



Valley Health System
A California Local Health Care District

NEWS RELEASE

FOR IMMEDIATE RELEASE

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VHS BOARD APPROVES SALE TO LOCAL DOCTORS

*PHH transaction will make it possible for VHS to exit bankruptcy
and allow the hospitals to move forward in good financial health*

HEMET, CA – The Valley Health System (VHS) Board of Directors approved an Asset Sale Agreement (ASA) with Physicians for Healthy Hospitals, Inc., (PHH) during a special meeting held here today. The agreement specifies the terms for a sale of all operating assets along with PHH's undertaking of financial obligations and commitments to the health system's nearly 1400 employees.

"We have secured the future of our hospitals," stated VHS Board Chairman Dr. William (Bill) Cherry. "We have negotiated a solution that will stabilize healthcare services for our residents, protect local taxpayers from future liability, and preserve jobs that we provide to many dedicated employees."

Under the terms of the agreement, PHH will acquire Hemet Valley and Menifee Valley Medical Centers, Hemet Valley Health Center, the Medical Arts Building, and a land parcel located in Hemet. The agreement includes the sale of accounts receivable, cash and other assets, payment of approximately \$44.7 million in bond debt and up to \$21 million to unsecured creditors, assumption of post-petition debt including accounts payable estimated at \$31 million, payment of the \$8.4 million note due to Select Healthcare, and tail insurance estimated to be \$4.1 million.

PHH has committed to continue core services including Basic Emergency Services for five years and maintain current charity care policies. Terms also include the employment of substantially all employees and the assumption of current collective bargaining agreements. Current employee PTO obligations are estimated at \$2.7 million, and extended sick leave is estimated at \$3.3 million.

The sale requires a public vote by District residents and the Riverside County Registrar has set a special election for December 15, 2009. If approved, PHH would assume control of Hemet Valley and Menifee



Valley Medical Centers approximately 45 days after the vote is certified. VHS would continue in existence as a California Local Health Care District, providing various charitable community services. VHS would retain certain restricted assets currently valued at more than \$800,000 and receive a supplemental contribution from PHH of \$400,000 per year for five years.

VHS would also proceed with the filing of a Plan of Adjustment in the bankruptcy proceeding based on closing the ASA, with a hearing anticipated to occur in mid-January.

If the public does not approve the transaction, PHH has the option to acquire Menifee Valley Medical Center and two adjacent parcels for \$29 million. VHS would continue to own and operate Hemet Valley Medical Center. This would leave remaining debt, after application of sale proceeds, of \$15 to 18 million in bonds, \$8.4 million for the note to Select Healthcare, and up to \$21 million to unsecured creditors. Further, there is no guarantee that the Bankruptcy Court will approve a Plan of Adjustment, which would leave VHS holding significant claims and the continued risk of dismissal of the Chapter 9 case if VHS cannot propose a feasible Plan of Adjustment based on a one-hospital operation.

VHS assets were appraised by an experienced independent appraiser as required by Local Health Care District law. Valuation & Information Group (VIG) conducted the appraisal and issued its opinion that the value being received by VHS constitutes “fair and reasonable consideration” as required.

The parties now have 45 days to finalize schedules to the ASA.

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Valley Health System is a California local health care district comprised of two acute care hospitals, Hemet Valley Medical Center and Menifee Valley Medical Center, and a chemical dependency program, Hemet Valley Recovery Center & Sage Retreat. For more information, visit www.ValleyHealthSystem.com.