

## LitAdmin

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**From:** Ilhardt, Benjamin  
**Sent:** Thursday, May 29, 2014 5:10 PM  
**To:** Johnson, Stephen  
**Subject:** FW: Follow Up To Yesterday's Conversation

FYI,

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**From:** Ligibel, Geoffrey  
**Sent:** Thursday, May 29, 2014 6:57 PM  
**To:** Turnbull, Andrew; Jackson, Scott; Ilhardt, Benjamin; Wingkun, Lauren-Nicole  
**Subject:** Fwd: Follow Up To Yesterday's Conversation

FYI from Paladin. I also talked to Aeoro briefly and will talk to them again when I land.

Sent from my iPad

Begin forwarded message:

**From:** Joel Freedman <[jfreedman@pldn.com](mailto:jfreedman@pldn.com)>  
**Date:** May 29, 2014 at 7:40:25 PM EDT  
**To:** "Ligibel, Geoffrey" <[GLigibel@hl.com](mailto:GLigibel@hl.com)>  
**Cc:** "Sandovich, Yury" <[YSandovich@hl.com](mailto:YSandovich@hl.com)>, Bill Rubenstein <[brubenstein@midcapfinancial.com](mailto:brubenstein@midcapfinancial.com)>, Nicholas Orzano <[norzano@pldn.com](mailto:norzano@pldn.com)>, James MacPherson <[jmacpherson@pldn.com](mailto:jmacpherson@pldn.com)>  
**Subject:** Follow Up To Yesterday's Conversation

Geoff,

As you know, we are fully committed to implementing a transaction that meets the needs of the seller, enables capital to achieve a reasonable risk-adjusted return, and provides a unique opportunity for employees to participate in the future success of the business. You expressed three concerns about the current state of our bid, each of which we want to address.

1. You expressed the need to have certainty about our capital commitments. Midcap/Apollo have affirmed their commitment to funding the entire deal and will provide a comprehensive term sheet to evidence such commitment by the end of next week (the document is in process). As such, you will have "certainty of closing," which we recognize is critical from your and your client's perspective.
2. You expressed the need to review a comprehensive response to the asset purchase agreement. As we discussed, Paladin is in a position to submit the APA but feels it is more tangible and productive if Midcap/Apollo are fully incorporated. Accordingly, Paladin's and Midcap's counsel are committed to working together and providing this document by the end of next week as well.
3. You expressed concern about the AG's response to our model given the ESOP component and Prop-Co model, which is a structure that is integral to our ability to fully support the Seller's objectives. I had a detailed discussion with Eric Klein who has represented many buyers and sellers that have successfully navigated this process with the AG. He has assured me that the Op-Co/Prop-Co structure will not be a factor so long as a fair price is paid for the assets. Given your professional marketing process and plan to accept the highest and best offer, he

also does not believe this will be an impediment to our approval. In addition, the leaseback of the real property will include a purchase option such that the lease will likely be classified as a capital lease with the assets and liabilities residing on the Op-Co balance sheet. All terms will be set at market such that it will meet all of the fair and equitable tests, as validated by the ESOP trustee and ESOP financial advisor. Based on Eric's knowledge of our proposed structure (transaction, corporate & capital), and his deep knowledge of our backgrounds and reputations, he is extremely confident that we will meet the AG's requirements and receive approval. The only wild card may be how the unions respond to the ESOP model, but our plan is to work constructively with the unions such that the employees not only are not impaired, but that they receive an additional and potentially very valuable benefit on top of their current benefit package.

We recognize that you are meeting with the DCHS board tomorrow and are hopeful that we will be selected to move on to the next round. Please let us know at your earliest convenience.

Joel Freedman

President

**Paladin Healthcare Capital, LLC**

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