



# FTC and Pennsylvania Attorney General Challenge Reading Health Systems Proposed Acquisition of Surgical Institute of Reading

## Complaint Alleges Deal Would Reduce Competition, Lead to Higher Health Care Costs

FOR RELEASE

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**TAGS:** [Competition](#)

The Federal Trade Commission today authorized an action to block Reading Health System's proposed acquisition of Surgical Institute of Reading L.P. (SIR), alleging that the combination of the two health care providers would substantially reduce competition in the area surrounding Reading, Pennsylvania, and lead to reduced quality and higher health care costs for the area's employers and residents.

The FTC, jointly with the Pennsylvania Attorney General, will file a complaint in federal district court next week seeking a preliminary injunction to stop the deal pending an administrative trial. The FTC has also issued an administrative complaint, initiating a proceeding that will determine the legality of the transaction following a full trial consisting of up to 210 hours of live testimony before an FTC Administrative Law Judge (ALJ). The ALJ's decisions and orders are reviewable by the Commission and ultimately a federal Court of Appeals.

"The FTC is challenging this acquisition because it would lead to higher overall health care costs for employers and patients in the Reading area," said Bureau of Competition Director Richard Feinstein. "While SIR is not a full-service general acute-care hospital, it has injected important price and quality competition into the Reading area. That competition will be lost if this deal goes forward."

Reading Health System is a comprehensive, not-for profit health care system located in Berks County, Pennsylvania. It operates the Reading Hospital, as well as accompanying teaching facilities on a 36-acre, 22-building campus in West Reading, Pennsylvania. The Reading Hospital, a 737-bed facility, is Reading Health System's main facility, providing inpatient general acute-care, tertiary services, and outpatient care. In all, Reading Health System has a staff of 970 doctors, had \$47 million in operating income in 2011, and has over \$1 billion in unrestricted cash and investments.

SIR, which opened in April 2007, is a for-profit physician-owned surgical specialty hospital located in Wyomissing, Pennsylvania, within Berks County. It has 15 licensed beds and provides a range of inpatient and outpatient surgical services, including ear, nose, and throat (ENT), orthopedic, spine, and general surgical procedures. Most of the

inpatient surgeries performed at SIR are orthopedic and spine procedures. SIR is owned by 16 physicians, has 11 independent doctors on staff, and employs about 100 nursing and support staff.

On May 21, 2012, Reading Health System agreed to acquire SIR. According to the FTC's administrative complaint, the proposed acquisition would be anticompetitive and would violate the FTC Act and the Clayton Act. The FTC, together with the Commonwealth of Pennsylvania, will seek a preliminary injunction in federal district court barring consummation of the transaction pending completion of the administrative proceeding and any appeals.

The FTC's administrative complaint alleges that the acquisition would reduce competition in four markets where Reading Health System and SIR compete: 1) inpatient orthopedic/spine surgical services; 2) outpatient orthopedic/spine services; 3) outpatient ENT surgical services; and 4) outpatient general surgical services. In each market, the FTC alleges, the proposed deal would lead to combined Reading Health System/SIR market shares ranging from 49 to 71 percent.

According to the complaint, the proposed transaction would decrease the number of meaningful competitors for inpatient orthopedic/spine surgical services in the Reading area from three to two. The markets for outpatient general surgical services and outpatient ENT services also would be left with only one other significant competitor, and the number of competitors for outpatient orthopedic surgical services would be reduced from four to three.

The complaint charges that the proposed deal would increase Reading Health System's already significant negotiating leverage, enabling it to raise the reimbursement rates it negotiates with commercial health plans. This would increase the health care costs of local employers, potentially forcing them to cut benefits, burdening their employees with higher costs, and in some cases, causing them to delay or forgo medical care and treatment. The acquisition also would eliminate important non-price competition between Reading Health System and SIR, potentially leading to a decrease in the quality of existing facilities and services.

The Commission votes approving both the administrative and federal district court complaints were 5-0. The administrative complaint was issued today, and a public version will be available on the agency's website shortly. The federal district court complaint will be filed next week in the U.S. District Court for the Eastern District of Pennsylvania. The evidentiary hearing is scheduled before an Administrative Law Judge at the FTC, beginning on April 16, 2013.

**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 administrative complaint marks the beginning of a proceeding in which the allegations will be ruled upon after a formal hearing by an administrative law judge.

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](mailto:antitrust@ftc.gov), or write to the Office of Policy and Coordination, Bureau of Competition, Federal Trade Commission, 601 New Jersey Ave., Room 7117, Washington, DC 20001. To learn more about the Bureau of Competition, read [Competition Counts](#). Like the FTC on [Facebook](#), follow us on [Twitter](#), and [subscribe to press releases](#) for the latest FTC news and resources.

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