



GALLAND, KHARASCH, GREENBERG, FELLMAN & SWIRSKY, P.C.

ATTORNEYS AT LAW

BALTIMORE, MD

WASHINGTON, DC

MINNEAPOLIS, MN

STEVEN JOHN FELLMAN

E-mail: sfellman@gkglaw.com

CANAL SQUARE

1054 THIRTY-FIRST STREET, N.W.

WASHINGTON, D.C. 20007-4492

TELEPHONE: (202) 342-5294

FACSIMILE: (202) 342-5219

December 23, 2005

Hon. Thomas O. Barnett
Assistant Attorney General
Antitrust Division, U.S. Department of Justice
950 Pennsylvania Avenue, N.W.
Washington, D.C. 20530

Re: Linen Systems for Healthcare, LLC - - MEDtegrity

Dear Mr. Barnett:

We are writing to you on behalf of our client Linen Systems for Healthcare, LLC to obtain an expedited business review determination pursuant to 28 C.F.R. 50.6. Linen Systems for Healthcare, LLC is a joint venture of regional textile maintenance companies experienced in providing specialized textile rental and laundry services to the healthcare industry. These companies propose to jointly market services to specialized healthcare clients under the trade name MEDtegrity. Specifically, they propose to form a multi-provider network that will enable them to market their services to multi-regional and national healthcare outpatient centers (HOC's) now being served exclusively by much larger national companies.

MEDtegrity's entrance into this market will provide more competition, economic efficiencies and lower prices to consumers. Without the proposed joint venture, MEDtegrity's members could not compete in this rapidly growing market.

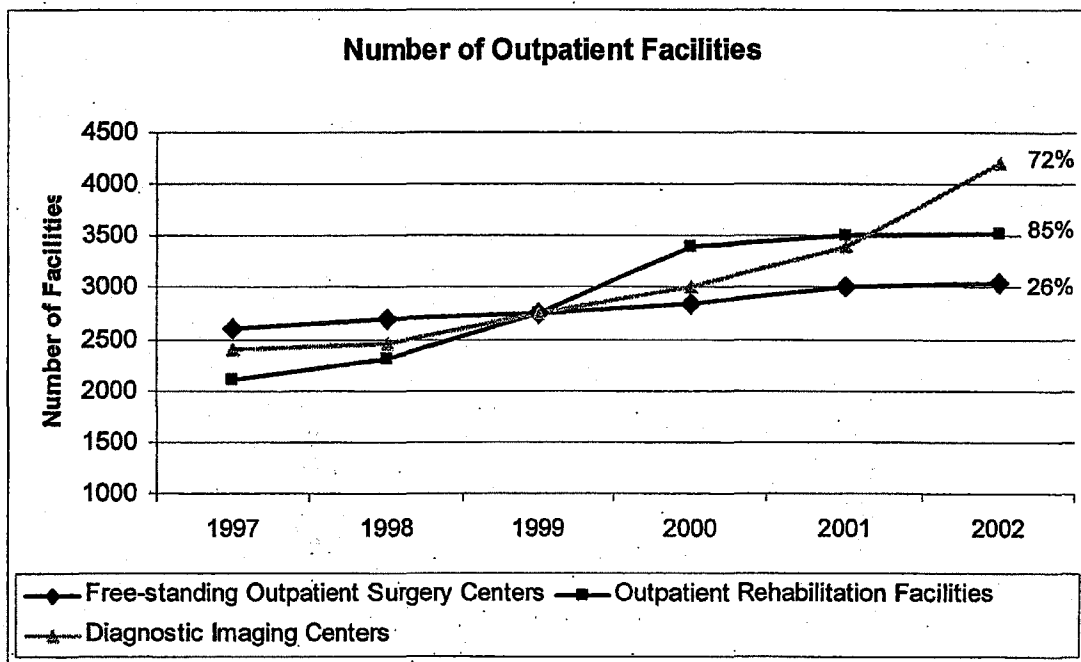
I. Description of the Market

In recent years, there has been a significant increase in various types of healthcare outpatient centers (HOC's). Examples of these centers include outpatient surgery centers, rehab and diagnostic centers, dialysis centers, radiology centers and group specialized physician practices. These HOC's all use basic healthcare textile products such as blankets, washcloths, towels, patient gowns, sheets, pillowcases, scrub pants, scrub tops, uniforms, etc.

