

**Report of the Monitor, R. Shermer & Company, Inc.,
to the Parties and the Court
Concerning St. Luke's Health System, Ltd. and the
Saltzer Medical Group, P.A.**

February 10, 2016

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Executive Summary

As part of its Final Order, the United States District Court in the District of Idaho approved a Monitor Agreement on December 10th, 2015 under which R. Shermer & Company (“R. Shermer” or “Monitor”) was appointed to oversee the efforts of St. Luke’s Health System, Ltd. (“St. Luke’s”) to maintain the economic viability and marketability of the assets of the Saltzer Medical Group, P.A. (“Saltzer”) during the divestment process. Additionally, the Order appointed Cain Brothers as Divestiture Trustee (“Trustee”) to accomplish the divestiture, as promptly and reasonably possible.

This report contains observations and information related to R. Shermer’s role as Monitor and summarizes activities working with the management and staff of St. Luke’s and Saltzer during the period from January 11th to February 10th, 2016. During this period, the Monitor has been in contact with many members of the management and physician staff of Saltzer and the legal staff of St. Luke’s.

The Monitor is satisfied at this time that it has been granted access to all necessary personnel, information and records needed to support the monitoring process. To the best of the Monitor’s knowledge, since December 10th, 2015 St. Luke’s has operated within the spirit of the Final Order consistent with its intent and goals.

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I. Human Resources, Employee Departures

From December 10th, 2015 to early February 2016, there have been 23 changes in status of Saltzer employees. These moves took place for a variety of reasons

- Three were merely changes in supervisor reporting relationship, due to an employee moving to a new location or department.
- One was a job title change in that the Saltzer CEO acquired the additional title of “Administrator” in order to replace St. Luke's management in the approval process involving Human Resources (“HR”) decisions.
- One status change was the termination of a Registered Nurse (“RN”) who had violated the terms of a “Last Chance Agreement.”
- One involved a Medical Assistant (“MA”) who passed the certification course and was promoted to Certified Medical Assistant (“CMA”), resulting in a salary adjustment.
- One employee actually had two status changes. The first was when this Medical Records Clerk resigned from her fulltime position, but agreed to help Saltzer under Pro Re Nata (“PRN”) status until the medical release process could be outsourced to HealthPort. The second was when she resigned her PRN role once the outsourcing contract was in place. A replacement needs to be hired.

The remaining 15 changes in status were either resignations or new hires, as described below:

- The resignation of a fulltime Patient Specialist One. The individual did not have another job at the time of departure.
 - The resignation of a PRN Medical Assistant.
 - The resignation of a fulltime CMA, who changed to PRN status to fill a recently vacated position.
 - The hiring of a MA to fill a newly created position.
 - The hiring of a CMA as a replacement for a vacated fulltime position.
 - The resignation of an RN as a result of the departure of a physician, both went to Primary Health.
 - The hiring of a Patient Specialist One, as a replacement for a vacated fulltime position.
 - The resignation of a fulltime X-Ray Technician position who requested to stay on under PRN status. He will also work PRN at Primary Health.
 - The resignation of a fulltime Accounting Clerk who plans to leave the workforce. A replacement needs to be hired.
 - The resignation of a full-time CMA, who accepted a position at West Valley OB/GYN. A Licensed Practical Nurse (“LPN”) will be hired as a replacement.
 - The hiring of a RN, as a replacement for a vacated fulltime position.
 - The hiring of a Patient Specialist One, as a replacement for an individual who is retiring in the middle of February.
- The resignation of a full-time a Pulmonary Function Technician. The Monitor has been told

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that the Technician does not have a new position at this time. A replacement needs to be hired.

- The hiring of a fulltime LPN, as a replacement for a vacated fulltime position.
- The termination of a newly hired LPN, released during her probationary period due to an inability to perform here duties adequately.

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II. Research

In mid January, St. Luke's Deputy General Counsel contacted the Monitor for guidance around the contracts of the two Saltzer physicians who have been performing clinical research at St. Luke's. The research contracts for these physicians expired at the end of 2015. Due to the long term nature of these studies, St. Luke's had decided not to include the two of them in new research that in all likelihood would be ongoing after Saltzer is divested. The intent of the new contracts would be to cover the existing studies, which would result in a significant loss of compensation for the two physicians. On January 14th St. Luke's Deputy General Counsel wrote in an email, "Assuming that the physicians who do research at Saltzer will not be starting new research studies during the unwind process, the total hours worked on research in the coming year will decrease from hours worked in past years. Extended contracts would keep the effective hourly rate the same, but to ensure compliance with Stark's prohibition on contracts in excess of fair market value, the total dollars paid by St. Luke's during an extension term to the physicians would decrease commensurate with the decrease in anticipated hours."

