CADENCE HEALTH

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HEALTH FACILITIES &
SERVICES REVIEW BOARD

August 2, 2013

Mr. Mike Constantino
Illinois Health Facilities and
Services Review Board
525 West Jefferson
Springfield, IL 62761

RE: Project E-017-13, Supplemental Information Regarding Valuation

Dear Mr. Constantino:

The applicant respectfully requests that you supplement our application in the above referenced project with the additional valuation materials included with this letter.

If you have any questions, or require additional information, please do not hesitate to give me a call at 630/933-6484.

Sincerely,

Michael R. Holzhueter
Vice President of Legal Affairs
and General Counsel

/smb
Enclosures
By Federal Express

c: Jack Axel
John Orsini
Honey Skinner

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Winfield, Illinois 60190

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August 2, 2013

Mr. John Orsini
Executive Vice President and Chief Financial Officer
Cadence Health
25 North Winfield Road
Winfield, Illinois 60190

Dear Mr. Orsini:

This letter supplements the letter to you dated June 25, 2013, and provides additional information related to the methodology of Alvarez & Marsal Valuation Services LLC ("A&M VS") in estimating the fair market value ("FMV") of the total invested capital ("TIC") of Chicago ProCure Management LLC (the "Proton Center").

Executive Summary of Methodology

In preparing our valuation analyses, we have considered the prevailing economic and industry environments, the history and nature of the Proton Center and the expected performance of the Proton Center as reflected in the prospective financial information ("PFI") and described by certain executives of Cadence engaged in the management of the Proton Center (collectively "Management").

Internally prepared financial statements and other pertinent information provided by Management have been accepted without further verification as correctly reflecting the results of operations and the financial and business conditions of the Proton Center. We have not performed an audit, review or compilation of financial statements in the capacity of certified public accountants under standards promulgated by the American Institute of Certified Public Accountants ("AICPA").

Our work cannot be relied upon to discover errors, irregularities, or illegal acts. Public information and industry and statistical information have been obtained from sources we believe to be reliable. However, we make no representation as to the accuracy or completeness of such information and have performed no procedures to corroborate the information.

The valuation is also based on the PFI that was provided by Cadence and prepared with the assistance of the Alvarez & Marsal Healthcare Industry Group ("A&M HIG"). A&M VS had several discussions with A&M HIG and Management regarding the PFI including discussions regarding the basis for expected growth rates, profit margins and capital requirements. We confirmed that the PFI reflects Management's best estimate of the assumptions a hypothetical buyer and seller would use in pricing the Proton Center. Based on all of the above, it was determined that the PFI was appropriate for use in our analysis.

We have made certain adjustments to the historical information and PFI provided by Management considering the standard of value, the nature of the business and discussions with Management. We considered several potential scenarios of operating performance and may have adjusted the financial performance of the Proton Center for certain discretionary expense items in some or all of the scenarios analyzed including management fees and sales and marketing expenses, for example. We also included the payment of corporate income taxes despite the tax exempt status of Cadence as required by the standard of fair market value.

Due to the nature of the intended use of our analysis and conclusion we did not apply adjustments for lack of control or lack of marketability. Although ProCure's combined interests reflect a partial interest in the Proton Center, it is a controlling interest. Subsequent to the transaction, Cadence will own a controlling interest in the Proton Center including claims senior to other investors and a controlling equity interest. Based on these factors, we concluded that adjustments for lack of control or lack of marketability were not warranted.

In preparing our analysis and conclusions, we have considered the guidance provided in the U.S. Internal Revenue Service's Revenue Ruling 59-60 ("Rev Rul 59-60"). In general, the valuation of corporate securities requires consideration of many factors that influence market value. These include, but are not limited to, the following factors that appear in the Rev Rul 59-60:

- The nature of the business and the history of the enterprise from its inception,
- The economic outlook in general and the condition and outlook of the specific industry in particular,
- The book value of the stock and the financial condition of the business,
- The earning capacity of the Company,
- The dividend-paying capacity of the Company,
- Whether or not the enterprise has goodwill or other intangible value,
- Sales of the stock and the size of the block of stock to be valued,
- The market price of stocks of corporations engaged in the same or a similar line of business having their stocks actively traded in a free and open market, either on an exchange or over-the-counter.

Methodology

The Stark Laws define fair market value as follows:

"Fair market value means the value in arm's length transactions, consistent with the general market value. General market value means the price that an asset would bring, as the result of bona fide bargaining between well-informed buyers and sellers who are not otherwise in a position to generate business for the other party, or the compensation that would be included in a service agreement as the result of bona fide bargaining between well-informed parties to the agreement who are not otherwise in a position to generate business for the other party, on the date of acquisition of the asset or at the time of the service agreement. Usually the fair market price is the price at which bona fide sales have been consummated for assets of like type, quality and quantity in a particular market at the time of acquisition, or the compensation that has been included in bona fide service agreements with comparable terms at the time of the agreement, where the price or compensation has not been determined in any manner that takes into account the volume or value of anticipated or actual referrals." 42 C.F.R. § 411.351 (2006).

The value of a business is equivalent to the value of the capital employed in the business or, alternatively, the cumulative value of the assets and liabilities owned by the business.

Assets = Liabilities + Owners' Equity
or
CA + LTA = CL + LTD + OE

Where:

CA = Current Assets
LTA = Long Term Assets
CL = Current Liabilities
LTD = Long-term Debt
OE = Owners' Equity

Subtracting CL from both sides, we have:

(CA - CL) + LTA = LTD + OE

Since (CA - CL) is net working capital (NWC) and (LTD + OE) is total invested capital, the above equation may be rewritten as:

TIC = NWC + LTA

The values of the assets are directly related to their ability to generate cash returns through their continued operation or through their sale. Since the return on TIC must be equal to the cumulative returns on the assets, the value of the TIC is directly related to the ability of the business to generate cash returns through continued operation/use or through the sale or exchange of the assets for cash. The highest and best use of the assets as a group determines the appropriate premise of value for the business, value in continued use or value in exchange.

In estimating the FMV of the business, we considered and evaluated the three basic approaches to value: income approach, market approach, and cost approach.

Each of the three approaches may be used to develop an indication of value of the subject investment or asset (liability); however, the appropriateness of each approach varies with the type of business being valued. For an operating and profitable business, the income and market approaches are generally the most appropriate because the value of the business depends more on its ability to generate earnings than on the individual values of the underlying assets. However, the cost approach may be a useful value indicator for asset intensive or investment holding companies. Additionally, it may be relevant to the value of an operating business that is not sufficiently profitable and whose "breakup" values may be greater than its going concern value.

In our analysis of the Proton Center, we have taken into consideration the income and cash-generating capability of the business based on an evaluation of the risks and returns of the investment on a going-concern basis. The differences in the Proton Center relative to the comparative companies because of its nature as a start-up business in a leading edge treatment technology were the primary factor in our having placed more reliance on the income approach or discounted cash flow method.

Assumptions and Limiting Conditions

The conclusions and opinions expressed herein are subject to the *Assumptions and Limiting Conditions* included in the full valuation report. In addition, additional relevant information and analyses considered in our opinion will be retained in our work files and will be available for review upon request. The depth of discussion contained herein is specific to your needs as the client and for the intended use as stated.

If you have any questions regarding the results of the analysis, please contact me at (312) 288-4065.

Very truly yours,

Gary T. Frantzen

Gary T. Frantzen, CFA
Managing Director
Alvarez & Marsal Valuation Services, LLC