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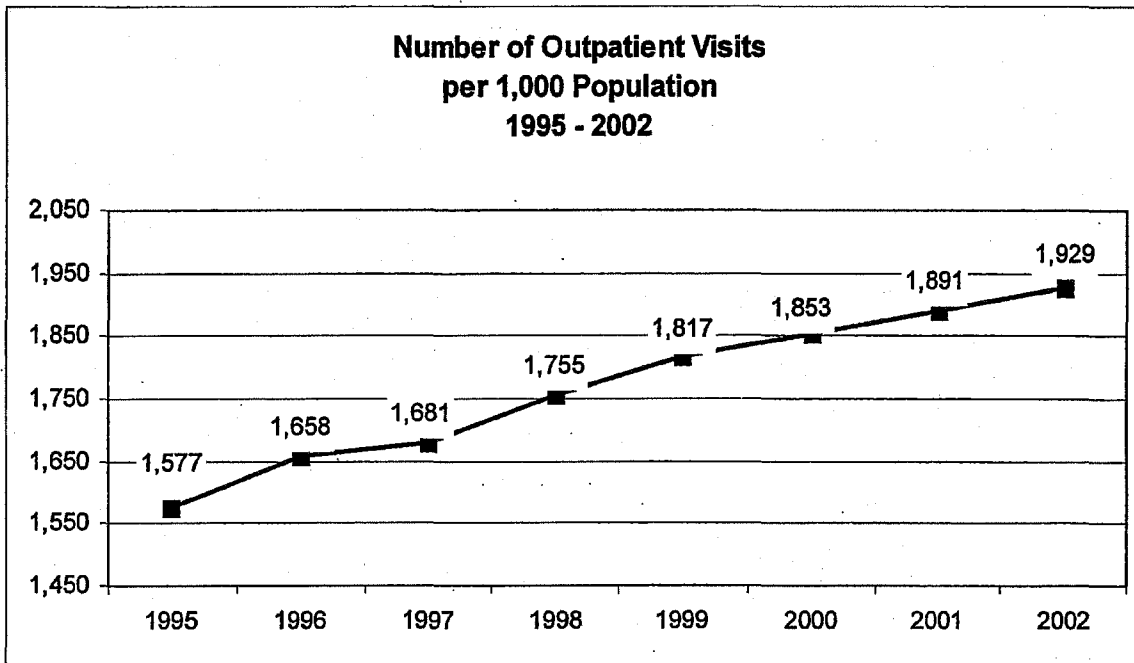
The number of HOC's locations is not only expanding rapidly but HOC's are also consolidating. For example, while the number of hospitals fell by more than 8% between 1995 and 2002, the number of outpatient facilities grew substantially.



Source: Medical Cost Reference Guide, BlueCross BlueShield Association, Revised October 2005
SMG Marketing Group, as reported by The Lewin Group.
http://www.bcbs.com/mcrg/mcrg_full.pdf

In addition, outpatient services were the fastest growing component of privately funded healthcare costs during 2001 and 2002.

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Source: Medical Cost Reference Guide, BlueCross BlueShield Association, Revised October 2005
American Hospital Association, 2004
http://www.bcbs.com/mcrg/mcrg_full.pdf

The consolidated HOC's seek out vendors who can provide services on a national or multi-regional basis in order to secure high quality goods, uniform performance standards and the best possible price.

HOC's have three options for obtaining healthcare textile products:

- 1) HOC's can purchase disposable products. These products are widely available from national manufacturers such as Kimberly-Clark and Med-Line. They are generally higher priced than reusable products and present environmental disposal issues. Nevertheless, it is estimated that disposable products have approximately a 50% share of the HOC market.
- 2) HOC's can purchase healthcare textile products from vendors such as Fashion Seal¹, and MEDline. HOC's can install in-house laundry equipment and process their own textile products. It is estimated that approximately 20% of the HOC's utilize in house laundry operations. However, such operations tend to be inefficient; take substantial space and labor and are difficult to operate in a professional manner without

¹ <http://www.fashionseal.com/>

experienced personnel. HOC's are moving away from in house laundry operations.

- 3) HOC's can utilize commercial healthcare textile maintenance service. The healthcare textile maintenance company provides service on either a textile rental basis whereby it owns, processes and delivers the textile products to the HOC; or on a textile maintenance basis whereby it processes and delivers textile products owned by the HOC's.

