UNITED STATES DISTRICT COURT
IN THE DISTRICT OF IDAHO

SAINT ALPHONSUS MEDICAL CENTER-NAMPA, INC., TREASURE VALLEY HOSPITAL LIMITED PARTNERSHIP, SAINT ALPHONSUS HEALTH SYSTEM, INC., AND SAINT ALPHONSUS REGIONAL MEDICAL CENTER, INC.

Plaintiffs,

v.

ST. LUKE'S HEALTH SYSTEM, LTD., and ST. LUKE'S REGIONAL MEDICAL CENTER LTD.,

Defendants.

Case No. 1:12-cv-00560-BLW (Lead Case)

GOVERNMENT PLAINTIFFS' UNOPPOSED MOTION TO APPROVE THE DIVESTITURE OF THE SALTZER ASSETS AND BUSINESS

FEDERAL TRADE COMMISSION; STATE OF IDAHO

Plaintiffs,

v.

ST. LUKE'S HEALTH SYSTEM, LTD.; SALTZER MEDICAL GROUP, P.A.

Defendants.

Case No. 1:13-cv-00116-BLW

INTRODUCTION

1. On December 10, 2015, this Court entered an "Order to Maintain Assets and Appointing a Monitor and a Divestiture Trustee" ("Order") to implement the Court's February 28, 2014, Judgment enjoining St. Luke's Hospital's ("St. Luke's") acquisition of Saltzer and requiring St. Luke's to "divest itself of Saltzer's physicians and assets and take any further action needed to unwind the Acquisition."

2. The Order at paragraph II.F.1 provides that the Trustee shall have authority to accomplish divestiture, subject to the approval of the Government Plaintiffs and final approval of the Court.

3. The Trustee has now completed negotiating and drafting a divestiture agreement that fully complies with the Court's Order. The Government Plaintiffs have approved that agreement, and accordingly the Government plaintiffs move the Court to approve as well. The parties contemplate closing the divestiture on or around May 1, 2017, or as soon thereafter as possible.

THE DIVESTITURE

4. The Order appointed Jim Moloney of Cain Brothers as the Trustee to accomplish the divestiture of the Saltzer Assets and Businesses as a viable, independent medical practice that will restore competition in the market for adult primary care physician services sold to commercially insured patients in Nampa, Idaho. (Order at Para. II.B. and at p.2.) The Trustee analyzed a number of potential buyers and coordinated the search for a divestiture buyer with the Government Plaintiffs, St. Luke's, and Saltzer.

5. Through this process, the Trustee, with input from Saltzer, St. Luke's and the Government Plaintiffs, has proposed a transaction that will separate Saltzer from St. Luke's and establish Saltzer as a long-term and a viable competitor. Saltzer has partnered with McKesson Inc., through its Change Healthcare Management Company, LLC ("Change Healthcare") subsidiary, to help establish it as an independent medical practice. Change Healthcare, based in Nashville, TN, provides healthcare management, operations, and information technology services for physicians, hospitals, employers, State and local governments, and payor clients in the United States. Change Healthcare currently successfully operates and manages several medical practices including a medical group similar in size to Saltzer in Connecticut.

6. The separation of Saltzer from St. Luke's includes a Master Transaction Agreement, Loan Agreement, Equity Purchase Agreement, Management Services Agreement, Business Associate Agreement, Physician Employment Agreement, and a Transition Services

Agreement. The documents either have been signed or are in executable form. The documents, constitute Attorney Eyes Only pursuant to the Court's Pretrial Order (Dkt. 209), are attached as Confidential Exhibit A and filed under seal. The documents constitute "Current (within the last four years) contracts with physicians or facilities and the terms of recent (within the last four years) physician practice or facility acquisitions or affiliation," one of the four categories of documents constituting AEO materials.

7. The Master Transaction Agreement is the omnibus agreement between all of the parties that outlines each of the transaction documents, provides an overview of the various payments involved in the deal, describes how the employees will be transferred from St. Luke's to Saltzer and Change Healthcare, and establishes the proposed closing date. Additionally, the Master Transaction Agreement includes a provision requiring St. Luke's to pay Change Healthcare a certain amount of money upfront, and additional money in supplemental support – depending on revenues generated by Saltzer – to support physician compensation for two years.

8. Through the Equity Purchase Agreement, Saltzer will reacquire all necessary assets at net book value, and obtain from St. Luke's working capital to operate as a stand-alone medical practice. Saltzer personnel will continue to occupy their current office spaces and operate their business without interruption. The Loan Agreement requires Change Healthcare to lend Saltzer money to be used by Saltzer to pay St. Luke's for the asset purchase, pay for transaction expenses, and create a reserve fund for continued management services payments. Among other things, the Loan Agreement describes the loan pay-back terms.

9. Change Healthcare will manage all of Saltzer's non-clinical operations and provide certain services pursuant to a Management Services Agreement. Among other things, Change Healthcare will provide Saltzer with strategic and practice management services, including back-office operations, site operation, group purchasing services, coding and

compliance, billing and revenue management, and health plan and payor management and negotiations. Additionally, Change Healthcare will assure the Saltzer physicians competitive compensation levels for at least five years. The Management Services Agreement runs for 15 years with 5-year renewal terms. Saltzer will pay certain fees for Change Healthcare's management services.

10. The Business Associate Agreement between Change Healthcare and Saltzer covers the protection and handling of protected health information generated by the Saltzer medical practice.

11. All of the Saltzer physicians in the practice have signed Physician Employment Agreements and will continue to work with Saltzer under Change Healthcare's management. An example of the Physician Employment Agreement is attached in Confidential Exhibit A.

12. The Transition Services Agreement with St. Luke's requires that St. Luke's provide, among other things, certain computer licenses, and lab services to Saltzer for up to two years. Saltzer may entertain bids from any lab service provider and may terminate the agreement at any time. The lab services and any other transition services, as contemplated by the Transition Services Agreement, will be provided by St. Luke's to Saltzer under specific terms and costs as described in the agreement. Pursuant to the proposed order, St. Luke's will provide the Government Plaintiffs with periodic reports for the duration of the Transition Service Agreement detailing its compliance with the provision of services covered in the Transition Services Agreement.

13. The parties and the Trustee believe that the transaction can close by the May 1, 2017. It is possible that the parties could delay closing the transaction for up to one month as the parties finalize the orderly transfer of employees with their various benefit packages.

CONCLUSION

14. The Government Plaintiffs make this unopposed motion to approve the divestiture as contemplated by the Court's Order.

15. Both Defendants St. Luke's and Saltzer support this transaction to accomplish the Court's Order.

16. The Government Plaintiffs have provided this Motion to the Defendants and the private Plaintiffs in this case and have been advised that none of the private Plaintiffs nor the Defendants oppose the Government Plaintiffs' requested relief.

17. Therefore, the undersigned parties move this Court to enter the Order.

DATED this 25th day of April, 2017

By *_/s/ Henry C. Su_*
Henry C. Su, Attorney
Daniel P. Ducore, Assistant Director
Eric D. Rohlck, Attorney
Compliance Division,
Bureau of Competition
Federal Trade Commission
Bureau of Competition
600 Pennsylvania Ave., N.W.
Washington, D.C. 20580
Tel: 202-326-2526
hsu@ftc.gov

Charles Harwood, Director
Northwest Region
Federal Trade Commission

Joel Marcus, Deputy General Counsel for Litigation
David C. Shonka, Acting General Counsel
Federal Trade Commission

Counsel for Plaintiff Federal Trade Commission

By *_/s/ Brett T. DeLange_*
Brett T. DeLange
Deputy Attorney General
Office of the Attorney General
Consumer Protection Division
954 West Jefferson Street, Second Floor
P.O. Box 83720
Boise, ID 83720-0010
Tel: 208-334-4114
brett.delange@ag.idaho.gov

Counsel for Plaintiff State of Idaho

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 25th day of April 2017, I electronically filed the GOVERNMENT PLAINTIFF'S UNOPPOSED MOTION TO APPROVE THE DIVESTITURE OF THE SALTZER ASSETS AND BUSINESS, with the Clerk of the Court using the CM/ECF system which sent a Notice of Electronic Filing to the following:

J. Walter Sinclair
Holland & Hart LLP
jwsinclair@hollandhart.com

Jack R. Bierig
Scott D. Stein
Charles K. Schafer
Tacy F. Flint
Sidley Austin, LLP
jbierig@sidley.com
sstein@sidley.com
cschafer@sidley.com
tflint@sidley.com

Counsel for St. Luke's Health System, Ltd.

Brian K. Julian
Anderson, Julian & Hull, LLP
bjulian@ajhlaw.com

Counsel for Saltzer Medical Group, P.A

John P. Marren
Patrick E. Deady
Thomas J. Babbo
Hogan Marren Babbo & Rose, Ltd.
jpm@hmltd.com
ped@hmltd.com
tjb@hmltd.com

St. Luke's Regional Medical Center, Ltd.

Henry C. Su
hsu@ftc.gov

Counsel for Plaintiff Federal Trade Commission

Keely E. Duke
Kevin J. Scanlan
Duke Scanlan Hall PLLC
ked@dukescanlan.com
kjs@dukescanlan.com

David A. Ettinger
Lara Festco Phillip
Honigman Miller Schwartz and Cohn LLP
dettinger@honigman.com
lara.phillip@honigman.com

Counsel for Saint Alphonsus Medical Center - Nampa, Inc.; Saint Alphonsus Health System, Inc.; and Saint Alphonsus Regional Medical Center, Inc.

Raymond D. Powers
Portia L. Rauer
Powers Tolman Farley, PLLC
rdp@powerstolman.com
plr@powerstolman.com

Counsel for Treasure Valley Hospital Limited Partnership

STATE OF IDAHO
OFFICE OF THE ATTORNEY GENERAL

By /s/ *Brett T. DeLange*
BRETT T. DELANGE
Deputy Attorney General