



**UNAUDITED QUARTERLY DISCLOSURE STATEMENT  
FOR THE PERIOD ENDED JUNE 30, 2009**

The information contained herein is being filed by UPMC for the purpose of complying with its obligations under Continuing Disclosure Agreements entered into in connection with the issuance of the series of bonds listed in the table below and disclosure obligations in connection with UPMC's bank lines of credit. The information contained herein is as of June 30, 2009. Digital Assurance Certification, L.L.C., as Dissemination Agent, has not participated in the preparation of this Quarterly Report, has not examined its contents and makes no representations concerning the accuracy and completeness of the information contained herein.

<b>Issuer</b>	<b>Bonds</b>	<b>Original Borrower</b>	<b>Series</b>
Allegheny County Hospital Development Authority	Health Center Revenue, Health Center Revenue Refunding and UPMC Health System Revenue Bonds	Presbyterian Hospital	1988B
		UPMC Health System	1990
		Magee-Womens Hospital	1993
		UPMC Health System	1997B
		UPMC Health System	1998B
		UPMC Health System	1999B
		UPMC	2003B
		UPMC	2005B
		UPMC	2006A
		UPMC	2007A
		UPMC	2007B
		UPMC	2007C
		UPMC	2007D
		UPMC	2008A
		UPMC	2008B
UPMC	2008 Notes		
UPMC	2009A		
Pennsylvania Higher Educational Facilities Authority	UPMC Health System Revenue Bonds	UPMC Health System	1999A
		UPMC Health System	2001A
Allegheny County Industrial Development Authority	Variable Rate Demand Refunding Bonds	UPMC	2004A

The following financial data as of and for the three-month periods ended June 30, 2009 and 2008 and for the year ended June 30, 2009 is derived from the unaudited consolidated internal financial statements of UPMC. The unaudited consolidated internal financial statements include all adjustments consisting of normal recurring accruals that UPMC considers necessary for a fair presentation of the financial position and the results of operations for these periods. The financial information as of and for the twelve-month period ended June 30, 2008 is derived from UPMC's audited consolidated financial statements. Operating results for the twelve-month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for any future periods.

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## **Highlights**

UPMC is an integrated global health enterprise headquartered in Pittsburgh, Pennsylvania and one of the leading nonprofit health systems in the United States. Through June 30, 2009, UPMC's financial results reflect continued reinvestment to fulfill its commitment of providing outstanding patient care while shaping tomorrow's health system.

For the twelve-month period ended June 30, 2009, operating revenues increased by \$653 million (9.2%) to \$7.7 billion, due primarily to increases in insurance services membership, outpatient services volume and the integration of UPMC Mercy. Operating income, which is reinvested in programs that support UPMC's mission, was \$213 million<sup>1</sup> for the period, \$29 million (15.8%) better than the same period one year ago. Operating earnings before interest, depreciation and amortization totaled \$577 million<sup>1</sup>, compared to \$513 million in the prior period. As of June 30, 2009, UPMC had \$3.0 billion of cash and investments.

UPMC continues to attract increasing numbers of patients, physicians and insurance services members:

- Total admissions were up 3% to 187,685 for the twelve-month period ended June 30, 2009, primarily as a result of the full year impact of admissions to UPMC Mercy.
- Inpatient activity as measured by medical-surgical admissions was up 3.4% for the twelve-month period.
- Outpatient revenue per workday rose 8%, while physician service revenue per weekday increased 12%.
- Enrollment in UPMC's insurance services grew 9% to almost 1.4 million members.

UPMC's loss from investing and financing activities for the twelve-month period was (\$688) million. This was composed primarily of a portfolio return of (22.3%) and mark-to-market adjustments for interest rate swaps used for debt management purposes. UPMC has made no changes to its asset allocation policies and continues to have a long term perspective with regard to its investment activities.

During the twelve-month period ended June 30, 2009, UPMC made capital expenditures of \$556 million. Significant components included:

- Final construction costs of \$159 million for the new Children's Hospital and research complex on the site of the former St. Francis Hospital in Lawrenceville. The research complex opened in November 2008 and the hospital opened on May 2, 2009.
- \$59 million of construction costs related to the development of the UPMC Passavant campus, and
- Expenditures of \$108 million on various components of UPMC's best-in-class information technology platform.

Site work began for UPMC's planned 120-bed hospital on the site of the former Palace Inn in Monroeville. The hospital is intended to meet the demands of patients and physicians in the eastern suburbs of Pittsburgh for UPMC's high-quality, patient-focused care in a new facility. In addition to an emergency department, services are expected to include cancer care, inpatient and outpatient surgery, imaging, endoscopy and cardiac diagnostic testing.

UPMC continued to enhance UPMC Mercy's existing facilities and expand its subspecialty service capabilities. A key component of this plan was an expansion of existing physical rehabilitation services to create a major rehabilitation center of excellence at UPMC Mercy. As part of this process, UPMC South Side successfully merged with UPMC Mercy on July 1, 2009. Rehabilitation beds and other inpatient services at UPMC South Side have been relocated to UPMC Mercy; an urgent care center and outpatient services remain at UPMC South Side.

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<sup>1</sup>Excludes the impact of a non-recurring separation charge of \$21 million for the twelve-month period ended June 30, 2009.

In July 2009, UPMC once again was the region's only medical center listed on the annual *U.S. News & World Report* Honor Roll of "America's Best Hospitals" survey. UPMC ranked 13th of only 21 hospitals nationwide named to the Honor Roll. UPMC was ranked in the top ten in seven of the 16 specialty areas and appeared in 13 overall. No other hospitals in the region were ranked in any of the 16 specialty areas. 2009 marks UPMC's 10th appearance on the Honor Roll, with UPMC advancing to 13th place from 14th place on the 2008 list.

Based on groundbreaking research and experience in solid-organ transplants, a multi-disciplinary team at UPMC has begun a novel clinical study on human hand transplantation that seeks to reduce the use of immunosuppressive drugs and their damaging side effects for patients. Using a new immuno-modulatory approach known as the "Pittsburgh Protocol," UPMC surgeons performed the nation's first bilateral hand transplant on May 4, 2009. UPMC's first unilateral hand transplant – and only the nation's sixth – was performed on March 14, 2009. Both recipients continue to undergo occupational therapy and are expected to regain significant function and sensation in their transplanted limbs in the coming year.

UPMC received an unqualified audit opinion on both its financial statements and internal controls over financial reporting within 60 days of the end of its 2008 fiscal year and posted its audited financial statements to its web site within 75 days. The timely issuance of these statements highlights UPMC's commitment to the quality and accuracy of providing financial information to its various stakeholders. The 2008 fiscal year is the third consecutive year that UPMC has voluntarily complied with all of the applicable provisions of the Sarbanes Oxley Act.

UPMC expects to receive an unqualified audit opinion on both its financial statements and internal controls over financial reporting for fiscal year 2009. The 2009 fiscal year is the fourth consecutive year that UPMC has voluntarily complied with all of the applicable provisions of the Sarbanes Oxley Act.

## **Organizational Overview**

UPMC, doing business as the University of Pittsburgh Medical Center, is one of the world's leading integrated global 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 comprise one of the largest nonprofit health systems in the United States. UPMC has three major operating components: Provider Services, Insurance Services and International and Commercial Services. 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 community relations. The costs of these services are allocated to the operating components.

### **Provider Services**

UPMC's Provider Services include a comprehensive array of clinical capabilities consisting of hospitals, specialty service lines (e.g., transplantation services, woman care, behavioral health, pediatrics, cancer care and rehabilitation services), contract services (emergency medicine, pharmacy and laboratory) and 2,700 employed physicians with associated practices. Also included within Provider Services are supporting foundations and UPMC's captive insurance programs. Hospital activity is monitored in four distinct groups: (i) academic hospitals that provide a comprehensive array of clinical services that include the specialty service lines listed above and serve as the primary academic and teaching centers for UPMC are located in Pittsburgh; (ii) community hospitals that provide core clinical services mainly to the suburban Pittsburgh population; (iii) regional hospitals that provide core clinical services to broader areas of the western Pennsylvania region; and (iv) pre- and post-acute care capabilities that include: UPMC HomeCare, a network of home health services and UPMC Senior Communities, the facilities of which provide a complete network of senior living capabilities in greater Pittsburgh.

### **Insurance Services**

UPMC holds various interests in health care financing initiatives and network care delivery operations that have almost 1.4 million members. UPMC Health Plan is a health maintenance organization (HMO) offering coverage for commercial and Medicare members. UPMC for You is also an HMO, which is engaged exclusively in providing coverage to Medical Assistance beneficiaries. UPMC Health Network offers preferred provider organization (PPO) plan designs to serve both commercial and Medicare beneficiaries. UPMC for Life is a Medicare product line offered by various companies within the Insurance Services division. UPMC Work Partners provides integrated workers' compensation and disability services to employers. Community Care Behavioral Health Organization (Community Care) is a state-licensed, risk-bearing PPO that manages the behavioral health services for Medical Assistance through mandatory managed care programs in 35 Pennsylvania counties, including Allegheny County.

### **International and Commercial Services**

The goal of UPMC's International and Commercial Services division 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 both support UPMC's core mission and help to revitalize the economy of western Pennsylvania. The first of the major international ventures, ISMETT, a transplant and specialty surgery hospital in Palermo, Italy, has performed more than 880 transplants since its founding in 1999. Other international ventures currently include two cancer centers and a private hospital in Ireland, the provision of emergency medical system consulting services in Qatar and information technology implementation projects in the United Kingdom.

## Consolidated Financial Highlights

(dollars in millions)

<b>Financial Results for the Twelve-Month Periods Ended June 30</b>		
	<b><u>2009</u></b>	<b><u>2008</u></b>
Operating Revenues	\$7,721	\$7,068
Operating Income <sup>1</sup>	\$213	\$184
Operating Margin	2.8%	2.6%
Investment and Financing Loss	(\$688)	(\$134)
Excess of (Expenses over Revenues)		
Revenues over Expenses	(\$510)	\$5
Operating EBIDA <sup>1</sup>	\$577	\$513
Capital Expenditures	\$556	\$655
Reinvestment Ratio	1.50	1.91
<b>Selected Other Information as of and for the Periods Ended</b>		
	<b><u>June 30, 2009</u></b>	<b><u>June 30, 2008</u></b>
Total Cash and Investments	\$3,014	\$3,240
Unrestricted Cash and Investments	\$2,343	\$2,730
Unrestricted Cash and Investments (Under) Over Long Term Debt	(\$334)	\$312
Days of Cash on Hand	121	155
Days in Accounts Receivable	33	34
Average Age of Plant	7.3	8.0

▪ **Operating revenues increased by 9.2% or \$653 million.**

▪ **UPMC generated \$577 million of operating earnings before interest, depreciation and amortization (“Operating EBIDA”).**

▪ **Total Cash and Investments, Unrestricted Cash and Investments and related ratios declined due to the decline in investment markets.**

▪ **Average Age of Plant declined to 7.3 years reflecting the addition of the newly constructed Children’s Hospital of Pittsburgh in Lawrenceville.**

- Operating revenues for the twelve-month period ended June 30, 2009 increased \$653 million (9.2%) as compared to the twelve-month period ended June 30, 2008 due to a \$371 million increase in Insurance Services operating revenue driven primarily by higher membership. The remainder of the increase in operating revenues was generated from the addition of UPMC Mercy (\$152 million), Provider Services volumes, and inflationary increases in payor contracts.
- Operating income increased \$29 million from the prior year excluding the impact of a non-recurring separation charge of \$21 million.
- Investment and financing loss of \$688 million for the twelve-month period reflects a loss on UPMC’s investment portfolio of (22.3%), interest expense, derivative mark-to-market adjustments and loss on refinancing.
- UPMC funded \$556 million of capital expenditures to enhance information technology, create new programs/services and maintain infrastructure. Major projects included the construction of a new Children’s Hospital and research complex, construction at the UPMC Passavant campus, the continual enhancement of information technology infrastructure and investments in various patient care software applications.

<sup>1</sup>Excludes the impact of a non-recurring separation charge of \$21 million for the twelve-month period ended June 30, 2009 and a \$47 million non-recurring asset impairment charge for the twelve month period ended June 30, 2008.

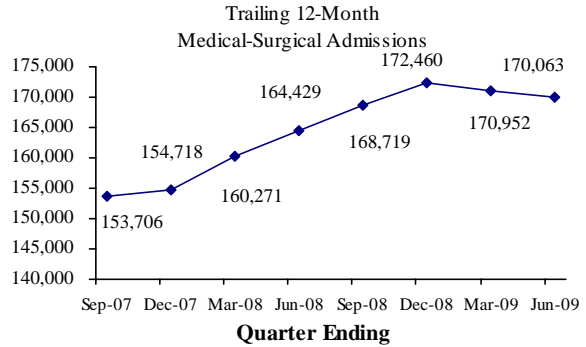
## Revenue Metrics - Provider Services

(Dollars in millions)

### Medical-Surgical Admissions

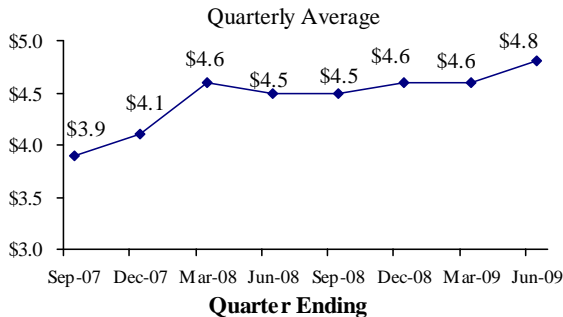
Inpatient activity at UPMC hospitals as measured by medical-surgical admissions was up 3% over 2008 primarily as a result of including a full year of UPMC Mercy admissions.

For the Twelve Months Ended June 30: (in thousands)			
	2009	Variance	2008
Academic	108.0	8%	99.9
Community	45.6	(4%)	47.7
Regional	16.5	(2%)	16.8
<b>Total</b>	<b>170.1</b>	<b>3%</b>	<b>164.4</b>



### Outpatient Revenue per Workday

UPMC's outpatient activity for 2009 as measured by average revenue per workday increased by 8% from 2008. Hospital outpatient activity is measured on an equivalent work day (EWD) basis to adjust for weekend and holiday hours and includes UPMC Mercy for the period January 1, 2008 through June 30, 2009.

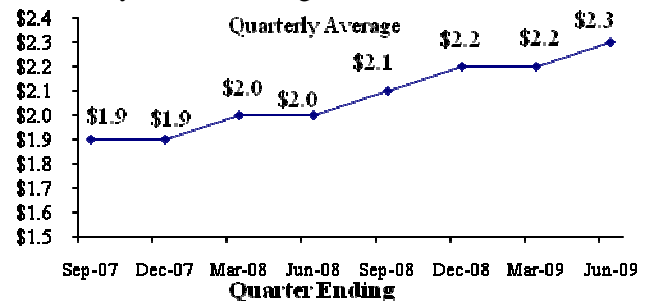


Average for the Twelve Months Ended June 30:			
	2009	Variance	2008
Academic	\$3.015	9%	\$2.768
Community	\$1.117	7%	\$1.040
Regional	\$0.512	5%	\$0.487
<b>Total</b>	<b>\$4.644</b>	<b>8%</b>	<b>\$4.295</b>

### Physician Service Revenue per Weekday

UPMC's physician activity for the twelve months ended June 30, 2009 as measured by average revenue per workday increased by 12% from the prior fiscal year. Physician services activity is measured on a week day basis and includes UPMC Mercy for the period January 1, 2008 through June 30, 2009.

Average for the Twelve Months Ended June 30:			
	2009	Variance	2008
Anesthesiology	\$0.315	5%	\$0.299
Radiology	\$0.277	5%	\$0.263
Surgery	\$0.248	9%	\$0.227
Other	\$1.384	15%	\$1.199
<b>Total</b>	<b>\$2.225</b>	<b>12%</b>	<b>\$1.988</b>

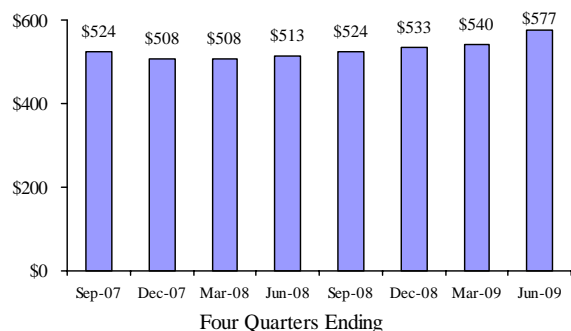


## Key Financial Indicators

(Dollars in Millions)

### Operating Earnings Before Interest, Depreciation and Amortization <sup>1</sup>

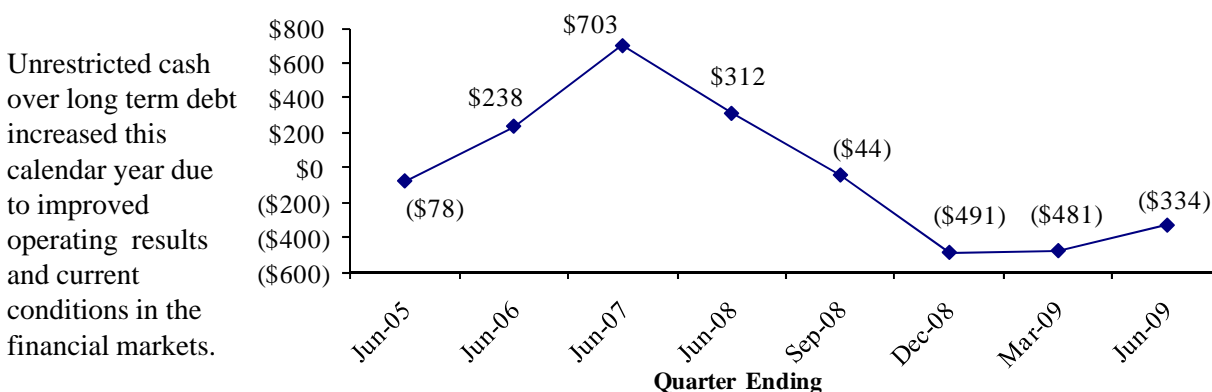
Operating EBIDA for the twelve month period ended June 30, 2009 increased \$64 million (12.5%) over the twelve month period ended June 30, 2008 and remains above half a billion dollars a year.



For the Twelve Months Ended June 30:		
	2009	2008
Operating Income	\$213	\$184
Depreciation and Amortization	<u>364</u>	<u>329</u>
Operating EBIDA	<u>\$577</u>	<u>\$513</u>

<sup>1</sup> Excludes the impact of a non-recurring separation charge of \$18 million for March and \$21 million for June.

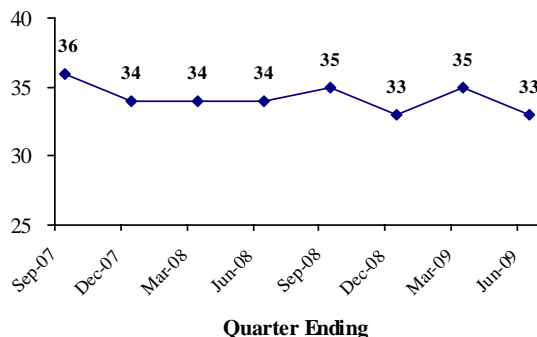
### Unrestricted Cash (Under) Over Long Term Debt



Unrestricted cash over long term debt increased this calendar year due to improved operating results and current 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.

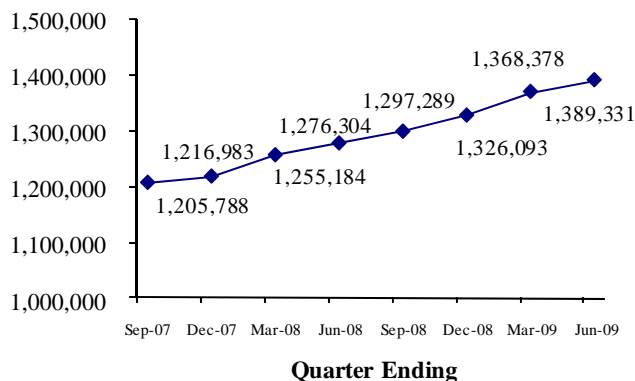


By Division as of June 30			
	2009 Balance	Days:	
		2009	2008
Provider Services	\$468	34	40
International and Commercial services	\$12	38	35
Insurance Services	\$244	29	26
All Divisions	\$724	33	34

## Operating Metrics – Insurance Services

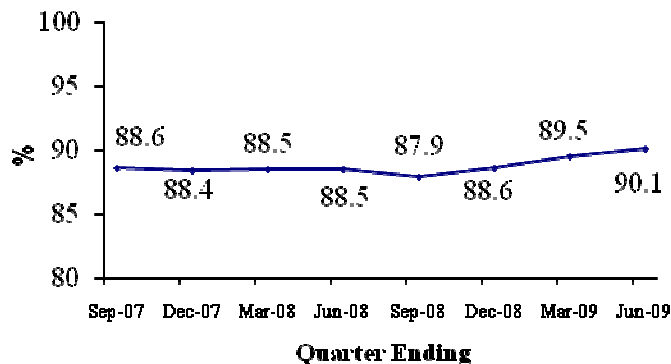
### Membership

Membership in the UPMC Insurance Services Division increased to 1,389,331 as of June 30, 2009. The increase in membership since March 2009 is a result of growth in Community Care Behavioral Health of 16,000 members.



### Healthcare Spending Ratio

#### 12 Month Trailing Average

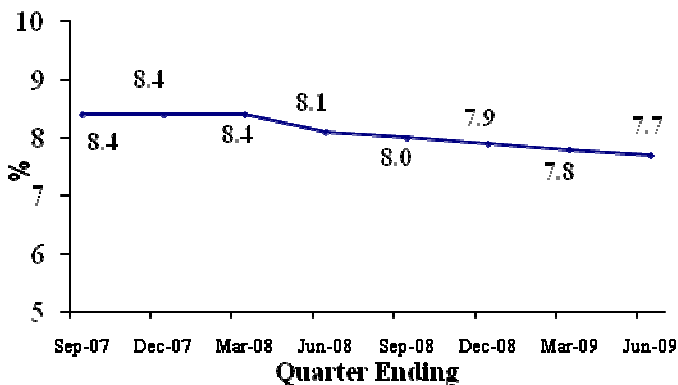


The increase in the healthcare spending ratio is primarily attributable to current economic conditions which are impacting all market segments nationally.

### Administrative Expense Ratio

#### 12 Month Trailing Average

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



## **Asset and Liability Management**

During the fiscal year ended June 30, 2009, UPMC's investment portfolio returned (22.3%). As of June 30, 2009, UPMC employed 124 external managers, including 23 traditional investment managers, 21 hedge fund managers and 80 private equity managers. UPMC's investment portfolio has a long-term perspective and has generated annualized returns of (22.3%), (2.4%) and 2.6% for the trailing one, three, and five-year periods. Approximately 55% of the investments consist of securities that can be liquidated within three days.

UPMC's annualized cost of capital during the period was 3.70%. This cost of capital includes the accrual of interest payments, the amortization of financing costs and original issue discount or premium, the ongoing costs of variable rate debt and the cash flow impact of derivative contracts. As of June 30, 2009, the interest rates on UPMC's long-term debt were approximately 67% fixed and 33% variable after giving effect to derivative contracts. Annualized interest cost for the variable rate debt for the period averaged 1.63%. The annualized interest cost for the fixed rate debt was 4.67%. As of June 30, 2009, UPMC had approximately \$218 million available on its line of credit to fund operating and capital needs.

UPMC suspended its securities lending programs in both the Investment and Pension portfolios effective on January 30, 2009. The program is expected to be unwound over the next nine months as the assets in the investment pools mature. The collateral held for securities on loan for the Investment and Pension portfolios as of June 30, 2009 was \$6.4 million and \$1.0 million respectively.

Beginning in May 2007, UPMC has undertaken a process to standardize its bond covenants. The process consists of the replacement of notes issued under a 1995 Master Trust Indenture ("1995 MTI") with notes issued under a 2007 Master Trust Indenture ("2007 MTI"). Until all of the 1995 MTI notes have been defeased, UPMC will operate under both MTI's. As of June 30, 2009, 69% of UPMC's debt is secured by both MTI's.

The table below compares reported Investment Income and Financing Loss for the twelve-month periods ending June 30, 2009 and 2008 by component.

<b>Investment and Financing Loss by Type for the Periods Ending June 30</b> (dollars in millions)		
	<b>2009</b>	<b>2008</b>
Realized (Losses) Gains	(\$241)	\$93
Interest, Dividends and Fees	<u>24</u>	<u>68</u>
Realized Investment (Loss) Income	(\$217)	\$161
Unrealized Losses	(276)	(192)
Impairment on Cost Based Investments	<u>(104)</u>	<u>(7)</u>
Investment Loss	(\$597)	(\$38)
Interest Expense	(89)	(90)
Loss on Extinguishment of Debt	<u>(2)</u>	<u>(6)</u>
Investment and Financing Loss	<u>(\$688)</u>	<u>(\$134)</u>

**Consolidating Statement of Operations for the  
Twelve Months Ended June 30, 2009**

(dollars in millions)

	Unit			Eliminations	Consolidated
	Provider Services	International and Commercial Services	Insurance Services		
<b>Revenues:</b>					
Net patient service revenue	\$4,920	\$-	\$-	(\$672)	\$4,248
Insurance enrollment revenue	-	-	2,904	-	2,904
Other revenue	<u>480</u>	<u>84</u>	<u>45</u>	<u>(40)</u>	<u>569</u>
Total operating revenues	\$5,400	\$84	\$2,949	(\$712)	\$7,721
<b>Expenses:</b>					
Salaries, professional fees and benefits	2,719	50	129	(31)	2,867
Supplies, purchased services and general	1,980	49	2,743	(681)	4,091
Depreciation and amortization	357	1	6	-	364
Provision for bad debts	<u>206</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>207</u>
Total operating expenses	<u>5,262</u>	<u>101</u>	<u>2,878</u>	<u>(712)</u>	<u>7,529</u>
Operating income (loss) <sup>1</sup>	<u>\$138</u>	<u>(\$17)</u>	<u>\$71</u>	<u>\$-</u>	<u>\$192</u>

**Sources 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 Blue Cross Blue Shield ("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 for the years ended June 30, 2009 and 2008.

	Years Ended June 30	
	2009	2008
Medicare	42%	43%
Medicaid	14%	12%
Highmark	22%	24%
UPMC Insurance Services	9%	8%
Other	<u>13%</u>	<u>13%</u>
Total	100%	100%

<sup>1</sup> Includes the impact of a non-recurring separation charge of \$21 million for the twelve-month period ended June 30, 2009.

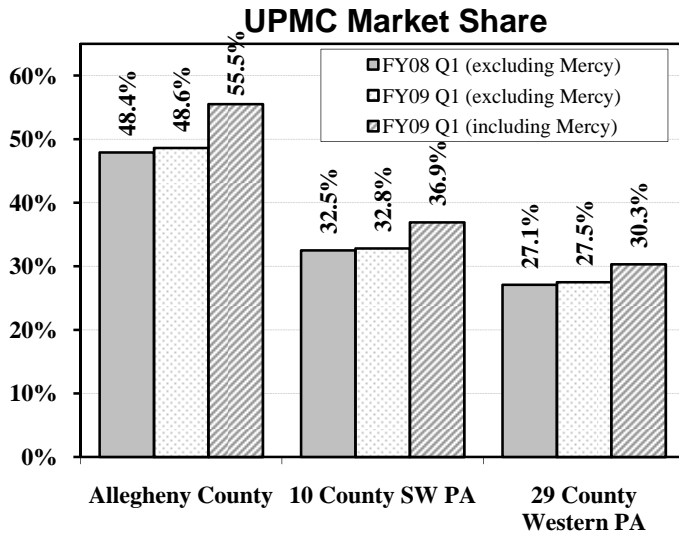
## Utilization Statistics

The following table presents selected consolidated statistical indicators of medical/surgical, psychiatric, sub-acute and rehabilitation patient activity for the years ended, and in certain cases as of, June 30, 2009 and 2008. Note that the statistics for the year ended June 30, 2008 include UPMC Mercy beginning as of January 1, 2008.

