FTC and Virginia Attorney General Seek to Block Inova Health System Foundation’s Acquisition of Prince William Health System

Transaction Would Reduce Competition and Result in Higher Health Care Prices in Northern Virginia

By a unanimous vote, the Federal Trade Commission has approved a complaint challenging the proposed acquisition by Inova Health System Foundation (Inova) of Prince William Health System, Inc. (PWHS) and authorized the staff to seek a temporary restraining order and preliminary injunction in federal district court to block the deal pending a full administrative trial on the merits. The action in federal district court will be brought jointly with the Attorney General of the Commonwealth of Virginia.

The administrative complaint charges that the proposed acquisition would violate the federal antitrust laws by reducing competition for general acute care inpatient hospital services in Northern Virginia. The complaint further charges that as a result of the merger consumers in Northern Virginia will pay higher prices and lose the benefits of non-price competition.

According to the FTC, the acquisition of independent PWHS by Inova, the largest hospital system in Northern Virginia and PWHS’s closest competitor, would eliminate the significant, existing price and non-price competition between them in offering hospital services to the community.

“There is no question that Northern Virginia residents have benefitted from the robust competition between Inova and Prince William Hospital through better services and lower prices,” said Jeffrey Schmidt, Director of the FTC’s Bureau of Competition. “If Inova acquires Prince William Health System, this vital competition will be lost, health care prices will increase, and many residents will be forced to accept reduced health care coverage or no coverage at all.”

The Proposed Transaction

On August 1, 2006, Inova and PWHS entered into an agreement under which PWHS would merge into Inova, the largest hospital system in Northern Virginia. Absent FTC action, the parties may consummate the merger this month.

PWHS, a non-profit corporation based in Manassas, Virginia, operates one general acute care hospital in Northern Virginia, Prince William Hospital, which has 180 licensed beds. PWHS primarily serves consumers in western Prince William County and the cities of Manassas and Manassas Park.

Inova, a non-profit corporation based in Falls Church, Virginia, is by far the largest hospital system in Northern Virginia. It owns five hospitals in the region, which together have nearly
1,900 licensed beds: Fairfax Hospital in Falls Church; Alexandria Hospital in Alexandria; Fair Oaks Hospital in Fairfax; Loudoun Hospital in Leesburg; and Mt. Vernon Hospital in Alexandria.

After the merger, Inova would control approximately 73 percent of the licensed beds in Northern Virginia and six separate hospitals. Only four independent hospitals would remain: Fauquier Hospital in Warrenton; Reston Hospital Center in Reston; Virginia Hospital Center in Arlington; and Potomac Hospital in Woodbridge.

The Commission’s Complaint

The FTC’s complaint charges that Inova’s proposed merger with PWHS would violate Section 7 of the Clayton Act, as amended. According to the Commission, Inova and PWHS currently are close competitors in Northern Virginia for the provision of general acute care inpatient services. The complaint alleges that the relevant geographic market is Northern Virginia, including Arlington, Fairfax, Loudoun, and Prince William counties, as well as the independent cities of Alexandria, Fairfax, Falls Church, Manassas, and Manassas Park. According to the FTC, hospitals outside Northern Virginia do not compete with Inova and PWHS, as relatively few patients in Northern Virginia travel to Maryland or Washington, DC for general acute care inpatient services.

Competition between hospitals is vital in constraining health care costs to consumers and ensuring high-quality services. The complaint charges that because of the close competition between Inova and PWHS, particularly between PWHS and the nearby Inova facilities of Fairfax and Fair Oaks, health plans are able to negotiate to keep health care prices down, most significantly at PWHS. The existence of independent, competitive alternatives provides health plans with the threat of substituting alternatives during negotiations with a hospital.

The merger would eliminate this competitive constraint and potential alternative for health plans, leading to significant price increases at PWHS and incremental price increases at Inova. The complaint alleges that these price increases would lead to higher health care costs for employers, health plan enrollees, and consumers in Northern Virginia, especially in the area nearest PWHS. Because many smaller employers cannot afford to pay higher prices for health care coverage, their employees will suffer the consequences from less health care insurance and forego the care they can no longer afford.

The Commission voted 3-0, with Commissioner J. Thomas Rosch not participating, to issue the administrative complaint. The issuance of the complaint is the first step in the administrative trial process. Inova and PWHS will be offered FTC’s “Fast Track” administrative trial procedure. Chairman William E. Kovacic and Commissioners Pamela Jones Harbour and Jon Leibowitz are committed, subject to the bounds of reasonableness and fairness, to a just and expeditious resolution of any potential appeal that may be taken to the full Commission. Should there be an appeal, the commissioners commit to make every effort to issue an appellate decision approximately 90 days after receiving a notice of appeal (assuming no cross-appeal) or 120 days (assuming a cross-appeal).
The Commission vote authorizing the staff to seek a temporary restraining order and preliminary injunction blocking the transaction pending the administrative trial also was 3-0, with Commissioner J. Thomas Rosch not participating. The complaint will be filed jointly by the FTC and the Attorney General of the Commonwealth of Virginia in the U.S. District Court for the Eastern District of Virginia in Alexandria. It will be available on the FTC’s Web site as a link to this press release upon filing. The administrative complaint is available now on the FTC’s Web site as a link to this press release.

**NOTE:** The Commission issues or files a complaint when it has “reason to believe” that the law has been or is being violated, and it appears to the Commission that a proceeding is in the public interest. The complaint is not a finding or ruling that the named parties have violated the law.

The FTC’s Bureau of Competition works with the Bureau of Economics to investigate alleged anticompetitive business practices and, when appropriate, recommends that the Commission take law enforcement action. To inform the Bureau about particular business practices, call 202-326-3300, send an e-mail to antitrust@ftc.gov, or write to the Office of Policy and Coordination, Room 394, Bureau of Competition, Federal Trade Commission, 600 Pennsylvania Ave, N.W., Washington, DC 20580. To learn more about the Bureau of Competition, read “Competition Counts” at http://www.ftc.gov/competitioncounts.