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July 18, 1995

## CERTIFIED MAIL, RETURN RECEIPT REQUESTED

Assistant Attorney General  
Antitrust Division  
Department of Justice  
10th and Constitution Avenue, N.W.  
Washington, D.C. 20530

Re: Request for Business Review Letter Regarding Formation of Joint Venture -  
Southern Health Corporation

Dear Sir:

This law firm represents Southern Health Corporation, a Georgia corporation (the "Corporation"). On behalf of the Corporation, we hereby submit the enclosed Request for Business Review Letter pursuant to 28 CFR §50.6 and the Pilot Business Review Program. In addition to the information submitted in accordance with the Notice of Pilot Business Review Program, we also hereby submit the following documents:

1. Certificate and Articles of Incorporation of HealthCare Plus Physician Hospital Organization of Georgia, Inc.;
2. Bylaws of HealthCare Plus Physician Hospital Organization of Georgia, Inc.;
3. Form of Provider Agreement; and
4. Prospective Business Plan.

The Corporation proposes to form a physician-hospital organization ("PHO") among rural health care providers. While the market concentrations resulting from the PHO are minimal in what the Corporation believes to be the relevant geographic market, concentrations might exceed the published antitrust safe harbors if the relevant geographic market is defined narrowly in these rural areas. The PHO has adopted the "messenger model" to mitigate

Assistant Attorney General  
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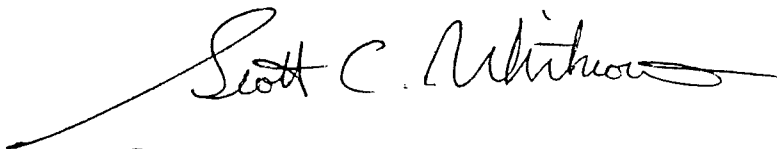
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antitrust concerns. The Corporation strongly believes the PHO to be a pro-competitive response to market forces in the health care industry.

The Corporation represents it has undertaken a good faith search for the documents and information specified in the Notice of Pilot Business Review Program and, where applicable, has provided all responsive material.

Please direct all communications concerning this request to the undersigned. We appreciate your prompt review of this matter.

Sincerely,

A handwritten signature in cursive script that reads "Scott C. Withrow". The signature is written in black ink and is positioned above the printed name.

Scott C. Withrow

Enclosures

cc: Dr. G. Franklin Jenkins (w/ encl.)  
Mr. Philip H. Eastman (w/ encl.)  
Mr. Michael W. Hall (w/ encl.)  
Mr. Ralph D. Williams (w/ encl.)  
Ms. Anne Shugerman (w/ encl.)  
Ms. Gayle Bradley (w/ encl.)  
Tera L. Doak, Esq. (w/ encl.)

**DEPARTMENT OF JUSTICE  
REQUEST FOR BUSINESS REVIEW LETTER  
PRELIMINARY INFORMATION**

1. *The name of the venture, address of its principal place of business, and its legal form and ownership structure.*

HealthCare Plus Physician Hospital Organization of Georgia, Inc. ("PHO")  
5605 Glenridge Drive, Suite 960, Atlanta, Georgia

The PHO is a nonprofit corporation, organized pursuant to the Georgia Non-Profit Corporation Act and does not contemplate pecuniary gain or profit to the members thereof. It is organized for nonprofit purposes only. Hereafter referred to as the "Corporation" or "Health Care Plus PHO".

The PHO shall be governed, managed and operated by a Board of Directors consisting of one (1) or more persons. Initially, the Board of Directors will consist of up to twelve persons. (See Exhibit A - Corporate Structure). The number of directors may be fixed or changed from time to time by the Board of Directors.

2. *Persons or firms expected to participate in the venture and the nature of their contribution:*

See organization chart - Exhibit B, more particularly described below:

Participants in HealthCare Plus PHO shall include Southern Health Corporation's hospitals and nursing homes located in Georgia (i.e., Mountainside Medical Center and Nursing Home, North Georgia Medical Center and Nursing Home, Chatuge Regional Hospital and Nursing Home, and Chestatee Regional Hospital) and such additional hospitals and contracting services, which meet membership criteria, as shall be designated by the Board of Directors from time to time as "HealthCare Plus PHO Hospitals", as well as any licensed health care practitioner with admitting privileges at a HealthCare Plus PHO Hospitals, and who qualifies for membership in HealthCare Plus PHO.

Participants in HealthCare Plus PHO will provide professional and hospital inpatient and outpatient services, as well as other eligible medical services, in an efficient and cost effective manner, for beneficiaries of group sponsored health plans, as well as Workman's Compensation programs which are either sponsored by the employer, insurance carrier or other third party payor (collectively the "Purchasers"), in accordance with fee schedules offered by the Purchaser and accepted by the members of HealthCare Plus PHO. It is anticipated that HealthCare Plus PHO will solicit contracts with Purchasers of health services that initially involve discounted fee-for-service and ultimately capitated payment arrangements. Additionally, each participant will pay a fee to join HealthCare Plus PHO, and may be assessed additional fees from time to time, as necessary to fund the operation.

3. *The purposes or objectives of the venture, together with any limitation on the nature or scope of its activities or operations.*

The primary function for which the PHO is organized is to develop a physician/hospital delivery system for purposes of contracting with Purchasers of health care services. HealthCare Plus PHO will solicit employers, third party payers and other interested parties, for the express purpose of providing cost-contained health care services. A non-physician HealthCare Plus PHO representative will solicit contract proposals from third party payers. The HealthCare Plus PHO representative will present the contract proposal to the HealthCare Plus PHO's contract committee for approval and if necessary, negotiate non-price related aspects of the contract with the payer based on the contract committee's recommendations. A final contract will be presented to the Executive Committee of the PHO for approval. Once approved by the Executive Committee, each contract will be submitted to the physician and hospital members of the PHO for independent approval of the price related aspects of each contract; however each individual member will be free to agree to participate or decline to participate in any negotiated contract.

HealthCare Plus PHO will develop utilization and quality standards and monitor the care provided by physicians, hospitals and other health care entities on an ongoing basis. This process will be overseen by the Quality and Utilization Committee. Members who routinely deviate from established parameters will be counseled by this committee. The Quality and Utilization Committee will also make recommendations related to a participant's membership status in HealthCare Plus PHO in the event that any member consistently fails to meet the established quality and utilization standards.

The PHO specifically recognizes and affirms the right of each member to participate in similar organizations, joint ventures, services or activities of any other organization, and to independently negotiate and enter into contracts with third party payers.

No member of the PHO shall have access to the generalized fee information collected by the non-physician representative of the PHO, nor access to specific fee information related to any other PHO member.

4. *The products or services the venture will develop, produce, market or distribute:*

The PHO will package medical and professional services provided by members, and market these services to Purchasers of health care services. Such Purchasers might include the self insured employer, or the agent acting for them, as well as companies providing traditional managed care insurance services.

5. *The extent to which participants in the venture currently develop, produce, market or distribute products or services that will be developed, produced, marketed or distributed by the venture.*

All of the members in HealthCare Plus PHO deliver health care services to patients in the relevant geographic market. The service area is beginning to realize significant penetration by managed care and other Purchasers requesting coordination of care and efficiencies in the cost of providing services to beneficiaries. There are several organizations similar to HealthCare Plus PHO in the relevant geographic market, and some participants in HealthCare Plus PHO are members of these other ventures. HealthCare Plus PHO places no restriction upon the number of such groups that any participant may join.

6. *The identity and competitive significance (described in terms of market shares, capacities, etc.) of all persons or firms that participate in the relevant product and geographic markets in which the venture will operate.*

HealthCare Plus PHO will market its services in the following counties in North Georgia and Western North Carolina :

Cherokee, Pickens, Dawson, Gordon, Gilmer, Murray, Whitfield, Fannin, Lumpkin, Union, White, Towns, Habersham, Rabun, Hall, Cobb, Fulton, Forsyth, Georgia, as well as Clay County and Cherokee County , North Carolina.

Patients from the counties in which Health Care Plus PHO members operate receive health care from facilities located in these counties. Participating HealthCare Plus PHO providers will initially include four hospitals (184 beds), three nursing homes (236 beds) and 96 physicians. See Exhibit C.

Each HealthCare Plus PHO hospital is located in a rural, North Georgia county with respective county population (based on 1990 census) as follows:

<input type="checkbox"/>	Gilmer County	13,368
<input type="checkbox"/>	Lumpkin County	14,573
<input type="checkbox"/>	Pickens County	14,432
<input type="checkbox"/>	Towns County	6,754

The main industries in these counties are agricultural (particularly chicken processing), mining and tourism. PHO members are witnessing the competitive effects of managed care, as employers in these counties have been entering into managed care contracts requiring employees to travel to facilities located in adjacent counties for health care services.

