



To: ValleyCare Health System Corporate Membership
From: ValleyCare Health System Board of Directors
Date: May 29, 2014
Subject: Potential Affiliation with Stanford Hospital & Clinics

As described in our last communication on April 15, 2014, the Board and Staff at ValleyCare Health System have been working hard to make the best strategic decisions possible to secure the future of ValleyCare. In summary, we have made staffing changes including the reduction of positions and other programmatic changes to help improve our financial position. These changes have been difficult but have been necessary to ensure ValleyCare's ability to provide the high quality patient care you have come to expect. While they have improved our financial position, these changes will not solve the long-term viability of ValleyCare as an independent community hospital.

In order to protect and preserve the mission of the hospital, the Board has been pursuing a strategy over the past 18 months that would lead to the affiliation with another health care system that shares our mission. Because we sit in an enviable place geographically and demographically, a number of major health providers are interested in partnering with us to serve the health care needs of the Tri-Valley. Over the last 12 months, we have received detailed proposals from a number of these organizations that have been scrutinized very carefully by key members of our staff and our Board of Directors. We have also been assisted by Kaufman and Hall, a leader in the health care industry, to help us examine the proposals and understand the implications of some of the provisions in this ever changing world of health care.

After many months of deliberation and evaluation, we are thrilled to announce that we have narrowed our review to focus on Stanford Hospital & Clinics. Stanford is among the most well-respected and prestigious health care systems throughout the world. They are positioned to meet the changes in health care with renowned researchers and physicians that are making history every day with the financial resources to support cutting edge technology and medical practices. Among the numerous benefits that will come to our community from an affiliation are providing high quality, locally accessible, health care in the Tri-Valley and attracting and retaining high quality physicians. Additionally, an affiliation will address our need to implement an electronic health record as well as fund critical capital investments to support medical and technical advancements in the health care field.

We are mutually agreeing with Stanford to exclusively negotiate over the next couple of months to determine if an affiliation with Stanford is in the community's best interest. While we believe this is an exciting opportunity for both organizations, there are many details that must be examined and negotiated to see if we can ultimately reach an agreement that we would be pleased to present to the membership for a formal vote and decision.

We wanted to update you on our activities but ask for your patience while we move through the formal negotiation phase. We will report back to you when we can with as many details as possible, but we ask that you understand the points of the negotiations themselves cannot be discussed until we have reached a final agreement that would be worthy of your support. If the negotiations are successful, once we have an agreement, we will provide you with more information and answer any questions you may have in a variety of forums.

We have also attached a copy of our press release regarding plans to potentially affiliate with Stanford Hospital & Clinics. We had hoped to be able to communicate with you prior to the press release being issued, but due to confidentiality commitments, it was not possible. We hope that if you heard the news before this letter arrived, you were pleased with the announcement.

cc:

Janet Cristiano, Board of Directors

Joseph Grant, MD, Board of Directors

Marty Inderbitzen, Board of Directors

John Louie, MD, Board of Directors

Deborah McKeehan, Board of Directors

David Mertes, Board of Directors

John Sensiba, Chairman, Board of Directors

Jim Summers, Board of Directors

Tom Vargas, Board of Directors

Tim Weaver, Board of Directors

Alcina Wegrzynowski, Board of Directors

John Yee, MD, Board of Directors

Attached: Press Release