

UNITED STATES OF AMERICA  
BEFORE FEDERAL TRADE COMMISSION

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In the Matter of )  
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 **GENCORP INC.,** )  
 a corporation. )  
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**Docket No. C-4099**

**COMPLAINT**

Pursuant to the Federal Trade Commission Act and the Clayton Act, and by virtue of the authority vested in it by said Acts, the Federal Trade Commission (“Commission”), having reason to believe that Respondent GenCorp Inc. (“GenCorp”), a corporation subject to the jurisdiction of the Commission, has entered into an agreement whereby GenCorp would acquire certain assets of Atlantic Research Corporation (“ARC”), a subsidiary of Sequa Corporation (“Sequa”), in violation of Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the Federal Trade Commission Act (“FTC Act”), as amended, 15 U.S.C. § 45, 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:

**I. RESPONDENT**

1. Respondent GenCorp Inc. is a corporation organized, existing and doing business under and by virtue of the laws of the State of Ohio, with its office and principal place of business located at Highway 50 and Aerojet Road, Rancho Cordova, California 95670.
2. Respondent GenCorp is engaged in, among other things, the research, development, manufacture and sale of in-space liquid propulsion thrusters, including monopropellant, bipropellant apogee, dual mode apogee, and bipropellant attitude control thrusters.
3. Respondent is, and at all times herein has been, engaged in commerce, as “commerce” is defined in Section 1 of the Clayton Act as amended, 15 U.S.C. § 12, and is a corporation whose business is in or affects commerce, as “commerce” is defined in Section 4 of the Federal Trade Commission Act, as amended, 15 U.S.C. § 44.

## **II. THE PROPOSED ACQUISITION**

4. On or about May 2, 2003, GenCorp's Aerojet-General Corporation ("Aerojet") subsidiary entered into a Purchase Agreement, as subsequently amended August 29, 2003 ("Agreement"), to acquire substantially all of the assets of Sequa's ARC subsidiary as well as the shares of ARC UK Limited ("Acquisition"). The ARC airbag inflator business is not included in the sale to Aerojet. Under the terms of the Agreement, the Acquisition is valued at approximately \$133 million.

## **III. THE RELEVANT MARKETS**

5. For the purposes of this Complaint, the relevant lines of commerce in which to analyze the effects of the Acquisition are:

- a. the research, development, manufacture and sale of monopropellant thrusters, a type of in-space propulsion thruster that utilizes a single liquid fuel source, typically hydrazine, and is used primarily to perform attitude control and station-keeping maneuvers on spacecraft;
- b. the research, development, manufacture and sale of bipropellant apogee thrusters, a type of in-space propulsion thruster that utilizes a liquid fuel, typically monomethylhydrazine, in combination with an oxidizer and is used primarily to perform apogee maneuvers on spacecraft;
- c. the research, development, manufacture and sale of dual mode apogee thrusters, a type of in-space propulsion thruster that utilizes hydrazine in combination with an oxidizer and is used primarily to perform apogee maneuvers on spacecraft; and
- d. the research, development, manufacture and sale of bipropellant attitude control thrusters, a type of in-space propulsion thruster that utilizes a liquid fuel, typically monomethylhydrazine, in combination with an oxidizer and is used primarily to perform attitude control and station-keeping maneuvers on spacecraft.

6. For the purposes of this Complaint, the United States is the relevant geographic market in which to analyze the effects of the Acquisition in the relevant line of commerce. Foreign suppliers of in-space propulsion thrusters are not effective competitors to supply the relevant products to most U.S. in-space propulsion customers for a number of reasons, most notably U.S. export regulations, and, for many Department of Defense programs, national security issues.

## **IV. THE STRUCTURE OF THE MARKETS**

7. The U.S. markets for the research, development, manufacture and sale of monopropellant, bipropellant apogee and dual mode apogee thrusters are extremely highly concentrated, as measured by the Herfindahl-Hirschman Index (“HHI”). Aerojet and ARC are the only two significant suppliers of monopropellant, bipropellant apogee and dual mode apogee thrusters in the U.S. market and each other’s closest competitor. The proposed acquisition, if consummated, would result in a near monopoly in each of these relevant markets.

8. The market for the research, development, manufacture and sale of bipropellant attitude control thrusters is highly concentrated as measured by the HHI. ARC is the leading supplier of bipropellant attitude control thrusters in the United States. For many customers, including the vast majority of U.S. governmental customers, ARC essentially has a monopoly position in this market. Although Aerojet does not currently produce bipropellant attitude control thrusters, it has substantial existing expertise in this area, has produced these thrusters in the recent past and is a likely potential entrant into this market. The proposed acquisition, if consummated, would eliminate the most likely and effective potential competitor in this market.

## **V. ENTRY CONDITIONS**

9. Entry into each of the relevant markets is a difficult process because of, among other things, the time and cost associated with researching and developing in-space propulsion thrusters, acquiring the necessary production assets, developing the expertise needed to successfully design, produce, and test these products, as well as developing heritage (i.e., actual flight time in space) for these products.

10. New entry into any of the relevant markets, other than Aerojet’s potential entry into the research, development, manufacture and sale of bipropellant attitude control thrusters, is not likely to occur to deter or counteract the adverse competitive effects described in Paragraph 12 because the costs of entry are extremely high relative to the potential sales opportunities available to an entrant.

11. New entry into any of the relevant markets, other than Aerojet’s potential entry into the research, development, manufacture and sale of bipropellant attitude control thrusters, would not occur in a timely manner to deter or counteract the adverse competitive effects described in Paragraph 12 because it would take over two years for an entrant to accomplish the steps required for entry and to achieve a significant market impact.

## **VI. EFFECTS OF THE ACQUISITION**

12. The effects of the Acquisition, if consummated, may be substantially to lessen competition and to tend to create a monopoly in the relevant markets in violation of Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the FTC Act, as amended, 15 U.S.C. § 45, in the following ways, among others:

- a. by eliminating actual, direct, and substantial competition between Aerojet and ARC in the relevant markets for the research, development, manufacture and sale of monopropellant, bipropellant apogee and dual mode apogee thrusters, thereby:
  - (i) creating a virtual monopoly in each of these relevant markets;
  - (ii) substantially increasing the likelihood that Aerojet will unilaterally exercise market power in each of these relevant markets;
  - (iii) reducing current incentives to improve service or product quality, or pursue further innovation in each of these relevant markets; and
  - (iv) increasing the likelihood that U.S. commercial, civil and defense customers would be forced to pay higher prices for monopropellant, bipropellant apogee and dual mode apogee thrusters; and
  
- b. by eliminating actual potential competition between Aerojet and ARC in the market for the research, development, manufacture and sale of bipropellant attitude control thrusters, thereby:
  - (i) increasing the likelihood that U.S. commercial, civil and defense customers would be forced to pay higher prices in the future for bipropellant attitude control thrusters than they otherwise would have; and
  - (ii) reducing future incentives to improve service or product quality, or pursue further innovation in this market.

## **VII. VIOLATIONS CHARGED**

13. The Agreement described in Paragraph 4 constitutes a violation of Section 5 of the FTC Act, as amended, 15 U.S.C. § 45.

14. The Acquisition described in Paragraph 4, if consummated, would constitute a violation of Section 7 of the Clayton Act, as amended, 15 U.S.C. § 18, and Section 5 of the FTC Act, as amended, 15 U.S.C. § 45.

WHEREFORE, THE PREMISES CONSIDERED, the Federal Trade Commission on this fourteenth day of October, 2003, issues its Complaint against said Respondent.

By the Commission.

Donald S. Clark  
Secretary

SEAL: