700	146,411	**577,222**
2000	125,975	52,168	71,153	-	249,296	-	-	118,111	**367,407**

Source: UPMC Records

International and Commercial Services Division

The goal of UPMC's International and Commercial Services Division ("ICSD") is to leverage UPMC's capabilities to generate new revenue streams. This is accomplished by exporting medical expertise and management know-how internationally, pursuing commercialization opportunities and developing strategic partnerships with industry leaders. These ventures support UPMC's core mission and help to revitalize the economy of western Pennsylvania. ICSD accounted for approximately $84 million in operating revenues for the year ended June 30, 2009. Major initiatives within ICSD are summarized below.

International. UPMC's longest international involvement is through the *Istituto Mediterraneo per i Trapianti e Terapie ad Alta Specializzazione* ("ISMETT"), a joint venture of UPMC and the Italian Region of Sicily, including two public hospitals in Palermo. ISMETT, a transplant and specialty surgery hospital, has performed over 1,700 transplants since 1997. The collaboration has brought world-class transplant and other specialty health care services to southern Italy. UPMC has provided management and professional medical staffing to ISMETT under a management contract since October 1997. In spring 2004, ISMETT relocated from its temporary 16-bed facility within Civico Hospital, to a newly constructed 70-bed facility owned by the Region of Sicily. UPMC and the Region of Sicily recently extended the management contract for ISMETT through 2014.

In February 2009, UPMC and the Ri.Med Foundation executed a management agreement whereby UPMC will operate and manage a to-be-constructed biotechnology research facility in Sicily. Facility planning and the selection of a project team are underway. In addition to the existing funding, the Italian Government has allocated €150 million to fund the project for the calendar years 2011 – 2013.

Building on the initial successes in Italy, UPMC is exporting its business methods, talent and expertise to other parts of the world. In Qatar, UPMC provides emergency management services including education, training and overall improvement of emergency medical care to Hamad Medical Corporation pursuant to a contract, the term of which began in 2006 and is scheduled to terminate in May 2010. During the term of this contract, the services rendered by UPMC pursuant thereto will have generated approximately $55 million of revenue to UPMC. Discussions are ongoing concerning the renewal of this contract.

In February 2008, UPMC, in a joint venture with the Beacon Medical Group, Dublin, Ireland ("BMG"), became the operator and a 25% equity owner of the private Beacon Hospital in Dublin, Ireland. BMG was an Irish holding company that owned both the real estate and operating company for Beacon Hospital. On August 26, 2009, UPMC completed a restructuring of the investment in Beacon Hospital whereby UPMC's ownership in the operating and property companies increased to 66.7%. This transaction was consummated via the purchase of equity for €25 million. The hospital is now operated as UPMC Beacon. The transaction also provided UPMC with a 40% interest in three potential co-location projects created to develop private hospitals in various parts of Ireland.

In addition to the equity investment, UPMC provided guarantees pursuant to its 2007 Master Indenture and its 1995 Master Indenture of €25 million of UPMC Beacon's long term debt and up to €18 million of short term debt to be used for working capital.

In February 2009, UPMC executed a hospital development agreement with the Leptos Group in Cyprus which includes the management of an existing 36-bed hospital in Paphos, Cyprus and the intent to co-develop and manage a new 100-bed hospital to be called the

Neopolis Hospital. Neapolis Hospital is part of a planned mixed-use development expected to include a university, a research center, an office park and luxury lifestyle housing, as well as retail, entertainment, cultural and leisure facilities, in one of the largest landscaped parks on the island of Cyprus. Under the 23-year partnership, UPMC will assist in developing centers of excellence in various specialties. The Leptos Group is in the process of securing project financing for the project.

UPMC has contracts with each of Newcastle-upon-Tyne Hospitals and Royal Berkshire NHS Foundation Trust, each a National Health System Foundation Trust in the United Kingdom, to supply and customize a clinical information system from Cerner Corporation. The technology allows clinicians to have immediate access to patient information at the bedside and to rapidly order diagnostic tests and medications electronically. Implementation of the Newcastle-upon-Tyne system was principally completed in December 2009. Implementation planning at Royal Berkshire is underway.

Additionally, UPMC is providing Royal Berkshire with management services related to the hospital's oncology service line in Reading and the surrounding region. Specifically, UPMC is assisting Royal Berkshire in enhancing the service at its cancer "hub" in Reading while creating up to five to-be-developed satellite centers ("spokes") to offer patients state-of-the-art cancer care close to home. The contract runs through 2021.

UPMC continues to identify and pursue additional opportunities in Western Europe, the Mediterranean area, Asia and the Middle-East.

Commercial Services. Commercial Services is the nexus for making direct investments in, or forming joint ventures with, external companies. The strategy in this sector is to work closely and actively with these companies in further developing their products, implementing them into UPMC and ultimately demonstrating their value proposition to facilitate broader market acceptance. This strategy is executed in the context of UPMC being both an equity owner in the company as well as a user of the product, technology or service.

UPMC's investment in dbMotion is a case in point. dbMotion is a provider of web-based technology that facilitates interoperability and health information exchange by providing secure access to patients' medical files at facilities that are otherwise unconnected or have no common data-sharing technologies. UPMC owns a portion of dbMotion and is working collaboratively with the company in further refining its products as well as implementing them within the UPMC network. Additionally, ICSD is actively involved in business development and technology expansion initiatives with dbMotion's management.

UPMC and General Electric Co. jointly own Omnyx LLC, a company that is developing and will market digital pathology solutions. The Pittsburgh-based company is attempting to revolutionize a science that has relied on glass slides and microscopes for more than 125 years to provide better care for patients and improved efficiency for pathologists.

GE Healthcare, a unit of General Electric Company, announced in October that it was collaborating with UPMC in its effort to create an advanced development and production facility for the manufacture of vaccines and therapeutics. This collaboration is part of UPMC's 21st Century Biodefense (21CB) initiative, which envisions an innovative public-private partnership to help meet national biodefense needs. Using disposable manufacturing technology from GE, the proposed UPMC-owned facility would produce multiple vaccines and drugs for the U.S. government to meet threats posed by terrorist attacks and infectious diseases.

UPMC also has joint ventures with dialysis clinics operated by both Fresenius Medical Care ("Fresenius") and Dialysis Clinic, Inc. ("DCI") in the Pittsburgh area. UPMC owns 49% of each joint venture. DCI and Fresenius continue to have day to day management responsibilities of the centers. The investment in these two partnerships is a critical component of UPMC's system-wide initiative to expand and improve its nephrology service line.

Strategic Relationships. The third area of focus of ICSD is the formation of strategic relationships with global leaders in technology, finance and industry. UPMC has created joint development funds with IBM, General Electric and Alcatel-Lucent to develop technologies and build businesses that will improve the quality of health care and reduce its costs. The strategic partnerships that UPMC has established will collectively provide funding to develop solutions to challenging problems facing the health care industry. Several specific programs are currently underway with these partners in such areas as telemedicine and oncology.

Enterprise Services

Information Technology. Over the past decade, UPMC information technology has adapted and expanded to meet the needs of a rapidly growing health system. UPMC has achieved a national reputation for its advances in healthcare information technology and is considered on the cutting-edge of technological integration. UPMC views information technology as the backbone of a fully integrated self regulating health care system and has invested over $1 billion (capital and operating) in information technology over the past five years to improve the quality, safety and efficiency of patient care. The following accolades illustrate the respect UPMC commands in this area:

- Children's Hospital of Pittsburgh of UPMC became the first pediatric hospital in the United States to achieve a Stage 7 Award from HIMSS Analytics, a not-for-profit subsidiary of the Healthcare Information and Management Systems Society (HIMSS). The Stage 7 Award — HIMSS' highest ranking — recognizes a virtually paperless patient record environment and the most comprehensive use of electronic medical records. In November 2009, Magee-Womens Hospital of UPMC, like UPMC Presbyterian, became a Stage 6 HIMSS hospital for their advanced use of a comprehensive electronic medical record.
- UPMC was recognized as one of the "100 Most Wired" hospitals and health systems in the U.S. by *Hospital and Health Networks* magazine. UPMC is one of only five organizations nationwide to make the list for the 11 years the award has recognized "technically savvy" hospitals.
- UPMC is consistently recognized by *InformationWeek* as one of the top 100 organizations in the annual "*InformationWeek 500*" which recognizes the most innovative users of information technology. UPMC was ranked 9th overall on the 2009 list.

Risk Management. UPMC is insured for professional and general liability losses through wholly owned multi-provider insurance companies ("Captives"). The Captives provide primary and excess coverage on an occurrence basis to UPMC subsidiaries and excess coverage on a claims-made basis to employed physicians of UPMC subsidiaries and other entities not included in the consolidated UPMC financial statements. The professional insurance agreements have retrospective clauses, which permit additional premiums or refunds to be made based on actual experience. The Medical Care Availability and Reduction of Error ("MCARE") Act, enacted by the Commonwealth, created the MCARE Fund which provides coverage for claims exceeding the primary layer of professional liability insurance coverage provided by the Captives.

The Captives are comprised of five separate companies that provide different lines of insurance coverage for UPMC, as well as other affiliated companies and physicians. The UPMC insurance program has been in existence for over 30 years in a variety of different structures and provides the following lines of insurance coverage: primary, excess and reinsurance coverage for professional liability risks; primary coverage for general liability, directors and officers, and managed care errors and omissions; and a layer of reinsurance coverage for the UPMC Health Plan. The professional liability insurance program represents the most significant aspect of the risks and activity and insures over 4,000 physicians. All five companies provide professional liability insurance and/or reinsurance coverage for UPMC and subsidiaries and other affiliated entities and physicians as deemed appropriate.

Reserves for professional liability losses and loss adjustment expenses are determined using individual case-based evaluations and statistical analyses and represent an estimate of reported claims and claims incurred but not reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for professional liability losses and loss adjustment expenses are reasonable. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

The MCARE Fund replaced the Pennsylvania Medical CAT Fund as the agency for the Commonwealth to facilitate the payment of professional liability claims exceeding the primary layer of professional liability insurance carried by the hospital and other health care providers practicing in the Commonwealth. The MCARE Fund is funded on a "pay as you go basis" and assesses health care providers based upon a percentage of the rates established by the Joint Underwriting Association (also a Commonwealth agency) for this basic coverage. The MCARE Act provides for the gradual phase-out of MCARE Fund coverage.

Mediation has become an accepted, and in many instances the preferred, method of both plaintiffs and defendants to resolve professional liability claims. Although not every claim is suited to mediation, and many claims can be settled by direct negotiations between the parties, complex issues of medicine, valuation and other issues lend themselves to resolution through the mediation process. UPMC implemented a program just over five years ago that has resolved over 90% of mediated cases.

From October 2004 through January 5, 2010, UPMC has mediated 205 cases and settled 190 of them at the mediation session or shortly thereafter. Of those that did not settle, two resulted in a defense verdict and one went to arbitration with a five figure award for plaintiff. One settled on the first day of trial for costs, while two ended with verdicts for plaintiffs, and the rest are still pending. Several of the successful mediations involved pre-litigation claims. Over the course of the mediation program, the expenses incurred in mediated cases compared to those in cases that were tried to plaintiffs' verdicts or were settled in the same dollar range have averaged approximately $50,000 less per case.

Litigation

UPMC is involved in litigation and responding to requests for information from governmental agencies occurring in the normal course of business. Certain of these matters are in the preliminary stages and legal counsel is unable to estimate the potential effect, if any, upon operations or financial condition of UPMC. Management believes that these matters will be resolved without material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In August 2007, UPMC received a request for information from the Civil Division of the Department of Justice relating to an investigation into the health insurance and hospital services market in and around Pittsburgh, including any potentially anticompetitive agreements. This request covers several prior years. At this time, no specific violations, claims or assessments have been made. Management is cooperating with the information requests and believes that the matter will be resolved without any material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In March and April 2009, several related class action lawsuits were filed against UPMC and certain of its affiliates in the Federal District Court for the Western District of Pennsylvania and the Court of Common Pleas for Allegheny County, Pennsylvania. The Federal District Court cases allege violations of The Fair Labor Standards Act (FLSA) on the basis that certain employees were not paid for all hours that they worked and were not properly paid overtime and, further, that these actions also violated the Employee Retirement Income Security Act (ERISA) and the Racketeer Influenced and Corrupt Organizations Act (RICO). The state court actions allege violations of the Pennsylvania Minimum Wage Act, The Wage Payment and Collection Act and common law on the same factual basis noted above. The lawsuits seek recovery of alleged unpaid wages and benefits and other monetary damages and costs. UPMC does not believe that the allegations have any merit and believes that the matter will be resolved without any material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In April 2009, a lawsuit was filed by West Penn Allegheny Health System (WPAHS) against UPMC and Highmark, Inc. in the Federal District Court for the Western District of Pennsylvania (District Court). The lawsuit alleged that UPMC and Highmark have engaged in violations of the Sherman Antitrust Act on unfair competition against WPAHS and tortious interference with existing and prospective business relations of WPAHS. WPAHS sought equitable relief and unspecified compensatory, treble and punitive damages. In October 2009, WPAHS' lawsuit was dismissed in its entirety, with prejudice, by the District Court. In November 2009, WPAHS appealed the District Court's dismissal. UPMC does not believe that the appeal has merit and believes that the matter will be resolved without any material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

Subsequent Events. On January 25, 2010, an At-Large Member of Allegheny County Council, without the authority of Council (the "Original Plaintiff"), filed a Complaint and parallel Motion for Emergency Temporary/Preliminary Injunction in the Civil Division of the Court of Common Pleas of Allegheny County against the Corporation and the Master Trustee. The Complaint and Motion sought, among other things, a declaratory judgment that the closing of UPMC Braddock Hospital on January 31, 2010 would violate various sections of the 2007 Master Indenture and an injunction preventing the closing of UPMC Braddock Hospital. A

Petition to Intervene was filed by a resident of the Borough of Braddock, and by the Borough of Braddock (collectively, the "Intervenors"). UPMC subsequently filed Preliminary Objections to the Complaint, an Opposition to Plaintiff's Motion for a Preliminary Injunction, and other proceedings. On January 29, 2010, the Court granted the petition of the Intervenors to intervene, and ruled that the Original Plaintiff lacked standing to bring the suit. The Court further ruled, among other things, that the 2007 Master Indenture does not require UPMC to keep the hospital open. The Court granted UPMC's Preliminary Objections and its Motion to Dismiss the Complaint and also dismissed the Motion for Emergency Temporary/Preliminary Injunction. On February 1, 2010, the Original Plaintiff attempted to file a Notice of Appeal with the Pennsylvania Supreme Court. On February 9, 2010, the Supreme Court transferred the case to the Pennsylvania Superior Court. UPMC believes that any appeal has no merit and intends to take appropriate action to fight any appeal. On February 17, 2010, the Original Plaintiff, as attorney for certain individual plaintiffs, filed a similar lawsuit seeking the reopening of UPMC Braddock Hospital and challenging the UPMC's tax-exempt status under Pennsylvania law. UPMC likewise views this action as being without merit and will aggressively defend it

Quality of Patient Care

UPMC is dedicated to making quality inherent in every aspect of the care provided. UPMC's quality and safety initiatives cover a wide range including:

- Focused clinical efforts that deploy evidence-based medicine impacting clinical and operational practices and involving physicians, nurses, and other clinical and administrative staff;
- Use of advanced simulation capabilities to train clinical personnel in emergency and routine procedures; and
- Implementation of advanced information technology to facilitate care quality processes.

Among UPMC's array of quality initiatives are major system-wide clinical efforts sponsored by the Donald D. Wolff Jr. Center for Quality Improvement & Innovation ("CQII") at UPMC. UPMC has developed and implemented initiatives that focus on enhancing care related to diabetes, congestive heart failure, pneumonia, stroke, wound care, heart attack, and coronary artery bypass graft procedures, as well as reducing all hospital acquired infections and improving hand hygiene. These initiatives involve implementing evidence-based treatment processes.

CQII improvement specialists also partner with health care professionals and leaders across UPMC to support the goal of building the health system of the future by providing the right care to the right patient at the right time, in the right way, every time. An example of this is Condition H (Help), a patient and family initiated rapid response program that has achieved outstanding outcomes at UPMC Shadyside. It is now in place at all UPMC hospitals and is being implemented at hospitals across the country. Other examples of innovative quality initiatives led by CQII include a leadership role as one of three initial hospitals in the country to participate in the national effort to Transform Care at the Bedside co-sponsored by the Institute for Healthcare Improvement and the Robert Wood Johnson Foundation, UPMC's ongoing initiative to transform care delivery at the Hillman Cancer Center by creating extraordinary patient experiences, integrating patients and families in the evaluation and redesign of care delivery processes in UPMC hospitals, and creation of system-wide safety programs like Condition L, a program to escalate and respond swiftly to missing or wandering patients. These initiatives have also achieved impressive clinical outcomes and gained international attention.

UPMC has made major investments in information technology as a strategic component of quality, including integrated inpatient and outpatient electronic health records, medication lists and patient care "alerts" for physicians, as well as computerized physician order entry capabilities.

Many of these quality efforts have been described and published in peer-reviewed, scholarly and professional journals so that innovations and care delivery improvements can be shared and replicated by others.

Community Benefits

UPMC annually performs an in-depth assessment and review of its community benefits. UPMC was a leader in establishing a broad-based financial assistance program that enables uninsured and underinsured individuals and families to qualify for free or discounted services. The program extends to households earning up to 400% of the federal poverty level. During the fiscal year ended June 30, 2008, the cost of these uncompensated care services, along with the shortfalls in government programs for low-income households (Medical Assistance), amounted to $169 million. UPMC's total annual benefits to the community during fiscal year 2008 amounted to over $500 million. In addition to the $169 million in uncompensated care, UPMC also provided $99 million in community health improvement activities and support for other community organizations, and $250 million in costs to support research and educating health professionals.

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Consolidated Utilization Statistics

The following table presents selected consolidated statistical indicators of medical/surgical, psychiatric, sub-acute and rehabilitation patient activity for the six-month periods ended December 31, 2009 and 2008 and for the years ended June 30, 2009 and 2008. Note that statistics include UPMC Mercy beginning January 1, 2008.

Table 5

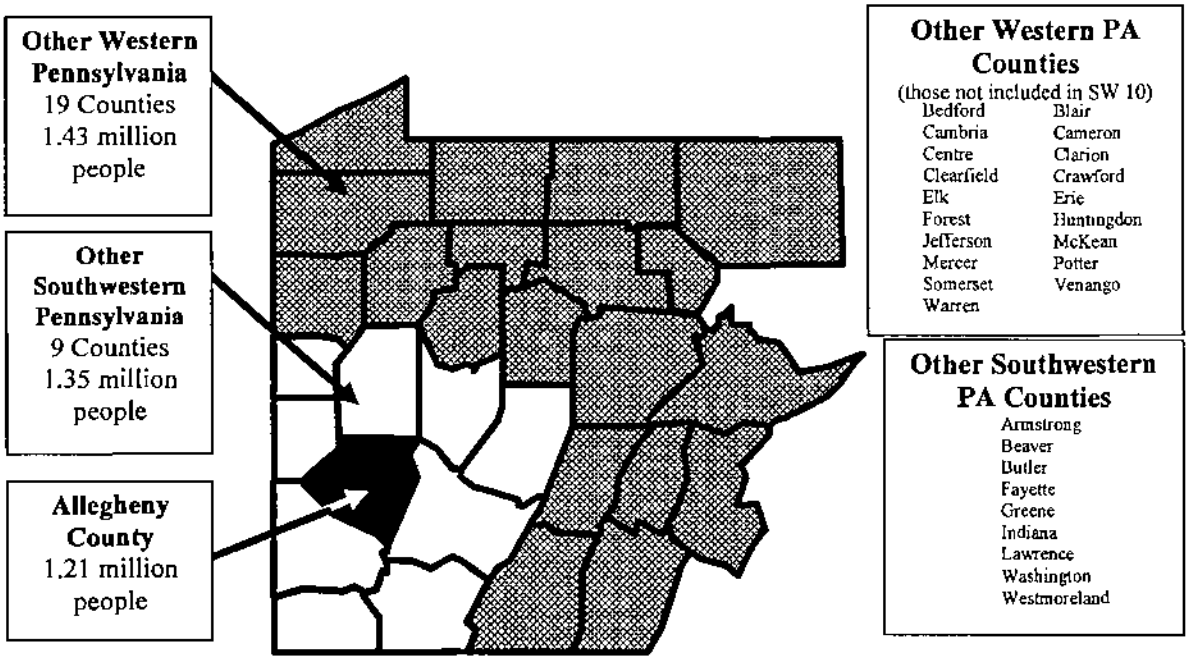
Consolidated Utilization Statistics

	Six Months Ended December 31		Years Ended June 30	
	2009	**2008**	**2009**	**2008**
Licensed Beds	4,136	4,305	4,287	4,294
Beds in Service				
Medical-Surgical	3,150	3,194	3,187	3,204
Psychiatric	423	423	423	415
Rehabilitation	160	183	179	192
Skilled Nursing	163	163	163	154
Total Beds in Service	3,896	3,963	3,952	3,965
Patient Days				
Medical-Surgical	428,542	432,343	873,036	843,857
Psychiatric	68,716	69,177	137,129	126,564
Rehabilitation	23,929	25,017	47,704	45,420
Skilled Nursing	22,305	22,311	44,824	42,984
Total Patient Days	543,492	548,848	1,102,693	1,058,825
Observation Days	25,635	19,385	41,984	41,289
Average Daily Census	3,093	3,088	3,136	3,151
Admissions and Observation Cases				
Medical-Surgical	82,669	84,686	170,063	164,429
Observation Cases	18,556	15,689	34,047	30,714
Subtotal	101,225	100,375	204,110	195,143
Psychiatric	4,925	4,922	9,801	10,360
Rehabilitation	1,919	2,095	3,984	3,934
Skilled Nursing	1,892	1,911	3,837	3,555
Total Admissions and Observation Cases	109,961	109,303	221,732	212,992
Overall Occupancy	79%	78%	79%	79%
Average Length of Stay)				
Medical/Surgical	5.2	5.1	5.1	5.1
Psychiatric	14.0	14.1	14.0	12.2
Rehabilitation	12.5	11.9	12.0	11.5
Skilled Nursing	11.8	11.7	11.7	12.1
Overall Average Length of Stay	5.9	5.9	5.9	5.8
Emergency Room Visits	247,268	237,032	481,174	457,047
Transplants (Pittsburgh)				
Liver	86	62	140	170
Kidney	99	92	179	180
All Other	193	193	388	343
Total	378	347	707	693
Transplants (ISMETT)				
Liver	36	34	65	87
Other	28	25	63	49
Total	64	59	128	136

Service Area and Market Share

UPMC's market includes 29 counties in western Pennsylvania, with a population base of approximately 4 million people. This population includes a large proportion of people aged 65 and over – more than 17% are senior citizens. This age distribution is a significant factor in the mix and scope of health care services delivered.

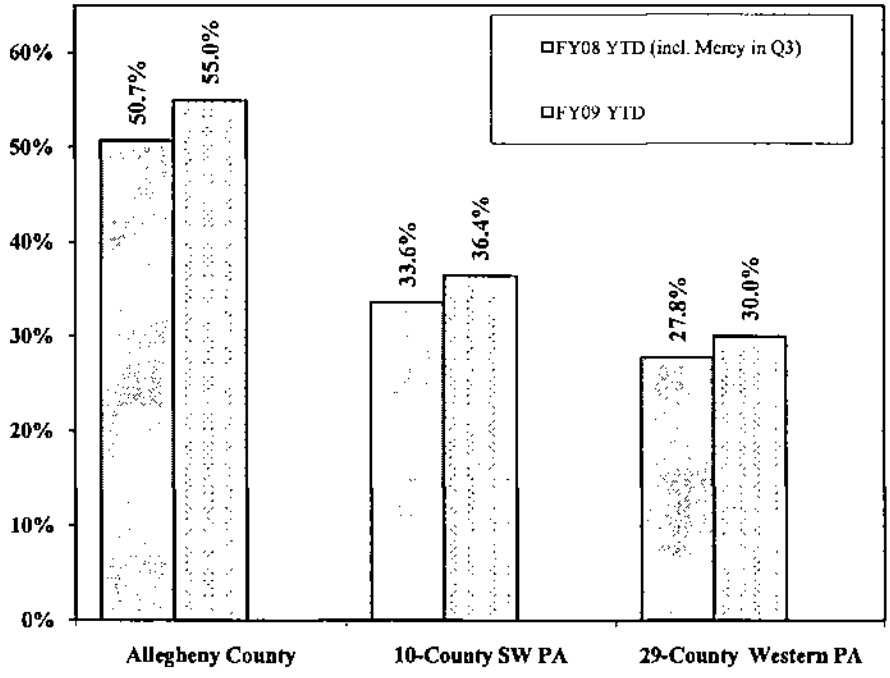
The following map shows counties that are included in UPMC's service area: 1) Allegheny County, 2) the ten county region referred to as southwestern Pennsylvania which includes Allegheny County and nine surrounding other southwestern Pennsylvania counties, 3) the extended twenty-nine county western Pennsylvania region which includes 19 additional western Pennsylvania counties. The population figures are 2009 estimates, which are provided by Nielsen Claritas Site Reports as derived from 2000 Census data.



Source: 2009 Population estimates based on 2000 U.S. Census Data.

The following chart shows the increase in UPMC's estimated inpatient medical-surgical market share[2] for the first three quarters of fiscal years 2008 and 2009 (July 1 through March 31). UPMC's market share includes discharges from UPMC Mercy effective with its integration into UPMC beginning on January 1, 2008. Table 6 shows the decrease in medical-surgical discharges from all hospitals within each service area for the same period. This is the most recent market share data currently available.

UPMC Market Share



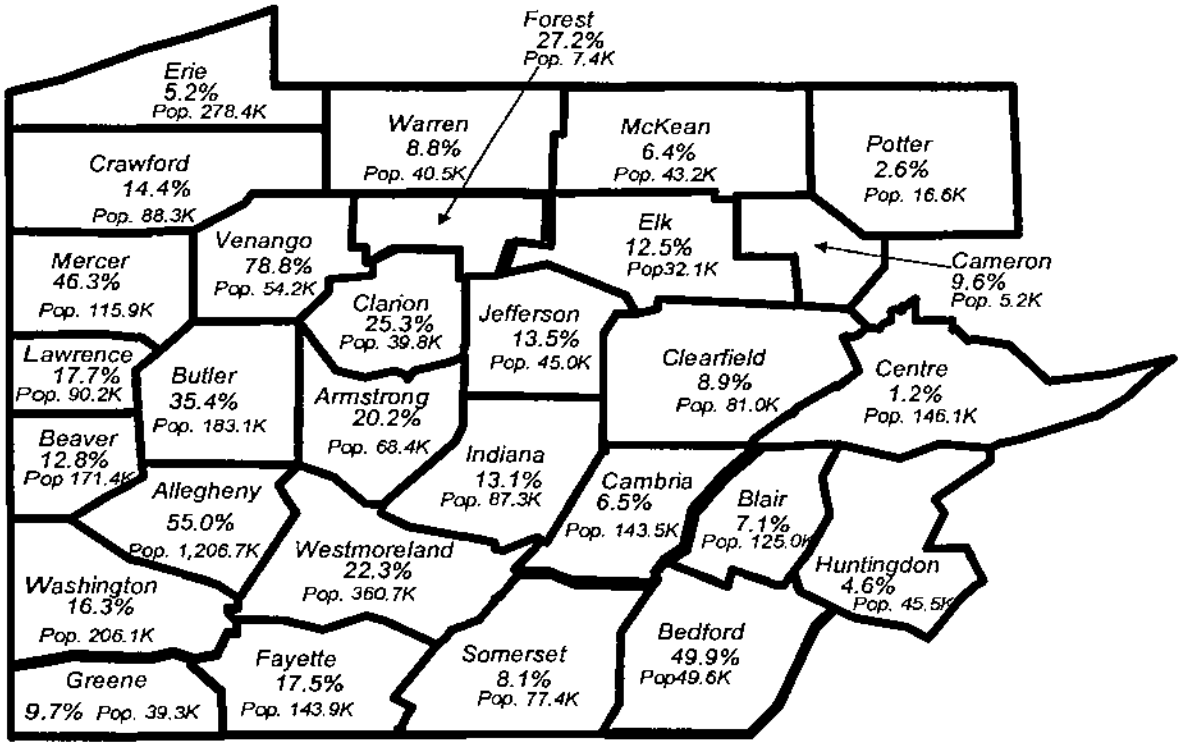
Source: Pennsylvania Health Care Cost Containment Council

Table 6
All Medical-Surgical Discharges Within the Service Areas
FY08 and 09 (July 1 through March 31)

	FY 08 YTD	FY 09 YTD
Allegheny County	129,620	127,095
Southwestern Pennsylvania (10-County Region)	274,496	269,675
Western Pennsylvania (29-County Region)	406,006	399,543

[2] UPMC's three service areas are (1) Allegheny County, (2) a 10-county region including Allegheny, Armstrong, Beaver, Butler, Fayette, Greene, Indiana, Lawrence, Washington and Westmoreland counties and (3) a 29-county region which also includes Bedford, Blair, Cambria, Cameron, Centre, Clarion, Clearfield, Crawford, Elk, Erie, Forest, Huntingdon, Jefferson, McKean, Mercer, Potter, Somerset, Venango, and Warren counties.

The following map summarizes UPMC's medical-surgical market share within each of the 29 western Pennsylvania counties for the first three quarters of fiscal year 2009 (July 1 through March 31);

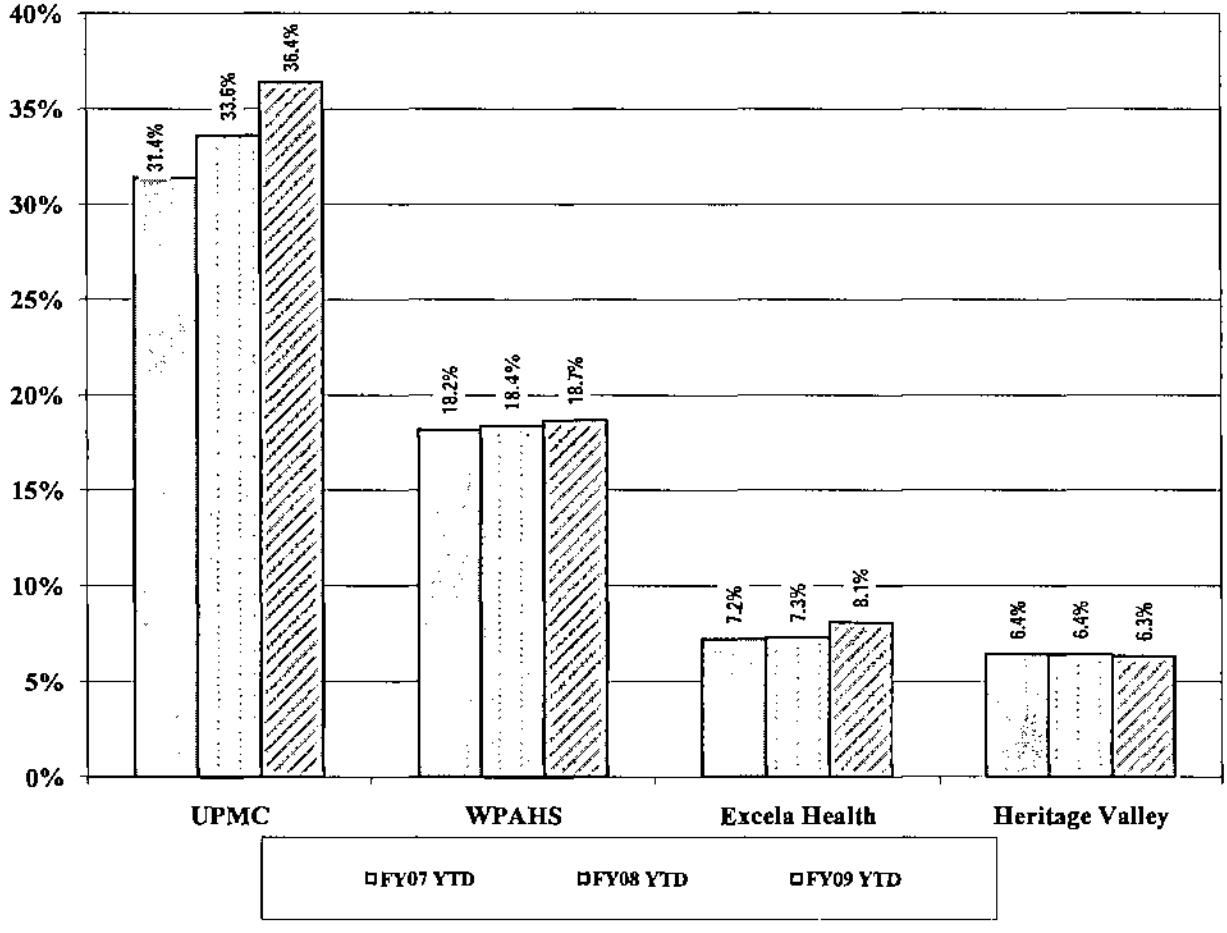


Source: Pennsylvania Health Care Cost Containment Council and U.S. Census Bureau
(2009 population estimate based on 2000 Census of population)

Competitor Data. There are nearly 70 general acute care hospitals in the 29-county region. Within the 10-county southwestern Pennsylvania area, there are nearly 40 general acute care hospitals, including four health systems: UPMC; West Penn Allegheny Health System ("WPAHS") which includes West Penn Hospital (including Forbes Regional Campus), Allegheny General Hospital (including AGH Suburban Campus), Alle-Kiski Medical Center and Canonsburg Hospital; Heritage Valley Health System ("Heritage Valley"), which includes Heritage Valley Beaver and Heritage Valley Sewickley; and Excela Health, which includes Westmoreland Regional Hospital, Frick Hospital, Latrobe Area Hospital, and Mercy Jeannette Hospital.

The following chart compares medical-surgical market share for these four systems for the first three quarters of fiscal years 2007, 2008, and 2009 (July 1 through March 31) for the 10-county region.

Table 7
Medical-Surgical Market Share for the Four Health Care Systems in Southwestern Pennsylvania
FY 07, 08, and 09 YTD (July 1 through March 31)



Source: Pennsylvania Health Care Cost Containment Council

NOTE: The above data are based on health system configurations as they were defined for the time periods noted above. UPMC Mercy's discharges are included under UPMC from January 1, 2008; Mercy Jeannette's discharges are included under Excela Health from May 1, 2008.

In addition to the health systems, several independent community hospitals are located in the southwestern Pennsylvania 10-county region. The following table illustrates medical-surgical market share trends for some of the larger (200+ staffed bed) hospitals for the first three quarters of fiscal years 2007, 2008, and 2009 (July 1 through March 31).

Table 8
Medical-Surgical Market Share for the 10-County Southwest Pennsylvania Region
Independent Community Hospitals With More Than 200 Staffed Beds
FY 07, 08, and 09 YTD (July 1 through March 31)

Facility Name	County	FY 07 YTD	FY 08 YTD	FY 09 YTD
Jefferson Regional Medical Center	Allegheny	4.4%	4.4%	4.3%
St. Clair Memorial Hospital	Allegheny	3.8%	4.0%	4.0%
Butler Memorial Hospital	Butler	2.8%	2.7%	2.7%
Jameson Memorial Hospital	Lawrence	2.6%	2.6%	2.5%
Monongahela Valley Hospital	Washington	2.4%	2.2%	2.0%
Washington Hospital	Washington	3.5%	3.5%	3.6%

Sources: Bed Size – Annual Hospital Questionnaire, Pennsylvania Department of Health
Market Share – Pennsylvania Health Care Cost Containment Council

Material Contracts

Academic Affiliation Agreement. The University and UPMC have entered into an Academic Affiliation Agreement, which addresses UPMC's role as the primary clinical and teaching site for the University's School of Medicine and the Schools of Health Related Professions, the role of the University's School of Medicine faculty and supporting financial arrangements, and a Support Services Agreement, addressing contractual and financial terms for numerous services provided by either party to the other. These agreements commenced on July 1, 1998, and extend to June 30, 2016. Among other provisions, the Services Agreement governs the various services to the University in connection with research grants related to the health sciences.

Highmark Contract. With the exception of Children's and UPMC Mercy, UPMC's Subsidiary Hospitals have various contracts with Highmark Blue Cross Blue Shield ("Highmark") for indemnity and managed care which expire on June 30, 2012. Children's contract with Highmark expires on June 30, 2022. UPMC Mercy's commercial contract with Highmark expires on June 30, 2015.

Employees

For the six months ended December 31, 2009, employee salaries and benefits represented approximately 36% of UPMC's total operating expenses. UPMC's affiliations with the University's Schools of the Health Sciences and other local universities, colleges, and technical schools contribute to the recruiting of clinicians, allied health care staff, and other employees, as do innovations in scheduling and compensation. As a result of UPMC's association with the above-mentioned schools, UPMC's ability to recruit and retain nursing and other personnel has been enhanced. Approximately 3% of UPMC's employees are covered by collective bargaining

agreements. Below is a summary of UPMC's full time equivalent ("FTE") employees as of December 31, 2009 by operating components including an allocation of enterprise services FTE's among these components:

Provider Services	36,583
Insurance Services	1,840
International and Commercial Services	1,288
Total full time equivalent employees	39,711

Retirement Plans. UPMC and its subsidiaries maintain defined benefit pension plans, defined contribution plans, and nonqualified pension plans that cover substantially all of UPMC's employees. Benefits under the defined benefit plans vary and are generally based upon the employee's earnings and years of participation. UPMC's defined benefit pension plans are in compliance with all funding requirements under the Employee Retirement Income Security Act ("ERISA") of 1974. UPMC's policy is to contribute amounts to these plans that are sufficient to avoid additional funding charges from the Pension Benefit Guaranty Corporation. During fiscal year 2009, UPMC contributed $31.2 million to its defined benefit pension plans. UPMC anticipates making contributions of $125.3 million to the plans during the fiscal year 2010. As of December 31, 2009, all of the fiscal year 2010 planned contributions have been made. UPMC currently estimates required contributions to the plans will be $142.9 million during fiscal year 2011, of which $126.7 million is expected to be made on or before September 30, 2010.

Under the defined contribution plans, employees may elect to contribute a percentage of their salary, which is matched in accordance with the provisions of the plans. Contributions to the nonqualified pension plans are based on a percentage of salary or contractual arrangements.

As of July 1, 2009, UPMC reduced the 50% match under its defined contribution plans from 6% of employees' contributions to 4% of employees' contributions. This change is expected to reduce the expense of these plans by approximately $15 million per year.

Investment Management

In addition to funds held for working capital, UPMC maintains several long-term investment portfolios including unrestricted investments held by the Corporation, the Subsidiary Hospitals and insurance subsidiaries, restricted assets, foundation assets, and pension fund assets. The restricted portfolio includes donor-restricted assets. The Investment Committee meets quarterly to review asset allocation and manager performance for a majority of the portfolios. The Investment Committee meets as needed for manager selection.

During the first six months of fiscal year 2010, UPMC's investment portfolio returned 11.8%. As of December 31, 2009, UPMC employed 134 external managers, including 25 traditional investment managers, 23 hedge fund managers and 86 private equity managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of 11.5%, (1.6%) and 3.5% for the trailing one, three, and five-year periods. Approximately 45% of the investment portfolio consists of securities that can be liquidated within three days.

The table below compares reported Investment Income for the six month periods ended December 31, 2009 and 2008 by component.

Investment and Financing Gains (Loss) by Type for the Six-Month Periods Ended December 31 (Dollars in Millions)		
	2009	**2008**
Realized (Losses) Gains	$58	($169)
Interest, Dividends and Fees	10	19
Realized Investment Income (Loss)	$68	($150)
Unrealized Gains (Losses) on Derivative Contracts	47	(146)
Other Unrealized Gains (Losses)	195	(404)
Impairment on Cost Based Investments	(22)	(41)
Investment Gains (Losses)	$288	($741)
Interest Expense	(60)	(44)
Loss on Extinguishment of Debt	0	(1)
Investment and Financing Gains (Losses)	$228	($786)

Indebtedness

The Corporation, its Subsidiary Hospitals and other owned and controlled entities had approximately $3.21 billion in outstanding long-term debt as of December 31, 2009 on a consolidated basis. The amount of debt and other obligations outstanding as of December 31, 2009 was approximately $1.77 billion for the 2007 Master Indenture and $2.74 billion for the 1995 Master Indenture (which includes the $1.77 billion also outstanding for the 2007 Master Indenture). The annualized weighted average interest cost of the debt for the six months ended December 31, 2009 was approximately 3.67% and the annualized cost of capital during the period was 3.82%. This cost of capital includes the accrual of interest payments, the amortization of original financing costs and original issue discount or premium, ongoing costs of variable rate debt, the impact of fourteen derivative contracts used to convert the interest rates on certain portions of the debt and the amortization of gains and losses from certain prior period derivative transactions. (See "Future Financing Plans" below). As of December 31, 2009, approximately 30% of UPMC's long term debt was variable rate and 70% was fixed rate, after giving effect to the above mentioned derivative contracts. The interest cost for the variable and fixed rate debt for the period averaged 0.67% and 4.90% respectively. As of December 31, 2009, UPMC had approximately $216 million of its $300 million line of credit available to fund operating and capital needs.

Beginning in May 2007, UPMC has undertaken a process to standardize its bond covenants. The process consists of the replacement of notes issued under its 1995 Master Indenture with notes issued under its 2007 Master Indenture. Until all of the 1995 MTI notes have been defeased, UPMC will operate under both Master Indentures. As of December 31, 2009, 68.8% of UPMC's debt is secured by both Master Indentures.

Table 10
Outstanding Indebtedness
As of December 31, 2009
(Dollars in Thousands)

Issuer	Original Borrower	Series	Amount Outstanding
Allegheny County Hospital Development Authority	Presbyterian University Hospital	1988B	$33,535
	Presbyterian University Health System, Inc.	1990	72,900
	Magee-Womens Hospital of UPMC	1993	15,215
	UPMC Health System	1997B	43,940
	UPMC Health System	1998B	75,207
	UPMC Health System	1999B	74,600
	UPMC	2003B	40,569
	UPMC	2005B	87,275
	UPMC	2006A	81,300
	UPMC	2007A	175,000
	UPMC	2007B	165,000
	UPMC	2007C	115,395
	UPMC	2007D	96,160
	UPMC	2008A	472,004
	UPMC	2008B	249,016
	UPMC	2008	100,000
	UPMC	2009	24,435
	UPMC	2009A	397,015
	UPMC Senior Communities	2003	37,500
Pennsylvania Higher Educational Facilities Authority	UPMC Health System	1999A	168,027
		2001A	244,177
Allegheny County Industrial Development Authority	UPMC	2004A	80,000
Ulster Bank	UPMC Ireland		197,688
Swap	UPMC		88,022
Market Value			
Miscellaneous	Various		72,704
Total			**$3,206,684**

Includes original issue discount and premium and other.
Source: UPMC Records

Use of Derivatives. UPMC used a combination of fixed and variable rate debt to finance capital needs. To manage the amount and type of this debt, UPMC had fourteen interest rate swap agreements related to debt management as described below. (See "Future Financing Plans" below).

On September 25, 2003, UPMC entered into a $168,090,000 LIBOR-based forward starting floating-to-fixed interest rate swap with a maturity date of December 1, 2025. Payments on this swap began to accrue on July 1, 2004. This swap converts certain of the Series 1990 Bonds and all of the Series 2005B Bonds to a fixed interest rate. UPMC has the right to terminate this contract at a market price at any time. The counterparty on this contract is Goldman Sachs Mitsui Marine Derivative Products, L.P.

On March 28, 2006, UPMC entered into two $85,000,000 swaps that converted the interest rate on its Series 2006A Bonds from fixed rate to variable rate. One swap was a fixed-to-floating swap with a maturity date of January 15, 2036 and the other is a hedged total return swap with a maturity date of January 15, 2011. The counterparty on this contract is JPMorgan Chase Bank, N.A. ("JPMorgan").

On May 16, 2007, UPMC entered into two swaps that convert the interest on the Series 2007A1 Bonds from a LIBOR-based to a SIFMA-based variable rate. The notional amount of the swaps are based on the maturity date of the underlying bonds with $53,905,000 of the bonds due on February 1, 2021 and $46,095,000 of the bonds due on February 1, 2037. The bonds are subject to a mandatory sinking fund redemption and the notional amount of the swaps decrease by the same amounts and dates. The counterparty on this contract is Goldman Sachs Mitsui Marine Derivative Products, L.P.

On May 23, 2007, UPMC entered into a $75,000,000 swap that converted the interest on the Series 2007A2 Bonds from fixed rate to variable rate. The maturity date of this swap is February 1, 2011. The counterparty on this contract is Merrill Lynch Capital Services, Inc.

On July 12, 2007, UPMC entered into two $100,000,000 swaps with two different counterparties that converted the interest on the Series 2007B1 Bonds from fixed rate to variable rate. One swap was a fixed-to-floating swap with a maturity date of April 15, 2039 and the other is a hedged total return swap with a maturity date of October 15, 2010. The counterparty on the fixed-to-floating contract is Morgan Stanley Capital Services Inc. and the counterparty on the hedged total return contract is JPMorgan.

On July 12, 2007, UPMC entered into two $65,000,000 swaps that converted the interest on the Series 2007B2 Bonds from fixed rate to variable rate. One swap was a fixed-to-floating swap with a maturity date of April 15, 2039 and the other is a hedged total return swap with a maturity date of October 15, 2012. The counterparty on this contract is Royal Bank of Canada.

On November 8, 2007, UPMC entered into two $120,000,000 swaps with two different counterparties that converted the interest on the Series 2007C Bonds from fixed rate to variable rate. One swap was a fixed-to-floating swap with a maturity date of August 1, 2037 and the other is a hedged total return swap with a maturity date of February 1, 2011. The counterparty on the fixed-to-floating contract is Goldman Sachs Mitsui Marine Derivative Products, L.P. and the counterparty on the hedged total return contract is JPMorgan.

On November 8, 2007, UPMC entered into a $100,000,000 swap that converted the interest on the Series 2007D Bonds from fixed rate to variable rate. The maturity date of this swap is April 9, 2010. The counterparty on this contract is Merrill Lynch Capital Services, Inc.

On July 15, 2008, UPMC purchased a $34,000,000 interest rate cap in connection with the $37,500,000 Allegheny County Hospital Development Authority, Variable Rate Demand Revenue Bonds, Series of 2003 (UPMC Senior Communities, Inc.). The maturity of the cap is July 15, 2013. The counterparty on this contract is JPMorgan.

As of December 31, 2009, UPMC was required to post $12.4 million in cash collateral under the terms of these contracts.

Certain of these derivatives contracts are expected to be terminated in connection with the issuance of the 2010 Bonds as described below under "Future Financing Plans".

Future Financing Plans. As summarized below, UPMC is planning to issue up to $1.105 billion of fixed and variable rate debt (the "2010 Bonds") to refinance a similar amount of its existing fixed and variable rate debt (the "2010 Refunding Program"). Following this refinancing, UPMC expects that approximately 80% of its debt will be fixed rate debt and 20% will be variable rate debt, and to have terminated 10 of the 14 derivative contracts currently used to manage the interest rates on its debt.

Pursuant to the 2010 Refunding Program, the Corporation intends to refinance all or a portion of the outstanding bonds listed in the table below. After issuance of the 2010 Bonds, UPMC expects to decrease total outstanding debt to approximately $3.1 billion for fiscal years 2011 through 2015.

Table 11
Outstanding Bonds to Be Refunded

Issuer	Principal Amount	Description
Allegheny County Hospital Development Authority	$33,535,000	Adjustable Convertible Extendable Securities – ACES Hospital Revenue Bonds, 1988 Series B-1, B-2 and B-3 (Presbyterian-University Hospital)
	$72,900,000	Health Center Revenue Bonds, Series 1990 A, B, C, and D
	$15,215,000	Hospital Revenue Bonds, Series 1993 (Magee-Womens Hospital)
	$75,460,000	Health Center Revenue Refunding Bonds, Series 1998B (UPMC Health System)
	$74,390,000	UPMC Health System Revenue Refunding Bonds, Series 1999B
	$80,100,000	University of Pittsburgh Medical Center Revenue Bonds, Series 2005B
	$79,900,000	University of Pittsburgh Medical Center Revenue Bonds, Series 2006A
	$75,000,000	University of Pittsburgh Medical Center Revenue Bonds, Subseries 2007A-2
	$100,000,000	University of Pittsburgh Medical Center Revenue Bonds, Subseries 2007B-1
	$65,000,000	University of Pittsburgh Medical Center Revenue Bonds, Subseries 2007B-2
	$115,395,000	University of Pittsburgh Medical Center Revenue Bonds, Series 2007C
	$96,160,000	University of Pittsburgh Medical Center Revenue Bonds, Series 2007D
	$100,000,000	University of Pittsburgh Medical Center Revenue Notes, Series 2008
Pennsylvania Higher Educational Facilities Authority	$166,975,000	UPMC Health System Revenue Bonds, Series 1999A
	$244,415,000	UPMC Health System Revenue Bonds, Series 2001A

Simultaneously, with the issuance of the 2010 Bonds, the Corporation also intends to terminate the ten derivative contracts listed in the table below. For a more detailed description of each contract, see "Use of Derivatives" above.

Table 12
Derivative Contract Terminations

Notional	Counterparty/Description
$79,900,000	JP Morgan/Hedged Total Return Swap
$79,900,000	JP Morgan/Fixed Receiver Swap
$75,000,000	Merrill Lynch/Total Return Swap
$100,000,000	JP Morgan/Hedged Total Return Swap
$100,000,000	Morgan Stanley/Fixed Receiver Swap
$65,000,000	Royal Bank of Canada/Hedged Total Return Swap
$65,000,000	Royal Bank of Canada/Fixed Receiver Swap
$115,395,000	JP Morgan/Hedged Total Return Swap
$115,395,000	Goldman Sachs Mitsui Marine Derivative Products, L.P/Fixed Receiver Swap
$96,160,000	Merrill Lynch/Total Return Swap

The 2010 Refunding Program will include the issuance of the 2010 Bonds, which consist of the following six series of bonds, as listed below.

Table 13
2010 Bonds

Issuer	Series	Amount	Description
Allegheny County Hospital Development Authority	2010A	$373,440,000	Fixed Rate, Health Center Revenue Bonds
	2010B	$100,000,000*	Variable Rate, Health Center Revenue Bonds, Deutsche Bank AG New York Branch Letter of Credit
	2010C	$50,000.000*	Variable Rate, Health Center Revenue Bonds, PNC Bank, N.A. Letter of Credit
	2010D	$150,000,000*	Variable Rate, Health Center Revenue Bonds, JP Morgan, N.A. Letter of Credit
	2010F	$97,255,000*	Variable Rate, Health Center Revenue Bonds, Bank of America, N.A. Letter of Credit
Pennsylvania Higher Educational Facilities Authority	2010E	$334,305,000	Fixed Rate, Health Center Revenue Bonds
	Total	**$1,105,000,000***	

*Estimated

Source of Revenues

The patient service revenues of UPMC are derived from third-party payors, which reimburse or pay UPMC for the services it provides to patients covered by such payors. Third-party payors include the federal Medicare Program, the federal and state Medical Assistance Program ("Medicaid"), Highmark and other third-party insurers, such as health maintenance organizations and preferred provider organizations. The following table is a summary of the percentage of the Subsidiary Hospitals' gross patient service revenue by payor source for the six months ended December 31, 2009 and 2008 and the fiscal years ended June 30, 2009 and 2008.

Table 14
UPMC Payor Mix

	Six Months Ended December 31		Fiscal Years Ended June 30	
	2009	**2008**	**2009**	**2008**
Medicare	42%	43%	42%	43%
Medicaid	15%	13%	14%	12%
Highmark	23%	23%	22%	24%
UPMC Health Plan	9%	8%	9%	8%
Other	11%	13%	13%	13%
	100%	100%	100%	100%

Consolidating Condensed Statements of Operations

Each of the three divisions of UPMC records revenues associated with its activities. These activities include transactions with the other divisions. Table 15 shows the Consolidating Condensed Statement of Operations by Division for the twelve-month period ended June 30, 2009. Table 16 shows the Consolidating Condensed Statement of Operations by Division for the six-month period ended December 31, 2009.

Table 15
Consolidating Condensed Statement of Operations for the Twelve Months Ended June 30, 2009
(Dollars in Millions)

	Division				
	Provider Services	ICSD	Insurance Services	Eliminations	Consolidated
Revenues:					
Net patient service revenue	$4,920	$--	$--	($672)	$4,248
Insurance enrollment revenue	--	--	2,904	--	2,904
Other revenue	480	84	45	(40)	569
Total operating revenues	5,400	84	2,949	(712)	7,721
Expenses:					
Salaries, professional fees and benefits	2,698	50	129	(31)	2,846
Supplies, purchased services and general	1,980	49	2,743	(681)	4,091
Depreciation and amortization	357	1	6	--	364
Provision for bad debts	206	1	--	--	207
Total operating expenses	5,241	101	2,878	(712)	7,508
Operating income (loss)*	$159	$(17)	$71	$--	$213

Source: UPMC Records
* Excludes the impact of a non-recurring separation charge of $21 million.