	Year Ended June 30	
	2009	2008
<b>Licensed Beds</b>	4,287	4,294
<b>Beds in Service</b>		
Medical-Surgical	3,187	3,204
Psychiatric	423	415
Rehabilitation	179	192
Skilled Nursing	<u>163</u>	<u>154</u>
<b>Total Beds in Service</b>	3,952	3,965
<b>Patient Days</b>		
Medical-Surgical	873,036	843,857
Psychiatric	137,129	126,564
Rehabilitation	47,704	45,420
Skilled Nursing	<u>44,824</u>	<u>42,984</u>
<b>Total Patient Days</b>	1,102,693	1,058,825
<b>Observation Days</b>	41,484	41,289
<b>Average Daily Census</b>	3,136	3,151
<b>Admissions</b>		
Medical-Surgical	170,063	164,429
Psychiatric	9,801	10,360
Rehabilitation	3,984	3,934
Skilled Nursing	<u>3,837</u>	<u>3,555</u>
<b>Total Admissions</b>	187,685	182,278
<b>Overall Occupancy</b>	79%	79%
<b>Average Length of Stay (Admissions Calculation)</b>		
Medical/Surgical	5.1	5.1
Psychiatric	14.0	12.2
Rehabilitation	12.0	11.5
Skilled Nursing	11.7	12.1
Overall Average Length of Stay	5.9	5.8
<b>Emergency Room Visits</b>	481,174	457,047
<b>Transplants (Pittsburgh)</b>		
Liver	140	170
Kidney	179	180
All Other	<u>388</u>	<u>343</u>
<b>Total</b>	707	693
<b>Transplants (IsMeTT)</b>		
Liver	64	87
Other	<u>63</u>	<u>49</u>
<b>Total</b>	127	136

## Market Share

The following chart shows UPMC's estimated inpatient medical/surgical market share in its service areas for the first quarter of fiscal years 2008 and 2009 (July 1 through September 30). For fiscal year 2009, estimated market share is displayed both including and excluding discharges for UPMC Mercy, which was integrated into UPMC on January 1, 2008. This is the most recent market share data currently available.



<b>Table 6 All Medical-Surgical Discharges Within the Service Areas for Fiscal Years -to-Date 2008 and 2009 (July 1 through September 30)</b>		
	<b>FY 2008 YTD</b>	<b>FY 2009 YTD</b>
Allegheny County	42,404	41,990
Southwestern Pennsylvania (10-County Region)	89,385	89,267
Western Pennsylvania (29-County Region)	132,185	131,656

<b>Counties included in Service Areas</b>		
<b><u>Southwestern Pennsylvania</u> (10-County Region)</b>	<b><u>Additional Counties included in Western Pennsylvania</u> (29-County Region)</b>	
Allegheny	Bedford	Blair
Armstrong	Cambria	Cameron
Beaver	Centre	Clarion
Butler	Clearfield	Crawford
Fayette	Elk	Erie
Greene	Forest	Huntingdon
Indiana	Jefferson	McKean
Lawrence	Mercer	Potter
Washington	Somerset	Venango
Westmoreland	Warren	

## **Debt Covenant Calculations**

(dollars in thousands)

<b>Debt Service Coverage Ratios</b>	
	<b>Twelve Months Ended June 30, 2009</b>
Net Income	\$(509,509)
<i>Less:</i>	
Revenues Available for Debt Service from Properties Financed with Non-recourse Indebtedness	(4,902)
Net Unrealized Losses from Period <sup>(1)</sup>	383,327
Depreciation and Amortization <sup>(1)</sup>	364,274
Loss on Defeasance of Debt <sup>(1)</sup>	1,876
Noncash Pension Commitment <sup>(1)</sup>	5,818
Interest Expense	<u>86,478</u>
Revenues Available for Debt Service	<u>\$327,362</u>
Maximum Annual Debt Service - MTI	\$218,003
<i>Debt Service Coverage Ratio – MTI</i>	<b>1.50X</b>
Historical Debt Service Requirements	\$175,963
<i>Debt Service Coverage Ratio</i>	<b>1.86X</b>
Maximum Annual Debt Service – All Debt	\$243,247
<i>Debt Service Coverage Ratio – All Debt</i>	<b>1.35X</b>

<b>Liquidity Ratios As of June 30, 2009</b>			
Unrestricted Cash & Investments	\$2,342,822	Master Trust Indenture Debt	\$2,828,202
Total Operating Expenses (includes interest expense)	7,617,687	<i>Unrestricted Cash to Debt</i>	.83
Less: Depreciation and Amortization	(364,274)		
Provision for Bad Debts	<u>(206,886)</u>	Parent Unrestricted Cash	\$1,615,405
Cash Operating Expenses	<b><u>\$7,046,527</u></b>	Maximum Annual Debt Service	218,003
Daily Cash Expenses (Cash Operating Expenses / 365)	19,306		
<i>Days' Cash on Hand</i>	<b>121.4</b>	<i>Parent Cushion Ratio</i>	<b>7.41X</b>

(1) Non-Cash.

I hereby certify to the best of my knowledge that, as of June 30, 2009, UPMC is in compliance with the applicable covenants contained in the financing documents for the bonds and bank debt listed on the cover hereof.