The Monitor worked with all the parties to develop a path forward that involves the following:

- St. Luke's will renew the contracts with the research physicians to compensate them for all their ongoing studies.
- New research studies involving the two physicians will move from St. Luke's to the Saltzer Medical Group.
- Existing St. Luke's research support employees will become SIHP employees. They will continue to receive their pay and benefits from St. Luke's but will be managed by Saltzer similar to other employees who work within the Saltzer businesses.

On January 28th, 2016, the two Saltzer research physicians signed Professional Services Agreements with St. Luke's to continue the research projects on which they have been working. On the same day, Saltzer and St. Luke's management signed an Agreement to Fund Medical Research, under which St. Luke's will fund a new, separate research organization to be established at Saltzer. The research physicians reportedly are very pleased with the outcome.

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III. Nampa Medical Properties

On February 5th, Saltzer management told the Monitor that the needed clarity on an issue involving Nampa Medical Properties (“NMP”), the physician owned group that leases the primary building in Nampa to Saltzer. Saltzer management said that NMP wants to pursue purchasing the land under the building and a nearby parking lot from Trinity Health, the parent company of St. Alphonsus. Trinity apparently is interested in proceeding with the transaction, but both parties wanted an assurance that the Government Plaintiffs would not be opposed to the sale.

Indicating that NMP is considered out of the scope of the Order, the Government Plaintiffs and Monitor agreed that Saltzer could continue with its plans to purchase the land.

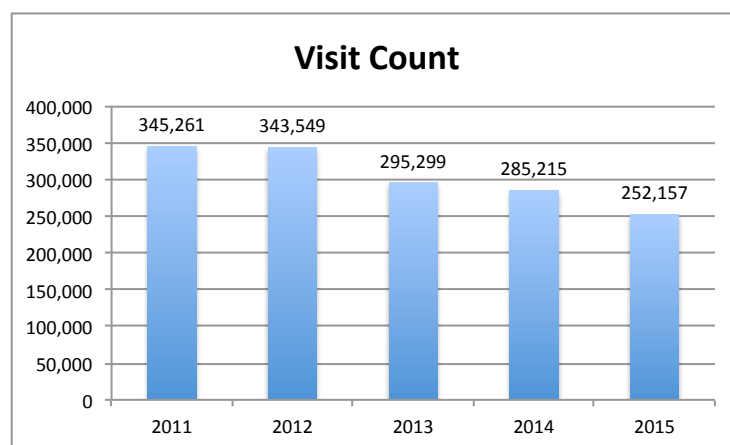
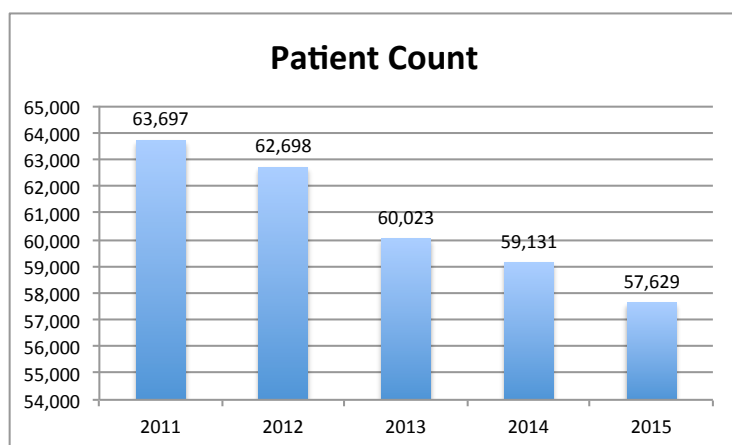
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IV. A High Level View of Saltzer Then and Now

The Saltzer Medical Group of early 2016 differs significantly from the one that was acquired by St. Luke's in 2012. In this report, the Monitor will look at changes regarding Patient/Visit count and Saltzer Service Lines.

Patient and Visit Count

There's been a corresponding decline in both the number of patients served and the visits made to a Saltzer physician. In 2011, prior to the transaction, the Group saw 63,697 unique patients during 345,261 actual visits. As the following graphs illustrate, these numbers have dropped significantly during the past five years.



This 27 percent reduction in visits and approximately ten percent reduction in patients have resulted in a number of underutilized facilities and staffing in excess in certain areas.

