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June 20, 2008

**Private**

Department of Health  
Office of Contracts and Procurement  
101 Israel Road S.E.  
Town Center 1  
Tumwater, WA 98501-6535

Dear Sir or Madam:

In accordance with our engagement letter with the State of Washington's Department of Health (the "DOH" or "Client") dated May 20, 2008, KPMG LLP ("KPMG") has performed valuation services pertaining to a possible transaction involving the sale of substantially all of the assets owned by Empire Health Services ("Empire" or "EHS" or the "Subject Interest" or the "Company"). It is our understanding that Community Health Services, a for-profit hospital based in Tennessee, has entered into preliminary negotiations to acquire Deaconess Medical Center ("Deaconess" or "DMC") and Valley Hospital and Medical Center ("Valley" or "VHMC"), together, (the "Hospitals"), the two hospitals owned by Empire, as well as certain related assets. KPMG was engaged to provide the fair market value of the assets of Empire.

KPMG has provided its opinion regarding the fair market value of the assets of Empire as of a April 30, 2008. In addition, KPMG has provided its opinion regarding the fair market value of the assets of Deaconess and Valley. We understand our valuation will be used by the DOH in evaluating the proposed transaction under certain criteria set forth in chapter 70.45 of the Revised Code of Washington ("RCW") and chapter 70.38 RCW. In addition, we understand that our opinion will be used to assist in evaluating the proposed transaction under certain criteria set forth in Washington Administrative Code ("WAC") 246-310-220 and WAC 246-310-240. No other use is intended or implied. Our opinion of value does not constitute our opinion of the fairness of the transaction between the parties.

This engagement is subject to the terms and conditions described in our engagement letter and the Limiting Assumptions in Attachment C.



### **Valuation Opinion – Empire Health Services**

Based on the valuation analysis described in the accompanying report and supporting exhibits, we estimate the fair market value of the assets of Empire Health Services as of the Valuation Date to be \$132.0 million. Our valuation conclusion excludes working capital.

### **Valuation Opinion – Deaconess Medical Center**

Based on the valuation analysis described in the accompanying report and supporting exhibits, we estimate the fair market value of the assets of Deaconess Medical Center as of the Valuation Date to be \$101.4 million. Our valuation conclusion excludes working capital.

### **Valuation Opinion – Valley Hospital and Medical Center**

Based on the valuation analysis described in the accompanying report and supporting exhibits, we estimate the fair market value of the assets of Valley Hospital and Medical Center as of the Valuation Date to be \$28.3 million. Our valuation conclusion excludes working capital.

In arriving at our conclusion, KPMG applied generally accepted valuation procedures based upon economic and market factors as of the Valuation Date. KPMG prepared the valuation on the basis of internal financial information, and other material information provided by Empire. KPMG also considered Management's representations of certain facts as part of the valuation engagement.

Unless otherwise specified in this report, our analysis assumed that the Subject Interest had no undisclosed real or contingent assets or liabilities, no unusual obligations or substantial commitments, other than in the ordinary course of business, nor had any litigation pending or threatened that would have had a material effect on our analysis.

The Subject Interest's financial information for the fiscal years ended December 31, 2003 through 2007 has not been compiled, reviewed, or audited by KPMG LLP, and accordingly, we express no opinion (and there is no opinion) or any other form of assurance on them.

KPMG relied on Management to fairly represent the facts and circumstances regarding the operating results and financial position of EHS. In addition, KPMG has not independently verified the data obtained from certain databases and other third party sources of information utilized in our analysis. The results and conclusions presented in this report may be materially affected to the extent that actual information differs from that which was provided to us.

This report is not intended to be used, nor should be used, in connection with any tax matter. In the event Client uses this report for or in relation to any tax matter, the report is not intended or written by KPMG to be used, and cannot be used by a client or any other person or entity for the purpose of (i) avoiding penalties that may be imposed on any taxpayer or (ii) promoting, marketing or recommending to any other party any matters addressed herein.



KPMG has no present or contemplated future interest in EHS, or any other interest, which might prevent us from performing an unbiased business valuation. We appreciate the opportunity to assist you on this project and your cooperation in promptly furnishing all materials we needed to complete our study. If you have any questions, please contact James R. Yerges (Principal) at (206) 913-6505 or Peter F. Lyster (Senior Manager) at (206) 913-4948.

Respectfully submitted,

*KPMG LLP*