

TERENCE L. SMITH, M.D.  
Anesthesiologist  
PO Box 6718  
Annapolis, Maryland 21401-0718  
410-280-5601  
410-280-6403 (fax)

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October 24, 1995

The Honorable Anne K. Bingaman  
Assistant Attorney General  
United States Department of Justice  
Antitrust Division  
10th and Constitution Avenue, N.W.  
Washington, D.C. 20530

Re: Business Review Request by  
Terence L. Smith, M.D.

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Dear Ms. Bingaman:

I am a physician anesthesiologist at Anne Arundel Medical Center (AAMC) in Annapolis, Maryland. Anesthesia service at AAMC is currently provided by 16 solo-practice, non-affiliated physicians. I propose to merge all or most of these solo practices into a single, integrated anesthesia practice and, therefore, request an expedited business review from the Department of Justice stating its antitrust enforcement intentions relative to this merger.

AAMC is a community hospital located in the Washington, D.C.-Baltimore area. Both cities can be reached in approximately 40 minutes driving time from Annapolis. Discharge data from the Maryland Hospital Association indicates 17,945 inpatient discharges from AAMC in 1994 (see Addendum #1). Data from the same organization show that in the zip codes which account for the residences of 16,793 (93%) of these AAMC patients, approximately 75% of the total hospital discharges were from other hospitals (see Addendum #2).

A telephone survey of the first 17 of these hospitals, which together account for approximately 92% of non-AAMC discharges, indicates that each is staffed by a multi-physician, single integrated anesthesia practice and that the total number of anesthesiologists represented is 348, not including physicians in training. The 16 anesthesiologists at AAMC comprise 4.6% of this total (see Addendum #3).

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Formation of an integrated anesthesia practice at AAMC will allow two new products to be offered. First, payers will have the option of contracting discounted fee-for-service contracts and global-fee contracts for 24-hour-per-day anesthesia coverage by a single contract. Currently, 16 individual contracts must be negotiated to procure 100% coverage for elective and emergency surgery. This is in contrast to all other hospitals competing in the AAMC market, which have single, integrated anesthesia groups, and also in contrast to the other hospital-based specialties at AAMC where radiology, pathology, and emergency medicine are all organized as single, integrated practices.

Second, an integrated anesthesia group would allow the anesthesiologists to participate in capitation contracts, the demand for which is increasing in our region (please refer to Addendum #4).

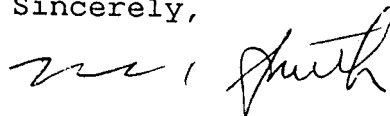
The structure of the practice will be a limited liability company (LLC) with the current solo practitioners as equals joined together in a single entity. Their solo practices at AAMC will be discontinued, and they will maintain full-time commitment via the new LLC. The practice will seek discounted fee-for-service and capitation contracts with health maintenance organizations, preferred-provider organizations, private insurers, and also work with AAMC to offer global-fee contracts.

The primary economic risk for hospital-based physicians today is the loss of patients from their hospital. They must therefore be organized in a form that permits cooperation among themselves, and with the hospital, in order to compete against outside hospitals or networks of hospitals. An integrated practice will allow the anesthesiologists at AAMC to meet this need.

I look forward to a prompt and hopefully favorable response to my proposal. Please contact me on my pager at 410-850-8070 or at my office 410-280-5601 (fax 410-280-6403) with any questions. I have enclosed an analysis of the payers (Addendum #5) in my practice which I believe is representative of the AAMC area, along with the name and telephone numbers of contacts at several of these payers.

A map of the relevant area with hospital locations is forthcoming.

Sincerely,



Terence L. Smith, M.D.

TLC/cab  
Enclosures