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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.

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) Docket No. 9326  
) [Public Record Version]  
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RESPONDENT PRINCE WILLIAM HEALTH SYSTEM'S ANSWER TO  
COMMISSION'S COMPLAINT

The merger of Inova and PRINCE WILLIAM HEALTH SYSTEM, INC.

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 group purchasers of health insurance plans and - ultimately - are borne by

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 general, acute care inpatient hospital services to health care consumers in Northern Virginia. Respondent denies the

remaining allegations in paragraph 2 of the complaint.

vague and ambiguous, such as "high quality."

**ANSWER:** Respondent admits on information and belief that Inova operates five inpatient general, acute care hospitals. Respondent is without information or knowledge

efficient to form a belief as to the truth of the matter. 11 1 1

on that basis, denies these allegations.

5. The five hospitals that Inova operates throughout Northern Virginia are listed below.

**Inova Health System Hospitals**

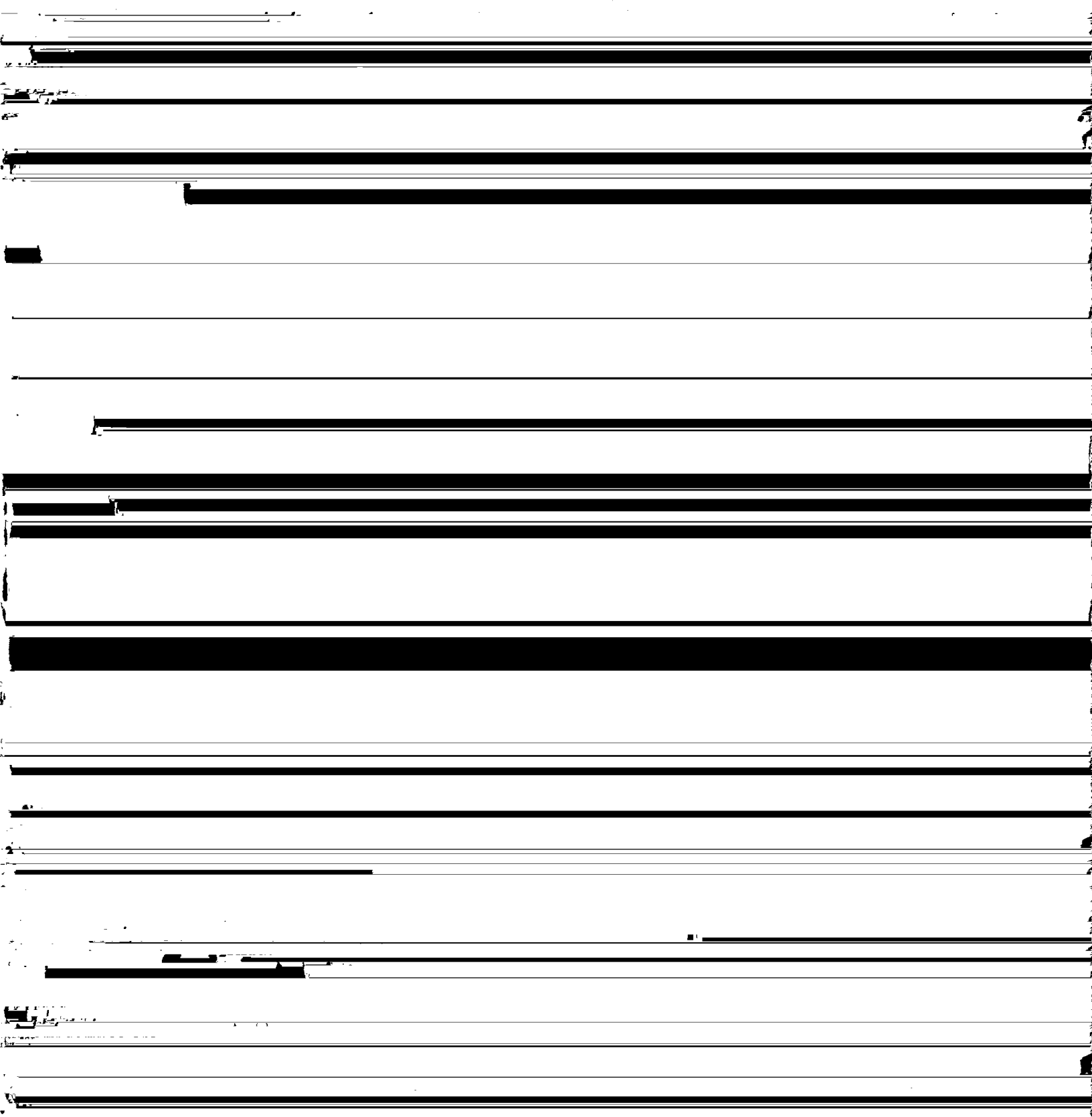
**Inova Hospital**

**Location**

**Licensed Beds<sup>2</sup>**

net operating revenue of \$170.5 million and operating income of \$5.2 million. PWHS' primary service area includes western Prince William County and the cities of Manassas and Manassas Park.

**ANSWER:** Respondent admits that it is a not-for-profit corporation which



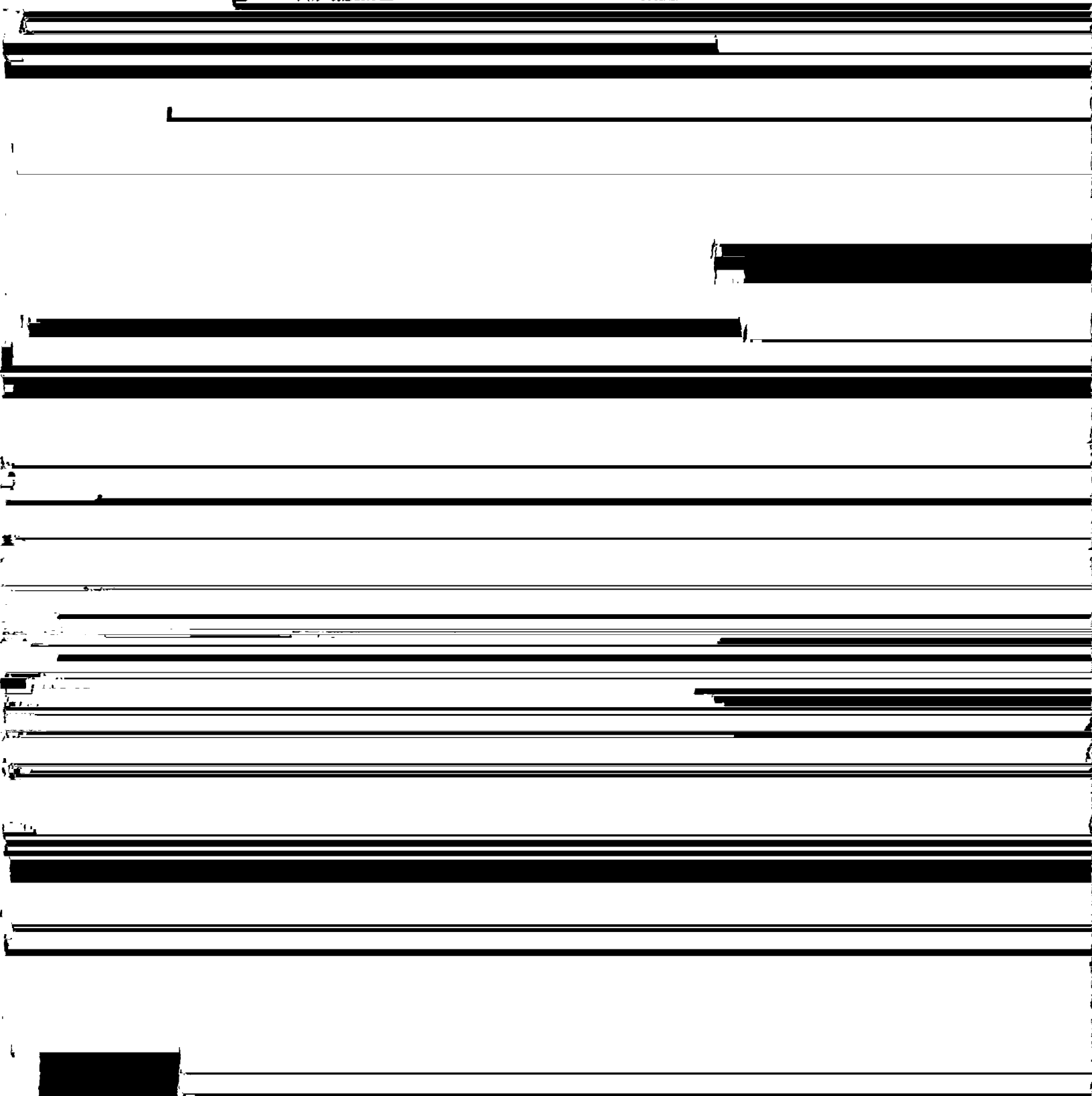
incentives to encourage its enrollees to use the hospitals with which it contracts.

ANSWER: Respondent admits that insurance companies health plans use for

some health care services provided by respondent, including some inpatient hospital services. Respondent is without information or knowledge sufficient to form a belief as to the truth of the remaining allegations in paragraph 9 and, on that basis, denies these allegations.

10. Hospitals compete for inclusion in health insurers' plan networks by offering preferential prices for the services that they provide to the plan's enrollees. Hospitals that do not offer competitive pricing risk exclusion from a health plan's network, especially if there are substitutes for the excluded hospital.

**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.



PWHS to offer competitive rates which helps keep health care costs affordable to employers in the area.

sentence of paragraph 15. Respondent is without information or knowledge sufficient to form a belief as to the truth of the remaining allegations in paragraph 15 and that

ambiguous, such as "quality", "convenience", "closest competitors" and "primary competitors." Respondent states that the allegations in the second and third sentences of paragraph 17 are based upon legal conclusions as to the relevant product market and therefore require no answer. To the extent an answer is required, respondent denies the allegations in the second and third sentences of paragraph 17. Respondent is without

information or knowledge sufficient to form a belief as to the truth of the remaining 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.



**ANSWER:** Respondent states that the allegations in paragraph 10 are based

conclusions that require no answer. To the extent an answer is required, respondent

denies the allegations in paragraph 19.

20. Patients who require acute care inpatient hospital services must be admitted to a general acute care inpatient hospital by a physician with admitting privileges at that hospital.

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

compete with respondents for the provision of general, acute care inpatient services in the relevant geographic market. Few patients who live within the relevant geographic market travel outside its borders to seek these general, acute care inpatient services in, for example, Maryland or Washington, D.C. hospitals. In 2006, for the hospitals located in Northern Virginia, approximately 90 percent of their patients came from Northern

Virginia. Of the patients who reside in Northern Virginia, approximately 90 percent go to hospitals in Northern Virginia.

**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 that the allegations in paragraph 22 are based upon

**ANSWER:** Respondent admits that Fauquier Hospital, Reston Hospital Center,

*Virginia Hospital Center and Potomac Hospital all provide acute care inpatient services*

in Northern Virginia. Respondent states that the allegations in the first and second

paragraphs of paragraph 24 are based upon local conclusions as to the relevant geographic

the analytical framework used by the U.S. antitrust enforcement agencies in assessing the effects of proposed mergers. Under the *Merger Guidelines* market concentration is measured with the Herfindahl.

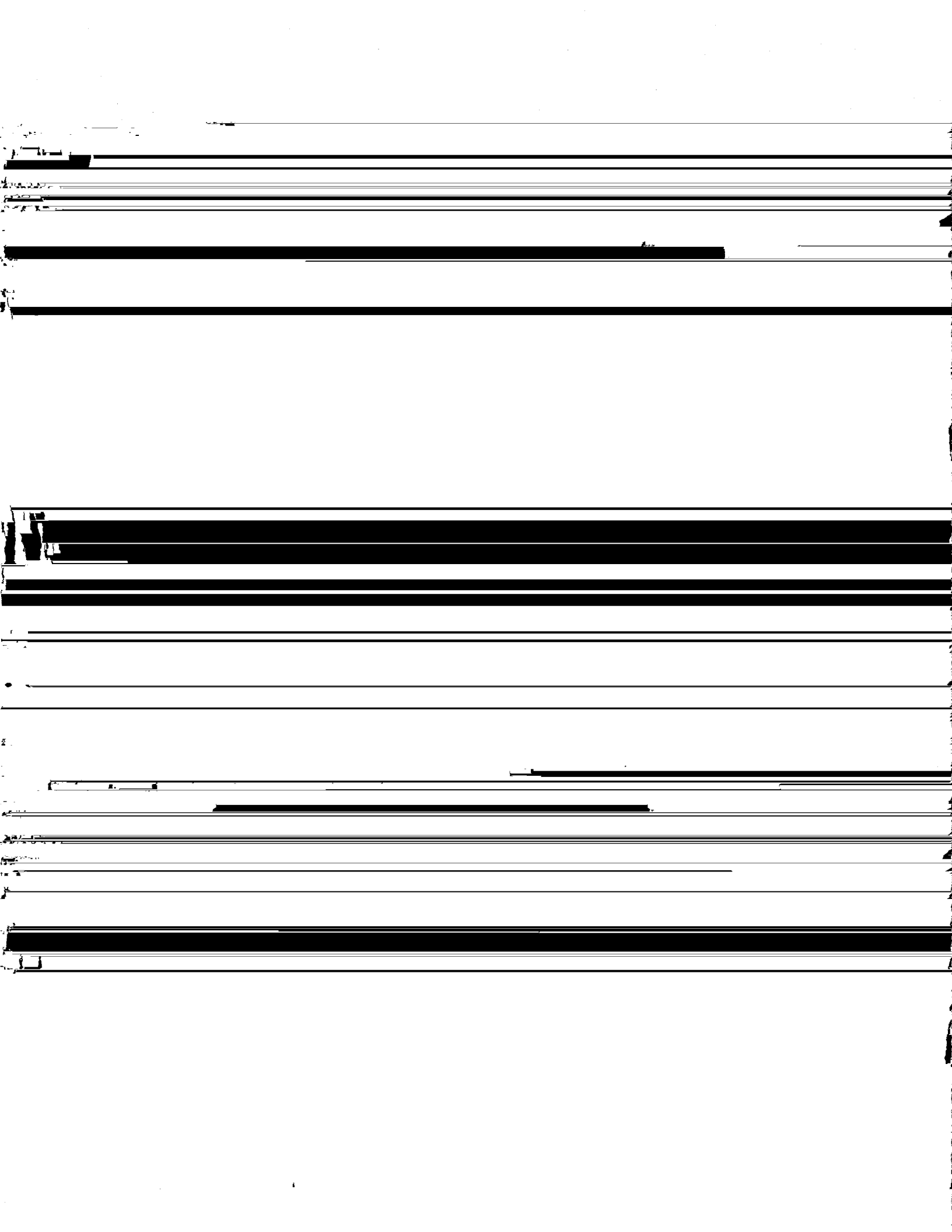
above 1800 are highly-concentrated, and mergers that produce an increase in the HHI (the "delta") of more than 100 are presumed likely to create or enhance market power or facilitate its exercise and are presumed to be unlawful

	Inpatient	Pre-Merger		Post-Merger	
	Revenue	Share of	Number of	Share of	Number of
Prince William Hospital	\$29,584,030	3.6%	13		
Fauquier Hospital Northern Virginia Community Hospital	\$22,023,952	2.7%	7	2.7%	7
Potomac Hospital	\$1,534,024	0.2%	0	0.2%	0
Reston Hospital Center	\$34,225,648	4.2%	18	4.2%	18
Virginia Hospital Center	\$61,105,764	7.5%	57	7.5%	57
	\$62,478,488	7.7%	59	7.7%	59
<b>Total</b>	<b>\$812,407,426</b>	<b>100.0%</b>	<b>5,635</b>	<b>100.0%</b>	<b>6,174</b>
				<b>Delta HHI</b>	<b>539</b>

Source: VHI 2006 Hospital Detail Report

**ANSWER:** Respondent admits on information and belief that Inova acquired Alexandria Hospital and Loudoun Hospital, and that Inova 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.

28. As described in Paragraphs 17 through 20, above, Inova and PWHS are currently close competitors for the provision of general, acute care inpatient services in the relevant geographic market of Northern Virginia. Because one of the key factors influencing bargaining leverage for a health plan is the availability of independent substitutes for the negotiating hospital, a merger of close substitutes eliminates this competitive discipline. After the Merger, health plans will no longer have the threat of



31. [

**Redacted**

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**ANSWER:** Because the Commission has not had the opportunity to review the

redacted paragraph 31 from the public record complaint, respondent has not been permitted to review the allegations contained therein and on that basis denies them.

**ANSWER:** Because the Commission has filed the complaint under seal and redacted paragraph 33 from the public record complaint, respondent has not been permitted to review the allegations contained therein and on that basis denies them.

34. It is unlikely that entry into the market would remedy, in a timely manner, the anticompetitive effects of the Merger. A new hospital or expansion of

an existing hospital, sufficient to defeat a price increase or other anticompetitive effect would likely take three years or longer. In addition



36. PWHS is a financially sound institution with the capacity to fund capital investments and quality improvements on its own or with another merger partner. Indeed, PWHS is currently successfully engaged in capital investment and quality improvement projects.

**ANSWER:** Respondent denies the allegations in paragraph 36.

37. The allegations of Paragraphs 1 through 38 are incorporated by reference as though fully set forth herein.

**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,  
re amended 15 J.S.G.S. 18

**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**

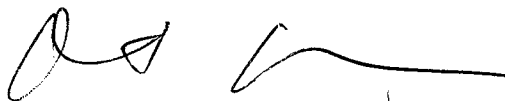
The Merger will create substantial efficiencies and improve quality of care, thereby benefiting consumers.

**Fourth Affirmative Defense**

Respondent reserves the right to assert other defenses as discovery proceeds.

Dated: June 2, 2008

Respectfully submitted,



David P. Gersch  
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*Health System, Inc.*

**CERTIFICATE OF SERVICE**

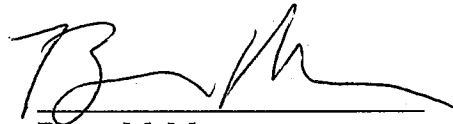
I HEREBY CERTIFY that on June 2, 2008, I filed the foregoing via hand delivery and electronic mail upon:

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