

Sheffler, Susan

From: Sandovich, Yury
Sent: Wednesday, May 21, 2014 7:53 PM
To: Turnbull, Andrew; Jackson, Scott; Ilhardt, Benjamin; Balash, Steven; Wingkun, Lauren-Nicole; Johnson, Stephen
Cc: Ligibel, Geoffrey
Subject: FW: Paladin 2nd Round Bid Letter
Attachments: Paladin-DCHS 2nd Round Bid Letter.pdf; Paladin-DCHS 2nd Round Bid Support Letters.pdf

Follow Up Flag: Follow up
Flag Status: Flagged

Please see below and attached for the offer from Paladin.

Yury Sandovich

HOULIHAN LOKEY

312.462.6470 **Direct**
646.340.6929 **Mobile**
YSandovich@HL.com

From: Joel Freedman [mailto:jfreedman@pldn.com]
Sent: Wednesday, May 21, 2014 9:18 PM
To: Ligibel, Geoffrey; Sandovich, Yury
Cc: Nicholas Orzano; James MacPherson; Ravi Sharma; Eric Klein
Subject: Paladin 2nd Round Bid Letter

Geoff and Yury,

Paladin Healthcare Capital, LLC (“Paladin”) is pleased to update our letter of April 18, 2014 by updating our preliminary indication of interest to acquire the assets of Daughters of Charity Health System and its subsidiaries (collectively, “DCHS”). Please refer to the updated offer letter attached hereto. We have gained a great appreciation for the quality of DCHS’s business and its management team. We believe that DCHS’s position in its markets and deep seated culture combined with Paladin’s extensive experience in turnaround situations and historical success of improving performance of hospital facilities set a strong foundation from which to extend both companies’ legacy of success.

On May 1, 2014, Paladin received from Houlihan Lokey (“HL”) a second round process letter that contained a summary of the process timeline / next steps and certain requirements associated with conducting further due diligence. Since that time, Paladin and its capital partners have invested substantial time, effort and legal expenditures in order to meet the objectives set forth in the process letter. Numerous due diligence requests have been submitted to HL, and many of these requests have been accommodated. However, as of the date of this letter, a number of critical due diligence items remain outstanding, some of which are required by our capital partners prior to issuing definitive term sheets, and further essential for Paladin to provide a definitive mark-up of the draft Asset Purchase Agreement. Considerable effort has been expended on the mark-up and it will be quickly finalized and submitted once certain due diligence items are received. For convenience, Nick Orzano will forward to you tomorrow a list of these critical outstanding due diligence items. In the event HL has posted any such items to the online data room, please alert us as to their location.

We have attached an updated bid letter that provides additional details regarding the proposed transaction, including confirming the assumption of accounts payable, payroll obligations (including pension obligations), and collective

bargaining agreements; and the exclusion of unrestricted cash to the extent it is needed to cover certain operating expenses, transaction fees, and other expenses incurred in the ordinary course of business prior to the Closing. The bid letter specifies all key terms, including price and form of consideration, sources of capital, and plans with respect to collective bargaining agreements, pension plans and other assets and liabilities of DCHS. We anticipate that outstanding due diligence may impact the specific deal structure that we intend to propose when submitting the purchase agreement mark-up; however, it should not impact the core elements of the proposed transaction or purchase price. Therefore, please assume that the price proposed in the bid letter is our highest and best bid, and that we have every intention to close on terms and on a timely basis, subject only to confirmatory due diligence, regulatory and third-party approvals, and other customary conditions to closing for transactions such as this.

Additionally, you will find attached several updated bid support letters from Paladin's capital partners emphasizing their commitment to and enthusiasm for the proposed transaction. Our capital sources have committed resources to the transaction and have reviewed the contents of the data room, but require additional due diligence before providing definitive term sheets. As with the purchase agreement, such term sheets can be turned around quickly upon receipt of additional due diligence. We have requested updated lists of outstanding items from each capital partner and will provide the same to HL upon receipt. As reflected in the attached letters, Midcap/Apollo is committed to underwriting the entire transaction such that Paladin can close with a single source of capital. Goldman Sachs and HIG are also interested in either leading or participating in the transaction, and HFG and Monroe are prepared to support certain key elements of the capital structure. We anticipate that Midcap/Apollo will lead the transaction, and the other parties will have an opportunity to participate but not need to be relied upon with respect to the closing.

With regards to purchaser due diligence, we have attached the requested data relating to Avanti as Exhibit One. Exhibit Two presents a preliminary transition plan for DCHS.

In general, despite the tremendous complications associated with DCHS and the proposed transaction, we have fully accommodated the goals of DCHS as per guidance provided by HL, while creating a unique and special opportunity for employees to participate in the future success of the hospitals.

We look forward to continuing our discussion regarding the proposed transaction at your earliest convenience.

All the best,

Joel Freedman

President
Paladin Healthcare Capital, LLC
2121 Rosecrans Avenue, Suite 2320
El Segundo, CA 90245

