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Federal Trade Commission

Washington 25, D. C.

Temporary File No. 7-7307
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Gentlemen:

This will acknowledge receipt of your letter of March 18, 1963, in which you request information relating to the acquisition by W. R. Grace & Co. ("Grace") of Dawbarn Brothers, Incorporated, and the proposed acquisition by Grace of the assets of Zonolite Company ("Zonolite").

On January 17, 1963, Grace and Zonolite entered into an agreement providing for the acquisition by Grace of all of the assets of Zonolite in consideration of the issuance by Grace to Zonolite of shares of Grace's common stock and the assumption by Grace of the liabilities of Zonolite. The closing under this agreement is scheduled to take place on April 10, 1963.

This transaction has been under negotiation since the early fall of 1962 and was first announced publicly by Grace and Zonolite in October 1962. In view of the short time remaining prior to the closing under the agreement between Grace and Zonolite it is desired to furnish to you

as promptly as possible the information you have requested regarding the Zonolite acquisition to the extent the same is in the possession of Grace. The additional information which you have requested regarding Grace and the acquisition of Dawbarn Brothers, Incorporated will be submitted to you in due course.

DESCRIPTION OF GRACE AND ZONOLITE

W. R. Grace & Co.

Grace is engaged in the manufacture and sale of chemicals, in transportation, in petroleum, in banking and in agriculture. A brief description of the principal operations of Grace (excluding the operations of the Grace National Bank of New York, Grace Line, Inc. and all foreign operations, except those conducted by the Overseas Chemical Division) is as follows:

Cryovac Division - Cryovac manufactures a diversified line of flexible packaging materials consisting of bags, pouches, and shrinkable transparent film wrap.

Davision Chemical Division - Davison produces agricultural chemicals, principally mixed fertilizers, superphosphates and concentrated phosphates for agricultural uses. In the industrial chemical field, the division manufactures cracking catalysts, industrial catalysts, silica gel, sulphuric acid, and silicofluorides. Davison also produces reactor materials which are sold principally for nuclear energy uses including power reactors.

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Dewey and Almy Chemical Division - Dewey and Almy produces compounded chemical specialties sold primarily to customers who are engaged in or supply the automotive parts, construction and construction materials, shoe, container and closure, textile and luggage and related industries. This Division also produces organic chemicals consisting of copolymer latices, dispersing agents, polyvinyl acetate homopolymer and copolymer emulsions, plasticizers, paper coating latex and latex compounds. Other items include meteorological balloons and soda lime gas absorbents.

Hatco Chemical Division - Hatco produces plasticizers, and esters used in the manufacture of synthetic rubber, vinyl products, coatings and jet lubricants, and sebacic acid.

Nitrogen Products Division - NPD manufactures anhydrous ammonia and urea which are sold for use as fertilizer and animal feed and for certain industrial uses.

Overseas Chemical Division - This Division directs the activities of certain subsidiaries of Grace in sixteen foreign countries and manufactures and sells a diversified line of chemical specialties, primarily the same as those sold by Dewey and Almy and Cryovac.

Polymer Chemicals Division - PCD manufactures and sells high density polyethylene. In addition it sells polystyrene manufactured by Cosden Petroleum Corporation and polypropylene and low density polyethylene manufactured by others.

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Cosden Petroleum Corporation - Cosden, which is approximately 53% owned by Grace, produces and refines crude oil and manufactures petrochemicals at two refineries located in Texas. It is anticipated that Grace's interest in Cosden will be terminated within the next few weeks as a result of announced plans for the liquidation of Cosden.

U. S. Export/Import - Grace's export and import activities consist primarily in trading with Grace's South American subsidiaries.

The following is a schedule of the approximate sales in 1962 of the Grace Divisions referred to above:

	1962 Net Sales ($000)
Cryovac Division	$ 32,139
Davison Chemical Division	111,735
Dewey and Almy Chemical Division	51,291
Hatco Chemical Division	13,834
Nitrogen Products Division	19,315
Overseas Chemical Division	39,051
Polymer Chemicals Division	18,146
Cosden Petroleum Corporation	85,601
U. S. Export/Import	17,904
	$389,016

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Zonolite Company

Zonolite is engaged primarily in the business of mining and expanding vermiculite. Vermiculite is a mineral which, in common with other naturally occurring shales and clays, will, when heated, expand to a volume many times its original size. To date, vermiculite has been used principally as an insulating material, as a lightweight aggregate for concrete and plaster, as a lightweight carrier for agricultural chemicals and as a soil conditioner.

Zonolite markets vermiculite both in the form of vermiculite ore and as expanded vermiculite. The vermiculite ore is sold to expanders, to ~~home and garden fertilizer manufacturers~~ manufacturers of non-farm agricultural chemicals and to miscellaneous industrial users. In addition, the expanded vermiculite is sold by Zonolite to a large number of jobbers and dealers who market the material throughout the United States and Canada for the purposes stated above. About 10% of Zonolite's total production of vermiculite ore is exported to Canada and other foreign countries.

RESPONSES TO QUESTIONS

The following responses are numbered to correspond to the question numbers as set forth in Federal Trade Commission letter of March 18, 1963, addressed to W. R. Grace & Co. Information furnished relates only to the [redacted] of the assets of Zonolite.

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1. The correct corporate title, mailing address and the state and date of incorporation of Grace and Zonolite are as follows:

Corporate Title	Mailing Address	State and Date of Incorporation
W. R. Grace & Co.	7 Hanover Square New York 5, New York	Connecticut June 20, 1899
Zonolite Company	135 South LaSalle Street Chicago 3, Illinois	Montana December 1, 1922

2. (a) Copies of the annual reports of Grace for the calendar years 1961 and 1962 and of the annual reports of Zonolite for the fiscal years ended March 31, 1961 and March 31, 1962 are enclosed herewith in the folder marked "Exhibit 1".

(b) Extracts of those portions of the minutes of the meetings of the Board of Directors of Grace held on December 6, 1962 and January 3, 1963 relating to the proposed acquisition of the assets of Zonolite and of those portions of the minutes of the meetings of the Board of Directors of Zonolite held on November 1, 1962 December 13, 1962 and January 17, 1963, relating to the proposed sale of the assets of Zonolite to Grace, are enclosed herewith in the folder marked "Exhibit 2".

(c) A copy of the Request for Capital Appropriation (RCA #225) relating to the proposed acquisition of the assets of Zonolite as submitted to the Board of Directors of Grace at the meeting thereof held on December 6, 1962 is enclosed herewith in the folder marked "Exhibit 3".

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A copy of the letter to stockholders, notice of special meeting and proxy statement dated January 31, 1963 forwarded by the Zonolite Company to its stockholders in connection with the special meeting of stockholders held on March 4, 1963, to authorize the sale of the assets of that company to Grace is enclosed herewith in the folder marked "Exhibit 4".

Copies of correspondence, memoranda, surveys, studies and reports found in the files of Grace and relating to the acquisition of the assets of Zonolite are enclosed herewith in the folder marked "Exhibit 5".

(d) A copy of the agreement dated January 17, 1963, between Grace and Zonolite providing for the acquisition by Grace of the assets of Zonolite is attached as Exhibit A to the Zonolite proxy statement enclosed herewith in the folder marked "Exhibit 4".

(e) Various product catalogs and other descriptive materials relating to the products manufactured by Grace and Zonolite are enclosed herewith in the folder marked "Exhibit 6".

Questions 3 through 11 are omitted since they do not relate to the acquisition of Zonolite.

12. The following is a list of the products of Zonolite, together with the estimated dollar sales of each such product for the fiscal year of Zonolite ending March 31, 1963:

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PRODUCT	SALES*
Vermiculite Ore	$ 2,080,000
Expanded Vermiculite	
Lightweight Concrete and Plaster Aggregates	2,290,000
Home Insulation, non-farm	1,720,000
Carrier for Agricultural Chemicals	900,000
Masonry Fill Insulation	740,000
Mixed Construction Products (mill mixed plasters for fireproofing and acoustical insulation)	540,000
Miscellaneous (barbecue grill base and minor specialty uses)	390,000
Terralite (soil conditioner)	320,000
TOTAL VERMICULITE	$ 8,920,000
Resale Products	
Glass Fiber Home Insulation	$ 1,800,000
Polystyrene Foam Insulation	200,000
Perlite	800,000
Aluminum Siding	140,000
TOTAL RESALE PRODUCTS	$ 2,940,000
TOTAL GROSS SALES	$11,260,000
Less: Sales Deductions	(660,000)
TOTAL ZONOLITE COMPANY SALES	$10,600,000

Detailed information by product is not available for Texas-Vermiculite Company, Zonolite's 76% owned subsidiary. It is estimated that Texas-Vermiculite's purchases of ore from Zonolite during the fiscal year ending March 31, 1963 will amount to approximately $120,000. These sales are included in the estimate of Zonolite's sales of vermiculite ore set forth above. Texas-Vermiculite's sales for the nine month period ended December 31, 1962 were $369,747. These sales are not included in the above figures.

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13. There are no products or product lines of Grace and Zonolite which are identical or similar in use.

14. (a) There are no products manufactured by Grace which may be used by Zonolite.

(b) There are no products which Zonolite formerly obtained from other companies which, after the acquisition, may be supplied by Grace.

15. No products or product lines were purchased by Grace from Zonolite in 1962.

16. The following information is submitted in respect of Zonolite's products, competitors and percentage of total industry sales of Zonolite. The rank and percentages of the total industry sales represented by sales of Zonolite's competitors hereinafter referred to, is not known to Grace.

Lightweight Concrete and Plaster Aggregates

Zonolite's principal competitors in the lightweight concrete and plaster aggregate market are:

Great Lakes Carbon Corp.
Johns-Manville
United Perlite Corp.
Oneida Perlite Corp.

In addition to the above, lightweight aggregate materials are readily available throughout the country from many local suppliers.

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The total industry sales of lightweight concrete and plaster aggregates for non-structural uses (including shale, slate, pumice and expanded slag, clay, perlite and vermiculite) amounted to approximately 2,000,000 to 2,700,000 tons in 1961 as estimated by "Media-Market Planning Guide", October 1962 issue. While actual sales figures for 1962 are not yet available, it is estimated that sales will not be lower in 1962 than in 1961. Zonolite's sales of lightweight concrete and plaster aggregates in the fiscal year ended March 31, 1963 are estimated to amount to approximately 30,000 tons or approximately 1.1% to 1.5% of the total market. Zonolite's vermiculite aggregate sales account for approximately 1.0% to 1.4% of the market and its sales of perlite (which is purchased as ore and expanded by Zonolite) accounts for approximately 0.1% to 1% of the market.

Home Insulation

Zonolite's principal competitors in the home insulation market are:

Armstrong Cork Co.
Allied Chemical
Baldwin-Hunt-Hill, Inc.
Celotex Corp.
Dow Chemical Co.
The Eagle-Picher Co.
Gustin-Bacon Mfg. Co.
Johns-Manville
Libby Owens Ford Glass Co.
National Gypsum
Owens-Corning Fiberglas Corp.
Pittsburgh Plate Glass Co.
Reynolds Metals Co.
U. S. Gypsum

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The most recent figure presently known to Grace for total industry sales of home insulation materials (including glass fiber, rock and slag mineral wool, wood fiber, paper, polystyrene foam and vermiculite) is the figure set forth in the "Census of Manufactures" for 1958 which was $80,000,000. It is reasonable to assume that the market has grown since that time. However, using the $80,000,000 figure as a base, Zonolite's estimated home insulation sales for the fiscal year ending March 31, 1963 of $3,720,000 amount to approximately 4.7% of the market. Zonolite's sales of vermiculite home insulation represent 2.2% of the market and their sales of glass fiber and polystyrene foam (which are purchased from other manufacturers and resold by Zonolite) amount to approximately 2.2% and 0.3% of the market, respectively.

Carrier for ~~Agricultural~~ non-farm Chemicals

Zonolite's vermiculite competes with the following products as a carrier for non-farm agricultural chemicals: perlite, ground corn cobs, cocoa shells, pecan shells, calcined clay, sand, limestone, rice hulls and straw. Zonolite's principal competitors in this market are:

Great Lakes Carbon
Johns-Manville
United Perlite Corp.
Oneida Perlite Corp.

In addition to the above, materials used as carriers for agricultural chemicals are readily available throughout the country from many local suppliers.

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The size of the [redacted] market for carriers of non-farm agricultural chemicals is not available. Accordingly, Zonolite's percentage of this total market is not known. The total ~~non-farm~~ market for non-farm agricultural chemicals was estimated to be $250,000,000 annually in an article in "Chemical Week" magazine (February 23, 1963, page 121). It is therefore a reasonable inference that the percentage of the total market in carriers for non-farm agricultural chemicals represented by Zonolite's sales in this market is very small.

Masonry Fill Insulation

Zonolite sells a specially treated, water resistant expanded vermiculite for insulating cavity walls and concrete blocks. This application is a new concept in building insulation developed by Zonolite within the past five years. Since the introduction of this concept by Zonolite other products such as shredded scrap styrofoam and urethane foam have begun to be marketed for use in this method of insulation and it is assumed that as the market grows perlite and many other materials will find usage in this application. At present, no figures in respect of the total market are published or otherwise available and until further development of the market it is unlikely that any reliable estimate of Zonolite's share can be determined.

