

FEDERAL TRADE COMMISSION DECISIONS

Findings, Opinions and Orders

IN THE MATTER OF

AMERICAN MEDICAL INTERNATIONAL, INC., ET AL.

FINAL ORDER, OPINION, ETC. IN REGARD TO ALLEGED VIOLATION OF SEC. 5 OF THE FEDERAL TRADE COMMISSION ACT AND SEC. 7 OF THE CLAYTON ACT

Docket 9158. Complaint, July 30, 1981—Final Order, July 2, 1984

This final order requires a Beverly Hills operator of the nation's third largest chain of proprietary hospitals, among other things, to divest French Hospital in San Luis Obispo, California, to a Commission-approved buyer within twelve months from the effective date of the order. The purpose of the divestiture is to reestablish the facility as a viable competitor in San Luis Obispo County, and respondent is required to take all measures necessary to prevent any deterioration of the hospital's present operating abilities or market value, pending divestiture. The order further requires the company to provide the Commission, for a period of ten years, with advance notification of its intention to acquire any hospital located in the states specified in the order.

Appearances

For the Commission: *L. Barry Costilo, Peter M. Kazon, Sharon Eubanks, Oscar M. Voss, and Judith A. Moreland.*

For the respondent: *William T. Coleman, Jr., Richard C. Warmer, Richard G. Parker, Christopher W. Savage, and Mark D. Plevin, O'Melveny & Myers, Washington, D.C.*

COMPLAINT

The Federal Trade Commission having reason to believe that American Medical International, Inc., and its wholly-owned subsidiary corporation hereinafter also named as respondent, corporations subject to the jurisdiction of the Commission, have acquired the stock or assets of the hospital hereinafter described, in violation of Section 7 of the Clayton Act, as amended (15 U.S.C. 18), and having further reason to believe that respondents have engaged in unfair methods of competition in violation of Section 5 of the Federal Trade Commission

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Act, as amended (15 U.S.C. 45), and that a proceeding in respect thereof is in the public interest, hereby issues its complaint pursuant to the provisions of Section 11 of the aforesaid Clayton Act as amended (15 U.S.C. 21), and Section 5(b) of the Federal Trade Commission Act, as amended (15 U.S.C. 45(b)), stating its charges as follows:

Respondents

1. Respondent American Medical International, Inc., hereinafter "AMI," is a corporation organized and existing under the laws of the State of Delaware, with its principal executive offices at 414 North Camden Drive, Beverly Hills, California.

2. AMI is primarily engaged in the operation and management of proprietary hospitals in the United States and in foreign countries. In AMI's fiscal year 1980, it had total revenues of approximately \$661 million. It owns approximately 64 hospitals in the United States and abroad. It is the third largest proprietary hospital chain in the United States. [2]

3. Respondent AMISUB (French Hospital), hereinafter "AMISUB French," is a wholly-owned subsidiary corporation of AMI, organized and doing business under the laws of the State of California, with its principal office at 414 North Camden Drive, Beverly Hills, California. AMISUB French was established by AMI for the purpose of acquiring and operating French Hospital located in San Luis Obispo, California.

Trade and Commerce

4. At all times relevant herein, the respondents have been and are now engaged in commerce within the meaning of the Clayton Act, as amended, and are corporations whose businesses are in or affecting commerce within the meaning of the Federal Trade Commission Act, as amended. AMI does business in a number of states. AMI and its hospitals in San Luis Obispo County, California, among other things:

- (a) purchase substantial amounts of supplies, equipment and medicines from sources outside of the State of California;
- (b) receive substantial revenues from private and governmental insurers located outside of the State of California; and
- (c) treat some patients who travel from or reside outside of the State of California.

5. AMI, through its wholly-owned subsidiaries, presently owns and operates three of the five general acute care hospitals in San Luis Obispo County, California. These hospitals are Sierra Vista Hospital, Arroyo Grande Community Hospital and French Hospital. AMI's ownership of each of these hospitals was obtained by means of separate acquisitions.

6. General acute care hospitals, hereinafter sometimes referred to as "hospital(s)," are health facilities, other than federally-owned facilities, with an organized medical staff which provide 24 hour inpatient care, including at least the following services: nursing, surgical, anesthesia, laboratory, radiology, pharmacy and dietary services. General acute care hospitals is the relevant product market.

7. San Luis Obispo County, California, and/or parts thereof, are the relevant geographic markets.

8. Barriers to entry into the hospital market in San Luis Obispo County are high. [3]

COUNT I

The Acquisition

9. On July 18, 1979, AMI, through AMISUB French, acquired sole ownership of the assets and related facilities of the proprietary French Hospital in the city of San Luis Obispo, California. It acquired the assets used by French Hospital from Central Coast Hospital Company, a limited partnership; French Hospital Corporation; Central Coast Clinic Company, a limited partnership; and French Medical Clinic, Inc.

10. At the time of this acquisition, French Hospital competed with AMI's Sierra Vista and Arroyo Grande Community hospitals. Sierra Vista was the largest hospital in the city of San Luis Obispo, California with approximately a 43% share of hospital beds in the city, and French Hospital was the second largest hospital in the city with approximately a 34% share of hospital beds in the city. The only other hospital in the city was the nonprofit San Luis Obispo General Hospital, which was operated by the county primarily for indigent patients.

11. At the time of its acquisition by AMI, French Hospital had approximately a 24% share of hospital beds in San Luis Obispo County and AMI's two other hospitals had a combined share of approximately 44% of the hospital beds in the county. AMI's combined share of filled hospital beds in San Luis Obispo County is higher than the figures set forth above.

Effects

12. The effects of the French Hospital acquisition by AMI, through its wholly-owned subsidiary, may be to lessen competition substantially or tend to create a monopoly in the relevant product and geographic markets enumerated in Paragraphs 6 and 7, above, in the following ways, among others:

(a) actual and potential competition has been eliminated among French, Arroyo Grande Community and Sierra Vista hospitals;

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- (b) concentration has been substantially increased;
- (c) already high barriers to entry have been increased and new entry into the market has been foreclosed;
- (d) respondents have obtained a dominant market position; [4]
- (e) patients, physicians, and large group purchasers of hospital services, such as health maintenance organizations, may be denied the benefits of free and open competition based on price, quality, and service in choosing among hospitals.

Violation Charged

13. The acquisition of French Hospital constitutes a violation of Section 7 of the Clayton Act, as amended, and Section 5 of the Federal Trade Commission Act, as amended.

COUNT II

14. The allegations of Paragraphs 1 through 11 of this complaint are incorporated by reference herein.

15. Beginning sometime in the past and continuing to the present AMI, through its wholly-owned subsidiaries, has, with specific intent to exclude competitors and maintain the power to control delivery of hospital services, attempted to monopolize and has otherwise engaged in unfair methods of competition in the market for general acute care hospital services in San Luis Obispo County or parts thereof.

16. In furtherance of the conduct alleged in Paragraph 15, AMI has engaged in the following acts and practices, among others:

- (a) acquired French Hospital;
- (b) prevented a competing national proprietary hospital chain from purchasing French Hospital and offering competition to AMI's two hospitals located in San Luis Obispo County, California; and
- (c) directed or authorized its three hospitals in San Luis Obispo County to take a united position in refusing to compete with each other by offering price and other concessions to Los Padres Group Health, an individual practice association health maintenance organization.

17. The acts and practices referred to in Paragraph 16 are in or affect commerce.

18. The effects, tendency and capacity of the conduct set forth in Paragraphs 15 and 16 are to restrain trade and eliminate [5] competition in the relevant product and geographic markets enumerated in Paragraphs 6 and 7, above, in the following ways, among others:

- (a) create a dangerous probability of monopoly, which would (i) provide respondents with the power to raise prices and exclude com-

petitors, and (ii) reduce respondents' incentives to provide high quality services;

(b) increase already high barriers to entry and foreclose new entry into the market;

(c) provide respondents with a dominant market position;

(d) deny patients, physicians, and large group purchasers of hospital services, such as health maintenance organizations, the benefits of free and open competition among hospitals based on price, quality, and service.

19. The course of conduct and effects alleged in Paragraphs 14 through 18 are continuing and will continue in the absence of the relief herein requested.

Violation Charged

20. The course of conduct and effects alleged in Paragraphs 14 through 18 violates Section 5 of the Federal Trade Commission Act, as amended.

INITIAL DECISION BY

ERNEST G. BARNES, ADMINISTRATIVE LAW JUDGE

JULY 27, 1983

PRELIMINARY STATEMENT

The complaint in this matter issued on July 30, 1981, charging American Medical International, Inc. ("AMI"), a corporation, and AMISUB (French Hospital), a corporation, with violations of Section 7 of the Clayton Act, as amended (15 U.S.C. 18 [1976]), and Section 5 of the Federal Trade Commission Act, as amended (15 U.S.C. 45 [1976]).

Count I of the complaint alleges that AMI, through a wholly-owned subsidiary AMISUB (French Hospital), acquired all the assets and related facilities of the proprietary French Hospital in the city of San Luis Obispo, California. The effects of the acquisition, it is alleged, may be to lessen competition substantially or tend to create a monopoly in the general acute care hospital market in San Luis Obispo County, California, and/or parts thereof, in the following ways, among others:

(a) actual and potential competition has been eliminated among French, Arroyo Grande Community and Sierra Vista hospitals; [2]

(b) concentration has been substantially increased;

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(c) already high barriers to entry have been increased and new entry into the market has been foreclosed;

(d) respondents have obtained a dominant market position;

(e) patients, physicians, and large group purchasers of hospital services, such as health maintenance organizations, may be denied the benefits of free and open competition based on price, quality, and service in choosing among hospitals.

(Complaint, ¶ 13) The acquisition is alleged to violate Section 7 of the Clayton Act, and Section 5 of the Federal Trade Commission Act.

Count II of the complaint alleges that AMI, through its wholly-owned subsidiaries, has, with specific intent to exclude competitors and maintain the power to control delivery of hospital services, attempted to monopolize and has otherwise engaged in unfair methods of competition in the market for general acute care hospital services in San Luis Obispo County, or parts thereof. In furtherance of the aforesaid conduct, it is alleged that AMI has engaged in the following acts and practices, among others:

(a) acquired French Hospital;

(b) prevented a competing national proprietary hospital chain from purchasing French Hospital and offering competition to AMI's two hospitals located in San Luis Obispo County, California; and

(c) directed or authorized its three hospitals in San Luis Obispo County to take a united position in refusing to compete with each other by offering price and other concessions to Los Padres Group Health, an individual practice association health maintenance organization.

(Complaint, ¶ 16) It is alleged that the effects, tendency and capacity of this conduct are to restrain trade and eliminate competition in the general acute care hospital market in San [3] Luis Obispo County, California, and/or parts thereof, in the following ways, among others:

(a) create a dangerous probability of monopoly, which would (i) provide respondents with the power to raise prices and exclude competitors, and (ii) reduce respondents' incentives to provide high quality services;

(b) increase already high barriers to entry and foreclose new entry into the market;

(c) provide respondents with a dominant market position;

(d) deny patients, physicians, and large group purchasers of hospital services, such as health maintenance organizations, the benefits of free and open competition among hospitals based on price, quality, and service.

(Complaint, ¶ 18) This course of conduct and effects thereof are alleged to violate Section 5 of the Federal Trade Commission Act, as amended.

The Notice of Contemplated Relief included with the complaint stated that divestiture of the acquired assets, including subsequent improvements, may be required and that respondents may be prohibited, without prior Commission approval, from making future acquisi-

tions of general acute care hospitals in areas where respondents already own or operate such a hospital.

On October 8, 1981, respondents filed an answer to the complaint admitting some of the complaint allegations, but denying those paragraphs of the complaint that allege violations of law. Respondents affirmatively stated that the complaint failed to state a claim upon which relief can be granted, and that the Commission is without jurisdiction to entertain the complaint allegations in that none of the alleged acts had a substantial effect on interstate commerce.

The first prehearing conference was held on November 13, 1981, and trial commenced on September 20, 1982. Complaint counsel, during the opening statement at the commencement of trial on September 20, 1982, abandoned all claims regarding Los Padres Group Health. (Tr. 74; see Complaint, ¶ 16(c)) Complaint counsel offered a rebuttal case which consisted entirely of documents. Respondents' surrebuttal case was comprised of documents and the testimony of one [4] witness. The last date of trial was March 2, 1983, and the record for the reception of evidence was closed on March 28, 1983. The record consists of 2531 pages of transcript and in excess of 450 exhibits. Complaint counsel called ten witnesses during the case-in-chief and respondents called a total of thirteen witnesses.¹

This proceeding is now before the Administrative Law Judge for decision based upon the complaint, the answer, pleadings, testimony and documentary evidence of record, proposed findings of fact and conclusions of law, and legal memoranda submitted by the parties. These submissions have been given careful consideration and, to the extent not adopted herein in the form proposed or in substance, are rejected as not supported by the record or as immaterial. All motions not heretofore or herein specifically ruled upon, either directly or by the necessary effect of the conclusions in this Initial Decision, are hereby denied.

Having heard and observed the witnesses and after having carefully reviewed the entire record in this proceeding, together with the proposed findings of fact and conclusions of law submitted by the parties, the Administrative Law Judge makes the following findings of fact and conclusions, and issues the Order set out at the end hereof.²
[5]

¹ Respondents' Proposed Findings of Fact and Conclusions of Law ("RPF") identify each witness who appeared during the trial. (RPF 0.16) Complaint counsel prepared a similar listing. (CPF, p. viii-ix) Mr. Charles Reilly, Senior Vice President, AMI, was called as a witness by both complaint counsel and respondents. (RPF 0.16, pp. 6-8) Norman Loftin, Senior Vice President, AMI, who testified in defense, was recalled by respondents as a surrebuttal witness.

² The findings of fact include references to supporting evidentiary items in the record. The supporting evidence cited in each instance is not necessarily all-inclusive of the record evidence. The following abbreviations have been used:

F. - Findings of this Initial Decision followed by the number of the finding(s) being referenced. Refer-

(footnote cont'd)

I. FINDINGS OF FACT

A. *Identity of the Parties*

1. Respondent American Medical International, Inc. ("AMI") is a corporation organized and existing under the laws of the State of Delaware, with its principal executive offices located at 414 North Camden Drive, Beverly Hills, California. (Complaint ¶ 1; Answer ¶ 2) AMI is primarily engaged in the owning, operation and management of general acute care hospitals in the United States and in foreign countries. (Reilly, 737) More than 85 percent of AMI's revenues are derived from its operation of such institutions. (Weisman, 1712-13) AMI also provides health care services through subsidiaries to hospitals and physicians which include medical-technical support services, financial and management services, and health care development services. (CX 10N; Weisman, 1712-13) In AMI's fiscal year 1982, it had total operating revenues of approximately \$1.4 billion and net income of \$78.8 million. (RX 5823 at 32) It owns, operates, or has under construction 72 hospitals in the United States and 24 hospitals abroad. (RX 5823 at 50-51; Reilly, 755; Weisman, 1747-48) AMI is the nation's third largest proprietary hospital chain in terms of domestic hospitals owned. (Reilly, 1797) AMI currently owns and operates three hospitals in San Luis Obispo County, California. They are Sierra Vista Hospital ("Sierra Vista") and French [6] Hospital ("French") located in the city of San Luis Obispo, California, and Arroyo Grande Community Hospital ("Arroyo Grande") located in Arroyo Grande, California. (RX 5823 at 50)

2. Respondent AMISUB (French Hospital) is a wholly-owned subsidiary corporation of AMI, organized and existing under the laws of the State of California, with its principal offices at 414 North Camden Drive, Beverly Hills, California. (Complaint ¶ 3; Answer ¶ 4) AMISUB (French Hospital) was established by AMI for the purpose of acquiring and operating French Hospital. (Complaint ¶ 3; Answer ¶ 4) For purposes of this action, AMI and AMISUB (French Hospital) can be treated as a single entity.³ (Prehearing Conference [Nov. 13, 1981], 3, 36)

ences to the transcript are designated by the name of the witness followed by the transcript page number(s).

- CX - Complaint counsel's exhibits followed by the exhibit number and the referenced page(s).
- RX - Respondents' exhibits followed by the exhibit number and the referenced page(s).
- CPF - Complaint counsel's Proposed Findings of Fact and Conclusions of Law.
- CB - Complaint Counsel's Post-Trial Brief In Support of Its Proposed Findings of Fact and Conclusions of Law.
- RPF - Respondents' Proposed Findings of Fact and Conclusions of Law.
- RB - Brief in Support of Respondents Proposed Findings of Fact and Conclusions of Law.

³ Hereafter "AMI" is used to refer to both AMI and AMISUB (French Hospital).

B. Identity of Other Firms Involved in the Challenged Acquisition

3. Central Coast Hospital Company at the time of the acquisition was a limited partnership organized and existing under the laws of the State of California. (CX 68L) The partnership consisted of both general and limited partners, all but two of whom were physicians. (Friedmann, 1602-03) This partnership owned the land, buildings, and other improvements relating to French Hospital. (Answer ¶ 9(a)) Central Coast Hospital Company had one wholly-owned subsidiary, French Hospital Corporation. The Company and its subsidiary filed separate federal and California state income tax returns. (CX 35S) In the year ending June 30, 1978, Central Coast Hospital Company and its subsidiary, French Hospital Corporation, had total revenues of \$8,171,482 and a combined net income of \$745,160. (CX 35-0)

4. French Hospital Corporation is a corporation organized and existing under the laws of the State of California. (CX 20) French Hospital Corporation operated French Hospital, owned or leased the hospital's equipment, and held the license for the hospital prior to the acquisition. (Answer ¶ 9(c); CX 41B; F. 8) French Hospital Corporation was a wholly-owned subsidiary of Central Coast Hospital Company. (CX 35A) Central Coast Hospital Company leased to French Hospital Corporation the property on which French Hospital is located and the improvements on that property, including the buildings housing the hospital's facilities. (CX 534; CX 730-O-P) [7]

5. Central Coast Clinic Company was a limited partnership organized and existing under the laws of the State of California. (CX 73G) Many of its partners were also partners in Central Coast Hospital Company which owned French Hospital. (Boyd, 363-64) Central Coast Clinic Company owned the land and building adjacent to French Hospital which comprised the French Medical Clinic prior to the acquisition. (CX 41B) Central Coast Clinic Company had one wholly-owned subsidiary, French Medical Clinic, Inc. (CX 41B; F. 6) In the year ending June 30, 1978, Central Coast Clinic Company and its subsidiary had assets valued at \$3,216,603. (CX 35Z5)

6. French Medical Clinic, Inc. was a professional corporation organized and existing under the laws of the State of California. (CX 73B) French Medical Clinic, Inc. owned or leased the equipment used at French Medical Clinic. (CX 41, I) On February 22, 1974, French Medical Clinic, Inc. entered into a Master Lease Agreement with United Medical Leasing Company, Inc., Chicago, Illinois (RPF 14.9), covering a variety of medical equipment. (CX 70Z1-Z2) During 1974, the lessor assigned a part of this lease to a California limited partnership, Fraser Medilease, Pasadena, California. (CX 74A) United Medical Leasing Company, Inc. was the sole general partner in Fraser Medilease.

Lease payments to Fraser Medilease amounted to \$673.27 per month. (CX 74B) French Medical Clinic, Inc. also had a lease with Xerox Corporation. (CX 70Z2) In 1979, French Medical Clinic, Inc. represented to AMI that its total rental costs with United Medical Leasing Company, Inc. would not exceed \$202,587.50 per year. (CX 76) Other documents indicate that French Medical Clinic, Inc. had rental obligations amounting to \$168,108 per year. (CX 49B, I) As of February 1979, French Medical Clinic, Inc. owned equipment valued at \$700,000. (CX 41F, K; CX 35Z5)

7. AMISUB (French Clinic) is a wholly-owned subsidiary corporation of AMI, organized and existing under the laws of the State of California, with its principal offices at 414 North Camden Drive, Beverly Hills, California. (CX 70D-E; CX 70Z37) AMISUB (French Clinic) owns the computerized axial tomographic scanner ("CAT scanner") and x-ray and laboratory equipment AMI purchased from French Medical Clinic, Inc. (CX 70D-F, CX 71A, F)

C. The Acquisition

8. On July 19, 1979, AMI acquired from Central Coast Hospital Company all of the common stock of French Hospital Corporation. (CX 63; CX 68E-G, Z25) That corporation operated French Hospital (Answer ¶ 9(c)); held the license necessary to operate it (CX 85; Friedmann, 1601-02); owned or leased the [8] hospital's equipment (CX 41B);⁴ and held a long-term lease which covered both the property on which French Hospital is located and the improvements on that property, including the French Hospital building itself. (CX 534; CX 730-O-P) In the same transaction AMI also acquired from Central Coast Hospital Company its other assets, excluding cash, cash equivalents, and certain notes receivable. (CX 63; CX 68E, G) Those assets were: (a) the Company's ownership interest in the French Hospital premises leased to French Hospital Corporation, and (b) a vacant lot. (CX 41B; CX 58L; CX 68E, G; CX 534)

9. At the same time AMI purchased from French Medical Clinic, Inc. a CAT scanner and other x-ray and laboratory equipment. (CX 70D-F, W, X-Z-2; CX 78) While the purchase contract designated AMISUB (French Clinic) as the purchaser, AMI paid the entire consideration for the purchase from its own funds. (CX 60; CX 70D-F; CX 73D-F) AMISUB (French Clinic) also that day subleased from French Medical Clinic, Inc. space for use as a CAT scanning and x-ray facility

⁴ French Hospital Corporation held substantial amounts of leased, as well as owned, equipment. French Hospital Corporation held leases of hospital equipment with total original purchase price of approximately \$1.5 million. (See CX 535, [lease agreement with American Financial Leasing & Services Company, Cincinnati, Ohio]; RX 5597L-V)

and a clinical laboratory.⁵ (CX 71A, F) After the acquisition, the CAT scanner, at least, was used in connection with the operation of the hospital. (F. 167, n. 18; see CX 274H; CX 91)

10. The total cost to AMI of the transactions described above was \$10,970,000. AMI issued to Central Coast Hospital Company 220,225 shares of stock, with a fair market value of approximately \$6.5 million. (RX 5851B-D, H-Y; Loftin, 1508; Friedmann, 1594-95) In addition, AMI assumed approximately \$3.9 million in long-term debt of Central Coast Hospital Company. (*Id.*) Finally, AMI paid \$570,000 in cash for the CAT scanner, x-ray, and laboratory equipment. (CX 70E, G; CX 73D-F) By letter dated December 19, 1980, AMI was advised that the Commission was investigating the acquisitions. (CX 1010) [9]

*D. Description of the San Luis Obispo County Area
and Location of Area Hospitals*

11. San Luis Obispo County, California is located midway between Los Angeles and San Francisco. In 1980, it had a population of 155,345. (CX 1064 at II-1) The main center of population in the county is the city of San Luis Obispo, which is also the county seat. (CX 217D) The population of the city in 1980 was 33,684. (CX 1064 at II-1, Data Supp.) The county is 3,184 square miles in size. It is bounded by Monterey County to the north; Santa Barbara County to the south; Kern County and the Temblor Range to the east; and the Pacific Ocean to the west. (CX 217D; RX 5826) The southern boundary between San Luis Obispo and Santa Barbara Counties follows the Cuyama and Santa Maria Rivers. (CX 217D; RX 5826) The topography varies from the relatively flat land in the southern-most section of the Arroyo Grande Valley to the peaks of five mountain ranges. (CX 217D)

