

UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION

	)	
In the Matter of	)	
	)	
COOPERATIVE COMPUTING, INC.,	)	Docket No. C-3757
a corporation.	)	
	)	

**COMPLAINT**

Pursuant to the provisions of the Federal Trade Commission Act and of the Clayton Act, and by virtue of the authority vested in it by said Acts, the Federal Trade Commission, having reason to believe that Cooperative Computing, Inc. ("CCI") has entered into an Agreement and Plan of Merger with Triad Systems Corporation ("Triad"), whereby CCI has agreed to acquire all of the outstanding shares of Triad and that CCI has commenced a tender offer for the outstanding shares of Triad, in violation of Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45, and that such acquisition, if consummated, would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the Federal Trade Commission Act, and it appearing to the Commission that a proceeding in respect thereof would be in the public interest, hereby issues its complaint stating its charges as follows:

**A. THE RESPONDENT**

1. Respondent Cooperative Computing, Inc. ("CCI") is a corporation organized, existing, and doing business under and by virtue of the laws of the State of Texas with its office and principal place of business located at 6207 Bee Cave Road, Austin, Texas 78746-5146.

2. At all times relevant herein, respondent has been and is now engaged in commerce as "commerce" is defined in Section 1 of the Clayton Act, 15 U.S.C. § 12, and is a corporation whose business is in or affecting commerce as "commerce" is defined in Section 4 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 44.

**B. THE PROPOSED ACQUISITION**

3. In October 1996, CCI entered into a merger agreement with Triad Systems Corporation ("Triad") and announced its intention to commence a tender offer for all of the outstanding voting securities of Triad. Under the terms of the tender offer, Triad shareholders will receive \$9.25 per share, or a total of approximately \$181 million. Immediately prior to the

CCI acquisition of Triad, Hicks, Muse, Tate & Furst (“Hicks Muse”), a private investment firm based in Dallas, Texas, will acquire over 50 percent of CCI stock and gain control of CCI.

4. CCI is a privately-held company that develops and markets management information system software for the automotive aftermarket. CCI offers a portfolio of software products that assist auto parts distributors and retailers to track their parts inventory. CCI has developed and markets with its software a proprietary database of auto parts for domestic and foreign automobiles. CCI has had annual sales of approximately \$43 million.

5. Triad, a publicly-held Livermore, California-based company, develops and markets management information system software for the automotive aftermarket and for the hardlines and lumber industries. Triad has had annual sales of approximately \$175 million, including approximately \$90 million attributable to sales to the automotive parts aftermarket. Triad offers a portfolio of applications software that allows automotive parts distributors and retailers to efficiently manage their businesses. Triad also develops and sells a proprietary database of auto parts for domestic and foreign automobiles.

### **C. RELEVANT LINES OF COMMERCE**

6. Warehouse distributors and jobbers are businesses that distribute and sell automotive parts and accessories into the replacement market, known as the automotive aftermarket. Warehouse distributors are large automotive aftermarket wholesalers and distributors of automotive parts and accessories. A warehouse distributor typically purchases automotive parts directly from manufacturers, carries an inventory of tens of thousands of parts, and distributes those parts to jobbers. Jobbers are generally smaller distributors of automotive aftermarket parts and accessories which purchase parts from warehouse distributors. A jobber typically carries an inventory of a few thousand automotive parts and distributes those parts to professional automotive repair service dealers. The functions of traditional warehouse distributors and jobbers are today sometimes combined in what are known as two-step distributors, which are automotive aftermarket distributors who purchase automotive parts and accessories directly from manufacturers and sell those parts directly to automotive repair service dealers.

7. A management information system or “MIS” system is a computer system, including software, and sometimes including hardware, used by warehouse distributors and jobbers to manage their business including managing the inventory of the millions of aftermarket automotive parts manufactured for domestic and foreign-built automobiles. An MIS system performs many functions including inventory control, point-of-sale purchase ordering, accounts receivable, accounts payable, payroll, and general ledger, and aids the warehouse distributor or jobber in managing the business.

8. An electronic automotive parts catalog or “electronic catalog” is a database of aftermarket automotive part numbers that is searchable by make, model and year of car. An electronic catalog quickly and efficiently determines, with make, model and year of automobile information, which automotive part number, and hence, which automotive part is needed for a particular automobile. An electronic catalog is a very extensive database, containing millions of part numbers for domestic and foreign cars.

9. One relevant line of commerce within which to analyze the effects of CCI’s acquisition of Triad is the market for electronic catalogs. There are no economic substitutes for electronic catalogs. Paper catalogs, the only possible substitute for an electronic catalog, are inadequate substitutes because paper catalogs are cumbersome and time consuming to use. The ability of warehouse distributors and jobbers to access information about parts availability and supply the required product is critical to their success, since the industry standard for same day repair service causes service dealers to require delivery of needed parts within 30 minutes. Electronic catalogs are sold as stand-alone products and as parts of integrated MIS systems.

10. Another relevant line of commerce within which to analyze the effects of CCI’s acquisition of Triad is the market for MIS systems integrated with an electronic catalog. An MIS integrated with an electronic catalog enables users to access the vast inventory of automotive part numbers of hundreds of automotive part manufacturers on the same computer terminal as the MIS. Customers often demand an MIS integrated with an electronic catalog to be able to electronically transfer automotive parts data from the electronic catalog to a purchase order in the MIS. This transfer of data is important because it saves time and eliminates any risk of human error during the process of rekeying automotive part numbers into purchase orders.

11. The relevant geographic market within which to analyze the effects of CCI’s acquisition of Triad is either the United States or North America. Many automotive parts and part numbers are unique to the United States and Canada. While software is easily transported, there are no imports into the United States of either electronic catalogs or integrated MIS systems with electronic catalogs.

#### **D. CONCENTRATION**

12. The relevant U.S. or North American markets for electronic catalogs and for MIS systems integrated with an electronic catalog are highly concentrated.

13. There are only a limited number of providers of electronic catalogs . In addition to CCI and Triad, there is only one other firm, Profit-Pro, Inc. ("Profit-Pro"), which develops and sells an electronic catalog for the independent automotive aftermarket. Triad sells both a stand-alone catalog and a catalog integrated with an MIS system, while CCI only sells its catalog

integrated with an MIS system. CCI and Triad are, nonetheless, substantial, direct competitors. The electronic catalog offered by Profit Pro, Inc. is considered inferior compared to the CCI and Triad catalogs, in the size of its database, the accuracy of the part numbers in the database, and the speed with which it is updated. Profit-Pro is a weak, fringe competitor with a small market share.

14. One closed automotive aftermarket distribution network and one large automotive aftermarket retail chain of stores have their own, internally developed electronic catalog. These two electronic catalogs are not available to the independent automotive aftermarket. Moreover, these two electronic catalogs are designed to meet the specific needs of those firms and therefore they have a very limited database of automotive parts compared to the electronic catalogs of CCI and Triad. Therefore, these two catalogs do not constrain the pricing of electronic catalogs by CCI or Triad.

15. Triad and CCI are the dominant providers of MIS systems integrated with an electronic catalog, together controlling approximately 70% of the market. The merger of CCI and Triad would increase the Herfindahl-Hirschman Index (“HHI”) over 1200 points to over 3900. Aside from CCI and Triad, all other firms selling an MIS integrated with an electronic catalog rely upon Triad or Profit-Pro for their electronic catalog. These fringe firms do not constrain pricing nor in any other way substantially impact competition for the development and sale of MIS systems integrated with an electronic catalog.

## **E. CONDITIONS OF ENTRY**

16. De novo entry or fringe expansion into the relevant markets which would be sufficient to deter or defeat reductions in competition resulting from the CCI acquisition of Triad would not be timely or likely. Developing an electronic catalog would require an expenditure of substantial sunk costs and would be time-consuming. Electronic catalog data must be entered manually into a database because the electronic parts data is received in a different format from each of hundreds of automotive parts manufacturers. Entry with a catalog covering only a fraction of available automotive parts would not be acceptable to most warehouse distributors and jobbers.

## **F. EFFECTS OF THE PROPOSED ACQUISITION**

17. The proposed acquisition by CCI of Triad may substantially lessen competition in the United States or North American markets for electronic catalogs and for MIS systems integrated with an electronic catalog by, among other things:

- a. increasing concentration substantially in highly concentrated markets;

- b. eliminating substantial, direct head-to-head competition between CCI and Triad;
- c. substantially increasing the risk of unilateral exercise of market power;
- d. increasing prices for electronic catalogs and MIS systems integrated with an electronic catalog; and
- e. reducing service to customers of electronic catalogs and MIS systems integrated with an electronic catalog.

**G. VIOLATIONS CHARGED**

18. The agreements described in paragraph 3 violate Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45.

19. The acquisition of the outstanding shares of Triad by CCI, if consummated, would violate Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 45.

WHEREFORE, THE PREMISES CONSIDERED, the Federal Trade Commission on this twentieth day of June, 1997, issues its complaint against said respondents.

Donald S. Clark  
Secretary

SEAL: