EXHIBIT 32

Diamond Shamrock

Interoffice Correspondence

To: J. F. Kelley and T. J. Fretthold
From: Craig Murrin
Date: August 2, 1983

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Subject: Reorganization of Diamond Shamrock Corporation into Sibiling Entities

It is proposed that following the Natomas combination the present assets of Diamond Shamrock Corporation ("DSC") will be restructured so that New Diamond Corporation ("New Diamond"), which will be renamed "Diamond Shamrock Corporation", will own two or more new subsidiaries that will own DSC's oil and gas-related assets. The chemical business will remain in DSC, which will be renamed "Diamond Chemical Company".

In order to create this structure, it seems inescapable that at some point a transfer of DSC's O&G property upstream to New Diamond must take place. Either DSC would contribute the assets to a subsidiary and then distribute the shares thereof upstream to New Diamond, or it would distribute the assets and let New Diamond create the new sub and contribute the assets to it.

This memo will explain that it does not make any difference under the DSC indentures which of the two foregoing routes are chosen. (The indentures securing the 9%, 9 1/8%, 7.70% and 8 1/2% Debentures and that of May 1, 1983 securing the recent smorgasbord issue are alike in all relevant respects except that only the first two contain a dividend payment restriction, and the May 1, 1983 indenture does not restrict dispositions of Restricted Subsidiaries. The 9 1/8%, which are the most restrictive, will be used as an example; all references to the "Indentures" refer to the 9 1/8). It does matter, however, whether the debt issued under the Indentures is to follow the assets up to New Diamond or is to remain in DSC. If New Diamond is to assume the debt, the asset transfer will probably be permitted as a "transfer [of].... substantially all" DSC's assets to a successor corporation, which is a permitted transaction under Section 9.1 of the Indentures. If the debt is to remain in DSC, the upstream transfer will probably be treated as a "distribution on [the] capital stock" of DSC under the restriction on dividends in Section 3.8(a) of the Indentures. Since the maximum amount available for dividends under the Indentures' test was $1,069,382 as of June 30, 1983, the distribution in this form probably would require consent of the debentureholders.

1. Dividend restriction if Debt Remains in DSC. If the debt remains in DSC rather than following the assets upstream to New Diamond, it seems difficult to avoid the dividend restrictions, whatever form the upstream transfer takes. This is, of course, the same problem encountered in the APC spinoff. It should be noted that we have less room to claim ambiguity in the language than Natomas does. Their most troublesome instruments (the Eurodollar docments) generally restrict "dividends". I wouldn't be embarassed to argue that an upstream distribution in the context of a regoranization is not a "dividend", but I am hard put to say it is not a "distribution with respect to [DSC's] stock". This broader language appears in the Indentures.

In any case it is inescapably true that following the upstream transfer the debentureholder is looking for repayment to a smaller corporation. The obvious purpose of the dividend restriction is to limit the debtor's ability to shrink its asset base unilaterally. American Bar Foundation, Commentaries on Model Indenture Provisions 402 (1971) Where, as here, the shrinkage transcends the limit, any argument based on the form or context of the transaction, or on the words of the instrument is, I think, weak.

2. Transfer of the Debt Along with the Assets. My memo to JFK of December 13, 1982 pointed out that if New Diamond assumes the debt secured by the Indentures at the time of the upstream transaction, the distribution should be permitted as a "transfer of....substantially all" DSC's assets to a successor corporation, if the amount of assets is enough to constitute "substantially all". At the time of the 1982 memo, we estimated that the assets to be transferred would amount to about 70% of the total. I have in my file a draft memo from an unidentified outside firm, possibly Jones, Day, that concludes that it would be "very difficult to render a favorable unqualified opinion" that 70% constitutes "substantially all", after reviewing cases that go different ways.

Undeniably, it is virtually impossible to answer the question "how much is enough" by reference to caselaw or any other non-quantitative standard. But I believe the

Indentures themselves provide an exact standard: If the value of the assets remaining behind in DSC after the distribution does not exceed $1,069,382, the dividend limit, then the upstream transfer is a transfer of "substantially all" assets.

As we have seen above in part 1, the dividend restriction addresses the issue of how much the debtor is permitted to shrink the asset base of the corporation to which the holders are looking for payment. This is also the main issue in the "substantially all" cases. See Sharon Steel Corp. v Chase Manhattan Bank, N.A., 691 F2d 1039, 1050 (2d Cir. 1982) (purpose of merger clause from lender's viewpoint is "to assure that the principal operating assets of the borrower are available for the satisfaction of the debt"). The form of the transaction should not matter; it is the same from the debentureholders' viewpoint (on the asset side) if DSC spins off the chemical business as it is if DSC moves the assets other than the chemical business to another corporation that assumes the debt. In either case, the debtor corporation loses the chemical company's assets.

The difference, of course, occurs on the liability side. In the upstream transfer of the O&G assets, (either in the form of assets or subsidiary shares) from DSC to New Diamond, New Diamond would get these assets but none of the contingent liabilities of DSC. On the other hand, if DSC spun off the chemical business and then merged into New Diamond or liquidated (either transaction would clearly be permitted under Section 9.1), New Diamond would be saddled with its contingent liabilities. In other words, the upstream transfer to New Diamond is more favorable to the debentureholders than the (clearly permitted) spinoff of the chemical assets followed by the (clearly permitted) upstream merger or liquidation.

Undoubtedly, the kind of assets transferred to the would-be successor is an important factor as well as the amount, as the Sharon Steel Court's focus on "operating" assets attests. On this score though, the upstream transfer of the O&G assets clearly passes muster, since oil and gas represents the bulk of DSC earnings capacity and (since the '82 10-K), its overt business emphasis.

3. Form of the Upstream Transfer. As noted at the beginning, it makes no difference under the Indentures whether DSC transfers stock or assets to New Diamond.

(a) Stock. Section 3.5 of the Indentures forbids DSC to "part with control of" any shares of stock of a Restricted Subsidiary (that is, one that owns producing, refining or manufacturing property) unless (a) the sub is sold as an entirety for cash or stock of a corporation unaffiliated with DSC or (b) the Restricted Subsidiary "continue[s] to be a Subsidiary" immediately after the transaction. If DSC wishes to structure the upstream transfer as a distribution of stock, it need only (i) contribute the O&G assets to a new subsidiary ("O&G Sub") in exchange for its shares (ii) contribute the shares of O&G Sub to another subsidiary ("Holding Sub") in exchange for its shares and (iii) distribute the shares of Holding Sub to New Diamond. Note that the contribution of O&G Sub shares to Holding Sub in transaction (ii) satisfies Section 3.5(b) because O&G Sub "continue[s] to be a Subsidiary." The Indentures define "Subsidiary" as a corporation a "majority of the voting shares of which is...owned directly or indirectly" by DSC. Since Holding Sub owns no producing, refining or manufacturing property, we have previously concluded that Holding Sub is not a Restricted Subsidiary, and that consequently Section 3.5 would not restrict its distribution.

The foregoing discussion is, of course, subject to the dividend restrictions and the "substantially all" issue, discussed above.

(b) Assets. Once again subject to the dividend and sell-out questions, it appears that the O&G assets themselves could be distributed to New Diamond in lieu of stock. At this level of generality the only relevant restriction appears to be Section 3.3, which requires DSC to maintain its buildings and properties. It provides that nothing therein "shall prevent or restrict the sale, abandonment or other disposition of property" which DSC may "deem advisable".

In summary, I believe the reorganization can be accomplished by distributing either O&G assets or shares in DSC subsidiaries holding such asets to New Diamond, but only if New diamond assumes the debt secured by the Indentures. It should be noted that the upstream transaction would require the permission of the banks under the $750MM revolver, since Section 6.05 of that document prohibits all dispositions of "substantially all" assets without the bank's permission.

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