12. Both industry observers and health planners have considered the existence of three separate subareas within the county: the North County, the South County, and the Central/Coast Area. (CX 188; CX 192J; CX 255C; CX 217Z10-11) Local health planners have recognized that each subarea should be considered a separate service area for health planning purposes. (CX 217Z10-11; CX 197N; RX 5467Z10; RX 5437Z47)

13. The South County is an area which stretches from Shell Beach in the north, to the Santa Maria River in the south (CX 188; 192J), and encompasses the so-called "5 Cities" of Pismo Beach, Arroyo Grande, Grover City, Oceano, and Nipomo. (CX 192J; CX 197D) Although parts of the South County are connected with the cities of

⁵ AMISUB (French Clinic) leased the CAT scanner and x-ray equipment back to French Medical Clinic, Inc. for several months (CX 79), apparently because French Hospital, unlike the Clinic, had to obtain government approval to operate the CAT scanner. (Boyd, 376; Friedmann, 1601)

Santa Maria and San Luis Obispo by Highway 101, public transportation consists of infrequent Greyhound bus service. (CX 217Z10; *see* RX 5468Z62)

14. The North County area consists of the area from the Cuesta Grade north to the county line. (Boyd, 344; CX 192J; CX 198B; CX 217Z12) Some towns in the north are as much as 45 minutes away from the South County area (CX 736C), and although "[t]he Santa Lucia Mountain Range which lies between the City of San Luis Obispo and the North County offers steep and hazardous grades" (CX 217Z10), automobile travel over a four-lane highway can be accomplished routinely. (Anderson, 255) Public transportation consists of infrequent Greyhound bus service. (CX 217Z10; *see* RX 5468Z62)

15. The Central/Coastal area includes the city of San Luis Obispo, Los Osos, Avila Beach, and Morro Bay. (CX 255C) The city of San Luis Obispo is the center of health services in the county. (CX 255H; RX 5435C) [10]

16. San Luis Obispo County is part of California Health Systems Area 8, over which the Mid-Coast Health Systems Agency has jurisdiction. (CX 1064 at I-1) There are five general acute care hospitals in San Luis Obispo County. (*See* CX 1064 at V-8; Anderson 235) French, Sierra Vista Hospital ("Sierra Vista") and San Luis Obispo General Hospital ("SLO General") are located in the city of San Luis Obispo. (CX 736B) Twin Cities Community Hospital ("Twin Cities") is located in the north area of the county in Templeton, California. (CX 736B; RX 5592) Arroyo Grande Community Hospital is located in the south area of the county in Arroyo Grande, California. (*Id.*)

17. Appendix A, a reproduction of RX 5592, illustrates the locations of the hospitals described in Findings 18-26 *infra*.

18. French Hospital is a 138-bed, general acute care hospital located in the city of San Luis Obispo, California. (CX 736B; Steacy, 144-45) It "has a pleasant and attractive physical plant, a respected and well qualified medical staff, a good employee staff, and is well respected in the community." (CX 306A) French, the second largest hospital in the county, was acquired by AMI on July 18, 1979, and is the focus of this proceeding. (CX 736B; Complaint ¶ 9) The hospital provides most acute care services with the exception of obstetrics. (CX 91; CX 274B)

19. The original French Hospital was a 35-bed facility located on Marsh Street in the city of San Luis Obispo that was owned by Dr. Edison French. (Friedmann, 1565) In 1972, Dr. French opened the new facility at the existing site on Johnson Avenue. The new hospital had 138 beds. (Friedmann, 1565) Dr. French also owned the French Clinic which consisted of a group of doctors who were paid a salary by Dr. French. (Harvey, 1640-41) These physicians had their offices in the French Clinic building adjacent to French Hospital. (Boyd, 363) In late