Saltzer Service Lines

The last report outlined the Monitor's initial assessment of the existing service lines primary based on a strategic plan created by Saltzer. Subsequently, the Monitor was able to visit all of the Saltzer locations to personally assess the service lines currently being offered. The Saltzer facilities all appear to be well maintained, presentable, and staffed with patient focused professionals. However, there is one over-riding issue that becomes very apparent when you tour the facilities. Saltzer has shrunk tremendously since the acquisition, shedding many service lines, ancillary services, and specialists. The footprint of Saltzer at all the facilities that we visited is smaller than it used to be, and even within their current footprint, there is significant space that is now used for storage or is simply vacant. While the Monitor has not evaluated the economics of the services that were lost (either shut-down, moved to St. Luke's, or affiliated with physicians that have left), seeing and talking about what has been lost really puts a visual exclamation point on the decline in revenue and staffing reported in our latest report to the FTC.

The following chart shows the breakdown of service lines by location and also includes a comparison of the current service lines to the service lines that existed prior to the beginning of the disruption in September of 2012.

Saltzer Service Lines	Overall		Nampa Hawaii		Nampa Ventana		Meridian Portico		Caldwell		Nampa Imaging Center		Boise Idaho Sleep		Boise Idaho Pain		Georgia	
	9/12	1/16	9/12	1/16	9/12	1/16	9/12	1/16	9/12	1/16	9/12	1/16	9/12	1/16	9/12	1/16	9/12	1/16
Primary Care																		
Family Medicine	✓	✓	✓	✓	✓	✓	✓	✓	✓	◆								
Pediatrics	✓	✓	✓	✓			✓	✓										
Internal Medicine	✓	✓	✓	✓	✓	✓	✓	✓										
Obstetrics & Gynecology	✓	✓	✓	✓			✓	✓										
Urgent Care - Family Medicine	✓	✓	✓	✓	✓	✓												
Internal Medicine - Pediatrics	✓	✓	✓	✓					✓	◆								
Surgical Specialties																		
Orthopedics	✓	◆	✓	◆	✓	◆	✓	◆										
General Surgery	✓	◆	✓	◆			✓	◆										
Otolaryngology	✓	✓	✓	✓			✓	◆										
Other Specialists																		
Dermatology	✓	◆			✓	◆	✓	◆										
Rheumatology	✓	✓	✓	✓			✓	✓										
Neurology OP	✓	✓	✓	✓	✓	✓	✓	◆										
Occupational Medicine	✓	●			✓	●	✓	●										
Ophthalmology	✓	✓	✓	✓					✓	✓								
Pain Medicine	✓	✓	✓	✓	✓	◆									✓	✓		
Pulmonology - Sleep	✓	✓											✓	✓				
Pulmonology - OP	✓	✓	✓	✓														
Internal Medicine - Gastroenterology	✓	✓	✓	✓														
Ancillary Services																		
Laboratory	✓	●	✓	●			✓	●	✓	◆								
CT	✓	◆									✓	◆						
MRI	✓	✓									✓	✓						
Digital Imaging	✓	✓	✓	✓	✓	◆	✓	✓										
Physical and Occupational Therapy	✓	●			✓	●											✓	●
Hearing and Balance	✓	●					✓	●									✓	●
Bone Density	✓	●			✓	●												
Optical Shop	✓	◆	✓	◆					✓	◆								
Sleep Laboratory	✓	✓											✓	✓			✓	✓
Ultrasound	✓	✓	✓	✓			✓	◆			✓	✓						
Key																		
Saltzer Service Line Present				✓														
Saltzer Service Transferred to St. Luke's				●														
Discontinued Saltzer Service Line				◆														

Saltzer is still a large medical provider in this market, but it used to be a much larger, more-integrated medical group that was clearly a more vibrant market leader. Ten of the 28 service lines that Saltzer had in 2012 are no longer operational; five have simply been shut down and five of the service lines are now part of St. Luke's. In talking with Saltzer leadership, there is a story and business rationale behind each movement of a service line to St. Luke's. Many of them were not large revenue generators, and many became less

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significant after the departure of the eight specialists to St. Alphonsus Medical Center and Veterans Administration (“VA”) in late 2012. It is unfortunate that the three orthopedic surgeons recruited by Saltzer to partially replace the departed physicians joined St. Luke’s instead because their inclusion in the medical group may have eliminated some of this shift in the marketplace.

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V. Conclusion

The Monitor is satisfied at this time that St. Luke's is acting consistently with the spirit of the Final Order. Additionally, the Monitor is satisfied that it has been granted access to the personnel, information and records needed to support the monitoring process.

Respectfully Submitted,

R. Shermer & Company, Inc.

February 10th, 2016