



West Penn Allegheny Health System (WPAHS) acknowledges that Fitch's action was not unexpected given the weight of the previous rating being based upon an execution of a Highmark affiliation. WPAHS has clearly stated its desire to continue discussions with Highmark. The WPAHS Board and management team remain committed to doing everything in their power to help protect and enhance the Health System as a viable community asset, including working to maximize the investment of our bondholders, creditors, and most importantly, our tens of thousands of employees and patients.

WEST PENN ALLEGHENY HEALTH SYSTEM

FITCH DOWNGRADES WEST PENN ALLEGHENY HEALTH SYSTEM (PA) REVS TO 'CCC' FROM 'B+'

Fitch Ratings-New York-25 October 2012: Fitch Ratings has downgraded West Penn Allegheny Health System's (WPAHS) approximately \$737 million series 2007A health system revenue bonds issued by the Allegheny County Hospital Development Authority outstanding debt to 'CCC' from 'B+'. The rating is removed from Rating Watch Negative.

SECURITY

Security comprises a pledge of gross revenues, a mortgage on the system hospital facilities and a debt service reserve fund.

KEY RATING DRIVERS

AFFILIATION UNCERTAINTY RAISES RESTRUCTURING POSSIBILITY: The downgrade to 'CCC' reflects the increased possibility of a debt restructuring, coupled with and arising from heightened uncertainty about the progress of WPAHS's affiliation with insurer Highmark, Inc. The previous rating was predicated on the expected benefits of the affiliation agreement, which offset WPAHS's extremely poor liquidity, coverage and profitability metrics. The hospital's recent notice to Highmark terminating the affiliation agreement and its stated intention to pursue other affiliation opportunities at best signal an elevated and material possibility that the Highmark affiliation will not close by the April 30, 2013 implementation deadline, leaving WPAHS with limited options for addressing its precarious financial situation.

CREDIT SUMMARY

On June 21, 2012 Fitch affirmed the 'B+' rating on WPAHS's series 2007A revenues bonds and revised the Outlook to Stable in large part based on the continuing progress of the affiliation with Highmark. In our commentary, however, we noted that 'WPAHS's viability hinges on the successful execution of the affiliation with Highmark. If the affiliation agreement is not finalized, a multi-notch negative rating action is likely to occur.' On Sept. 28, 2012 Fitch placed the 'B+' rating on Rating Watch Negative in response to WPAHS's announcement that it had notified Highmark that 'the System is released from its obligation under the Affiliation Agreement signed by the two companies in Nov 2011.' Both parties have initiated litigation, and it is unknown whether the agreement will be upheld, whether WPAHS will be allowed to pursue other partners, and how certain funds advanced to WPAHS by Highmark will be treated.

Notwithstanding the uncertainty, Fitch believes that debt restructuring is now a greater possibility than it was several months ago based both on public statements from WPAHS and Highmark, and on the weakness of WPAHS's financial profile. In its public statement, WPAHS cited as a primary factor for terminating the agreement that "Highmark has specifically demanded, among other things, that WPAHS restructure through bankruptcy." Although denying the allegation, Highmark has identified debt restructuring as an option to be considered in the process of completing the affiliation.

Although the rating is removed from Rating Watch, the credit situation remains volatile and dependent on the outcome of litigation, the involvement of government entities, the release of financial information by WPAHS, and the possible resumption of discussions between WPAHS and Highmark. Fitch will monitor developments, including the release of audited and unaudited financial and operating results, and will take rating action as appropriate.

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Additional information is available at www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria' (June 12, 2012);

--'Nonprofit Hospitals and Health Systems Rating Criteria' (July 23, 2012).

Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681015

Nonprofit Hospitals and Health Systems Rating Criteria

http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=683418

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