Table 16
Consolidating Condensed Statement of Operations for the Six Months Ended December 31, 2009
(Dollars in Millions)

	Division				
	Provider Services	ICSD	Insurance Services	Eliminations	Consolidated
Revenues:					
Net patient service revenue	$2,571	$28	$--	$(357)	$2,242
Insurance enrollment revenue	--	--	1,496	--	1,496
Other revenue	237	40	66	(19)	324
Total operating revenues	2,808	68	1,562	(376)	4,062
Expenses:					
Salaries, professional fees and benefits	1,395	40	65	(9)	1,491
Supplies, purchased services and general	1,003	32	1,448	(367)	2,116
Depreciation and amortization	189	5	3	--	197
Provision for bad debts	126	2	--	--	128
Total operating expenses	2,713	79	1,516	(376)	3,932
Operating income (loss)*	$ 95	$ (11)	$ 46	$ --	$ 130

Source: UPMC Records
*Excludes the impact of a non-recurring separation charge of $6.8 million.

Management Discussion and Analysis

The following information compares UPMC's financial performance for the six-month periods ended December 31, 2009 and 2008. For information on prior periods, interested persons may access UPMC's prior quarterly bondholder disclosure statements at Digital Assurance Corp's website, www.dacbond.com.

Financial Results for the Six-Month Periods Ended December 31	2009	2008	
Operating Revenues	$4,062	$3,846	▪ **Operating revenues increased by $216 million or 5.6%.**
Operating Income[1]	$130	$115	
Operating Margin	3.2%	3.0%	
Investment and Financing Gain (Loss)	$228	($786)	▪ **Improved investment gains reflect financial market conditions.**
Excess of Revenues over Expenses (Expenses over Revenues)	$334	($689)	
Operating EBIDA[1]	$326	$292	
Capital Expenditures	$156	$285	▪ **UPMC generated $326 million of operating earnings before interest, depreciation and amortization ("Operating EBIDA").**
Reinvestment Ratio	.80	1.61	

Selected Other Information as of	December 31, 2009	June 30, 2009	
Total Cash and Investments	$3,192	$3,014	▪ **Total Cash and Investments, Unrestricted Cash and Investments and related ratios improved due primarily to the improvement in financial markets.**
Unrestricted Cash and Investments	$2,540	$2,343	
Unrestricted Cash and Investments Under Long Term Debt	($330)	($334)	
Days of Cash on Hand	127	121	
Days in Accounts Receivable	32	33	
Average Age of Plant	7.1	7.3	▪ **Average Age of Plant declined to 7.1 years reflecting the newly constructed Children's Hospital of Pittsburgh.**

[1] Excludes the impact of non-recurring separation charges and asset impairment

- Operating revenues for the six months ended December 31, 2009 increased $216 million (5.6%) as compared to the six months ended December 31, 2008 including a $104 million increase in Insurance Services operating revenue driven primarily by higher membership. The remainder of the increase in operating revenues was generated from Provider Services results.
- Operating income for the six months ended December 31, 2009 increased $15 million over the same period in the prior fiscal year as improved Provider Services results were offset by increased depreciation expense ($19) and pension expense ($20).
- Investment and financing gain of $228 million for the six months reflects a gain on UPMC's investment portfolio of 11.8%, derivative mark-to-market adjustments and entries to record impairments on cost-based investments.
- UPMC funded $156 million of capital expenditures to enhance information technology, create new programs and services and maintain infrastructure. Major projects included the UPMC Beacon and Chartwell investment, construction at the UPMC Passavant campus, Senior Communities projects, enhancement of information technology infrastructure, and investments in various patient care software applications.

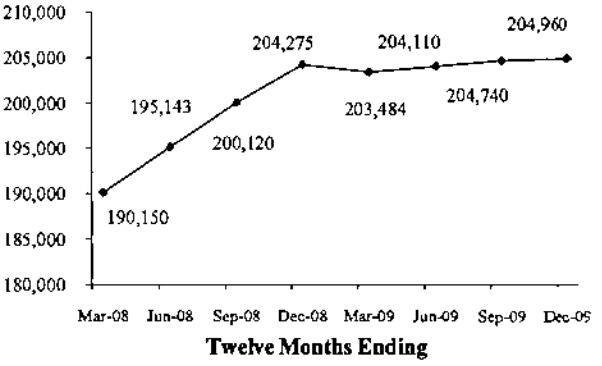
Revenue Metrics - Provider Services

(Dollars in millions)

Medical-Surgical Admissions and Observation Cases

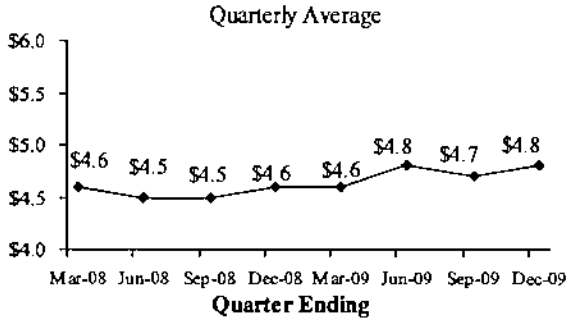
Medical-surgical admissions and observation cases at UPMC's hospitals were up 0.8% for the six months ended December 31, 2009 from the comparable period in 2008.

For the Six Months Ended December 31:			
	2009	Variance	2008
Academic	65,488	1.2%	64,741
Community	25,499	0.9%	25,279
Regional	10,238	(1.1%)	10.,335
Total	101,225	0.8%	100,375



Hospital Outpatient Revenue per Workday

UPMC's outpatient activity for the six months ended December 31, 2009 as measured by average revenue per workday increased by 5% from the comparable period in 2008. Hospital outpatient activity is measured on an equivalent work day (EWD) basis to adjust for weekend and holiday hours.

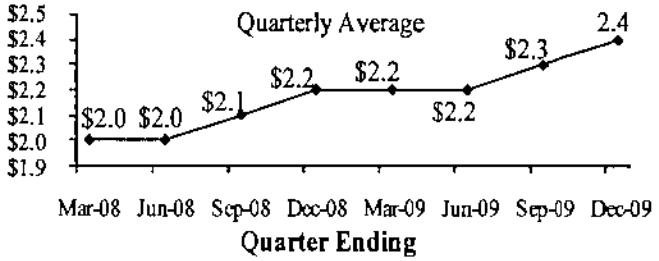


Average for the Six Months Ended December 31:			
	2009	Variance	2008
Academic	$3.222	9%	$2.966
Community	$1.073	(2%)	$1.094
Regional	$0.499	(4%)	$0.519
Total	$4.794	5%	$4.579

Physician Service Revenue per Weekday

UPMC's physician activity for the six months ended December 31, 2009 as measured by average revenue per weekday increased by 11% from the prior period.

Average for the Six Months Ended December 31:			
	2009	Variance	2008
Anesthesiology	$0.405	31%	$0.308
Radiology	$0.282	5%	$0.270
Surgery	$0.262	8%	$0.242
Other	$1.459	8%	$1.346
Total	$2.408	11%	$2.166

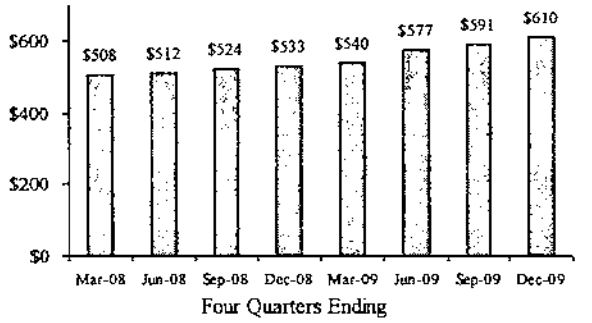


Key Financial Indicators

(Dollars in Millions)

Operating Earnings Before Interest, Depreciation and Amortization[1]

Operating EBIDA for the six month period ended December 31, 2009 increased $34 million (12%) over the six month period ended December 31, 2008 and exceeded $600 million for the past twelve months.

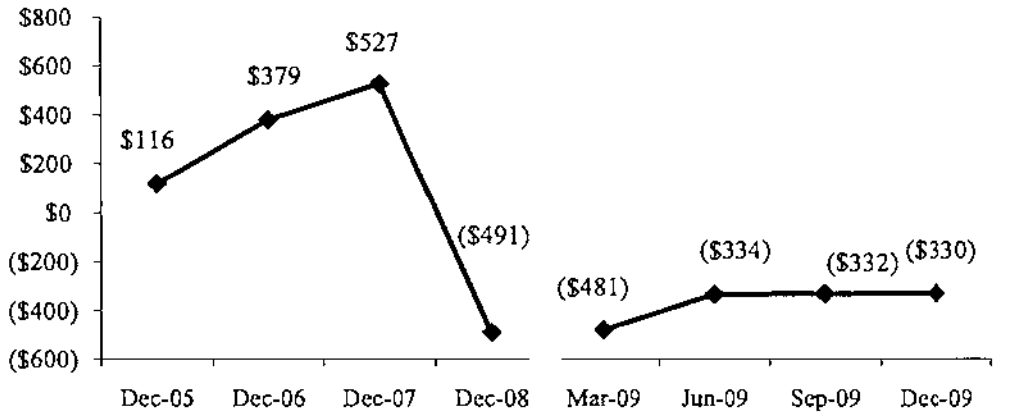


[1]Excludes the impact of non-recurring separation charges and asset impairment

For the Six Months Ended December 31:	2009	2008
Operating Income	$130	$115
Depreciation and Amortization	196	177
Operating EBIDA	$326	$292
EBIDA Margin	8.0%	7.6%

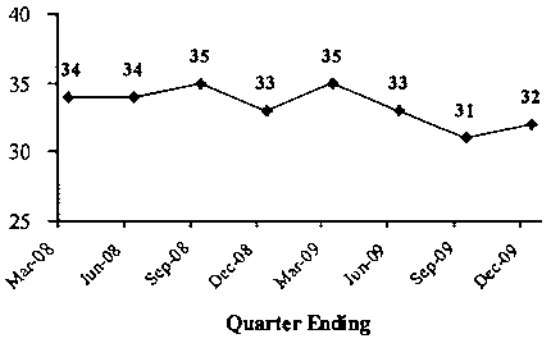
Unrestricted Cash Over (Under) Long Term Debt

Unrestricted cash over long term debt decreased primarily due to the increase in UPMC Beacon debt, more than offsetting the improved conditions in the financial markets.



Days in Accounts Receivable

Consolidated Days in Accounts Receivable continue to be lower than industry averages due to UPMC's rigorous procedures in this area.

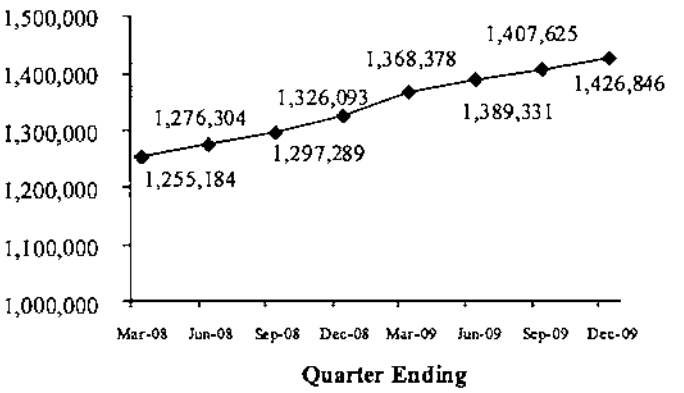


By Division as of December 31	2009 Balance	Days: 2009	Days: 2008
Provider Services	$476	36	40
International and Commercial services	$38	88	47
Insurance Services	$184	22	22
All Divisions	$698	32	33

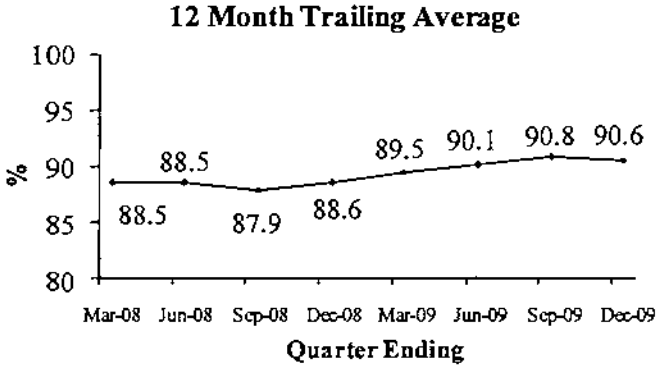
Operating Metrics – Insurance Services

Membership

Membership in the UPMC Insurance Services Division increased to 1,426,846 as of December 31, 2009. The increase since September 2009 is a result of growth in membership of Behavioral Health and Medicaid of 13,000 and 4,000, respectively.



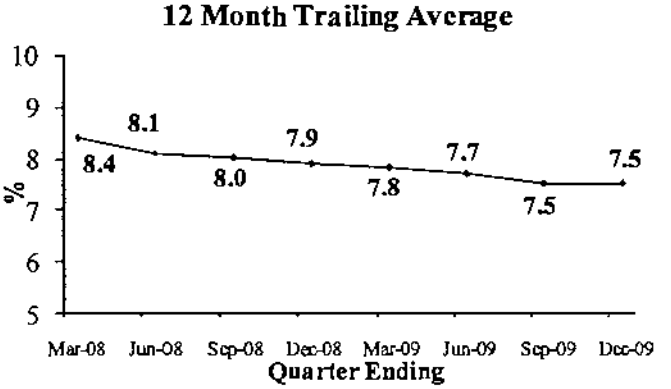
Healthcare Spending Ratio



The increase in the healthcare spending ratio is primarily attributable to current economic conditions which are impacting all market segments nationally.

Administrative Expense Ratio

UPMC Insurance Services maintains one of the lowest administrative expense ratios in the insurance industry.



APPENDIX B

AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF UPMC
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND JUNE 30, 2008

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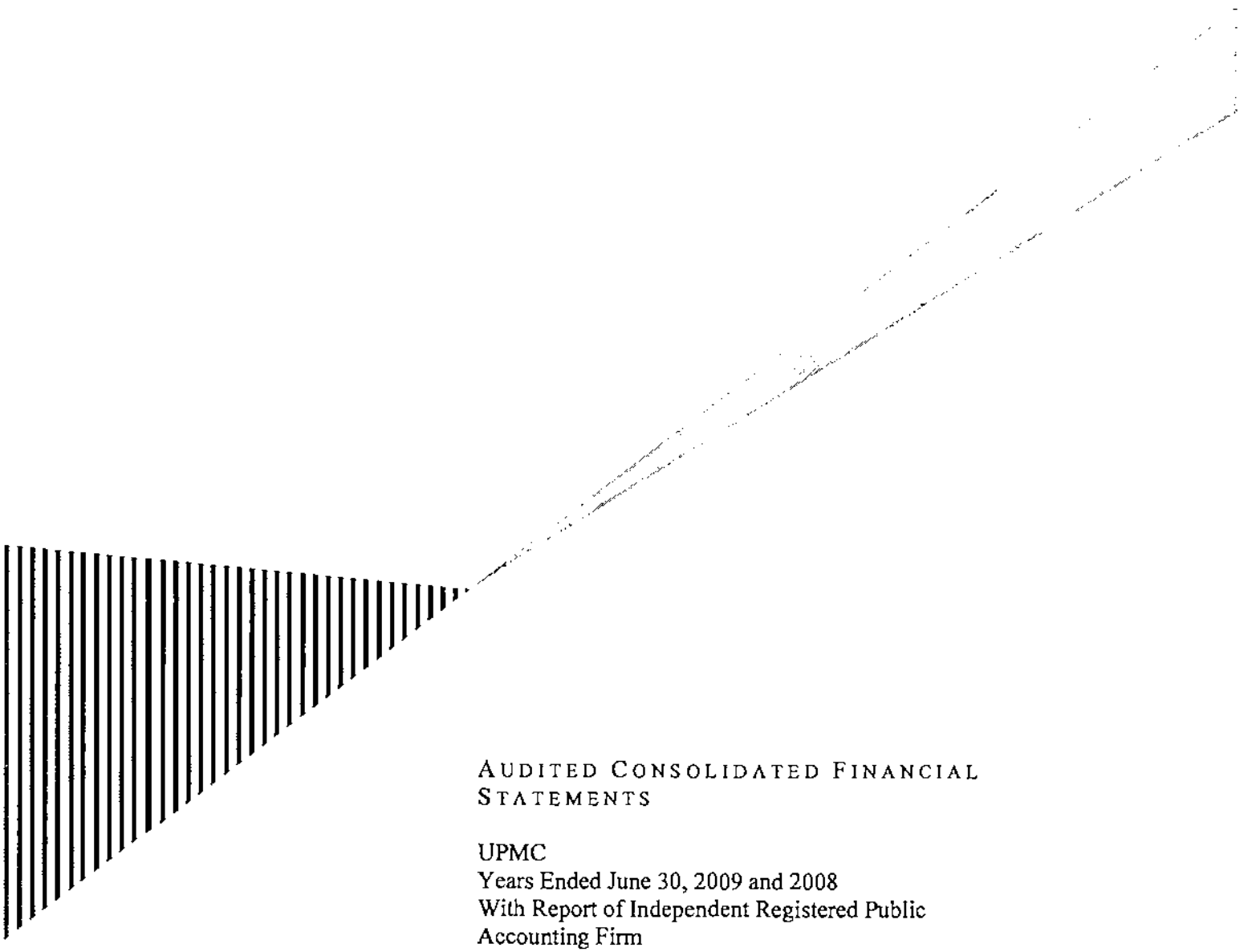

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

UPMC
Years Ended June 30, 2009 and 2008
With Report of Independent Registered Public Accounting Firm

Ernst & Young LLP

ERNST & YOUNG

UPMC

Audited Consolidated Financial Statements

Years Ended June 30, 2009 and 2008

Contents

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Report of Independent Registered Public Accounting Firm

The Board of Directors
UPMC
Pittsburgh, Pennsylvania

We have audited the accompanying consolidated balance sheets of UPMC as of June 30, 2009 and 2008, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of UPMC's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentations. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of UPMC at June 30, 2009 and 2008, and the consolidated results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), UPMC's internal control over financial reporting as of June 30, 2009, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated September 16, 2009, expressed an unqualified opinion thereon.

Ernst + Young LLP

September 16, 2009

UPMC

Consolidated Balance Sheets

(In Thousands)

	June 30	
	2009	**2008**
Assets		
Current assets:		
Cash and cash equivalents	**$ 176,910**	$ 76,906
Patient accounts receivable, net of allowance for uncollectible accounts of $72,446 in 2009 and $78,100 in 2008	**402,798**	435,461
Other receivables	**321,209**	269,568
Securities lending receivable	**6,612**	230,180
Other current assets	**89,229**	85,628
Total current assets	**996,758**	1,097,743
Board-designated, restricted, trusteed, and other investments, including securities pledged to creditors of $6,448 in 2009 and $223,987 in 2008	**2,836,647**	3,162,806
Beneficial interests in foundations	**252,524**	381,475
Property, buildings, and equipment:		
Land and land improvements	**246,055**	154,656
Buildings and fixed equipment	**3,312,393**	2,624,166
Movable equipment and internal-use software development costs	**1,732,174**	1,640,396
Capital leases	**175,730**	184,370
Construction in progress	**229,230**	809,617
	5,695,582	5,413,205
Less allowance for depreciation	**(2,674,007)**	(2,589,509)
	3,021,575	2,823,696
Other assets	**354,034**	303,128
Total assets	**$ 7,461,538**	$ 7,768,848

	June 30	
	2009	**2008**
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	**$ 337,892**	$ 368,289
Accrued salaries and related benefits	**296,020**	278,022
Current portion of insurance reserves	**243,439**	241,217
Current portion of long-term obligations	**270,027**	104,981
Securities lending collateral payable	**7,421**	230,180
Other current liabilities	**171,422**	161,050
Total current liabilities	**1,326,221**	1,383,739
Long-term obligations:		
Revenue bonds	**2,774,535**	2,435,697
Notes payable and other	**57,321**	70,614
	2,831,856	2,506,311
Pension liability	**275,063**	36,120
Long-term insurance reserves	**157,396**	141,416
Other long-term liabilities	**115,391**	115,186
Total liabilities	**4,705,927**	4,182,772
Net assets:		
Unrestricted	**2,348,877**	3,019,576
Restricted	**406,734**	566,500
Total net assets	**2,755,611**	3,586,076
Total liabilities and net assets	**$ 7,461,538**	$ 7,768,848

See accompanying notes.

UPMC

Consolidated Statements of Operations
and Changes in Net Assets

(In Thousands)

	Year Ended June 30	
	2009	**2008**
Unrestricted net assets		
Revenues:		
Net patient service revenue	**$ 4,247,647**	$ 3,960,510
Insurance enrollment revenue	**2,903,799**	2,534,074
Other revenue	**569,168**	573,086
Total operating revenues	**7,720,614**	7,067,670
Expenses:		
Salaries, professional fees, and employee benefits	**2,867,863**	2,620,167
Supplies, purchased services, and general	**4,090,088**	3,735,731
Depreciation and amortization	**364,274**	329,618
Provision for bad debts	**206,886**	198,619
Total operating expenses	**7,529,111**	6,884,135
Operating income (excluding asset impairment charge and income tax (expense) benefit)	**191,503**	183,535
Asset impairment charge	**–**	(46,801)
Operating income	**191,503**	136,734
Income tax (expense) benefit	**(7,755)**	2,303
After-tax operating income (carried forward)	**183,748**	139,037

UPMC

Consolidated Statements of Operations and Changes in Net Assets (continued)

(In Thousands)

	Year Ended June 30	
	2009	**2008**
After-tax operating income (brought forward)	**183,748**	139,037
Investing and financing activities:		
Investment loss	**(597,043)**	(38,047)
Interest expense	**(88,520)**	(89,809)
Loss on extinguishment of debt	**(1,876)**	(6,235)
Loss from investing and financing activities	**(687,439)**	(134,091)
Nonoperating loss	**(5,818)**	–
Excess of (expenses over revenues) revenues over expenses	**(509,509)**	4,946
Other changes in unrestricted net assets:		
Increase in pension liability	**(227,171)**	(33,618)
Assets released from restriction for capital purchases	**5,407**	1,626
Distributions and pledged support from foundations for capital	**60,573**	13,686
Decrease in unrestricted net assets	**(670,700)**	(13,360)
Restricted net assets:		
Acquired restricted net assets	**–**	8,115
Contributions	**9,900**	15,608
Net realized and unrealized (losses) gains in investments	**(13,870)**	1,285
Assets released from restriction for operations and capital purchases	**(29,273)**	(14,197)
Net decrease in beneficial interests in foundations	**(126,522)**	(34,406)
Decrease in restricted net assets	**(159,765)**	(23,595)
Decrease in net assets	**(830,465)**	(36,955)
Net assets, beginning of year	**3,586,076**	3,623,031
Net assets, end of year	**$ 2,755,611**	$ 3,586,076

See accompanying notes.

UPMC

Consolidated Statements of Cash Flows

(In Thousands)

	Year Ended June 30	
	2009	**2008**
Operating activities		
Decrease in net assets	**$ (830,465)**	$ (36,955)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	**364,274**	329,618
Asset impairment	**–**	46,801
Restricted net assets acquired	**–**	(8,115)
Increase in pension liability	**227,171**	33,618
Decrease in beneficial interests in foundations	**126,522**	34,406
Restricted contributions and investment income	**3,971**	(16,892)
Net decrease (increase) in trading securities	**308,805**	(13,768)
Changes in operating assets and liabilities	**29,018**	29,620
Net cash provided by operating activities	**229,296**	398,333
Investing activities		
Purchase of property and equipment (net of disposals), and other investments	**(555,705)**	(654,723)
Net decrease (increase) in investments designated as nontrading	**17,354**	(6,710)
Acquisition of Mercy Hospital	**–**	(92,279)
Net decrease (increase) in other assets	**1,675**	(58,069)
Net cash used in investing activities	**(536,676)**	(811,781)
Financing activities		
Repayments of long-term obligations	**(129,913)**	(874,383)
Borrowings of long-term obligations	**541,268**	1,193,225
Restricted contributions and investment (loss) income	**(3,971)**	16,892
Net cash provided by financing activities	**407,384**	335,734
Increase (decrease) in cash and cash equivalents	**100,004**	(77,714)
Cash and cash equivalents, beginning of year	**76,906**	154,620
Cash and cash equivalents, end of year	**$ 176,910**	$ 76,906

See accompanying notes.

1. Organizational Overview and Summary of Significant Accounting Policies

UPMC is a Pennsylvania nonprofit corporation and is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code ("Code") as an organization described in Section 501(c)(3) of the Code. Headquartered in Pittsburgh, Pennsylvania, UPMC is one of the leading medical centers in the United States. UPMC is an integrated global health enterprise that has the medical expertise, geographic reach, and financial stability to develop models of excellence that are transforming health care nationally and internationally. UPMC comprises nonprofit and for-profit entities offering medical and health care-related services, including insurance products. UPMC is closely affiliated with the University of Pittsburgh Schools of the Health Sciences ("University"). Together, their combined mission is to deliver outstanding patient care, train tomorrow's health care specialists and biomedical scientists, and conduct groundbreaking research to advance the understanding of the causes and course of disease. This mission is realized through shared academic and research objectives and cross-appointment rights to each other's Board of Directors.

The accompanying consolidated financial statements include the accounts of UPMC and its subsidiaries. The consolidated financial statements are comprised of domestic and foreign nonprofit and for-profit entities that maintain separate books and records as part of their legal incorporation. Intercompany accounts and transactions are eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and investments, which are so near to maturity (maturity of three months or less when purchased) that they present insignificant risk of changes in value.

Net Patient Service Revenue and Accounts Receivable

Net patient service revenue is reported at estimated net realizable amounts in the period in which services are provided. The majority of UPMC's services are rendered to patients under Medicare, Highmark Blue Cross Blue Shield ("Highmark"), and Medical Assistance programs. Reimbursement under these programs is based on a combination of prospectively determined rates and historical costs. Amounts received under Medicare and Medical Assistance programs are subject to review and final determination by program intermediaries or their agents.