As HOC's are consolidating, they are seeking healthcare textile maintenance companies that can service all of their facilities pursuant to a national or multi-regional contract. Several of such companies exist. Angelica Corporation is a publicly traded healthcare textile maintenance company. Angelica has 35 healthcare plants and had revenue of \$316,100 million in FY2004.² Another national competitor, IMAGE First, not only sells healthcare textile products to HOC's but processes such products as well. IMAGE First processes 50-million lbs. of healthcare laundry per year and had revenue of over \$60 million in 2004.

ARAMARK, Cintas, G&K Services and UniFirst are all public national textile maintenance companies that process healthcare textile products to some degree. ARAMARK is a \$10 billion corporation that supplies uniforms for about 15,000 healthcare providers and serves 60% of the 100 top American hospitals;³ Cintas has 381 facilities, 700,000 customers and has an annual volume of \$3.7 billion;⁴ G&K has 140 locations and has an annual volume of \$800 million;⁵ UniFirst has 143 customer service centers and has an annual volume of \$719 million.⁶

All of these companies are capable of providing services on a national basis. As an example, when the U.S. Post Office Department asked for bids on uniforms for a national Post Office contract, ARAMARK, Cintas and G&K were among the bidders.

² Angelica Corporation Annual Report for Fiscal Year 2004.
³ ARAMARK 2004 Annual Report.
⁴ Cintas 2005 Annual Report.
⁵ G&K Services, Inc. 2005 Annual Report.
⁶ UniFirst Corporation 2004 Annual Report.

II. MEDtegrity⁷

MEDtegrity members are 10 regional textile maintenance companies⁸ with significant experience in the healthcare market.⁹ These companies market their services in a local or regional area. No MEDtegrity member has the ability to service a national or multi-regional account. As the number of HOC's grow and continue to consolidate, MEDtegrity members will continue to loose market share to their much larger competitors. In order to participate in the national and multi-regional HOC market, MEDtegrity members need to establish a multi-provider network.

A. Proposed Network of Operation

Linen Systems for Healthcare has created the MEDtegrity brand to establish a platform for developing a multi-provider network to service the HOC market. MEDtegrity estimates that collectively, its members currently service less than 10% of that market.

1. Advertising and Promotion -- MEDtegrity members are all experienced in providing quality healthcare textile maintenance products to HOC's. These companies have significant local and regional healthcare clientele and have staff trained in meeting the needs of the HOC market.

MEDtegrity will develop an advertising and promotional campaign to establish the MEDtegrity brand in the national and multi-regional HOC market. MEDtegrity's campaign will emphasize the ability of its members, working as a team, to provide quality products and services at competitive prices to national and multi-regional HOC's.

MEDtegrity will place advertisements in trade journals and exhibit at trade shows at which HOC's will be in attendance. MEDtegrity will develop promotional materials to assist MEDtegrity members promote the MEDtegrity brand. MEDtegrity will have a "toll free" number and a website to assist HOC's in contacting MEDtegrity and its members.

⁷ List of MEDtegrity members including states in which they operate (Exhibit A).

⁸ Map showing MEDtegrity members by name of company and states in which they operate. (Exhibit B).

⁹ List of MEDtegrity members showing total revenue, healthcare revenue, and estimated HOC revenue. (Exhibit C)

2. **Marketing - - When an HOC contacts MEDtegrity, the MEDtegrity member operating in the area where the HOC headquarters is located will serve as the account manager and that MEDtegrity member will meet with the HOC and determine its needs for service.**

Generally, an HOC with multiple facilities will use a standard mix of products for all facilities but it can be expected that certain facilities will have special needs. Further, each facility will have unique delivery and inventory needs. After meeting with the HOC, the MEDtegrity member will prepare a proposal for submission of a national or multi-regional contract to the HOC. The proposal will have uniform pricing for all services to be provided. The contract will recognize that the final pricing for any specific HOC facility will be based on applying the contract prices to that facility's specific needs for products and services. The services to be provided under the proposal will be performed by individual MEDtegrity members in the geographic areas served by the HOC.

Using a standard MEDtegrity contract form, the proposed contract will be distributed to the MEDtegrity Executive Committee and to each MEDtegrity member that will be servicing the contract.

The MEDtegrity Executive Committee will review the contract to insure that it falls within the parameters of products and services provided by MEDtegrity. Each regional MEDtegrity member which will be asked to provide services under the contract will review the proposed contract to unilaterally determine if it wishes to provide services at the proposed prices. Although no member will be required to provide services at the proposed prices, it is understood that if a MEDtegrity member chose not to service a contract, MEDtegrity will have the option of replacing that member with another regional company.