Mill Mixed Plasters

Zonolite's mill mixed plasters for fireproofing and accoustical insulation compete with perlite plasters, accoustical

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tile, cement encasement, lath and plaster, and sprayed on asbestos sold by the following companies which are Zonolite's major competitors in this field:

Armstrong Cork Co.
Asbestos Spray Corporation
Celotex Corporation
Columbia Acoustics & Fireproofing Co.
Great Lakes Carbon Co.
Johns-Manville
Keasbey and Mattison Co.
National Gypsum Co.
Smith and Kanzler Corporation
U. S. Gypsum Co.

Data are not available for the total annual sales of building fireproofing materials. The annual sales of acoustical tile as estimated in "Sound Ideas" (Summer 1962 Edition, published by the National Acoustical Contractors Association) are $120,000,000. It is further estimated by this publication that acoustical tile sales account for 98% of the annual U. S. acoustical insulation market. Based on these figures Zonolite's sales in the building, fireproofing and acoustical insulation market represent less than 1.0% of the market.

Terralite (Soil Conditioner)

Zonolite's Terralite competes with peat moss in the market for soil conditioners. Grace does not know of any single large producer of peat moss. The "Minerals Yearbook, 1961" (Volume II) states that they surveyed 123 producers in 22 states to obtain production statistics.

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This publication shows that the total peat moss consumed in the U. S. in 1961 amounted to $18,200,000. 94% of the peat moss consumed in the U. S. in 1961 was used for soil conditioning. Zonolite's estimated sales of Terralite for the fiscal year ending March 31, 1962 amount to $320,000 or approximately 1.8% of the total soil conditioner market.

Vermiculite Ore

Vermiculite ore production in the U. S. in 1961 according to the "Minerals Yearbook, 1961" was 207,000 tons. In addition, 13,000 tons were imported from South Africa. Zonolite's production of vermiculite ore for the fiscal year ending March 31, 1962 was 201,000 tons or 97% of the U. S. production and imports. Other U. S. producers of vermiculite are:

American Vermiculite Co.
Patterson Vermiculite Co.
Golden Clover Corp.

Zonolite's large share of the U. S. vermiculite production arises out of the natural phenomenon that the largest known vermiculite deposit in the western hemisphere is in a knoll in northwestern Montana which is owned by Zonolite. Geological estimates of the reserves in this knoll indicate that it contains sufficient ore to supply the total U. S. vermiculite usage (at the 1961 consumption rate) for 165 years. It is estimated that this single deposit represents more than 90% of the total developed vermiculite reserves in the United States.

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However, as indicated above, vermiculite finds fierce competition in every market from many of the nation's largest suppliers of construction materials and from such materials as perlite, talc, glass fiber, foamed plastics, peat moss, blast furnace slag, gypsum, rock wool, polystyrene foam, asbestos, sand and many others.

17. (a) Zonolite distributes vermiculite as both ore and as expanded product. Approximately 55% of its ore production ($1,880,000)* is sold in the unexpanded form to ~~home and garden fertilizer~~ OF NON-FARM AGRICULTURAL CHEMICALS manufacturers, miscellaneous industrial users and 10 U. S. expanders. The expanders process the ore by expanding the same in special furnaces and sell the expanded material to jobbers and dealers who are, principally, lumber yards, building materials dealers and hardware outlets. Approximately 10% ($340,000) of the ore is shipped to Canadian and overseas expanders. The remainder of the ore (representing $1,190,000 of ore value or $6,900,000 of finished product value) is expanded in 19 owned plants of Zonolite and is sold directly by the Company to jobbers and dealers. Zonolite's resale products are also distributed through these latter channels.

OF DISTRIBUTION REFERRED TO ABOVE

* The sales values ascribed to the [redacted] channels are based on the estimated sales for the fiscal year ending March 31, 1963.

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17. (b) There are no material changes contemplated in the methods of distribution employed by Zonolite. Grace intends that after the acquisition the products of Zonolite will continue to be sold to all present customers of Zonolite. In addition, Grace will endeavor to have these products sold through additional outlets.

18. Grace considers the proposed acquisition of Zonolite to be an attractive investment for the following reasons:

Zonolite affords Grace an opportunity to invest in a profitable business with a solid earnings base and prospects for reasonable earnings growth. In addition it is believed that with the opportunity to apply Grace's chemical research technology to the vermiculite structure new properties may be developed which will materially increase the usefulness of the material for presently unknown applications. For example, the profitability of the mining and milling operations can be greatly improved by developing new markets for the finer sizes of vermiculite. Grace hopes to accomplish this through a well conceived research program.

It is Grace's intention to continue to employ the present management of the Zonolite business after the acquisition and to continue to have the business operated as an identifiable unit. It is contemplated that Zonolite's operations will continue to be managed from Chicago and utilize the same channels of distribution.

Very truly yours,

W. R. GRACE & CO.

By_____

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