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CENTRAL DIST. OF CALIF.  
BY: LOS ANGELES

UNITED STATES DISTRICT COURT  
FOR THE CENTRAL DISTRICT OF CALIFORNIA

UNITED STATES OF AMERICA, )  
 )  
 Plaintiff )  
 )  
 v. )  
 )  
 MacANDREWS AND FORBES GROUP, )  
 INC.; PROCESSING PARTNERS L-P; )  
 CSD ACQUISITION CORPORATION; )  
 and LORIMAR-TELEPICTURES )  
 CORPORATION, )  
 )  
 Defendants. )

Civil No. 86-8055 JMI  
(KX)  
SUIT FOR PRELIMINARY  
AND PERMANENT INJUNCTION  
AGAINST ACQUISITION  
15 U.S.C. § 18  
ANTITRUST

COMPLAINT

The United States of America, by its attorneys, acting under the direction of the Attorney General of the United States, brings this civil action to obtain equitable and other relief against the defendants named herein and complains and alleges as follows:

I.

JURISDICTION AND VENUE

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2  
3 1. This complaint is filed and this action is instituted  
4 under Section 15 of the Clayton Act, as amended, 15 U.S.C. § 25,  
5 to prevent and restrain the violation by the defendants, as  
6 hereinafter alleged, of Section 7 of the Clayton Act, as amended,  
7 15 U.S.C. § 18.

8 2. MacAndrews and Forbes Group, Inc. owns Technicolor,  
9 Inc., which transacts business, maintains offices, and is found  
10 within the Central District of California.

11 3. Processing Partners L-P and CSD Acquisition Corporation  
12 are found within the Central District of California.

13 4. Lorimar-Telepictures Corporation transacts business,  
14 maintains offices, and is found within the Central District of  
15 California.

16 II.

17 DEFINITIONS

18 5. "HHI" means the Herfindahl-Hirschman Index, a measure  
19 of market concentration calculated by squaring the market share of  
20 each firm competing in the market and then summing the resulting  
21 numbers. For example, for a market consisting of four firms with  
22 shares of 30, 30, 20, and 20 percent, the HHI is 2600 (30 squared  
23 + 30 squared + 20 squared + 20 squared = 2600). The HHI, which  
24 takes into account the relative size and distribution of the firms  
25 in a market, ranges from virtually zero to 10,000. The index  
26 approaches zero when a market is occupied by a large number of

1 firms of relatively equal size. The index increases as the numbe  
2 of firms in the market decreases and as the disparity in size  
3 between the leading firms and the remaining firms increases.

4 6. "Release prints" means multiple prints, of a feature  
5 motion picture, made for distribution to movie theaters for  
6 theatrical exhibition.

7 7. "Wide-release motion picture" means a motion picture  
8 for which over 800 release prints are produced for exhibition in  
9 theaters in the United States. Motion pictures for which over 800  
10 release prints are produced for exhibition in the United States  
11 are nationally-distributed, feature motion pictures.

12 III.

13 DEFENDANTS

14 8. Lorimar-Telepictures Corporation ("Lorimar") is made a  
15 defendant herein. Lorimar is a corporation organized and existing  
16 under the laws of the State of New York. It maintains its  
17 principal offices in Culver City, California. Lorimar is the sole  
18 owner of Film Lab, Inc. ("Metrocolor"), a Georgia corporation that  
19 owns all of the stock of the following: Metrocolor Laboratories,  
20 Inc., a California corporation; MGM Laboratories Ltd., a United  
21 Kingdom corporation; Kay Holdings, Ltd., a United Kingdom  
22 corporation; and KMGH Laboratories, Ltd., a United Kingdom  
23 corporation. Metrocolor furnishes film laboratory services to the  
24 motion picture industry in the United States through Metrocolor  
25 Laboratories, Inc.'s facility located in Culver City, California,  
26

1 and in Europe through a Metrocolor subsidiary located in the  
2 United Kingdom. In 1985, Metrocolor's total revenues for film  
3 processing services were about \$90 million.

4 9. MacAndrews and Forbes Group, Inc. ("M&F") is made a  
5 defendant herein. M&F is a corporation organized and existing  
6 under the laws of the State of Delaware. It maintains its  
7 principal offices in New York, New York. M&F owns Technicolor,  
8 Inc. ("Technicolor"), a Delaware corporation that furnishes film  
9 laboratory services to the motion picture industry in the United  
10 States through its film laboratories located in North Hollywood,  
11 California and New York, New York, and in Europe through its  
12 British subsidiary, Technicolor Limited, located in London, and  
13 through its Italian subsidiary, Technicolor S.p.A., located in  
14 Rome. In 1985, Technicolor's total revenues for film processing  
15 services were about \$150 million.

16 10. Processing Partners L-P is made a defendant herein.  
17 Processing Partners L-P is a New York limited partnership in which  
18 M&F is the sole limited partner and majority equity holder and  
19 Dalton Enterprises is the general partner.

20 11. CSD Acquisition Corporation ("CSD") is made a defendant  
21 herein. CSD is organized under the laws of the State of  
22 Delaware. CSD is wholly-owned by Processing Partners L-P.

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IV.

TRADE AND COMMERCE

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3 12. Technicolor and Metrocolor are in the business of  
4 providing motion picture film laboratory services. Their primary  
5 facilities are in the Los Angeles area. They are two of the three  
6 largest motion picture film laboratories in the world. They both  
7 provide a variety of services relating to the motion picture  
8 industry, including the processing of film on a daily basis as it  
9 is shot, assembly of the complete edited film, and printing and  
10 processing of release prints.

11 13. When a motion picture studio intends to distribute a  
12 motion picture on a national basis, it generally orders at least  
13 eight hundred 35 millimeter ("mm") release prints. The studios  
14 have exacting service requirements when selecting a film  
15 laboratory to produce these 35mm release prints for wide-release  
16 motion pictures. Because final preparation of the motion pictures  
17 for release printing often does not occur until shortly before  
18 national distribution and exhibition of the picture is set to  
19 begin, the large numbers of release prints required for  
20 wide-release motion pictures often must be produced within ten  
21 working days. The studios also have exacting quality requirements  
22 for 35mm release prints for wide-release motion pictures. Failure  
23 to meet a studio's service and quality requirements can adversely  
24 affect distribution of the motion picture and the studio's  
25 reputation.  
26

1           14.    Studios will not use a film laboratory for the  
2 production of 35mm release prints for exhibition in the United  
3 States of wide-release motion pictures unless that laboratory has  
4 demonstrated that it can meet the studios' exacting service and  
5 quality requirements.  Few film laboratories have the capacity and  
6 capability reliably to produce quality release prints for a  
7 wide-release motion picture within the time normally required.

8           15.    The printing and processing of 35mm release prints for  
9 theatrical exhibition in the United States of wide-release motion  
10 pictures constitutes a line of commerce and a relevant product  
11 market for antitrust purposes (hereinafter "35mm wide-release  
12 print market").  In 1985 total sales in the 35mm wide-release  
13 print market were more than \$100 million.

14           16.    The relevant geographic market for antitrust purposes  
15 for the 35mm wide-release print market is world-wide.  Film  
16 laboratories serving the 35mm wide-release print market are  
17 located in the United States and other countries, although the two  
18 firms located outside of Southern California--Film House in  
19 Toronto and Rank in the United Kingdom--are at a significant  
20 competitive disadvantage because of the delays and additional  
21 costs associated with having prints processed at a location  
22 distant from the film studio.

23           17.    Technicolor and Metrocolor are direct competitors in  
24 the 35mm wide-release print market.  There are only six firms  
25 anywhere in the world that have the capacity and capability  
26 reliably to produce quality 35mm wide-release prints.  The 35mm

1 wide-release print market is highly concentrated and would become  
2 substantially more concentrated as a result of the violation  
3 alleged below.

4 18. Technicolor and Metrocolor are two of the three largest  
5 firms in the 35mm wide-release print market. Based on current  
6 capacity to produce 35mm wide-release prints, Technicolor and  
7 Metrocolor have about 34 percent and 20 percent of world-wide  
8 capacity respectively, and the combination of the two firms would  
9 increase the HHI by about 1300 to about 3500. Market shares based  
10 on production for the 35mm wide-release print market can be  
11 approximated by calculating market shares based on the production  
12 of all 35mm release prints by firms in the relevant market. Based  
13 on this measure of production, in 1985-1986 Technicolor,  
14 Metrocolor, and a third firm, Deluxe Laboratories ("Deluxe"),  
15 together accounted for approximately 85 percent of production in  
16 the 35mm wide-release print market. Technicolor's and  
17 Metrocolor's market shares were about 41 percent and 18 percent,  
18 respectively. Based on this measure of production, the proposed  
19 combination of Technicolor and Metrocolor would result in an HHI  
20 increase of about 1400 to a total of about 4200.

21 19. In order successfully to compete in the 35mm  
22 wide-release print market, a film laboratory must, among other  
23 things, develop sufficient capacity and establish a reputation for  
24 the capability reliably to produce quality release prints for a  
25 wide-release motion picture within the time normally required.  
26

1           20.    A limited number of theatrical release prints (usually  
2 fewer than 100) are printed on 70mm film for certain motion  
3 pictures.  Seventy millimeter release prints produce higher  
4 quality images and sound than 35mm release prints and are  
5 exhibited at specially equipped theaters.  Studios have exacting  
6 service and quality requirements for 70mm release prints similar  
7 to those they have for 35mm release prints.  Studios will not use  
8 a film laboratory for the production of 70mm release prints for  
9 theatrical exhibition in the United States unless that laboratory  
10 has demonstrated that it can meet the studios' exacting service  
11 and quality requirements.

12           21.    The printing and processing of 70mm release prints for  
13 theatrical exhibition in the United States of motion pictures  
14 constitutes a line of commerce and relevant product market for  
15 antitrust purposes (hereinafter "70mm release print market").  In  
16 1985 total sales of 70mm release prints were more than \$10 million.

17           22.    The relevant geographic market for antitrust purposes  
18 for the 70mm release print market is world-wide.  The only film  
19 laboratories in the world that currently compete in this market  
20 are located in Southern California.

21           23.    Technicolor and Metrocolor are direct competitors in  
22 the 70mm release print market.  Technicolor, Metrocolor, and  
23 Deluxe are the only firms that produce 70mm release prints for  
24 domestic distribution.  The 70mm release print market is highly  
25 concentrated and would become substantially more concentrated as a  
26 result of the violation alleged below.





1 Processing Partners L-P the money required to purchase  
2 Metrocolor. Processing Partners L-P formed a wholly-owned  
3 subsidiary, CSD, which has entered into an agreement with Lorimar  
4 to purchase for \$60 million all the capital stock of Metrocolor.

5 28. Following the acquisition of Metrocolor by CSD,  
6 Processing Partners L-P plans to liquidate and distribute the  
7 stock of CSD to M&F. M&F, which owns Technicolor, will thereby  
8 assume direct and total control of Metrocolor. M&F plans to close  
9 Metrocolor's facility in Culver City.

10 29. The effect of the acquisition of Metrocolor by CSD,  
11 Processing Partners L-P, or M&F may be substantially to lessen  
12 competition in the 35mm wide-release print and 70mm release print  
13 markets in violation of Section 7 of the Clayton Act, in the  
14 following ways, among others:

- 15 a. actual and potential competition between  
16 Technicolor and Metrocolor in the 35mm  
17 wide-release print market will be eliminated;
- 18 b. competition generally in the 35mm wide-release  
19 print market may be substantially lessened;
- 20 c. actual and potential competition between  
21 Technicolor and Metrocolor in the 70mm release  
22 print market will be eliminated; and
- 23 d. competition generally in the 70mm release print  
24 market may be substantially lessened.

PRAYER

WHEREFORE, plaintiff prays:

1. That pending final adjudication of the merits of this Complaint, a temporary restraining order and a preliminary injunction be issued against the defendants preventing and restraining each of them and all persons acting on their behalf from taking any action, either directly or indirectly, in furtherance of the proposed acquisition of Metrocolor;

2. That the proposed acquisition of Metrocolor by CSD, Processing Partners L-P, and M&F be adjudged to be in violation of Section 7 of the Clayton Act;

3. That the defendants be permanently enjoined from carrying out any agreement, understanding, or plan, the effect of which would be to combine the film laboratory businesses of Metrocolor and Technicolor;

4. That the plaintiff have such other and further relief as the Court may deem just and proper; and

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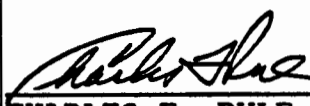
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5. That plaintiff recover the costs of this action.

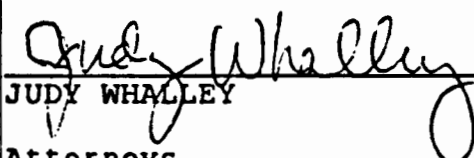
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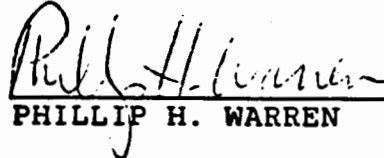
  
~~CHARLES F. RULE~~  
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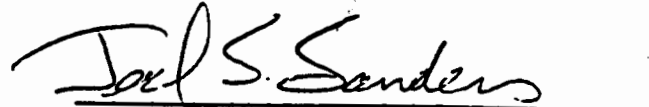
10 UNITED STATES DISTRICT COURT  
11 FOR THE CENTRAL DISTRICT OF CALIFORNIA

12 UNITED STATES OF AMERICA, )  
13 Plaintiff )  
14 v. ) NO. CV  
15 MacANDREWS AND FORBES GROUP, )  
16 INC.; PROCESSING PARTNERS L-P; ) DECLARATION OF  
17 CSD ACQUISITION CORPORATION; ) JOEL S. SANDERS  
18 and LORIMAR-TELEPICTURES ) VERIFYING COMPLAINT  
19 CORPORATION, )  
20 Defendants. )

21 I, Joel S. Sanders, declare:  
22 1. I am an attorney with the United States Department of  
23 Justice, Antitrust Division.  
24 2. I verify that the foregoing Complaint for and on behalf  
25 of the United States of America was duly prepared under the  
26 direction of the Attorney General of the United States; that the  
facts stated therein have been assembled by authorized employees  
and counsel for the United States of America; and that the

1 allegations therein are true and correct to the best of my  
2 knowledge, information, and belief.

3 3. I declare under penalty of perjury that the foregoing  
4 is true and correct. Executed in San Francisco, California, on  
5 December 10, 1986.

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9 JOEL S. SANDERS

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