

**An Assessment and Comparison
Between the Fair Market Value of
Valley Health System and Related Assets and
The Transaction Consideration By and Between
PHH for Healthy Hospitals and Valley Health System**

**Date of Value
August 5, 2009**

**Date of Opinion
October 5, 2009**

**Prepared For
Board of Directors
Valley Health System
1117 East Devonshire Avenue
Hemet, California**

**Prepared By
Valuation & Information Group
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October 5, 2009

Board of Directors
Valley Health System
1117 East Devonshire Avenue
Hemet, California 92543

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Ladies and Gentlemen:

Pursuant to your request, Valuation & Information Group (“V&IG”) is pleased to present Board of Directors of Valley Health System (the “Directors”) with our assessment and comparison between the fair market value of Valley Health System and related assets (“VHS”) and PHH for Healthy Hospitals, Inc. (“PHH”) acquisition of substantially all of the assets of VHS for a total consideration of approximately \$169.773 million, including the assumption of approximately \$55 million in disputed claims (the “Transaction”). The date of our analysis is August 5, 2009 (the “Valuation Date”).

VALLEY HEALTH SYSTEM AND RELATED ASSETS

It is our understanding that the VHS assets to be transferred in the Transaction include:

- Hemet Valley Hospital – a 343-bed general acute care hospital containing approximately 336,900 square feet, an offsite 7,927-square-foot engineering building, an adjacent separate parking lot situated on 7.06 acres, and a separate child care center utilized for employees at this facility.
- Menifee Valley Medical Center – an 84-bed general acute care hospital containing approximately 128,340 square feet, a 5,500-square-foot educational center building situated on 9.58 acres, and adjacent vacant land consisting of approximately 29.26 acres, totaling approximately 38.84 acres.
- Hemet Valley Healthcare Center – a 90-bed skilled nursing facility, including 16 acute psychiatric beds and 21 chemical dependency beds, containing approximately 48,710 square feet and situated on approximately 3.01 acres.
- A medical office building located at 301 N. San Jacinto containing approximately 58,716 square feet and situated on 1.75 acres.
- Parcels of land situated at the northwest corner of Florida Avenue and San Jacinto Avenue, various adjacent parcels, containing approximately 5.59 acres, improved with four accessory and support buildings totaling 30,350 square feet, and a 2,100-square-foot child care center located on the southeast corner of Calhoun Place and Santa Fe Street (919 Calhoun Place).



- All of VHS's right, title and interest in and to, and all of VHS's obligations related to, the following assets:
 - All leases of real property in which VHS is the lessor
 - All of VHS's tangible personal property
 - All of VHS's rights, to the extent lawfully transferable, to all licenses, Medicare, Medicaid and other provider numbers and agreements, permits, approvals, certificates of need, certificates of exemption, franchises, accreditations and registrations and other governmental licenses, permits or approvals issued
 - All of VHS's interest in all personal property leases
 - All contracts and agreements which the purchaser elects to assume
 - All of VHS's advance payments, prepayments, prepaid expenses, deposits and the like
 - All of VHS's inventories of supplies, drugs, food, janitorial maintenance, shop and office supplies and other disposables and consumables
 - All of VHS's documents, records, operating manuals, files and computer software with respect to the operation of any of the hospital businesses
 - All of VHS's unexpired warranties and covenants not to compete received from third parties
 - All of VHS's claims, choses in action, rights of recovery, rights of offset, recoupment, rights to refunds and similar rights to all proprietary materials, documents, trademarks, patents, information, media, methods, processes, inventions and technology
 - All of VHS's rights respecting computer and data processing hardware that are proprietary to VHS and licenses for software
 - All of VHS's other intangible assets, including VHS's rights under certain covenants not to compete
 - All of VHS's insurance proceeds
 - VHS's names, symbols and telephone numbers
 - All accounts receivable and other current assets
 - The assets of Valley Health System Service Corporation (VHSSC), which are to be transferred by VHSSC to VHS

PURPOSE AND SCOPE OF OUR ENGAGEMENT

We understand that PHH has agreed to acquire substantially all of VHS's assets and to assume substantially all of its liabilities, as set forth above. We are aware that the purpose of our evaluation is to provide an opinion that the consideration to be paid by PHH is the fair market value of the assets being transferred, and that such amount constitutes fair and reasonable consideration to VHS for the assets to be transferred, as required by applicable law.



STANDARD OF VALUE

The term fair market value is defined as:

The price at which the property would change hands between a willing buyer and a willing VHS, when the former is not under any compulsion to buy and the latter is not under any compulsion to sell, both having reasonable knowledge of relevant facts¹.

CALIFORNIA HEALTH AND SAFETY CODE

VHS has requested that V&IG conduct its evaluation in accordance with the criteria set forth in the California Health and Safety Code Section 32121(p), which states:

“...to transfer, at fair market value, any part of its assets to one or more corporations to operate and maintain the assets. A transfer pursuant to this paragraph shall be deemed to be at fair market value if an independent consultant, with expertise in methods of appraisal and valuation and in accordance with applicable governmental and industry standards for appraisal and valuation, determines that fair and reasonable consideration is to be received by the district for the transferred district assets. Before the district transfers, pursuant to this paragraph, 50 percent or more of the district’s assets to one or more corporations, in sum or by increment, the elected board shall, by resolution, submit to the voters of the district a measure proposing the transfer. The measure shall be placed on the ballot of a special election held upon the request of the district or the ballot of the next regularly scheduled election occurring at least 88 days after the resolution of the board. If a majority of the voters voting on the measure vote in its favor, the transfer shall be approved. The campaign disclosure requirements applicable to local measures provided under Chapter 4 (commencing with Section 84100) of Title 9 of the Government Code shall apply to this election².

VALUATION & INFORMATION GROUP

V&IG was established to provide specialized valuations and advisory services to companies in the healthcare industry. We are a full service valuation company representing professionals with experience in business valuation and real property appraisals. We employ more than 25 professionals in two offices across the country. V&IG has three principals located in the Culver City office that have more than 50 years of combined experience in advising healthcare attorneys in the areas of business valuation, and real and personal property appraisals.

PROCEDURES

In this engagement, we have made such reviews, analyses and inquiries that we have deemed necessary and appropriate under the circumstances, including:

¹ Treasury Regulation 20.2031-1(b); Revenue Ruling 59-60, 1959-1 C.B. 237

² California Health and Safety Code Sections 32121(p)(1).



- a) Prepared an appraisal report, dated September 4, 2009, of the fair market value of Hemet Valley Medical Center – a 364-bed general acute care hospital containing approximately 336,900 square feet and situated on 7.06 acres.
- b) Prepared an appraisal report, dated August 21, 2009, of the fair market value of Menifee Valley Medical Center – an 84-bed acute care hospital comprising more than 128,000 square feet, a one-story, 5,500-square-foot educational center building, as described above, situated on 9.58 acres and adjacent vacant parcels total approximately 29.26 acres.
- c) Prepared an appraisal report, dated September 9, 2009, of the fair market value of the Hemet Valley Healthcare Center – a 48,700-square-foot skilled nursing facility situated on 3.01 acres.
- d) Prepared an appraisal report, dated August 21, 2009, of the fair market value of parcels of land situated at the northwest corner of Florida Avenue and San Jacinto Avenue, various adjacent parcels, containing approximately 5.59 acres, improved with four accessory and support buildings totaling 30,350 square feet, and a 2,100-square-foot child care center located on the southeast corner of Calhoun Place and Santa Fe Street (919 Calhoun Place).
- e) Prepared an appraisal report, dated September 8, 2009, of the fair market value of the Medical Arts Building – a 58,716-square-foot medical office building located at 301 N. San Jacinto Avenue.
- f) Reviewed the financial statements, including income statements, balance sheets and statements of cash flows, for the two months ended August 31, 2009, for VHS, including the Assets and Liabilities to be transferred in the Transaction. V&IG has not made an independent determination of the value of the other assets (cash, accounts receivable, inventories, notes receivable and prepaids) or liabilities (accounts payable, pre-petition liabilities, accrued PTO, payroll liabilities, payables to third party payors, workers' compensation and malpractice liability). We assume these amounts to be true and correct as stated in the August 2009 financials. Likewise, we have not made an independent determination of the valuation of the approximate \$55 million in disputed claims, the assumption of which forms part of the purchase price. However, even substantially discounting such claims, the consideration to be received by the District constitutes fair and reasonable consideration for the assets to be transferred.

We are concurrently providing to VHS our full appraisal reports described in Paragraphs a, b, c, d and e above. Reference is made to those reports for more detail with respect to such Assets.

ASSUMPTIONS

We have relied, where appropriate, on information, including historical financial and operating data and assumptions provided to us by VHS. We have not audited such information and give no warranty or other assurance as to the accuracy of such information and assumptions. Some of the assumptions inevitably will not materialize, and unanticipated events and circumstances may occur. Therefore, actual results achieved may vary from the forecasts and the variance from the assumptions may be material. We have assumed, however, that this data is correct and accurately reflects the operating performance of the subject Assets. Our conclusions would be affected by any material misstatement in the information provided to us.



CONCLUSION

Based upon the procedures presented in this letter, and subject to the assumptions stated herein that are a critical part of our work, V&IG concludes as of the Valuation Date, that:

- The Transaction Consideration of \$169.773 million (including approximately \$55 million of disputed claims) by and between PHH and VHS is equal to or greater than our estimate of the fair market value of the VHS Assets to be transferred in the Transaction, and that such amount constitutes fair and reasonable consideration to be received by VHS for the transferred assets as provided in Health & Safety Code Section 32121(p).

We appreciate the opportunity to be of service to you.

Respectfully submitted,

VALUATION & INFORMATION GROUP

A handwritten signature in black ink, appearing to read 'Marcus Lussier', is written over a light gray circular stamp.

Marcus Lussier
Chief Executive Officer

ML: 190210