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FEB - 6 2004

Washington, D.C.
STATE OF ILLINOIS
Pollution Control Board

February 6, 2004

By Personal DeliveryDorothy M. Gunn, Clerk
Illinois Pollution Control Board
100 West Randolph Street
Suite 11-500
Chicago, IL 60601Bradley P. Halloran, Hearing Officer
Illinois Pollution Control Board
James R. Thompson Center
100 W. Randolph - Suite 11-500
Chicago, IL 60601**Re: In the Matter of Petition of Noveon, Inc. for an Adjusted Standard from 35
Ill. Adm. Code 304.122, PCB No. AS 02-5**

Dear Ms. Gunn and Mr. Halloran:

In connection with the hearing on the above referenced matter, Noveon, Inc. is submitting the Written Testimony of Linda Shaw to the Illinois Pollution Control Board, and by carbon copy to the Illinois EPA. Ms. Shaw is the Finance Manager of the Polymer Additives business unit and Plant Controller of the Akron Plant of Noveon under a claim of trade secret protection, or, in the alternative, as confidential data submitted under the Illinois Environmental Protection Act, pursuant to 5 ILCS 5/7(a) and 35 Il. Adm. Code Part 130.

A trade secret is defined as "the whole or any portion or phase of any . . . business plan . . ." under 35 Il. Adm. Code Section 101.202. This document, and its attached spreadsheet (Henry Plant S&I's, Unaudited, Proforma) includes production figures and costs and profits of Noveon's Henry facility. We are providing this testimony to the Board and Illinois EPA under a claim of trade secret or other non-disclosable information pursuant to 2 Ill. Adm. Code Part 130, and this document has been marked in accordance with the rules concerning such claims.

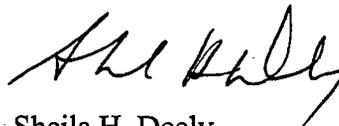
To facilitate the Illinois Pollution Control Board's protection of the enclosed information as protected as a trade secret or, in the alternative, as , we are providing the information required by 2 Ill. Adm. Code Section 130.203 or Section 130.404. This information in the enclosed testimony is not available publicly outside of Noveon and is restricted information within Noveon. Noveon uses this information as part of its business plan to plan strategically. The information is considered sensitive in a competitive market and the disclosure of business planning and manufacturing and selling costs would provide a competitive advantage to an outsider, particularly Noveon's competitors. This information is available to only key Noveon

Ms. Dorothy Gunn
Mr. Bradley Halloran
February 6, 2004
Page 2

employees involved in marketing, planning and production. It is not available to outside parties or even generally to other parties within the company. Noveon treats the information as confidential and proprietary within its business. Noveon has no knowledge that the information requested by the Board has ever been published or disseminated beyond the company except to attorneys and agents obligated to treat the information as protected.

Please feel free to contact me concerning any additional information you need with respect to Noveon's claim of trade secret or other confidential, non-disclosable protection.

Very truly yours,



Sheila H. Deely

cc: Deborah Williams, Illinois EPA (by facsimile and mail)
Ken Willings
Linda Shaw
Mark Latham

CH02/22291764.1

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STATE OF ILLINOIS
Pollution Control Board

BEFORE THE ILLINOIS POLLUTION CONTROL BOARD

IN THE MATTER OF:)
)
Petition of Noveon, Inc.)
)
)
)
for an Adjusted Standard from)
35 Ill. Adm. Code 304.122)

AS 02-5

NOTICE OF FILING

Dorothy M. Gunn, Clerk
Illinois Pollution Control Board
James R. Thompson Center
100 West Randolph Street
Suite 11-500
Chicago, IL 60601

Deborah Williams
Assistant Counsel
Division of Legal Counsel
Illinois Environmental Protection
Agency
1021 N. Grand Avenue East
Springfield, IL 62794-9276

Bradley P. Halloran
Hearing Officer
Illinois Pollution Control Board
James R. Thompson Center
100 West Randolph Street
Suite 11-500
Chicago, IL 60601

PLEASE TAKE NOTICE that on **Monday, February 9, 2004**, we filed the attached **Substituted Written Testimony of Linda M. Shaw** with the Illinois Pollution Control Board, a copy of which is herewith served upon you.

Respectfully submitted,

NOVEON, INC.

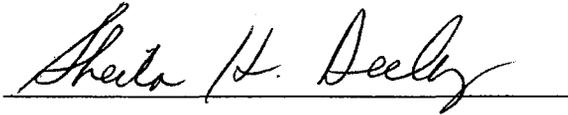
By: Sheila H. Deely
One of Its Attorneys

Richard J. Kissel
Mark Latham
Sheila H. Deely
GARDNER CARTON & DOUGLAS LLP
191 N. Wacker Drive – Suite 3700
Chicago, IL 60606

THIS FILING IS SUBMITTED ON RECYCLED PAPER

CERTIFICATE OF SERVICE

The undersigned certifies that a copy of the foregoing **Notice of Filing and Substituted Written Testimony of Linda M. Shaw** was filed by hand delivery with the Clerk of the Illinois Pollution Control Board and served upon the parties to whom said Notice is directed by first class mail, postage prepaid, by depositing in the U.S. Mail at 191 N. Wacker Drive, Chicago, Illinois on Monday, February 9, 2004 and facsimile.



CH01/12336676.1

**TRADE SECRET
NON-DISCLOSABLE INFORMATION**

BEFORE THE ILLINOIS POLLUTION CONTROL BOARD

IN THE MATTER OF:)	
)	
Petition of Noveon, Inc.)	
)	AS 02-5
)	
for an Adjusted Standard from)	
35 Ill. Adm. Code 304.122)	

WRITTEN TESTIMONY OF LINDA M. SHAW

I am Linda M. Shaw, Finance Manager of the Polymer Additives business unit and Plant Controller of the Akron Plant of Noveon, Inc. My purpose here today is to explain the financial performance of the Henry Plant of Noveon, Inc. in years 2001, 2002 and 2003.

I. Professional Credentials

I base my testimony on more than 20 years of financial experience with Noveon/BFGoodrich. Since 1998 I have performed financial analysis solely for the Polymer Additives business unit of which the Henry plant resides. Please refer to my resume for a complete listing of the positions held and the knowledge and experienced acquired during my career.

II. Historical Proforma Financial Results

The Henry Plant Sales and Income (S&I) report is an unaudited report compiled primarily from using financial data from the information systems. . This financial data is used in the ordinary course of business and relied upon within Noveon for management purposes. This report is used by management to gain an understanding of the financial

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condition of the Henry plant and to make decisions. The definition and source of each line item on the S&I are as follows:

- A) Volume: Sales volume sold to non-affiliated third parties. The source of this information is the sales system which ties back to the general ledger accounting system.
- B) Revenue: Net sales value sold to non-affiliated third parties. Net sales is calculated by taking gross sales less allowances, returned goods and pricing adjustments. The source of this information is the sales system which ties back to the general ledger accounting system.
- C) Variable Costs: Variable portion of cost of goods sold. It is the manufacturing costs that vary based on sales volume and includes largely raw materials, utilities and freight. Noveon uses standard costs that are developed on an annual basis for each product as a starting point in determining variable costs. The variable portion of the standard cost of each product is multiplied by the sales volume of each product to determine the standard variable costs. Freight and production variances are then added to the standard variable costs to arrive at total variable costs. Production variances are either favorable or unfavorable and occur when actual raw material pricing, actual raw material usage, actual utility pricing and actual utility usage are different than the assumptions used to develop the standard costs. For example, if a raw material price is higher than what was assumed in the standard cost, an unfavorable raw material pricing variance occurs and the variance is added to the variable standard cost along with any

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other production variances and freight to determine the total variable cost. The source of this information is the general ledger accounting system.

- D) **Market Contribution:** Revenue less Variable Costs. It is the variable margin of the business used to cover the salaries, overhead, depreciation, rent, insurance and taxes of the manufacturing operations and the SG&A that support the business unit and to earn a profit.
- E) **Manufacturing Overhead Costs:** Fixed portion of cost of goods sold. It is the manufacturing costs that do not vary based on sales volume and includes the direct and indirect product costs at the plant such as salaries, overhead, rent, insurance and taxes. The source of this information is the general ledger accounting system.
- F) **Gross Margin:** Market Contribution less Manufacturing Overhead Costs. It represents the margin of the business used to cover the salaries, overhead, depreciation, rent, insurance and taxes of the SG&A that support the business unit and to earn a profit.
- G) **Direct SG&A Costs:** Selling and general administrative costs that directly support the business unit such as warehousing, marketing, sales, R&D and business administration. Some of these costs are incurred directly at the Henry plant while some costs are allocated to the plant based on a fixed percentage that represents the amount of effort needed to support the plant. The source of this information is the general ledger accounting system.
- H) **Corporate SG&A Costs:** Selling and general administrative costs that are not directly related to the business unit but are necessary to run a company such as

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Executive Office, Legal, Treasury, IT and Corporate Finance. Noveon's policy is to hold these costs in a Corporate pool and not allocate them to the business units. The income from the business units, however, must cover these costs as well as interest and taxes to generate a profit for the company. These costs typically average 5-6% of revenue.

- I) **Operating Income:** Gross Margin less SG&A Costs. It is the income earned by the business that is used to cover interest and taxes and generate a profit for the company.
- J) **Plant, Property and Equipment:** The book value of the plant, property and equipment of the Henry plant. The source of this information is the general ledger accounting system.

III. Ammonia-Nitrogen Treatment Alternatives Analysis

I was directed to assess the effect of the costs of certain alternatives as determined in the Memorandum to Mark Latham, Esq. concerning Ammonia-Nitrogen Treatment Alternatives by T. Houston Flippin memorandum dated May 17, 2002. I assessed the costs reported in that memorandum of treatment alternatives 3 (alkaline air stripping of secondary clarifier effluent), 6 (nitrification of PVC tank wastewater), 7 (nitrification of combined wastewaters), and 10 (nitrification of secondary clarifier effluent).