UPMC



C. Talbot Heppenstall, Jr.  
Treasurer

**APPENDIX A**

**Unaudited Interim Consolidated Financial Statements of UPMC  
for the Periods Ended June 30, 2009 and 2008**

**Consolidated Balance Sheets**  
(Unaudited)  
(in millions)

	As of June 30	
	2009	2008
<b>Current assets</b>		
Cash and cash equivalents	\$177	\$77
Patient accounts receivable, net of allowance for uncollectible accounts of \$72 at June 30, 2009 and \$78 at June 30, 2008	403	435
Other receivables	321	270
Securities lending receivable	7	230
Other current assets	<u>89</u>	<u>86</u>
<b>Total current assets</b>	997	1,098
Board-designated, restricted, trustee, and other investments, including securities pledged to creditors of \$7 as of June 30, 2009 and \$224 as of June 30, 2008	2,837	3,163
Beneficial interests in foundations	297	381
Net property, buildings and equipment	3,021	2,824
Other assets	<u>310</u>	<u>303</u>
<b>Total assets</b>	<u>\$7,462</u>	<u>\$7,769</u>
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$338	\$368
Accrued salaries and related benefits	296	278
Current portion of insurance reserves	244	241
Current portion of long-term obligations	270	105
Securities lending collateral payable	7	230
Other current liabilities	<u>171</u>	<u>162</u>
<b>Total current liabilities</b>	1,326	1,384
Long-term obligations	2,832	2,506
Pension liability	275	36
Long-term insurance reserves	157	142
Other long-term liabilities	<u>116</u>	<u>115</u>
<b>Total liabilities</b>	4,626	4,183
Unrestricted net assets	2,304	3,020
Restricted net assets	<u>452</u>	<u>566</u>
<b>Total net assets</b>	<u>2,756</u>	<u>3,586</u>
<b>Total liabilities and net assets</b>	<u>\$7,462</u>	<u>\$7,769</u>
<i>See accompanying notes.</i>		

**Consolidated Statements of Operations and Changes in Net Assets**  
**(Unaudited)**

(in millions)

	Years Ended June 30		Three Months Ended June 30	
	2009	2008	2009	2008
<b>Unrestricted net assets</b>				
Revenues:				
Net patient service revenue	\$4,248	\$3,961	\$1,059	\$1,001
Insurance enrollment revenue	2,904	2,534	736	693
Other revenue	<u>569</u>	<u>573</u>	<u>134</u>	<u>161</u>
Total operating revenues	7,721	7,068	1,929	1,855
Expenses:				
Salaries, professional fees and employee benefits	2,867	2,620	698	694
Supplies, purchased services and general	4,091	3,736	1,026	997
Depreciation and amortization	364	329	95	85
Provision for bad debts	<u>207</u>	<u>199</u>	<u>54</u>	<u>47</u>
Total operating expenses	7,529	6,884	1,873	1,823
Operating income (excluding asset impairment charge)	192	184	56	32
Asset impairment charge	—	<u>47</u>	—	<u>47</u>
Operating income (loss)	192	137	56	(15)
Income tax (expense) benefit	<u>(8)</u>	<u>2</u>	<u>(2)</u>	<u>5</u>
After-tax operating income (loss) (carried forward)	\$184	\$139	\$54	\$(10)

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

	Years Ended June 30		Three Months Ended June 30	
	2009	2008	2009	2008
After-tax operating income (loss) (brought forward)	\$184	\$139	\$54	\$(10)
Investing and financing activity:				
Investment (loss) revenue	(597)	(38)	189	44
Interest expense	(89)	(90)	(24)	(21)
Loss on extinguishment of debt	<u>(2)</u>	<u>(6)</u>	<u>(1)</u>	<u>(1)</u>
(Loss) gain from investing and financing activities	(688)	(134)	164	22
Non-operating loss	<u>(6)</u>	=	=	=
Excess of (expenses over revenues) revenues over expenses	(510)	5	218	12
Increase in pension liability	(227)	(34)	(227)	(34)
Other changes in unrestricted net assets	<u>21</u>	<u>16</u>	<u>20</u>	<u>3</u>
(Decrease) increase in unrestricted net assets	(716)	(13)	11	(19)
<b>Restricted net assets</b>				
Acquired restricted net assets	–	8	–	–
Contributions	10	15	2	7
Net realized and unrealized (losses) gains in investments	(13)	1	1	4
Assets released from restriction for operations and capital purchases	(29)	(14)	(6)	(6)
Net (decrease) increase in beneficial interests in foundations	<u>(82)</u>	<u>(34)</u>	<u>23</u>	<u>(12)</u>
(Decrease) increase in restricted net assets	<u>(114)</u>	<u>(24)</u>	<u>20</u>	<u>(7)</u>
(Decrease) increase in net assets	(830)	(37)	31	(26)
Net assets, beginning of period	<u>3,586</u>	<u>3,623</u>	<u>2,725</u>	<u>3,612</u>
Net assets, end of period	<u>\$2,756</u>	<u>\$3,586</u>	<u>\$2,756</u>	<u>\$3,586</u>
<i>See accompanying notes.</i>				

## Consolidated Statements of Cash Flows (Unaudited)

(in millions)

	Years Ended June 30		Three Months Ended June 30	
	2009	2008	2009	2008
<b>Operating activities:</b>				
(Decrease) increase in net assets	(\$830)	(\$37)	\$31	(\$26)
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities				
Depreciation and amortization	364	329	95	85
Asset impairment	–	47	–	47
Restricted net assets acquired	–	(8)	–	(8)
Net change in pension liability	227	34	227	34
Decrease in beneficial interest in foundations	82	34	(23)	12
Restricted contributions and investment income	4	(17)	(2)	7
Net change in trading securities	309	(13)	(426)	(66)
Changes in operating assets and liabilities	<u>73</u>	<u>29</u>	<u>(79)</u>	<u>3</u>
Net cash provided by (used in) operating activities	229	398	(177)	88
<b>Investing activities:</b>				
Purchase of property and equipment (net of disposals), and other investments	(556)	(655)	(142)	(217)
Net change in investments designated as non-trading	17	(7)	4	–
Acquisition of Mercy Hospital	–	(92)	–	(92)
Net decrease (increase) in other assets	<u>2</u>	<u>(58)</u>	<u>3</u>	<u>83</u>
Net cash used in investing activities	(537)	(812)	(135)	(226)
<b>Financing activities:</b>				
Repayments of long-term obligations	(129)	(874)	(29)	(155)
Borrowings of long-term obligations	541	1,193	358	242
Restricted contributions and investment (loss) income	<u>(4)</u>	<u>17</u>	<u>2</u>	<u>(7)</u>
Net cash provided by financing activities	408	336	331	80
Increase (decrease) in cash and cash equivalents	100	(78)	19	(58)
Cash and cash equivalents, beginning of period	<u>77</u>	<u>155</u>	<u>158</u>	<u>135</u>
Cash and cash equivalents, end of period	<u>\$177</u>	<u>\$77</u>	<u>\$177</u>	<u>\$77</u>
<i>See accompanying notes.</i>				

## **Notes to Consolidated Financial Statements (Unaudited)**

*(In Millions)*

### **1. Basis of Presentation**

UPMC, doing business as the University of Pittsburgh Medical Center (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 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.

For further information, refer to the audited consolidated financial statements and notes thereto for the year ended June 30, 2008.

The accompanying consolidated financial statements include the accounts of UPMC and its subsidiaries. Intercompany accounts and transactions are eliminated in consolidation.

### **2. New Accounting Pronouncements**

Effective July 1, 2008, UPMC adopted 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 non-financial 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.

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

## **2. New Accounting Pronouncements (continued)**

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 ended 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.

## **3. Fair Value Measurements**

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.

As of June 30, 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, trustee and other investments and derivative instruments.

In accordance with Statement 157, 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 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, 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.

### 3. Fair Value Measurements (continued)

	Fair Value Measurements as of June 30, 2009			
	Level 1	Level 2	Level 3	Total Carrying Amount
<b>Assets</b>				
Cash and cash equivalents	\$ 177	\$ -	\$ -	\$ 177
Fixed income	557	379	-	936
Domestic equity	158	1	-	159
International equity	312	71	-	383
Public real estate	14	15	-	29
Commodities	26	-	-	26
Derivative instruments (interest rate swaps)	-	34	-	34
Total assets	<u>\$1,244</u>	<u>\$500</u>	<u>\$ -</u>	<u>\$1,744</u>
<b>Liabilities</b>				
Derivative instruments (interest rate swaps)	-	(126)	-	(126)
Total liabilities	<u>\$ -</u>	<u>(\$126)</u>	<u>\$ -</u>	<u>(\$ 126)</u>

### 4. 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 aggregates \$1,938 and \$2,166 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 and \$2,603, 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 June 30, 2009 and 2008, respectively, UPMC had investments recorded at cost of \$793 and \$649. Investments in individual entities in which UPMC has the ability to 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 are designated as non-trading (donor restricted assets). As of June 30, 2009 and 2008, respectively, UPMC had non-trading investments of \$100 and \$118. At June 30, 2009 and 2008, respectively, \$48 and \$94 of these investments were in an unrealized loss position. Unrealized losses on these investments were \$7 and \$7, respectively.

UPMC has interest rate-related derivative instruments to manage its exposure on its variable-rate 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,

#### 4. Financial Instruments (continued)

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. 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.

The following is a summary of the outstanding positions of the interest rate swap agreements on the revenue bonds as of June 30, 2009:

Bond Series	Notional Amount	Maturity Date	Rate Paid	Rate Received
1990/2005B	\$153	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	118	8/1/2037	SIFMA Index	3.913%
2007C	118	2/1/2011	0.00%	1.712%
2007D	98	4/9/2010	Two times SIFMA minus	5.7605%
	<u>\$1,154</u>		67% of one-month LIBOR	

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 June 30, 2009.

#### 4. Financial Instruments (continued)

The fair value of UPMC's derivative instruments at June 30, 2009 and 2008 is as follows:

Balance Sheet Classification	As of June 30,	
	2009	2008
Other assets	\$34	\$18
Long-term obligations	(126)	(47)
	(\$92)	(\$29)

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. Certain of UPMC's swaps outstanding as of June 30, 2008 were designated as hedging instruments and as such, the changes in the fair value of those instruments were recognized as a change in the related debt with no effect on the consolidated statements of operations and changes in net assets. 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 an investment gain (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 twelve months 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 on Derivatives	Amount of (Loss) Gain Recognized in Excess of (Expenses over Revenues) Revenues over Expenses on Derivatives	
		2009	2008
Interest rate contracts	Investment loss	\$(72)	\$(27)
Equity index contract	Investment gain (loss)	5	(3)

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 June 30, 2009 and 2008 is \$126 and \$44, respectively, for which UPMC has posted collateral of \$67 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 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.

#### 5. 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.

## 5. Pension Plans (continued)

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

	Years Ended June 30		Three Months Ended June 30	
	2009	2008	2009	2008
Service cost	\$50	\$46	\$12	\$12
Interest cost	50	44	13	11
Expected return on plan assets	(56)	(58)	(14)	(14)
Recognized net actuarial loss	4	2	1	—
Amortization of prior service credit	(5)	(6)	(1)	(1)
Net periodic benefit cost	<u>\$43</u>	<u>\$28</u>	<u>\$11</u>	<u>\$8</u>

The actuarial assumptions used to determine net periodic pension cost for the year and three-month periods ended June 30 for the defined benefit pension plans are as follows:

	Years Ended June 30		Three Months Ended June 30	
	2009	2008	2009	2008
Discount rate	6.95%	6.25%	6.95%	6.25%
Expected rate of compensation increase	3.75%	3.75%	3.75%	3.75%
Expected long-term rate of return on plan assets	8.00%	8.00%	8.00%	8.00%

## 6. 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.

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

## **6. Contingencies (continued)**

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 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.

## **7. Subsequent Events**

Management evaluated subsequent events through August 27, 2009, the date the unaudited interim consolidated financial statements of UPMC 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 agreements 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 anticipates making cash payments of €25 (\$35). The Restructuring is expected to result in an increase of the long-term debt on UPMC's balance sheet of €137 (\$194). UPMC provided guarantees pursuant to its 2007 Master Indenture and its 1995 Master Indenture of €25 (\$35) of this long term debt and up to €18 (\$25) of short term debt to be used for working capital.

<sup>1</sup>The August 20, 2009 exchange rate of \$1.41558 per euro has been used for all currency conversions.