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Pursuant to the provisions of the Federal Trade Commission Act (“FTC Act”), and by virtue of the authority vested in it by the FTC Act, the Federal Trade Commission (“Commission”), having reason to believe that Respondent CentraCare Health (“CentraCare”) and St. Cloud Medical Group P.A. (“SCMG”) have executed a merger agreement (“Acquisition”) in violation of Section 5 of the FTC Act, 15 U.S.C. § 45, which if consummated would constitute a violation of Section 5 of the FTC Act, 15 U.S.C. § 45, and is hereby charging as follows:

## I.

### NATURE OF THE CASE

1. CentraCare and SCMG are the two largest providers of primary care, pediatric care, and obstetrics/gynecology (“OB/GYN”) services in St. Cloud, Minnesota. CentraCare’s acquisition of SCMG would eliminate price and non-price competition, likely causing significant anticompetitive harm to residents and businesses in the St. Cloud area.
2. CentraCare and SCMG compete to be included in health insurance plans, and compete for patients within those health insurance plans. Health insurers and employers rely on the competition between CentraCare and SCMG to negotiate lower reimbursement rates, which are passed on to consumers through lower health insurance premiums and lower out-of-pocket costs. Competition also provides an incentive for CentraCare and SCMG to provide higher quality care and better services to patients.

3. CentraCare's acquisition of SCMG would substantially increase CentraCare's market share in three physician services sold to commercial health plans: (1) adult primary care; (2) pediatric primary care; and (3) OB/GYN. The levels of concentration in these markets that would result from the Acquisition create a strong presumption of anticompetitive harm under applicable case law and the U.S. Department of Justice and Federal Trade Commission Horizontal Merger Guidelines ("Merger Guidelines"). By eliminating SCMG as a potential alternative for health plans in the St. Cloud area, the Acquisition will likely allow CentraCare to increase the reimbursement rates for the services of current SCMG physicians, and potentially secure more favorable terms from health insurance plans for CentraCare services.
4. The competition eliminated through the Acquisition will not be sufficiently replaced in a timely manner by other providers.
5. Respondent and SCMG cannot show cognizable efficiencies that would offset the likely and substantial anticompetitive harm from the Acquisition.
6. Respondent and SCMG have shown that SCMG is financially failing, with no access to credit, and that physicians are and will continue to leave the practice. They have further shown that no alternative purchasers other than CentraCare are interested in acquiring the entire SCMG practice group.

## **II.**

### **BACKGROUND**

#### **A.**

##### **Jurisdiction**

7. Respondent and SCMG are, and at all relevant times have been, engaged in commerce or in activities affecting "commerce" as defined in Section 4 of the FTC Act, 15 U.S.C. § 44, and Section 1 of the Clayton Act, 15 U.S.C. § 12.
8. The Acquisition constitutes a merger subject to Section 7 of the Clayton Act, 15 U.S.C. § 18.

#### **B.**

##### **Respondent and SCMG**

9. Respondent CentraCare is a not-for-



plans also provide access to a provider network but the employer rather than the insurer assumes the risk for the cost of future care. Self-insured employers must pay the entirety of their employees' health care claims (aside from member cost-sharing, such as deductibles and copayments) and, as a result, may immediately incur provider rate increases.

16. In the second basic stage of competition, providers compete with other independent providers in their networks to attract patients. Typically, health insurers offer multiple independent in-network providers, who compete to attract patients by offering better services, amenities, convenience, quality of care, and/or patient satisfaction.

### **III.**

#### **THE RELEVANT SERVICE MARKETS**

17. There are three relevant physician service markets in which to analyze the effects of the Acquisition: adult primary care; pediatric primary care; and OB/GYN.
18. Adult primary care physician services are general physician services provided to commercially insured patients aged 18 and over by physicians who offer internal medicine, family medicine, and general medical services. Physicians in other specialties are generally not a substitute for adult primary care physicians.
- 19.

#### **IV.**

##### **THE RELEVANT GEOGRAPHIC MARKET**

24. The relevant geographic market in which to analyze the effects of the Acquisition in the relevant service markets is the greater St. Cloud, Minnesota residential area, which contains the following zip codes: 55320, 56301, 56303, 56304, 56320, 56329, 56377, 56379, and 56387. This roughly corresponds to a radius of 20 miles around downtown St. Cloud.
25. Patients in the St. Cloud area strongly value access to adult primary care, pediatric primary care, and OB/GYN services close to where they live. Given these patient preferences, health insurers must include a sufficient number of adult primary care physicians, pediatric primary care physicians, and OB/GYN physicians in the St. Cloud area to create an attractive health plan network for employers whose employees reside in the St. Cloud area.
26. Accordingly, a hypothetical monopolist that controlled a substantial portion of these physicians in the St. Cloud area could profitably increase rates by at least a small but significant amount because health insurers could not practicably offer primary and other routine medical services from providers outside the St. Cloud area to their members. Thus, the area in which health insurers can practically turn for alternative providers of adult primary care physician services, pediatric primary care physician services, and OB/GYN physician services is limited to the St. Cloud area.

#### **V.**

##### **MARKET STRUCTURE AND THE ACQUISITION'S PRESUMPTIVE ILLEGALITY**

27. The Merger Guidelines and courts measure concentration using the Herfindahl-Hirschman Index (“HHI”). The HHI is calculated by totaling the squares of the market shares of every firm in the relevant market. Under the Merger Guidelines, a merger is presumed likely to create or enhance market power—and is presumptively illegal—when the post-merger HHI exceeds 2500 and the merger increases the HHI by more than 200 points.
28. The HHIs that would result from the Acquisition confirm that it will lead to significant increases in market concentrations in already concentrated service markets. Each of the physician services markets have pre-merger HHIs of over 2500, and in each the HHI will increase well over 200 points. Indeed, CentraCare’s post-Acquisition share in each of the physician service markets will be over 80%.

29. Accordingly, the Acquisition is presumptively unlawful. In each of the relevant markets, the market shares, post-merger concentration levels, and increase in concentration levels exceed the thresholds for a presumptively anticompetitive merger under the case law and the Merger Guidelines.

## **VI.**

### **ANTICOMPETITIVE EFFECTS**

#### **A.**

#### **Elimination of Competition and Increased Bargaining Leverage of CentraCare**

30. Health insurers must provide their members access to CentraCare or SCMG because they are the two largest providers of adult primary care, pediatric primary care, and OB/GYN services in the St. Cloud area. Competition between CentraCare and SCMG enables health insurers and employers to negotiate lower reimbursement rates and more favorable contract terms. SCMG is a low-cost provider of health care in St. Cloud, and health insurers have used the competition between CentraCare and SCMG to obtain more favorable contract terms from CentraCare, which is a higher cost health care provider. The Acquisition will eliminate competition between CentraCare and SCMG, substantially lessening overall competition in the relevant markets.

#### **B.**

#### **Loss of Non-Price Competition**

31. CentraCare and SCMG compete to attract patients. Competition provides an incentive for CentraCare and SCMG to provide higher quality care and better service to patients.
32. After the Acquisition, CentraCare will face substantially less competition in the St. Cloud area for adult primary care, pediatric primary care, and OB/GYN physician services. As a result, the Acquisition will diminish CentraCare's incentive to improve or continue to offer high-quality care and better services.

## **VII.**

### **COUNTERVAILING FACTORS**

33. Entry by a sufficient number of physicians to counteract the anticompetitive effects due to the Acquisition will not be likely, timely, or sufficient. In order to counteract the anticompetitive effect of the Acquisition, an entrant or current St. Cloud competitor would need to bring in a sufficient number of physicians in the relevant service markets to counteract the competition being lost through the Acquisition. No entrant or current St. Cloud competitor will be able to introduce such a large number of physicians in a timely



42. **WHEREFORE, THE PREMISES CONSIDERED**, the Federal Trade Commission on this fifth day of October, issues its Complaint against said Respondent.

By the Commission.

Donald S. Clark  
Secretary

SEAL: