DOW CHEMICAL CO /DE/
Form 10-Q
August 04, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **JUNE 30, 2010**

Commission File Number: **1-3433**

THE DOW CHEMICAL COMPANY

(Exact name of registrant as specified in its charter)

Delaware	**38-1285128**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2030 DOW CENTER, MIDLAND, MICHIGAN 48674

(Address of principal executive offices) (Zip Code)

989-636-1000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
þ Yes ¨ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

¨ Yes þ No

Class	Outstanding at June 30, 2010
Common Stock, par value $2.50 per share	1,159,855,566 shares

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The Dow Chemical Company

QUARTERLY REPORT ON FORM 10-Q

For the quarterly period ended June 30, 2010

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The Dow Chemical Company and Subsidiaries

Consolidated Statements of Operations

	Three Months Ended		*Six Months Ended*	
	June 30,	*June 30,*	*June 30,*	*June 30,*
In millions, except per share amounts (Unaudited)	*2010*	*2009*	*2010*	*2009*
Net Sales	$ 13,618	$ 11,322	$ 27,035	$ 20,363
Cost of sales	11,580	9,764	23,121	17,902
Research and development expenses	407	381	814	673
Selling, general and administrative expenses	648	663	1,310	1,106
Amortization of intangibles	125	112	253	134
Restructuring charges	13	662	29	681
Acquisition and integration related expenses	37	52	63	100
Equity in earnings of nonconsolidated affiliates	244	122	548	187
Sundry income - net	95	23	178	20
Interest income	10	9	17	21
Interest expense and amortization of debt discount	367	525	743	679
Income (Loss) from Continuing Operations Before Income Taxes	790	(683)	1,445	(684)
Provision (Credit) for income taxes	131	(248)	234	(273)
Net Income (Loss) from Continuing Operations	659	(435)	1,211	(411)
Income from discontinued operations, net of income taxes	-	103	-	114
Net Income (Loss)	659	(332)	1,211	(297)
Net income attributable to noncontrolling interests	8	12	9	23
Net Income (Loss) Attributable to The Dow Chemical Company	651	(344)	1,202	(320)
Preferred stock dividends	85	142	170	142
Net Income (Loss) Available for The Dow Chemical Company Common Stockholders	$ 566	$ (486)	$ 1,032	$ (462)
Per Common Share Data:				
Net income (loss) from continuing operations available for common stockholders	$ 0.50	$ (0.57)	$ 0.92	$ (0.59)
Discontinued operations attributable to common stockholders	-	0.10	-	0.12
Earnings (Loss) per common share - basic	$ 0.50	$ (0.47)	$ 0.92	$ (0.47)
Net income (loss) from continuing operations available for common stockholders	$ 0.50	$ (0.57)	$ 0.91	$ (0.59)
Discontinued operations attributable to common stockholders	-	0.10	-	0.12
Earnings (Loss) per common share - diluted	$ 0.50	$ (0.47)	$ 0.91	$ (0.47)
Common stock dividends declared per share of common stock	$ 0.15	$ 0.15	$ 0.30	$ 0.30
Weighted-average common shares outstanding - basic	1,125.4	1,026.1	1,121.4	975.8

Weighted-average common shares outstanding - diluted	1,141.6	1,035.5	1,138.3	983.8
Depreciation	$ 571	$ 624	$ 1,162	$ 1,079
Capital Expenditures	$ 397	$ 325	$ 691	$ 559

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries

Consolidated Balance Sheets

In millions (Unaudited)	*June 30, 2010*	*Dec. 31, 2009*
Assets		
Current Assets		
Cash and cash equivalents (variable interest entities restricted - 2010: $107)	$ 3,068	$ 2,846
Restricted cash (variable interest entities restricted - 2010: $205)	225	-
Marketable securities and interest-bearing deposits	6	-
Accounts and notes receivable:		
Trade (net of allowance for doubtful receivables - 2010: $132; 2009: $160)	4,611	5,656
Other	4,569	3,539
Inventories	6,933	6,847
Deferred income tax assets - current	668	654
Total current assets	20,080	19,542
Investments		
Investment in nonconsolidated affiliates	3,149	3,224
Other investments (investments carried at fair value - 2010: $2,124; 2009: $2,136)	2,578	2,561
Noncurrent receivables	346	210
Total investments	6,073	5,995
Property		
Property	49,344	53,567
Accumulated depreciation	32,371	35,426
Net property (variable interest entities restricted - 2010: $933)	16,973	18,141
Other Assets		
Goodwill	12,863	13,213
Other intangible assets (net of accumulated amortization - 2010: $1,478; 2009: $1,302)	5,608	5,966
Deferred income tax assets - noncurrent	1,822	2,039
Asbestos-related insurance receivables - noncurrent	274	330
Deferred charges and other assets	901	792
Total other assets	21,468	22,340
Total Assets	$ 64,594	$ 66,018
Liabilities and Equity		
Current Liabilities		
Notes payable	$ 1,863	$ 2,139
Long-term debt due within one year	1,472	1,082
Accounts payable:		
Trade	4,211	4,153
Other	2,157	2,014

Income taxes payable	281	176
Deferred income tax liabilities - current	79	78
Dividends payable	256	254
Accrued and other current liabilities	3,028	3,209
Total current liabilities	13,347	13,105
Long-Term Debt	18,108	19,152
Other Noncurrent Liabilities		
Deferred income tax liabilities - noncurrent	1,262	1,367
Pension and other postretirement benefits - noncurrent	7,173	7,242
Asbestos-related liabilities - noncurrent	724	734
Other noncurrent obligations	2,813	3,294
Total other noncurrent liabilities	11,972	12,637
Stockholders Equity		
Preferred stock, series A ($1.00 par, $1,000 liquidation preference, 4,000,000 shares)	4,000	4,000
Common stock	2,917	2,906
Additional paid-in capital	2,025	1,913
Retained earnings	17,140	16,704
Accumulated other comprehensive loss	(4,780)	(3,892)
Unearned ESOP shares	(493)	(519)
Treasury stock at cost	(319)	(557)
The Dow Chemical Company s stockholders equity	20,490	20,555
Noncontrolling interests	677	569
Total equity	21,167	21,124
Total Liabilities and Equity	$ 64,594	$ 66,018

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries

Consolidated Statements of Cash Flows

In millions (Unaudited)	Six Months Ended June 30, 2010	June 30, 2009
Operating Activities		
Net Income (Loss)	$ 1,211	$ (297)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	1,491	1,271
Provision (Credit) for deferred income tax	51	(486)
Earnings of nonconsolidated affiliates less than (in excess of) dividends received	(143)	430
Pension contributions	(133)	(127)
Net gain on sales of investments	(34)	(8)
Net loss (gain) on sales of property, businesses and consolidated companies	131	(182)
Other net loss	10	13
Restructuring charges	29	676
Excess tax benefits from share-based payment arrangements	(3)	-
Changes in assets and liabilities, net of effects of acquired and divested companies:		
Accounts and notes receivable	(1,336)	(949)
Proceeds from interests in trade accounts receivable conduits	867	-
Inventories	(598)	357
Accounts payable	395	(552)
Other assets and liabilities	(655)	(83)
Cash provided by operating activities	1,283	63
Investing Activities		
Capital expenditures	(691)	(559)
Proceeds from sales of property, businesses and consolidated companies	1,651	265
Acquisitions of businesses	(5)	-
Purchases of previously leased assets	(45)	-
Investments in consolidated companies, net of cash acquired	(120)	(14,834)
Investments in nonconsolidated affiliates	(76)	(41)
Distributions from nonconsolidated affiliates	20	5
Purchase of unallocated Rohm and Haas ESOP shares	-	(552)
Purchases of investments	(593)	(230)
Change in restricted cash	211	-
Proceeds from sales and maturities of investments	585	317
Cash provided by (used in) investing activities	937	(15,629)
Financing Activities		
Changes in short-term notes payable	(298)	(1,801)
Proceeds from notes payable	84	-
Payments on notes payable	(668)	-
Proceeds from revolving credit facility	-	3,000
Payments on revolving credit facility	-	(2,100)
Proceeds from Term Loan	-	9,226
Payments on Term Loan	-	(5,089)
Proceeds from issuance of long-term debt	325	5,160

Payments on long-term debt	(1,092)	(618)
Purchases of treasury stock	(13)	(5)
Proceeds from issuance of common stock	79	966
Proceeds from issuance of preferred stock	-	7,000
Proceeds from sales of common stock	69	553
Issuance costs for debt and equity securities	-	(368)
Excess tax benefits from share-based payment arrangements	3	-
Distributions to noncontrolling interests	(5)	(24)
Dividends paid to stockholders	(506)	(527)
Cash provided by (used in) financing activities	(2,022)	15,373
Effect of Exchange Rate Changes on Cash	(22)	41
Cash Assumed in Initial Consolidation of Variable Interest Entities	46	-
Summary		
Increase (decrease) in cash and cash equivalents	222	(152)
Cash and cash equivalents at beginning of year	2,846	2,800
Cash and cash equivalents at end of period	$ 3,068	$ 2,648

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries

Consolidated Statements of Equity

In millions (Unaudited)	*Six Months Ended June 30, 2010*	*June 30, 2009*
Preferred Stock		
Balance at beginning of year	$ 4,000	-
Preferred stock issued	-	$ 7,000
Preferred stock repurchased	-	(2,500)
Preferred stock converted to common stock	-	(500)
Balance at end of period	4,000	4,000
Common Stock		
Balance at beginning of year	2,906	$ 2,453
Common stock issued	11	453
Balance at end of period	2,917	2,906
Additional Paid-in Capital		
Balance at beginning of year	1,913	872
Common stock issued	68	2,655
Sale of shares to ESOP	-	(1,529)
Stock-based compensation and allocation of ESOP shares	44	12
Balance at end of period	2,025	2,010
Retained Earnings		
Balance at beginning of year	16,704	17,013
Net income (loss) available for The Dow Chemical Company common stockholders	1,032	(462)
Dividends declared on common stock (Per share: $0.30 in 2010, $0.30 in 2009)	(337)	(305)
Other	(11)	(4)
Impact of adoption of ASU 2009-17, net of tax	(248)	-
Balance at end of period	17,140	16,242
Accumulated Other Comprehensive Income (Loss)		
Unrealized Gains (Losses) on Investments at beginning of year	79	(111)
Net change in unrealized gains (losses)	(19)	51
Balance at end of period	60	(60)
Cumulative Translation Adjustments at beginning of year	624	221
Translation adjustments	(1,022)	98
Balance at end of period	(398)	319
Pension and Other Postretirement Benefit Plans at beginning of year	(4,587)	(4,251)
Adjustments to pension and other postretirement benefit plans	149	39

Balance at end of period	(4,438)	(4,212)
Accumulated Derivative Gain (Loss) at beginning of year	(8)	(248)
Net hedging results	(3)	(68)
Reclassification to earnings	7	222
Balance at end of period	(4)	(94)
Total accumulated other comprehensive loss	(4,780)	(4,047)
Unearned ESOP Shares		
Balance at beginning of year	(519)	-
Shares acquired	-	(553)
Shares allocated to ESOP participants	26	12
Balance at end of period	(493)	(541)
Treasury Stock		
Balance at beginning of year	(557)	(2,438)
Purchases	(13)	(5)
Sale of shares to ESOP	-	1,529
Issuance to employees and employee plans	251	63
Balance at end of period	(319)	(851)
The Dow Chemical Company s Stockholders Equity	20,490	19,719
Noncontrolling Interests		
Balance at beginning of year	569	69
Net income attributable to noncontrolling interests	9	23
Distributions to noncontrolling interests	(5)	(24)
Acquisition of Rohm and Haas Company noncontrolling interests	-	432
Impact of adoption of ASU 2009-17	100	-
Other	4	4
Balance at end of period	677	504
Total Equity	$ 21,167	$ 20,223

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries

Consolidated Statements of Comprehensive Income

In millions (Unaudited)	*Three Months Ended* *June 30, 2010*	*June 30, 2009*	*Six Months Ended* *June 30, 2010*	*June 30, 2009*
Net Income (Loss)	$ 659	$ (332)	$ 1,211	$ (297)
Other Comprehensive Income (Loss), Net of Tax				
Net change in unrealized gains (losses) on investments	(32)	75	(19)	51
Translation adjustments	(592)	482	(1,022)	98
Adjustments to pension and other postretirement benefit plans	107	34	149	39
Net gains (losses) on cash flow hedging derivative instruments	(5)	36	4	154
Total other comprehensive income (loss)	(522)	627	(888)	342
Comprehensive Income	137	295	323	45
Comprehensive income attributable to noncontrolling interests, net of tax	8	12	9	23
Comprehensive Income Attributable to The Dow Chemical Company	$ 129	$ 283	$ 314	$ 22

See Notes to the Consolidated Financial Statements.

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(Unaudited)

The Dow Chemical Company and Subsidiaries

Notes to the Consolidated Financial Statements

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NOTE A CONSOLIDATED FINANCIAL STATEMENTS

The unaudited interim consolidated financial statements of The Dow Chemical Company and its subsidiaries (Dow or the Company) were prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) and reflect all adjustments (including normal recurring accruals) which, in the opinion of management, are considered necessary for the fair presentation of the results for the periods presented. These statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Certain changes to prior year balance sheet amounts have been made in accordance with the accounting guidance for business combinations to reflect adjustments made during the measurement period to provisional amounts recorded for assets acquired and liabilities assumed from Rohm and Haas Company (Rohm and Haas) on April 1, 2009.

NOTE B RECENT ACCOUNTING GUIDANCE

Recently Adopted Accounting Guidance

On January 1, 2010, the Company adopted Accounting Standards Update (ASU) 2009-16, Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets. This ASU is intended to improve the information provided in financial statements concerning transfers of financial assets, including the effects of transfers on financial position, financial performance and cash flows, and any continuing involvement of the transferor with the transferred financial assets. The Company evaluated the impact of adopting the guidance and the terms and conditions in place at January 1, 2010 and determined that certain sales of accounts receivable would be classified as secured borrowings. Under the Company s sale of accounts receivable arrangements, $915 million was outstanding at January 1, 2010. The maximum amount of receivables available for participation in these programs was $1,939 million at January 1, 2010. See Note L for additional information about transfers of financial assets.

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On January 1, 2010, the Company adopted ASU 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, which amended the consolidation guidance applicable to variable interest entities and required additional disclosures concerning an enterprise s continuing involvement with variable interest entities. The Company evaluated the impact of this guidance and determined that the adoption resulted in the consolidation of two additional joint ventures, an owner trust and an entity that is used to monetize accounts receivable. At January 1, 2010, $793 million in assets (net of tax, including the impact on Investment in nonconsolidated affiliates), $941 million in liabilities, $100 million in noncontrolling interests and a cumulative effect adjustment to retained earnings of $248 million were recorded as a result of the adoption of this guidance. See Note M for additional information about variable interest entities.

On January 1, 2010, the Company adopted ASU 2010-06, Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, which adds disclosure requirements about transfers in and out of Levels 1 and 2 and separate disclosures about activity relating to Level 3 measurements and clarifies existing disclosure requirements related to the level of disaggregation and input and valuation techniques. See Note J for additional disclosures about fair value measurements.

Accounting Guidance Issued But Not Adopted as of June 30, 2010

In October 2009, the Financial Accounting Standards Board issued ASU 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force, which amends the criteria for when to evaluate individual delivered items in a multiple deliverable arrangement and how to allocate consideration received. This ASU is effective for fiscal years beginning on or after June 15, 2010, which is January 1, 2011 for the Company. The Company is currently evaluating the impact of adopting the guidance.

NOTE C RESTRUCTURING

2009 Restructuring

On June 30, 2009, the Company s Board of Directors approved a restructuring plan related to the Company s acquisition of Rohm and Haas as well as actions to advance the Company s strategy and to respond to continued weakness in the global economy. The restructuring plan included the elimination of approximately 2,500 positions primarily resulting from synergies to be achieved as a result of the acquisition of Rohm and Haas. In addition, the Company will shut down a number of manufacturing facilities. These actions are expected to be completed primarily by the end of 2011. As a result of the restructuring activities, the Company recorded pretax restructuring charges of $677 million in the second quarter of 2009, consisting of asset write-downs and write-offs of $454 million, costs associated with exit or disposal activities of $68 million and severance costs of $155 million. The impact of the charges was shown as Restructuring charges in the consolidated statements of operations.

The severance component of the 2009 restructuring charges of $155 million was for the separation of approximately 2,500 employees under the terms of the Company s ongoing benefit arrangements, primarily over two years. At December 31, 2009, severance of $72 million had been paid and a currency adjusted liability of $84 million remained for approximately 1,221 employees. In the six-month period ended June 30, 2010, severance of $49 million was paid, leaving a currency adjusted liability of $33 million for approximately 485 employees at June 30, 2010.

In the first quarter of 2010, the Company recorded an additional $8 million charge to adjust the impairment of long-lived assets and other assets related to the divestiture of certain acrylic monomer and specialty latex assets completed in the first quarter of 2010, and an additional $8 million charge related to the shutdown of a small manufacturing facility under the 2009 restructuring plan. The impact of these charges is shown as Restructuring charges in the consolidated statements of operations and was reflected in the following operating segments: Electronic and Specialty Materials ($8 million), Coatings and Infrastructure ($5 million) and Performance Products ($3 million).

In the second quarter of 2010, the Company recorded additional restructuring charges of $13 million, which included the write off of other assets of $5 million, additional costs associated with exit or disposal activities of $7 million and additional severance of $1 million related to the divestiture of certain acrylic monomer assets and the hollow sphere particle business that was included in the 2009 restructuring plan. The impact of these charges is shown as Restructuring charges in the consolidated statements of operations and was reflected in Performance Products ($12 million) and Corporate ($1 million).

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The following table summarizes the 2010 activities related to the Company s 2009 restructuring reserve:

2010 Activities Related to 2009

Restructuring

In millions	*Impairment of Long-Lived Assets and Other Assets*	*Costs associated with Exit or Disposal Activities*	*Severance Costs*	*Total*
Reserve balance at December 31, 2009	-	$ 68	$ 84	$152
Adjustment to reserve	$ 21	7	1	29
Cash payments	-	-	(49)	(49)
Charges against reserve	(21)	(7)	-	(28)
Foreign currency impact	-	-	(3)	(3)
Reserve balance at June 30, 2010	-	$ 68	$ 33	$101

Restructuring Reserve Assumed from Rohm and Haas

Included in liabilities assumed in the April 1, 2009 acquisition of Rohm and Haas was a reserve of $122 million for severance and employee benefits for the separation of 1,255 employees under the terms of Rohm and Haas ongoing benefit arrangement. The separations resulted from plant shutdowns, production schedule adjustments, productivity improvements and reductions in support services. Cash payments are expected to be paid primarily by the end of 2011. At December 31, 2009, a currency adjusted liability of $68 million remained for approximately 552 employees.

In the second quarter of 2010, the Company decreased the restructuring reserve $10 million due to the divestiture of the Powder Coatings business and to adjust the reserve to expected future severance payments. The impact of these adjustments is shown as Cost of sales in the consolidated statements of operations and was reflected in Corporate. In the six-month period ended June 30, 2010, severance of $18 million was paid, leaving a currency adjusted liability of $40 million for approximately 357 employees at June 30, 2010.

Restructuring Reserve Assumed from Rohm and Haas

In millions	*Severance Costs*
Reserve balance at December 31, 2009	$ 68
Adjustment to reserve	(10)
Cash payments	(18)
Reserve balance at June 30, 2010	$ 40

2008 Restructuring

On December 5, 2008, the Company s Board of Directors approved a restructuring plan as part of a series of actions to advance the Company s strategy and respond to the severe economic downturn. The restructuring plan included the shutdown of a number of facilities and a global workforce reduction, which are targeted to be completed by the end of 2010. As a result of the shutdowns and global workforce reduction, the Company recorded pretax restructuring charges of $785 million in the fourth quarter of 2008. The charges consisted of asset write-downs and write-offs of $336 million, costs associated with exit or disposal activities of $128 million and severance costs of $321 million.

The severance component of the 2008 restructuring charges of $321 million was for the separation of approximately 3,000 employees under the terms of Dow s ongoing benefit arrangements, primarily over two years. At December 31, 2009, severance of $289 million had been paid and a currency adjusted liability of $53 million remained for approximately 293 employees. In the six-month period ended June 30, 2010, severance of $25 million was paid, leaving a currency adjusted liability of $25 million for approximately 80 employees at June 30, 2010.

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The following table summarizes 2010 activities related to the Company s 2008 restructuring reserve:

2010 Activities Related to 2008 Restructuring

In millions	*Costs associated with Exit or Disposal Activities*	*Severance Costs*	*Total*
Reserve balance at December 31, 2009	$135	$ 53	$188
Cash payments	-	(25)	(25)
Foreign currency impact	(2)	(3)	(5)
Reserve balance at June 30, 2010	$133	$ 25	$158

NOTE D ACQUISITIONS

Acquisition of Rohm and Haas

On April 1, 2009, the Company completed the acquisition of Rohm and Haas. Pursuant to the July 10, 2008 Agreement and Plan of Merger, Ramses Acquisition Corp., a direct wholly owned subsidiary of the Company, merged with and into Rohm and Haas, with Rohm and Haas continuing as the surviving corporation and becoming a direct wholly owned subsidiary of the Company.

The following table summarizes the fair values of the assets acquired and liabilities assumed from Rohm and Haas on April 1, 2009. During the measurement period, which ended on March 31, 2010, net adjustments of $145 million were made to the fair values of the assets acquired and liabilities assumed with a corresponding adjustment to goodwill. These adjustments are summarized in the table presented below. The balance sheet at December 31, 2009 has been retrospectively adjusted to reflect these adjustments as required by the accounting guidance for business combinations. No further adjustments have been made to the assets acquired and liabilities assumed since the end of the measurement period.

Assets Acquired and Liabilities Assumed on April 1, 2009

In millions	*Initial Valuation*	*2009 Adjustments to Fair Value*	*Dec. 31, 2009*	*2010 Adjustments to Fair Value*	*March 31, 2010*
Purchase Price	$15,681	-	$15,681	-	$15,681
Fair Value of Assets Acquired					
Current assets	$ 2,710	-	$ 2,710	$(18)	$ 2,692
Property	3,930	$(138)	3,792	-	3,792
Other intangible assets (1)	4,475	830	5,305	-	5,305
Other assets	1,288	32	1,320	-	1,320
Net assets of the Salt business (2)	1,475	(167)	1,308	-	1,308
Total Assets Acquired	$13,878	$ 557	$14,435	$(18)	$14,417
Fair Value of Liabilities and Noncontrolling Interests Assumed					
Current liabilities	$ 1,218	$ (11)	$ 1,207	$ (1)	$ 1,206
Long-term debt	2,528	13	2,541	-	2,541
Accrued and other liabilities and noncontrolling interests	702	-	702	-	702
Pension benefits	1,119	-	1,119	-	1,119
Deferred tax liabilities noncurrent	2,482	311	2,793	82	2,875
Total Liabilities and Noncontrolling Interests Assumed	$ 8,049	$ 313	$ 8,362	$ 81	$ 8,443
Goodwill (1)	$ 9,852	$(244)	$ 9,608	$ 99	$ 9,707

(1) See Note H for additional information.

(2) Morton International, Inc.

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The following table summarizes the major classes of assets and liabilities underlying the deferred tax liabilities resulting from the acquisition of Rohm and Haas:

Deferred Tax Liabilities Assumed on April 1, 2009

In millions	*As Adjusted*
Intangible assets	$1,754
Property	526
Long-term debt	191
Inventories	80
Other accruals and reserves	324
Total Deferred Tax Liabilities	$2,875

The acquisition resulted in the recognition of $9,707 million of goodwill, which is not deductible for tax purposes. See Note H for further information on goodwill, including the allocation by segment.

Rohm and Haas Acquisition and Integration Related Expenses

During the second quarter of 2010, integration expenses totaling $37 million ($63 million during the first six months of 2010) were recorded related to the April 1, 2009 acquisition of Rohm and Haas. During the second quarter of 2009, pretax charges totaling $52 million ($100 million during the first six months of 2009) were recorded for legal expenses and other transaction costs related to the acquisition. These charges, which were expensed in accordance with the accounting guidance for business combinations, were shown in Acquisition and integration related expenses and reflected in Corporate. An additional $34 million of acquisition-related retention expenses were incurred during the second quarter of 2009 and recorded in Cost of sales, Research and development expenses, and Selling, general and administrative expenses and reflected in Corporate.

NOTE E DIVESTITURES

Divestiture of the Styron Business Unit

On March 2, 2010, the Company announced the entry into a definitive agreement to sell the Styron business unit (Styron) to an affiliate of Bain Capital Partners. The definitive agreement specified the assets and liabilities related to the businesses and products to be included in the sale. On June 17, 2010, the sale was completed for $1,561 million, net of working capital adjustments and costs to sell, with proceeds subject to customary post-closing adjustments, to be finalized in subsequent periods. The proceeds included a $75 million long-term note receivable. The Company elected to acquire a 7.5 percent equity interest in the resulting privately held, global materials company. Businesses and products sold included: Styrenics polystyrene, acrylonitrile butadiene styrene, styrene acrylonitrile and expandable polystyrene; Emulsion Polymers; Polycarbonate and Compounds and Blends; Synthetic Rubber; and certain products from Dow Automotive Systems. Also included in the sale were certain styrene monomer assets and the Company s 50 percent ownership interest in Americas Styrenics LLC, a principal nonconsolidated affiliate. The transaction also resulted in several long-term supply, service and purchase agreements between Dow and Styron.

Styron s results of operations were not classified as discontinued operations, as the Company will have continuing cash flows as a result of the supply, service and purchase agreements.

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The following table presents the major classes of assets and liabilities divested on June 17, 2010 by operating segment:

Styron Assets and Liabilities

Divested

In millions	*Perf Systems*	*Perf Products*	*Basic Plastics*	*Hydro-carbons and Energy*	*Corp.*	*Total*
Inventories	$ 76	$ 96	$152	$144	-	$ 468
Other current assets	53	238	201	27	$ 201	720
Investment in nonconsolidated affiliate	-	-	158	-	-	158
Net property	140	137	126	8	-	411
Goodwill	94	17	30	-	-	141
Other noncurrent assets	-	-	-	-	96	96
Total assets divested	$363	$488	$667	$179	$ 297	$1,994
Current liabilities	-	-	-	-	$ 347	$ 347
Other noncurrent liabilities	-	-	-	-	92	92
Total liabilities divested	-	-	-	-	$ 439	$ 439
Components of accumulated other comprehensive income divested	-	-	-	-	$ 45	$45
Net value divested	$363	$488	$667	$179	$(187)	$1,510

The Company recognized a pretax gain of $51 million on the sale in the second quarter of 2010, included in Sundry income net and reflected in the following operating segments: Performance Systems ($15 million), Performance Products ($26 million) and Basic Plastics ($10 million).

Divestiture of the Calcium Chloride Business

On June 30, 2009, the Company completed the sale of the Calcium Chloride business for net proceeds of $204 million and recognized a pretax gain of $162 million. The results of the Calcium Chloride business for the first six months of 2009, including the second quarter of 2009 gain on the sale, are reflected as Income from discontinued operations, net of income taxes in the consolidated statements of operations.

The following table presents the results of discontinued operations:

Discontinued Operations

In millions	*Three Months Ended June 30, 2009*	*Six Months Ended June 30, 2009*
Net sales	$24	$70
Income before income taxes	$164	$182
Provision for income taxes	$61	$68
Income from discontinued operations, net of income taxes	$103	$114

Divestitures Required as a Condition to the Acquisition of Rohm and Haas

As a condition of the United States Federal Trade Commission s (FTC s) approval of the April 1, 2009 acquisition of Rohm and Haas, the Company was required to divest a portion of its acrylic monomer business, a portion of its specialty latex business and its hollow sphere particle business. The Company recognized an impairment charge of $205 million related to these assets in the second quarter of 2009 restructuring charge.

On July 31, 2009, the Company entered into a definitive agreement that included the sale of the portion of its acrylic monomer business and the portion of its specialty latex business. The sale was completed on January 25, 2010. Additional impairment charges of $8 million related to these assets were recognized in the first quarter of 2010. In the second quarter of 2010, additional severance costs of $1 million and the write off of other assets of $5 million were recognized (see Note C).

The Company completed the sale of its hollow sphere particle business in the second quarter of 2010 and recognized additional costs associated with disposal activities of $7 million, related to contract termination fees (see Note C).

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NOTE F RESTRICTED CASH

The Company s restricted cash primarily relates to variable interest entities (VIEs) used to monetize accounts receivable. With the adoption of ASU 2009-17 on January 1, 2010, $436 million of restricted cash was consolidated related to a VIE used to monetize accounts receivable originated by several European subsidiaries. In June 2010, the Company terminated this arrangement and a new VIE was created, which is also used to monetize accounts receivable originated by several European subsidiaries. At June 30, 2010, the Company had $225 million of restricted cash primarily related to this new VIE (see Note M).

NOTE G INVENTORIES

The following table provides a breakdown of inventories:

Inventories	*June 30,*	*Dec. 31,*
In millions	*2010*	*2009*
Finished goods	$4,001	$3,887
Work in process	1,549	1,593
Raw materials	745	671
Supplies	638	696
Total inventories	$6,933	$6,847

The reserves reducing inventories from the first-in, first-out (FIFO) basis to the last-in, first-out (LIFO) basis amounted to $872 million at June 30, 2010 and $818 million at December 31, 2009.

NOTE H GOODWILL AND OTHER INTANGIBLE ASSETS

The following table shows the carrying amount of goodwill by operating segment:

Goodwill In millions	*Electronic and Specialty Materials*	*Coatings and Infra-structure*	*Health and Ag Sciences*	*Perf Systems*	*Perf Products*	*Basic Plastics*	*Hydro-carbons and Energy*	*Total*
Net goodwill at Dec. 31, 2009	$5,950	$4,079	$1,546	$962	$548	$65	$63	$13,213
Divestiture of Styron	-	-	-	(94)	(17)	(30)	-	(141)
Divestiture of the Powder Coatings business	-	(4)	-	-	-	-	-	(4)
Foreign currency impact	(83)	(92)	-	(19)	(11)	-	-	(205)
Net goodwill at June 30, 2010	$5,867	$3,983	$1,546	$849	$520	$35	$63	$12,863

The recording of the April 1, 2009 acquisition of Rohm and Haas (see Note D) resulted in goodwill of $9,707 million, which is not deductible for tax purposes. During the first quarter of 2010, goodwill related to the acquisition of Rohm and Haas increased $99 million for net adjustments made during the measurement period to the fair values of the assets acquired and liabilities assumed. In the table above, these retrospective adjustments are reflected in the net goodwill at December 31, 2009, in accordance with the accounting guidance for business combinations. The retrospective adjustments increased goodwill for the operating segments as follows: Electronic and Specialty Materials ($39 million), Coatings and Infrastructure ($51 million), Health and Agricultural Sciences ($2 million), Performance Systems ($3 million) and Performance Products ($4 million). Accumulated goodwill impairments were $250 million at June 30, 2010 and December 31, 2009.

As a result of the June 17, 2010 divestiture of Styron, $141 million of associated goodwill and $16 million of intangible assets were divested (see Note E). On June 1, 2010, the Company divested its Powder Coatings business, including $4 million of associated goodwill.

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The following table provides information regarding the Company s other intangible assets:

Other Intangible Assets	At June 30, 2010			At December 31, 2009		
In millions	*Gross Carrying Amount*	*Accumulated Amortization*	*Net*	*Gross Carrying Amount*	*Accumulated Amortization*	*Net*
Intangible assets with finite lives:						
Licenses and intellectual property	$1,720	$ (379)	$1,341	$1,729	$ (320)	$1,409
Patents	119	(92)	27	140	(107)	33
Software	894	(458)	436	875	(439)	436
Trademarks	691	(136)	555	694	(110)	584
Customer related	3,478	(345)	3,133	3,613	(261)	3,352
Other	121	(68)	53	142	(65)	77
Total other intangible assets, finite lives	$7,023	$(1,478)	$5,545	$7,193	$(1,302)	$5,891
IPR&D (1), indefinite lives	63	-	63	75	-	75
Total other intangible assets	$7,086	$(1,478)	$5,608	$7,268	$(1,302)	$5,966

(1) In-process research and development (IPR&D) purchased in a business combination.

The following table provides information regarding amortization expense:

Amortization Expense	*Three Months Ended*		*Six Months Ended*	
In millions	*June 30, 2010*	*June 30, 2009*	*June 30, 2010*	*June 30, 2009*
Other intangible assets, excluding software	$125	$112	$253	$134
Software, included in Cost of sales	$22	$19	$43	$33

Total estimated amortization expense for 2010 and the five succeeding fiscal years is as follows:

Estimated Amortization Expense	
In millions	
2010	$574
2011	$558
2012	$537
2013	$517
2014	$494
2015	$477

NOTE I FINANCIAL INSTRUMENTS

Investments

The Company s investments in marketable securities are primarily classified as available-for-sale.

Investing Results	*Six Months Ended*	*Six Months Ended June 30, 2009*

In millions	*June 30, 2010*	
Proceeds from sales of available-for-sale securities	$535	$210
Gross realized gains	$27	$4
Gross realized losses	$(50)	$(16)

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The following table summarizes the contractual maturities of the Company s investments in debt securities:

Contractual Maturities of Debt Securities

at June 30, 2010

In millions	*Amortized Cost*	*Fair Value*
Within one year	$ 65	$ 67
One to five years	599	646
Six to ten years	568	618
After ten years	268	293
Total	$1,500	$1,624

At June 30, 2010, the Company had $600 million of held-to-maturity securities (primarily Treasury Bills) classified as cash equivalents, as these securities had original maturities of three months or less. At December 31, 2009, the amount held was zero. The Company s investments in held-to-maturity securities are held at amortized cost, which approximates fair value. At June 30, 2010, the Company had investments in money market funds of $63 million classified as cash equivalents ($164 million at December 31, 2009).

The net unrealized gain recognized during the six-month period ended June 30, 2010 on trading securities held at June 30, 2010 was $16 million.

The following tables provide the fair value and gross unrealized losses of the Company s investments that were deemed to be temporarily impaired at June 30, 2010 and December 31, 2009, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

Temporarily Impaired Securities at June 30, 2010

	Less than 12 months		*12 months or more*		*Total*	
In millions	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*
Debt securities:						
Corporate bonds	$ 45	$ (2)	$6	-	$ 51	$ (2)
Equity securities	344	(35)	2	$(2)	346	(37)
Total temporarily impaired securities	$389	$(37)	$8	$(2)	$397	$(39)

Temporarily Impaired Securities at December 31, 2009

	Less than 12 months		*12 months or more*		*Total*	
In millions	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*
Debt securities:						
U.S. Treasury obligations and direct obligations of U.S. government agencies	$217	$(4)	-	-	$217	$(4)
Corporate bonds	27	(1)	$13	$(1)	40	(2)
Total debt securities	$244	$(5)	$13	$(1)	$257	$(6)
Equity securities	40	(2)	7	(1)	47	(3)
Total temporarily impaired securities	$284	$(7)	$20	$(2)	$304	$(9)

Portfolio managers regularly review the Company s holdings to determine if any investments are other-than-temporarily impaired. The analysis includes reviewing the amount of a temporary impairment, as well as the length of time it has been impaired. In addition, specific guidelines for each instrument type are followed to determine if an other-than-temporary impairment has occurred.

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For debt securities, the credit rating of the issuer, current credit rating trends, the trends of the issuer s overall sector, the ability of the issuer to pay expected cash flows and the length of time the security has been in a loss position are considered in determining whether unrealized losses represent an other-than-temporary impairment. The Company did not have any credit-related losses during the six-month period ended June 30, 2010.

For equity securities, the Company s investments are primarily in Standard & Poor s (S&P) 500 companies; however, the Company s policies allow investments in companies outside of the S&P 500. The largest holdings are Exchange Traded Funds that represent the S&P 500 index or an S&P 500 sector or subset. The Company considers the evidence to support the recovery of the cost basis of a security including volatility of the stock, the length of time the security has been in a loss position, value and growth expectations, and overall market and sector fundamentals, as well as technical analysis, in determining whether unrealized losses represent an other-than-temporary impairment. In the six-month period ended June 30, 2010, other-than-temporary impairment write-downs on investments still held by the Company were $4 million.

The aggregate cost of the Company s cost method investments totaled $176 million at June 30, 2010 and $129 million at December 31, 2009. Due to the nature of these investments, the fair market value is not readily determinable. These investments are reviewed for impairment indicators. In the six-month period ended June 30, 2010, the Company s impairment analysis identified indicators that resulted in a reduction in the cost basis of these investments of $20 million.

The following table summarizes the fair value of financial instruments at June 30, 2010 and December 31, 2009:

Fair Value of Financial Instruments

	At June 30, 2010				*At December 31, 2009*			
In millions	*Cost*	*Gain*	*Loss*	*Fair Value*	*Cost*	*Gain*	*Loss*	*Fair Value*
Marketable securities (1):								
Debt securities:								
U.S. Treasury obligations and direct obligations of U.S. government agencies	$ 663	$ 51	-	$ 714	$ 676	$ 25	$(4)	$ 697
Corporate bonds	837	75	$ (2)	910	868	56	(2)	922
Total debt securities	$1,500	$126	$ (2)	$1,624	$1,544	$ 81	$(6)	$1,619
Equity securities	503	34	(37)	500	455	65	(3)	517
Total marketable securities	$2,003	$160	$(39)	$2,124	$1,999	$146	$(9)	$2,136
Long-term debt including debt due within one year (2)	$(19,580)	$105	$(2,135)	$(21,610)	$(20,234)	$126	$(1,794)	$(21,902)
Derivatives relating to:								
Foreign currency	-	$59	$(24)	$35	-	$81	$(20)	$61
Commodities	-	$10	$(10)	-	-	$5	$(18)	$(13)

(1) Included in Other investments in the consolidated balance sheets.

(2) Cost includes fair value adjustments of $24 million at June 30, 2010 and $25 million at December 31, 2009.

Risk Management

Dow s business operations give rise to market risk exposure due to changes in interest rates, foreign currency exchange rates, commodity prices and other market factors such as equity prices. To manage such risks effectively, the Company enters into hedging transactions, pursuant to established guidelines and policies, which enable it to mitigate the adverse effects of financial market risk. Derivatives used for this purpose are designated as cash flow, fair value or net foreign investment hedges where appropriate. The guidance requires companies to recognize all derivative instruments as either assets or liabilities at fair value. A secondary objective is to add value by creating additional nonspecific exposures within established limits and policies; derivatives used for this purpose are not designated as hedges. The potential impact of creating such additional exposures is not material to the Company s results.

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The Company s risk management program for interest rate, foreign currency and commodity risks is based on fundamental, mathematical and technical models that take into account the implicit cost of hedging. Risks created by derivative instruments and the mark-to-market valuations of positions are strictly monitored at all times, using value at risk and stress tests. Credit risk arising from these contracts is not significant because the Company minimizes counterparty concentration, deals primarily with major financial institutions of solid credit quality, and the majority of its hedging transactions mature in less than three months. In addition, the Company minimizes concentrations of credit risk through its global orientation in diverse businesses with a large number of diverse customers and suppliers. It is the Company s policy not to have credit-risk-related contingent features in its derivative instruments. The Company does not anticipate losses from credit risk, and the net cash requirements arising from risk management activities are not expected to be material in 2010. No significant concentration of credit risk existed at June 30, 2010.

The Company reviews its overall financial strategies and the impacts from using derivatives in its risk management program with the Company s Board of Directors and revises its strategies as market conditions dictate.

Interest Rate Risk Management

The Company enters into various interest rate contracts with the objective of lowering funding costs or altering interest rate exposures related to fixed and variable rate obligations. In these contracts, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed and floating interest amounts calculated on an agreed-upon notional principal amount. At June 30, 2010, the Company had open interest rate swaps with maturity dates no later than 2012.

Foreign Currency Risk Management

The Company s global operations require active participation in foreign exchange markets. The Company enters into foreign exchange forward contracts and options, and cross-currency swaps to hedge various currency exposures or create desired exposures. Exposures primarily relate to assets, liabilities and bonds denominated in foreign currencies, as well as economic exposure, which is derived from the risk that currency fluctuations could affect the dollar value of future cash flows related to operating activities. The primary business objective of the activity is to optimize the U.S. dollar value of the Company s assets, liabilities and future cash flows with respect to exchange rate fluctuations. Assets and liabilities denominated in the same foreign currency are netted, and only the net exposure is hedged. At June 30, 2010, the Company had forward contracts, options and cross-currency swaps to buy, sell or exchange foreign currencies. These contracts had various expiration dates, primarily in the third quarter of 2010.

Commodity Risk Management

The Company has exposure to the prices of commodities in its procurement of certain raw materials. The primary purpose of commodity hedging activities is to manage the price volatility associated with these forecasted inventory purchases. At June 30, 2010, the Company had futures contracts, options and swaps to buy, sell or exchange commodities. These agreements had various expiration dates through 2011.

Accounting for Derivative Instruments and Hedging Activities

Cash Flow Hedges

For derivatives that are designated and qualify as cash flow hedging instruments, the effective portion of the gain or loss on the derivative is recorded in Accumulated other comprehensive income (loss) (AOCI); it is reclassified to Cost of sales in the same period or periods that the hedged transaction affects income. The unrealized amounts in AOCI fluctuate based on changes in the fair value of open contracts at the end of each reporting period. The Company anticipates volatility in AOCI and net income from its cash flow hedges. The amount of volatility varies with the level of derivative activities and market conditions during any period. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current period income.

The net loss from previously terminated interest rate cash flow hedges included in AOCI was $2 million after tax at June 30, 2010 and December 31, 2009. The Company had open interest rate derivatives with a notional U.S. dollar equivalent of $29 million at June 30, 2010 ($30 million at December 31, 2009).

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Current open foreign currency forward contracts hedge forecasted transactions until February 2011. The effective portion of the mark-to-market effects of the foreign currency forward contracts is recorded in AOCI; it is reclassified to income in the same period or periods that the underlying feedstock purchase affects income. The net gain from the foreign currency hedges included in AOCI at June 30, 2010 was $17 million after tax (net loss of $5 million after tax at December 31, 2009). At June 30, 2010, the Company had open forward contracts with various expiration dates to buy, sell or exchange foreign currencies with a notional U.S. dollar equivalent of $1,699 million ($645 million at December 31, 2009).

Commodity swaps, futures and option contracts with maturities of not more than 36 months are utilized and designated as cash flow hedges of forecasted commodity purchases. Current open contracts hedge forecasted transactions until December 2011. The effective portion of the mark-to-market effect of the cash flow hedge instrument is recorded in AOCI; it is reclassified to income in the same period or periods that the underlying commodity purchase affects income. The net loss from commodity hedges included in AOCI was $14 million at June 30, 2010 and zero at December 31, 2009. At June 30, 2010 and December 31, 2009, the Company had the following aggregate notionals of outstanding commodity forward contracts to hedge forecasted purchases:

Commodity	*June 30, 2010*	*Dec. 31, 2009*	*Notional Volume Unit*
Crude Oil	1.0	0.7	million barrels
Ethane	2.1	-	million barrels
Naphtha	40	50	kilotons
Natural Gas	0.4	2.0	million million British thermal units

Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in current period income and reflected as Interest expense and amortization of debt discount in the consolidated statements of operations. The short-cut method is used when the criteria are met. The Company had no open interest rate swaps designated as fair value hedges of underlying fixed rate debt obligations at June 30, 2010 and December 31, 2009.

Net Foreign Investment Hedges

For derivative instruments that are designated and qualify as net foreign investment hedges, the effective portion of the gain or loss on the derivative is included in Cumulative Translation Adjustments in AOCI. The results of hedges of the Company s net investment in foreign operations included in Cumulative Translation Adjustments in AOCI was a net gain of $132 million after tax at June 30, 2010 (net loss of $56 million after tax at December 31, 2009). At June 30, 2010, the Company had open forward contracts or outstanding options to buy, sell or exchange foreign currencies that were designated as net foreign investment hedges with third quarter 2010 expiration dates and a notional U.S. dollar equivalent of $61 million (zero at December 31, 2009). At June 30, 2010, the Company had outstanding foreign-currency denominated debt designated as a hedge of net foreign investment of $1,241 million ($1,879 million at December 31, 2009).

Other Derivative Instruments

The Company utilizes futures, options and swap instruments that are effective as economic hedges of commodity price exposures, but do not meet the hedge accounting criteria in the accounting guidance for derivatives and hedging. At June 30, 2010 and December 31, 2009, the Company had the following aggregate notionals of outstanding commodity contracts:

Commodity	*June 30, 2010*	*Dec. 31, 2009*	*Notional Volume Unit*
Ethane	3.7	0.9	million barrels
Ethylene	0.2	-	million pounds
Natural Gas	10.3	2.8	million million British thermal units

The Company also uses foreign exchange forward contracts, options, and cross-currency swaps that are not designated as hedging instruments primarily to manage foreign currency and interest rate exposure. The Company had open foreign exchange contracts with various expiration dates to buy, sell or exchange foreign currencies and a notional U.S. dollar equivalent of $14,790 million at June 30, 2010 ($15,312 million at

December 31, 2009).

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The following table provides the fair value and gross balance sheet classification of derivative instruments at June 30, 2010 and December 31, 2009:

Fair Value of Derivative Instruments In millions	*Balance Sheet Classification*	*June 30, 2010*	*Dec. 31, 2009*
Asset Derivatives			
Derivatives designated as hedges:			
Foreign currency	Accounts and notes receivable Other	$ 52	$ 4
Commodities	Accounts and notes receivable Other	4	4
Total derivatives designated as hedges		$ 56	$ 8
Derivatives not designated as hedges:			
Foreign currency	Accounts and notes receivable Other	$ 65	$125
Commodities	Accounts and notes receivable Other	18	28
Total derivatives not designated as hedges		$ 83	$153
Total asset derivatives		$139	$161
Liability Derivatives			
Derivatives designated as hedges:			
Foreign currency	Accounts payable Other	$ 36	$ 3
Commodities	Accounts payable Other	16	-
Total derivatives designated as hedges		$ 52	$ 3
Derivatives not designated as hedges:			
Foreign currency	Accounts payable Other	$ 46	$ 65
Commodities	Accounts payable Other	18	42
Total derivatives not designated as hedges		$ 64	$107
Total liability derivatives		$116	$110

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Effect of Derivative Instruments for the three months ended June 30, 2010

In millions	*Change in Unrealized Gain (Loss) in AOCI (1,2)*	*Income Statement Classification*	*Gain (Loss) Reclassified from AOCI to Income (3)*	*Additional Gain (Loss) Recognized in Income (3,4)*
Derivatives designated as hedges:				
Fair value:				
Interest rates	$(1)	Interest expense (5)	-	$ (1)
Cash flow:				
Commodities	(14)	Cost of sales	$(2)	-
Foreign currency	10	Cost of sales	3	-
Net foreign investment:				
Foreign currency	(17)	n/a	-	-
Total derivatives designated as hedges	$(22)		$ 1	$ (1)
Derivatives not designated as hedges:				
Foreign currency (6)	-	Sundry income net	-	$14
Commodities	-	Cost of sales	-	(3)
Total derivatives not designated as hedges	-		-	$11
Total derivatives	$(22)		$ 1	$10

Effect of Derivative Instruments for the three months ended June 30, 2009

In millions	*Change in Unrealized Loss in AOCI (1,2)*	*Income Statement Classification*	*Gain (Loss) Reclassified from AOCI to Income (3)*	*Additional Gain Recognized in Income (3,4)*
Derivatives designated as hedges:				
Cash flow:				
Interest rates	-	Cost of sales	$ (3)	-
Commodities	$(1)	Cost of sales	(46)	-
Foreign currency	-	Cost of sales	6	-
Net foreign investment:				
Foreign currency	(1)	n/a	-	-
Total derivatives designated as hedges	$(2)		$(43)	-
Derivatives not designated as hedges:				
Foreign currency (6)	-	Sundry income net	-	$63
Total derivatives	$(2)		$(43)	$63

(1) Accumulated other comprehensive income (loss) (AOCI).
(2) Net unrealized gains/losses from hedges related to interest rates and commodities are included in Accumulated Derivative Gain (Loss) Net hedging results in the consolidated statements of equity; net unrealized gains/losses from hedges related to foreign currency (net of tax) are included in Cumulative Translation Adjustments Translation adjustments in the consolidated statements of equity.
(3) Pretax amounts.
(4) Amounts impacting income not related to AOCI reclassification; also includes immaterial amounts of hedge ineffectiveness.
(5) Interest expense and amortization of debt discount.
(6) Foreign currency derivatives not designated as hedges are offset by foreign exchange gains/losses resulting from the underlying exposures of foreign currency denominated assets and liabilities.

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Effect of Derivative Instruments for the six months ended June 30, 2010 In millions	*Change in Unrealized Gain (Loss) in AOCI* (1,2)	*Income Statement Classification*	*Loss Reclassified from AOCI to Income* (3)	*Additional Gain (Loss) Recognized in Income* (3,4)
Derivatives designated as hedges:				
Fair value:				
Interest rates	$ (1)	Interest expense (5)		$ (1)
Cash flow:				
Commodities	(18)	Cost of sales	$(4)	-
Foreign currency	20	Cost of sales	(3)	-
Net foreign investment:				
Foreign currency	(20)	n/a	-	-
Total derivatives designated as hedges	$(19)		$(7)	$ (1)
Derivatives not designated as hedges:				
Foreign currency (6)	-	Sundry income net	-	$113
Commodities	-	Cost of sales	-	(4)
Total derivatives not designated as hedges	-		-	$109
Total derivatives	$(19)		$(7)	$108

Effect of Derivative Instruments for the six months ended June 30, 2009 In millions	*Change in Unrealized Loss in AOCI* (1,2)	*Income Statement Classification*	*Gain (Loss) Reclassified from AOCI to Income* (3)	*Additional Loss Recognized in Income* (3,4)
Derivatives designated as hedges:				
Cash flow:				
Interest rates	-	Cost of sales	$ (6)	-
Commodities	$(6)	Cost of sales	(233)	$ (1)
Foreign currency	(10)	Cost of sales	17	-
Net foreign investment:				
Foreign currency	(4)	n/a	-	-
Total derivatives designated as hedges	$(20)		$(222)	$ (1)
Derivatives not designated as hedges:				
Foreign currency (6)	-	Sundry income net	-	$(31)
Commodities	-	Cost of sales	-	(1)
Total derivatives not designated as hedges	-		-	$(32)
Total derivatives	$(20)		$(222)	$(33)

(1) Accumulated other comprehensive income (loss) (AOCI)

(2) Net unrealized gains/losses from hedges related to interest rates and commodities are included in Accumulated Derivative Gain (Loss) Net hedging results in the consolidated statements of equity; net unrealized gains/losses from hedges related to foreign currency (net of tax) are included in Cumulative Translation Adjustments Translation adjustments in the consolidated statements of equity.

(3) Pretax amounts.

(4) Amounts impacting income not related to AOCI reclassification; also includes immaterial amounts of hedge ineffectiveness.

(5) Interest expense and amortization of debt discount.

(6) Foreign currency derivatives not designated as hedges are offset by foreign exchange gains/losses resulting from the underlying exposures of foreign currency denominated assets and liabilities.

The net after-tax amounts to be reclassified from AOCI to income within the next 12 months are a $2 million loss for interest rate contracts, a $12 million loss for commodity contracts and a $17 million gain for foreign currency contracts.

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NOTE J FAIR VALUE MEASUREMENTS

The following table summarizes the bases used to measure certain assets and liabilities at fair value on a recurring basis in the consolidated balance sheets:

Basis of Fair Value Measurements on a Recurring Basis at June 30, 2010 In millions	*Quoted Prices in Active Markets for Identical Items (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*	*Counterparty and Cash Collateral Netting (1)*	*Total*
Assets at fair value:					
Accounts and notes receivable Other (2)	-	-	$1,206	-	$1,206
Equity securities (3)	$468	$ 32	-	-	500
Debt securities: (3)					
U.S. Treasury obligations and direct obligations of U.S. government agencies	-	714	-	-	714
Corporate bonds	-	910	-	-	910
Derivatives relating to: (4)					
Foreign currency	-	117	-	$(58)	59
Commodities	5	17	-	(12)	10
Total assets at fair value	$473	$1,790	$1,206	$(70)	$3,399
Liabilities at fair value:					
Derivatives relating to: (4)					
Foreign currency	-	$ 82	-	$(58)	$ 24
Commodities	$ 10	24	-	(24)	10
Total liabilities at fair value	$ 10	$ 106	-	$(82)	$ 34

Basis of Fair Value Measurements on a Recurring Basis at December 31, 2009 In millions	*Quoted Prices in Active Markets for Identical Items (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Counterparty and Cash Collateral Netting (1)*	*Total*
Assets at fair value:				
Equity securities (3)	$483	$ 34	-	$ 517
Debt securities (3)				
U.S. Treasury obligations and direct obligations of U.S. government agencies	-	697	-	697
Corporate bonds	-	922	-	922
Derivatives relating to: (4)				
Foreign currency	-	129	$(48)	81
Commodities	28	4	(27)	5
Total assets at fair value	$511	$1,786	$(75)	$2,222
Liabilities at fair value:				
Derivatives relating to: (4)				
Foreign currency	-	$ 68	$(48)	$ 20

Commodities	$ 24	18	(24)	18
Total liabilities at fair value	$ 24	$ 86	$(72)	$ 38

(1) Cash collateral is classified as Accounts and notes receivable Other in the consolidated balance sheets. Amounts represent the estimated net settlement amount when applying netting and set-off rights included in master netting arrangements between the Company and its counterparties and the payable or receivable for cash collateral held or placed with the same counterparty.
(2) See Note L for additional information on transfers of financial assets.
(3) The Company s investments in equity and debt securities are primarily classified as available-for-sale and are included in Other investments in the consolidated balance sheets.
(4) See Note I for the classification of derivatives in the consolidated balance sheets.

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For assets and liabilities classified as Level 1 measurements (measured using quoted prices in active markets), the total fair value is either the price of the most recent trade at the time of the market close or the official close price, as defined by the exchange in which the asset is most actively traded on the last trading day of the period, multiplied by the number of units held without consideration of transaction costs.

For assets and liabilities classified as Level 2 measurements, the fair value is based on the price a dealer would pay for the security or similar securities, adjusted for any terms specific to that asset or liability. Market inputs are obtained from well established and recognized vendors of market data and subjected to tolerance/quality checks. For derivative assets and liabilities, the fair value is calculated using standard industry models used to calculate the fair value of the various financial instruments based on significant observable market inputs, such as foreign exchange rates, commodity prices, swap rates, interest rates and implied volatilities obtained from various market sources.

For all other assets and liabilities for which observable inputs are used, fair value is derived through the use of fair value models, such as a discounted cash flow model or other standard pricing models. See Note I for further information on the types of instruments used by the Company for risk management.

There were no significant transfers between Levels 1 and 2 in 2010.

For assets classified as Level 3 measurements, the fair value is based on significant unobservable inputs including assumptions where there is little, if any, market activity. The fair value of the Company s interests held in trade receivable conduits is determined by calculating the expected amount of cash to be received using the key input of anticipated credit losses in the portfolio of receivables sold that have not yet been collected (1.44 percent for North America and zero for Europe at June 30, 2010). Given the short-term nature of the underlying receivables, discount rate and prepayments are not factors in determining the fair value of the interests. See Note L for further information on assets classified as Level 3 measurements.

The following table summarizes the changes in fair value measurements using Level 3 inputs for the three and six months ended June 30, 2010:

Fair Value Measurements Using Level 3 Inputs

Interests Held in Trade Receivable Conduits (1)

In millions	*Three Months Ended June 30, 2010*	*Six Months Ended June 30, 2010*
Balance at beginning of period	$1,224	-
Gain included in earnings	9	$ 9
Purchases, sales and settlements North America	(171)	1,053
Purchases, sales and settlements - Europe	144	144
Balance at June 30, 2010	$1,206	$1,206

(1) Included in Accounts and notes receivable Other in the consolidated balance sheets.

Assets and liabilities related to forward contracts, interest rate swaps, currency swaps, options and other conditional or exchange contracts executed with the same counterparty under a master netting arrangement are netted. Collateral accounts are netted with corresponding assets and liabilities. The Company posted cash collateral of $12 million at June 30, 2010, classified as Accounts and notes receivable Other in the consolidated balance sheets.

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The following table summarizes the bases used to measure certain assets and liabilities at fair value on a nonrecurring basis in the consolidated balance sheets:

Basis of Fair Value Measurements on a Nonrecurring Basis at June 30, 2009	*Significant Other Observable Inputs*	*Significant Other Unobservable Inputs*		
In millions	*(Level 2)*	*(Level 3)*	*Total*	*Total Losses*
Assets at fair value:				
Long-lived assets	-	$26	$ 26	$(399)

As part of the restructuring plan that was approved on June 30, 2009, the Company will shut down a number of manufacturing facilities by the end of 2011. In the second quarter of 2009, long-lived assets with a carrying value of $425 million were written down to the fair value of $26 million, resulting in an impairment charge of $399 million, which was included in the second quarter of 2009 restructuring charge (see Note C). The long-lived assets were valued based on bids received from third parties and using discounted cash flow analysis based on assumptions that market participants would use. Key inputs included anticipated revenues, associated manufacturing costs, capital expenditures and discount, growth and tax rates.

NOTE K COMMITMENTS AND CONTINGENT LIABILITIES

Litigation

Breast Implant Matters

On May 15, 1995, Dow Corning Corporation (Dow Corning), in which the Company is a 50 percent shareholder, voluntarily filed for protection under Chapter 11 of the Bankruptcy Code to resolve litigation related to Dow Corning s breast implant and other silicone medical products. On June 1, 2004, Dow Corning s Joint Plan of Reorganization (the Joint Plan) became effective and Dow Corning emerged from bankruptcy. The Joint Plan contains release and injunction provisions resolving all tort claims brought against various entities, including the Company, involving Dow Corning s breast implant and other silicone medical products.

To the extent not previously resolved in state court actions, cases involving Dow Corning s breast implant and other silicone medical products filed against the Company were transferred to the U.S. District Court for the Eastern District of Michigan (the District Court) for resolution in the context of the Joint Plan. On October 6, 2005, all such cases then pending in the District Court against the Company were dismissed. Should cases involving Dow Corning s breast implant and other silicone medical products be filed against the Company in the future, they will be accorded similar treatment. It is the opinion of the Company s management that the possibility is remote that a resolution of all future cases will have a material adverse impact on the Company s consolidated financial statements.

As part of the Joint Plan, Dow and Corning Incorporated agreed to provide a credit facility to Dow Corning in an aggregate amount of $300 million, which was reduced to $200 million effective June 1, 2010. The Company s share of the credit facility was originally $150 million, but was reduced to $100 million effective June 1, 2010, and is subject to the terms and conditions stated in the Joint Plan. At June 30, 2010, no draws had been taken against the credit facility.

DBCP Matters

Numerous lawsuits have been brought against the Company and other chemical companies, both inside and outside of the United States, alleging that the manufacture, distribution or use of pesticides containing dibromochloropropane (DBCP) has caused personal injury and property damage, including contamination of groundwater. It is the opinion of the Company s management that the possibility is remote that the resolution of such lawsuits will have a material adverse impact on the Company s consolidated financial statements.

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Environmental Matters

Accruals for environmental matters are recorded when it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated, based on current law and existing technologies. At June 30, 2010, the Company had accrued obligations of $600 million for environmental remediation and restoration costs, including $72 million for the remediation of Superfund sites. This is management s best estimate of the costs for remediation and restoration with respect to environmental matters for which the Company has accrued liabilities, although the ultimate cost with respect to these particular matters could range up to approximately twice that amount. Consequently, it is reasonably possible that environmental remediation and restoration costs in excess of amounts accrued could have a material adverse impact on the Company s results of operations, financial condition and cash flows. It is the opinion of the Company s management, however, that the possibility is remote that costs in excess of the range disclosed will have a material adverse impact on the Company s results of operations, financial condition and cash flows. Inherent uncertainties exist in these estimates primarily due to unknown conditions, changing governmental regulations and legal standards regarding liability, and emerging remediation technologies for handling site remediation and restoration. At December 31, 2009, the Company had accrued obligations of $619 million for environmental remediation and restoration costs, including $80 million for the remediation of Superfund sites.

Midland Off-Site Environmental Matters

On June 12, 2003, the Michigan Department of Natural Resources and Environment (MDNRE, formerly the Michigan Department of Environmental Quality or MDEQ) issued a Hazardous Waste Operating License (the License) to the Company s Midland, Michigan manufacturing site (the Midland site), which included provisions requiring the Company to conduct an investigation to determine the nature and extent of off-site contamination in the City of Midland soils; the Tittabawassee River and Saginaw River sediment and floodplain soils; and the Saginaw Bay; and, if necessary, undertake remedial action.

City of Midland

Matters related to the City of Midland remain under the primary oversight of the State of Michigan (the State) under the License, and the Company and the State are in ongoing discussions regarding the implementation of the requirements of the License.

Tittabawassee and Saginaw Rivers, Saginaw Bay

The Company, the U.S. Environmental Protection Agency (EPA) and the State entered into an administrative order on consent (AOC), effective January 21, 2010, that requires the Company to conduct a remedial investigation, a feasibility study and a remedial design for the Tittabawassee River, the Saginaw River and the Saginaw Bay, and pay the oversight costs of the EPA and the State under the authority of the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA). These actions, to be conducted under the lead oversight of the EPA, will build upon the investigative work completed under the State Resource Conservation Recovery Act (RCRA) program from 2005 through 2009. The Tittabawassee River, beginning at the Midland Site and extending down to the first six miles of the Saginaw River, are designated as the first Operable Unit for purposes of conducting the remedial investigation, feasibility study and remedial design work. This work will be performed in a largely upriver to downriver sequence for eight geographic segments of the Tittabawassee and upper Saginaw Rivers. The remainder of the Saginaw River and the Saginaw Bay are designated as a second Operable Unit and the work associated with that unit may also be geographically segmented. The AOC does not obligate the Company to perform removal or remedial action; that action can only be required by a separate order.

Alternative Dispute Resolution Process

The Company; the EPA; the U.S. Department of Justice; and the natural resource damage trustees (the Michigan Office of the Attorney General; the MDNRE; the U.S. Fish and Wildlife Service; the U.S. Bureau of Indian Affairs and the Saginaw-Chippewa tribe), have been engaged in negotiations to seek to resolve potential governmental claims against the Company related to historical off-site contamination associated with the City of Midland, the Tittabawassee and Saginaw Rivers and the Saginaw Bay. The Company and the governmental parties started meeting in the fall of 2005 and entered into a Confidentiality Agreement in December 2005. The Company continues to conduct negotiations under the Federal Alternative Dispute Resolution Act with all of the governmental parties, except the EPA which withdrew from the alternative dispute resolution process on September 12, 2007.

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On September 28, 2007, the Company and the natural resource damage trustees entered into a Funding and Participation Agreement that addressed the Company s payment of past costs incurred by the natural resource damage trustees, payment of the costs of a trustee coordinator and a process to review additional cooperative studies that the Company might agree to fund or conduct with the natural resource damage trustees. On March 18, 2008, the Company and the natural resource damage trustees entered into a Memorandum of Understanding to provide a mechanism for the Company to fund cooperative studies related to the assessment of natural resource damages. On April 7, 2008, the natural resource damage trustees released their Natural Resource Damage Assessment Plan for the Tittabawassee River System Assessment Area.

At June 30, 2010, the accrual for these off-site matters was $26 million (included in the total accrued obligation of $600 million at June 30, 2010). At December 31, 2009, the Company had an accrual for these off-site matters of $25 million (included in the total accrued obligation of $619 million).

Asbestos-Related Matters of Union Carbide Corporation

Union Carbide Corporation (Union Carbide), a wholly owned subsidiary of the Company, is and has been involved in a large number of asbestos-related suits filed primarily in state courts during the past three decades. These suits principally allege personal injury resulting from exposure to asbestos-containing products and frequently seek both actual and punitive damages. The alleged claims primarily relate to products that Union Carbide sold in the past, alleged exposure to asbestos-containing products located on Union Carbide s premises, and Union Carbide s responsibility for asbestos suits filed against a former Union Carbide subsidiary, Amchem Products, Inc. (Amchem). In many cases, plaintiffs are unable to demonstrate that they have suffered any compensable loss as a result of such exposure, or that injuries incurred in fact resulted from exposure to Union Carbide s products.

Influenced by the bankruptcy filings of numerous defendants in asbestos-related litigation and the prospects of various forms of state and national legislative reform, the rate at which plaintiffs filed asbestos-related suits against various companies, including Union Carbide and Amchem, increased in 2001, 2002 and the first half of 2003. Since then, the rate of filing has significantly abated. Union Carbide expects more asbestos-related suits to be filed against Union Carbide and Amchem in the future, and will aggressively defend or reasonably resolve, as appropriate, both pending and future claims.

Based on a study completed by Analysis, Research & Planning Corporation (ARPC) in January 2003, Union Carbide increased its December 31, 2002 asbestos-related liability for pending and future claims for the 15-year period ending in 2017 to $2.2 billion, excluding future defense and processing costs. Since then, Union Carbide has compared current asbestos claim and resolution activity to the results of the most recent ARPC study at each balance sheet date to determine whether the accrual continues to be appropriate. In addition, Union Carbide has requested ARPC to review Union Carbide s historical asbestos claim and resolution activity each November since 2004 to determine the appropriateness of updating the most recent ARPC study.

In November 2008, Union Carbide requested ARPC to review Union Carbide s historical asbestos claim and resolution activity and determine the appropriateness of updating its then most recent study completed in December 2006. In response to that request, ARPC reviewed and analyzed data through October 31, 2008. The resulting study, completed by ARPC in December 2008, stated that the undiscounted cost of resolving pending and future asbestos-related claims against Union Carbide and Amchem, excluding future defense and processing costs, through 2023 was estimated to be between $952 million and $1.2 billion. As in its earlier studies, ARPC provided estimates for a longer period of time in its December 2008 study, but also reaffirmed its prior advice that forecasts for shorter periods of time are more accurate than those for longer periods of time.

In December 2008, based on ARPC s December 2008 study and Union Carbide s own review of the asbestos claim and resolution activity, Union Carbide decreased its asbestos-related liability for pending and future claims to $952 million, which covered the 15-year period ending 2023, excluding future defense and processing costs. The reduction was $54 million and was shown as Asbestos-related credit in the consolidated statements of income. At December 31, 2008, the asbestos-related liability for pending and future claims was $934 million.

In November 2009, Union Carbide requested ARPC to review Union Carbide s 2009 asbestos claim and resolution activity and determine the appropriateness of updating its December 2008 study. In response to that request, ARPC reviewed and analyzed data through October 31, 2009. In December 2009, ARPC stated that an update of its study would not provide a more likely estimate of future events than the estimate reflected in its study of the previous year and, therefore, the estimate in that study remained applicable. Based on Union Carbide s own review of the asbestos claim and resolution activity and ARPC s response, Union Carbide determined that no change to the accrual was required. At December 31, 2009, Union Carbide s asbestos-related liability for pending and future claims was $839 million. At December 31, 2009, approximately 23 percent of the recorded liability related to pending claims and approximately 77 percent related to future claims.

Based on Union Carbide s review of 2010 activity, Union Carbide determined that no adjustment to the accrual was required at June 30, 2010. Union Carbide s asbestos-related liability for pending and future claims was $814 million at June 30, 2010. Approximately 22 percent of the recorded liability related to pending claims and approximately 78 percent related to future claims.

At December 31, 2002, Union Carbide increased the receivable for insurance recoveries related to its asbestos liability to $1.35 billion, substantially exhausting its asbestos product liability coverage. The insurance receivable related to the asbestos liability was determined by Union Carbide after a thorough review of applicable insurance policies and the 1985 Wellington Agreement, to which Union Carbide and many of its liability insurers are signatory parties, as well as other insurance settlements, with due consideration given to applicable deductibles, retentions and policy limits, and taking into account the solvency and historical payment experience of various insurance carriers. The Wellington Agreement and other agreements with insurers are designed to facilitate an orderly resolution and collection of Union Carbide s insurance policies and to resolve issues that the insurance carriers may raise.

In September 2003, Union Carbide filed a comprehensive insurance coverage case, now proceeding in the Supreme Court of the State of New York, County of New York, seeking to confirm its rights to insurance for various asbestos claims and to facilitate an orderly and timely collection of insurance proceeds (the Insurance Litigation). The Insurance Litigation was filed against insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place with Union Carbide regarding their asbestos-related insurance coverage, in order to facilitate an orderly resolution and collection of such insurance policies and to resolve issues that the insurance carriers may raise. Since the filing of the case, Union Carbide has reached settlements with several of the carriers involved in the Insurance Litigation, including settlements reached with two significant carriers in the fourth quarter of 2009. The Insurance Litigation is ongoing.

Union Carbide s receivable for insurance recoveries related to its asbestos liability was $84 million at June 30, 2010 and December 31, 2009. At June 30, 2010 and December 31, 2009, all of the receivable for insurance recoveries was related to insurers that are not signatories to the Wellington Agreement and/or do not otherwise have agreements in place regarding their asbestos-related insurance coverage.

In addition to the receivable for insurance recoveries related to its asbestos liability, Union Carbide had receivables for defense and resolution costs submitted to insurance carriers that have settlement agreements in place regarding their asbestos-related insurance coverage.

The following table summarizes Union Carbide s receivables related to its asbestos-related liability:

Receivables for Asbestos-Related Costs

In millions	*June 30, 2010*	*Dec. 31, 2009*
Receivables for defense costs carriers with settlement agreements	$ 13	$ 91
Receivables for resolution costs carriers with settlement agreements	273	357
Receivables for insurance recoveries carriers without settlement agreements	84	84
Total	$370	$532

Union Carbide expenses defense costs as incurred. The pretax impact for defense and resolution costs, net of insurance, was $22 million in the second quarter of 2010 ($9 million in the second quarter of 2009) and $36 million in the first six months of 2010 ($20 million in the first six months of 2009), and was reflected in Cost of sales.

After a review of its insurance policies, with due consideration given to applicable deductibles, retentions and policy limits, after taking into account the solvency and historical payment experience of various insurance carriers; existing insurance settlements; and the advice of outside counsel with respect to the applicable insurance coverage law relating to the terms and conditions of its insurance policies, Union Carbide continues to believe that its recorded receivable for insurance recoveries from all insurance carriers is probable of collection.

The amounts recorded by Union Carbide for the asbestos-related liability and related insurance receivable described above were based upon current, known facts. However, future events, such as the number of new claims to be filed and/or received each year, the average cost of disposing of each such claim, coverage issues among insurers, and the continuing solvency of various insurance companies, as well as the numerous uncertainties surrounding asbestos litigation in the United States, could cause the actual costs and insurance recoveries for Union Carbide to be higher or lower than those projected or those recorded.

Because of the uncertainties described above, Union Carbide s management cannot estimate the full range of the cost of resolving pending and future asbestos-related claims facing Union Carbide and Amchem. Union Carbide s management believes that it is reasonably possible that the cost of disposing of Union Carbide s asbestos-related claims, including future defense costs, could have a material adverse impact on Union Carbide s results of operations and cash flows for a particular period and on the consolidated financial position of Union Carbide.

It is the opinion of Dow s management that it is reasonably possible that the cost of Union Carbide disposing of its asbestos-related claims, including future defense costs, could have a material adverse impact on the Company s results of operations and cash flows for a particular period and on the consolidated financial position of the Company.

Synthetic Rubber Industry Matters

In 2003, the U.S., Canadian and European competition authorities initiated separate investigations into alleged anticompetitive behavior by certain participants in the synthetic rubber industry. Certain subsidiaries of the Company (but as to the investigation in Europe only) have responded to requests for documents and are otherwise cooperating in the investigations.

On June 10, 2005, the Company received a Statement of Objections from the European Commission (the EC) stating that it believed that the Company and certain subsidiaries of the Company (the Dow Entities), together with other participants in the synthetic rubber industry, engaged in conduct in violation of European competition laws with respect to the butadiene rubber and emulsion styrene butadiene rubber businesses. In connection therewith, on November 29, 2006, the EC issued its decision alleging infringement of Article 81 of the Treaty of Rome and imposed a fine of Euro 64.575 million (approximately $85 million at that time) on the Dow Entities; several other companies were also named and fined. As a result, the Company recognized a loss contingency of $85 million related to the fine in the fourth quarter of 2006. The Company has appealed the EC s decision. On October 13, 2009, the Court of First Instance held a hearing on the appeal of all parties. Subsequent to the imposition of the fine, the Company and/or certain subsidiaries of the Company became named parties in various related U.S., United Kingdom and Italian civil actions. The U.S. matter was settled in March 2010 through a confidential settlement agreement which had an immaterial impact on the Company's consolidated financial statements.

Additionally, on March 10, 2007, the Company received a Statement of Objections from the EC stating that it believed that DuPont Dow Elastomers L.L.C. (DDE), a former 50:50 joint venture with E.I. du Pont de Nemours and Company (DuPont), together with other participants in the synthetic rubber industry, engaged in conduct in violation of European competition laws with respect to the polychloroprene business. This Statement of Objections specifically names the Company, in its capacity as a former joint venture owner of DDE. On December 5, 2007, the EC announced its decision to impose a fine on the Company, among others, in the amount of Euro 48.675 million (approximately $60 million). The Company previously transferred its joint venture ownership interest in DDE to DuPont in 2005, and DDE then changed its name to DuPont Performance Elastomers L.L.C. (DPE). In February 2008, DuPont, DPE and the Company each filed an appeal of the December 5, 2007 decision of the EC. Based on the Company s allocation agreement with DuPont, the Company s share of this fine, regardless of the outcome of the appeals, will not have a material adverse impact on the Company s consolidated financial statements.

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Rohm and Haas Pension Plan Matters

In December 2005, a federal judge in the U.S. District Court for the Southern District of Indiana (the District Court) issued a decision granting a class of participants in the Rohm and Haas Pension Plan (the Rohm and Haas Plan) who had retired from Rohm and Haas, now a wholly owned subsidiary of the Company, and who elected to receive a lump sum benefit from the Rohm and Haas Plan, the right to a cost-of-living adjustment (COLA) as part of their retirement benefit. In August 2007, the Seventh Circuit Court of Appeals affirmed the District Court s decision, and in March 2008, the U.S. Supreme Court denied the Rohm and Haas Plan s petition to review the Seventh Circuit s decision. The case was returned to the District Court for further proceedings. In October 2008 and February 2009, the District Court issued rulings that have the effect of including in the class all Rohm and Haas retirees who received a lump sum distribution without a COLA from the Rohm and Haas Plan since January 1976. These rulings are subject to appeal, and the District Court has not yet determined the amount of the COLA benefits that may be due to the class participants. The Rohm and Haas Plan and the plaintiffs entered into a settlement agreement which was preliminarily approved by the District Court on November 24, 2009. In addition to settling the litigation with respect to the Rohm and Haas retirees, the settlement agreement provides for the amendment of the complaint and amendment to the Rohm and Haas Plan to include active employees. Notices of the proposed settlement were provided to class members, and a hearing was held on March 12, 2010, to determine whether the settlement will be finally approved by the District Court. On April 12, 2010, the District Court issued a final order approving the settlement. An appeal of the final order by objectors to the settlement has been filed.

A pension liability associated with this matter of $185 million was recognized as part of the acquisition of Rohm and Haas on April 1, 2009. The liability, which was determined in accordance with the accounting guidance for contingencies, recognized the estimated impact of the above described judicial decisions on the long-term Rohm and Haas Plan obligations owed to the applicable Rohm and Haas retirees and active employees. At June 30, 2010 and December 31, 2009, the Company had a liability of $183 million associated with this matter.

Other Litigation Matters

In addition to breast implant, DBCP, environmental and synthetic rubber industry matters, the Company is party to a number of other claims and lawsuits arising out of the normal course of business with respect to commercial matters, including product liability, governmental regulation and other actions. Certain of these actions purport to be class actions and seek damages in very large amounts. All such claims are being contested. Dow has an active risk management program consisting of numerous insurance policies secured from many carriers at various times. These policies provide coverage that will be utilized to minimize the impact, if any, of the contingencies described above.

Summary

Except for the possible effect of Union Carbide s asbestos-related liability described above, it is the opinion of the Company s management that the possibility is remote that the aggregate of all claims and lawsuits will have a material adverse impact on the results of operations, financial condition and cash flows of the Company.

Purchase Commitments

The Company has numerous agreements for the purchase of ethylene-related products globally. The purchase prices are determined primarily on a cost-plus basis. Total purchases under these agreements were $784 million in 2009, $1,502 million in 2008 and $1,624 million in 2007. The Company s take-or-pay commitments associated with these agreements at December 31, 2009 are included in the table below.

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The Company also has various commitments for take-or-pay and throughput agreements. Such commitments are at prices not in excess of current market prices. The terms of all but two of these agreements extend from one to 25 years. One agreement has terms extending to 35 years and another has terms extending to 80 years. The determinable future commitments for these agreements are included for 10 years in the following table which presents the fixed and determinable portion of obligations under the Company s purchase commitments at December 31, 2009:

Fixed and Determinable Portion of Take-or-Pay and

Throughput Obligations at December 31, 2009

In millions	
2010	$ 2,845
2011	2,655
2012	1,716
2013	1,088
2014	944
2015 and beyond	5,969
Total	$ 15,217

In addition, in the second quarter of 2010, the Company entered into two new five-year contracts for the purchase of ethylene-related products beginning in 2010. At June 30, 2010, the fixed and determinable portion of the take-or-pay commitment associated with these new contracts was $140 million in 2010, $240 million in 2011, $256 million in 2012, $273 million in 2013 and $293 million in 2014.

In addition to the take-or-pay obligations at December 31, 2009, the Company had outstanding commitments which ranged from one to seven years for steam, electrical power, materials, property and other items used in the normal course of business of approximately $48 million. Such commitments were at prices not in excess of current market prices.

Guarantees

The Company provides a variety of guarantees as described more fully in the following sections.

Guarantees

Guarantees arise during the ordinary course of business from relationships with customers and nonconsolidated affiliates when the Company undertakes an obligation to guarantee the performance of others (via delivery of cash or other assets) if specified triggering events occur. With guarantees, such as commercial or financial contracts, non-performance by the guaranteed party triggers the obligation of the Company to make payments to the beneficiary of the guarantee. The majority of the Company s guarantees relate to debt of nonconsolidated affiliates, which have expiration dates ranging from less than one year to ten years, and trade financing transactions in Latin America, which typically expire within one year of their inception. The Company s current expectation is that future payment or performance related to the non-performance of others is considered unlikely.

Residual Value Guarantees

The Company provides guarantees related to leased assets specifying the residual value that will be available to the lessor at lease termination through sale of the assets to the lessee or third parties.

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The following tables provide a summary of the final expiration, maximum future payments and recorded liability reflected in the consolidated balance sheets for each type of guarantee:

Guarantees at June 30, 2010

In millions	*Final Expiration*	*Maximum Future Payments*	*Recorded Liability*
Guarantees	2020	$195	$31
Residual value guarantees (1)	2017	334	5
Total guarantees		$529	$36

(1) Does not include residual value guarantees of the Company s variable interest in an owner trust which was consolidated in the first quarter of 2010, with the adoption of ASU 2009-17 (see Notes B and M).

Guarantees at December 31, 2009

In millions	*Final Expiration*	*Maximum Future Payments*	*Recorded Liability*
Guarantees	2020	$ 358	$52
Residual value guarantees	2014	695	5
Total guarantees		$1,053	$57

Asset Retirement Obligations

The Company has recognized asset retirement obligations for the following activities: demolition and remediation activities at manufacturing sites in the United States, Canada, Brazil and Europe; capping activities at landfill sites in the United States, Canada, Brazil and Europe; and asbestos encapsulation as a result of planned demolition and remediation activities at manufacturing and administrative sites in the United States, Canada, Brazil and Europe.

The aggregate carrying amount of asset retirement obligations recognized by the Company was $98 million at June 30, 2010 and $101 million at December 31, 2009. The discount rate used to calculate the Company s asset retirement obligation was 2.45 percent. These obligations are included in the consolidated balance sheets as Other noncurrent obligations.

The Company has not recognized conditional asset retirement obligations for which a fair value cannot be reasonably estimated in its consolidated financial statements. It is the opinion of the Company s management that the possibility is remote that such conditional asset retirement obligations, when estimable, will have a material adverse impact on the Company s consolidated financial statements based on current costs.

NOTE L TRANSFERS OF FINANCIAL ASSETS

On January 1, 2010, the Company adopted ASU 2009-16, Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets. This ASU is intended to improve the information provided in financial statements concerning transfers of financial assets, including the effects of transfers on financial position, financial performance and cash flows, and any continuing involvement of the transferor with the transferred financial assets. The Company evaluated the impact of adopting the guidance and the terms and conditions in place at January 1, 2010 and determined that certain sales of accounts receivables would be classified as secured borrowings. Under the Company s sale of accounts receivables arrangements, $915 million was outstanding at January 1, 2010. The maximum amount of receivables available for participation in these programs was $1,939 million at January 1, 2010.

In January 2010, the Company terminated the North American arrangement and replaced it with a new arrangement that qualified for treatment as a sale under ASU 2009-16. The arrangement related to $294 million of the $915 million outstanding at January 1, 2010 and $1,100 million of the $1,939 million maximum participation.

In June 2010, the Company terminated the European arrangement and replaced it with a new arrangement that qualified for treatment as a sale under ASU 2009-16. The arrangement related to $584 million of the $915 million outstanding at January 1, 2010 and $721 million of the $1,939 million maximum participation.

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Sale of Trade Accounts Receivable in North America

In January 2010, the Company terminated its previous facilities used in North America for the transfers of trade accounts receivable by entering into an agreement to repurchase the outstanding receivables for $264 million and replacing it with a new arrangement. During the six-month period ended June 30, 2010, under the new arrangement, the Company sold the trade accounts receivable of select North America entities on a revolving basis to certain multi-seller commercial paper conduit entities. The Company maintains servicing responsibilities and the related costs are insignificant. The proceeds received are comprised of cash and interests in specified assets (the receivables sold by the Company) of the conduits that entitle the Company to the residual cash flows of such specified assets in the conduits after the commercial paper has been repaid. Neither the conduits nor the investors in those entities have recourse to other assets of the Company in the event of nonpayment by the debtors.

During the three-month period ended June 30, 2010, the Company recognized a loss of $5 million on the sale of these receivables ($9 million for the six-month period ended June 30, 2010), which is classified as Interest expense and amortization of debt discount in the consolidated statements of operations. The Company classifies its interests in the conduits as Accounts and notes receivable Other on the consolidated balance sheets and those interests are carried at fair value. Fair value of the interests is determined by calculating the expected amount of cash to be received and is based on unobservable inputs (a Level 3 measurement). The key input in the valuation is percentage of anticipated credit losses, which was 1.44 percent, in the portfolio of receivables sold that have not yet been collected. Given the short-term nature of the underlying receivables, discount rates and prepayments are not factors in determining the fair value of the interests. At June 30, 2010, the carrying value of the interests held was $1,062 million, which is the Company s maximum exposure to loss related to the receivables sold.

The sensitivity of the fair value of the interests held to hypothetical adverse changes in the key valuation assumption are as follows (amounts shown are the corresponding hypothetical decreases in the carrying value of the interests):

Impact to Carrying Value	
(in millions)	
10% adverse change	$ 2
20% adverse change	$ 4

Following is an analysis of certain cash flows between the Company and the North American conduits:

Cash Proceeds	*Six Months Ended*
(in millions)	*June 30, 2010*
Sale of receivables	$264
Collections reinvested in revolving receivables	$7,718
Interests in conduits (1)	$867

(1) Presented in operating activities in the consolidated statements of cash flows.

Delinquencies on the sold receivables that were still outstanding at June 30, 2010 were $135 million. Trade accounts receivable outstanding and derecognized from the Company s consolidated balance sheets at June 30, 2010 were $1,882 million. Credit losses, net of any recoveries, on receivables sold during the six-month period ended June 30, 2010 were $1 million.

Sale of Trade Accounts Receivable in Europe

In June 2010, the Company terminated its previous facility used in Europe for the transfers of trade accounts receivable by entering into an agreement to repurchase the outstanding receivables for $11 million and replacing it with a new arrangement. During June 2010, under the new arrangement, the Company sold qualifying trade accounts receivable of select European entities on a revolving basis to certain multi-seller commercial paper conduit entities. The Company maintains servicing responsibilities and the related costs are insignificant. The proceeds received are comprised of cash and interests in specified assets (the receivables sold by the Company) of the conduits that entitle the Company to the residual cash flows of such specified assets in the conduits after the commercial paper has been repaid. Neither the conduits nor the investors in those entities have recourse to other assets of the Company in the event of nonpayment by the debtors.

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During June 2010, the Company recognized a loss of less than $1 million on the sale of these receivables, which is classified as Interest expense and amortization of debt discount in the consolidated statements of operations. The Company classifies its interests in the conduits as Accounts and notes receivable Other on the consolidated balance sheets and those interests are carried at fair value. Fair value of the interests is determined by calculating the expected amount of cash to be received and is based on unobservable inputs (a Level 3 measurement). The key input in the valuation is percentage of anticipated credit losses, which was zero, in the portfolio of receivables sold that have not yet been collected. Given the short-term nature of the underlying receivables, discount rates and prepayments are not factors in determining the fair value of the interests. At June 30, 2010, the carrying value of the interests held was $144 million, which is the Company s maximum exposure to loss related to the receivables sold.

Following is an analysis of certain cash flows between the Company and the European conduits:

Cash Proceeds	*Six Months Ended*
(in millions)	*June 30, 2010*
Sale of receivables	$512
Collections reinvested in revolving receivables	$167

Delinquencies on the sold receivables still outstanding at June 30, 2010 were $12 million. Trade accounts receivable outstanding and derecognized from the Company s consolidated balance sheet at June 30, 2010 were $375 million. There were no credit losses on receivables sold during June 2010.

Sale of Trade Accounts Receivable in Asia Pacific

During the six-month period ended June 30, 2010, the Company sold a participating interest in trade accounts receivable of select Asia Pacific entities for which the Company maintains servicing responsibilities and the related costs are insignificant. The third-party holders of the participating interests do not have recourse to the Company s assets in the event of nonpayment by the debtors.

During the three- and six-month periods ended June 30, 2010, the Company recognized a loss of less than $1 million on the sale of the participating interests in the receivables. The Company receives cash upon the sale of the participating interests in the receivables.

Following is an analysis of certain cash flows between the Company and the third-party holders of the participating interests:

Cash Proceeds	*Six Months Ended*
(in millions)	*June 30, 2010*
Sale of participating interests	$102
Collections reinvested in revolving receivables	$96

Following is additional information related to the sale of participating interests in the receivables under this facility:

Trade Accounts Receivable	
(in millions)	*June 30, 2010*
Derecognized from the consolidated balance sheet	$27
Outstanding in the consolidated balance sheet	224
Total accounts receivable in select Asia Pacific entities	$251

Credit losses, net of any recoveries, on receivables relating to the participating interests sold during the six-month period ended June 30, 2010 and delinquencies on the outstanding receivables at June 30, 2010 related to the participating interests sold were zero.

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NOTE M VARIABLE INTEREST ENTITIES

On January 1, 2010, the Company adopted ASU 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. ASU 2009-17 amends the consolidation guidance applicable to variable interest entities (VIEs) and requires additional disclosures concerning an enterprise s continuing involvement with VIEs. The Company evaluated the impact of this guidance and determined that the adoption resulted in the January 1, 2010 consolidation of two additional joint ventures, an owner trust and an entity that is used to monetize accounts receivable. The Company elected prospective application of this guidance at adoption.

The following table summarizes the carrying amount of the assets and liabilities of the two additional joint ventures and the owner trust entity included in the Company s consolidated balance sheets at January 1, 2010.

Assets and Liabilities of Newly Consolidated VIEs Included in the

Consolidated Balance Sheet

In millions	*Jan. 1, 2010*
Current assets	$ 37
Property	209
Other noncurrent assets	3
Total assets	$249
Current liabilities	$ 76
Long-term debt	346
Total liabilities	$422

The carrying amounts of assets and liabilities pertaining to the entity used to monetize accounts receivables, included in the Company s consolidated balance sheet at January 1, 2010, were current assets of $817 million (including $436 million of restricted cash) and current liabilities of $589 million.

Consolidated Variable Interest Entities

The Company holds a variable interest in four joint ventures for which the Company is the primary beneficiary. Three of the joint ventures are development stage enterprises, which will produce propylene oxide and hydrogen peroxide and provide terminal services in Thailand. The Company s variable interest in these joint ventures relates to cost-plus arrangements between the joint venture and the Company, involving the majority of the output on take-or-pay terms and ensuring a guaranteed return to the joint ventures. At June 30, 2010, the Company provided guarantees with a maximum exposure of $736 million on the construction-related debt of these joint ventures.

The other joint venture was acquired through the acquisition of Rohm and Haas on April 1, 2009. This joint venture manufactures products in Japan for the semiconductor industry. Each joint venture partner holds several equivalent variable interests, with the exception of a royalty agreement held exclusively between the joint venture and the Company. In addition, the entire output of the joint venture is sold to the Company for resale to third-party customers.

The Company holds a variable interest in an owner trust, for which the Company is the primary beneficiary. The owner trust leases an ethylene facility in The Netherlands to the Company, whereby substantially all of the rights and obligations of ownership are transferred to the Company. The Company s variable interest in the owner trust relates to a residual value guarantee provided to the owner trust. Upon expiration of the lease, which matures in 2014, the Company may purchase the facility for an amount based on a fair market value determination. At June 30, 2010, the Company had provided to the owner trust a residual value guarantee of $363 million, which represents the Company s maximum exposure to loss under the lease.

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As the primary beneficiary of these VIEs, the entities assets, liabilities and results of operations are included in the Company s consolidated financial statements. The other equity holders interests are reflected in Net income attributable to noncontrolling interests in the consolidated statements of operations and Noncontrolling interests in the consolidated balance sheets. The following table summarizes the carrying amounts of the entities assets and liabilities included in the Company s consolidated balance sheets at June 30, 2010 and December 31, 2009:

Assets and Liabilities of Consolidated VIEs	*June 30,*	*Dec. 31,*
In millions	*2010*	*2009*
Current assets (restricted 2010: $174)	$ 174	$102
Property (restricted 2010: $933)	933	455
Other noncurrent assets (restricted 2010: $115)	115	81
Total assets	$1,222	$638
Current liabilities (nonrecourse 2010: $142)	$ 557	$183
Long-term debt (nonrecourse 2010: $129)	476	125
Other noncurrent liabilities (nonrecourse 2010: $60)	60	43
Total liabilities	$1,093	$351

The Company holds a variable interest in an entity created in June 2010, used to monetize accounts receivable originated by several European subsidiaries. The Company is the primary beneficiary of this entity as a result of holding subordinated notes while maintaining servicing responsibilities for the accounts receivable. The carrying amounts of assets and liabilities pertaining to this entity, included in the Company s consolidated balance sheet at June 30, 2010, were current assets of $350 million ($205 million restricted) and current liabilities of $208 million ($208 million nonrecourse). Prior to the creation of this entity, the Company held a variable interest in another entity that was also used to monetize accounts receivable originated by several European subsidiaries. That arrangement was terminated in June 2010. No gain or loss was recognized as a result of terminating the arrangement.

Amounts presented in the consolidated balance sheet and the table above as restricted assets or nonrecourse obligations relating to consolidated VIEs at June 30, 2010 are adjusted for intercompany eliminations, parental guarantees and residual value guarantees.

Nonconsolidated Variable Interest Entity

The Company holds a variable interest in a joint venture accounted for under the equity method of accounting, acquired through the acquisition of Rohm and Haas on April 1, 2009. The joint venture manufactures crude acrylic acid in the United States and Germany on behalf of the Company and the other joint venture partner. The variable interest relates to a cost-plus arrangement between the joint venture and each joint venture partner. The Company is not the primary beneficiary, as a majority of the joint venture s output is sold to the other joint venture partner, and therefore the entity is not consolidated. At June 30, 2010, the Company s investment in the joint venture was $123 million, classified as Investment in nonconsolidated affiliates in the consolidated balance sheets, representing the Company s maximum exposure to loss.

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NOTE N PENSION PLANS AND OTHER POSTRETIREMENT BENEFITS

Net Periodic Benefit Cost for All Significant Plans	*Three Months Ended*		*Six Months Ended*	
	June 30,	*June 30,*	*June 30,*	*June 30,*
In millions	*2010*	*2009*	*2010*	*2009*
Defined Benefit Pension Plans:				
Service cost	$ 77	$ 70	$ 156	$ 128
Interest cost	273	280	549	518
Expected return on plan assets	(302)	(321)	(606)	(609)
Amortization of prior service cost	7	8	14	16
Amortization of net loss	67	26	134	52
Curtailment cost	8	-	8	-
Net periodic benefit cost	$ 130	$ 63	$ 255	$ 105
Other Postretirement Benefits:				
Service cost	$ 4	$ 5	$ 8	$ 9
Interest cost	28	36	56	65
Expected return on plan assets	(3)	(4)	(6)	(8)
Amortization of prior service credit	-	(1)	-	(2)
Curtailment cost	3		3	
Net periodic benefit cost	$ 32	$ 36	$ 61	$ 64

As a result of the divestiture of the Styron business unit on June 17, 2010, the Company recognized a curtailment loss of $11 million and improved the funded status (plan assets less benefit obligations) by $99 million due to settlements, remeasurements and curtailments (see Note E).

NOTE O STOCK-BASED COMPENSATION

The Company grants stock-based compensation to employees under the Employees Stock Purchase Plan (ESPP) and the 1988 Award and Option Plan (the 1988 Plan) and to non-employee directors under the 2003 Non-Employee Directors Stock Incentive Plan. Most of the Company s stock-based compensation awards are granted in the first quarter of each year. Details for awards granted in the first quarter of 2010 are included in the following paragraphs. There was minimal grant activity in the second quarter of 2010.

During the first quarter of 2010, employees subscribed to the right to purchase 13.8 million shares with a weighted-average exercise price of $18.09 per share and a weighted-average fair value of $11.90 per share under the ESPP.

During the first quarter of 2010, the Company granted the following stock-based compensation awards to employees under the 1988 Plan:

- 8.5 million stock options with a weighted-average exercise price of $27.79 per share and a weighted-average fair value of $9.17 per share;
- 4.3 million shares of deferred stock with a weighted-average fair value of $27.81 per share; and
- 0.9 million shares of performance deferred stock with a weighted-average fair value of $27.79 per share.

During the first quarter of 2010, the Company granted the following stock-based compensation awards to non-employee directors under the 2003 Non-Employee Directors Stock Incentive Plan:

38,940 shares of restricted stock with a weighted-average fair value of $30.00 per share.

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Total unrecognized compensation cost at June 30, 2010, including unrecognized cost related to the first quarter of 2010 activity, is provided in the following table:

Total Unrecognized Compensation Cost at June 30, 2010

In millions	*Unrecognized Compensation Cost*	*Weighted-average Recognition Period*
ESPP purchase rights	$37	4.5 months
Unvested stock options	$63	0.72 year
Deferred stock awards	$137	0.90 year
Performance deferred stock awards	$50	0.67 year

NOTE P INCOME TAXES

At June 30, 2010, the total amount of unrecognized tax benefits was $313 million ($650 million at December 31, 2009), of which $291 million ($610 million at December 31, 2009) would impact the effective tax rate, if recognized. The reduction in 2010 was primarily due to settlements of uncertain tax positions with tax authorities.

The Company is currently under examination in a number of tax jurisdictions. It is reasonably possible that these examinations may be resolved within the next twelve months. As a result, it is reasonably possible that the total gross unrecognized tax benefits of the Company at June 30, 2010 will be reduced by approximately $51 million. The amount of settlement remains uncertain and it is reasonably possible that before settlement, the amount of gross unrecognized tax benefits may increase or decrease by approximately $30 million. The impact on the Company s results of operations is not expected to be material.

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NOTE Q EARNINGS PER SHARE CALCULATIONS

Net Income	*Three Months Ended*		*Six Months Ended*	
	June 30,	*June 30,*	*June 30,*	*June 30,*
In millions	*2010*	*2009*	*2010*	*2009*
Income (Loss) from continuing operations	$659	$(435)	$1,211	$(411)
Income from discontinued operations, net of income taxes	-	103	-	114
Net income attributable to noncontrolling interests	(8)	(12)	(9)	