Dr. E. A. Barr
Chemicals & Plastics
26th Floor

October 14, 1968

Mr. W. M. Anderson
Dr. L. P. Jehle
Mr. R. S. Wishart, Jr.

Attached is a summary of the information presented at the Asbestos Business workshop on October 11, 1968.

Rumors that UCC is considering doing something other than continue the Asbestos Business as is have diffused outside the corporation. Unfortunately, some of these emphasize words like "dissolve" or "close down" and may have a depressing effect on the value of the business. While our own people are generally aware of our plans, no clear cut position has been presented to them in writing. I request permission to send the attached "position paper" to our own people with the comment that it should be used as a basis for answering questions raised by those outside the company.

F. D. Dexter

FDD/lr
Att.

Summary
Calidria Asbestos Workshop

UCC's asbestos business is based on extensive ore claims and a proprietary process for recovering the asbestos fiber. The claims, in central California, contain reserves conservatively estimated at 200MM tons of ore containing about 50% recoverable asbestos fiber. The production facilities are located near King City, California, about 150 miles southeast of San Francisco in the Salinas River valley and are about 55 road miles west of the deposits. A wet benefecation process is used to recover the asbestos fiber which produces a higher purity product than that available from the standard dry process. The process also lends itself to chemical modification of the product.

UCC's direct capital investment in the asbestos business is as follows:

	GFI, M$	Net Book Value as of 12/31/68*, M$
Plant & Equipment	2,600	922
Plant Land	238	238
Mineral Rights & Land	447	447
Total	3,285	1,607

* 1968 depreciation estimated

The plant has a capacity of about 46,000 tons of finished product per year.

UCC has been actively prosecuting the asbestos project since 1960. During the nine years, 1960 through 1968, losses have been as follows:

Cumulative ROII loss*	$9,332M
Cumulative Net Income loss*	4,479M

* 1968 figures estimated

Brief financial data for 1967 and 1968 (8 months actual, 4 months estimated) are:

	1967		1968	
	Actual	Plan	Est. Actual	Plan
NIFS	1,609	3,801	1,800	2,912
Gross Income	(39)	1,711	285	217
Oper. Income	(971)	637	(741)	(812)

The major reasons for the poor performance are much lower than estimated penetration of the pulp and paper markets combined with lack of exposure and effort in other markets. Considerable work is going into correcting this situation and the most recent projected economics are as follows (all M$):

	1969	1971	1973
NIFS	3,210	4,455	5,850
Gross Income	1,055	1,930	2,770
Oper. Income	130	795	1,445
Net Income	(68)	417*	906*

* Includes effect of 23% depletion allowance

We believe the basis for these projections was sound. However, since they were made, rumors that UCC is considering selling, or even abandoning, this business have spread outside and the effects of this on the business are unpredictable at this time.

Discussions within the New Products Department resulted in a recommendation to divest ourselves of this business in 1969. The factors considered in analyzing all of our new activities recognized that:

1. The planned level of overhead will not accommodate all the newer projects now active.

2. We are trying to do more things than we can manage effectively.

3. The commitment and nature of many of our newer projects forces us to continue them (e.g. peracetic acid, Polyox).

Examination of the Calidria Asbestos business in the above context revealed two key facts; (a) the business is a well structured divestment opportunity as it is a separate activity of UCC and (b) UCC has something to sell--large mineral reserve and technology associated with a small but active business. Thus the alternate of divesting the business some time in 1969 looked the most attractive of those considered and these spanned a range running from "continue to operate" to "abandon immediately."

Since the recommendation to divest ourselves of the asbestos business is recent, there is much to be done before we can start any negotiation with prospective buyers. The two most important of these are the organization of the Calidria Asbestos business as a separate, wholly owned subsidiary of UCC and the definition of divestment terms acceptable to UCC. The former of these is dictated by the possibility that such an arrangement could provide better tax treatment should UCC decide to take stock rather than cash for the business. The latter has not yet been dealt with in detail although analyses of several bases for establishing a "price" point to a figure of about $10-$15MM as a good starting point.

Assuming concurrence with the recommendation, work is proceeding toward this end. No external disclosures have been made, by the immediate asbestos business management, but rumors are strong and there is an urgent need to communicate the facts to the involved UCC people. A draft of such an announcement is attached and we wish to release it, internally, immediately.

1. UCC is considering divestment of the Calidria Asbestos business and will plan to do so if a financially attractive and otherwise suitable offer is received. The business will continue to be actively conducted by UCC while this is being investigated and it is anticipated that, in the event the business is sold, the purchaser will follow the market pattern set by UCC.

2. UCC's decision to consider an offer for the Calidria Asbestos business is made on the bases that:

   a. UCC is aiming to concentrate its newer program efforts in areas more directly served by UCC's special expertise and technology. Although the Calidria Asbestos business has an attractive financial future, it is not as closely related to UCC's basic skills as are many of its other programs.

   b. The Calidria Asbestos business is a clearly defined, separate activity of UCC and thus represents a well structured divestment opportunity. This is not true of some businesses, which form a part of a large plant or operational complex.

   c. UCC's Calidria Asbestos assets, consisting of plant, mineral reserve, patents and customers, are tangible and of significant value. UCC thus believes that a good return can be realized from sale of this business.

3. UCC fully intends to continue prosecuting the Calidria Asbestos business activity and will provide a continuing supply of material to all customers during this period.