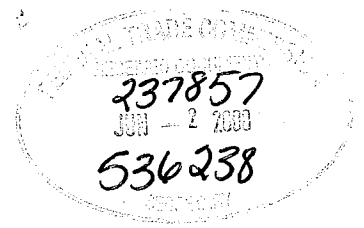


ORIGINAL



UNITED STATES OF AMERICA  
BEFORE THE FEDERAL TRADE COMMISSION

\_\_\_\_\_  
In the Matter of )  
 )  
Inova Health System Foundation, )  
a corporation, and )  
 )  
Prince William Health System, Inc. )  
a corporation. )  
\_\_\_\_\_ )

Docket No. 9326  
[Public Record Version]

RESPONDENT INOVA HEALTH SYSTEM FOUNDATION'S ANSWER TO  
COMMISSION'S COMPLAINT

1. The merger of Inova and PWHS ("the Merger") will reduce vital competition and result in higher prices and reduced non-price competition for general acute care inpatient hospital services in Northern Virginia.

Although health plans are the direct customers of Respondents, higher prices for hospital services are passed on to employers, unions, and other

and control over 73 percent of licensed hospital beds in Northern Virginia, dwarfing its only four remaining independent competitors.

**ANSWER:** Respondent admits that it provides high quality general, acute care inpatient hospital services to health care consumers in Northern Virginia. Respondent denies the remaining allegations in paragraph 2.

3. Unless prevented, the combination of these two financially sound, high-quality hospitals will reduce competition and result in significantly higher prices and reduced non-price competition for hospital services and amenities provided to health care consumers. These consumers include health insurance plans, employers, unions, and ultimately the citizens of Northern Virginia, many of whom will not be able to afford these higher prices and will be forced to reduce or even drop their health insurance coverage. Indeed, the respondents do not dispute that health care prices will increase as a result of the merger. It is also indisputable that higher healthcare costs will result in fewer residents of Northern Virginia receiving medical care, including hospital services, and, thus, those not able to purchase medical care likely will suffer adverse health effects.

**ANSWER:** Respondent denies the allegations in paragraph 3.

4. Respondent Inova, a corporation, is the largest hospital system in Northern Virginia with its office and principal place of business located at 8110 Gatehouse Road, Falls Church, Virginia 22042. Inova operates five

Church, Virginia 22042. Respondent admits that it operates five inpatient general, acute  
care hospitals and provides other health services, including emergency and urgent care

centers, home care, nursing homes, wellness classes, and mental health and blood donor

services. Respondent admits that it owned 141 ... 11 ... 2 ... 11 ... 1007 ... 11 ... 1 ...

licensed beds and Inova Mt. Vernon Hospital has 237 licensed beds. Respondent denies the remaining allegations in paragraph 5.

6. Respondent PWHS is a corporation with its headquarters and principal place of business located at 8700 Sudley Road, Manassas, VA 20110. PWHS operates a single general, acute care inpatient hospital with 180 licensed beds located in Manassas, Virginia. In 2006, PWHS had a total

million. PWHS' primary service area includes western Prince William County and the cities of Manassas and Manassas Park.

**ANSWER:** Respondent admits on information and belief that PWHS operates a

9. Like many general acute care hospitals, the Inova hospitals and PWHS sell acute care inpatient hospital services to a variety of commercial health plans. These health insurance plans pay for health care services

encouraging hospitals to compete vigorously on price and non-price terms. They do so by contracting with hospitals in an area and providing financial incentives to encourage its enrollees to use the hospitals with which it contracts.

**ANSWER:** Respondent admits that insurance company health plans pay for

some health care services provided by Respondent, including some inpatient hospital

12. Hospitals also compete for patients on the basis of quality, customer service, location, price, and cost-effectiveness.

**ANSWER:** Respondent is without information or knowledge sufficient to form a belief as to the truth of the allegations in paragraph 12 and, on that basis, denies these allegations.

13. The primary health insurers in Northern Virginia are: Aetna, Inc.; Anthem

Plans of Virginia; CIGNA; CareFirst, Inc.; Kaiser Foundation Health Plan; and United Healthcare.

**ANSWER:** Respondent admits that Aetna, Inc.; Anthem Plans of Virginia;

increases health plans' bargaining leverage during negotiations with hospitals. Health plans in Northern Virginia currently have the option of contracting with Inova and not contracting with PWHS. This threat forces PWHS to offer competitive rates which helps keep health care costs affordable to employers in the area.

**ANSWER:** Respondent denies the allegations in the first sentence of paragraph

15. Respondent is without information or knowledge sufficient to form a belief as to the

~~truth of the above cited allegations in paragraph 15 and on that basis denies these~~

allegations.

16. [

**Redacted**

]

**ANSWER:** Because the Commission has filed the complaint under seal and

**ANSWER:** Respondent is without information or knowledge sufficient to form a belief as to the truth of the allegations in paragraph 17 and, on that basis, denies these allegations.

18. [

**Redacted**

]

**ANSWER:** Because the Commission has filed the complaint under seal and redacted paragraph 18 from the public record complaint, Respondent has not been permitted to review the allegations contained therein and on that basis denies them.

19. The relevant product market in which to analyze the Merger is general, acute care inpatient hospital services sold to private payors, including commercial health plans. General acute care inpatient hospital services

are a broad cluster of basic medical and surgical diagnostic and treatment services that include an overnight stay in the hospital by the patient. General acute care inpatient hospital services exclude: (a) services at hospitals that serve solely children, military personnel and veterans; (b) services at outpatient facilities that provide same-day service only; (c)



**ANSWER:** Respondent admits that physicians generally must have admitting privileges in order to admit a patient to a hospital for inpatient services.

21. The relevant geographic market in which to analyze the Merger is an area

Health Planning Region II ("HPR II") and Fauquier County. HPR II is a geographic region designated by the Commonwealth of Virginia as a healthcare planning region for Certificate of Public Need purposes and as such represents Virginia's view that the area is a distinct healthcare area for purposes of determining healthcare needs and licensing facilities. HPR II includes the counties of Arlington, Fairfax, Loudoun, and Prince William, as well as the independent cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park.

**ANSWER:** Respondent states that the allegations in the first sentence of

**ANSWER:** Respondent states that the allegations in paragraph 22 are based upon legal conclusions as to the relevant geographic market and relevant product market and therefore require no answer. To the extent an answer is required, Respondent denies the allegations in paragraph 22.

23. The explanation for these patterns is simple. Patients prefer to be admitted to a high quality general acute care hospital close to where they live. Therefore, patients perceive only conveniently-located hospitals that provide quality care to be acceptable for general acute care inpatient hospital services.

**ANSWER:** Respondent is without information and does not have sufficient information

belief as to the truth of the allegations in paragraph 23 and, on that basis, denies these

allegations.

Northern Virginia. Respondent states that the allegations in the first and second sentences of paragraph 24 are based upon legal conclusions as to the relevant geographic market and relevant product market and therefore require no answer. To the extent an answer is required, Respondent denies the allegations in the first and second sentences of paragraph 24.

25. The Merger would leave only five firms in the relevant market. As shown below, Inova would control 73 percent of the licensed hospital beds in Northern Virginia.

**Northern Virginia Hospital Shares by Beds**

<b><u>Hospitals in Northern Virginia</u></b>	<b><u>Licensed Beds</u></b>	<b><u>Share</u></b>
Prince William Hospital (Manassas)	170	6.0
Inova Hospital System	1,892	67.0
Reston Hospital Center (HCA) (Reston)	187	6.6
Virginia Hospital Center (Arlington)	334	11.8

Reston Hospital Center (HCA) (Reston)	187	6.6
Virginia Hospital Center (Arlington)	334	11.8

**ANSWER:** Respondent states that the allegations in paragraph 25 are based upon

**ANSWER:** Respondent states that the allegations in paragraph 26 are legal conclusions and require no answer. To the extent an answer is required, Respondent states that the Merger Guidelines speak for themselves and denies the allegations in paragraph 26.

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Source: VHI 2006 Hospital Detail Report

**ANSWER:** Respondent admits that it acquired Alexandria Hospital in 1997 and Loudoun Hospital in 2005, and that it operated three hospitals prior to these acquisitions. Respondent states that the remaining allegations in paragraph 27 are based upon legal conclusions as to the relevant geographic market and relevant product market and therefore require no answer. To the extent an answer is required, Respondent denies the allegations in paragraph 27.

20. Without DWIIS as an independent alternative hospital Can 1st 1st. insurance?

consumers, the increases will have the most significant impact on small employers and their employees. Several small employers in Northern

~~Virginia have stated that providing health insurance to their employees is a significant financial burden and fear that a price increase postmerger may prevent them from offering health insurance to their employees in the future. Other small employers who aspire to offer their employees health insurance believe that if health care costs increase, they will be excluded~~

**ANSWER:** Respondent admits that projects involving opening a new hospital or

~~expanding an existing hospital facility is a project that is subject to the provisions of the~~

state regulatory approval. Respondent also admit that it participates in such regulatory and judicial proceedings in order to protect its rights and interests under state and federal law. Respondent states that the allegations in the first sentence of paragraph 34 are legal

~~resolutions and therefore require no answer. Demand 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 76, 77, 78, 79, 80, 81, 82, 83, 84, 85, 86, 87, 88, 89, 90, 91, 92, 93, 94, 95, 96, 97, 98, 99, 100~~



**ANSWER:** Respondent incorporates its answers to the allegations of paragraphs 1 through 38 as though fully set forth herein.

38. The Merger of Inova and PWHS, if consummated, would substantially lessen competition in the provision of general, acute care inpatient hospital services in Northern Virginia in violation of Section 7 of the Clayton Act,

**ANSWER:** Respondent denies the allegations in paragraph 38.

**AFFIRMATIVE DEFENSES**

**First Affirmative Defense**

The Merger will not substantially lessen competition or tend to create a monopoly.

**Second Affirmative Defense**

Prince William Health System lacks the market strength to substantially affect competition.

**Third Affirmative Defense**

Dated: June 2, 2008

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'David P. Gersch', written over a horizontal line.

David P. Gersch  
David B. Bergman

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*Attorneys for Respondent Inova Health  
System Foundation*

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that on June 2, 2008, I filed the foregoing via hand delivery and electronic mail upon:

Donald S. Clark  
Secretary of the Commission  
Office of the Secretary

Room H-135  
600 Pennsylvania Avenue, N.W.  
Washington, DC 20580

I FURTHER CERTIFY that on such date I served the foregoing on the following counsel via hand delivery and electronic mail:

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*Complaint Counsel*

TR      UR