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November 23, 1994

VIA FEDERAL EXPRESS

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

Re: Request for Business Review Letter by Dermnet, Inc. (the "Network")

Dear Assistant Attorney General:

We are requesting the expedited review of the Department of Justice ("Department") on behalf of the Network pursuant to the Business Review Procedure established in 28 C.F.R. §50.6 and the Pilot Business Review Program for joint ventures announced on December 1, 1992 (58 Fed. Reg. 6132 (1993)). We are requesting a statement of the Department's current enforcement intentions with respect to the Network as more fully described herein.

1. Description of the Network. The name of the Network is Dermnet, Inc., with its principal place of business at 2845 Aventura Boulevard, Suite 220, Aventura, Florida 33180. The Network is organized as a Florida non-profit corporation under Chapter 617.031 of the Florida Statutes. The initial members of the Network are: Richard S. Greene, M.D., Joseph A. Arena, M.D., Daniel J. Wolf, M.D., and Mark Nestor, M.D., Ph.D. The members of the Governing Board of Directors who serve on a voluntary basis to administer the Network are: Mark S. Nestor, M.D., Ph.D., William Roth, M.D., Brian Berman, M.D., Ph.D., Gary Gewirtzman, M.D., David Herschthal, M.D., Alexander P. Kowalczyk, M.D., Harold S. Rabinovitz, M.D., David M. Sharaf, M.D. and Daniel J. Wolf, M.D. A copy of the Network's Articles of Incorporation is attached as Exhibit A. A draft of the Bylaws which have not been formally adopted is attached as Exhibit B.

2. Persons Expected to Participate. Exhibit C lists all of the physicians with whom the Network contracts and their specialties. The Network contracts with board certified or board eligible dermatologists, MOHS surgeons, board certified dermatopathologists, plastic and

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reconstructive surgeons and oculoplastics surgeons pursuant to a Professional Services Agreement, copies of which are attached as Exhibits D, E and F respectively. All physicians were required initially to pay the Network an application fee of \$500.

3. Purposes and Objectives of the Network. The purpose of the Network is to provide state of the art, quality, global dermatology services including general dermatology, dermatologic surgery, Mohs Micrographic surgery, dermatopathology, as well as plastic surgical reconstructive repairs to managed care entities, at a competitive price. The objectives are to:

- (a) improve quality and patient satisfaction;
- (b) control utilization and costs;
- (c) function as a capitated risk-bearing entity;
- (d) negotiate discounted services and products for the Network physicians on behalf of Network physicians;
- (e) negotiate managed care contracts with third party payors including health maintenance organizations, preferred provider organizations, self-insured plans and similar entities; and
- (f) assist the Network physicians from being unfairly eliminated or locked out of health care markets by other competitors.

4. Products or Services. The Network can offer a broad panel of dermatologists, dermatologic surgeons, Mohs Micrographic surgeons, dermatopathologists, and plastic surgical reconstructive and plastic surgeons in the Dade, Broward and West Palm Beach area to perform high quality cost effective health services for managed health care entities. The managed care entity can select Network physicians depending on the service area and expertise desired. The Network will assist its physicians with:

- (a) negotiating managed care contracts; and
- (b) negotiating discounted services or products.

The Network will also provide quality assurance, utilization review, credentialing and medical records policies and procedures that comply with the National Committee for Quality Assurance standards.

5. Marketing Services. Attached as Exhibit F is a proposal that was prepared by the Network for marketing its services. Currently, the Network has not obtained any managed care contracts on behalf of the Network physicians.

6. Identity and Competitive Significance of Persons Participating in the Relevant Product and Geographic Markets. The relevant medical services market is not limited to dermatologists. Typically, general practice, internal medical and family practice physicians also perform dermatological services. The following summarizes the relevant competitive market:

		Dade	Broward	Palm Beach
General Practice	Not Bd. C.	482	63	72
	Bd. Cert.	20	11	9
Internal Medicine	Not Bd. C.	614	177	139
	Bd. Cert.	438	273	241
Family Practice	Not Bd. C.	158	55	28
	Bd. Cert.	151	110	76
Dermatology	Not Bd. C.	31	11	15
	Bd. Cert.	78	48	32
Pathology	Not Bd. C.	43	11	6
	Bd. Cert.	113	60	33
Plastic Surgery	Not Bd. C.	22	7	6
	Bd. Cert.	56	34	29
Dermatopathology	Data not available.			
Oculoplastic Surgery	Data not available.			

The relevant market area is highly competitive. Further, there are other dermatological networks that exist in the tri-county area.

7. Restrictions on Ability of Participants to Compete with the Network. The Network is non-exclusive and there is no limitation on the ability of any Network physician to join other organizations or competing entities. Section 13 of the Participating Provider Agreement provides:

Nothing herein shall be deemed to create any exclusive relationship between the parties hereto and Medical Professional may engage in any other activity, including contracting with any other managed care organization, network or provider, provided such activity does not interfere with the diligent performance of Medical Professional's obligations hereunder.

Additionally, Network physicians have the option of deciding with which plans they would like to participate.

8. Restrictions on the Flow of Information from the Network to Network Physicians. There are no restrictions on the flow of information from the Network to its Network physicians.

9. Ten Largest Customers. The Network will market its services to third party payors including CAC Ramsey, Av-Med, Care Florida, Metropolitan, Prudential, HIP, Aetna, PCA, Cigna and Health Options.

10. Requirements For Entry Into Any Relevant Product or Geographic Market and the Identity of Persons Believed to be Physicians to Enter Into the Market. The key to the operation of the Network will be being able to accept capitation. The Network is very proactive with respect to utilization review and quality assurance. Their programs are structured to comply with the National Committee for Quality Assurance standards. Its QA/UR committee will review 100% of all claims. Claims that are denied will not be paid. It is anticipated that there will be increased consolidation in the south Florida markets in order for the Network to be competitive it will need to provide good quality care as well as being cost effective.

11. Benefits Likely to Flow from the Network. Business efficiencies of the Network will include:

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(a) Each Network physician will be relieved of the burden of dealing with negotiating managed care contracts individually.

(b) The Network's QA/UR process will be able to more efficiently track outcomes data to provide quality care.

(c) The Network physicians will have greater bargaining power to purchase services and products at a discount.

It is the Network's position that the Network will have a beneficial effect upon competition, does not restrain either the third party payors or the Network physicians in their pursuit of their independent business interests, and will lead to greater choices for consumers.

We have included all documents with respect to the Network. Please let us know if there is any additional information that you require. Thank you for your prompt assistance in this matter.

Sincerely,

BROAD AND CASSEL


Jodi B. Laurence

JBL:wp
Enclosures

cc: Mark Nestor, M.D., Ph.D.