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

Provisions for adjustments to net patient service revenue are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue for 2009 and 2008 was increased by approximately $22,257 and $4,036, respectively, for prior-year settlements.

In 2009 and 2008, respectively, the percentage of net patient service revenue derived from Medicare was approximately 31% and 31%, from Medical Assistance programs was approximately 13% and 14% and from Highmark was approximately 25% and 26%.

Laws and regulations governing the Medicare and Medical Assistance programs are extremely complex and subject to interpretation. Compliance with such laws and regulations are subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medical Assistance programs. As a result, there is at least a reasonable possibility that the recorded estimates may change by a material amount in the near term.

Significant concentrations of patient accounts receivable at June 30, 2009 and 2008, include: Medicare 32% and 32%, Highmark 19% and 19%, and Medical Assistance 18% and 16%, respectively. The provision for bad debts is based upon management's assessment of historical and expected net collections considering historical business and economic conditions, trends in health care coverage, and other collection indicators. Periodically throughout the year management assesses the adequacy of the allowance for uncollectible accounts based upon historical write-off experience by payor category. The results of this review are then used to make any modifications to the provision for bad debts to establish an appropriate allowance for uncollectible accounts.

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

Board-Designated, Restricted, Trusteed, and Other Investments

Substantially all of UPMC's investments in debt and equity securities are classified as trading. This classification requires UPMC to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as investment loss in the consolidated statements of operations and changes in net assets. UPMC's investments in debt and equity securities that are donor-restricted assets are designated as nontrading. Unrealized gains and losses on donor-restricted assets are recorded as changes in restricted net assets in the consolidated statements of operations and changes in net assets. Gains and losses on the sales of securities are determined by the average cost method. Realized gains and losses are included in investment loss in the consolidated statements of operations and changes in net assets.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices or model-driven valuations. These investments predominantly include those maintained in a Master Trust Fund ("MTF") and are summarized as nonalternative investments in Note 4.

Investments in limited partnerships that invest in marketable securities (hedge funds) are reported using the equity method of accounting based on information provided by the respective partnership. The values provided by the respective partnerships are based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, UPMC's holdings reflect net contributions to the partnership and an allocated share of realized and unrealized investment income and expenses. The investments may individually expose UPMC to securities lending, short sales, and trading in futures and forward contract options and other derivative products. UPMC's risk is limited to its carrying value. Amounts can be divested only at specified times. The financial statements of the limited partnerships are audited annually, generally as of December 31. These investments are summarized as alternative investments in Note 4.

Investments in limited partnerships that invest in nonmarketable securities (private equity) are primarily recorded at cost if the ownership percentage is less than 5% and are reported using the equity method of accounting if the ownership percentage is greater than 5%. These investments are periodically evaluated for impairment. These investments are summarized as alternative investments in Note 4.

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

Financial Instruments

Cash and cash equivalents and investments recorded at fair value aggregate $1,709,552 and $1,957,076 at June 30, 2009 and 2008, respectively. The fair value of these instruments is based on market prices as estimated by financial institutions. The fair value of long-term debt at June 30, 2009 and 2008 is $2,997,055 and $2,603,488, respectively, based on market prices as estimated by financial institutions. The fair value of amounts owed to counterparties under derivative contracts at June 30, 2009 and 2008 is $125,922 and $46,683, respectively, based on pricing models that take into account the present value of estimated future cash flows.

Beneficial Interests in Foundations

Several of UPMC's subsidiary hospitals have foundations that, according to their bylaws, were formed for the exclusive purpose of supporting and furthering the mission of the respective hospital. The foundations are separate corporations and are not liable for the obligations of UPMC, including any claims of creditors of any UPMC entities. Certain of the foundations are consolidated in the accompanying financial statements. The net assets of other foundations are included in the consolidated balance sheets as beneficial interests in foundations and restricted net assets because the hospitals' use of these assets is at the discretion of the foundations' independent board of directors.

Beneficial interests in foundations of $252,524 and $381,475 and the net assets of the other foundations of $54,941 and $78,042 as of June 30, 2009 and 2008, respectively, are not pledged as collateral for UPMC's debt.

Property, Buildings, and Equipment

Property, buildings, and equipment are recorded at cost or, if donated or impaired, at fair market value at the date of receipt or impairment. Interest cost incurred on borrowed funds (net of interest earned on such funds) during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Costs associated with the development and installation of internal use software are expensed or capitalized depending on whether they are incurred in the preliminary project stage, application development stage, or postimplementation stage.

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

Depreciation is computed using the straight-line method at rates designed to amortize the assets over their estimated useful lives (predominantly ranging from 3 to 40 years) and includes amortization related to capitalized leases. Certain newly constructed buildings have estimated useful lives up to 60 years.

Asset Impairment

UPMC evaluates the recoverability of the carrying value of long-lived assets by reviewing long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable and adjusts the asset cost to fair value if undiscounted cash flows are less than the carrying amount of the asset. Based on this evaluation, in 2008, an asset impairment charge of $46,801 was recorded primarily to reflect the limited alternative use of the former Children's Hospital facilities and equipment following Children's move to its new facility in May 2009. No asset impairment charge was recorded in 2009.

Other Assets

Investments in individual entities in which UPMC has the ability to exercise significant influence but does not control, generally 20% to 50% ownership, are reported using the equity method of accounting. All other noncontrolled investments are carried at cost. Other assets include approximately $75,894 and $90,394 at June 30, 2009 and 2008, respectively, relating to investments in partnerships that provide health care, management, and other goods and services to UPMC, its affiliates, and the community at large.

Health Insurance Revenue and Costs

UPMC's insurance subsidiaries (collectively, "Health Plans") provide health care services on a prepaid basis under various contracts. The Health Plans provide medical services to subscribing participants under agreements that provide for capitated payments based on the number of subscribing enrollees, regardless of the medical services actually performed. Insurance enrollment revenues are recognized as income in the period in which enrollees are entitled to receive health care services. Enrollment revenue includes approximately 75% and 74% for the years ended June 30, 2009 and 2008, respectively, from Medicare and Medical Assistance.

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

Health care costs were approximately $2,585,517 and $2,221,352, of which $658,858 and $584,964 were eliminated in consolidation representing medical services, performed by other UPMC entities for the years ended June 30, 2009 and 2008, respectively. Such costs are included in supplies, purchased services, and general expenses. These costs include estimates of payments to be made on claims reported as of the balance sheet date and estimates of health care services rendered but not reported to the Health Plans. Such estimates include the cost of services that will continue to be rendered after the balance sheet date when the Health Plans are obligated to remit payment for such services in accordance with contract provisions or regulatory requirements. Current accrued insurance reserves include approximately $174,643 and $177,642 at June 30, 2009 and 2008, respectively, relating to estimates of claims payable for health care services.

Unrestricted net assets required to meet statutory requirements of the Health Plans were $184,683 and $155,943 at June 30, 2009 and 2008, respectively.

Derivatives

UPMC uses derivatives to modify the interest rates and manage risks associated with its asset allocation and outstanding debt. UPMC records derivative financial instruments, such as interest rate swaps, as assets or liabilities in the consolidated balance sheets at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. UPMC has entered into interest rate swap agreements to convert a portion of fixed rate debt to a variable interest rate. UPMC also entered into interest rate swap agreements that convert a portion of its variable rate debt to fixed rate debt. As of June 30, 2008, certain of these agreements met the criteria of a hedge and accordingly, were recorded at fair value along with the related debt with no residual effect of changes in the fair value. None of UPMC's swaps outstanding as of June 30, 2009 are designated as hedging instruments and as such, changes in fair value are recognized in investing and financing activity as investment loss in the consolidated statements of operations and changes in net assets.

Restricted Net Assets

Unconditional promises to give cash and other assets are reported at fair value as of the date the promise is received. Conditional promises to give are reported at fair value at the date the

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

condition is met. Contributions are reported as restricted if they are received with donor stipulations that limit the use of the donated assets.

Restricted net assets include $162,478 and $181,489 of permanently restricted net assets held in perpetuity at June 30, 2009 and 2008, respectively. The remainder of restricted net assets is temporarily restricted and primarily represents beneficial interests in foundations and support research and other health care programs. Temporarily restricted net assets are limited by donors and the foundations to a specific time period or purpose. Temporarily restricted net assets are reclassified to unrestricted net assets and included in the consolidated statements of operations and changes in net assets as other revenue or assets released from restriction for capital purchases when the restriction is met.

Nonoperating Loss

Nonoperating loss includes costs not directly associated with patient care, related patient services, or other activities not relating to the core operations of UPMC's business.

Excess of (Expenses Over Revenues) Revenues Over Expenses

The consolidated statements of operations and changes in net assets include excess of (expenses over revenues) revenues over expenses as a performance indicator. Excess of (expenses over revenues) revenues over expenses includes all changes in unrestricted net assets except for contributions and distributions from foundations for the purchase of property and equipment, adjustments for pension liability, discontinued operations, and the cumulative effect of changes in accounting principles.

Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

Reclassifications

Certain reclassifications were made to the 2008 accompanying financial statements to conform to the 2009 presentation. These reclassifications had no impact on the change in net assets or excess of revenues over expenses previously reported.

New Accounting Pronouncements

Effective July 1, 2008, UPMC adopted the Financial Accounting Standards Board's ("FASB") Statement No. 157, Fair Value Measurements, for all financial instruments accounted for at fair value on a recurring basis. The effective date of Statement 157 was subsequently extended for nonfinancial assets and liabilities by FASB Statement Position FAS 157-2, Effective Date of FASB Statement 157; therefore, UPMC will fully adopt all of the provisions of Statement 157 effective July 1, 2009. Statement 157 establishes a new framework for measuring fair value and expands related disclosures. Statement 157 requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market in an orderly transaction between market participants.

In May 2009, the FASB issued Statement No. 164, *Not-for-Profit Organizations: Mergers and Acquisitions*. Statement 164 provides not-for-profit organizations with specific guidance on accounting for mergers and acquisitions, including determining whether a combination between two or more not-for-profit entities is a merger or an acquisition, how to account for each and the disclosures that should be made. Statement 164 is to be applied prospectively to mergers with merger dates on or after December 15, 2009 and to acquisitions with acquisition dates on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. Earlier application is prohibited. UPMC will apply the guidance provided by Statement 164 to acquisitions occurring after July 1, 2010.

In May 2009, the FASB issued Statement No. 165, *Subsequent Events*. Statement 165 establishes general standards of accounting for and disclosure of events or transactions that occur after the balance sheet date, but before the financial statements are issued or available to be issued. Statement 165 is effective on a prospective basis for financial periods ended after June 15, 2009. The adoption of Statement 165 in 2009 did not impact UPMC's financial position or results of operations.

1. Organizational Overview and Summary of Significant Accounting Policies (continued)

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. Statement 168 establishes the FASB Accounting Standards Codification ("Codification") as the single source of authoritative U.S. GAAP to be applied by nongovernmental entities. Statement 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. UPMC will adopt Statement 168 for its quarter ending September 30, 2009 and is currently evaluating the effect on its financial statement disclosures, as all future references to authoritative accounting literature will be referenced in accordance with the Codification.

2. Business Combinations and Affiliation Agreements

On October 31, 2001, UPMC entered into an Integration and Affiliation Agreement ("Children's Agreement") with Children's Hospital of Pittsburgh ("Children's") and Children's Hospital Foundation ("Children's Foundation") whereby UPMC became the sole corporate member of Children's. The Children's Agreement, as amended and supplemented, includes UPMC's (1) commitment to pay the costs of constructing a new hospital and pediatric research facility for Children's ("New Children's Facilities") up to a total of $621,800, and (2) a commitment to cause the funding of pediatric research and clinical programs (collectively, "Additional Funding") to increase by $250,000 over ten years commencing in 2003. This Additional Funding includes funding from government and private grants and awards and other external sources. UPMC's commitment to cause the Additional Funding of pediatric research and clinical programs was fulfilled in 2009.

The New Children's Facilities opened in May 2009. As of June 30, 2009, UPMC's commitment to construct the New Children's Facilities had been fulfilled. Pursuant to the Children's Agreement, the Children's Foundation maintained a mortgage and security interest in Children's former land, buildings, and equipment until the New Children's Facilities were completed. UPMC's obligations with respect to the mortgage and security interest have been satisfied, and UPMC now is permitted to utilize the land, buildings, and equipment associated with the former Children's facility for other purposes designated by UPMC.

The Children's Foundation initially agreed to provide $50,000 of base funding, including funding from private or public contributions, toward the cost of the project. On September 13, 2007, the Children's Foundation agreed to provide additional funding of $46,800 in addition to its base commitment of $50,000. This additional funding commitment is to fund various project scope changes and other costs, and the maximum project cost for the project was increased by an equal amount of $46,800 (thus totaling $621,800). As of June 30, 2009, the remaining commitment of the Children's Foundation toward the funding of

2. Business Combinations and Affiliation Agreements (continued)

the New Children's Facilities is approximately $46,352. Payment of the additional funding commitment is to be received no later than five years from the completion of construction, or May 2014.

The Children's Foundation also agreed to provide annual financial support for a minimum of 20 years (beginning in 2001) for pediatric care, research, and/or education computed at 5% of the rolling average of the corpus (defined as the value of all of the Foundation's assets less any funds held by the Foundation where the donor has directed a different spending provision.) In advance of the fiscal year, the Children's Foundation computes the rolling average of the prior calendar year to determine the 5% payment for the upcoming fiscal year. The amount of support for 2009 and 2008 was $13,569 and $12,302, respectively.

Effective January 1, 2008, Pittsburgh Mercy Health System (PMHS) transferred ownership of Mercy Hospital of Pittsburgh ("MHP") and its associated physician practices to UPMC in a transaction that designates UPMC as the sole corporate member of MHP (the "Transaction"). The Transaction was designed to continue the 160-year-old mission of MHP by operating the renamed UPMC Mercy under the Catholic directives as overseen by the Diocese of Pittsburgh.

As a result of the aforementioned change in control, UPMC assumed sole responsibility for substantially all liabilities and assets of MHP and will donate $30,000 to PMHS in equal installments over a six-year period to support its ongoing mission. The first installment was paid in January 2009.

Pursuant to the Transaction, PMHS retained sponsorship of its cash accumulation pension plan. UPMC agreed to indemnify and hold harmless PMHS for any and all funding deficits related to the plan as determined actuarially each year on the anniversary of the effective date of the Transaction. UPMC recorded an expense of $5,818 in 2009 to reflect a funding deficit related to PMHS' cash accumulation plan as of December 31, 2008. The plan is expected to be terminated no later than December 31, 2011.

The Transaction has been accounted for as a purchase by UPMC with the assets acquired and liabilities assumed recorded at their fair market values as of the effective date of the Transaction. The total consideration exchanged, including the assumption of liabilities, in the Transaction was $175,794. No goodwill was recorded as a result of the Transaction as the total consideration paid closely approximated the fair value of the net assets acquired.

The results of operations of UPMC Mercy are included in UPMC's consolidated statements of operations and changes in net assets beginning January 1, 2008.

(In Thousands)

3. Uncompensated Care and Other Community Benefits

UPMC's patient acceptance policy is based on its mission and its community service responsibilities. Accordingly, UPMC accepts patients in immediate need of care, regardless of their ability to pay. UPMC does not pursue collection of amounts determined to qualify as charity care based on established policies of UPMC. These policies define charity services as those services for which no payment is due for all or a portion of the patient's bill from the patient. For financial reporting purposes, charity care is excluded from net patient service revenue. The amount of charity care provided, determined on the basis of charges, was $226,789 and $187,343 for the years ended June 30, 2009 and 2008, respectively.

4. Cash and Investments

Following is a summary of cash and investments included in the consolidated balance sheets:

	June 30	
	2009	**2008**
Internally designated:		
Funded depreciation	**$ 10,142**	$ 11,786
Employee benefit and workers' compensation self-insurance programs	**17,116**	18,426
Professional and general liability insurance program	**204,362**	209,417
Health insurance programs	**348,843**	314,899
	580,463	554,528
Externally designated:		
Trusteed assets for capital and debt service payments	**314,990**	87,945
Donor-restricted assets	**100,457**	117,811
	415,447	205,756
Investments on loan under securities lending arrangements	**6,448**	223,987
Other long-term investments	**1,834,289**	2,178,535
Board-designated, trusteed, and other investments	**2,836,647**	3,162,806
Cash and cash equivalents	**176,910**	76,906
	$ 3,013,557	$ 3,239,712

(In Thousands)

4. Cash and Investments (continued)

Following is a summary of the composition of cash and investments:

	June 30	
	2009	**2008**
Cash and cash equivalents	**$ 176,910**	$ 76,906
Nonalternative investments:		
Fixed income	**936,051**	709,337
Domestic equity	**158,412**	456,918
International equity	**382,762**	589,414
Public real estate	**29,441**	60,253
Commodities	**25,976**	64,248
	1,532,642	1,880,170
Alternative investments:		
Long/short equity	**239,078**	307,645
Absolute return	**196,897**	230,473
Private equity	**639,867**	536,092
Private real estate	**130,602**	142,475
Natural resources	**97,561**	65,951
	1,304,005	1,282,636
	$ 3,013,557	$ 3,239,712

Investments are primarily maintained in a Master Trust Fund ("MTF") administered using a bank as trustee. As of June 30, 2009, 124 external investment managers handled the investment of the portfolio assets. Of these firms, 17 manage equity investments, 6 manage fixed income investments, and 101 manage alternative investment strategies including hedge funds and private equity. The largest allocation to any alternative investment strategy manager is $32,104. Certain managers use various equity and interest rate derivatives. These instruments are subject to various risks similar to nonderivative financial instruments including market, credit, liquidity, operational, and foreign exchange risk. As of June 30, 2009 and 2008, UPMC had remaining commitments to invest approximately $765,040 and $854,379, respectively, in private equity limited partnerships at various times and amounts, at the discretion of the investment managers, over the next ten years.

(In Thousands)

4. Cash and Investments (continued)

UPMC's agreement with the bank trustee of the MTF allows various brokers to borrow certain designated securities that are secured primarily with cash collateral ranging from 102% to 105% of the securities' market value. Any borrowed securities remain on UPMC's consolidated balance sheets, and fee income is recorded in investment loss. At June 30, 2009 and 2008, brokers borrowed $6,448 and $223,987, respectively.

As of June 30, 2009 and 2008, respectively, UPMC had total investments recorded at cost of $792,728 and $648,612. These investments include private equity investments recorded at cost, as well as assets recorded as other assets in the consolidated balance sheets.

Investment return from cash and investments comprises the following for the years ended June 30, 2009 and 2008, respectively:

	Year Ended June 30	
	2009	**2008**
Interest income	**$ 21,370**	$ 45,678
Dividend income	**23,494**	32,229
Net securities lending revenue	**518**	2,339
Unrealized investment losses	**(113,521)**	(216,206)
Net realized (losses) gains on sales of securities	**(241,350)**	77,848
Net realized and unrealized (losses) gains on limited partnerships	**(99,605)**	80,013
Impairment losses on limited partnerships	**(93,492)**	–
Net losses on direct investments	**(10,088)**	(8,569)
Derivative contracts mark to market	**(63,239)**	(31,741)
Total investment loss	**(575,913)**	(18,409)
Traditional investment manager and trustee fees	**(21,130)**	(19,638)
Net investment loss	**$ (597,043)**	$ (38,047)

Certain of UPMC's investments in debt and equity securities are designated as nontrading (donor-restricted assets). As of June 30, 2009 and 2008, respectively, UPMC had nontrading investments of $100,457 and $117,811. At June 30, 2009 and 2008, respectively, $47,549 and $93,510 of these investments were in an unrealized loss position. Unrealized losses on these investments were $7,175 and $6,691, respectively.

(In Thousands)

4. Cash and Investments (continued)

In managing the UPMC investment strategy, an important consideration is to ensure sufficient liquidity. While UPMC's relationships with its external investment managers vary in terms of exit provisions, a percentage of the agreements allow ready access to underlying assets which are generally liquid and marketable. Investment liquidity as of June 30, 2009 is shown below:

Liquidity Availability	Cash and Cash Equivalents	Nonalternative Investments	Alternative Investments	Total
Within three days	$ 176,910	$ 1,517,595	$ –	$ 1,694,505
Within 30 days	–	15,047	–	15,047
Within 60 days	–	–	28,991	28,991
Within 90 days	–	–	103,667	103,667
More than 90 days	–	–	1,171,347	1,171,347
Total	$ 176,910	$ 1,532,642	$ 1,304,005	$ 3,013,557

5. Credit Arrangements

UPMC has a revolving line and letter of credit facility (the "Revolving Facility") with an available line of $300,000. The Revolving Facility expires on October 25, 2011. The Revolving Facility is used to manage cash flow during the year and to provide for a consolidated method of issuing various letters of credit for certain business units. A note to secure UPMC's repayment obligation with respect to the Revolving Facility was issued under the 1995 UPMC Master Trust Indenture ("1995 UPMC MTI") and is secured by a pledge of and security interest in UPMC parent corporation's gross revenues and UPMC Presbyterian Shadyside's gross revenues as members of the obligated group under the 1995 UPMC MTI.

Advances may be variable rate based on the prime rate or the Federal Funds effective rates, or advances may be fixed on the date of the advance based on the British Bankers' Association Interest Settlement Rate and the reserve requirement on Eurocurrency liabilities. No amounts were outstanding under the Revolving Facility as of June 30, 2009 and $46,335 was outstanding at June 30, 2008.

As of June 30, 2009, UPMC has issued $81,918 of outstanding letters of credit under the Revolving Facility. These letters of credit predominantly support the capital requirements of certain insurance subsidiaries and the self-insured workers' compensation liability.

(In Thousands)

6. Long-Term Obligations and Interest Rate Swaps

Long-term obligations consist of the following:

	June 30	
	2009	**2008**
Fixed rate revenue bonds	**$ 2,373,337**	$ 2,058,777
Variable rate revenue bonds	**623,753**	377,680
Revolving facility	**–**	46,335
Capital leases and other	**84,106**	99,680
Par value of long-term obligations	**3,081,196**	2,582,472
Net premium and other	**20,687**	28,820
	3,101,883	2,611,292
Less current portion	**(270,027)**	(104,981)
Total long-term obligations	**$ 2,831,856**	$ 2,506,311

Revenue instruments outstanding represent funds borrowed by the UPMC parent corporation and various subsidiaries pursuant to loan agreements and lease and sublease financing arrangements with governmental authorities. The bonds were used for the purchase, construction, and renovation of hospital facilities, certain buildings and equipment, as well as the extinguishment of debt. Capital leases and other consist of capital leases that are secured by certain equipment and properties.

During 2009, UPMC issued $527,000 of revenue bonds to refinance outstanding indebtedness of $15,260 and to finance $511,740 of capital expenditures. A loss of $1,876 was recorded related to extinguishment of debt.

The fixed rate revenue instruments bear interest at fixed coupon rates ranging from 3.76% to 6.25% and 4.00% to 6.25% in 2009 and 2008, respectively. The average interest cost for the variable rate instruments was 1.63% and 3.35% during fiscal years 2009 and 2008, respectively. Revenue instruments have varying principal payments and final maturities from 2011 through 2039. Certain revenue bonds are secured by bond insurance ($515,407 and $584,175 in 2009 and

6. Long-Term Obligations and Interest Rate Swaps (continued)

2008, respectively). Reimbursement agreements ($186,435 and $193,065 in 2009 and 2008, respectively) provide loans to UPMC in the amount necessary to purchase a portion of the variable rate demand revenue bonds if not remarketed. The agreements have expiration and repayment dates beyond June 30, 2010.

One of the reimbursement agreements contains subjective acceleration clauses which, if declared by the lender could cause immediate repayment of outstanding loans by UPMC. As a result, the principal amount of $80,000 covered by this agreement has been classified as a current obligation in the accompanying consolidated balance sheets as of June 30, 2009. Management believes the likelihood of an acceleration of amounts due under this reimbursement agreement is remote.

During 2009, the holders of $80,100 of UPMC's Series 2005 X Tender tendered bonds which, under the terms of the bonds, requires UPMC to fund this amount within one year of the tender. As a result, the outstanding principal related to these bonds has been classified as a current obligation in the accompanying consolidated balance sheets as of June 30, 2009.

Revenue instruments in the aggregate amount of debt outstanding of $2,828,202 as of June 30, 2009 are issued under the 1995 UPMC MTI. Included in this amount are instruments totaling $1,944,523 which are also secured under the 2007 UPMC Master Trust Indenture ("2007 UPMC MTI"). UPMC has received consent to replace the 1995 UPMC MTI with the 2007 UPMC MTI on a total of $1,978,058 of revenue instruments. The instruments are secured by a pledge of and security interest in gross revenues of each of the respective MTI obligated groups. Certain amounts borrowed under the 1995 UPMC MTI are loaned to certain subsidiary corporations pursuant to loan and contribution agreements and require the transfer of subsidiary funds to the parent corporation in the event of failure to satisfy the UPMC parent corporation liquidity covenant.

The various indebtedness agreements contain restrictive covenants, the most significant of which are the maintenance of minimum debt service coverage and liquidity ratios, and restrictions as to the incurrence of additional indebtedness and transfers of assets.

(In Thousands)

6. Long-Term Obligations and Interest Rate Swaps (continued)

Aggregate maturities of long-term obligations for the next five years, assuming remarketing of UPMC's variable rate debt, are as follows:

2010	$ 109,927
2011	109,556
2012	313,077
2013	109,885
2014	106,704

Interest paid, net of amounts capitalized, on all obligations was $101,857 and $92,089 in 2009 and 2008, respectively. Capitalized interest of $12,802 and $14,108 was recorded in 2009 and 2008, respectively.

UPMC has interest rate-related derivative instruments to manage its exposure on its debt instruments and its asset allocation. By using derivative financial instruments to manage these risks, UPMC exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes UPMC, which creates credit risk for UPMC. When the fair value of a derivative contract is negative, UPMC owes the counterparty and, therefore, it does not incur credit risk. UPMC minimizes the credit risk in derivative instruments by entering into transactions that require the counterparty to post collateral for the benefit of UPMC based on the credit rating of the counterparty and the fair value of the derivative contract. If UPMC has a derivative in a liability position, UPMC's credit is a risk and FAS 157 fair market values could be adjusted downward. Market risk is the effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

UPMC maintains interest rate swap programs on a variety of its revenue bonds in order to minimize its interest payments. To meet this objective and to take advantage of low interest rates, UPMC entered into various interest rate swap agreements to manage interest rate risk. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in various outstanding bond series.

6. Long-Term Obligations and Interest Rate Swaps (continued)

The total notional amounts of these interest rate swap agreements were $1,153,875 and $1,198,035 at June 30, 2009 and 2008, respectively. During the term of these transactions, the fixed to floating rate swaps convert fixed rate debt to a variable rate; the total return swaps lower the fixed coupon on the underlying debt in exchange for the movement of value on the underlying debt; the floating to fixed rate swaps convert variable rate debt to a fixed rate and the basis swaps convert the interest rate on underlying LIBOR-based bonds to the Securities Industry and Financial Markets Association Municipal Swap Index ("SIFMA Index").

Under the floating rate and basis swaps, UPMC pays a rate equal to the SIFMA Index, an index of seven-day, high-grade, tax-exempt variable rate demand obligations. The SIFMA Index rates ranged from 0.34% to 7.96% (weighted average rate of 1.39%) in 2009 and from 1.24% to 3.95% (weighted average rate of 2.90%) in 2008.

(In Thousands)

6. Long-Term Obligations and Interest Rate Swaps (continued)

The following table summarizes UPMC's interest rate swap agreements:

Swap Type	Expiration Date	UPMC Receives	UPMC Pays	Notional Amount at June 30 2009	Notional Amount at June 30 2008
Fixed to floating*	Expired	5.025%	SIFMA Index	$ –	$ 5,105
Fixed to floating*	Expired	5.275%	SIFMA Index	–	24,455
Floating to fixed	2025	68% one-month LIBOR	3.6%	**152,680**	158,075
Fixed to floating	2036	4.16%	SIFMA Index	**81,300**	82,700
Total return	2011	1.12%	0.0%	**81,300**	82,700
Basis	2021	67% three-month LIBOR plus .2077%	SIFMA Index	**53,905**	53,905
Basis	2037	67% three-month LIBOR plus .3217%	SIFMA Index	**46,095**	46,095
Total return	2011	4.85%	SIFMA Index	**75,000**	75,000
Total return	2010	1.051%	0.0%	**100,000**	100,000
Fixed to floating	2039	4.264%	SIFMA Index	**100,000**	100,000
Fixed to floating	2039	4.264%	SIFMA Index	**65,000**	65,000
Total return	2012	0.956%	0.0%	**65,000**	65,000
Fixed to floating	2037	3.913%	SIFMA Index	**117,740**	120,000
Total return	2011	1.712%	0.0%	**117,740**	120,000
Fixed to floating	2010	5.7605%	Two times SIFMA minus 67% of one-month LIBOR	**98,115**	100,000
				$ 1,153,875	$ 1,198,035

*Meets Statement No. 133 hedge criteria

In addition to the interest rate swaps shown above, UPMC has an equity index swap which expires in 2011. UPMC receives a return based on the S&P 500, and pays the three-month LIBOR rate plus six basis points. The notional amount was $50,000 at June 30, 2009 and 2008.

(In Thousands)

6. Long-Term Obligations and Interest Rate Swaps (continued)

After giving effect to the above derivative transactions, UPMC's variable rate debt was approximately 33% and 34% of the total debt outstanding as of June 30, 2009 and 2008, respectively.

The fair value of UPMC's derivative instruments at June 30, 2009 and 2008 was classified in the balance sheet as follows:

	June 30	
	2009	**2008**
Other assets	**$ 33,790**	$ 17,909
Long-term obligations	**(125,922)**	(46,683)

The effects of changes in the fair value of the derivative instruments on the consolidated statements of operations and changes in net assets for the years ended June 30, 2009 and 2008 are as follows:

Type of Derivative	**Classification of (Loss) Gain Recognized in Excess of (Expenses Over Revenues) Revenues Over Expenses**	**Amount of (Loss) Gain Recognized in Excess of (Expenses Over Revenues) Revenues Over Expenses**	
		2009	**2008**
Interest rate contracts	Investment loss	**$ (71,896)**	$ (26,617)
Equity index contract	Investment loss	**5,156**	(3,382)

UPMC's derivative instruments contain provisions that require UPMC's debt to maintain an investment grade credit rating from certain major credit rating agencies. If UPMC's debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a

6. Long-Term Obligations and Interest Rate Swaps (continued)

liability position at June 30, 2009 and 2008 is $125,922 and $43,601, respectively, for which UPMC has posted collateral of $66,963 and $0, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered to the fullest extent on June 30, 2009, UPMC would be required to post an additional $157,481 of collateral to its counterparties. Pursuant to master netting arrangements, UPMC offsets the fair value of amounts recognized for derivative instruments, including the right to reclaim or obligation to return cash collateral from/to counterparties.

7. Fair Value Measurements

As of June 30, 2009, UPMC held certain assets that are required to be measured at fair value on a recurring basis. These include cash and cash equivalents and certain board-designated, restricted, trusteed, and other investments and derivative instruments.

The valuation techniques used to measure fair value under Statement 157 are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. Statement 157 established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include:

- *Level 1* – Quoted prices for identical assets or liabilities in active markets.
- *Level 2* – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable.
- *Level 3* – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

(In Thousands)

7. Fair Value Measurements (continued)

In accordance with Statement 157, the following table represents UPMC's fair value hierarchy for its financial assets (cash and investments) and liabilities measured at fair value on a recurring basis as of June 30, 2009. The interest rate swaps are valued using internal models, which are primarily based on market observable inputs including interest rate curves. When quoted market prices are unobservable for fixed income securities, quotes from independent pricing vendors based on recent trading activity and other relevant information including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable are used for valuation purposes. These investments are included in Level 2 and include corporate fixed income, government bonds, and mortgage- and asset-backed securities. Public real estate that has a limited liability company structure is classified as Level 2. The net asset value has been derived using quoted market prices for the underlying securities.

	Level 1	Level 2	Level 3	Total Carrying Amount
Assets				
Cash and cash equivalents	$ 176,910	$ –	$ –	$ 176,910
Fixed income	556,836	379,215	–	936,051
Domestic equity	157,587	825	–	158,412
International equity	311,650	71,112	–	382,762
Public real estate	14,395	15,046	–	29,441
Commodities	25,976	–	–	25,976
Derivative instruments (interest rate swaps)	–	33,790	–	33,790
Total assets	$ 1,243,354	$ 499,988	$ –	$ 1,743,342
Derivative instruments (interest rate swaps)	$ –	$ 125,922	$ –	$ 125,922
Total liabilities	$ –	$ 125,922	$ –	$ 125,922

8. Pension Plans

UPMC and its subsidiaries maintain defined benefit pension plans, defined contribution plans, and nonqualified pension plans that cover substantially all of UPMC's employees. Under the defined contribution plans, employees may elect to contribute a percentage of their salary, which is matched in accordance with the provisions of the plans. Contributions to the nonqualified pension plans are based on a percentage of salary or contractual arrangements. Total expense relating to the defined contribution and nonqualified plans was approximately $45,387 and $39,807 for the years ended June 30, 2009 and 2008, respectively.

Benefits under the defined benefit plans vary and are generally based upon the employee's earnings and years of participation. It is UPMC's policy to meet the requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") and the Pension Protection Act of 2006. UPMC's policy is to contribute amounts sufficient to, among other things, avoid Pension Benefit Guaranty Corporation variable premiums. Contributions made to the defined benefit plans were $31,180 and $42,153 for the years ended June 30, 2009 and 2008, respectively. Management anticipates making contributions to the defined benefit plans of $125,306 during the year ending June 30, 2010.

(In Thousands)

8. Pension Plans (continued)

The table below sets forth the accumulated benefit obligation, the change in the projected benefit obligation and the change in the plan assets of the defined benefit pension plans. The table also reflects the funded status of the plans as well as recognized and unrecognized amounts in the consolidated balance sheets.

	June 30	
	2009	**2008**
Accumulated benefit obligation	**$ 822,298**	$ 747,978
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 755,401**	$ 744,985
Service cost	**49,571**	46,093
Interest cost	**49,898**	43,941
Plan amendments	**(38)**	3,982
Actuarial loss (gain)	**27,022**	(37,930)
Benefits paid	**(48,427)**	(45,670)
Projected benefit obligation at end of year	**833,427**	755,401
Change in plan assets		
Fair value of plan assets at beginning of year	**719,281**	728,729
Actual return on plan assets	**(143,670)**	(5,931)
Employer contributions	**31,180**	42,153
Benefits paid	**(48,427)**	(45,670)
Fair value of plan assets at end of year	**558,364**	719,281
Accrued pension liability	**$ 275,063**	$ 36,120

Included in unrestricted net assets at June 30, 2009 and 2008, respectively, are the following amounts that have not yet been recognized in net periodic pension cost:

	June 30	
	2009	**2008**
Unrecognized prior service credit	**$ 15,135**	$ 20,233
Unrecognized actuarial loss	**(331,041)**	(108,998)
Net transition asset	**33**	63
	$ (315,873)	$ (88,702)

(In Thousands)

8. Pension Plans (continued)

Changes in plan assets and benefit obligations recognized in unrestricted net assets during 2009 include:

Current year actuarial loss	$ 226,301
Amortization of actuarial gain	(4,259)
Current year prior service cost	(38)
Amortization of prior service credit	5,137
Amortization of transition obligation	30
	$ 227,171

No plan assets are expected to be returned to UPMC during the year ending June 30, 2010.

Additional information related to the funded status of the defined benefit plans at June 30, 2009 and 2008 is as follows:

		June 30, 2008	
	June 30, 2009	Plans in Overfunded Status	Plans in Underfunded Status
Projected benefit obligation	$ 833,427	$ 49,036	$ 706,365
Fair value of plan assets	558,364	56,041	663,240
Funded status	$ (275,063)	$ 7,005	$ (43,125)

The components of net periodic benefit cost for defined benefit pension plans were as follows:

	Year Ended June 30	
	2009	2008
Service cost	$ 49,571	$ 46,093
Interest cost	49,898	43,941
Expected return on plan assets	(55,609)	(57,613)
Recognized net actuarial loss	4,259	1,572
Amortization of prior service credit	(5,137)	(5,563)
Amortization of transition asset	(30)	(33)
Net periodic benefit cost	$ 42,952	$ 28,397

(In Thousands)

8. Pension Plans (continued)

The actuarial assumptions used to determine the benefit obligations and net periodic pension cost for the defined benefit pension plans are as follows:

	June 30	
	2009	**2008**
Discount rates:		
Used for benefit obligations	**6.70%**	6.95%
Used for net periodic pension cost	**6.95%**	6.25%
Expected rate of compensation increase:		
Used for benefit obligations	**3.75%**	3.75%
Used for net periodic pension cost	**3.75%**	3.75%
Expected long-term rate of return on plan assets	**8.00%**	8.00%
Interest crediting rate	**4.95%**	5.45%

The change in discount rate from 6.95% to 6.70% and the change in interest crediting rate from 5.45% to 4.95% increased the projected benefit obligation by $1,500.

UPMC employs a risk premium approach in determining the expected long-term rate of return on plan assets. Historical markets are studied and long-term historical relationships between equities and fixed income are consistent with the widely accepted capital market principle that assets with higher volatility should generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. Peer data, historical returns, and correlations are reviewed to check for reasonability and appropriateness.

(In Thousands)

8. Pension Plans (continued)

The following is a summary of the pension plan asset allocations at June 30, 2009 and 2008:

	2009	2008	Target
Nonalternative investments:			
Fixed income	**16.2%**	14.8%	12.0%
Domestic equity	**10.5**	17.8	14.0
International equity	**22.4**	18.3	20.0
Public real estate	**2.0**	3.1	1.0
Commodities	**1.5**	2.4	1.0
Total nonalternative investments	**52.6**	56.4	48.0
Alternative investments:			
Long/short equity	**8.3**	10.5	12.0
Absolute return	**8.7**	8.3	8.0
Private equity	**23.3**	18.2	19.0
Private real estate	**4.6**	4.7	8.0
Natural resources	**2.5**	1.9	5.0
Total alternative investments	**47.4**	43.6	52.0
Total	**100.0%**	100.0%	100.0%

UPMC employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities, plan funded status, and corporate financial condition. The investment portfolio contains a diversified blend of equity, fixed-income, and alternative investments. Equity investments are diversified across United States and non-United States corporate stocks, as well as growth, value, and small and large capitalizations. Other assets such as real estate, private equity, and hedge funds are used to enhance long-term returns while improving portfolio diversification. UPMC's external investment managers may use derivatives to gain market exposure in an efficient and timely manner. Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset/liability studies.

(In Thousands)

8. Pension Plans (continued)

As of June 30, 2009, UPMC employed 72 external investment managers to handle the investment of the assets in the pension portfolio. Of these, 12 managers manage equity investments, 5 manage fixed income investments, and 55 managers oversee alternative investment strategies. The largest allocation to any alternative investment manager is $10,745.

The following pension benefit payments, which reflect expected future service, as appropriate, are expected to be paid in the years ending June 30:

2010	$ 77,549
2011	72,290
2012	76,297
2013	80,517
2014	84,392
2015–2019	465,467

9. Professional and General Liability Insurance

UPMC is insured for professional and general liability losses through wholly owned, multiprovider insurance companies ("Captives"). The Captives provide primary and excess professional liability coverage on an occurrence basis to UPMC subsidiaries and excess professional liability coverage on a claims-made basis to employed physicians of UPMC subsidiaries and other entities not included in the consolidated financial statements.

9. Professional and General Liability Insurance (continued)

Certain insurance agreements have retrospective clauses that permit additional premiums or refunds to be made based on actual experience. The reserve for professional and general liability indemnity losses and loss adjustment expenses is determined using individual case-based evaluations and statistical analyses and represent an estimate of reported claims and claims incurred but not reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for professional and general liability losses and loss adjustment expenses are reasonable. The estimates are reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations. Reserves for professional and general liability losses and loss adjustment expenses of approximately $193,626 and $168,262 discounted at 2.5% and 4.0% were recorded as of June 30, 2009 and 2008, respectively. The effect of the change in discount rate from 4.0% to 2.5% increased the reserves for professional and general liability losses by $6,000. At June 30, 2009 and 2008, respectively, $53,403 and $43,654 of the loss reserves are included in current accrued insurance reserves and $140,223 and $124,608 are reported as accrued long-term insurance reserves.

The Medical Care Availability and Reduction of Error ("MCARE") Act was enacted by the legislature of the Commonwealth of Pennsylvania ("Commonwealth") in 2002. This Act created the MCARE Fund, which replaced The Pennsylvania Medical Professional Liability Catastrophe Loss Fund (the "Medical CAT Fund"), as the agency for the Commonwealth to facilitate the payment of medical malpractice claims exceeding the primary layer of professional liability insurance carried by UPMC and other health care providers practicing in the Commonwealth.

The MCARE Fund is funded on a "pay as you go basis" and assesses health care providers, based on a percentage of the rates established by the Joint Underwriting Association (also a Commonwealth agency) for basic coverage. The MCARE Act of 2002 provides for a further reduction to the current MCARE coverage of $500 per occurrence to $250 per occurrence and the eventual phase-out of the MCARE Fund, subject to the approval of the PA Insurance Commissioner. To date, the PA Insurance Commissioner has deferred the change in coverage and eventual phase-out of the MCARE Fund to future years.

10. Workers' Compensation Self-Insurance

UPMC is self-insured for workers' compensation losses up to a maximum limit of $1,000 per occurrence. Losses incurred over this limit are covered by a supplemental catastrophic policy up to specified limits with a commercial insurer. Estimated accruals for workers' compensation were $22,597 and $22,176 discounted at 3.75% and 4.25% as of June 30, 2009 and 2008, respectively.

11. Related-Party Transactions

UPMC purchases and sells certain services from and to the University. The most significant payment to the University is for physician services whereby the University, acting as a common paymaster, invoices UPMC for the clinical services rendered by certain faculty and medical residents. Payments to the University related to physician services amounted to $130,110 and $126,788 for the years ended June 30, 2009 and 2008, respectively.

UPMC provides financial support to the University to sustain the research and academic medical enterprise of the University. Payments to the University related to research and academic support amounted to $87,263 and $86,301 for the years ended June 30, 2009 and 2008, respectively.

UPMC has various facility rental agreements with the University. UPMC received rent income of $14,660 and $14,436 and incurred rent expense of $10,575 and $10,279 related to rental arrangements with the University for the years ended June 30, 2009 and 2008, respectively, which are also included in Note 12.

The University subcontracts with UPMC to perform research activity. Payments from the University related to research activity were $41,661 and $41,045 for the years ended June 30, 2009 and 2008, respectively.

UPMC has equity investments in entities that sell and purchase various patient care related services to and from UPMC. Payments to equity investment entities were $76,432 and $67,290 for the years ended June 30, 2009 and 2008, respectively. Revenues from equity investment entities were $52,577 and $39,538 for the years ended June 30, 2009 and 2008, respectively.

Receivables and payables are settled with affiliated entities in the normal course of business. Other receivables include $13,994 and $6,658 as of June 30, 2009 and 2008, respectively, relating to amounts due from affiliates in connection with these transactions.

12. Operating Leases and Other Long-Term Agreements

UPMC has entered into certain long-term agreements with respect to facilities, equipment, and services with affiliated and other entities. The terms of the agreements generally range from 1 to 25 years with renewal options up to 15 years. Total expense under these agreements was $108,661 and $102,126 for the years ended June 30, 2009 and 2008, respectively, for all long-term agreements.

Future payments under noncancelable long-term agreements for the next five years are $74,290 in 2010, $57,589 in 2011, $40,212 in 2012, $30,711 in 2013, $24,101 in 2014, and $125,430, thereafter. Nine percent of total future payments are subject to adjustment based upon inflation or mutual negotiations. Six percent of these payments are due to the University.

13. Income Taxes

As of June 30, 2009, the for-profit entities of UPMC had gross federal net operating loss ("NOL") carryforwards of $266,065 (expiring in years 2012 through 2029) and gross state NOL carryforwards of $124,379 (expiring in years 2019 through 2030) that are available to offset future taxable income. Utilization of the state NOL carryforwards in any one year is limited to the greater of $3,000 or 12.5% of taxable income on an annual basis per company. During the year ended June 30, 2009, UPMC realized tax benefits of $1,181 from the use of NOL carryforwards. Net deferred tax assets of $121,871, primarily related to net operating loss carryforwards, have a valuation allowance recorded against them of $115,871 due to the uncertainty of realizing these benefits in the future.

(In Thousands)

13. Income Taxes (continued)

The following table presents deferred tax assets as of June 30:

	2009	2008
Deferred tax assets:		
Federal NOL	$ 90,462	$ 88,765
Accrued benefits	6,348	6,514
AMT credit carryover and other	25,061	21,297
	121,871	116,576
Less valuation allowance	(115,871)	(110,576)
	$ 6,000	$ 6,000

14. Functional Expenses

UPMC provides general health care services primarily to residents within its geographic location and supports research and education programs. For the years ended June 30, 2009 and 2008, expenses related to providing these services were as follows:

	2009	2008
Hospital health care services, including health insurance costs	$ 5,391,869	$ 4,847,115
Other health care services	1,064,760	1,046,232
Academic and research activities	333,762	307,666
Administrative support	842,689	776,863
	$ 7,633,080	$ 6,977,876

15. Commitments

In December 2000, UPMC entered into a long-term agreement with a software vendor in connection with a systemwide technology initiative to improve the quality of patient care through the development of a real-time patient electronic health record providing for clinical documentation and order entry. Under the amended terms of the agreement, UPMC will receive the right to the license, installation, upgrade, and maintenance related to all current fixed fee software through December 2019. As of June 30, 2009, there were future purchase commitments of $28,700 related to software upgrades and maintenance payable in equal annual installments through December 2019.

In April 2005, UPMC entered into an eight-year, joint development agreement with IBM to transform UPMC's information technology infrastructure and to create new technology solutions. UPMC's technology infrastructure will be reengineered to an on-demand computing model that is geared toward innovation, yet adaptable and flexible to meet ongoing business needs and growth. In return for these products and services, UPMC contractually committed $317,000 over eight years, payable roughly in equal monthly installments. As of June 30, 2009, $143,000 of this commitment remained.

During 2009 and 2008, UPMC entered into several co-development agreements with various software and technology vendors and a local university to invest in the development of medical technologies and information systems to enhance health care delivery. The total amount committed is $85,000. As of June 30, 2009, $72,683 of this commitment remained unfulfilled.

In December 2007, UPMC pledged $100,000 to the Pittsburgh Promise Foundation. The Pittsburgh Promise Foundation, which operates as a Type I Supporting Organization, supporting the Pittsburgh Foundation, is charged with creating and managing an endowment fund to (a) help eligible students graduating from Pittsburgh Public Schools to further their education after high school by funding certain tuition costs regardless of needs or income, and (b) enhance the growth, stability, and economic development of the city of Pittsburgh by providing a sustainable incentive for families with school-aged children to remain in, and to move into, the city of Pittsburgh to take advantage of scholarship funding for postsecondary education. The initial $10,000 was an unconditional pledge. The remaining $90,000 is designated to match contributions provided by other organizations and individual donors over a nine-year period beginning in fiscal year 2009. UPMC will match $2.00 for every $3.00 contributed, with a yearly match obligation not to exceed $10,000. As of June 30, 2009, $80,000 of the total pledge is considered a conditional promise to give.

16. Contingencies

UPMC is involved in litigation and responding to requests for information from governmental agencies occurring in the normal course of business. Certain of these matters are in the preliminary stages and legal counsel is unable to estimate the potential effect, if any, upon operations or financial condition of UPMC. Management believes that these matters will be resolved without material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

During August 2007, UPMC received a request for information from the Civil Division of the Department of Justice relating to an investigation into the health insurance and hospital services market in and around Pittsburgh including any potentially anticompetitive agreements. This request covers several prior years. At this time, no specific violations, claims, or assessments have been made. Management is cooperating with the information requests and believes that the matter will be resolved without any material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In March and April 2009, several related class action lawsuits were filed against UPMC and certain of its affiliates in the Federal District Court for the Western District of Pennsylvania and the Court of Common Pleas for Allegheny County, Pennsylvania. The Federal District Court cases allege violations of The Fair Labor Standards Act ("FLSA") on the basis that certain employees were not paid for all hours that they worked and were not properly paid overtime and, further, that these actions also violated the Employee Retirement Income Security Act ("ERISA") and the Racketeer Influenced and Corrupt Organizations Act ("RICO"). The state court actions allege violations of the Pennsylvania Minimum Wage Act, The Wage Payment and Collection Act, and common law on the same factual basis noted above. The lawsuits seek recovery of alleged unpaid wages and benefits and other monetary damages and costs. UPMC does not believe that the allegations have any merit and that the matter will be resolved without any material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In April 2009, a lawsuit was filed by West Penn Allegheny Health System ("WPAHS") against UPMC and Highmark, Inc. in the Federal District Court for the Western District of Pennsylvania. The lawsuit alleges that UPMC and Highmark have engaged in violations of Sections 1 and 2 of the Sherman Antitrust Act, and that UPMC has engaged in further violations of Section 2 of the Sherman Antitrust Act, unfair competition against WPAHS, and tortious

16. Contingencies (continued)

interference with existing and prospective business relations of WPAHS. WPAHS is seeking injunctive relief and unspecified compensatory, treble and punitive damages. UPMC does not believe that the allegations have any merit and that the matter will be resolved without any material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

17. Subsequent Events

Management evaluated subsequent events through September 16, 2009, the date the financial statements were issued.

In February 2008, UPMC entered into a series of agreements with the Beacon Medical Group, Limited, Dublin, Ireland ("BMG"), pursuant to which it purchased a 25% equity ownership position in Beacon Hospital Sandyford Limited, a hospital in Dublin, Ireland ("Beacon Hospital"), and entered into an agreement to manage Beacon Hospital. BMG owned the remaining 75% of Beacon Hospital and 100% of the company that owned the facility (including the land) in which Beacon Hospital operates.

On August 26, 2009, UPMC and BMG executed an agreement to restructure the ownership of BMG and Beacon Hospital (the "Restructuring"). Pursuant to the Restructuring, UPMC currently holds a 66.7% ownership position in BMG. Additionally, UPMC acquired a 40% interest in three companies intending to develop private co-located hospitals on the grounds of public hospitals in each of Limerick, Waterford, and Beaumont, Ireland.

In exchange for the aforementioned interest in BMG and the interest in the co-location projects, UPMC will make a cash payment of €25,000 ($35,763)[1]. The Restructuring is expected to result in an increase of the long-term debt on UPMC's consolidated balance sheet of €137,000 ($195,979)[1]. UPMC will provide guarantees pursuant to its 2007 Master Indenture and its 1995 Master Indenture of €25,000 ($35,763)[1] of this long-term debt and up to €18,000 ($25,749)[1] of short-term debt to be used for working capital.

[1]The August 26, 2009 exchange rate of $1.4305 per euro has been used for all currency conversions

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APPENDIX C

DEFINITIONS OF TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

DEFINITIONS OF TERMS AND SUMMARIES OF CERTAIN PROVISIONS OF THE PRINCIPAL DOCUMENTS

THE FOLLOWING SUMMARY IS OF CERTAIN PROVISIONS OF THE 2007 MASTER INDENTURE. IT IS NOT A FULL STATEMENT OF SUCH DOCUMENT AND REFERENCE SHOULD BE MADE TO SUCH DOCUMENT FOR ALL OF ITS TERMS AND PROVISIONS. **THE PROVISIONS OF THE 1995 MASTER INDENTURE ARE NOT DESCRIBED HEREIN. BY PURCHASING THE BONDS, OWNERS OF THE BONDS CONSENT TO THE RELEASE AND DISCHARGE OF THE NOTE ISSUED BY THE CORPORATION UNDER THE 1995 MASTER INDENTURE AS DESCRIBED BELOW (THE "1995 MTI NOTE") AND THE 1995 MASTER INDENTURE. THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE MAY BE RELEASED WITHOUT NOTICE TO THE BONDHOLDERS, WHO SHOULD NOT RELY ON THE PROVISIONS OF THE 1995 MASTER INDENTURE AND THE 1995 MTI NOTE WHEN PURCHASING THE BONDS.**

DEFINITIONS OF CERTAIN TERMS

The following are certain terms used in the 2007 Master Indenture and/or the Disclosure Memorandum.

"1995 Master Indenture" means the Master Trust Indenture dated as of December 1, 1995, as amended, between the Corporation and The Bank of New York Mellon Trust Company, N.A., as 1995 Master Trustee.

"**2007 Master Indenture**" means the Master Trust Indenture dated as of May 1, 2007 among the Corporation, UPMC Presbyterian Shadyside ("**UPS**"), Magee Womens Hospital Of University Of Pittsburgh Medical Center ("**Magee**"), UPMC Passavant ("**Passavant**"), UPMC St. Margaret ("**USM**") and the 2007 Master Trustee, as it may from time to time be further amended or supplemented in accordance with the terms thereof.

"**2007 Master Trustee**" means The Bank of New York Mellon Trust Company, N.A., as master trustee, or any successor master trustee.

"**Affiliate**" for purposes of the 2007 Master Indenture, means a Person which is controlled directly or indirectly by a Member. For the purposes of this definition, control means with respect to: (a) a corporation having stock, the ownership of more than 50% of the securities the holders of which are entitled to elect a majority of the members of the Governing Body of such corporation; (b) a not for profit corporation not having stock, having the power to elect or appoint a majority of the members of the Governing Body of such corporation; or (c) any other entity, the power to direct the management of such entity through the ownership of at least a majority of its voting securities or the right to designate or elect at least a majority of the members of its Governing Body, by contract or otherwise.

"**Affiliated Group**" means the combined group of all Members and all Affiliates.

"**Audited Financial Statements**" means the consolidated audited financial statements of the Corporation, prepared in accordance with generally accepted accounting principles, which have been examined by an independent firm of certified public accountants appointed by the Corporation. Upon written notice from the Obligated Group Agent to the 2007 Master Trustee, "Audited Financial Statements" shall include the separate audited financial statements of a Member whose financial statements are not included within the consolidated audited financial statements of the Corporation.

"**Authorized Officer**" means with respect to the Corporation, a representative of the Corporation duly authorized and empowered to execute any document, certificate or agreement and legally bind the Corporation and with respect to the Authority, an individual duly authorized by the bylaws of the Authority to legally bind the Authority, or an individual so designated by a duly adopted resolution of the Authority, validly in effect.

"**Balloon Debt**" means Long Term Debt twenty-five percent (25%) or more of the original principal amount of which matures within a period of twelve (12) consecutive months, as designated by the Obligated Group Agent.

"**Bond Counsel**" shall mean any attorney or firm of attorneys nationally recognized in rendering opinions for the benefit of bondholders on matters pertaining to the tax exempt nature of interest on obligations issued by states or their political subdivisions.

"**Bond Trustee**" means The Bank of New York Mellon Trust Company, N.A., the Trustee under the Bond Indenture, or any successor trustee.

"**Bonds**" means one or more of the Allegheny County Hospital Development Authority, University of Pittsburgh Medical Center Revenue Bonds, Series 2007B-2.

"**Capitalized Interest**" means amounts irrevocably deposited in escrow to pay interest on Long Term Debt.

"**Code**" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code shall be deemed to include the United States Treasury Regulations, including temporary regulations, relating to such section which are applicable to the Bonds or the use of the proceeds thereof.

"**Consultant**" means a consulting, financial advisory, accounting, insurance, investment banking or commercial banking firm selected by the Obligated Group Agent and not unacceptable to the 2007 Master Trustee, having the skill and experience necessary to render the particular report required and having a favorable reputation for such skill and experience, which firm does not control any Member or Affiliate and is not controlled by or under common control with any Member or an Affiliate.

"**Corporation**" means UPMC, a Pennsylvania nonprofit corporation, its successors or assigns.

"**Counsel**" means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include in-house legal counsel for any Member or the 2007 Master Trustee.

"**Days' Cash on Hand**" means the number determined as of any date by dividing (a) Unrestricted Cash by (B) the quotient of (i) operating expenses less bad debts, depreciation and amortization, divided by (ii) the number of days in the period under consideration.

"**Debt Service Coverage Ratio**" means, for each Fiscal Year, the ratio of Income Available for Debt Service to the Debt Service Requirements on Long Term Debt for such Fiscal Year.

"**Debt Service Requirements**" means, with respect to the period of time for which calculated, the aggregate of the payments required to be made during such period in respect of principal (whether at maturity or as a result of mandatory sinking fund redemption) and interest on Long Term Debt; less (a) any Capitalized Interest and (b) any payments to be made from an escrow account established for the purpose of paying such Long Term Debt.

"**Defeasance Obligations**" means the securities used to defease any MTI Debt under the Related Documents.

"**Derivative Contract**" means an interest rate swap, exchange, cap or other agreement between a Member and any other party for the purpose of managing interest rate, spread or similar exposure on Long Term Debt.

"**Electronic Means**" means telegram, telex, telecopier, electronic mail or other telecommunications or electronic telecommunications device capable of creating a written notice that is operative as between the parties and acceptable for use by them.

"**Event of Default**" means any event of default under the 2007 Master Indenture, as defined in the 2007 Master Indenture.

"**Fiscal Year**" means any twelve-month period beginning on July 1 of any calendar year and ending on June 30 of the next calendar year or such other consecutive twelve month period designated from time to time in writing by the Obligated Group Agent to the 2007 Master Trustee.

"**Fitch**" means Fitch Ratings, its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating organization, any other nationally recognized securities rating organization designated in writing by the Corporation.

"**Governing Body**" means the board of directors, board of trustees or similar group in which the right to exercise the powers of corporate directors or trustees is vested or an executive committee of such board or any duly authorized committee of that board to which the relevant powers of that board have been lawfully delegated.

"**Gross Revenues**" means all revenues of the Obligated Group whether in the form of accounts receivables, contract rights or general intangibles, including income therefrom and all proceeds thereof, but excluding specifically restricted gifts, grants, pledges, bequests, donations, legacies and contributions (including income therefrom or proceeds from the sale thereof) made to a Member, to the extent that such property may not be pledged or applied to the payment of any Debt Service Requirements as a result of restrictions or designation imposed by the donor or maker of the gift, grant, pledge, bequest, donation, contribution or other sums in question.

"**Guaranty**" means any Obligation guaranteeing any debt of any other Person in any manner, whether directly or indirectly, including but not limited to obligations incurred through an agreement (i) to purchase such debt; (ii) to advance funds for the purchase or payment of such debt; or (iii) otherwise to assure the owner of such debt against loss in respect thereof.

"**Income Available for Debt Service**" means the excess of revenues over expenses as shown on the Audited Financial Statements, adjusted by the Obligated Group Agent in its reasonable judgment to exclude the effect of (i) depreciation and amortization, (ii) interest expense on Long Term Debt, (iii) any gain or loss resulting from either the extinguishment of indebtedness or the sale, exchange or other disposition of capital assets not in the ordinary course of business, (iv) the net proceeds of insurance (other than business interruption insurance) and condemnation awards; (v) any gains or losses resulting from changes in the fair value of Derivative Contracts; (vi) non-cash investment gains and losses, including any other than temporary impairment of or changes in fair value of investments; and (vii) non-cash items other than in the ordinary course of business. To the extent not included in the excess of revenues over expenses, Income Available for Debt Service shall include any realized investment gains and losses, including any adjustments required to reduce realized gains on previously impaired investments.

"**Independent**" means, with respect to any Person, one which is not and does not have a partner, director, officer, member or substantial stockholder who is a member of the Corporation or an Affiliate, or an officer or employee of the Corporation or an Affiliate; provided that the fact that a Person is retained regularly by or transacts business with the Corporation or Affiliate shall not, in and of itself, cause such Person to be deemed an employee of the Corporation or Affiliate for the purposes hereof.

"**Independent Public Accountant**" means, an Independent accounting firm which is appointed by the Corporation for the purpose of examining and reporting on or passing on questions relating to the financial statements of the Corporation, has all certifications necessary for the performance of such services and has a favorable reputation for skill and experience in performing similar services in respect of entities of a comparable size and nature.

"**Lien**" means any mortgage, pledge of, security interest in or lien, charge, restriction or encumbrance on any Property to secure MTI Debt or Non-MTI Debt (other than from one Member or Affiliate to another Member or Affiliate).

"**Liquidity Ratio**" means, as of any date, the ratio of Unrestricted Cash to the Principal Balance of all Long Term Debt on such date.

"**Long Term Debt**" means all MTI Debt which is not Short Term Debt. Long Term Debt may be incurred in the form of Derivative Contracts, Balloon Debt, Put Debt, Subordinated Debt or Variable Rate Debt.

"**Member**" or "**Member of the Obligated Group**" means, individually, the Corporation, UPS, Magee, Passavant, USM and any Person who is hereafter designated in writing by the Obligated Group Agent to the 2007 Master Trustee as a Member of the Obligated Group and which has not terminated such status.

"**Moody's**" means Moody's Investors Service, its successors and assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating organization, any other nationally recognized securities rating organization designated in writing by the Corporation..

"**MTI Debt**" means all indebtedness for the repayment of borrowed money incurred or assumed pursuant to the provisions of the 2007 Master Indenture that is evidenced by an Obligation. MTI Debt may be issued in the form of Long Term Debt or Short Term Debt. MTI Debt shall not include indebtedness of one Member or Affiliate to another Member or Affiliate.

"**MTI Notes**" means (a) the Series 2007B-2 Bond Note issued by the Corporation under the 2007 Master Indenture, and (b) the Series 2007B-2 Bond Note issued by the Corporation under the 1995 Master Indenture, each delivered to the Authority and assigned to the Bond Trustee to evidence its payment obligation under the Loan Agreement with respect to the Bonds in an aggregate principal amount equal to the aggregate principal amount of the Bonds.

"**Non-MTI Debt**" means all indebtedness for the repayment of borrowed money other than MTI Debt as shown on the Audited Financial Statements.

"**Note**" means any Note issued under the 2007 Master Indenture by a Member to evidence Indebtedness incurred pursuant to the terms of the 2007 Master Indenture.

"**Obligated Group**" means, collectively, the Corporation, UPS, Magee, Passavant, USM and any other Person which has fulfilled the requirements for entry into the Obligated Group and which has not terminated such status.

"**Obligated Group Agent**" means the Corporation or such other Member as may be designated from time to time pursuant to an Officer's Certificate of the then current Obligated Group Agent filed with the 2007 Master Trustee.

"**Obligation**" means any evidence of MTI Debt authorized to be issued by the Obligated Group Agent pursuant to the 2007 Master Indenture which has been authenticated by the 2007 Master Trustee.

"**Obligation holder**," "**holder**" or "**owner of the Obligation**" means the registered owner of any Obligation, as shown on the Obligation Register.

"**Obligation Register**" means the registry that sets forth, among other things, the ownership of each Obligation issued under the 2007 Master Indenture and the Principal Balance of each such Obligation, maintained by the 2007 Master Trustee.

"**Officer's Certificate**" means a certificate signed, in the case of a certificate delivered by the Corporation, by an Authorized Officer of the Corporation or, in the case of a certificate delivered by any other Person, the chief executive officer, chief financial officer or any vice president of such other Person, in either case whose authority to execute such certificate shall be evidenced to the satisfaction of the Trustee.

"Outstanding Obligations" or **"Obligations Outstanding"** means all Obligations which have been duly authenticated and delivered by the 2007 Master Trustee under the 2007 Master Indenture, except:

(a) Obligations canceled because of payment at or prepayment or redemption prior to maturity;

(b) Obligations securing Related Bonds for the payment or redemption of which cash or Defeasance Obligations shall have been theretofore deposited with the Related Bond Trustee; provided that if such Related Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Related Bond Trustee shall have been made therefor, or waiver of notice satisfactory in form to the Related Bond Trustee shall have been filed with the Related Bond Trustee;

(c) Obligations in lieu of which others have been authenticated; and

(d) For the purpose of all consents, approvals, waivers and notices required to be obtained or given under the 2007 Master Indenture, Obligations held or owned by a Member or by an Affiliate.

The Principal Balance of Obligations Outstanding at any time shall be determined by reference to the Obligation Register, which, absent manifest error, shall be conclusive.

"Outstanding Related Bonds" means all Related Bonds which are deemed outstanding under the terms of the Related Bond Indenture.

"Permitted Encumbrances" means, as of any particular time, the Lien on Gross Revenues granted pursuant to the 2007 Master Indenture to secure Obligations; and:

(a) any Lien on Property acquired subject to an existing Lien, if at the time of such acquisition, the aggregate amount remaining unpaid on the debt secured thereby does not exceed the lesser of the acquisition price or the fair market value of the Property subject to such Lien, as determined by the Obligated Group Agent;

(b) any Lien on any Property of any Member or any Affiliate granted in favor of or securing debt to any other Member or any Affiliate;

(c) Liens on Property given, granted or bequeathed by the owner thereof existing at the time of such gift, grant or bequest, provided that such Liens attach solely to the Property (including the income therefrom) which is the subject of such gift, grant or bequest;

(d) Liens on proceeds of MTI Debt (or on income from the investment of such proceeds) that secure payment of such MTI Debt and any security interest in any rebate fund established pursuant to the Code, any depreciation reserve, debt service or interest reserve, debt service fund or any similar fund established pursuant to the terms of any Supplemental Master Indenture, Related Bond Indenture or Related Document in favor of the 2007 Master Trustee, a Related Bond Trustee, a Related Issuer, or the holder of the Obligation issued pursuant to such Supplemental Master Indenture, Related Bond Indenture or Related Document or the provider of any liquidity or credit support for such Related Bond or MTI Debt;

(e) Liens on Defeasance Obligations;

(f) Liens on accounts receivable arising as a result of the sale of such accounts receivable with or without recourse, provided that the principal amount of debt secured by such Lien does not exceed twenty percent (20%) of total accounts receivable as shown on the Audited Financial Statements;

(g) Liens on any Property of a Member in effect on the effective date of the 2007 Master Indenture, or existing at the time any Person becomes a Member;

(h) any Lien if, after giving effect to such Lien and all other Liens classified as Permitted Encumbrances pursuant to this paragraph (h), the total aggregate value of the Property secured by such Liens does not exceed ten percent (10%) of Total Assets; and

(i) any Lien on Property if such Lien equally and ratably secures all of the Obligations.

"Person" means any natural person, firm, joint venture, joint operating agreement, association, partnership, limited liability company, business trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

"Principal Balance" means, as of any particular date, the principal amount of the MTI Debt or Non-MTI Debt under consideration that would be due and payable if such debt were accelerated or matured on such date.

"Property" means any and all rights, titles and interests in and to any and all property, whether real or personal, tangible or intangible, wherever situated and whether now owned or hereafter acquired.

"Property, Plant and Equipment" means all assets of the Obligated Group that are classified as property, plant and equipment on the Audited Financial Statements.

"Put Debt" means Long Term Debt which is payable or required to be purchased or redeemed from the owner by or on behalf of the underlying obligor (other than at the option of the owner) prior to its stated maturity date, other than pursuant to any mandatory sinking fund or other similar fund or other than by reason of acceleration upon the occurrence of an Event of Default under the 2007 Master Indenture.

"Quarterly Disclosure Report" means the report required to be delivered by the Obligated Group Agent to the 2007 Master Trustee.

"**Rating Agency**" means each nationally recognized securities rating agency, which includes Fitch, Moody's and S&P, and each such entity's successors and assigns.

"Ratings Event" means the release by each Rating Agency of a long term credit rating with respect to the Corporation that is lower than "A-" or "A3."

"Related Bonds" means (i) any revenue bonds or similar obligations issued by any state, commonwealth or territory of the United States or any agency or instrumentality of any of the foregoing, the proceeds of which are loaned or otherwise made available to any Member or Affiliate in consideration of the delivery of an Obligation to or upon the order of such governmental Authority, and (ii) any bonds or other debt instruments issued by a Member, an Affiliate or any other Person in consideration of the delivery of an Obligation to the holder of such bonds.

"Related Bond Indenture" means any indenture or similar instrument pursuant to which any Related Bonds are issued.

"Related Bond Trustee" means any trustee under any Related Bond Indenture.

"Related Document" means any agreement pursuant to which any proceeds of any Related Bonds are made available to or for the benefit of any Member or Affiliate or any other loan agreement or Derivative Contract entered into by a Member with respect to MTI Debt.

"Related Issuer" means any issuer of a series of Related Bonds.

"Short Term Debt" means MTI Debt having an original maturity that is less than or equal to one year.

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw Hill Companies, Inc., its successors and its assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating organization, any other nationally recognized securities rating organization designated in writing by the Corporation.

"Subordinated Debt" means any Long Term Debt incurred or assumed pursuant to the 2007 Master Indenture, the payment of which is by its terms specifically subordinated to payments on or with respect to other Long Term Debt.

"Supplemental Master Indenture" means an indenture amending or supplementing the 2007 Master Indenture entered into after the date of the 2007 Master Indenture.

"Total Assets" shall mean Total Assets as shown on the Audited Financial Statements for the period in question.

"Transaction Test" means a determination that, after giving effect to the particular action or transaction in question, (i) the Affiliated Group will be able to satisfy the test for incurrence of one dollar of additional Long Term Debt, and (ii) the Debt Service Coverage Ratio for the most recently ended Fiscal Year, recalculated as if the action or transaction had occurred at the beginning of such Fiscal Year, either (A) was at least 2.5 to 1.0, or (B) is not reduced by more than twenty percent (20%).

"Unrestricted Cash" means the sum of cash, securities and investments, including, without limitation, investments in mutual funds and limited partnerships as shown on the Audited Financial Statements, minus (i) trustee-held funds derived from or for the payment of indebtedness, including, without limitation, debt service, reserve and construction funds, and (ii) amounts required to be set aside by donor restriction, contractual agreement or by law or regulation to meet a specific obligation or potential obligation of any Member or Affiliate, including malpractice exposure, self-insurance or "captive" insurer commitments, and pension or retirement fund payments.

"Variable Rate Debt" means any Long Term Debt, the rate of interest on which is subject to change prior to maturity.

"**Written Request**" with reference to the Authority means a request in writing signed by an Authorized Officer of the Authority and with reference to the Corporation means a request in writing signed by an Authorized Officer of the Corporation.

Any calculations required to be made pursuant to the 2007 Master Indenture, shall be made on the basis of the Audited Financial Statements, together with any notes thereto. All accounting terms not specifically defined herein shall be construed in accordance with generally accepted accounting principles consistently applied, except as otherwise stated herein. If any change in accounting principles from those used in the preparation of the Audited Financial Statements for the Fiscal Year ended June 30, 2006 results from the promulgation of rules, regulations, pronouncements and opinions by or required by the Financial Accounting Standards Board, American Institute of Certified Public Accountants or other authoritative bodies that determine generally accepted accounting principles (or successors thereto or agencies with similar functions) and such change results in a change in the accounting terms used in the 2007 Master Indenture, the accounting terms used herein shall be modified to reflect such change in accounting principles so that the criteria for evaluating financial condition shall be the same after such change as if such change had not been made. Any such modification shall be described in an Officer's Certificate of the Obligated Group Agent filed with the 2007 Master Trustee, which shall contain a certification to the effect that (i) such modifications are occasioned by such a change in accounting principles and (ii) such modifications will not have a materially adverse effect on the Obligation holders.

2007 MASTER INDENTURE

The following summarizes certain provisions of the 2007 Master Indenture but is not to be regarded as a full statement thereof, and reference should be made to the 2007 Master Indenture itself for all of the terms and provisions thereof.

Issuance of Obligations; Terms Thereof

Subject to the further conditions specified in the 2007 Master Indenture, the Corporation and each additional Member, if any, shall be permitted to issue one or more series of Obligations under the 2007 Master Indenture on which all Members of the Obligated Group will be jointly and severally liable. The number and aggregate principal amount of Obligations shall not be limited, except as provided in any Supplemental Master Indenture. Subject to the applicable provisions of the 2007 Master Indenture, all Obligations shall be issued upon and contain such maturities, payment terms, interest rate provisions, redemption or prepayment features and other provisions as shall be set forth in the 2007 Master Indenture or the Supplemental Master Indenture providing for the issuance of such Obligations.

Obligations may be issued under the 2007 Master Indenture to evidence any type of MTI Debt, including without limitation any MTI Debt in a form other than a promissory note. Any Derivative Contract may also be authenticated as an Obligation under the 2007 Master Indenture. Any Derivative Contract which is authenticated as an Obligation under the 2007 Master Indenture shall be equally and ratably secured under the 2007 Master Indenture with all other Obligations issued under the 2007 Master Indenture provided, however, that any Obligation issued in connection with a Derivative Contract shall be deemed to be an Outstanding Obligation under the 2007 Master Indenture solely for the purpose of being secured on a pro rata basis with other Obligations and receiving payment under the 2007 Master Indenture and shall not be entitled to exercise any rights under the 2007 Master Indenture.

Cross Guaranties; Security Therefor

Each Member, jointly and severally, unconditionally and irrevocably guarantees and promises to pay, any and all payments on any Obligations, according to the terms thereof, when due. If for any reason any payment required pursuant to the terms of any Obligation issued under the 2007 Master Indenture has not been timely paid by the Member which incurred such Obligation, all other Members shall be obligated to make such payment.

The MTI Notes and all other Obligations issued under the 2007 Master Indenture are secured by a grant of a security interest in (i) the Gross Revenues of the Members and (ii) the Revenue Fund and all moneys and investments therein and all income derived from the investment thereof.

Upon the occurrence and continuance of an Event of Default under the 2007 Master Indenture, each Member covenants and agrees that it shall cause all of its Gross Revenues to be deposited into a special revenue account held by the 2007 Master Trustee separate and apart

from all other funds. Gross Revenues so collected, to the extent not needed to pay the Obligations of the Obligated Group then due, shall be released to the Members for any purpose. Such Gross Revenues shall be collected only until such time as the 2007 Master Trustee shall have received an Officer's Certificate from the Obligated Group Agent that no Event of Default exists and that all arrearages on Obligations issued under the 2007 Master Indenture, if any, have been paid.

If no Event of Default shall have occurred and then be continuing, and so long as the Gross Revenues are not required to be deposited into a special revenue account pursuant to the provisions of the 2007 Master Indenture, each Member shall be permitted to commingle, transfer or make expenditures from or deposits of its Gross Revenues and the proceeds thereof.

Supplemental Master Indenture Creating an Obligation

In addition to the MTI Notes being issued by the Corporation under the terms of the 2007 Master Indenture, any Member and the 2007 Master Trustee may from time to time enter into a Supplemental Master Indenture in order to issue an Obligation under the 2007 Master Indenture. Such Supplemental Master Indenture shall, (i) with respect to Obligations created thereby, set forth the date thereof, and the date or dates on which principal of and premium, if any, and interest on such obligations shall be payable, and (ii) provide for the form of such Obligations and shall contain such other terms and provisions as shall not be inconsistent with the provisions of the 2007 Master Indenture.

Membership In and Withdrawal from the Obligated Group

Any Person may become a Member of the Obligated Group if:

(a) Such Person shall execute and deliver to the 2007 Master Trustee a Supplemental Master Indenture acceptable to the 2007 Master Trustee which shall also be executed by the 2007 Master Trustee and the Obligated Group Agent and contain the agreement of such Person (i) to become a Member of the Obligated Group and thereby to become subject to compliance with all provisions of the 2007 Master Indenture and (ii) unconditionally and irrevocably to jointly and severally make payments upon each Obligation at the times and in the amounts provided in each such Obligation; and

(b) The 2007 Master Trustee shall have received (i) an Officer's Certificate of the Obligated Group Agent which (A) confirms that no Event of Default has occurred and will be continuing after the addition of the new Member to the Obligated Group, (B) demonstrates that, immediately upon such Person becoming a Member of the Obligated Group, the Members would not, as a result of such transaction, be in default in the performance or observance of any covenant or condition to be performed or observed by them under the 2007 Master Indenture, and (C) demonstrates satisfaction of the Transaction Test; (ii) an opinion of Counsel to the effect that the instrument described in paragraph (a) above has been duly authorized, executed and delivered and constitutes a legal, valid and binding agreement of such Person, enforceable in accordance with its terms, subject to customary exceptions for bankruptcy, insolvency and other laws generally affecting enforcement of creditors rights and application of general principles of

equity, and (iii) an opinion of Bond Counsel to the effect that, under then existing law, the consummation of such transaction will not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Related Bond to which such Related Bond would otherwise be entitled.

Each successor, assignee, surviving, resulting or transferee of a Member must agree to become, and satisfy the above described conditions to becoming, a Member of the Obligated Group prior to any such succession, assignment or other change in such Member's status.

Each Member covenants that it will not take any action, corporate or otherwise, which would cause it or any successor thereto to cease to be a Member of the Obligated Group unless the Obligated Group Agent delivers an Officer's Certificate to the 2007 Master Trustee certifying that immediately after such cessation, (i) no Event of Default exists under the 2007 Master Indenture and (ii) the Transaction Test will be satisfied. Notwithstanding the foregoing, the Obligated Group covenants and agrees that neither the Corporation nor UPS shall be permitted to withdraw from, or cease to be a Member of, the Obligated Group while any Obligations are Outstanding.

Financial Covenants

(a) Each Member covenants and agrees to conduct its business, and to cause each Affiliate to conduct business, on a revenue producing basis and to charge fees and rates for its services that will provide funds sufficient to pay (i) all payments on MTI Debt, (ii) all payments on Non-MTI Debt, (iii) all expenses of operation, maintenance and repair of its Property, and (iv) all other payments required to be made by it under the 2007 Master Indenture. Each Member further covenants and agrees that it will, from time to time as often as necessary and to the extent permitted by law, revise its rates, fees and charges in such manner as may be necessary or proper to comply with the provisions of this section of the 2007 Master Indenture.

(b) The Obligated Group covenants and agrees to maintain a Debt Service Coverage Ratio for each Fiscal Year equal to at least 1.1 to 1.0.

(c) The Obligated Group covenants and agrees to maintain a Liquidity Ratio as of the last day of each Fiscal Year equal to at least 0.5 to 1.0.

(d) The Obligated Group Agent shall calculate the Debt Service Coverage Ratio for each Fiscal Year and the Liquidity Ratio as of the last day of each Fiscal Year. Within 90 days of the end of each Fiscal Year, the Obligated Group Agent shall deliver to the 2007 Master Trustee an Officer's Certificate that demonstrates the calculation of the Debt Service Coverage Ratio and the Liquidity Ratio.

(e) (i) If the Debt Service Coverage Ratio is less than 1.10 to 1 for any Fiscal Year, and/or the Liquidity Ratio is less than 0.5 to 1.0 as of the last day of such Fiscal Year, the Obligated Group Agent shall, within 120 days of the end of such Fiscal Year, retain a Consultant to make recommendations with respect to the rates, fees, charges and operations of the Affiliated

Group and the other factors affecting its financial condition in order to cause the Debt Service Coverage Ratio to be at least 1.10 to 1 and the Liquidity Ratio to be at least 0.5 to 1.0.

(ii) A copy of the Consultant's report and recommendations, if any, shall be filed with the Obligated Group Agent and the 2007 Master Trustee within 60 days of the date such Consultant is retained. The Obligated Group shall, as soon as possible, cause the Affiliated Group to revise such rates, fees, charges and operations in conformity with the recommendations of the Consultant and otherwise follow the recommendations of the Consultant to the extent permitted by law. If the Affiliated Group complies with the recommendations of the Consultant, the financial covenants in paragraphs (b) and (c) above shall be deemed to have been complied with, even if the Debt Service Coverage Ratio remains below 1.10 to 1.0 and the Liquidity Ratio remains below 0.5 to 1.0; provided, however, that failure to maintain a Debt Service Coverage Ratio for any Fiscal Year of at least 1.0 to 1.0 combined with a failure to maintain a Liquidity Ratio for any Fiscal Year of at least 0.5 to 1.0 shall constitute an Event of Default.

(f) Upon the occurrence of a Ratings Event, the Obligated Group shall be required to cause the Affiliated Group to maintain at least sixty (60) Days' Cash on Hand. Upon the occurrence of a Ratings Event, the Obligated Group Agent shall deliver to the 2007 Master Trustee a report certifying the number of Days' Cash on Hand as of the last day of the most recently ended Fiscal Year. If the number of Days' Cash on Hand so certified is less than sixty (60), the Obligated Group Agent shall retain a Consultant to make recommendations with respect to the operations of the Obligated Group in order to increase the number of Days' Cash on Hand to sixty (60) or more. If the Obligated Group follows the Consultant's recommendations, failure to maintain sixty (60) Days' Cash on Hand shall not be an Event of Default under the 2007 Master Indenture.

Merger, Consolidation, Sale or Conveyance

Each Member agrees that it will not merge into, or consolidate with, one or more Persons which are not Members, or allow one or more of such Persons to merge into it, or sell or convey all or substantially all of its Property to any Person who is not a Member, unless:

(i) Any successor to such Member (including without limitation any purchaser of all or substantially all the Property of such Member) shall execute and deliver to the 2007 Master Trustee an appropriate instrument, satisfactory to the 2007 Master Trustee, containing the agreement of such successor to assume, jointly and severally, the due and punctual payment of all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the 2007 Master Indenture to be kept and performed by such Member;

(ii) Immediately after such merger or consolidation, or such sale or conveyance, (A) no Member would be in default in the performance or observance of any covenant or condition of any Related Document or the 2007 Master Indenture as a result of such merger, and (B) the Affiliated Group would satisfy the Transaction Test; and

(iii) There shall be delivered to the 2007 Master Trustee an opinion of Bond Counsel to the effect that under then existing law the consummation of such merger,

consolidation, sale or conveyance would not adversely affect the validity of any Related Bonds or the exemption otherwise available from federal or state income taxation of interest payable on any Related Bonds.

Financial Statements, Quarterly Disclosure

The Obligated Group Agent covenants to keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of or in relation to the business and affairs of the Affiliated Group in accordance with generally accepted accounting principles consistently applied except as may be disclosed in the notes to the Audited Financial Statements. The Obligated Group Agent will furnish to the 2007 Master Trustee:

(a) As soon as practicable after they are available, but in no event more than 150 days after the last day of each Fiscal Year, Audited Financial Statements for such Fiscal Year; and

(b) At the time of delivery of the Audited Financial Statements referred to in subsection (a) above, an Officer's Certificate of the Obligated Group Agent, stating that the Obligated Group Agent has made a review of the activities of the Affiliated Group during the preceding Fiscal Year for the purpose of determining whether or not the Members have complied with all of the terms, provisions and conditions of the 2007 Master Indenture and that the Obligated Group has kept, observed, performed and fulfilled each and every covenant, provision and condition of the 2007 Master Indenture on its part to be performed and is not in default in the performance or observance of any of the terms, covenants, provisions or conditions thereof, or if any such Person shall be in default such certificate shall specify all such defaults and the nature thereof; and

(c) Within sixty (60) days of the end of each fiscal quarter within each Fiscal Year, a Quarterly Disclosure Report which shall include unaudited consolidated internal financial statements of the Corporation for such quarter. The Obligated Group Agent shall calculate the Debt Service Coverage Ratio and the Liquidity Ratio for each fiscal quarter within each Fiscal Year and include such calculations as part of the Quarterly Disclosure Report, together with an Officer's Certificate certifying accuracy and compliance with the covenants contained in the 2007 Master Indenture.

Additional MTI Debt

No Member will incur, or permit an Affiliate to incur, any MTI Debt other than MTI Debt consisting of one or more of the following, which the Obligated Group Agent may, from time to time, designate or redesignate to any applicable classification permitted hereby:

(a) Long Term Debt if, prior to incurrence of the Long Term Debt, there is delivered to the 2007 Master Trustee an Officer's Certificate certifying that:

(i) the principal amount of Long Term Debt to be incurred at such time, when added to the aggregate Principal Balance of all other Long Term Debt theretofore issued pursuant to this clause (i), will not exceed five percent (5%) of Total Operating Revenues

as shown on the Audited Financial Statements, and the Debt Service Coverage Ratio is at least 1.1 to 1.0; or

(ii) based on the most recently ended Fiscal Year for which Audited Financial Statements are available, the Debt Service Coverage Ratio, taking into account the aggregate Principal Balance of all Long Term Debt, and the proposed additional Long Term Debt as if it had been incurred at the beginning of such Fiscal Year, is not less than 1.0 to 1.0; or

(iii) an Officer's Certificate of the Obligated Group Agent certifying that (A) based on the Audited Financial Statements for the most recently ended Fiscal Year, the Debt Service Coverage Ratio is not less than 1.10 to 1.0, and (B) that the projected Debt Service Coverage Ratio for each of the next two full Fiscal Years following the incurrence of such Long Term Debt or, in the case of the incurrence of Long Term Debt for capital improvements, following the completion of the facilities being financed, taking the proposed additional Long Term Debt into account, is not less than 1.25 to 1.0; or

(iv) in the case of Long Term Debt incurred for the purpose of refunding any Long Term Debt, the Obligated Group Agent shall deliver to the 2007 Master Trustee an opinion of Counsel stating that (A) the incurrence of the Long Term Debt has been duly authorized, (B) the applicable requirements for its issuance have been satisfied, and (C) upon the incurrence of such proposed Long Term Debt and application of the proceeds thereof, the Outstanding Long Term Debt to be refunded thereby will no longer be Outstanding.

(b) Short Term Debt, provided that immediately after the incurrence of such MTI Debt the aggregate Principal Balance of all such Short Term Debt does not exceed twenty percent (20%) of Total Operating Revenues as shown on the Audited Financial Statements, and provided further that for a period of at least seven (7) consecutive days in each Fiscal Year, the Principal Balance of all Short Term Debt shall not exceed five percent (5%) of such Total Operating Revenues.

Notwithstanding the foregoing, if an Event of Default has occurred and is continuing, the Obligated Group shall not incur any MTI Debt other than for refunding purposes.

Subordinated Debt and Non-MTI

(a) Subordinated Debt may be incurred by Members and Affiliates without limitation.

(b) Non-MTI Debt may be incurred by Members and Affiliates without limitation, provided however, that the aggregate Principal Balance of Non-MTI Debt at any one time may not exceed the greater of (i) twenty five percent (25%) of the aggregate Principal Balance of all then Outstanding Obligations, or (ii) two hundred fifty million dollars ($250,000,000).

Computation of Debt Service on Certain Instruments:

(a) Debt Service on Balloon Debt and Put Debt. For purposes of the computation of Debt Service Requirements, whether historic or projected, the following provisions shall apply to Balloon Debt and Put Debt:

(i) the debt service on such Balloon Debt or Put Debt shall be assumed to be substantially level over a term of twenty (20) years from the date of incurrence, at an assumed interest rate based on the last-published "30-year Revenue Bond Index" published by The Bond Buyer immediately preceding the date of calculation; or

(ii) the principal of such Balloon Debt or Put Debt is amortized during the term to the stated maturity thereof by deposits made to a sinking fund with a sinking fund schedule established by resolution of the Governing Body of the Obligated Group Agent adopted at or subsequent to the time of incurrence of such Long Term Debt, as certified in an Officer's Certificate of the Obligated Group Agent, provided, that at the time of such calculation, all deposits required to have been made prior to such date shall have been made; or

(iii) with respect to Balloon or Put Debt for which there exists a credit facility, the principal of such Balloon or Put Debt is due and payable in the amounts and at the times specified in such credit facility.

(b) Debt Service on Guaranties. Debt Service Requirements on Long Term Debt in the form of a Guaranty shall be determined to be an amount equal to 20% of the debt service on the indebtedness being guaranteed; provided, however, that if a Member makes any payment under a Guaranty, the Debt Service Requirements thereon for the Fiscal Year in which the payment is made and each of the next two succeeding Fiscal Years shall be deemed equal to 100% of the Debt Service Requirements on the indebtedness or portion thereof guaranteed.

(c) Debt Service on Variable Rate Debt. Projected (but not historic) Debt Service Requirements on Variable Rate Debt shall be deemed to bear interest at a rate equal to the greater of (i) the average interest rate on such debt for the most recent 24 month period, provided, however, that if the debt has not been outstanding for 24 months, then the interest rate shall be the average rate for the most recent 12 months, or (ii) the average interest rate for the two month period prior to the date of calculation, as determined by an Officer's Certificate of the Obligated Group Agent. Historic Debt Service Requirements on Variable Rate Debt shall be calculated at the actual interest rates for the period under consideration.

(d) Effect of Derivative Contract. For purposes of the computation of Debt Service Requirements, Long Term Debt with respect to which the Obligated Group has entered into a Derivative Contract shall include only the net amount payable by or to the Obligated Group under the 2007 Master Indenture.

Sale or Other Disposition of Property

Members may sell or otherwise dispose of their Property (herein referred to as a "**transfer**") as follows:

(a) Members may transfer Property at any time without limitation if the aggregate value of the Property being transferred in any Fiscal Year does not exceed ten percent (10%) of Total Assets in such Fiscal Year.

(b) Members may transfer Property that is valued in excess of ten percent (10%) of Total Assets in any Fiscal Year if the transfer:

(i) is to another Member or to an Affiliate; or

(ii) is in the ordinary course of business and made in an arms length transaction for fair market value as certified in an Officer's Certificate of the Obligated Group Agent, provided however, that if the aggregate value of all Property being transferred in any Fiscal Year exceeds thirty percent (30%) of Total Assets, then the Obligated Group Agent shall also be required to deliver a fairness opinion to the 2007 Master Trustee from an independent Consultant that confirms that the transfers are being made for fair market value; or

(iii) is in return for other Property of equal or greater value; or

(iv) is of Property, Plant or Equipment that is obsolete and no longer of use to the Member; or

(v) is to a third party as part of a permitted merger, consolidation, sale or conveyance; or

(vi) is of Property received by a Member or Affiliate as a restricted gift or grant, if the donor's restrictions on the use of such Property prevent the application thereof to payment of Debt Service Requirements or costs of operation; or

(vii) satisfies the Transaction Test.

(c) Notwithstanding the foregoing, no transfers or sales shall be permitted in any period during which an Event of Default has occurred and is continuing without the prior written consent of the holders of at least twenty-five percent (25%) of the aggregate principal amount of the Outstanding Obligations.

Liens on Property

No Member may create, incur, or permit to be created, incurred or to exist, any Lien on any Property except for Permitted Encumbrances.

Events of Default

Each of the following events is an "Event of Default" under the 2007 Master Indenture:

(a) failure of the Obligated Group to pay any installment of interest, principal, or any premium, on any Obligation when the same shall become due and payable, whether at maturity, upon any date fixed for prepayment or by acceleration or otherwise; or

(b) failure of any Member to comply with, observe or perform any other covenants, conditions, agreements or provisions thereof and to remedy such default within 90 days after written notice thereof to such Member and the Obligated Group Agent from the 2007 Master

Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Obligations; provided, that if such default cannot with due diligence be wholly cured within 90 days but can be wholly cured, the failure of the Member to remedy such default within such 90-day period shall not constitute a default under the 2007 Master Indenture if the Member shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and shall thereafter prosecute and complete the same within 180 days; or

(c) any representation or warranty made by any Member in the 2007 Master Indenture or in any Supplemental Master Indenture or in any statement or certificate furnished to the 2007 Master Trustee or the holder of any Obligation in connection with the delivery of any Obligation or furnished by any Member proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 90 days after written notice thereof to the Obligated Group Agent by the 2007 Master Trustee or the holders of at least 25% in aggregate principal amount of the Outstanding Obligations; or

(d) any judgment, writ or warrant of attachment or of any similar process shall be entered or filed against any Member or against any Property of any Member and remains unvacated, unpaid, unbonded, unstayed or uncontested in good faith for a period of 90 days; provided, however, that none of the foregoing shall constitute an Event of Default unless the amount of such judgment, writ, warrant of attachment or similar process, together with the amount of all other such judgments, writs, warrants or similar processes so unvacated, unpaid, unbonded, unstayed or uncontested, exceeds 10% of Total Assets; or

(e) any Member shall default in the payment of any Non-MTI Debt in excess of $50,000,000, and any grace period with respect to such Non-MTI Debt shall have expired, or an event of default under the agreements under which such Non-MTI Debt in excess of $50,000,000 was incurred has occurred which results in such Non-MTI Debt becoming or being declared due and payable prior to the date on which it would otherwise become due and payable; provided, however, that such default shall not constitute an Event of Default if within the time allowed for service of a responsive pleading in any proceeding to enforce payment of the indebtedness under the laws governing such proceeding (i) such Member in good faith commences proceedings to contest the existence or payment of such Non-MTI Debt, or (ii) sufficient funds are escrowed with an escrow agent for payment of such Non- MTI Debt; or

(f) any Member admits insolvency or bankruptcy or its inability to pay its debts as they mature, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for such Member, or for the major part of its Property; or

(g) a trustee, custodian or receiver is appointed for any Member or for the major part of its Property and is not discharged within 90 days after such appointment; or

(h) bankruptcy, dissolution, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against any Member, and if instituted against any Member, are allowed against

such Member or are consented to or are not dismissed, stayed or otherwise nullified within 90 days after such institution.

Acceleration

If an Event of Default has occurred and is continuing, the 2007 Master Trustee may, and if requested by the holders of not less than 25% in aggregate principal amount of Outstanding Obligations, shall, by notice in writing delivered to the Obligated Group Agent, declare the entire Principal Balance of all Obligations then outstanding under the 2007 Master Indenture and the interest accrued thereon immediately due and payable, and the entire principal and such interest shall thereupon become immediately due and payable. The foregoing notwithstanding, if the Supplemental Master Indenture creating an Obligation includes a requirement that the consent of any credit enhancer, liquidity provider or any other Person be obtained prior to the acceleration of such Obligation, the 2007 Master Trustee may not accelerate such Obligation without the consent of such Person.

Remedies; Rights of Obligation Holders

Upon the occurrence of any Event of Default under the 2007 Master Indenture, the 2007 Master Trustee may pursue any available remedy including a suit, action or proceeding at law or in equity to enforce the payment of the principal of, premium, if any, and interest on the Obligations Outstanding under the 2007 Master Indenture and any other sums due under the 2007 Master Indenture and may collect such sums in the manner provided by law out of the Property of any Member wherever situated.

If an Event of Default shall have occurred, and if the holders of 25% or more in aggregate principal amount of Obligations Outstanding shall have requested (and upon the provision of indemnity satisfactory to the 2007 Master Trustee in its sole discretion), the 2007 Master Trustee shall be obligated to exercise such one or more of the rights and powers conferred by the 2007 Master Indenture as the 2007 Master Trustee shall deem most expedient in the interests of the holders of Obligations; provided, however, that the 2007 Master Trustee shall have the right to decline to comply with any such request if the 2007 Master Trustee shall be advised by Counsel that the action requested may not lawfully be taken or the 2007 Master Trustee shall determine that such action would be unjustly prejudicial to the holders of Obligations not parties to such request.

No remedy conferred upon or reserved to the 2007 Master Trustee (or to the holders of Obligations) by the terms of the 2007 Master Indenture is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the 2007 Master Trustee or to the holders of Obligations now or hereafter existing at law or in equity.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default, or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under the 2007 Master Indenture, whether by the 2007 Master Trustee or by the holders of Obligations, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Direction of Proceedings by Holders

The holders of a majority in aggregate principal amount of the Outstanding Obligations which have become due and payable in accordance with their terms, shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the 2007 Master Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the 2007 Master Indenture or for the appointment of a receiver or any other proceedings under the 2007 Master Indenture.

Appointment of Receivers

Upon the occurrence of an Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the 2007 Master Trustee and the holders of Obligations, the 2007 Master Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the rights and properties pledged under the 2007 Master Indenture and of the revenues, payments and profits thereof, pending such proceedings, with such powers as the court making such appointment shall confer.

Application of Moneys

All moneys received by the 2007 Master Trustee pursuant to any right given or action taken under the 2007 Master Indenture (except moneys held for the payment of Obligations called for prepayment or redemption which have become due and payable) shall, after payment of the related cost and expenses incurred or made by the 2007 Master Trustee, be applied as follows:

(a) Unless the principal of all the Obligations shall have become or shall have been declared due and payable, all such moneys shall be applied:

First: To pay the persons entitled thereto all installments of interest then due on the Obligations, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, to the persons entitled thereto, without any discrimination or privilege; and

Second: To pay the persons entitled thereto the unpaid principal and premium, if any, on the Obligations which shall have become due (other than Obligations called for redemption or payment for the payment of which moneys are held pursuant to the provisions of the 2007 Master Indenture), in the order of the scheduled dates of their payment, and, if the amount available shall not be sufficient to pay in full Obligations due on any particular date, then to the payment ratably, according to the amount of principal and premium due on such date, to the persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all the Obligations shall have become due or shall have been declared due and payable, all such moneys shall be applied to the payment of the principal, premium, if any, and interest then due and unpaid upon the Obligations without preference or priority of principal, premium or interest over the others, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal, premium and interest to the persons entitled thereto without any discrimination or privilege.

Rights and Remedies of Obligation Holders

No holder of any Obligation shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the 2007 Master Indenture or for the execution of any trust thereof or for the appointment of a receiver or any other remedy under the 2007 Master Indenture, unless an Event of Default has occurred and the holders of 25% or more in aggregate principal amount of the Obligations which have become due and payable in accordance with their terms or have been declared due and payable and have not been paid in full shall have made a Written Request to the 2007 Master Trustee and shall have offered it reasonable opportunity either to proceed to exercise the powers granted or to institute such action, suit or proceeding in its own name, and shall have offered indemnity to the 2007 Master Trustee satisfactory to the 2007 Master Trustee in its sole discretion, and unless the 2007 Master Trustee shall thereafter fail or refuse to exercise the powers, or to institute such action, suit or proceeding in its own name; and such notification, request and offer of indemnity are hereby declared in every case at the option of the 2007 Master Trustee to be conditions precedent to the execution of the powers and trusts of the 2007 Master Indenture and to any action or cause of action for the enforcement of the 2007 Master Indenture, or for the appointment of a receiver or for any other remedy under the 2007 Master Indenture; it being understood and intended that no one or more holders of the Obligations shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the 2007 Master Indenture by its, his or their action or to enforce any right under the 2007 Master Indenture except in the manner herein provided, and that all proceedings at law or in equity shall be instituted, had and maintained for the equal benefit of the holders of all Obligations Outstanding. Nothing contained in the 2007 Master Indenture shall, however, affect or impair the right of any holder to enforce the payment of the principal of, premium, if any, and interest on any Obligation at and after the maturity thereof, or the obligation of the Members to pay the principal, premium, if any, and interest on each of the Obligations issued under the 2007 Master Indenture to the respective holders thereof at the time and place, from the source and in the manner in such Obligations expressed.

Termination of Proceedings

In case the 2007 Master Trustee shall have proceeded to enforce any right under the 2007 Master Indenture by the appointment of a receiver, or otherwise, and such proceedings shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the 2007 Master Trustee, then and in every case the Members and the 2007 Master Trustee shall, subject to any determination in such proceeding, be restored to their former positions and rights under the 2007 Master Indenture with respect to the Property pledged and assigned under the

2007 Master Indenture, and all rights, remedies and powers of the 2007 Master Trustee shall continue as if no such proceedings had been taken.

Waiver of Events of Default

If, at any time after the principal of all Obligations shall have been declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered, any Member shall pay or shall deposit with the 2007 Master Trustee a sum sufficient to pay all matured installments of interest upon all such Obligations and the principal and premium, if any, of all such Obligations that shall have become due otherwise than by acceleration (with interest on overdue installments of interest and on such principal and premium, if any, at the rate borne by such Obligations to the date of such payment or deposit, to the extent permitted by law) and the expenses of the 2007 Master Trustee, and any and all Events of Default under the 2007 Master Indenture, other than the nonpayment of principal of and accrued interest on such Obligations that shall have become due by acceleration, shall have been remedied, then and in every such case the holders of a majority in aggregate principal amount of all then Outstanding Obligations, by written notice to the Obligated Group Agent and to the 2007 Master Trustee, may waive all Events of Default and rescind and annul such declaration and its consequences; but no such waiver or rescission and annulment shall extend to or affect any subsequent Event of Default, or shall impair any right consequent thereon.

Supplemental Master Indentures without Consent of Holders

The Obligated Group Agent and the 2007 Master Trustee may, without the consent of or notice to, any of the Obligation holders, amend or supplement the 2007 Master Indenture, for any one or more of the following purposes:

(a) To cure any ambiguity or defective provision in or omission from the 2007 Master Indenture in such manner as is not inconsistent with and does not impair the security of the 2007 Master Indenture or adversely affect the holder of any Obligation;

(b) To grant to or confer upon the 2007 Master Trustee for the benefit of the Obligation holders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Obligation holders and the 2007 Master Trustee, or either of them, to add to the covenants of the Members for the benefit of the Obligation holders or to surrender any right or power conferred under the 2007 Master Indenture upon any Member;

(c) To assign and pledge under the 2007 Master Indenture any additional revenues, properties or collateral;

(d) To evidence the succession of another entity to the agreements of a Member or the 2007 Master Trustee, or the successor of any thereof under the 2007 Master Indenture;

(e) To permit the qualification of the 2007 Master Indenture ander the Trust Indenture Act of 1939, as then amended, or under any similar federal statute hereafter in effect or

to permit the qualification of any Obligation for sale under the securities laws of any state of the United States;

(f) To provide for the issuance of Obligations;

(g) To reflect the addition to or withdrawal of a Member from the Obligated Group;

(h) To modify, eliminate or add to the provisions of the 2007 Master Indenture if the Master Bond Trustee shall have received written confirmation from each Rating Agency that such change will not result in a withdrawal or reduction of its credit rating assigned to the Obligated Group Agent, or a report, opinion or certification of a Consultant to the effect that such change is consistent with then current industry standards; and

(i) To make any other change which does not materially adversely affect the holders of any of the Obligations and does not materially adversely affect the holders of any Related Bonds, including without limitation any modification, amendment or supplement to the 2007 Master Indenture or any indenture supplemental thereto in such a manner as to establish or maintain exemption of interest on any Related Bonds from federal income taxation under applicable provisions of the Code.

Modification of 2007 Master Indenture with Consent of Holders

In addition to Supplemental Master Indentures without the consent of the holders as described above, the holders of not less than 51% in aggregate principal amount of the Obligations Outstanding at the time of the execution of such Supplemental Master Indenture or, if less than all of the Obligations are affected thereby, the holders of not less than 51% in aggregate principal amount of the Outstanding Obligations affected thereby, shall have the right to consent to and approve the execution by the Obligated Group Agent and the 2007 Master Trustee of such Supplemental Master Indentures as shall be deemed necessary and desirable by the Obligated Group Agent for the purpose of amending, adding to or rescinding any of the terms or provisions contained in the 2007 Master Indenture or in any Supplemental Master Indenture; provided, however, that nothing shall permit (a) an extension of the stated maturity or reduction in the principal amount of or reduction in the rate or extension of the time of paying of interest on or reduction of any premium payable on the redemption of, any Obligation, without the consent of the holder of such Obligation, (b) a reduction in the aggregate principal amount of Obligations the holders of which are required to consent to any such Supplemental Master Indenture, without the consent of the holders of all the Outstanding Obligations which would be affected by the action to be taken, or (c) modification of the rights, duties or immunities of the 2007 Master Trustee, without the written consent of the 2007 Master Trustee.

Satisfaction and Discharge of the 2007 Master Indenture

If the Members shall pay or provide for the payment of all Outstanding Obligations in any one or more of the following ways:

(a) by paying or causing to be paid the Principal Balance of, redemption premium, if any, and interest on all Outstanding Obligations, as and when the same become due and payable;

(b) by depositing with the 2007 Master Trustee, in trust, at or before maturity, moneys in an amount sufficient to pay or redeem (when redeemable) all Outstanding Obligations (including the payment of premium, if any, and interest payable on such Obligations to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested in such amount as will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Obligations Outstanding at or before their respective maturity dates; or

(c) by delivering to the 2007 Master Trustee all Outstanding Obligations for cancellation;

and if the Obligated Group shall also pay or cause to be paid all other sums payable under the 2007 Master Indenture by the Obligated Group and, if any such Obligations are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given in accordance with the requirements of the 2007 Master Indenture or provisions satisfactory to the 2007 Master Trustee shall have been made for the giving of such notice, then and in that case, the 2007 Master Indenture and the estate and rights granted under the 2007 Master Indenture shall cease, determine, and become null and void. The satisfaction and discharge of the 2007 Master Indenture shall be without prejudice to the rights of the 2007 Master Trustee to charge and be reimbursed by the Obligated Group for any expenditures which it may thereafter incur in connection herewith. The foregoing notwithstanding, the liability of the Obligated Group in respect of the Obligations shall continue, but the holders thereof shall thereafter be entitled to payment only out of the moneys or Defeasance Obligations deposited with the 2007 Master Trustee.

