UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF COLUMBIA

UNITED STATES OF AMERICA, U.S. DEPARTMENT OF JUSTICE WASHINGTON, D.C. 20530 (202) 724-6464 Plaintiff, v. HUGHES TOOL COMPANY, 6500 TEXAS COMMERCE TOWER HOUSTON, TEXAS 77002 (713) 222-0686, and BAKER INTERNATIONAL CORPORATION, 3900 ESSEX LANE HOUSTON, TEXAS 77027 (713) 439-8600, Defendants.	Civil No. 87-0932 Filed: April 3, 1987

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 as is appropriate against the defendants named herein and complains and alleges as follows:

I.

JURISDICTION AND VENUE

1. This complaint is filed and this action is instituted under Section 15 of the Clayton Act, as amended, 15 U.S.C.

§ 25, to prevent and to restrain the violation by the defendants, as hereinafter alleged, of Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18.

2. For the purpose of this action, Hughes Tool Company and Baker International Corporation are found within the District of Columbia.

II.

DEFINITIONS

3. "HHI" means the Herfindahl-Hirschman Index, a measure of market concentration calculated by squaring the market share of each firm competing in the market and then summing the resulting numbers. For example, for a market consisting of four firms with shares of 30, 30, 20, and 20 percent, the HHI is 2600 (30 squared + 30 squared + 20 squared + 20 squared = 2600). The HHI, which takes into account the relative size and distribution of the firms in a market, ranges from virtually zero to 10,000. The index approaches zero when a market is occupied by a large number of firms of relatively equal size. The index increases as the number of firms in the market decreases and as the disparity in size between the leading firms and the remaining firms increases.

4. "Tricone rock bit" means a device used in drilling wells for the exploration for or the production of crude oil or natural gas. A tricone rock bit consists, in part, of three

cone-shaped cutting devices mounted on bearings in such a way that they intermesh and rotate together as the bit drills. The cutting elements on the cones are either steel teeth that are machined as part of the cone, or tungsten carbide inserts that are pressed into holes machined in the cone surface. The bearings may be of either the journal or roller type and may be either sealed or unsealed. Tricone rock bits are attached to the end of a drill string, which consists of thirty or forty-foot sections of heavy-walled pipe assembled end-to-end leading to the drilling rig at the surface.

5. "Electric submersible oilwell pump" ("ESP") means a multi-stage centrifugal pump connected to an electric motor and encased in a cylindrical steel-alloy casing for insertion into an oil well to pump oil to the surface. ESP motors vary in size from a few horsepower to 800 horsepower or more, and are connected to varying sized oilwell pumps. Because ESPs may be subjected to severe heat, pressure and corrosive conditions, they are precision crafted to high tolerances and manufactured of special high-grade metal alloys.

III.

DEFENDANTS

6. Hughes Tool Company ("Hughes") is made a defendant herein. Hughes is a corporation organized and existing under the laws of the state of Delaware. Hughes manufactures and

sells a variety of products and services, including products and services used in the drilling and completion of oil and gas wells and in the production of oil and gas. Through its Hughes Tool Division, Hughes manufactures and sells tricone rock bits. In 1986, Hughes' total revenues from the sale of tricone rock bits were about $57 million. Through its Centrilift-Hughes Division, Hughes manufactures and sells electric submersible oilwell pumps. In 1986, Hughes' total revenues from the sale of electric submersible oilwell pumps were about $28 million.

7. Baker International Corporation ("Baker") is made a defendant herein. Baker is a corporation organized and existing under the laws of the state of Delaware. Baker maintains its principal offices in Houston, Texas. Baker manufactures and sells a variety of products and services, including products and services used in the drilling and completion of oil and gas wells and the production of oil and gas. Baker is the sole owner, through various wholly-owned subsidiaries, of Reed Tool Company (Delaware), a corporation organized and existing under the laws of the state of Delaware, and Reed Tool Company, a corporation organized and existing under the laws of the state of Texas (collectively, "Reed"). Reed manufactures and sells tricone rock bits. In 1986, Reed's total revenues from the sale of tricone rock bits were about $34 million. Baker is the sole owner of Baker Oil Tools, Inc.,

a corporation organized and existing under the laws of the state of California. Baker Oil Tools, Inc. manufactures and sells electric submersible oilwell pumps through its Baker Lift Systems division ("Baker Lift Systems"). In 1986 Baker Lift Systems' total revenues from the sale of electric submersible oilwell pumps were about $6 million.

IV.

TRADE AND COMMERCE

Tricone Rock Bits

8. Virtually all oil and gas in the United States is discovered and produced by drilling wells that range from several hundred feet to several miles in depth. Generally these wells are drilled by a drilling contractor under contract to an oil or gas company that owns the mineral rights to the oil or gas sought to be discovered or produced. The cost of drilling a well ranges from several hundred thousand dollars to several million dollars, with the average, in 1984, being about $325,000.

9. Tricone rock bits are used in drilling virtually all oil, gas, or exploratory wells in the United States. Tricone rock bits come in many different sizes and configurations, ranging from 4 to 26 inches in diameter. In the course of drilling a well, many different types of geological formations of varying hardness and composition can be encountered.

Tricone rock bit manufacturers seek to develop different bits, i.e., bits with different cutting elements and bearings, to provide the greatest possible efficiency for drilling in each of the different possible geological formations. The major manufacturers of tricone rock bits each offer more than 200 different types and sizes of tricone rock bits.

10. Oil companies and drilling contractors seek to achieve the lowest "cost-per-foot" when drilling a well. Of the costs used to determine cost-per-foot, the purchase price of the tricone rock bit is a relatively small one. Because securing access to a rig and various other services necessary in the course of drilling a well far exceeds the cost of the rock bit itself, and because replacing the rock bit can take anywhere from several hours to a full day, tricone rock bit purchasers seek to replace rock bits as infrequently as possible. Tricone rock bit purchasers thus select a rock bit based on durability and reliability, as well as efficiency in drilling in a particular geological formation.

11. Major manufacturers of tricone rock bits collect and maintain "bit records" which detail the performance of their bits. These bit records report not only the precise bit used, the depth at and conditions in which it was used, and the time and distance it drilled, but also numerous other pieces of specific information relating to the particular bit application. Bit records facilitate analysis of the

performance of the various tricone rock bits. They are used to aid potential customers in the selection of the proper bit and to indicate to those customers that a company's bit will perform at the lowest cost-per-foot in the particular drilling situation anticipated. Tricone rock bit manufacturers also use these bit records in design efforts to improve the efficiency, durability and reliability of their products.

12. There is no reasonable substitute for tricone rock bits to which a significant number of customers would turn in response to a small but significant and nontransitory price increase.

13. Virtually all tricone rock bits sold in the United States are manufactured by companies that have headquarters, manufacturing facilities and distribution networks in the United States. In 1986, total sales of rock bits in the United States were about $200 million.

14. The manufacture of tricone rock bits for sale in the United States constitutes a line of commerce and a relevant market for antitrust purposes (hereinafter, "U.S. tricone rock bit market").

15. Hughes and Baker are direct competitors in the U.S. tricone rock bit market and are the first and third largest firms in that market. The four largest manufacturers of tricone rock bits account for about 94 percent of total sales in the market. The U.S. tricone rock bit market is highly

concentrated and would become substantially more concentrated as a result of the violation alleged herein. Based on 1986 sales data, Hughes and Baker have, respectively, about 28 and 17 percent of the U.S. tricone rock bit market. The combination of the two firms would create a dominant firm with a market share of 45 percent and would increase the HHI by about 950 to about 3,300.

16. Entry into the U.S. tricone rock bit market is difficult and time consuming. To gain a significant market share, among other things, a firm must establish a reputation for the efficiency, durability and reliability of its product under actual drilling conditions in a wide variety of different geographic and geological conditions and must also establish and maintain a significant research and development capability, an expert technical service capability, and a sales and service force deployed at locations convenient to drilling sites.

Electric Submersible Oilwell Pumps

17. Very few oil wells produce enough oil under sufficient pressure to cause the oil to flow to the earth's surface without the aid of some form of man-made oilwell pumping device ("artificial lift"). The depth, flow rate, and surface and subsurface conditions of oil wells requiring artificial lift vary greatly. Well depths range from a few thousand feet deep to several miles or more. Water is generally mixed with the

oil produced, and may constitute a high percentage of the total well fluid produced. The volume of fluid produced by a well may be as little as 50 barrels per day or as great as 20,000 barrels per day or more.

18. ESPs are one type of artificial lift system used to lift well fluid to the surface. ESPs are manufactured in varying sizes. The electric motors are manufactured separately from the oilwell pumps themselves so that different combinations of oilwell pump sizes and motor sizes can be assembled depending on the particular characteristics and requirements of the well in which the ESP is to be used.

19. Other types of artificial lift systems include rod-and-beam pumps, hydraulic pumps, and gas lift. In choosing among the various artificial lift systems, customers seek to lift the well fluid to the surface in the most economically efficient manner possible, i.e., at the lowest overall cost-per-barrel of oil produced. That decision is typically dictated by well conditions and performance requirements. These include such factors as depth of the well, fluid volume and properties, geographic location, surface space limitations, and available sources of power.

20. ESPs are the artificial lift system that is used for lifting large volumes of well fluid under certain surface and well conditions. There is no reasonable substitute for ESPs to which a significant number of ESP customers would turn in

response to a small but significant and nontransitory price increase.

21. Virtually all ESPs sold in the United States are manufactured by companies that have headquarters, manufacturing facilities, and distribution networks in the United States. In 1986, total sales of ESPs in the United States were about $110 million.

22. The manufacture of ESPs for sale in the United States constitutes a line of commerce and a relevant market for antitrust purposes (hereinafter, "U.S. ESP market").

23. Hughes and Baker are direct competitors in the U.S. ESP market and are the second and fourth-largest firms in that market. The four largest manufacturers of ESPs account for about 97 percent of total sales in the market. The U.S. ESP market is highly concentrated and would become substantially more concentrated as a result of the violation alleged herein. Based on 1986 sales data, Hughes and Baker have, respectively, about 28 and 6 percent of the U.S. ESP market. The combination of the two firms would create a firm with a market share of 34 percent and would increase the HHI by about 300 to about 3350.

24. Entry into the U.S. ESP market is difficult and time consuming. To gain a significant market share, among other things, a firm must acquire a high degree of technological skill and knowledge, design a line of ESPs, establish production facilities with precision tooling capabilities and

stringent quality control, establish an expert technical service capability, deploy a sales and service force capable of providing prompt maintenance and repair service, and establish a reputation for the efficiency, durability and reliability of its products.

25. Hughes and Baker regularly purchase substantial quantities of materials used in the production of tricone rock bits and ESPs in interstate commerce and sell substantial quantities of tricone rock bits and ESPs in interstate commerce. Hughes and Baker each are engaged in interstate commerce, and their activities with respect to tricone rock bits and ESPs are in the flow of, and substantially affect, interstate commerce.

V.

VIOLATION ALLEGED

26. On October 22, 1986, Hughes and Baker entered into an agreement and plan of reorganization that provides for the consolidation of the two companies through a series of transactions such that Hughes and Baker will become wholly-owned subsidiaries of a newly formed company, to be called "Baker Hughes". Both companies' shareholders have approved the proposed merger. The sale would, in effect, merge all of the business of Hughes and Baker, including their U.S. tricone rock bit business and their ESP business, giving Baker Hughes complete control of the two firms' operations.

27. The effect of the proposed merger may be substantially to lessen competition in the U.S. tricone rock bit and U.S. ESP markets in violation of Section 7 of the Clayton Act, in the following ways, among others:

(a) actual and potential competition between Hughes and Baker in the U.S. tricone rock bit market will be eliminated;

(b) competition generally in the U.S. tricone rock bit market may be substantially lessened;

(c) actual and potential competition between Hughes and Baker in the U.S. ESP market will be eliminated; and

(d) competition generally in the U.S. ESP market may be substantially lessened.

PRAYER

WHEREFORE, Plaintiff prays:

1) That the proposed merger of Hughes and Baker be adjudged to be a violation of Section 7 of the Clayton Act;

2) That defendants be permanently enjoined from carrying out any agreement, understanding, or plan, the effect of which would be to combine the tricone rock bit or ESP businesses of Hughes and Baker;

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

4) That Plaintiff recover the costs of this action.

Dated: April 3, 1987

Respectfully submitted,

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