Once the proposed contract has been accepted within MEDtegrity, it will be presented to the HOC as a series of form contracts from each of the MEDtegrity members that will be providing services. Each MEDtegrity member will provide a form contract for the HOC facilities within its service area. The contracts will include the nationally negotiated pricing terms

modified by the specific needs of each facility. The HOC will be billed, usually on a weekly or monthly, basis, by each of the MEDtegrity members providing services under the contract. MEDtegrity itself will not engage in billing or collection activities. Each MEDtegrity member will assume the economic risks of servicing the MEDtegrity HOC accounts in its service area.

MEDtegrity members will collaborate in servicing multi-regional and national HOC accounts. However, with regards to all other accounts within their own service areas, MEDtegrity members will not have any restrictions on whether or not to service any account.

MEDtegrity members currently service a wide range of accounts. Some of the existing accounts are HOCs, but most are not. The MEDtegrity agreement will in no way restrict the rights of MEDtegrity members to offer and/or provide service to non-HOC accounts or to HOC accounts that they can service by themselves. MEDtegrity members will not share pricing information on non-HOC accounts or on HOC accounts that they service by themselves. Any MEDtegrity member can withdraw from MEDtegrity at any time.

3. **Specific Pricing Policies** -- In some very limited geographic areas, two MEDtegrity members may be offering services to prospective customers. If a national account has facilities in such an area of overlap, the account will be advised that service is available from either of the two members and the customer will determine whichever member it wishes to provide the service. However, members report that overlap does not occur on a regular basis.

MEDtegrity will be very careful to ensure that in any area where there is an actual or potential overlap between members, no individual company pricing information is exchanged between such members. If MEDtegrity needs to find out current pricing levels in such a trade area in order to develop a competitive national price, the pricing information from each member will be submitted to the MEDtegrity Executive Director on a strictly confidential basis. The Executive Director will create a nation wide composite of the information provided by the members in the areas to be served under the contract. The composite information will be

provided to the MEDtegrity members. No member will be able to back out a competitor's pricing.

It is expected that the national price quoted by MEDtegrity will be a very competitive price but it is recognized that the possibility exists that in any trade area, a customer's HOC may be able to find a lower price. As a general rule, it will be MEDtegrity's policy that once a national price is negotiated with a national or multi regional account and a contract is signed, MEDtegrity will not adjust price on a local level.

In cases where a national account is signing its first national or multi regional contract with a MEDtegrity member, it is possible that some of the customer's HOC facilities may have existing textile maintenance contracts with non MEDtegrity members or possibly with MEDtegrity members. In such an event, MEDtegrity would absorb the local HOC's with contracts into the MEDtegrity system at the time that their individual contracts terminate. In cases where the local contract is with a MEDtegrity member, it is anticipated that in most cases, service would be continued but at the lower MEDtegrity national contract rate.

4. **Qualifications to Provide Healthcare Laundry Services - -** MEDtegrity members are experienced in providing services to the healthcare industry. The laundry plants are covered by OSHA's blood borne pathogen regulations and have trained their staffs to meet the OSHA requirements. Beyond the OSHA requirements, there are no general standards, Federal laws or regulations or state laws or regulations that would cover a commercial laundry serving an HOC in contrast with a commercial laundry serving a non healthcare account such as a motel or restaurant. Laundries servicing healthcare accounts are not licensed by the Federal government or by state governments. There are FDA regulations covering laundries that provide sterile pac's to health care institutions. However, MEDtegrity does not plan to offer sterile pac's to customers as part of its service as most MEDtegrity members do not have the necessary equipment to service the sterile pac market. In short, there are few, if any, barriers to keep a commercial laundry from entering the healthcare market.

III. Legal Analysis

In the *Guidelines for Collaboration Among Competitors*,¹⁰ the Department of Justice and the Federal Trade Commission recognize that agreements among competitors that have pro-competitive effects are analyzed under the rule of reason. Further agreements to jointly sell products or services may be pro-competitive where a combination of complementary assets enable products more quickly and efficiently to reach the marketplace.

In making a rule of reason analysis, consideration must be given to factors such as market share and market concentration; whether the collaboration is necessary in order to enable the participants to compete in the marketplace; whether the participant collaborators will still compete in other unrelated business operations and whether the collaboration generates significant efficiencies for the benefit of the consumer. As stated in Guideline 3:36: "Efficiencies generated through a competitor collaboration may result in lower prices, improved quality, enhanced service, or new products."¹¹

Areeda and Havenkamp specifically recognizes that joint selling arrangements may be pro-competitive.¹²

The Supreme Court, in cases such as *Broadcast Music, Inc. v. Columbia Broadcasting System*¹³ has recognized that joint selling maybe pro-competitive. In *Rothery Storage and Van Co. v. Atlas Van Lines*¹⁴ Judge Bork wrote that an agreement among van lines to offer common prices for national moving was not illegal *pro se* but "was designed to make the van line more efficient rather than to decrease the output of its service and raise its rates."¹⁵

The Department of Justice and the Federal Trade Commission have both recognized that in the health care industry, there may be a need for competitor collaboration to promote economic efficiency and provide better and cheaper goods and services to consumers.¹⁶

¹⁰ 4 CCH Trade Regulation Reporter, ¶13,160 (2000).

¹¹ IBID ¶13,161.

¹² *Areeda & Havenkamp*, III Antitrust Law 2nd Sec 2132(c) 2005.

¹³ 1979-1 Trade Cases ¶ 62,558, 441 U.S. 1 (1979).

¹⁴ 792 F.2d 210 (D.C. Cir. 1989).

¹⁵ IBID at 211.

¹⁶ U.S. Department of Justice and Federal Trade Commission, Statements of Antitrust Enforcement Policy in Healthcare, 71 Antitrust and Trade Regulation Reporter (BNA, August 29, 1996).

In several Business Review Letters, the Antitrust Division of the Department of Justice has approved proposals for joint selling ventures.¹⁷

The MEDtegrity proposal involves companies that are essentially non-competitors. Textile maintenance services require the ability to pick up soiled textile products at the customers facility, launder the textile products and then return the clean textile products to the customer. Deliveries are made by trucks. In order to service an account, a textile maintenance company must have a processing plant or service depot located within reasonable proximity (100 miles) of the customer. Thus, MEDtegrity members are not actual competitors but in some minor instances there is a potential for territorial overlap.

The MEDtegrity proposal creates a new viable competitor to the national and multi-regional HOC marketplace. It offers consumers the opportunity to benefit from these experienced providers of healthcare textile maintenance services that could not compete for national and multi-regional accounts but for a multi-provider agreement.

MEDtegrity members will be able to enter a market place currently exclusively in the hands of much larger rivals. Indeed, many of these rivals individually have a market share of the textile maintenance market that exceeds the market share of the totality of the MEDtegrity membership.¹⁸ There is no possible way that implementation of the MEDtegrity business plan will enable MEDtegrity members to restrict output or increase prices.

The entry of MEDtegrity into the national and multi-national HOC market will ultimately create more competition, better services and lower prices.

¹⁷ See, May 20, 1997 Business Review Letter re Russell-Stanley Corporation; December 23, 1998 Business Review Letter re AICC; March 2000 Business Review Letter re Containers America, LLC.

¹⁸ ARAMARK's textile maintenance business generated over \$1 billion in revenue in 2004 (ARAMARK 2004 Annual Report). Cintas' textile rental revenue for fiscal 2005 exceeded \$2 billion. It is estimated that the combined gross revenue of the MEDtegrity members for calendar year 2004 was less than \$500 million (Exhibit C).

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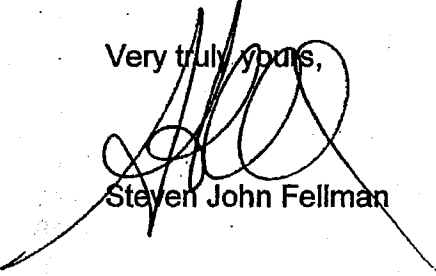
IV. Conclusion

In the Introduction to the 1996 Statements of Antitrust Enforcement Policy in Healthcare,¹⁹ the Department of Justice and the Federal Trade Commission wrote that their goal: "... is to ensure a competitive marketplace in which consumers will have the benefit of high quality, cost-effective healthcare and a wide range of choices, including new provider-controlled networks that expand consumer choice and increase competition." It is this rationale that defines the competitive benefit of the MEDtegrity proposal.

We request that the Antitrust Division provide a favorable determination to this proposal.

Please contact us in the event that further information is needed.

Very truly yours,



Steven John Fellman

Enclosures

cc: Linen Systems for Healthcare