

Complaint

64 F.T.C.

DECISION OF THE COMMISSION AND ORDER TO FILE REPORT OF COMPLIANCE

MARCH 13, 1964

Pursuant to Section 3.21 of the Commission's Rules of Practice, effective August 1, 1963, the initial decision of the hearing examiner shall on the 13th day of March 1964, become the decision of the Commission; and, accordingly,

It is ordered, That respondent herein shall, within sixty (60) days after service upon it of this order, file with the Commission a report in writing setting forth in detail the manner and form in which it has complied with the order to cease and desist.

IN THE MATTER OF

AMERICAN LINEN SERVICE CO., INC., ET AL.

CONSENT ORDER, ETC., IN REGARD TO THE ALLEGED VIOLATION OF THE
FEDERAL TRADE COMMISSION ACT

Docket 8559. Complaint, Mar. 6, 1963—Decision, Mar. 13, 1964

Consent order requiring 12 corporations engaged in the linen supply business in the District of Columbia, Maryland and Virginia, to cease cooperating among themselves, to allocate and trade customers, refusing to service competitors' customers except with such competitors' permission, notifying competitors when certain of their accounts asked for service, granting price concessions in reprisal against noncooperating linen suppliers, and falsely disparaging competitors and their operations; and

Further requiring said linen suppliers to cease entering into exclusive contracts requiring customers to obtain all their requirements from respondents for a period longer than one year—or for two years in the case of special articles—with provision for automatic renewal for six months; to refrain from acquiring the business of any competitor in the metropolitan Washington, D.C., area for five years without advance notice to the Commission, with the exception of accommodation sales; to refrain from placing owners or employees of acquired linen rental concerns under restrictive covenants not to compete for three years and not to solicit former customers for five years; and to refrain from permitting any officer or employee to serve at the same time as officer or employee of a competitor.

COMPLAINT

Pursuant to the provisions of the Federal Trade Commission Act (38 Stat. 717, 15 U.S.C.A. Sec. 41, *et seq.*, 52 Stat. 111), and by virtue of the authority vested in it by said Act, the Federal Trade

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Commission, having reason to believe that the parties listed in the caption hereof, and hereinafter more fully described, have violated the provisions of Section 5 of said Act, and it appearing to the Commission that a proceeding by it in respect thereof would be in the public interest, hereby issues its complaint against each and all of the parties named herein as respondents, stating its charges in that respect as follows:

PARAGRAPH 1. Respondent American Linen Service Co., Inc., is a corporation organized and doing business under the laws of the District of Columbia, with its office and principal place of business located at 2306 Georgia Avenue, N.W., Washington, D.C. Said respondent is a successor to the partnership of Ben E. Singer and Joseph L. Fradkins, which was engaged in the linen supply business in the Washington, D.C. metropolitan area, trading under the name American Linen Supply Company, and is engaged in the linen supply business in the District of Columbia, Maryland and Virginia. Said respondent in 1958 had an approximate current annual dollar volume in linen rentals of \$980,000.

Respondent C & C Linen Service, Inc., is a corporation organized and doing business under the laws of the State of Maryland, with office and principal place of business located at 2120 L Street, N.W., Washington, D.C. Said respondent is engaged in the linen supply business in the District of Columbia, Maryland and Virginia and in the fiscal year ending May 1957, had an approximate dollar volume for linen rentals of \$416,000.

Respondent Capitol Towel Service Company, Inc., is a corporation organized and doing business under the laws of the State of Maryland, with its office and principal place of business at 500 Emerson Street, N.E., Washington, D.C. Said respondent is engaged in the linen supply business in the District of Columbia, Maryland and Virginia and for the fiscal year ending September 30, 1957, had an approximate dollar volume for linen rentals of \$280,000.

Respondent District Linen Service Company, Incorporated, is a corporation organized and doing business under the laws of the District of Columbia, with its office and principal place of business located at 50 L Street, S.E., Washington 3, D.C. Said respondent is a successor to the partnership of George J. Heon and George E. Callas, trading under the name District Linen Service Company and is engaged in the linen supply business in the District of Columbia, Maryland and Virginia. Respondent's predecessor, the District Linen Service Company in 1956 had an approximate dollar volume of \$316,000 for linen rentals.

