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VIA ELECTRONIC MAIL

15 April 2013

Bruce D. Cummings
Lawrence & Memorial Corporation
365 Montauk Avenue
New London, CT 06320

Dear Mr. Cummings:

Attached is the final *Report of the Committee of the Health Services Council on the application of Lawrence & Memorial Corporation for change in effective control of The Westerly Hospital* (Report).

The Rhode Island Department of Health accepts the recommendation of the Health Services Council and hereby approves the application and adopts the attached Report in its entirety.

Approval and implementation of the application will result in the termination of the existing hospital license issued to The Westerly Hospital and the issuance of a new hospital license to LMW Healthcare, Inc. d/b/a The Westerly Hospital, which is ultimately owned by Lawrence & Memorial Corporation, as identified in the Report.

Please contact the Office of Facilities Regulations at (401) 222-2566 to request the appropriate licensure forms necessary to implement the change in effective control.

Sincerely,

A handwritten signature in black ink, appearing to read "Michael Fine", with a stylized flourish at the end.

Michael Fine, MD
Director of Health

Attachment

REPORT OF THE COMMITTEE
OF THE
HEALTH SERVICES COUNCIL
ON THE APPLICATION OF
LAWRENCE & MEMORIAL CORPORATION
FOR CHANGE IN EFFECTIVE CONTROL OF
THE WESTERLY HOSPITAL

Project Review Committee-II

Victoria Almeida (Ex-Officio)
John J. Barry
Raymond C. Coia, Esq.
Steven R. DeToy
Joseph L. Dowling
Maria R. Gil
Catherine E. Graziano, RN, PhD
Robert Hamel, RN
Jeanette S. Matrone, RN, PhD
Daniel Orgel, MPA
Denise Panichas
Reverend David Shire (Ex-Officio)

Submitted to the
Health Services Council
9 April 2013

Adopted by the
Health Services Council
9 April 2013

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At the meeting of 9 April 2013 of the Health Services Council, the following new information was presented on the record¹:

- At the 9 April 2013 meeting of Health Services Council, it was presented by the applicant that deficiency findings from the January 2013 survey conducted by the Connecticut Department of Public Health were provided to LMH on 28 March 2013 and that LMH must provide a plan of correction to address the deficiencies by 11 April 2013. A letter of 3 April 2013 from Dr. Robert Crausman, a consultant engaged by the Rhode Island Department of Health, stated in conclusion that these types of deficiencies are commonly identified in inspections surveys and he reiterated that “*L&M has demonstrated that it has the clinical, administrative, and board level leadership, an established infrastructure, and expertise requisite to foster a culture of patient safety and quality as it acquires WH.*”
- At the 9 April 2013 meeting of Health Services Council, it was presented by the applicant that subsequently, on 2 April 2013, Office Health Care Access in Connecticut notified LMH and Associated Specialists of Southeastern Connecticut, Inc. (an affiliate of LMH) that they needed regulatory approval to effectuate the changes to provision of service in 2008 and must file a Certificate of Need application.
- Additionally, Dr. Robert Crausman, a consultant engaged by the Rhode Island Department of Health in a letter of 3 April 2013, reviewed the deficiency findings of the Connecticut Department of Public Health relating to the January 2013 survey. He stated in conclusion that these types of deficiencies are commonly identified in inspections surveys and he reiterated that “*L&M has demonstrated that it has the clinical, administrative, and board level leadership, an established infrastructure, and expertise requisite to foster a culture of patient safety and quality as it acquires WH.*”
- At the meeting of 9 April 2013 of the Health Services Council, the Special Master of TWH provided an update with regards to resolution of the contingencies, as follows:
 - Settlement related to an OIG investigation has been reached pending final approval from the Main Justice in DC. Once, it is received, a hearing will be scheduled before The Superior Court for approval of the settlement.
 - The Superior Court approved the proposed settlement with Pension Benefit Guarantee Association for “distress termination”.
 - Resolution of the existing lease for the North Stoning Heath Center in North Stonington, CT is scheduled for a hearing on 23 April 2013 before The Superior Court.
- At the meeting of 9 April 2013 of the Health Services Council, with regards to the outstanding \$2.3 million due to the Division of Taxation from TWH, the Special Master represented that it is his position that \$1.4 million of that amount is included as assumed liability under the APA but that he needs to discuss this with the applicant. Additionally, the Mastership could utilize money available post closing and that \$2 million has been reserved for settling this matter. He also noted that the licensing fee owed to the Department of Health will be paid at the closing.

¹ All double underlined information reflects the action at the full Health Services Council meeting of 9 April 2013.

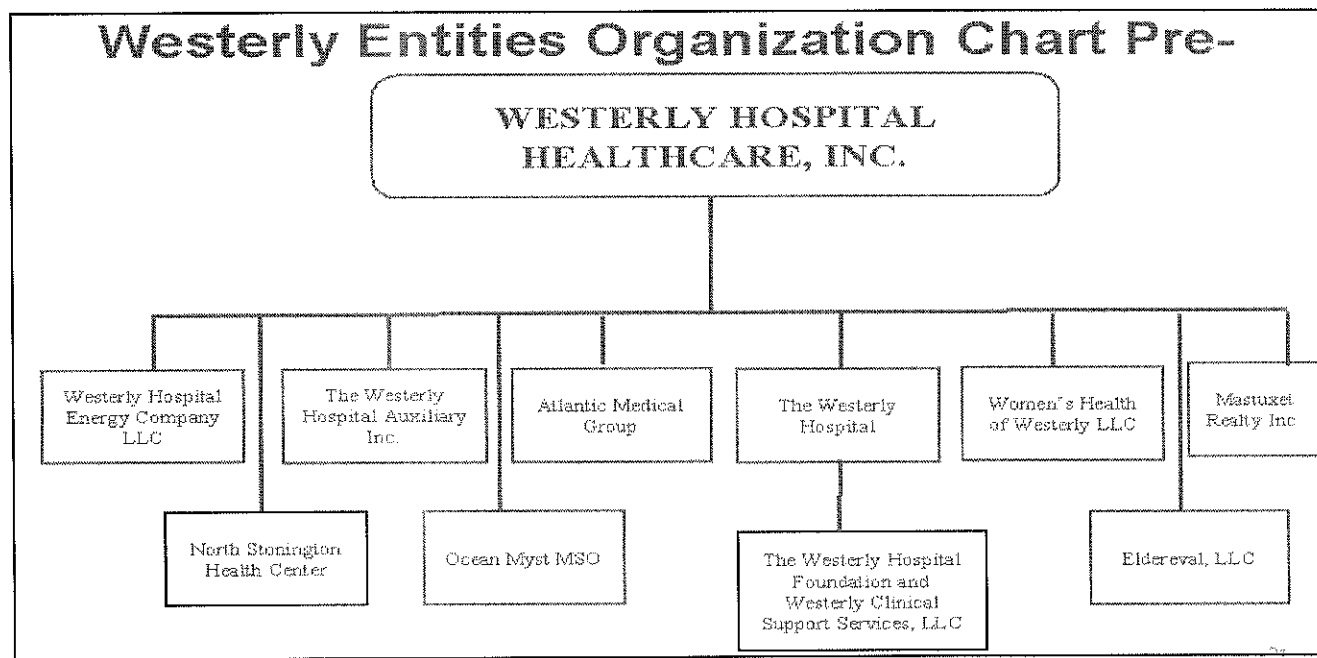
I. SYNOPSIS

Project Review Committee-II of the Health Services Council recommends that the application of Lawrence & Memorial Corporation for change in effective control of The Westerly Hospital, a 125-bed hospital located at 25 Wells Street in Westerly, be approved.

II. PROPOSAL DESCRIPTION

The Westerly Hospital Healthcare, Inc. and related entities

The Westerly Hospital Healthcare, Inc. is the parent entity of several entities including, but not limited to, The Westerly Hospital ("TWH"), Atlantic Medical Group, Inc., North Stonington Health Center, Inc., and Women's Health of Westerly, LLC (see chart below).



TWH is a 125-bed non-profit community hospital located in Westerly, Rhode Island. Its primary services area includes: Westerly, Rhode Island; Hopkinton, Rhode Island; and Stonington, Connecticut. Its secondary service area includes: Charlestown, Rhode Island; Groton, Connecticut; Ledyard, Connecticut; West Kingstown, Rhode Island; Wyoming, Rhode Island; Carolina, Rhode Island; and Wood River Junction, Rhode Island.

Atlantic Medical Group, Inc. is a 30-plus, multi-specialty physician group practice. It employs physicians of TWH.

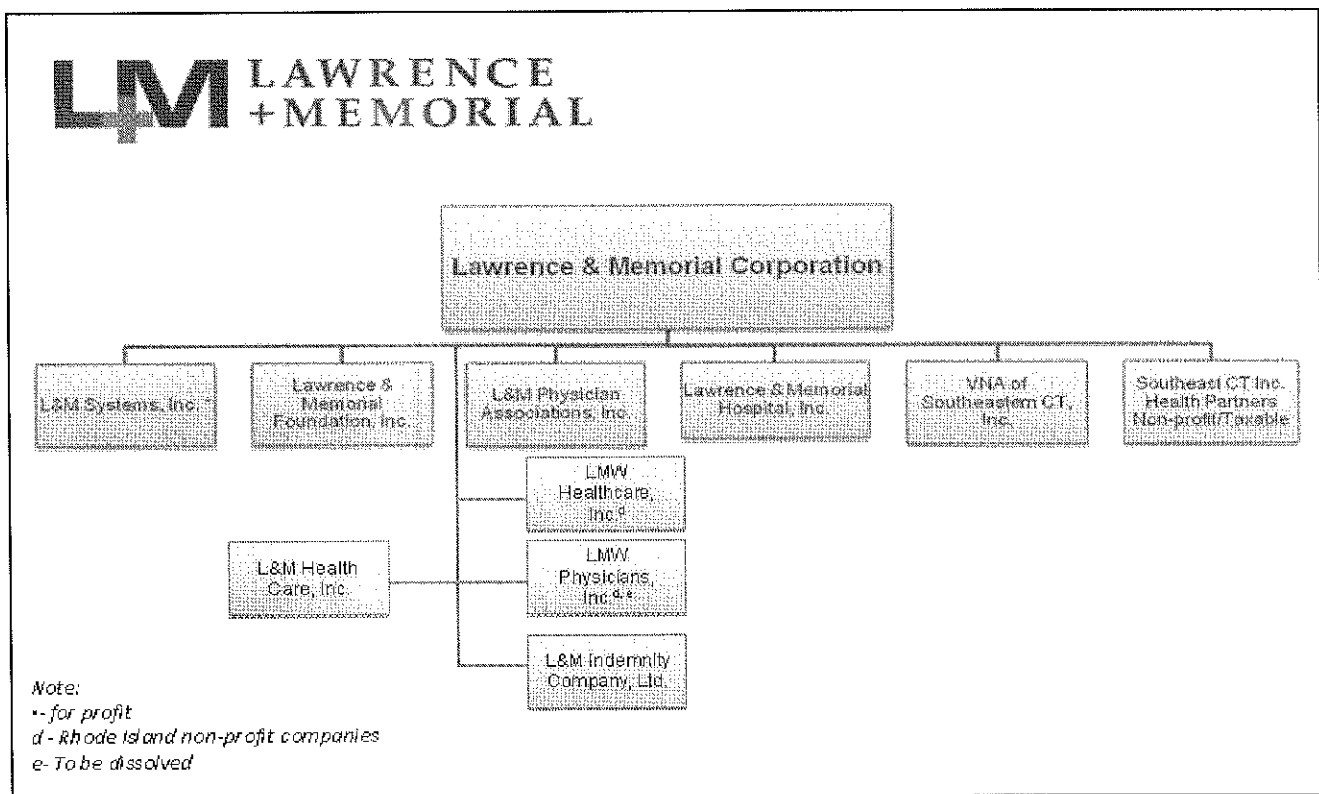
North Stonington Health Center, Inc. operated and/or operates an urgent care, physical therapy, laboratory/radiology, and primary care practices in North Stonington, Connecticut.
 Women's Health of Westerly, LLC operates an obstetric/gynecological practice in Westerly, Rhode Island.

Mastership

Due to deteriorating financial position, on December 7, 2011, a Temporary Special Master was appointed for TWH and related entities and on January 3, 2012, a Permanent Special Master was appointed. The Special Master sought proposals for the acquisition of the Westerly entities. Subsequently, on September 10, 2012, the Superior Court approved the sale of the assets of TWH and related entities to LMW Healthcare, Inc. and LMW Physicians, Inc., whose parent company is Lawrence & Memorial Corporation.

Lawrence & Memorial Corporation

Lawrence & Memorial Corporation ("L+M") is the parent entity to several entities including the Lawrence & Memorial Hospital ("LMH") L & M Physician Associations, Inc. ("LMPA") and LMW Healthcare, Inc. (see chart below). L+M and LMW Healthcare, Inc. are collectively referred to as the applicant.



LMH is 280-bed hospital in New London, Connecticut that has been providing care to the residents of eastern Connecticut, southern Rhode Island, and Fisher's Island, New York communities. It is accredited by the Joint Commission and the Commission on Accreditation of Rehabilitation Facilities. LMH provides inpatient and outpatient care to medical, surgical, pediatric, rehab, psychiatric, and obstetrical patients. It is 19.6 miles away from TWH.

LMPA is a non-profit, multi-specialty medical group practice which employs 53 physicians, 35 non-physician providers, and approximately 181 support personnel. It provides the range of office-based visits, outpatient and inpatient surgeries, and specialty consultations. Many of LMPA's providers maintain privileges at LMH.

LMW Healthcare, Inc. is a newly created Rhode Island non-profit company created to hold the asset of and operate TWH.

The Proposed Transaction

L+M, through its subsidiaries LMW Healthcare, Inc. and LMW Physicians, Inc.*, proposes to purchase the assets of TWH and related entities pursuant to the court-approved Asset Purchase Agreement ("APA") for total consideration of \$69,138,653, (subject to standard adjustments and pro-rations) as detailed below:

Westerly Hospital Purchase Price and Consideration	Amount
(i) Assumption of Liabilities	\$15,016,000
(ii) Third Party Payer Liabilities	\$725,000
(iii) Accrued Payroll	\$4,160,000
(iv-a) Asset Retirement obligations	\$1,426,000
Restricted Assets	\$(9,488,000)
Accounts Receivable	\$(8,900,944)
Assumption of Select Accounts Payable	\$19,131,610
Sub-total Liabilities assumed	\$22,069,666
(iv-b) Seller retention of liquid assets	\$5,896,987
Sub-total Purchase Price (Balance Sheet Acquisition)	\$27,966,653
(iv-c) Closing Cost - estimate	\$1,500,000
(iv-d) Malpractice Tail Insurance -estimate	\$2,000,000
(iv-e) Long-term commitment (5 yrs) capex (funds annual depreciation)	\$30,000,000
Down payment	\$500,000
North Stonington Rent	\$672,000
(iv-e) Restructuring plan - turnaround cash flows (over 2 years)	\$6,500,000
Total Purchase price and consideration	\$69,138,653

*Subsequent to the APA the plan was revised and it is LMPA not LMW Physicians, Inc. that will employ staff of Atlantic Medical Group, Inc. and Women's Health of Westerly, LLC.

According to the application, the purchase price will be financed using a short-term bridge loan strategy. Commitments from bank of America and Washington Trust have been received. Development of a long-term financing strategy is underway that involves other projects at L+M. The strategies being explored include tax-exempt financing and/or commercial lending. Given the strong financial positions of parent company, a number of banks and financial institutions have expressed interest as partners in a long-term debt issuance or related strategy. Execution of the long-term strategy will take place within 12 months post-closing. L+M anticipates an equity contribution of approximately \$6 million towards the purchase price and short-term bridge financing of approximately \$20 million. L+M's balance sheet has in excess of 200 days cash-on-hand, all of which is unrestricted and investments in excess of \$200 million. These funds will be used for the equity contribution.

As a result of the proposed transaction, the assets of TWH will be transferred to LMW Healthcare, Inc. which will continue to operate the hospital under the name of The Westerly Hospital. Certain physician and non-physician providers currently employed at Atlantic Medical Group, Inc. and Women's Health of Westerly, LLC will be employed by LMPA. North Stonington Health Center, Inc. will be used by LMPA to locate certain physician practices.

Pursuant to the APA the following commitments, among others, are being made:

- L + M will maintain the hospital as an acute care, community hospital for a period of at least five (5) years after closing;
- L + M has committed to maintain clinical services offered at the hospital for a two (2) year period after closing;
- L+M will continue using The Westerly Hospital name, maintain its non-profit status, and embrace its community mission.
- The new hospital Board will contain residents of the Westerly service area.
- Post-transaction, L+M Board will contain residents of the Westerly service area.
- L+M has committed to make \$30 million in capital expenditures in technology, equipment, and expanded services over the first 5 years post-closing.
- L+M has committed a \$6.5 million of working capital to the hospital during the first 2 years to continue the economic turnaround plan
- L+M will offer initial employment post-transaction to trade and services personnel of the Westerly Entities (excluding certain management personnel and administrative support personnel), union and non-union, and subject to positive post-closing review and economic developments, L+M plans to offer employment to most of the Westerly Entities' other employees.

III. INTRODUCTION

Pursuant to the requirements of Chapter 23-17 of the General Laws of Rhode Island entitled "Licensing of Health Care Facilities," the applicant filed for change in effective control of the subject-licensed facility. This request is made because the statute requires that any proposed change in owner, operator or lessee of a licensed health care facility be reviewed by the Health Services Council and approved by the state-licensing agency prior to implementation.

Staff reviewed the application and, after corrections of deficiencies, found it to be acceptable in form. Staff notified the applicant and the general public, by a notice on the Department's website and via e-mail, that the review would commence on 29 January 2013. The notice also advised that all persons wishing to comment on the application submit their comments to the state agency by 28 February 2013 when practicable. Written and/or oral comments were made by:

- Ole Kushner Harmanson of AFT Connecticut;
- Steven T. Hartford, Chairperson of the Westerly Hospital Area Residents Committee and Town Manager of Westerly;
- Jackie Desmond, President of the Local 5075;
- Dr. Pamela Connors, Gastroenterologist at The Westerly Hospital;
- Greg Kotecki of AFT Connecticut;
- The Westerly Hospital Foundation;
- Christopher Callaci, General Counsel to the United Nurses and Allied Professionals; and
- Dennis Algiere, RI Senate Minority Leader.

The Project Review Committee assigned to review this proposal met on 14 February 2013, 28 February 2013, 14 March 2013, and 28 March 2013 with the applicant and its legal counsel in attendance at each meeting.

The Project Review Committee was aware of the concurrent expeditious hospital conversion review pursuant to the requirements of RIGL 23-17.14-12.1 (The Hospital Conversions Act).

At the meeting of 28 March 2013 the Project Review Committee considered six conditions of approval proposed by the applicant, and those conditions were incorporated into the motion to approve the application. The Project Review Committee voted six in favor, none opposed, one recusal and one abstention (6-0-1-1) to recommend that the application be approved subject to the conditions of approval contained in section VI of this report.

IV. FINDINGS

Section 23-17-14.3 of the licensing statute and section 4.5 of the Rules and Regulations for Licensing of Hospitals (R23-17 HOSP) requires the Health Services Council to consider specific review criteria in formulating a recommendation for a change in effective control. The applicant addressed relevant considerations referred to in the review criteria.

The Committee's comments and findings on each of the criteria are as follows:

A. The character, competence, commitment, and standing in the community of the proposed owners, operators or directors of the health care facility

In assessing character, competence, commitment, and standing in the community of L+M and its entities, the Project Review Committee considered the following information on the record:

- Track record of LMH
- Quality improvement initiatives at LMH

- Consultants' Presentations
- Commitments
- Contingencies
- Financial Performance
- Public Comments

Licensure track record of LMH

LMH is accredited by The Joint Commission. From 6 March 2011 to March of 2013, LMH was under a two-year consent order with the Facility Licensing Investigation Section ("FLIS") of the Connecticut Department of Public Health. The consent order was the result of multiple violations, most significant of which were relating to the care of pediatric patients with emergency or critical illness. Per consent order, LMH engaged Yale New Haven Children's Hospital as a clinical consulting entity. On 14 March 2013, the applicant provided an e-mail confirming that the consent order has been lifted.

Additionally, in January of 2013 the Connecticut Department of Public Health conducted an inspection of LMH that resulted in findings of 'immediate jeopardy'. As a result, this triggered referral to CMS for a CMS-level survey of the hospital's compliance with Medicare Conditions of Participation. LMH represented that it had immediately corrected the issue related to a piece of biomedical equipment located in a patient care area; the resolution of this matter is still ongoing with the regulatory authorities as the final report of findings from this survey has not yet been provided to the LMH. At the 9 April 2013 meeting of Health Services Council, it was presented by the applicant that deficiency findings from the January 2013 survey conducted by the Connecticut Department of Public Health were provided to LMH on 28 March 2013 and that LMH must provide a plan of correction to address the deficiencies by 11 April 2013. A letter of 3 April 2013 from Dr. Robert Crausman, a consultant engaged by the Rhode Island Department of Health, stated in conclusion that these types of deficiencies are commonly identified in inspections surveys and he reiterated that "L&M has demonstrated that it has the clinical, administrative, and board level leadership, an established infrastructure, and expertise requisite to foster a culture of patient safety and quality as it acquires WH."

Additionally, the Office Health Care Access ("OHCA") in Connecticut has made inquiries to LMH regarding change in operational status of certain outpatient service including OB/GYN clinic, outpatient behavioral health clinic, and HIV/AIDS clinic. It was represented that LMH last provided correspondence to OHCA on 20 February 2013 and has not received any further correspondence from OHCA. At the 9 April 2013 meeting of Health Services Council, it was presented by the applicant that subsequently, on 2 April 2013, Office Health Care Access in Connecticut notified LMH and Associated Specialists of Southeastern Connecticut, Inc. (an affiliate of LMH) that they needed regulatory approval to effectuate the changes to provision of service in 2008 and must file a Certificate of Need application.

Quality Improvement Initiatives

At the meeting of 28 February 2013 Sherry Strammiello, Chief Quality & Patient Safety Officer and Director of Risk Management at LMH, provided an overview of initiatives to create a culture of safety including: Crucial Conversations training for all staff, Just Culture concepts introduced to Leadership with plans to begin training in FY13, and participation in state-wide implementation of High Reliability Science (Safety Starts With Me).

She reviewed Premier QUEST Initiative, in which LMH participates², which is a collaborative healthcare alliance of hospitals, health systems, and other healthcare sites. Its five measures are cost of care, mortality ratio, patient experience, harm avoidance, and evidence-based care. For the High Reliability Science,² she presented a slide for another hospital that participated in this initiative that was able to achieve a 71.9% reduction in the number of harmful events over a 2 year period. She stated that LMH is laying the foundation, and training will begins in March of 2013.

Consultant's Presentation

At the meeting of 28 March 2013 Dr. Robert Crausman, a consultant engaged by the Rhode Island Department of Health, presented his analysis regarding LMH (presentation at Tab A). He reviewed the circumstances surrounding the consent order. He compared LMH to its peers on specific performance measures and to TWH. He further discussed the quality improvement initiatives of LMH.

In conclusion he represented that:

- *Over the past two years L&M has expanded its Quality and Patient Safety program. L&M has an experienced leadership team charged with leading its Patient Safety initiatives and has accomplished effective engagement of its Board, administration, and clinical leadership. It has a very sensible plan to integrate Westerly Hospital into this structure, should this acquisition be approved.*
- *L&M's publicly reported CMS quality metrics are comparable to its peers in the region.*
- *L&M has demonstrated that it has the clinical, administrative, and board level leadership, an established infrastructure, and expertise requisite to foster a culture of patient safety and quality as it acquires WH.*

Additionally, Dr. Robert Crausman, a consultant engaged by the Rhode Island Department of Health in a letter of 3 April 2013, reviewed the deficiency findings of the Connecticut Department of Public Health relating to the January 2013 survey. He stated in conclusion that these types of deficiencies are commonly identified in inspections surveys and he reiterated that "L&M has demonstrated that it has the clinical, administrative, and board level leadership, an

² editorial change

established infrastructure, and expertise requisite to foster a culture of patient safety and quality as it acquires WH.”

Commitments

Pursuant to the APA the following commitments, among others, are being made:

- L + M will maintain the hospital as an acute care, community hospital for a period of at least five (5) years after closing.
- L + M has committed to maintain clinical services offered at the hospital for a two (2) year period after closing.
- L+M will continue using The Westerly Hospital name, maintain its non-profit status, and embrace its community mission.
- The new TWH Board will contain residents of the Westerly service area.
- Post-transaction, L+M Board will contain residents of the Westerly service area.
- L+M has committed to make \$30 million in capital expenditures in technology, equipment, and expanded services over the first 5 years post-closing.
- L+M has committed a \$6.5 million of working capital to the hospital during the first 2 years to continue the economic turnaround plan.
- L+M will offer initial employment post-transaction to trade and services personnel of the Westerly Entities (excluding certain management personnel and administrative support personnel), union and non-union, and subject to positive post-closing review and economic developments; L+M plans to offer employment to most of the Westerly Entities' other employees.

At the meeting of 28 March 2013 Steven Hartford, Chairperson of the Westerly Hospital Area Residents Committee and Town Manager of Westerly, stated that while originally the Westerly Hospital Area Residents Committee submitted a letter with proposed conditions, subsequently an amendment has been made to the sale order in the Superior Court which satisfied their concerns about being able to, as a community, monitor the progress of the commitments in terms of the investments in the hospital.

Contingencies

At the meeting of 28 March 2013, the Special Master of TWH identified the following contingencies:

- Settlement related to an OIG investigation which has not yet received final approval. A petition is expected to be filed the week of 1 April 2013.

- Procurement of release from the Pension Benefit Guarantee Association for “distress termination” is scheduled for a hearing before Superior Court on 8 April 2013.
- Resolution of the existing lease for the North Stonington Health Center in North Stonington, CT is being negotiated. This matter is scheduled for a hearing before Superior Court on 8 April 2013.

During the course of the review, the Special Master also noted the outstanding \$2 million due to the state from TWH.

At the meeting of 9 April 2013 of the Health Services Council, the Special Master of TWH provided an update with regards to resolution of the contingencies, as follows;

- Settlement related to an OIG investigation has been reached pending final approval from the Main Justice in DC. Once, it is received, a hearing will be scheduled before The Superior Court for approval of the settlement.
- The Superior Court approved the proposed settlement with Pension Benefit Guarantee Association for “distress termination”;
- Resolution of the existing lease for the North Stoning Heath Center in North Stonington, CT is scheduled for a hearing on 23 April 2013 before The Superior Court.

At the meeting of 9 April 2013 of the Health Services Council, with regards to the outstanding \$2.3 million due to the Division of Taxation from TWH, the Special Master represented that it is his position that \$1.4 million of that amount is included as assumed liability under the APA but that he needs to discuss this with the applicant. Additionally, the Mastership could utilize money available post closing and that \$2 million has been reserved for settling this matter. He also noted that the licensing fee owed to the Department of Health will paid at the closing.

Financial performance

At the meeting of 14 February 2013, L+M’s financial performance was reviewed. Representatives of the applicant stated that L+M is an experienced health system with a proven track records of providing high quality health care in a financially sustainable manner and that “L+M will advance the turnaround efforts and preserve the Westerly Entities as a community asset and economic engine.”

Representatives of the applicant addressed the circumstances regarding recent layoffs and cost cutting at LMH. It was represented that: “the pressure of no increases from governmental payors coupled with some unavoidable cost increases resulted in the need to eliminate 22 positions in FY2013 in order to maintain adequate operating margins.” It was further noted that “the budget gap was not a deficit to a breakeven point, but rather to a Board mandated 3% operating margin.” It was also noted that “over the past 5 years through growth in services the L+M System had created some 180 new position.”

At the meeting of 28 March 2013 Dr. John Schibler, consultant to the Rhode Island Department of Health, noted that “while conducting the Westerly/L+M Merger Analysis, nothing has come

to my attention that would indicate any significant weaknesses in internal control.” [Additional review of financial viability, competence and commitment is provided in criterion B below].

Public Comments

Oral and/or written comments in support of this proposal were made by Steven T. Hartford of the Westerly Hospital Area Residents Committee; The Westerly Hospital Foundation; Jackie Desmond, President of the Local 5075; Dr. Pamela Connors, Gastroenterologist at The Westerly Hospital; Senator Dennis Algieri RI Senate Minority Leader; and Christopher Callaci, General Counsel to the United Nurses and Allied Professionals. Additionally, representatives of AFT Connecticut, who raised questions in their written comments. The applicant responded to those questions.

Specifically, at the meeting of 28 March 2013 the Special Master to TWH stated that he has received nothing but public support for this proposal. At that meeting Steven T. Hartford of the Westerly Hospital Area Residents Committee and Christopher Callaci, General Counsel to the United Nurses and Allied Professionals, reiterated their support. Mr. Hartford noted that the commitments to the hospital are substantial and once those commitments are realized, it will put the hospital in a very good position to survive in the community.

The Committee considered the totality of the record - including the applicant’s presentations, consultants’ presentations, filed documents, responses to questions, and public comments.

Finding: The Committee finds that, based on the commentary presented and representations made by the applicant, the applicant satisfies this criterion.

B. The extent to which the facility will provide, without material effect on its viability, safe and adequate treatment for those individuals receiving the facility’s services

The following projections, as summarized, were provided in the application with regards to the financial performance of TWH for the first three years - if the proposal is implemented:

	2013	2014	2015
Total Revenue	\$84,736,658	\$86,600,658	\$86,600,658
Total Expenses	\$83,011,106	\$80,881,103	\$79,614,103
Operating Profit/(Loss)	\$ 1,725,552	\$ 5,719,555	\$ 6,986,555
Funding of Affiliates	\$(4,200,000)	\$(4,200,000)	\$(4,200,000)
System Total	\$(2,474,448)	\$ 1,519,555	\$ 2,786,555

At the meeting of 28 March 2013 Dr. John Schibler of Harborview Consulting, LLC, consultant to the Rhode Island Department of Health, presented his financial analysis (presentation at Tab B).

He presented positive information regarding financial performance of LMH including the following:

- *Generally L+M has consistently demonstrated strong operational performance with key ratios at or in excess of industry benchmarks:*
 - *Operating Margins and Excess Margins were generally above benchmarks, except for a decline in 2012.*
 - *The Debt Service Coverage Ratio of L&M's Obligated Group has consistently exceeded industry benchmarks (3.8X in 2011) and L+M's covenant requirements (1.1X).*
 - *L+M's Obligated Group has consistently demonstrated a strong cash position with cash on hand in excess of 200 days for the entire period examined (FY 2008-2012). In addition L+M maintains cash on hand well above the 60 days required by the bond agreements.*
 - *The debt-to-capitalization ratio of 27.3% is well below the benchmark (41%).*
 - *Carries a bond rating of A+ by both Standard & Poor's (S&P) and Fitch.*

In his overall assessment, the consultant represented the following:

- *Nothing has come to my attention that would suggest that the proposed merger should not be approved. This is based on the following:*
 - *Through Mastership, Westerly's operations have been restructured decreasing operating losses. While losses are still significant, there are opportunities for further improvement that will be available to Westerly through the merger.*
 - *L+M has demonstrated strong operational performance over the last five years. The decline in margins that occurred in 2012 can be partially attributed to the start-up of LMPA, a physician practice, and costs associated with the merger.*
 - *L+M's debt service coverage ratio is well above the covenants required by the current outstanding bonds and significantly exceeds industry benchmark.*
 - *L+M has a strong balance sheet demonstrated by low leverage and a significant cash position. The system has in excess of 200 days cash on hand which exceeds the 60 days required by existing bond covenants and is well above industry benchmarks.*
 - *L+M has an A+ bond rating from both S&P and Fitch. While S&P has revised their outlook from "stable" to "negative" management has, to date,*

demonstrated the ability to manage operations.

According to the application, the purchase price will be financed using a short-term bridge loan strategy. Commitments from Bank of America and Washington Trust have been received. Development of a long-term financing strategy is underway, which involves other projects at L+M. The strategies being explored include tax-exempt financing and/or commercial lending. Given the strong financial positions of the parent company, a number of banks and financial institutions have expressed interest as partners in a long-term debt issuance or related strategy. Execution of the long-term strategy will take place within 12 months post-closing. L+M anticipates an equity contribution of approximately \$6 million towards the purchase price and short-term bridge financing of approximately \$20 million. L+M's balance sheet has in excess of 200 days cash-on-hand, all of which is unrestricted, and investments in excess of \$200 million. These funds will be used for the equity contribution.

At the meeting of 28 March 2013, the CEO of LMH clarified that the \$20 million loan from Bank of America is not additional debt. It will be used to defease the bonds of TWH. The loan will have a lower interest rate.

The Committee considered the totality of the record - including applicant's presentations, consultants' presentations, filed documents, responses to questions, and public comments.

Finding: The Committee finds that, based on the commentary presented and representations made by the applicant, the applicant satisfies this criterion.

C. The extent to which the facility will provide safe and adequate treatment for individuals receiving the health care facility's services

Pursuant to the information in the APA, TWH is under investigation by Office of Inspector General with regards to Stark law and anti-kickback statute. Additionally, TWH is under investigation by the Office of Inspector General with regards to self-referral disclosure. These matters represent a contingency to the transaction going forward, and the Special Master represented that these matter are being negotiated and should be resolved prior to closing.

As detailed in response to criterion A of this report, LMH was subject to a consent order that was lifted in March of 2013. Additionally, the January 2013 survey of LMH resulted in findings of 'immediate jeopardy'. As a result, this triggered referral to CMS for a CMS-level survey of the hospital's compliance with Medicare Conditions of Participation. LMH represented that it had immediately corrected the issue related to a piece of biomedical equipment located in a patient care area; the resolution of this matter is still on-going with the regulatory authorities as the final report of findings from this survey has not yet been provided to the LMH.

Additionally, OHCA has made inquiries to LMH regarding change in operational status of certain outpatient service including OB/GYN clinic, outpatient behavioral health clinic, and HIV/AIDS clinic. It was represented that LMH last provided correspondence to OHCA on 20 February 2013 and has not received any further correspondence from OHCA.

While at the 28 March 2013 meeting Dr. Robert Crausman, consultant to the Rhode Island Department of Health, noted, among other, that:

- *Over the past two years L&M has expanded its Quality and Patient Safety program. L&M has an experienced leadership team charged with leading its Patient Safety initiatives and has accomplished effective engagement of its Board, administration, and clinical leadership. It has a very sensible plan to integrate Westerly Hospital into this structure should this acquisition be approved.*
- *L&M's publicly reported CMS quality metrics are comparable to its peers in the region.*
- *L&M has demonstrated that it has the clinical, administrative, and board level leadership, an established infrastructure, and expertise requisite to foster a culture of patient safety and quality as it acquires WH.*

The Committee considered the totality of the record - including applicant's presentations, consultants' presentations, filed documents, responses to questions, and public comments.

Finding: The Committee finds that, based on the commentary presented and representations made by the applicant, the applicant satisfies this criterion.

D. The extent to which the facility will provide appropriate access to traditionally under-served populations

Pursuant to the Rules and Regulations Pertaining to Hospital Conversions (R23-17.14-HCA), hospitals must provide full charity care (i.e., a 100% discount) to patients/guarantors whose annual income is up to and including 200% of the Federal Poverty Levels ("FPL"), taking into consideration family unit size. Hospitals must also provide partial charity care (i.e., a discount less than 100%) to patients/guarantors whose annual income is between 200% and up to and including 300% of the FPLs, taking into consideration family unit size. The proposed charity care policy of LMW Healthcare, Inc. d/b/a The Westerly Hospital will provide free care to patients whose annual income is up to 250% of the FPL and 40% discount to patients within 251%-300% of the FPL.

The table below shows charity care levels over the past five years at LMH:

Year	Charity Care (Costs Foregone)	Net Patient Revenue	% of Net Patient Revenue
2008	\$ 2,367,172	\$ 265,186,141	0.89%
2009	\$ 2,524,664	\$ 280,126,452	0.90%
2010	\$ 2,486,247	\$ 306,563,977	0.81%
2011	\$ 2,985,266	\$ 318,813,210	0.94%
2012	\$ 2,646,956	\$ 323,643,197	0.82%

The table below shows charity care levels over the past four years at TWH:

Year	Charity Care (Costs Foregone)	Net Patient Revenue	% of Net Patient Revenue
2009	\$ 434,836	\$ 84,143,536	0.52%
2010	\$ 901,641	\$ 86,545,353	1.04%
2011	\$ 719,764	\$ 83,303,610	0.86%
2012	\$ 663,644	\$ 81,453,751	0.81%

TWH will continue to participate in Medicare, Medicaid and RIte Care.

The Committee considered the totality of the record - including applicant's presentations, filed documents, responses to questions, and public comments.

Finding: The Committee finds that, based on the commentary presented and representations made by the applicant, the applicant satisfies this criterion.

E. Consideration of the proposed continuation or termination of emergency, primary care, and/or other core health care services by the facility:

TWH, concurrent to the review of this proposal, has submitted a plan to the Rhode Island Department of Health to eliminate obstetric labor and delivery services by June 1, 2013. The Special Master provided status overview of the obstetric delivery and labor services (slide at Tab C). LMH stated that it supports such plan of TWH.

Pursuant to the APA, the following commitments, among others, are being made for this proposal:

- L + M will maintain the hospital as an acute care, community hospital for a period of at least five (5) years after closing.
- L + M has committed to maintaining clinical services offered at the hospital for a two (2) year period after closing.

Additionally, L+M has committed \$6.5 million of working capital, but it has not been decided whether such amount will be used to add or expand services.

Representatives of the applicant stated that L+M is an experienced health system with a proven track records of providing high quality health care in a financially sustainable manner and that "*L+M will advance the turnaround efforts and preserve the Westerly Entities as a community asset and economic engine.*"

Finding: The Committee finds that, based on the commentary presented and representations made by the applicant, the applicant satisfies this criterion.

F. The proposed immediate and long term plans of such health care facilities with respect to the health care programs to be offered and health care services to be provided by such health care facilities as a result of the merger, consolidation, or otherwise legal affiliation.

At the meeting of 28 March 2013, the Committee raised questions regarding the plans for services at TWH in light of its low inpatient occupancy rate. Bruce Cummings, CEO of LMH, stated that Sg2, an independent consulting company in Chicago, predicts that the only inpatient service line that will grow over the next 10 years is orthopedics (while every other inpatient service line will decline). Mr. Cummings stated that Sg2 projects significant growth prospects in outpatient services; as long as there is significant growth on the outpatient side, having a relatively smaller inpatient volume is not a fatal flaw.

Pursuant to the APA, the following commitments, among others, are being made:

- L + M will maintain the hospital as an acute care, community hospital for a period of at least five (5) years after closing.
- L + M has committed to maintaining clinical services offered at the hospital for a two (2) year period after closing.

Additionally, L+M has committed \$6.5 million of working capital, but it has not been decided whether such amount will be used to add or expand services.

The long-term plans of L+M in the application are described as: stabilizing the financial position of the Westerly entities and continuing to provide high quality community hospital services.

Finding: The Committee finds that, based on the commentary presented and representations made by the applicant, the applicant satisfies this criterion.

V. RECOMMENDATION

After considering each of the review criteria as required by statute and the representations made by the applicant, the Project Review Committee recommends that the change in effective control application be approved subject to the conditions of approval contained in section VI of this report. Approval and implementation of the application will result in the termination of the existing hospital license issued to The Westerly Hospital and the issuance of a new hospital license to LMW Healthcare, Inc. d/b/a The Westerly Hospital, which is ultimately owned by Lawrence & Memorial Corporation, as identified in this report.


VI. CONDITIONS OF APPROVAL

The Committee recommends that approval of this application shall be subject to the following conditions:

1. That LMW Healthcare provide services to all patients without discrimination, including payment source or ability to pay;
2. That LMW Healthcare shall implement the application as approved;

3. That data, including but not limited to, finances, utilization, and demographic patient information be furnished to the state agency upon request;
4. That services at the facility be provided in conformance with the requirements of the Rules and Regulations for Licensing of Hospitals (R23-17-HOSP) and Rules and Regulations Pertaining to Hospital Conversions (R23-17.14-HCA);
5. That LMW Healthcare shall comply with the Buyer Commitments as defined in the September 10, 2012 Order Approving the Sale of the Assets of The Westerly Hospital and the Related Entities Free and Clear of Liens and Liabilities (“Sale Order”) and identified in Section 10 of the Asset Purchase Agreement by and among LMW Healthcare, Inc., LMW Physicians, Inc. and W. Mark Russo, Esq., solely in his capacity as the court-appointed Special Master for Westerly Hospital Healthcare, Inc., The Westerly Hospital, Atlantic Medical Group, Inc., Ocean Myst MSO, LLC, Women’s Health of Westerly, LLC, and North Stonington Health Center, Inc. dated as of June 20, 2012, and for the time periods set forth therein; and
6. That LMW Healthcare shall comply with the enforcement provisions relative to the Buyer Commitments as established at Section 3 of the Sale Order.

TAB A



Lawrence & Memorial
Corporation's proposed
acquisition of The Westerly
Hospital (WH)

Robert S. Crausman, MD, MMS

March 28, 2013



Lawrence and Memorial Hospital
(L&M)

- The Joint Commission accredited
- General medical and surgical hospital
- New London, CT
- 252 beds
- 80,000 ED visits
- 14,000 admissions
- 13,000 inpatient and outpatient surgeries



Consent Order

- L&M was subject to an active consent order with the FLIS March 16th 2011
- Unannounced inspection
- Multiple violations



5 broad areas

- (1) Life and safety/physical plant
- (2) Food services
- (3) Nursing
- (4) Medical staff
- (5) Medical records/documentation



Most significant

- Violations/concerns relating to the care of pediatric patients with emergency or critical illness.
- Engage clinical consulting entity
- Yale New Haven Children's Hospital
- Comprehensive assessment
- Corrective action plan
- Regular progress reports to FLIS



Also

- Physical plant
- Food services
- Corrective action plan
- Not included as part of the consent order

CO's issued by CT FLIS

- 2013
- 3-7-13 Greystone Rest Home, Inc. - Portland
- 3-5-13 Fernwood Rest Home, Inc. - Litchfield
- 1-18-13 Garden View Manor, Inc. - Hamden
-
- 2012
- 11-19-12 Youth Challenge Mission for Women - Hartford
- 9-12-12 Center for Ambulatory Surgery, LLC - Westport
- 8-28-12 Maxim Healthcare Services, Inc. - East Hartford
- 8-21-12 Walnut Hill Care Center - New Britain
- 3-29-12 Charter Oak - Hartford
- 1-11-12 Waterbury Hospital - Waterbury
-
- 2011
- 12-20-11 Glenlunan - Waterbury
- 11-29-11 Constitution Eye Surgery Center East - Waterford
- 11-22-11 Robbins Eye Center, PC - Bridgeport
- 9-30-11 Fernwood Manor Inc. of Hartford - Hartford
- 5-29-11 Center for Ambulatory Surgery, LLC - Westport (revised interim)
- 5-24-11 Center for Ambulatory Surgery, LLC - Westport
- 5-4-11 Center for Ambulatory Surgery, LLC - Westport (interim)
- 3-16-11 L&M Hospital - New London
- 1-19-11 Lab Xpress - West Hartford, Wethersfield, New Britain, Manchester
-
- 2010
- 11-17-10 William Backus Hospital - Norwich
-

Organizational structure

Quality Council's operations were reviewed

Pediatrics Quality Council was created

A Chief Quality and Patient Safety Officer, Sherry Strammiello BSN, MPA, CPHQ [Certified Professional in Healthcare Quality], and is responsible for quality initiatives, monitoring and assurance within the facility.

Daniel Rissi, MD, the Vice-President/ Chief Medical and Operations Officer who in turn reports directly to the CEO Bruce Cummings and is viewed as part of the hospital's leadership team. Sherry Strammiello is also a member of the institution's Quality Council.

The Institutional Quality Council includes broad representation of the hospital's administrative, clinical and Board leadership. The Chair of the Council is a Board member. The new Pediatrics Quality Council reports to the institutional council via the Chief of Pediatrics.

Premier Quest



Westerly Hospital

- Incorporation into L&M quality and safety structure
- Dr. Christopher Lehrach, (Interim) Chief Transformation Officer



Quality of Care

- CMS Hospital Compare/HCUP
- L&M achieved or exceeded the CT State average for nurse communication and pain control. It fell below for physician communication and respect, how quickly call buttons were answered, how well staff explained medications, cleanliness of bathrooms, quiet rooms at night, post-discharge information, overall rating of the hospital and recommend the hospital.
- L&M achieved or exceeded the RI average for 2/8 indicators and was comparable to the WH

Timely and Effective care

- Heart attack – L&M achieved or exceeded the CT state average for PCI within 90 minutes of arrival, aspirin and statin use. It equaled or exceeded the performance of WH in 3 of 4 measures with sufficient data.
- Heart failure – L&M achieved or exceeded the CT state average for assessment of heart function and use of an ACE inhibitor; Below for discharge instructions. It equaled or exceeded the performance of WH in 2 of 3 measures.
- Pneumonia – L&M exceeded the CT state average for performance of blood cultures but below for antibiotic selection. It equaled or exceeded the performance of WH in 2/2 measures.
- Surgical care details – L&M achieved or exceeded the CT state average in 5 of 10 measures [insufficient data for an 11th measure relating to diabetes]. It equaled or exceeded WH in 2/3 measures of timeliness; and 3/6 measures of effectiveness.
- Emergency department – L&M achieved or exceeded the CT state average in 3 of 6 measures [insufficient data for a 7th measure relating to brain scans]. It exceeded WH's performance on influenza and pneumonia vaccination.
- Mortality – No difference from national rate

CO Accomplishments

■ Nursing

- Core group of pediatric nurses with the requirement that one pediatric nurse be present on every shift.
- Core group of pediatric nurses to report to a nurse manager with pediatric expertise.
- Specific pediatric competency training for all nurses who may care for pediatric patients.

■ Supervision of physicians

- Development and implementation of a pediatric hospitalist/LIP program.
- Pediatric training for emergency medicine physicians satisfied by assurance that all ED physicians are board certified in emergency medicine.
- A requirement for the development of the pediatric rapid response team was satisfied by the utilization of the hospital's code team to include PALS certified emergency medicine physicians.
- Respiratory therapists are required to have age-specific competencies for the patient populations that they care for.
- Planning for the development of a pediatric specific emergency medicine service.
- Implementation of daily multidisciplinary rounds for pediatric patients.
- Construction and implementation of a quality council for pediatric care.
- Reporting of the quality council's activities to pediatric providers.
- Development and implementation of transfer guidelines for pediatric patients requiring higher levels of care.
- Practice guidelines for common inpatient pediatric illnesses expected to be treated at Lawrence and Memorial.
- An ongoing medical records audit to assure compliance with transfer and practice guidelines.
- Collaborative regular policy review.
- Implementation of an education plan for new policies, audit findings, etc.
- A pediatric emergency equipment checklist to assure that pediatric appropriate equipment is present in the emergency department and in the pediatrics unit.
- Coordinated regular didactics with Yale Children's Hospital for emergency medicine providers regarding pediatric emergency case reviews.
- All pediatric emergency medicine patients seen by triage nurse upon presentation.
- All pediatric patients to have their vital signs taken upon presentation by an ED nurse who is PALS certified (all ED nurses are now PALS certified).
- All pediatric patients to have weights taken and recorded in kilograms upon admission to the emergency department.

CO Accomplishments

■ Pediatric Anesthesia

- Addition of a second anesthesia care provider when necessary.
- A data driven pediatric CQI process.
- Training of the core group of anesthesiologists in pediatric competencies.
- Intern limitation to ASA class I and II patients pending satisfaction of these pediatric competencies.
- Anesthesia oversight over all sedation activities of pediatric patients.
- Five hours of CME in pediatrics required for all anesthesia providers per each re-credentialing cycle.

■ Pediatric Behavioral Health Services

- Change in policy to address restraint and seclusion to include patients aged nine (9) and under.
- Improved documentation requirements of neurovascular and medical assessments of restrained pediatric patients.
- Ongoing audit to assure compliance with pediatric restraint procedures and policies.
- Designated individual (crisis manager) to be notified of any/all restraint use with pediatric patients.
- Space planning towards assuring separation of pediatric behavioral health patients from adult patients in the emergency department.
- Standard protocols for administration of psychoactive medications in pediatric patients.
- A new hire to add expertise in pediatric psychiatry. The Medical Director of Consultation and Crisis services was hired on 7/11/2011.
- Pediatric behavioral health orientation module for any locum tenens physicians.
- Individualized treatment plans for extended lengths of stay of pediatric behavioral health patients in the emergency department.
- Staff education and resources to be made available.
- Consultation resources and manuals to be included.
- Internet availability of these resources as well.

Conclusions

- As a result of violations, L&M made certain immediate corrective actions and subsequently entered into in a Consent Order with the CT Department of Public Health to improve its care of pediatric patients.
- At this point all items delineated in the plan have been completed and the Consent Order ended in March 2013.
- Over the past two years L&M has expanded its Quality and Patient Safety program. L&M has an experienced leadership team charged with leading its Patient Safety initiatives; And has accomplished effective engagement of its Board, administration and clinical leadership. It has a very sensible plan to integrate Westery Hospital into this structure should this acquisition be approved
- L&M's publicly reported CMS quality metrics are comparable to its peers in the region.
- L&M has demonstrated that it has the clinical, administrative and board level leadership, established infrastructure and expertise requisite to fostering a culture of patient safety and quality as it acquires WH.

TAB B



Westerly/Lawrence & Memorial Merger Analysis

Final Report



Executive Summary

- ✧ Operating losses at Westerly, exclusive of restructuring costs, increased through 2012 to \$13.6 million; however, restructuring efforts have significantly reduced these losses based on year-to-date results.
- ✧ Lawrence & Memorial (L+M) has a strong balance sheet and therefore the financial resources to successfully assume the operations of Westerly Hospital:
 - ✧ L+M has generated positive operating margins for the five year period 2008 through 2012.
 - ✧ Debt service coverage for the five years has been well above the 1.2X required by existing bond covenants and has ranged from 3.7X to 7.9X
 - ✧ Cash on hand is in excess of 200 days over this five-year period as compared to the existing bond covenant of 60 days cash on hand. Cash on hand at the end of 2012 was 236 days.
 - ✧ The bond rating of the L+M Obligated Group is rated A+ by both Standard & Poors and Fitch. S&P recently issued a "Negative Outlook" but maintained the A+ rating.
- ✧ As a result of my review, nothing has come to my attention that would indicate that the transaction should not be approved.

Westerly/L+M Review

(2)



Overview of the Transaction

- Total purchase price and consideration is \$64 million which includes the assumption of certain liabilities.
- L+M is required under the Asset Purchase Agreement to fund \$30 million of improvements at Westerly over five years, \$7.2 million for a profitability improvement plan, as well as other payments at closing.
- L+M has received a proposal from Bank of America for a \$20 million bridge loan to redeem the outstanding Westerly Bonds upon closing. The proposal is subject to certain conditions including financial covenants. L+M intends to refinance this loan through the issuance of tax-exempt bonds.

Westerly/L+M Review

(3)



Scope of Work

- ✓ Performed an analysis of transacting parties' financial statements to assess the reasonableness of the proposed combination.
- ✓ Participated in interviews of key management personnel of Westerly and Lawrence & Memorial
- ✓ Provided expertise in hospital/healthcare accounting on as as needed basis
- ✓ Provided a final written report that is clear and concise, single suitable for comprehension by those professionals not engaged in the auditing/accounting profession.
- ✓ Performed other related activities that were requested by the Department.
- ✓ Be alert for any conditions observed during the review that would give rise to concerns about internal controls.
- ✓ Financial forecasts for the transaction were not provided; however, given L+M's strong balance sheet, as indicated by significant cash reserves and low debt, an A+ bond rating, and consistently strong operating margins this is not considered a significant limitation to the scope of this review.

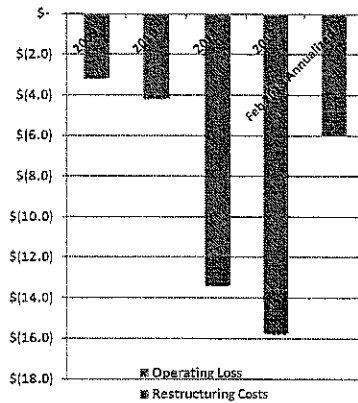
Westerly/L+M Review

(4)



Westerly Hospital & Affiliates: Operating Losses

Westerly's operating losses increased over the past four years; however, restructuring efforts in Mastership have reduced these losses by approximately \$10.0 million.



Estimated Improvements	(000's omitted)
Defined Benefit Plan	\$ 3,800
Interest on Bonds	565
North Stonington	3,000
Women's Health	800
AMG (Physician's Group)	1,000

Source: Westerly & Affiliates Internal Financial Statements and analysis. Loss for 2013 is based on annualized results through February, 2013.



Westerly/L+M Review

(5)

Lawrence & Memorial Corporation

- Lawrence & Memorial (L+M) Corporation consists of the following entities
 - Obligated Group:
 - L+M Healthcare
 - L+M Hospital
 - Associated Specialists of Connecticut (a physician group)
 - L&M Systems
 - L+M Physician Association
 - L&M Indemnity (a captive insurance company)
 - VNA of Southeastern Connecticut
- The Obligated Group is responsible for the current outstanding bond obligations.
- Based on 2012 financial information, the Obligated Group includes substantially all of the Organization's revenues (93%), cash and investments (91%), assets (96%), and net assets (94%).



Westerly/L+M Review

(6)

Lawrence & Memorial (cont'd)

- Generally L+M has consistently demonstrated strong operational performance with key ratios at or in excess of industry benchmarks:
 - Operating Margins and Excess Margins generally above benchmarks, except for a decline in 2012.
 - The Debt Service Coverage Ratio of L&M's Obligated Group has consistently exceeded industry benchmarks (3.8X in 2011) and L+M's covenant requirements (1.1X).
 - L+M's Obligated Group has consistently demonstrated a strong cash position with cash on hand in excess of 200 days for the entire period examined (FY 2008-2012). In addition L+M maintains cash on hand well above the 60 days required by the bond agreements.
 - The debt-to-capitalization ratio of 27.3% is well below the benchmark (41%).
 - Carries a bond rating of A+ by both Standard & Poor's (S&P) and Fitch.



Westerly/L+M Review

(7)

L&M Obligated Group Key Indicators

	2008	2009	2010	2011	2012	Benchmark/L+M Covenant
L+M Covenant Analysis:						
Debt Service Coverage Ratio	4.9	5.1	3.7	8.3	7.9	3.8X/1.20 X
Days Cash on Hand	223.2	222.7	234.6	228.6	236.5	228 days/60 days
Other Ratios:						
Operating Margin	3.1%	2.8%	4.2%	5.0%	3.7%	2.7%
Excess Margin	3.5%	2.7%	0.1%	6.7%	5.4%	4.1%
Current Ratio (X)	4.8	5.0	4.9	4.7	5.0	2.3X
Days in Accounts Receivable	47.3	36.7	35.9	34.2	32.1	45.1 days
Payment Period (Days)	59.8	55.5	59.5	59.2	60.4	63.5 days
Average Age of Fixed Assets (Years)	11.7	11.3	11.6	12.2	11.9	10.4 years
Debt to Capitalization (%)	25.4%	25.4%	24.2%	28.7%	27.3%	40.8%

Sources:

Ratios are derived from L+M Obligated Group's audited financial statements
Benchmarks are Fitch Median Ratios for Nonprofit Hospitals and Hospital Systems for 2011

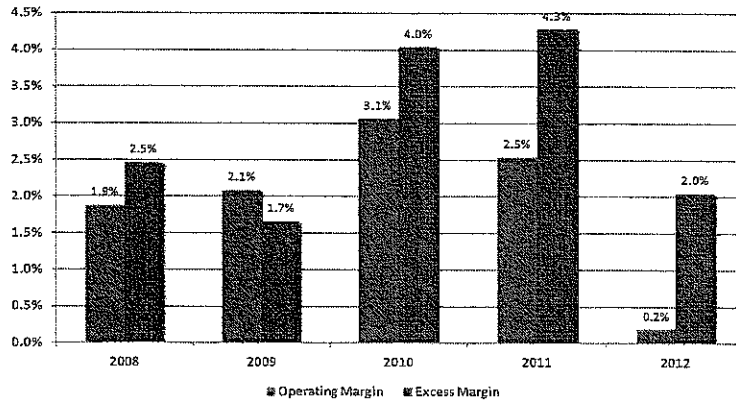


Westerly/L+M Review

(8)

Lawrence & Memorial: Margins (Consolidated)

L+M has had positive margins for the last five years; however, margins have declined in 2012. The decline is primarily due to the operations of LMPA (physician group).

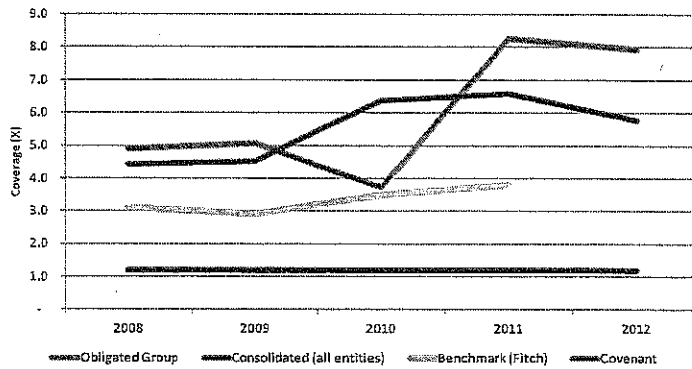


Sources:
Ratios are derived from L+M Obligated Group's audited financial statements



Lawrence & Memorial: Debt Service Coverage Ratio

The Debt Service Coverage Ratio represents a measure of the cash available to pay debt obligations. L&M's Obligated Group has consistently exceeded industry benchmarks and L+M's covenant requirement of 1.2X.

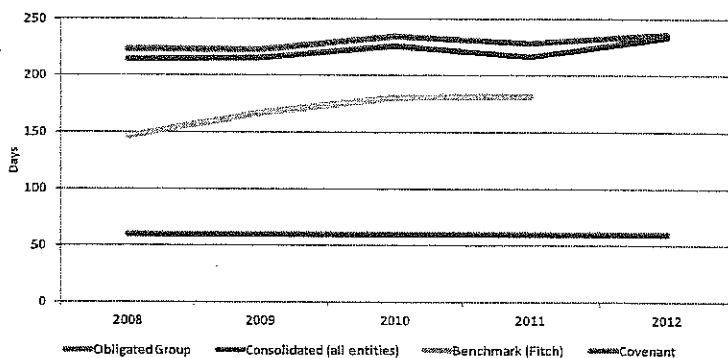


Sources:
Ratios are derived from L+M Obligated Group's audited financial statements
Benchmarks are Fitch Median Ratios for Nonprofit Hospitals and Hospital Systems for 2011



Lawrence & Memorial: Days Cash on Hand

L+M maintains cash on hand well above the 60 days required of the Obligated Group by existing bond agreements. In addition, days cash on hand consistently exceeds Fitch's benchmark.

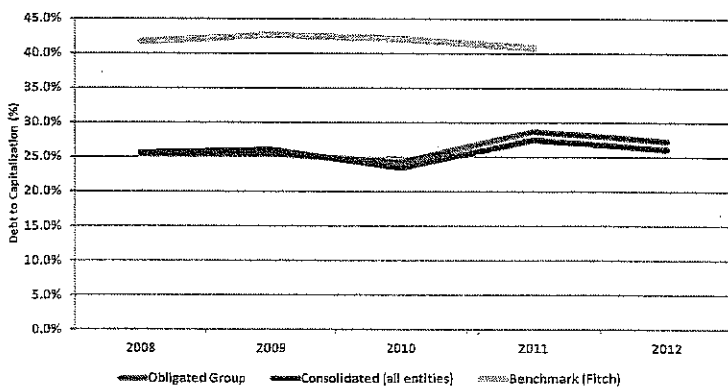


Sources:
Ratios are derived from L+M Obligated Group's audited financial statements
Benchmarks are Fitch Median Ratios for Nonprofit Hospitals and Hospital Systems for 2011



Lawrence & Memorial: Debt to Capitalization

L+M has historically used low levels of leverage as demonstrated by the low Debt to Capitalization Ratio which is below national benchmarks. This suggests that there is additional borrowing capacity available to L+M.



Sources:
Ratios are derived from L+M Obligated Group's audited financial statements
Benchmarks are Fitch Median Ratios for Nonprofit Hospitals and Hospital Systems for 2011



Lawrence & Memorial

- In December, 2012 Standard & Poor's Rating Services (S&P) affirmed its bond rating of A+; however, S&P revised its outlook for L+M from "stable" to "negative". The negative outlook reflects:
 - The decrease in operating profitability
 - L+M's plans to acquire Westerly Hospital from receivership
 - Plans to issue additional indebtedness
- S&P indicated that they could consider a lower rating during the next one to two years if operating margins fail to increase.
 - S&P, in reaffirming the A+ bond rating, cited L+M's dominate business position (65% market share in primary service area), strong balance sheet, and historically strong debt service.
- Over the last three years, L+M has invested significant resources into the L+M Physician Association (LMPA). Approximately \$22 million has been transferred from the Obligated Group to LMPA.

Westerly/L+M Review

(13)



Forward Looking Risks

- While L+M has demonstrated strong performance historically, changes in the healthcare market pose certain risks. These risks are not specific to Westerly/L+M; however, they will result in additional challenges in maintaining strong operating performance.
 - Health care reform poses a level of uncertainty as new regulations, delivery models, and reimbursement methodologies evolve.
 - Federal sequestration will result in payments from Medicare to providers being reduced by 2%
 - States are reevaluating Medicaid payments to providers as a result of fiscal pressures and expanding Medicaid coverage in the context of healthcare reform.
 - The protracted economic recession has resulted in significant increases in uninsured patients.
- L+M has significant cash reserves which generate strong levels of investment income. These investments are subject to market fluctuations influenced by changes in the environment.

Westerly/L+M Review

(14)



Other Considerations

- There is still an outstanding \$2.0 million state license fee due from Westerly which, at this time is still an open issue and unresolved at this time.
- There is a preliminary settlement related to an OIG investigation, settlement has not yet been approved by the US Department of Justice.
- Westerly has applied to the Pension Benefit Guaranty Association (PBGC) for a "distress termination". An agreement has been negotiated by the Mastership. It has been represented that these claims will not impact the closing.
- Westerly is intending to close the maternity unit at the hospital. It is represented that the closure will not have a significant negative impact on operating performance.
- While conducting the Westerly/L+M Merger Analysis, nothing has come to my attention that would indicate any significant weaknesses in internal control.

Westerly/L+M Review

(15)



Overall Assessment of Westerly/L+M Merger

- Nothing has come to my attention that would suggest that the proposed merger should not be approved. This is based on the following:
 - Through Mastership, Westerly's operations have been restructured decreasing operating losses. While losses are still significant, there are opportunities for further improvement that will be available to Westerly through the merger.
 - L+M has demonstrated strong operational performance over the last five years. The decline in margins that occurred in 2012 can be partially attributed to the start-up of LMPA, a physician practice and costs associated with the merger.
 - L+M's debt service coverage ratio is well above the covenants required by the current outstanding bonds and significantly exceeds industry benchmark.
 - L+M has a strong balance sheet demonstrated by low leverage and a significant cash position. The system has in excess of 200 days cash on hand which exceeds the 60 days required by existing bond covenants and is well above industry benchmarks.
 - L+M has an A+ bond rating from both S&P and Fitch. While S&P has revised their outlook from "stable" to "negative" management has to date demonstrated the ability to manage operations.

Westerly/L+M Review

(16)



TAB C

STATUS OF OBSTETRIC LABOR AND DELIVERY SERVICES AT THE WESTERLY HOSPITAL

- Births had diminished to less than one (1) per day
- The Mastership had to trim overhead expenses to maintain the service during the Mastership Sale Process
- Upon completion of the Mastership Sales Process, the Westerly Hospital lost another provider
- The Hospital relied on two (2) remaining community providers and certain physicians under contract for call coverage
- The Hospital attempted a recruiting process which was unsuccessful due to the demographics and nature of the practice
- The Chief Medical Officer convened a Solutions Committee
- The Mastership engaged Dr. Louis Weinstein
- Options provided for the transition of obstetric labor and delivery service while exploring various options to maintain an “obstetric presence”
- The Mastership and Dr. Weinstein collaborated on an 18-page report
- The first step was to secure coverage from the community providers for one (1) year in order to fully explore and undertake a transition while maintaining an obstetric presence
- The Mastership was only able to secure provider coverage up and until June 1, 2013
- On February 4, 2013, the Hospital filed its Application For Approval From The Director Of The Rhode Island Department For The Elimination Of Obstetric Labor And Delivery Services At The Westerly Hospital – Administrative Review