APPENDIX D

FORM OF APPROVING OPINION OF BOND COUNSEL

March 31, 2010

Allegheny County Hospital Development Authority
Pittsburgh, PA

The Bank of New York Mellon Trust Company, N.A., as Trustee
Pittsburgh, PA

UPMC
Pittsburgh, PA

Royal Bank of Canada
New York, NY

RBC Capital Markets Corporation
New York, NY

RE: Allegheny County Hospital Development Authority, University of Pittsburgh Medical Center Notes, Subseries 2007B-2 (the "Bonds") –First Supplemental Trust Indenture dated as of March 1, 2010; Second Supplemental Trust Indenture dated as of March 24, 2010; Third Supplemental Trust Indenture dated as of March 31, 2010

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the execution and delivery by the Allegheny County Hospital Development Authority (the "Authority") of a First Supplemental Trust Indenture dated as of March 1, 2010 (the "First Supplemental Indenture"), a Second Supplemental Trust Indenture dated as of March 24, 2010 (the "Second Supplemental Indenture"), and a Third Supplemental Trust Indenture dated as of March 31, 2010 (the "Third Supplemental Indenture" and collectively with the First Supplemental Indenture and the Second Supplemental Indenture the "Supplemental Indentures") which supplements the Trust Indenture dated as of July 1, 2007 (the "Original Indenture") by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Authority and the Trustee have been requested to enter into the Supplemental Indentures by UPMC, doing business as University of Pittsburgh Medical Center ("UPMC"). This opinion is being delivered pursuant to Section 903 of the Original Indenture.

On the date of original issuance of the Bonds, Houston Harbaugh, P.C. delivered its opinion of bond counsel that interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). We have assumed that such opinion remains in effect on the date hereof.

The Authority and UPMC are treating the amendments to the terms of the Bonds and the Original Indenture as a significant modification of the Bonds and a deemed resissuance of the Bonds under Section 1.1001-3 of the Treasury Regulations. The Authority is filing an

information report with the Internal Revenue Service with respect to the Bonds as reissued. In addition, authorized officers of the Authority and UPMC have executed a certificate stating the reasonable expectations of the Authority and UPMC on the date hereof as to future events that are material for the purposes of certain requirements of the Code.

As Bond Counsel, we have examined originals or certified copies of the Original Indenture, the Supplemental Indentures, such constitutional and statutory provisions and such other certificates, instruments and documents as we have deemed necessary or appropriate in order to enable us to render an informed opinion as to matters set forth herein.

Based upon such examination and the certifications and representations of fact contained in the proceedings relating to the execution and delivery of the Supplemental Indentures which we have not verified independently, we are of the opinion, as of the date hereof and under existing law, as follows:

1. The Supplemental Indentures have been duly authorized, executed and delivered by the Authority and the Original Indenture, as supplemented by the Supplemental Indentures, constitutes a valid and binding obligation of the Authority enforceable in accordance with its terms, except such enforceability may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and such enforceability may also be subject to the exercise of judicial discretion in appropriate cases.

2. The execution and delivery of the Supplemental Indentures is permitted by the Act (as defined in the Original Indenture) and the Original Indenture and complies with their respective terms; and all things necessary to make the Supplemental Indentures valid and binding agreements have been done.

3. The amendments set forth in the Supplemental Indentures, in and of themselves, will not adversely affect (A) the exclusion of interest on the Bonds from gross income for purposes of federal income taxation and (B) any applicable tax exemption with respect to the Bonds provided under the law of the Commonwealth of Pennsylvania. Please be advised, however, that we have no investigation and express no opinion as to whether any events have occurred or circumstances have existed (other than the amendments set forth in the Supplemental Indentures) since the issuance of the Bonds which could adversely affect the tax-exempt status of the interest thereon.

This opinion is addressed to you only, and may not be relied upon by any other party without our express written consent. Further, we express no opinion as to any matter, except as expressly provided therein.

Very truly yours,

CAMPBELL & LEVINE, LLC

APPENDIX E

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF UPMC FOR THE PERIODS ENDED DECEMBER 31, 2009 AND 2008

Consolidated Balance Sheets
(Unaudited)
(in millions)

	As of December 31, 2009	As of June 30, 2009
Current assets		
Cash and cash equivalents	$ 230	$ 177
Patient accounts receivable, net of allowance for uncollectible accounts of $88 at December 31, 2009 and $72 at June 30, 2009	407	403
Other receivables	291	321
Other current assets	107	96
Total current assets	1,035	997
Board-designated, restricted, trusteed and other investments	2,962	2,837
Beneficial interests in foundations	275	253
Net property, buildings and equipment	3,230	3,021
Other assets	408	354
Total assets	$ 7,910	$ 7,462
Current liabilities		
Accounts payable and accrued expenses	$ 356	$ 338
Accrued salaries and related benefits	314	296
Current portion of insurance reserves	262	244
Current portion of long-term obligations	278	270
Other current liabilities	198	178
Total current liabilities	1,408	1,326
Long-term obligations	2,929	2,832
Pension liability	191	275
Long-term insurance reserves	157	158
Other long-term liabilities	126	115
Total liabilities	4,811	4,706
Unrestricted net assets	2,675	2,349
Restricted net assets	424	407
Total net assets	3,099	2,756
Total liabilities and net assets	$ 7,910	$ 7,462

See accompanying notes

Consolidated Statements of Operations and Changes in Net Assets
(Unaudited)
(in millions)

	Six Months Ended December 31		Three Months Ended December 31	
	2009	2008	2009	2008
Unrestricted net assets				
Revenues:				
Net patient service revenue	$ 2,242	$ 2,124	$ 1,128	$ 1,044
Insurance enrollment revenue	1,496	1,435	737	718
Other revenue	324	287	161	150
Total operating revenues	4,062	3,846	2,026	1,912
Expenses:				
Salaries, professional fees and employee benefits	1,498	1,496	756	753
Supplies, purchased services and general	2,117	1,971	1,055	994
Depreciation and amortization	196	177	98	91
Provision for bad debts	128	99	56	34
Total operating expenses	3,939	3,743	1,965	1,872
Operating income (excluding asset impairment charge and income tax expense)	123	103	61	40
Asset impairment charge	(14)	–	(14)	–
Operating income	109	103	47	40
Income tax expense	(3)	(6)	(2)	(4)
After-tax operating income (carried forward)	$ 106	$ 97	$ 45	$ 36

See accompanying notes

Consolidated Statements of Operations and Changes in Net Assets (continued)
(Unaudited)
(in millions)

	Six Months Ended December 31		Three Months Ended December 31	
	2009	2008	2009	2008
After-tax operating income (brought forward)	$ 106	$ 97	$ 45	$ 36
Investing and financing activity:				
Investment revenue (loss)	288	(741)	51	(420)
Interest expense	(60)	(44)	(29)	(22)
Loss on extinguishment of debt	–	(1)	–	–
Income (loss) from investing and financing activities	228	(786)	22	(442)
Excess of revenues over expenses (expenses over revenues)	334	(689)	67	(406)
Other changes in unrestricted net assets	(7)	(4)	13	(3)
Increase (decrease) in unrestricted net assets	327	(693)	80	(409)
Restricted net assets				
Contributions	7	3	2	1
Net realized and unrealized (losses) gains on investments	(1)	(9)	6	(7)
Assets released from restriction for operations and capital purchases	(12)	(20)	(10)	(16)
Net increase (decrease) in beneficial interests in foundations	22	(75)	5	(71)
Increase (decrease) in restricted net assets	16	(101)	3	(93)
Increase (decrease) in net assets	343	(794)	83	(502)
Net assets, beginning of period	2,756	3,586	3,016	3,294
Net assets, end of period	$ 3,099	$ 2,792	$ 3,099	$ 2,792

See accompanying notes

Consolidated Statements of Cash Flows
(Unaudited)
(in millions)

	Six Months Ended December 31		Three Months Ended December 31	
	2009	2008	2009	2008
Operating activities				
Increase (decrease) in net assets	$ 343	$ (794)	$ 83	$ (502)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities				
Depreciation and amortization	196	177	98	91
Change in beneficial interest in foundations	(22)	75	(5)	71
Net change in post-retirement liability	8	–	–	–
Asset impairment charge	14	–	14	–
Restricted contributions and investment income	(6)	6	(8)	6
Net change in trading securities	(95)	656	4	301
Changes in operating assets and liabilities	(154)	170	39	160
Net cash provided by operating activities	284	290	225	127
Investing activities				
Purchase of property and equipment (net of disposals)	(156)	(285)	(87)	(160)
Investments in joint ventures	(81)	(9)	(57)	(3)
Net (increase) decrease in investments designated as nontrading	(30)	13	(30)	20
Net decrease (increase) in other assets	73	(37)	1	(49)
Net cash used in investing activities	(194)	(318)	(173)	(192)
Financing activities				
Repayments of long-term obligations	(61)	(80)	(22)	(43)
Borrowings of long-term obligations	–	105	–	101
Line of credit borrowings	60	70	–	59
Line of credit repayments	(42)	–	(42)	–
Restricted contributions and investment income	6	(6)	8	(6)
Net cash (used in) provided by financing activities	(37)	89	(56)	111
Increase (decrease) in cash and cash equivalents	53	61	(4)	46
Cash and cash equivalents, beginning of period	177	77	234	92
Cash and cash equivalents, end of period	$ 230	$ 138	$ 230	$ 138

See accompanying notes

Notes to Consolidated Financial Statements (Unaudited)

(In Millions)

1. Basis of Presentation

UPMC is a Pennsylvania nonprofit corporation and is exempt from federal income tax pursuant to Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) of the Code. Headquartered in Pittsburgh, Pennsylvania, UPMC is one of the leading academic medical centers in the United States. UPMC is an integrated global health enterprise that has the medical expertise, geographic reach, and financial stability to develop models of excellence that are transforming health care nationally and internationally.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal and recurring nature. The accompanying unaudited interim consolidated financial statements include the accounts of UPMC and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation.

For further information, refer to the audited consolidated financial statements and notes thereto as of and for the year ended June 30, 2009.

2. Significant Transactions

In February 2008, UPMC entered into a series of agreements with the Beacon Medical Group, Limited, Dublin Ireland ("BMG") pursuant to which it purchased a 25% equity ownership position in Beacon Hospital Sandyford Limited, a hospital in Dublin, Ireland ("Beacon Hospital"). UPMC also entered into an agreement to manage the operations of Beacon Hospital. BMG owned the remaining 75% of Beacon Hospital and 100% of the company that owned the facility (including the land) in which Beacon Hospital operates.

On August 26, 2009, UPMC and BMG executed agreements to restructure the ownership of BMG and Beacon Hospital (the "Restructuring"). BMG was subsequently renamed UPMC Beacon Sandyford Limited ("UPMC Beacon"). Pursuant to the Restructuring, UPMC currently holds a 66.7% ownership position in UPMC Beacon. Additionally, UPMC acquired a 40% interest in three companies intending to develop private co-located hospitals on the grounds of public hospitals in each of Limerick, Cork and Beaumont, Ireland. In exchange for the aforementioned interest in UPMC Beacon and the interest in the co-location projects, UPMC made a cash payment of €15 ($21)[1] at closing and another cash payment of €5 ($7)[2] in November 2009. UPMC will make a final cash payment of €5 ($7) by February 2010. The Restructuring resulted in an increase of the long-term debt on UPMC's balance sheet of €137 ($196)[3]. UPMC provided guarantees pursuant to its 2007 MTI and its 1995 MTI of €25 ($36)[3]of this long term debt and up to €18 ($26)[3] of short term debt to be used for working capital.

[1] The August 26, 2009 exchange rate of $1.4305 per euro was used.
[2] The November 30, 2009 exchange rate of $1.4803 per euro was used.
[3] The December 31, 2009 exchange rate of $1.4333 per euro was used.

2. Significant Transactions (continued)

In October 2009, UPMC's Board of Directors approved Management's plan to close its UPMC Braddock ("Braddock") facility effective January 31, 2010. Clinical operations at Braddock began shifting to other UPMC facilities beginning in November 2009. Currently, no definitive plans exist with regard to an alternative use for the existing hospital facility and land. UPMC evaluated the recoverability of the carrying value of Braddock's long-lived assets and recorded an asset impairment charge of $14 in its statement of operations for the three months ended December 31, 2009 to reflect the limited alternative use of the Braddock facility following its closure.

On November 17, 2009, UPMC acquired a controlling interest in Chartwell Pennsylvania LP ("Chartwell") through the acquisition of an additional 45% interest in the partnership in exchange for $45. UPMC's total ownership in Chartwell has increased to 83%. Accordingly, the financial position of Chartwell has been included in UPMC's consolidated balance sheet as of December 31, 2009 and results of operations less minority interest expense since the acquisition of the additional 45% in November 2009 have been included in the consolidated statements of operations and changes in net assets.

3. New Accounting Pronouncements

In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles.* Statement 168 establishes the FASB Accounting Standards Codification ("ASC", also collectively known as the "Codification") as the single source of authoritative U.S. GAAP to be applied by nongovernmental entities. The Codification was developed to organize GAAP pronouncements by topic so that users can more easily access authoritative accounting guidance. It is organized by topic, subtopic, section, and paragraph, each of which is identified by a numerical designation. Statement 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. UPMC adopted Statement 168 beginning with its quarter ended September 30, 2009. Accounting references have been updated, and therefore SFAS references, where applicable, have been replaced with ASC references.

Effective July 1, 2008, UPMC adopted ASC 820-10 *Fair Value Measurements and Disclosures* for all financial instruments accounted for at fair value on a recurring basis. The effective date of ASC 820-10 was subsequently extended for non-financial assets and liabilities by ASC 820-10-65, *Transition and Open Effective Date Information*; therefore, UPMC fully adopted all of the provisions of this topic effective July 1, 2009. ASC 820-10 establishes a new framework for measuring fair value and expands related disclosures. ASC 820-10 requires fair value to be determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market in an orderly transaction between market participants.

In May 2009, the FASB issued new guidance, *Not-for-Profit Organizations: Mergers and Acquisitions.* This standard provides not-for-profit organizations with specific guidance on accounting for mergers and acquisitions, including determining whether a combination between two or more not-for-profit entities is a merger or an acquisition, how to account for each and the disclosures that should be made. The guidance is to be applied prospectively to mergers with merger dates on or after December 15, 2009 and to acquisitions with acquisition dates on or after the beginning of the first annual reporting period beginning on or after December 15, 2009. Earlier application is prohibited. UPMC will apply the guidance provided by this standard to acquisitions occurring after July 1, 2010.

4. Fair Value Measurements

The valuation techniques used to measure fair value under ASC 820-10 *Fair Value Measurements,* are based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs are generally unsupported by market activity. ASC 820-10 established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value.

These tiers include:

- Level 1: Quoted prices for identical assets or liabilities in active markets.

- Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-driven valuations whose inputs are observable or whose significant value drivers are observable.

- Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

As of December 31, 2009, UPMC held certain assets and liabilities that are required to be measured at fair value on a recurring basis. These include cash and cash equivalents and certain board-designated, restricted, trusteed and other investments and derivative instruments.

The following table represents UPMC's fair value hierarchy for its financial assets and liabilities measured at fair value on a recurring basis of as December 31, 2009. The interest rate swaps are valued using internal models, which are primarily based on market observable inputs including interest rate curves. When quoted market prices are unobservable for fixed income securities, quotes from independent pricing vendors based on recent trading activity and other relevant information including market interest rate curves, referenced credit spreads and estimated prepayment rates where applicable are used for valuation purposes. These investments are included in Level 2 and include corporate fixed income, government bonds, mortgage and asset-backed securities. Public real estate that has a limited liability company structure is classified as Level 2. The net asset value has been derived using quoted market prices for the underlying securities.

4. Fair Value Measurements (continued)

Fair Value Measurements As of December 31, 2009	Level 1	Level 2	Level 3	Total Carrying Value
Assets				
Cash and cash equivalents	$ 225	$ –	$ –	$ 225
Fixed income	492	376	–	868
Domestic equity	193	1	–	194
International equity	354	86	–	440
Public real estate	26	–	–	26
Commodities	32	–	–	32
Derivative instruments (interest rate swaps)	–	41	–	41
Total assets	$ 1,322	$ 504	$ –	$ 1,826
Liabilities				
Derivative instruments (interest rate swaps)	–	(88)	–	(88)
Total liabilities	$ –	$ (88)	$ –	$ (88)

5. Financial Instruments

Substantially all of UPMC's investments in debt and equity securities are classified as trading. This classification requires UPMC to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as gains or losses from investing and financing activities in the consolidated statements of operations and changes in net assets. Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value using quoted market prices.

Cash and cash equivalents and investments recorded at fair value aggregate $1,785 and $1,710 at December 31, 2009 and June 30, 2009, respectively. The fair value of these instruments is based on market prices as estimated by financial institutions. The fair value of long-term debt at December 31, 2009 and June 30, 2009 is $3,193 and $2,997, respectively, based on market prices as estimated by financial institutions.

Investments in limited partnerships that invest in nonmarketable securities (private equity) are primarily recorded at cost if the ownership percentage is less than 5% and are reported using the equity method of accounting if the ownership percentage is greater than 5%. These investments are periodically evaluated for impairment. As of December 31, 2009 and June 30, 2009, respectively, UPMC had investments recorded at cost of $893 and $793. Investments in individual entities in which UPMC has the ability to

5. Financial Instruments (continued)

exercise significant influence, generally 20% to 50% ownership are reported using the equity method of accounting.

Certain of UPMC's investments in debt and equity securities (donor restricted assets) are designated as non-trading. As of December 31, 2009 and June 30, 2009, respectively, UPMC had non-trading investments of $130 and $100. At December 31, 2009 and June 30, 2009, respectively, $0 and $48 of these investments were in an unrealized loss position. Unrealized losses on these investments were $0 and $7, respectively.

UPMC has interest rate-related derivative instruments to manage its exposure on its debt instruments and its asset allocation. By using derivative financial instruments to manage these risks, UPMC exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contracts. When the fair value of a derivative contract is positive, the counterparty owes UPMC, which creates credit risk for UPMC. When the fair value of a derivative contract is negative, UPMC owes the counterparty and, therefore, it does not incur credit risk. UPMC minimizes the credit risk in derivative instruments by entering into transactions that require the counterparty to post collateral for the benefit of UPMC based on the credit rating of the counterparty and the fair value of the derivative contract. If UPMC has a derivative in a liability position, UPMC's credit is a risk and ASC 820 fair market values could be adjusted downward. Market risk is the effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest rate changes is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. Management also mitigates risk through periodic reviews of their derivative positions in the context of their total blended cost of capital.

UPMC maintains interest rate swap programs on a variety of its revenue bonds. Management believes that it is prudent to minimize its interest payments. To meet this objective and to take advantage of low interest rates, UPMC entered into various interest rate swap agreements to manage interest rate risk. The notional amount under each interest rate swap agreement is reduced over the term of the respective agreement to correspond with reductions in various outstanding bond series.

5. Financial Instruments (continued)

The following is a summary of the outstanding positions of the interest rate swap agreements on the revenue bonds as of December 31, 2009:

Bond Series	Notional Amount	Maturity Date	Rate Paid	Rate Received
1990/2005 B	$ 147	12/1/2025	3.60%	68% one-month LIBOR
2006A	81	1/15/2036	SIFMA Index	4.16%
2006A	81	1/15/2011	0.00%	1.12%
2007A-1	54	2/1/2021	SIFMA Index	67% three-month LIBOR plus .2077%
2007A-1	46	2/1/2037	SIFMA Index	67% three-month LIBOR plus .3217%
2007A-2	75	2/1/2011	SIFMA Index	4.85%
2007B-1	100	10/15/2010	0.00%	1.051%
2007B-1	100	4/15/2039	SIFMA Index	4.264%
2007B-2	65	10/15/2012	0.00%	0.956%
2007B-2	65	4/15/2039	SIFMA Index	4.264%
2007C	115	8/1/2037	SIFMA Index	3.913%
2007C	115	2/1/2011	0.00%	1.712%
2007D	96	4/9/2010	Two times SIFMA minus 67% of one-month LIBOR	5.7605%
	$ 1,140			

In addition to the interest rate swaps shown above, UPMC has an equity index swap which expires in 2011. UPMC receives a return based on the S&P 500, and pays the three-month LIBOR rate plus six basis points. The notional amount was $50 at December 31, 2009.

The fair value of UPMC's derivative instruments at December 31 and June 30, 2009 is as follows:

Balance Sheet Classification	December 31, 2009	June 30, 2009
Other assets	$ 41	$ 34
Long-term obligations	(88)	(126)
	$ (47)	$ (92)

5. Financial Instruments (continued)

The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. None of UPMC's swaps outstanding as of December 31 and June 30, 2009 are designated as hedging instruments and as such, changes in fair value are recognized in investing and financing activity as investment revenue (loss) in the consolidated statements of operations and changes in net assets.

The effects of changes in the fair value of the derivative instruments on the consolidated statements of operations and changes in net assets for the six months ended December 31, 2009 and 2008 are as follows:

Type of Derivative	Classification of Gain (Loss) on Derivatives Recognized in Excess of Revenues over Expenses (Expenses over Revenues)	Amount of Gain (Loss) on Derivatives Recognized in Excess of Revenues over Expenses (Expenses over Revenues)	
		2009	2008
Interest rate swap contracts	Investment revenue (loss)	$ 47	$ (146)
Equity index contract	Investment revenue (loss)	4	(7)
		$ 51	$ (153)

UPMC's derivative instruments contain provisions that require UPMC's debt to maintain an investment grade credit rating from certain major credit rating agencies. If UPMC's debt were to fall below investment grade, it would be in violation of these provisions, and the counterparties to the derivative instruments could request payment or demand immediate and ongoing full overnight collateralization on derivative instruments in net liability positions. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a liability position at December 31, 2009 and June 30, 2009 is $88 and $126, respectively, for which UPMC has posted collateral of $12 and $67, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered to the fullest extent on December 31, 2009, UPMC would be required to post an additional $171 of collateral to its counterparties. Pursuant to master netting arrangements, UPMC offsets the fair value of amounts recognized for derivative instruments, including the right to reclaim or obligation to return cash collateral from/to counterparties.

6. Pension Plans

UPMC and its subsidiaries maintain defined benefit pension plans, defined contribution plans and nonqualified pension plans that cover substantially all of UPMC's employees. Benefits under the defined benefit plans vary and are generally based upon the employee's earnings and years of participation.

6. Pension Plans (continued)

The components of net periodic pension cost for defined benefit pension plans were as follows:

	Six Months Ended December 31		Three Months Ended December 31	
	2009	2008	2009	2008
Service cost	$ 27	$ 25	$ 13	$ 12
Interest cost	27	25	13	13
Expected return on plan assets	(25)	(28)	(12)	(14)
Recognized net actuarial loss	14	2	7	1
Amortization of prior service cost	(2)	(3)	(1)	(1)
Net periodic pension cost	$ 41	$ 21	$ 20	$ 11

The actuarial assumptions used to determine net periodic pension cost for the six and three month periods ended December 31, 2009 and 2008 for the defined benefit pension plans are as follows:

	Periods Ended December 31	
	2009	2008
Discount rate	6.70%	6.95%
Expected rate of compensation increase	3.75%	3.75%
Expected long-term rate of return on plan assets	8.00%	8.00%

7. Contingencies

UPMC is involved in litigation and responding to requests for information from governmental agencies occurring in the normal course of business. Certain of these matters are in the preliminary stages and legal counsel is unable to estimate the potential effect, if any, upon operations or financial condition of UPMC. Management believes that these matters will be resolved without material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In August 2007, UPMC received a request for information from the Civil Division of the Department of Justice relating to an investigation into the health insurance and hospital services market in and around Pittsburgh, including any potentially anticompetitive agreements. This request covers several prior years. At this time, no specific violations, claims or assessments have been made. Management is cooperating with the information requests and believes that the matter will be resolved without any material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

7. Contingencies (continued)

In March and April 2009, several related class action lawsuits were filed against UPMC and certain of its affiliates in the Federal District Court for the Western District of Pennsylvania and the Court of Common Pleas for Allegheny County, Pennsylvania. The Federal District Court cases allege violations of The Fair Labor Standards Act (FLSA) on the basis that certain employees were not paid for all hours that they worked and were not properly paid overtime and, further, that these actions also violated the Employee Retirement Income Security Act (ERISA) and the Racketeer Influenced and Corrupt Organizations Act (RICO). The state court actions allege violations of the Pennsylvania Minimum Wage Act, The Wage Payment and Collection Act and common law on the same factual basis noted above. The lawsuits seek recovery of alleged unpaid wages and benefits and other monetary damages and costs. UPMC does not believe that the allegations have any merit and that the matter will be resolved without any material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

In April 2009, a lawsuit was filed by West Penn Allegheny Health System (WPAHS) against UPMC and Highmark, Inc. in the Federal District Court for the Western District of Pennsylvania (District Court). The lawsuit alleged that UPMC and Highmark have engaged in violations of the Sherman Antitrust Act on unfair competition against WPAHS and tortious interference with existing and prospective business relations of WPAHS. WPAHS sought equitable relief and unspecified compensatory, treble and punitive damages. In October 2009, WPAHS' lawsuit was dismissed by the District Court. In November 2009, WPAHS appealed the District Court's dismissal. UPMC does not believe that the appeal has merit and that the matter will be resolved without any material adverse effect on UPMC's financial position or results of operations. However, the ultimate outcome and effect on UPMC's financial statements is unknown.

8. Subsequent Events

Management evaluated subsequent events through February 26, 2010, the date the official statements were printed.

On January 25, 2010, an At-Large Member of Allegheny County Council, without the authority of Council (the ***"Original Plaintiff"***), filed a Complaint and parallel Motion for Emergency Temporary/Preliminary Injunction in the Civil Division of the Court of Common Pleas of Allegheny County against the Corporation and the Master Trustee. The Complaint and Motion sought, among other things, a declaratory judgment that the closing of UPMC Braddock Hospital on January 31, 2010 would violate various sections of the 2007 Master Indenture and an injunction preventing the closing of UPMC Braddock Hospital. A Petition to Intervene was filed by a resident of the Borough of Braddock, and by the Borough of Braddock (collectively, the ***"Intervenors"***). The Corporation subsequently filed Preliminary Objections to the Complaint, an Opposition to Plaintiff's Motion for a Preliminary Injunction, and other proceedings. On January 29, 2010, the Court granted the petition of the Intervenors to intervene, and ruled that the Original Plaintiff lacked standing to bring the suit. The Court further ruled, among other things, that the 2007 Master Indenture does not require the Corporation to keep the hospital open. The Court granted the Corporation's Preliminary Objections and its Motion to Dismiss the Complaint and also dismissed the Motion for Emergency Temporary/Preliminary Injunction. On February 1, 2010, the Original Plaintiff attempted to file a Notice of Appeal with the Pennsylvania Supreme Court. On February 9, 2010, the Supreme Court transferred the case to the Pennsylvania Superior Court. The Corporation believes that any appeal has no merit and intends to take appropriate action to fight any appeal. On February 17, 2010, the Original Plaintiff, as attorney for certain individual plaintiffs, filed a similar lawsuit seeking the reopening of UPMC Braddock Hospital and challenging the Corporation's tax-exempt status under Pennsylvania law. The Corporation likewise views this action as being without merit and will aggressively defend it.