The market is also affected by its proximity to metropolitan Atlanta. Three of the four PHO member hospitals (located in Pickens, Gilmer, and Lumpkin Counties) are connected by freeways to the northern suburbs of Atlanta, approximately only 40-60 miles away, where a number of tertiary care hospitals are located. Managed care networks involving Atlanta hospitals are branching out to include facilities in counties adjacent to those directly served by PHO members.

The relevant market includes 21 hospitals (2,438 beds), 43 nursing homes (4,507 beds- Exhibit D), and over 1007 physicians (based on excerpts from 1994 Georgia State Health Planning Agency data), Admissions to HealthCare Plus PHO hospitals in 1994 totaled 5,458. This represents less than 2.86% of the total admissions to all hospitals from the relevant geographic market ( based on 1994 State Health Planning Agency data).

HealthCare Plus PHO is a procompetitive response to these market forces. The PHO anticipates that contract offers from Purchasers will be based upon fee schedules below the usual and customary charges of its members. The situation is somewhat analogous to Example 4 of Section 8.D. of the 1994 health care antitrust enforcement policy statements. While the PHO initially will not seek risk-based contracts, successful establishment of the PHO may form the basis for

assuming risk-based contracts in the future. See Example 3 of Section 8.D. of the 1994 health care antitrust enforcement policy statements.

7. *Any restrictions on the ability of participants in the venture to compete with the venture, individual or through other entities.*

No restrictions. The Corporation specifically recognizes and affirms the right of each member to participate in similar organizations, joint ventures, services or activities of any other organization, and to independently negotiate and enter into contracts with third party payers.

8. *Any restrictions on the flow of information from the venture to its owners.*

No members of the PHO shall have access to the generalized fee information collected by the non-physician representative of the PHO, nor access to specific fee information related to any other PHO member.

9. *The ten largest customers actual or projected for any products or services that will be offered by the venture in the relevant geographic market and an estimate of their annual purchases;*

- |                          |                               |
|--------------------------|-------------------------------|
| ■ Southcare              | ■ America's Health Plan       |
| ■ PHCS                   | ■ Multi Plan                  |
| ■ Blue Cross/Blue Shield | ■ Beechstreet                 |
| ■ Metlife                | ■ Affordable and First Health |
| ■ HealthStar             | ■ Kaiser                      |

The entities listed above represent the managed care companies with large enrollment in our service area. There is no historical data available that would allow us to estimate the annual purchases of each individual organization. However, we are projecting that about 7% of the total revenue from all hospitals participating in HealthCare Plus PHO will come from managed care providers in 1996. This will represent about \$4,950,000 in managed care annual purchases. We are also estimating that 5% - 15% of the total revenue from all physician participants practices will come from managed care providers.

10. *The requirements for entry into any relevant product or geographic market in which the venture will operate, together with the identity of other persons or firms believed to be positioned to enter within one or two years.*

The requirement for entry into any relevant market is the organization of a multi-provider network in the geographic area to be served. The network must have contracts with a sufficient scope of providers to meet most of the health care needs of the community, and the participants must contractually agree to provide health care services in a cost-effective, coordinated manner. The following entities are either already serving HealthCare Plus PHO's relevant geographic market, or believed to be positioned to enter the geographic market served by HealthCare Plus PHO within the next one to two years:

- Promina
- Georgia Baptist Physician/Hospital Organization
- Health One Alliance, L.L.C.
- Northeast Georgia Health Partners, L.L.C. (Health Partners Plus)
- Chattahoochee Health Network
- Habersham Community Health Plan

11. *Any business synergies, efficiencies or other benefits likely to flow from the venture.*

The venture will enable the participants to reduce the total cost of health care provided to Purchasers. The integrated delivery system is more efficient for the Purchaser, allowing the Purchaser to interface with one entity instead of many entities. This coordinated approach to providing health care also assures that utilization and quality standards are maintained at acceptable levels throughout the full range of health care services provided, as HealthCare Plus PHO monitors these aspects of the services provided by the participants. Efficiencies include consolidated marketing and contracting services. These can be provided through one entity as opposed to each member having to maintain them.

The PHO provides a means for rural health care providers to compete in the new world of managed care. Through the PHO, rural health care providers can offer the efficiencies and quality standards which have already been developed in urban areas. Without a PHO, managed care will force rural consumers of health care to travel to adjacent counties or metropolitan Atlanta in the name of cost efficiency.