

**Acquisition of Garden City Hospital
by Prime Healthcare Services**

Submitted by Garden City Hospital

February 17, 2014



INTRODUCTION

Garden City Hospital (“GCH” or “Hospital”) has recently finalized an Asset Purchase Agreement with Prime Healthcare Services or a wholly owned subsidiary of Prime Healthcare Services (together “PHS”) for the sale of substantially all of the GCH’s assets to PHS. The proposed transaction is conditioned upon and subject to the review and approval of the State of Michigan Department of Attorney General (“Attorney General”). Upon receiving approval of the Attorney General, the parties would anticipate a closing of the proposed transaction in mid 2014.

GCH submits this narrative to provide the Attorney General with the relevant and applicable background and motivation for GCH’s decision to explore and ultimately pursue this transaction at this time with PHS. This document supports GCH’s determination that this transaction with PHS will benefit the community served by GCH as well as realize fair consideration for this valuable community asset. Section I provides background on GCH and PHS. Section II details the process that GCH undertook to understand its strategic options as a standalone community hospital, solicit interest from a broad range of experienced hospital operators and pursue a competitive process to best meet the objectives of GCH’s community Board of Directors. Section II also confirms that the Hospital’s Board of Directors conducted careful due diligence, was well-informed and well-advised, and acted consistent with its fiduciary duties to GCH. Section III demonstrates that PHS’s offer satisfies the fair market value standard and that GCH’s process to pursue a transaction partner was fair. Section III also delineates many of the benefits that the proposed transaction will provide to GCH and the community it serves. The Hospital respectfully requests that the Attorney General approve the proposed transaction with PHS.

SECTION I. THE PARTIES

A. Garden City Hospital

GCH is a nonprofit, non-stock directorship corporation incorporated under the laws of the State of Michigan. The Hospital is a tax-exempt charitable organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), and exempt from federal income taxation under Section 501(a) of the Code. GCH owns and operates a general acute care community teaching hospital

housed in a three-story building located in the City of Garden City, Michigan. The Hospital is licensed for 323 acute care beds.

GCH was founded in 1947 as a maternity hospital and operated as such for four years. In 1951, the name of the Hospital was changed from Garden City Maternity Hospital to Garden City Hospital, Osteopathic. That same year, GCH opened a 36-bed general osteopathic facility serving the newly-developing western Wayne County suburbs. In 1955, the Hospital purchased the former Leland Sanitarium located near Ypsilanti in Canton Township. This building was remodeled and converted into a 100-bed general hospital known as Ridgewood Osteopathic Hospital (“Ridgewood”) which opened in 1955. Operations continued at the two sites for the next 16 years. In 1961, the Hospital’s operations expanded to GCH’s current site with an additional complement of 104 beds. From 1961 to 1971, six major construction and renovation projects were completed which brought the combined bed complement of the current Garden City campus and Ridgewood to 360. In 1971, when the additional 100 beds were opened at the current campus, the Ridgewood operations were discontinued.

Significant facility improvement projects were completed in the 1980s, and a major expansion and renovation of the emergency department, including a “fast track” area, was completed in 1997. The entire front of the facility was transformed in the early 1990s with the addition of the Allan L. Breakie Medical Office Building and a new front entrance featuring an expanded and renovated area for patient admitting and related functions. The last significant facility improvement occurred in 2008 with the addition of a 36,000 sq. ft. surgical center. Over the years, many new clinical programs and services have been instituted, including a cardiac catheterization laboratory, various diagnostic imaging devices, labor / delivery / recovery / post-partum rooms in the obstetrical unit, and several types of surgical and other invasive procedures.

GCH is the sole corporate member and controls six subsidiary entities, as follows:

- Garden City Hospital Foundation (“Foundation”), organized in 2003 to focus GCH’s fundraising activities. ***The Foundation is not included in the proposed transaction;***
- Garden Nursing Center, Inc., the operator of the now closed Advance Nursing Center, an 81-bed skilled nursing facility located in Inkster, Michigan;

- Amerigard Development, Inc., the operator of select physician practices located in Garden City, Dearborn Heights, Redford, Westland and other neighboring towns in the community served by GCH;
- United Home Health Services, Inc., the operator of a Medicare-certified home care agency headquartered in Canton, Michigan;
- Amerigard Diagnostic Centre, the operator of the now closed Cambridge Diagnostic Centre, a diagnostic imaging center located in Dearborn Heights, Michigan; and
- United Home Care Services, Inc., which has been dormant since 2001.

All the above entities, except Amerigard Development, Inc. are Michigan nonprofit membership corporations. Financial information relating to these subsidiaries is consolidated with that of GCH in the consolidated financial statements of the Hospital.

In addition to the wholly-owned subsidiaries listed above, GCH is a member in Pulse EMS, LLC, the operator of a local emergency medical transportation company that serves the local community. It is a Michigan limited liability company. To the extent assignable by GCH and assumable by PHS, GCH's interests in the above entity will be transferred and assumed by PHS as part of the proposed transaction.

B. PRIME HEALTHCARE SERVICES

PHS and the non-profit Prime Healthcare Foundation employ more than 20,000 people and own and operate 23 acute care hospitals in California, Kansas, Nevada, Pennsylvania and Texas. PHS was recognized as a Top 15 Health System in the nation in 2013 by Truven Health Analytics, formerly Thomson Reuters. It also earned the distinction as among the Top 10 Health System in the nation in 2009.

PHS endeavors to provide comprehensive, quality healthcare in a convenient, compassionate and cost effective manner. PHS is consistently at the forefront of evolving national healthcare reform. PHS provides an innovative and integrated healthcare delivery system while remaining cognizant of patients' needs and desires for high quality affordable healthcare.

Eight PHS hospitals were recognized among the 100 Top Hospitals in the nation in 2013 by Truven Health Analytics, formerly Thomson Reuters.. Desert Valley Hospital has earned the honor seven times, including 2013. West Anaheim Medical Center has earned it four times, including 2013. Centinela Hospital Medical Center, Chino Valley Medical Center, Garden Grove Community Hospital, and the non-profit Montclair Hospital Medical Center were also recognized, each for the second time, in 2013, as well as San Dimas Community Hospital and Shasta Regional Medical Center, earning their first recognition in this list.

In 2012, eight PHS hospitals were ranked as "Top Performers on Key Quality Measures" by the Joint Commission, the leading accreditor of healthcare organizations. In 2013, eleven PHS hospitals were similarly ranked.

SECTION II. GARDEN CITY HOSPITAL'S STRATEGIC REVIEW PROCESS AND DECISION TO BECOME PART OF THE PRIME HEALTHCARE SERVICES SYSTEM

The proposed transaction is the result of a comprehensive process undertaken by the Board of Directors of GCH designed to strengthen GCH and secure continued high quality healthcare access for the community. To arrive at this decision, the Board of Directors pursued a careful and deliberate process designed to meet its charitable objectives.

A. ONGOING REVIEW OF SITUATION AND OPPORTUNITIES

Dating back twenty years, the CGH Board of Directors has openly evaluated its operating and financial challenges as a standalone community hospital and considered its full range of strategic financial options. In 1996, the GCH Board held a retreat to evaluate its challenging market position and discuss potential affiliation options. As a result of such deliberations by the GCH Board of Directors, the Board

identified Henry Ford Health System, with its main hospital facilities in Detroit, Michigan as an attractive model, but did not actively pursue discussions at such time.

In 2000, GCH issued a formal Request For Proposals and received indications of serious interest from Trinity Health ("Trinity"), a Catholic-based national health system with its headquarters in Novi, Michigan and Oakwood Healthcare ("Oakwood"), a health system with its headquarters and main facilities in Dearborn, Michigan. The Hospital pursued discussions with Oakwood, including the negotiation of a Letter of Intent to merge the organizations. Before signing the Letter of Intent, medical staff concerns related to Oakwood's vision for serving GCH's market emerged and talks were scuttled. From the termination of discussions with Oakwood in 2000 through 2006, operating performance at GCH improved. The Board and GCH management held regular meetings to discuss strategy and affiliation alternatives, but pursued an independent operating strategy supported by improved financials.

Calendar year 2007 was the beginning of the slide in operating and financial performance at GCH that continues today and is discussed in Section II. B below in additional detail. This deterioration prompted GCH to hold a variety of *ad hoc* affiliation discussions from 2007 to 2012. These included affiliation offers from Oakwood in both 2009 and 2012. In pursuing an affiliation with Trinity, Trinity indicated an interest in closing GCH and consolidating services at nearby Trinity St. Mary Mercy Hospital. Ascension Health, a national Catholic-based health system headquartered in St. Louis, Missouri, with four subsidiary health system located in Michigan, proposed a variety of ongoing clinical affiliation alternatives devoid of any material operating support. The Detroit Medical Center, headquartered in Detroit, Michigan, which was acquired by Vanguard in January 2011, offered GCH a management contract proposal. None of these alternatives met the GCH Board objective which was to support the long-term provision of efficient, high quality care for the community at the Hospital.

B. NEAR-TERM FINANCIAL *and* OPERATING CHALLENGES

GCH's financial and operating position has declined over the last several years as the standalone community hospital has struggled with decreasing reimbursement, a rising pension liability, deteriorating demographics and other challenges. From 2008 to 2012, GCH's Total Net Assets dropped from \$33.5 million to -\$0.5 million. A major driver of this shift was the Hospital's ballooning unfunded

Pension Liability, which increased from \$1.7 million in 2008 to \$31.6 million in 2012. During the same period, the book value of the Hospital's Property, Plant and Equipment fell from \$55.6 million to \$46.3 million.

C. GARDEN CITY HOSPITAL RETAINS TRANSACTION COUNSEL AND INVESTMENT BANKER

In conjunction with its evaluation of various partnership proposals, beginning with Oakwood's affiliation offer in 2007, GCH engaged the firm of Hall, Render, Killian, Heath & Lyman, P.C. ("Hall Render") to act as its transaction counsel. Hall Render is recognized as one of the nation's preeminent health law firms. With over 40 years of experience in the health law business and more than 160 attorneys serving health care clients, Hall Render is the largest health care focused law firm in the country. Hall Render has significant experience in Michigan.

In the summer of 2012, after the GCH Board determined that it wanted to pursue a structured process, Garden City invited Juniper Advisory LLP ("Juniper") to submit a proposal to act as its investment banker in the search for a potential partner. Juniper is a specialized, independent, privately-held investment banking firm that concentrates on providing merger and acquisition advice to nonprofit hospitals. Juniper's two principals, James Burgdorfer and David Gordon, each have over twenty-five years of industry experience. Juniper has advised on over 100 nonprofit hospital and health system transactions in numerous states. Juniper has particular knowledge of demographic, reimbursement, regulatory and other conditions affecting Michigan hospitals. Juniper has previously advised Marquette General Hospital in connection with its acquisition in 2012 by Duke LifePoint, Memorial Medical Center of West Michigan in Ludington in its acquisition with Spectrum Health System in 2013, Portage in its joint venture with Duke LifePoint in 2013 and Bell Hospital in its sale to Duke LifePoint in 2013.

D. GARDEN CITY HOSPITAL IDENTIFIES ITS FULL RANGE OF POTENTIAL PARTNERS

On behalf of the Hospital, Juniper designed a process to solicit proposals from potential partners. The market clearing process that Juniper executed for GCH is recognized by industry professionals and regulators as the best practice for establishing fair market value in a sale of charitable or corporate assets. The process was designed to meet GCH's objectives and answer the fundamental question that the Board had been struggling with since 1996 – was GCH better able to provide high quality, efficient

healthcare services as an independent standalone community hospital or as part of a multi-hospital system? By pursuing a simultaneous “controlled competitive process”, GCH could definitively identify its full range of strategic options and, were it to select a sale of its assets, assure that it achieved fair market value.

The Board of Directors met with Juniper in August and October of 2012 to confirm its priorities and detail a marketing process to achieve those priorities. Juniper approached twenty-two hospital systems in November 2012, some of which were Michigan-based, some of which were regional, and some of which operated nationally. Eleven of the systems were nonprofit and eleven of the systems were investor owned companies. Seven systems expressed initial interest and signed Confidentiality Agreements. These systems were provided with additional information on GCH, including access to a secure electronic data room. Upon review of this information, four of the systems that had signed Confidentiality Agreements withdrew from the process. PHS and two other hospital systems submitted initial proposals indicating an interest in further discussions at the end of December, 2012.

The Board of Directors reviewed the three initial proposals at their January 10, 2013 meeting. The Board agreed unanimously to advance the study of future strategic options, including a potential sale transaction, and to further explore all three potential partners and their proposals. The process implemented by Juniper was designed to allow the Board to refine its objectives based on initial proposals and be able to obtain greater specificity on the transaction benefits to the Hospital and the community it serves as actionable alternatives emerged.

On January 25, 2013, Juniper sent a second instruction letter to the three finalists seeking further clarification on a variety of business terms and requesting further specification on the systems’ future plans for serving the GCH market. Among other requests, and in fulfillment of the Board's objectives, the second instruction letter directed the three finalists to address whether the financial components of their offers would satisfy GCH’s outstanding obligations and to elaborate on their commitments to (1) maintaining and growing services at GCH; (2) investing capital; (3) strengthening medical staff relationships; and (4) maintaining community input in local governance.

GCH hosted visits from representatives of the three finalists in late January and early February, 2013. Groups from each finalist traveled to Garden City, Michigan, toured the facility, met with GCH

management, met with medical staff representatives and presented the Board with detailed proposals setting forth their future vision for GCH. These visits included open discussion periods, providing both GCH and suitor constituents with opportunities to answer questions.

In late February 2013, key representatives of the GCH Board, management and medical staff conducted reverse due diligence trips to various hospitals operated by each of the three suitors. This group met with and closely questioned: physician leadership on local relationships with the finalist system; local management leadership on the operating environment within the suitor, and; local board members about whether the suitor had made good on its pre-partnership commitments. The group summarized its findings and reported back to the full Board.

Second round offers were due at the beginning of March, 2013. On February 27, 2013, one of the three finalists withdrew from consideration, expressing “great concern” over the Hospital’s financial condition and near-term capital requirements. The second round offers from the two remaining finalists were deemed to be too low to satisfy GCH’s outstanding obligations, including the Hospital’s unfunded pension liability. At this point, the Board decided to remain in active discussions with both of the remaining finalists in an attempt to reach a mutually satisfactory agreement. Discussions with PHS remained open and centered on the system’s willingness to assume GCH’s underfunded pension as part of the transaction. The other finalist requested, and was granted, the opportunity to complete further financial and operational diligence, including additional access to senior and line management. Upon completion of its assessment, this finalist determined that even if it were able to improve operations, it did not believe that it could improve them enough to justify an offer that would satisfy GCH’s outstanding liabilities at the closing of such transaction. This finalist provided its report to the Hospital in writing and withdrew from consideration in late May, 2013.

E. GARDEN CITY HOSPITAL REACHES AGREEMENT WITH PRIME

The Board met on June 6, 2013 to assess its remaining options. GCH had approached a total of twenty-two suitors and only one suitor, PHS, remained interested and PHS's offer was too low to satisfy the Hospital’s outstanding liabilities. Additionally, GCH’s financial position continued to deteriorate from the start of the process with the unfunded pension liability ballooning and market competition increasing.

At its early June meeting, the Board considered four alternatives: 1) Continue near term discussions with PHS; 2) Enter into a bankruptcy court-supervised reorganization either with or without identifying a system partner beforehand; 3) Re-approach the market, in the event that new suitors would emerge; and 4) Remain independent for the near term by fortifying and improving GCH's near term financial situation with the sale of non-core assets, employee layoffs, discontinuation of unprofitable service lines and other tactics. The Board quickly ruled out alternatives #2 and #3, determining that pro-active bankruptcy was not an option and that re-approaching the market was unlikely to result in new interest, especially given the robust and competitive marketing process that GCH originally pursued and the financial deterioration of GCH since the marketing process began. The Board decided to take an approach combining alternatives #1 and #4. The Board instructed GCH management to continue negotiations with PHS in an effort to extract an offer that would satisfy the Hospital's financial obligations and also meet the Board's other objectives. The Board simultaneously instructed management to pursue steps to strengthen and shore up the Hospital's financial position in the event that discussions with Prime were unsuccessful.

On September 24, 2013, GCH documented its agreement with Prime, signing a Letter of Intent that supported the Board's full range of objectives. The full Board had unanimously voted in favor of this action and agreed on the merits of Prime's offer and its associated benefits for the Hospital and greater community.

SECTION III. THE PROPOSED TRANSACTION IS IN THE BEST INTEREST OF GARDEN CITY HOSPITAL AND THE CONSTITUENCIES THAT IT SERVES

The proposed transaction with PHS assures that high-quality, efficiently delivered health care services will be available to GCH's service area for the foreseeable future. PHS's quality metrics are industry-leading and the system brings much needed quality improvement experience. This transaction will benefit GCH, patients, the medical staff, employees, payors and the community at large.

A. THE SALE PROCESS WAS FAIR

As the Attorney General has observed in connection with other nonprofit hospital transactions in Michigan, a fair market process is the best way to obtain value for a hospital's assets and assure that the Board best-met its charitable objectives. GCH, with the assistance of its investment banker, conducted a comprehensive competitive process that solicited market interest from a broad range of potential partners. After receiving initial offers, the Hospital solicited second round bids to further clarify interest and draw offers that were consistent with the Board's charitable objectives. When no viable partner emerged from this process, the Board slowed its deliberations and made every effort to realize an offer and structure that met its objectives and commitments. PHS emerged as the best partner for GCH, but also as the only organization willing to invest the resources necessary to meet the Board's objectives of strengthening the Hospital for the foreseeable future and meeting GCH's outstanding financial obligations.

The Board of Directors was well and fully-informed on the financial, competitive and regulatory challenges facing GCH. They were actively involved in the sale process, including numerous meetings with the Hospital's investment banker, meeting with finalists, and conducting site visits on reverse due diligence trips. The Board was deliberate in its determination that the Hospital was best served by joining a multi-hospital system and that GCH's best partner is PHS.

The Board of Directors, in fulfillment of their fiduciary duty to GCH, took all reasonable steps to maximize the consideration that GCH would receive as a result of a transaction. The Hospital's advisors conducted a professional, market-clearing sales process that ultimately identified PHS as the best potential partner. Management and the Board further negotiated PHS's offer, increasing the financial consideration and commitment to a level well above what any other suitors were willing to provide.

The competitive marketing and sale process, coupled with the thorough analysis by the Board of Directors of the pros and cons of a partnership with a multi-hospital system, demonstrates that the sale process was conducted fairly. The Board of Directors unanimously approved the PHS transaction.

B. THE TRANSACTION DELIVERS FAIR MARKET VALUE FOR GARDEN CITY'S ASSETS AND MEETS THE BOARD'S CHARITABLE OBJECTIVES

PHS offered both economic and non-economic consideration for GCH's assets that is within the range of values that GCH's Board of Directors considered to be fair. PHS agreed to provide a cash payment to assist GCH with defeasing its outstanding bond debt and associated expenses. Also, PHS will assume GCH's significant unfunded Pension Liability and the Long Term Portion of Capital Leases. PHS further agreed to make \$35 million in capital investments over a five-year horizon. Such capital commitment includes, but is not limited to, expenditures for physician recruitment and retention, increasing the number and scope of medical service offerings at GCH, investment in information systems, new equipment, facility renovations, new facilities, and new or renovated medical office space. PHS agreed to adjust the final purchase price upwards as necessary to allow GCH to obtain tail insurance for its future liabilities, to pay off all transaction costs and otherwise satisfy outstanding debts and obligations. When tested against standard measures such as multiples of revenue and EBITDA for other nonprofit hospital transactions, the total consideration to be paid by PHS coupled with the assumption of GCH's liabilities is certainly within the range of fair market value.

Beyond receiving fair market value for the transaction with PHS, the Hospital will also realize a variety of other benefits that motivated GCH to pursue a partnership with a multi-hospital system. PHS is nationally recognized for its exceptional quality. It has also gained notoriety for its success in improving the operations and finances of struggling community hospitals. PHS's growth has consisted mainly of acquiring hospitals in or near bankruptcy and turning them around. The system's proven track record of strengthening operations was important to GCH's Board of Directors. With 23 acute care hospitals, PHS is among the largest hospital systems nationally. Its size and geographic coverage provide stability and access to financial, operating and capital assets to support GCH's long term needs.

PHS committed to maintain substantial local and community input into the future operations at the Hospital with an active advisory board consisting of physicians, community members, and hospital executives. The advisory board will provide oversight and guidance regarding the operation of the Hospital. PHS agreed to continue using the name "Garden City Hospital" for the institution's name. Additionally, and importantly for the community, PHS committed to maintain the Hospital facility as an acute care hospital with an open and accessible emergency department for no less than five years after

the closing of the proposed transaction. Substantially all GCH employees at the time of the closing of the proposed transaction will be offered employment by PHS with similar wages and benefits to those they currently enjoy. Additionally, accrued employee Paid Time Off will be recognized by PHS for such employees that continue with PHS. Prior service to GCH will be recognized by PHS in granting vesting and eligibility for retirement and health insurance plans. Medical staff privileges will be extended to all members of the GCH medical staff who are in good standing as of the closing date.

As a large system operating similarly situated hospitals in other markets, PHS will provide GCH with administration and management support. Areas of particular focus will include medical staff development and recruitment, managed care, strategic planning, human resources, reimbursement, revenue cycle, group purchasing, supply chain, risk management and government relations. Similar to other PHS facilities, GCH expects PHS to bring economies of scale to its operations and improve efficiency. GCH also expects PHS to bring economies of scale to certain non-economic areas, including quality improvement, allowing PHS to apply its best practices from other markets in improving GCH's quality and other positions.

As the Detroit city bankruptcy has demonstrated, employees and retirees are vulnerable to underfunded pension plans. PHS's offer for GCH takes on this liability and secures the interests of GCH's employees and retirees - those people who have given so much of their life to the operations of GCH and the provision of medical care to the community. This is not only important to employee morale, it is also important to the larger community where GCH employees and retirees live. PHS has agreed to keep the GCH emergency room open for at least five years and to continue to offer a generous charity care policy. Because the Hospital will no longer be a tax-exempt entity, the community of Garden City will also benefit from property tax revenue from Prime.

SECTION IV. CONCLUSION

By joining PHS, the Hospital will be better able to serve the needs of the community over the long term. GCH's current position as a struggling independent hospital does not generate the resources necessary to invest in important capital or operating resources, leading to an aging physical plant and relatively low quality performance. PHS's offer will recapitalize the aging facility, bring much needed corporate

scale to operations and re-position the organization to best serve the community for the years to come. This transaction is in the interest of the Hospital, the community, the medical staff, employees and local employers. It supports the provision of higher quality, more efficient care and it provides GCH the structure and financial support to ensure the community has continued access to a major healthcare center for the foreseeable future.

1511751v3