There would be financial implications if the Henry plant would be required to implement one of these Ammonia-Nitrogen Treatment Alternatives discussed in T. Houston Flippin memorandum dated May 17, 2002. The financial implications would vary for each alternative as a result of the capital investment that would be required and

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the additional operating and maintenance costs that would be incurred. The breakdown of the financial implications are as follows:

- A) Incremental costs: The Henry plant would incur additional operating and maintenance costs to treat the ammonia-nitrogen. The costs of each alternative treatment are detailed in the T. Houston Flippin memorandum dated May 17, 2002.
- B) Depreciation: The Henry plant would be required to invest additional capital to treat the ammonia-nitrogen. This capital would be depreciated over the lives of the assets which are typically set at a maximum of 15 years.
- C) Incremental capital: The Henry plant would be required to invest additional capital to treat the ammonia-nitrogen. This capital would be a further investment in the Henry plant. The capital cost of each alternative treatment is detailed in the T. Houston Flippin memorandum dated May 17, 2002.

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**TRADE SECRET
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Redacted

Linda M. Shaw
Finance Manager, Polymer Additives
Plant Controller, Akron
Noveon, Inc.

CH01/12337053.1

Noveon Restricted

Trade Secret Non-Disclosable
Information

**Henry Plant S&I's* (Unaudited, Proforma)
000's**

REDACTED

Footnotes:

- (A) Trade sales volume
 - (B) Gross sales less allowances, returned goods, and pricing adjustments
 - (C) Production costs that vary with volume such as raw materials, utilities and freight
 - (D) Revenue less Variable Costs
 - (E) Direct and indirect production costs that are "fixed" in nature such as salaries, overhead, rent, insurance, taxes
 - (F) Market Contribution less Manufacturing Overhead
 - (G) Costs that directly support the business unit such as marketing, sales, R&D and business administration
 - (H) Corporate costs that are not directly related to the business but are necessary to run a company such as IT, Treasury, Corporate Finance, Executive Office;
Noveon's policy is to not allocate these costs to the business units; the income from the business units, however, must cover these costs as well as interest and taxes to generate income for the company. For Noveon, these costs typically average 5-6% of revenue. Used 5.5% for this analysis.
 - (I) Gross Margin less SG&A
 - (J) Book value of the Henry plant fixed assets such as plant, property and equipment
-
- (1) Treatment Alternatives per T. Houston Flippin memorandum dated May 17, 2002
 - (2) Annual operating and maintenance Cost Estimates for Treatment Alternatives
 - (3) Depreciation related to the capital costs estimates for Treatment Alternatives
 - (4) Capital cost estimates for Treatment Alternatives

Linda M. Shaw

8877 Sherri Drive
Macedonia, OH 44056

Home: 330-467-6056
Work: 330-374-3954

- EXPERIENCE**
- Noveon Inc. (formerly BFGoodrich)** July 1981 – Present
A \$1.1 billion revenue corporation headquartered in Brecksville, Ohio with major business segments in acrylic polymer thickeners, chlorinated PVC, thermoplastic polyurethanes, coating emulsions, and plastic and rubber additives.
- 1998 – Present
Finance Manager – Polymer Additives Division/Plant Controller - Akron; Akron OH
- Business analyst of \$90 million global business unit with plants in the U.S. and operations in Europe and Asia Pacific, reporting to the business unit Vice President and Vice President/Controller
 - Responsible for financial and strategic planning, operational analysis, and financial justification of business unit projects and capital investments
 - Provided financial guidance to marketing and sales personnel on product pricing and sales proposals
 - Performed divestment and acquisition analysis
 - Responsible for accounting and controls at the Akron facility with an annual operating budget of \$16 million and employment of 120 (2001- present)
- 1995 – 1998
Manager, General Ledger and Cost Accounting – Performance Materials Segment; Brecksville OH
- Responsible for the general ledger, cost and capital accounting functions of the entire segment including the supervision of seven employees
 - Led the design and implementation of the JDE general ledger system
 - Assisted the implementation of customer order, inventory, manufacturing and capital tracking systems
 - Supported business units in the integration of acquisitions by providing financial direction on accounting policies and structuring of the general ledger
- 1993 – 1995
Manager, General Ledger, Budgeting and Reporting – Performance Materials Segment; Brecksville OH
- Responsible for the general ledger accounting, international accounting, budgeting and financial reporting functions of the entire segment including the supervision of four employees
 - Coordinated the budgeting process for the segment
 - Directed the globalization of the foreign subsidiaries' results into the domestic business unit results and the integration of the Canadian entity
 - Developed PC spreadsheets and computer programs generating savings equal to the cost of one employee
- 1990 – 1993
Supervisor, Financial Reporting and Budgeting – Performance Materials Segment; Brecksville OH
- 1988 – 1990
Supervisor, Ledger and Reporting – Geon Vinyl Division; Independence OH
- 1986 – 1988
Special Accountant, Cost Accounting – Geon Vinyl Division; Independence OH
- 1982 – 1986
Sr. Accountant & Accountant, International Accounting – Chemical Group; Independence OH
- 1981 – 1982
Associate Accountant, ACDP – Chemical Group; Independence OH