



UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

Bureau of Competition
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April 18, 2005

Mr. Gordon J. Oakes
Director of Pharmacy
Stevens Hospital
21601 76th Avenue West
Edmonds, WA 98026

Dear Mr. Oakes:

This letter responds to your request on behalf of Stevens Hospital for an advisory opinion concerning whether Stevens' proposed pricing of pharmaceuticals would fall within the scope of the Non-Profit Institutions Act (NPIA). The NPIA exempts from the Robinson-Patman Act "purchases of their supplies for their own use by schools, colleges, universities, public libraries, churches, hospitals, and charitable institutions not operated for profit."¹ For the reasons explained below, we have concluded that Stevens' proposed pricing would fall within the scope of the NPIA.

As we understand the facts based on information you provided in your letter and in telephone conversations, Stevens is a nonprofit hospital that owns a number of clinics, as well as four physician practices. The physicians that work at the clinics are all Stevens employees, and all medical services provided at the hospital and at the clinics are billed under Stevens' tax identification number. Stevens also maintains liability insurance for the clinics and staff.

Stevens Hospital's pharmacy purchases pharmaceuticals at reduced pricing from Cardinal, a

¹15 U.S.C. § 13c.

²425 U.S. 1 (1976).

Patman Act, challenging the discounted sale of drugs to nonprofit hospitals. The hospitals resold those drugs to patients in a number of different situations. The Supreme Court held that the NPIA exemption is a limited one, and does not give hospitals “a blank check” that applies to “whatever new venture the hospital finds attractive.”³ Rather, the Court interpreted the “own use” test to shield only purchases that “reasonably may be regarded as use *by the hospital* in the sense that such use is a part of and promotes the hospital’s intended institutional operation in the care of persons who are its patients.”⁴

Applying this test, the Court found that pharmaceuticals were purchased for the hospital’s own use when they were resold to hospital inpatients, emergency room patients, and registered outpatients for consumption on the premises; when they were used to fill limited “take-home” prescriptions given to hospital inpatients, emergency room patients, and registered outpatients upon discharge as a continuation of, or supplement to, the treatment that was administered at the hospital; and when they were dispensed to a hospital employee, a student, or a non-employee member of the hospital medical staff for his or her own use or the use of a dependent. Pharmaceuticals dispensed

³425 U.S. at 13.

⁴*Id.* at 14 (emphasis in original).

⁵(Dec. 18, 2001) (staff opinion).

⁶*See* Valley Baptist (Sept. 1996) (staff opinion).

⁷425 U.S. at 15.

to refills for that patient.

Based on the factors discussed above, it is our opinion that the clinic pharmacies may dispense products purchased under the NPIA to all patients who are treated at clinics staffed by employed physicians and who are under the continuing care of such physicians. Walk-in customers to Stevens' retail pharmacy, Hadfields, on the other hand, would not be eligible to receive reduced price pharmaceuticals, as those patients would not be considered to be under the ongoing care of a Stevens' physician.

This letter sets out the views of the staff of the Bureau of Competition, as authorized by the Commission's Rules of Practice. Under Commission