Respondent Elite Laundry Company of Washington, D.C., Incorporated, is a corporation organized and doing business under the laws of the State of Virginia, with its office and principal place of business located at 2119-14th Street, N.W., Washington, D.C. Said respondent is engaged in the linen supply business in the District of Columbia, Maryland and Virginia. Said respondent in 1957 had an approximate dollar volume in linen rentals of \$658,000.

Respondent Modern Linen Service, Inc., is a corporation organized and doing business under the laws of the State of Maryland, with its office and principal place of business located at 1016 Bladensburg Road, N.E., Washington, D.C. Said respondent is engaged in the linen supply business in the District of Columbia, Maryland and Virginia and in 1957 had an approximate dollar volume for linen rentals ranging between \$96,000 to \$100,000.

Respondent National Laundry and Linen Service, Inc., is a corporation organized and doing business under the laws of the District of Columbia, with its office and principal place of business located at 2035 West Virginia Avenue, N.E., Washington, D.C. Said respondent is engaged in the linen supply business in the District of Columbia, Maryland and Virginia and in the fiscal year 1960 had a dollar volume of \$783,989 for linen rentals.

Respondent Palace Laundry, Inc., is a corporation organized and doing business under the laws of the State of Delaware, with its office and principal place of business located at 1659 N. Fort Myer Drive, Arlington, Virginia. Respondent Palace Linens, Inc., and respondent Standard Linen Supply, Inc., are corporations organized and doing business under the laws of the State of Virginia. Both Palace Linens, Inc., and Standard Linen Supply, Inc., are wholly-owned subsidiaries of Palace Laundry, Inc., with their offices and principal places of business located at 1659 N. Fort Myer Drive, Arlington, Virginia. Said respondent Palace Laundry, Inc., and its respondent subsidiaries, are engaged in the linen supply business in the District of Columbia, Maryland and Virginia and for the year 1958, had gross sales amounting to \$707,929.

Respondent Quick Service Laundry Company is a corporation organized and doing business under the laws of the State of Delaware, with its office and principal place of business located at 1016 Bladensburg Road, N.E., Washington, D.C. Said respondent is engaged in the linen supply business in the District of Columbia, Maryland and Virginia and in 1957 had a dollar volume of \$117,000 for linen rentals.

Respondent The Tolman Laundry, doing business as the Washington Linen Service, is a corporation organized and doing business

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under the laws of the District of Columbia, with its office and principal place of business located at 5248 Wisconsin Avenue, N.W., Washington, D.C. Said respondent is engaged in the linen supply business in the District of Columbia, Maryland and Virginia and in 1957 had an approximate dollar volume for linen rentals of \$310,000.

Central Linen Service Co., Inc., not made respondent herein, is a corporation organized and doing business under the laws of the State of Maryland with its offices and principal place of business located at 2149 Queens Chapel Road, N.E., Washington, D.C. Said corporation participated as a co-conspirator with the respondents herein in the conspiracy, combination and agreement charged herein and performed acts and made statements in furtherance of said conspiracy, combination and agreement.

PAR. 2. The linen supply business consists of leasing and delivering clean linens at recurrent intervals, generally of one week or less by respondents, to users located in the States of Maryland and Virginia and the District of Columbia in connection with the user's trade, business or profession. Part of the service consists in the removal of soiled linens for which the clean linens are replacements. The respondent linen suppliers regularly cause such soiled linens to be transported from their customers' places of business located in the States of Maryland and Virginia and the District of Columbia to laundries, and after laundering they are again regularly caused to be transported by the respondent linen suppliers from the laundries to their customers for reuse. Accordingly, there has been and is now a constant and continuous current and flow in interstate commerce of such linen supplies between respondents and their customers located in the States of Maryland and Virginia and the District of Columbia. Respondents, therefore, are engaged in commerce, as "commerce" is defined in the Federal Trade Commission Act.

PAR. 3. The linen supply market in the Washington, D.C. metropolitan area, which consists of the District of Columbia, the Cities of Alexandria and Falls Church, Virginia, the Counties of Arlington and Fairfax, Virginia and the Counties of Montgomery and Prince Georges, Maryland, is dominated by the respondents herein who are the major suppliers in this market.

PAR. 4. For many years, and continuing to the present time, respondents have maintained, effectuated and carried out and maintain, effectuate, and carry out a conspiracy, combination, agreement and understanding in the rental of linen supplies in the metropolitan area of Washington, D.C. as more fully set out below. The respond-

ents entered this conspiracy at varying times and contributed to carrying it out and to its effect by different means and methods.

PAR. 5. As a part of, pursuant to and in furtherance of the aforesaid agreement, understanding, combination and conspiracy, respondents have for many years past and continuing to the present time, combined, conspired, agreed, and cooperated between and among themselves and others to control the solicitation and allocation of customers by various means and methods of which the following are typical, but not all inclusive:

1. Agreed among themselves and with others not to solicit the customers of certain of their competitors.
2. Instructed their salesmen not to solicit the accounts of certain competitors.
3. Refused to service customers of certain competitors even though such accounts requested their service.
4. Requested and secured permission of certain of their competitors to service the customers of such competitors.
5. Traded customers between and among themselves.
6. Warned competitors that certain of their accounts had approached respondents for service in order that such competitors could take measures to hold such accounts.
7. Made or caused to be made false and disparaging remarks concerning the financial standing, business integrity, and quality of service of new competitors attempting to enter the metropolitan Washington, D.C. linen supply market.
8. Offered the customers or prospective customers of new competitors in the metropolitan Washington, D.C. area free service or rentals below cost for the purpose of impairing the ability of newcomers to compete in the linen supply business.

PAR. 6. Further contributing to the elimination of competition between and among these respondents and to the effects of the agreement, understanding, combination and conspiracy, has been the utilization by certain of the respondents of requirements contracts. Such contracts requiring customers to take all their linen supplies from one supplier are characterized by unreasonably long term contracts and lengthy automatic renewal after the expiration date, with inadequate provision for cancellation by respondents' customers.

PAR. 7. Commencing on or about 1953, three of the respondents, American Linen Service Co., Inc., Elite Laundry Company of Washington, D.C., Incorporated and National Laundry and Linen Service, Inc., either directly or indirectly acquired fifty percent of the pre-

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ferred and voting common stock of the C & C Linen Service, Inc. These respondents at the time constituted four of the five largest of the eleven major linen suppliers in the metropolitan Washington, D.C. area. As a result of such stock acquisition, the related voting arrangement and the use of interlocking directors and officers, competition that normally would have existed and did exist to a certain extent between and among these particular respondents was restrained, hindered and substantially eliminated, thus further contributing to the deterioration of competition in this market. The foregoing relationship was not dissolved until on or about March of 1961.

PAR. 8. New entrants to the linen supply market in the metropolitan Washington, D.C. area, have been hindered, handicapped and prevented from competing successfully in the linen supply business because of the unfavorable competitive climate present in this market and brought about by the unfair practices and conditions hereinbefore described.

Some of these concerns have been acquired by respondents herein, thus removing them as competitive factors in this market. The purchase agreements placed these linen supply operators under restrictive covenants, prohibiting a return to the linen supply business, in many cases, for periods exceeding five years. These acquisitions coupled with the unreasonable length of the restrictive covenants have been an important factor in contributing to the anti-competitive practices in this market and facilitated these respondents in placing in effect and carrying out the agreement, understanding, and conspiracy as herein alleged.

For example, in June 1953, the linen supply business of Columbia Linen Service, Inc., was purchased by respondent, National Laundry and Linen Service, Inc., then operating as National Laundry Company; in December 1955, the linen supply business of Union Linen Service, Inc., was purchased by Palace Laundry, Inc.; in April 1956 the linen supply business of Capital Laundry, Inc., was purchased by C & C Linen Service; in April 1959, the stock of Lovely Linens, Inc., was acquired by the C & C Linen Service, Inc.

PAR. 9. The agreement, understanding, combination and conspiracy, and the acts and practices of respondents pursuant to and in furtherance of, or in contribution to same, as alleged herein, have had and do now have the effect of hindering, lessening, restricting, restraining, destroying and eliminating competition, actual and potential, in the rental of linen supplies; have deprived customers of

