DOW CHEMICAL CO /DE/
Form 10-Q
May 04, 2009

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 MARCH 31, 2009

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 o 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). o Yes o 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 o
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o
Yes þ No

Class	Outstanding at March 31, 2009
Common Stock, par value $2.50 per share	925,833,122 shares

The Dow Chemical Company

QUARTERLY REPORT ON FORM 10-Q
For the quarterly period ended March 31, 2009

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PART I - FINANCIAL INFORMATION
Item 1. Financial Statements.

The Dow Chemical Company and Subsidiaries
Consolidated Statements of Income

In millions, except per share amounts (Unaudited)	Three Months Ended March 31, 2009	March 31, 2008
Net Sales	$ 9,087	$ 14,824
Cost of sales	8,165	12,908
Research and development expenses	292	331
Selling, general and administrative expenses	444	498
Amortization of intangibles	22	22
Restructuring charges	19	-
Acquisition-related expenses	48	-
Equity in earnings of nonconsolidated affiliates	65	274
Sundry income (expense) - net	(3)	46
Interest income	12	24
Interest expense and amortization of debt discount	154	145
Income before Income Taxes	17	1,264
Provision (Credit) for income taxes	(18)	299
Net Income	35	965
Net income attributable to noncontrolling interests	11	24
Net Income Attributable to The Dow Chemical Company	$ 24	$ 941
Share Data		
Earnings per common share - basic	$ 0.03	$ 1.00
Earnings per common share - diluted	$ 0.03	$ 0.99
Common stock dividends declared per share of common stock	$ 0.15	$ 0.42
Weighted-average common shares outstanding - basic	925.4	942.1
Weighted-average common shares outstanding - diluted	932.0	951.6
Depreciation	$ 455	$ 495
Capital Expenditures	$ 234	$ 359
See Notes to the Consolidated Financial Statements.		

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The Dow Chemical Company and Subsidiaries
Consolidated Balance Sheets

In millions (Unaudited)		March 31, 2009		Dec. 31, 2008
Assets				
Current Assets				
Cash and cash equivalents	$	2,956	$	2,800
Accounts and notes receivable:				
Trade (net of allowance for doubtful receivables - 2009: $141; 2008: $124)		3,819		3,782
Other		2,714		3,074
Inventories		5,916		6,036
Deferred income tax assets - current		201		368
Total current assets		15,606		16,060
Investments				
Investment in nonconsolidated affiliates		2,627		3,204
Other investments		2,165		2,245
Noncurrent receivables		336		276
Total investments		5,128		5,725
Property				
Property		47,370		48,391
Less accumulated depreciation		33,547		34,097
Net property		13,823		14,294
Other Assets				
Goodwill		3,392		3,394
Other intangible assets (net of accumulated amortization - 2009: $853; 2008: $825)		813		829
Deferred income tax assets - noncurrent		3,865		3,900
Asbestos-related insurance receivables - noncurrent		657		658
Deferred charges and other assets		875		614
Total other assets		9,602		9,395
Total Assets	$	44,159	$	45,474
Liabilities and Equity				
Current Liabilities				
Notes payable	$	844	$	2,360
Long-term debt due within one year		1,223		1,454
Accounts payable:				
Trade		2,885		3,306
Other		1,972		2,227
Income taxes payable		305		637
Deferred income tax liabilities - current		64		88
Dividends payable		141		411
Accrued and other current liabilities		2,318		2,625
Total current liabilities		9,752		13,108
Long-Term Debt		10,897		8,042
Other Noncurrent Liabilities				
Deferred income tax liabilities - noncurrent		613		746
Pension and other postretirement benefits - noncurrent		5,420		5,466
Asbestos-related liabilities - noncurrent		800		824
Other noncurrent obligations		2,998		3,208

Total other noncurrent liabilities	9,831	10,244
Preferred Securities of Subsidiaries	500	500
Stockholders' Equity		
Common stock	2,453	2,453
Additional paid-in capital	825	872
Retained earnings	16,896	17,013
Accumulated other comprehensive loss	(4,674)	(4,389)
Treasury stock at cost	(2,384)	(2,438)
The Dow Chemical Company's stockholders' equity	13,116	13,511
Noncontrolling interests	63	69
Total equity	13,179	13,580
Total Liabilities and Equity	$ 44,159	$ 45,474

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)	Three Months Ended March 31, 2009	March 31, 2008
Operating Activities		
Net Income	$ 35	$ 965
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	508	574
Provision (Credit) for deferred income tax	(83)	64
Earnings of nonconsolidated affiliates less than dividends received	496	45
Pension contributions	(51)	(43)
Net loss (gain) on sale of consolidated companies	10	(18)
Net loss (gain) on sales of investments	2	(18)
Net gain on sales of property and businesses	(10)	(25)
Other net loss	-	1
Restructuring charges	19	-
Changes in assets and liabilities:		
Accounts and notes receivable	(23)	(689)
Inventories	120	(786)
Accounts payable	(614)	326
Other assets and liabilities	(486)	51
Cash provided by (used in) operating activities	(77)	447
Investing Activities		
Capital expenditures	(234)	(359)
Proceeds from sales of property, businesses and consolidated companies	33	88
Acquisitions of businesses	(5)	-
Purchase of previously leased assets	-	(10)
Investments in consolidated companies	(7)	(31)
Investments in nonconsolidated affiliates	(17)	(27)
Distributions from nonconsolidated affiliates	3	2
Purchases of investments	(108)	(285)
Proceeds from sales and maturities of investments	159	332
Cash used in investing activities	(176)	(290)
Financing Activities		
Changes in short-term notes payable	(1,564)	559
Proceeds from revolving credit facility	3,000	-
Payments on long-term debt	(367)	(57)
Proceeds from issuance of long-term debt	74	5
Purchases of treasury stock	(5)	(411)
Proceeds from sales of common stock	-	21
Payment of deferred financing costs	(265)	-
Distributions to noncontrolling interests	(23)	(22)
Dividends paid to stockholders	(388)	(395)
Cash provided by (used in) financing activities	462	(300)
Effect of Exchange Rate Changes on Cash	(53)	80
Summary		
Increase (Decrease) in cash and cash equivalents	156	(63)
Cash and cash equivalents at beginning of year	2,800	1,736

Cash and cash equivalents at end of period	$ 2,956	$ 1,673

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
Consolidated Statements of Equity

In millions (Unaudited)	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Common Stock		
Balance at beginning of year and end of period	$ 2,453	$ 2,453
Additional Paid-in Capital		
Balance at beginning of year	872	902
Stock-based compensation	(47)	45
Balance at end of period	825	947
Retained Earnings		
Balance at beginning of year	17,013	18,004
Net income attributable to The Dow Chemical Company	24	941
Dividends declared on common stock (Per share: $0.15 in 2009, $0.42 in 2008)	(139)	(391)
Other	(2)	(12)
Balance at end of period	16,896	18,542
Accumulated Other Comprehensive Income (Loss), Net of Tax		
Unrealized Gains (Losses) on Investments at beginning of year	(111)	71
Unrealized losses	(24)	(29)
Balance at end of period	(135)	42
Cumulative Translation Adjustments at beginning of year	221	723
Translation adjustments	(384)	573
Balance at end of period	(163)	1,296
Pension and Other Postretirement Benefit Plans at beginning of year	(4,251)	(989)
Adjustments to pension and other postretirement benefit plans	5	14
Pension and Other Postretirement Benefit Plans at end of period	(4,246)	(975)
Accumulated Derivative Gain (Loss) at beginning of year	(248)	25
Net hedging results	(61)	22
Reclassification to earnings	179	5
Balance at end of period	(130)	52
Total accumulated other comprehensive income (loss)	(4,674)	415
Treasury Stock		
Balance at beginning of year	(2,438)	(1,800)
Purchases	(5)	(411)
Issuance to employees and employee plans	59	33
Balance at end of period	(2,384)	(2,178)
The Dow Chemical Company's Stockholders' Equity	13,116	20,179
Noncontrolling Interests		
Balance at beginning of year	69	414
Net income attributable to noncontrolling interests	11	24
Other	(17)	(8)
Balance at end of period	63	430
Total Equity	$ 13,179	$ 20,609

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 March 31, 2009	March 31, 2008
Net Income	$ 35	$ 965
Other Comprehensive Income (Loss), Net of Tax		
Net unrealized losses on investments	(24)	(29)
Translation adjustments	(384)	573
Adjustments to pension and other postretirement benefit plans	5	14
Net gains on cash flow hedging derivative instruments	118	27
Total other comprehensive income (loss)	(285)	585
Comprehensive Income (Loss)	(250)	1,550
Comprehensive income attributable to noncontrolling interests, net of tax	11	24
Comprehensive Income (Loss) Attributable to The Dow Chemical Company	$ (261)	$ 1,526

See Notes to the Consolidated Financial Statements.

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The Dow Chemical Company and Subsidiaries
PART I – FINANCIAL INFORMATION, Item 1.
Financial Statements.
(Unaudited) Notes to the Consolidated Financial Statements

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 ("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, 2008.

NOTE B – RECENT ACCOUNTING PRONOUNCEMENTS

Accounting for Noncontrolling Interests
In December 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51." The Statement established accounting and reporting standards for noncontrolling interests in a subsidiary and for deconsolidation of a subsidiary. The Statement was effective January 1, 2009 for the Company. The retrospective presentation and disclosure requirements outlined by SFAS No. 160 have been incorporated into this Quarterly Report on Form 10-Q for the interim period ended March 31, 2009.

The implementation of SFAS No. 160 revised all previous references to "minority interests" in the consolidated financial statement to "noncontrolling interests," and resulted in the following changes:

- The Consolidated Statements of Income now present "Net Income," which includes "Net income attributable to noncontrolling interests" and "Net Income Attributable to The Dow Chemical Company." "Net Income Attributable to The Dow Chemical Company" is equivalent to the previously reported "Net Income Available for Common Stockholders." No change was required to the presentation of earnings per share.

- The Consolidated Balance Sheets now present "Noncontrolling interests" as a component of "Total equity." "Noncontrolling interests" is equivalent to the previously reported "Minority Interest in Subsidiaries." "The Dow Chemical Company's stockholders' equity" is equivalent to the previously reported "Net stockholders' equity."

- The Consolidated Statements of Comprehensive Income now present "Comprehensive Income," which includes "Comprehensive income attributable to noncontrolling interests" and "Comprehensive Income Attributable to The Dow Chemical Company." "Comprehensive Income Attributable to The Dow Chemical Company" is equivalent to the previously reported "Comprehensive Income."

- The Consolidated Statements of Cash Flows now begin with "Net Income" instead of "Net Income Available for Common Stockholders."

- Interim Consolidated Statements of Equity have been added to fulfill the disclosure requirements of SFAS No. 160.

Other Accounting Pronouncements

In February 2008, the FASB issued FASB Staff Position ("FSP") No. FAS 157-2, "Effective Date of FASB Statement No. 157," which delayed the effective date of SFAS No. 157, "Fair Value Measurements," for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. On January 1, 2009, the Company adopted SFAS No. 157 for these assets and liabilities. Since the Company's existing fair value measurements for nonfinancial assets and nonfinancial liabilities are consistent with the guidance of the Statement, the adoption of the Statement did not have a material impact on the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities - an amendment of SFAS No. 133." The Statement requires enhanced disclosures about an entity's derivative and hedging activities. The Statement was effective for fiscal years and interim periods beginning after November 15, 2008, which was January 1, 2009 for the Company. The Company's enhanced disclosures are included in Note G.

In June 2008, the FASB issued FSP Emerging Issues Task Force ("EITF") Issue No. 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities." The FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. The FSP affects entities that accrue dividends on share-based payment awards during the awards' service period when the dividends do not need to be returned if the employees forfeit the award. This FSP was effective for fiscal years beginning after December 15, 2008, which was January 1, 2009 for the Company. The adoption of the FSP did not have a material impact on the Company's consolidated financial statements.

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In April 2009, the FASB issued FSP No. FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies." The FSP requires that assets acquired and liabilities assumed in a business combination that arise from contingencies be recognized at fair value per SFAS No. 157, if the acquisition-date fair value can be reasonably determined. If the fair value cannot be reasonably determined, then the asset or liability should be recognized in accordance with SFAS No. 5, "Accounting for Contingencies," and FASB Interpretation ("FIN") No. 14, "Reasonable Estimation of the Amount of a Loss - an interpretation of FASB Statement No. 5." The FSP also requires new disclosures for the assets and liabilities within the scope of the FSP. The Company is applying the guidance of the FSP to business combinations completed on or after January 1, 2009. See Note O for disclosures related to a recent business combination.

Accounting Standards Issued But Not Yet Adopted
In December 2008, the FASB issued FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." The FSP requires new disclosures on investment policies and strategies, categories of plan assets, fair value measurements of plan assets, and significant concentrations of risk, and is effective for fiscal years ending after December 15, 2009, with earlier application permitted. The Company will include the required disclosures in the Company's Annual Report on Form 10-K for the annual period ending December 31, 2009.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments." The FSP amends SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" and Accounting Principles Board ("APB") Opinion No. 28, "Interim Financial Reporting," to require disclosures about the fair value of financial instruments during interim reporting periods. The FSP is effective for interim and annual periods ending after June 15, 2009, which is June 30, 2009 for the Company. The Company will include the required disclosures in the Company's Quarterly Report on Form 10-Q for the interim period ending June 30, 2009.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments." The FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities. The FSP is effective for interim and annual periods ending after June 15, 2009, which is June 30, 2009 for the Company. The FSP is not anticipated to have a material impact on the Company's consolidated financial statements.

In April 2009, the FASB issued FSP No. FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly." The FSP provides additional guidance for estimating fair value when the market activity for an asset or liability has declined significantly. The FSP is effective for interim and annual periods ending after June 15, 2009, which is June 30, 2009 for the Company. The FSP is not anticipated to have a material impact on the Company's consolidated financial statements.

NOTE C – RESTRUCTURING

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 recent, severe economic downturn. The restructuring plan includes 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 impact of the charges was shown as "Restructuring charges" in the 2008 consolidated statements of income.

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, 2008 a liability of $319 million remained for approximately 2,965 employees. During the first quarter of 2009, the Company increased the severance reserve by a net amount of $19 million, including approximately 500 additional employees. In the first quarter of 2009, severance of $123 million was paid to 1,448 employees, leaving a liability of $210 million for 2,033 employees at March 31, 2009.

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The following table summarizes 2009 activities related to the Company's 2008 restructuring reserve:

2009 Activities Related to 2008 Restructuring In millions	Costs associated with Exit or Disposal Activities	Severance Costs	Total
Reserve balance at December 31, 2008	$ 128	$ 319	$ 447
Adjustment to reserve	-	19	19
Cash payments	-	(123)	(123)
Foreign currency impact	-	(5)	(5)
Reserve balance at March 31, 2009	$ 128	$ 210	$ 338

2007 Restructuring
On December 3, 2007, the Company's Board of Directors approved a restructuring plan that includes the shutdown of a number of assets and organizational changes within targeted support functions to improve the efficiency and cost effectiveness of the Company's global operations. As a result of these shutdowns and organizational changes, which are scheduled to be completed by the end of 2009, the Company recorded pretax restructuring charges totaling $590 million in the fourth quarter of 2007. The charges consisted of asset write-downs and write-offs of $422 million, costs associated with exit or disposal activities of $82 million and severance costs of $86 million. The impact of the charges was shown as "Restructuring charges" in the 2007 consolidated statements of income.

The severance component of the 2007 restructuring charges of $86 million was for the separation of approximately 978 employees under the terms of Dow's ongoing benefit arrangements, primarily over two years. At December 31, 2008, a liability of $37 million remained for approximately 527 employees. In the first quarter of 2009, severance of $12 million was paid to 102 employees, leaving a liability of $24 million for 425 employees at March 31, 2009.

Cash payments of $18 million were made in the first quarter of 2009 related to contract termination fees.

The following table summarizes 2009 activities related to the Company's 2007 restructuring reserve:

2009 Activities Related to 2007 Restructuring In millions	Costs associated with Exit or Disposal Activities	Severance Costs	Total
Reserve balance at December 31, 2008	$ 93	$ 37	$ 130
Cash payments	(18)	(12)	(30)
Foreign currency impact	1	(1)	-
Reserve balance at March 31, 2009	$ 76	$ 24	$ 100

2006 Restructuring
On August 29, 2006, the Company's Board of Directors approved a plan to shut down a number of assets around the world as the Company continues its drive to improve the competitiveness of its global operations. As a consequence of these shutdowns, which were completed in the first quarter of 2009, and other optimization activities, the Company recorded pretax restructuring charges totaling $591 million in 2006. The charges consisted of asset write-downs and

write-offs of $346 million, costs associated with exit or disposal activities of $172 million and severance costs of $73 million. The impact of the charges was shown as “Restructuring charges” in the 2006 consolidated statements of income.

The severance component of the 2006 restructuring charges of $73 million was for the separation of approximately 810 employees under the terms of Dow’s ongoing benefit arrangements, primarily over two years. At December 31, 2008, a liability of $14 million remained for approximately 215 employees. In the first quarter of 2009, severance of $4 million was paid to 40 employees, leaving a liability of $10 million for 175 employees at March 31, 2009.

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The following table summarizes 2009 activities related to the Company's 2006 restructuring reserve:

2009 Activities Related to 2006 Restructuring In millions	Costs associated with Exit or Disposal Activities	Severance Costs	Total
Reserve balance at December 31, 2008	$ 92	$ 14	$ 106
Cash payments	(3)	(4)	(7)
Foreign currency impact	(1)	-	(1)
Reserve balance at March 31, 2009	$ 88	$ 10	$ 98

NOTE D – ACQUISITIONS

Acquisition-Related Expenses
During the first quarter of 2009, pretax charges totaling $48 million were recorded for legal expense and other transaction costs related to the April 1, 2009 acquisition of Rohm and Haas Company ("Rohm and Haas"); these charges were reflected in Unallocated and Other. These charges were expensed in accordance with Statement of Financial Accounting Standards No. 141 (revised 2007), "Business Combinations" ("SFAS 141R").

Subsequent Event
See Note O for information on the acquisition of Rohm and Haas on April 1, 2009.

NOTE E – INVENTORIES

The following table provides a breakdown of inventories:

Inventories In millions	March 31, 2009	Dec. 31, 2008
Finished goods	$ 3,239	$ 3,351
Work in process	1,215	1,217
Raw materials	823	830
Supplies	639	638
Total inventories	$ 5,916	$ 6,036

The reserves reducing inventories from the first-in, first-out ("FIFO") basis to the last-in, first-out ("LIFO") basis amounted to $381 million at March 31, 2009 and $627 million at December 31, 2008.

NOTE F – GOODWILL AND OTHER INTANGIBLE ASSETS

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

Goodwill In millions	Performance Plastics	Performance Chemicals	Agricultural Sciences	Basic Plastics	Hydrocarbons and Energy	Total
Balance at December 31, 2008	$ 874	$ 1,001	$ 1,391	$ 65	$ 63	$ 3,394
Adjustment to goodwill related to the 2008 acquisition of Dairyland Seed Co., Inc.	-	-	(2)	-	-	(2)
Balance at March 31, 2009	$ 874	$ 1,001	$ 1,389	$ 65	$ 63	$ 3,392

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Goodwill Impairments

During the fourth quarter of 2008, the Company recorded an estimated goodwill impairment loss of $209 million for the Dow Automotive reporting unit. As required by SFAS No. 142, “Goodwill and Other Intangible Assets,” the second step of goodwill impairment testing to determine the implied fair value of goodwill for the Dow Automotive reporting unit was finalized in the first quarter of 2009 and no adjustment was required to be made to the estimated impairment loss based on completion of the allocation process.

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

Other Intangible Assets	At March 31, 2009			At December 31, 2008		
In millions	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets with finite lives:						
Licenses and intellectual property	$ 309	$ (197)	$ 112	$ 316	$ (192)	$ 124
Patents	139	(101)	38	139	(100)	39
Software	719	(373)	346	700	(363)	337
Trademarks	174	(63)	111	169	(61)	108
Other	325	(119)	206	330	(109)	221
Total	$ 1,666	$ (853)	$ 813	$ 1,654	$ (825)	$ 829

The following table provides information regarding amortization expense:

Amortization Expense	Three Months Ended	
In millions	March 31, 2009	March 31, 2008
Other intangible assets, excluding software	$22	$22
Software, included in “Cost of sales”	$14	$11

Total estimated amortization expense for 2009 and the five succeeding fiscal years is as follows:

Estimated Amortization Expense	
In millions	
2009	$140
2010	$143
2011	$132
2012	$114

2013	$93
2014	$85

NOTE G – FINANCIAL INSTRUMENTS

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 per SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended and interpreted, where appropriate. SFAS No. 133 requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the consolidated balance sheets. 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 per SFAS No. 133. 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 2009. No significant concentration of credit risk existed at March 31, 2009.

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.

Foreign Currency Risk Management
The Company's global operations require active participation in foreign exchange markets. The Company enters into foreign exchange forward contracts, 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 March 31, 2009, 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 second quarter of 2009.

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 March 31, 2009, the Company had futures contracts, options and swaps to buy, sell or exchange commodities. These agreements had various expiration dates primarily in 2009.

Accounting for Derivative Instruments and Hedging Activities
Cash Flow Hedges
For derivative instruments that are designated and qualify as cash flow hedges, 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 at March 31, 2009 was $7 million after tax ($9 million after tax at December 31, 2008). The Company had open interest rate derivatives with a U.S. dollar equivalent of $14 million at March 31, 2009.

At March 31, 2009, the Company had open foreign currency forward contracts in a net gain position of $2 million (net gain position of $9 million at December 31, 2008) designated as cash flow hedges of underlying forecasted purchases of feedstocks. Current open contracts hedge forecasted transactions until December 2009. 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 March 31, 2009 was $5 million after tax ($15 million after tax at December 31, 2008). At March 31, 2009, the Company had open forward contracts with various expiration dates to buy, sell or exchange foreign currencies with a U.S. dollar equivalent of $2,957 million.

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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 March 2010. The effective portion of the mark-to-market effects of the cash flow hedge instruments 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 at March 31, 2009 was $114 million after tax (net loss of $239 million after tax at December 31, 2008). At March 31, 2009, the Company had an aggregate of 0.8 million barrels of outstanding notional volume of crude oil on commodity forward contracts to hedge forecasted purchases.

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 income. The short-cut method under SFAS No. 133 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 March 31, 2009 and December 31, 2008.

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 $46 million after tax at March 31, 2009 (net gain of $36 million after tax at December 31, 2008). At March 31, 2009, the Company had open forward contracts or outstanding options to buy, sell or exchange foreign currencies with April 2009 expiration dates with a U.S. dollar equivalent of $198 million. At March 31, 2009, the Company had outstanding foreign-currency denominated debt designated as a hedge of net foreign investment of $1,190 million.

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 of SFAS No. 133. At March 31, 2009, the Company had net derivative assets of $8 million and net derivative liabilities of $7 million related to these instruments, with the related mark-to-market effects included in “Cost of sales” in the consolidated statements of income. At December 31, 2008, the Company had net derivative assets of $19 million and net derivative liabilities of $17 million related to these instruments. The Company had no outstanding commodity forward contracts at March 31, 2009.

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. At March 31, 2009, the Company had net derivative assets of $68 million ($111 million at December 31, 2008) and net derivative liabilities of $110 million ($160 million at December 31, 2008) related to these instruments. The Company had open forward contracts, options and cross-currency swaps with various expiration dates to buy, sell or exchange foreign currencies with a U.S. dollar equivalent of $9,677 million at March 31, 2009.

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The following table provides the fair value and gross balance sheet classification of derivative instruments at March 31, 2009 and December 31, 2008:

Fair Value of Derivative Instruments In millions	Balance Sheet Classification	March 31, 2009	Dec. 31, 2008
Asset Derivatives			
Derivatives designated as hedges:			
Foreign currency	Accounts and notes receivable – Other	$ 44	$ 77
Commodities	Accounts and notes receivable – Other	79	68
Total derivatives designated as hedges		$ 123	$ 145
Derivatives not designated as hedges:			
Foreign currency	Accounts and notes receivable – Other	$ 114	$ 235
Commodities	Accounts and notes receivable – Other	37	63
Total derivatives not designated as hedges		$ 151	$ 298
Total asset derivatives		$ 274	$ 443
Liability Derivatives			
Derivatives designated as hedges:			
Foreign currency	Accounts payable – Other	$ 47	$ 69
Commodities	Accounts payable – Other	171	262
Commodities	Other noncurrent obligations	-	22
Total derivatives designated as hedges		$ 218	$ 353
Derivatives not designated as hedges:			
Foreign currency	Accounts payable – Other	$ 156	$ 284
Commodities	Accounts payable – Other	36	61
Total derivatives not designated as hedges		$ 192	$ 345
Total liability derivatives		$ 410	$ 698

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Effect of Derivative Instruments for the three months ended March 31, 2009 In millions	Change in Unrealized Gain (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	$ (3)	-
Commodities	$ (5)	Cost of sales	(187)	$ (1)
Foreign currency	(10)	Cost of sales	11	-
Net foreign investment:				
Foreign currency	(3)	n/a	-	-
Total derivatives designated as hedges	$ (18)		$ (179)	$ (1)
Derivatives not designated as hedges:				
Foreign currency (5)	-	Sundry income – net	-	$ (94)
Commodities	-	Cost of sales	-	(1)
Total derivatives not designated as hedges	-		-	$ (95)
Total derivatives	$ (18)		$ (179)	$ (96)

(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) Foreign currency derivatives not designated as hedges under SFAS No. 133 are offset by foreign exchange gains of $93 million resulting from the underlying exposures of foreign currency denominated assets and liabilities per SFAS No. 52, "Foreign Currency Translation."

The net after-tax amounts to be reclassified from AOCI to income within the next 12 months are a $6 million loss for interest rate contracts, a $108 million loss for commodity contracts and a $5 million gain for foreign currency contracts.

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NOTE H – 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 at March 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 (2)	$ 321	$ 21	-	$ 342
Debt securities (2)	-	1,430	-	1,430
Derivatives relating to: (3)				
Foreign currency	-	158	$ (84)	74
Commodities	-	116	(67)	49
Total assets at fair value	$ 321	$ 1,725	$ (151)	$ 1,895
Liabilities at fair value:				
Derivatives relating to: (3)				
Foreign currency	-	$ 203	$ (84)	$ 119
Commodities	-	207	(67)	140
Total liabilities at fair value	-	$ 410	$ (151)	$ 259

(1) Cash collateral is classified as “Accounts and notes receivable – Other” in the consolidated balance sheets. Amounts represent the effect of legally enforceable 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) The Company’s investments in equity and debt securities are classified as available-for-sale, and are included in “Other investments” in the consolidated balance sheets.

(3) See Note G for the classification of derivatives in the consolidated balance sheets.

For assets and liabilities classified as Level 1 (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 Level 2 assets and liabilities, 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 placed through tolerance/quality checks. For long-term debt as well as 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 G for further information on the types of instruments used by the Company for risk management.

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. Per the

guidance of FSP FIN No. 39-1, “Amendment of FASB Interpretation No. 39,” collateral accounts are netted with corresponding assets and liabilities. The Company had no cash collateral at March 31, 2009.

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NOTE I – 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 have agreed to provide a credit facility to Dow Corning in an aggregate amount of $300 million. The Company's share of the credit facility is $150 million and is subject to the terms and conditions stated in the Joint Plan. At March 31, 2009, 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.

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 March 31, 2009, the Company had accrued obligations of $308 million for environmental remediation and restoration costs, including $21 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. 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, 2008, the Company had accrued obligations of $312 million for environmental remediation and restoration costs, including $22 million for the remediation of Superfund sites.

Midland Site Environmental Matters
On June 12, 2003, the Michigan Department of Environmental Quality ("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 Midland area soils; Tittabawassee and Saginaw River sediment and floodplain soils; and Saginaw Bay. The License required the Company, by August 11, 2003, to propose a detailed Scope of Work for the off-site investigation for the City of Midland and the Tittabawassee River and floodplain for review and approval by the

MDEQ. Revised Scopes of Work were approved by the MDEQ on October 18, 2005. The Company was required to submit a Scope of Work for the investigation of the Saginaw River and Saginaw Bay by August 11, 2007. The Company submitted the Scope of Work for the Saginaw River and Saginaw Bay on July 13, 2007. The Company received a Notice of Deficiency dated August 29, 2007, from the MDEQ with respect to the Scope of Work for the Saginaw River and Saginaw Bay. The Company submitted a revised Scope of Work for the Saginaw River and Saginaw Bay to the MDEQ on October 15, 2007. On February 1, 2008, the Company received an approval with modification for the Saginaw River and Saginaw Bay Scope of Work. The Company appealed the MDEQ's approval with modification action in Midland Circuit Court on February 21, 2008 and then by filing a Contested Case Petition with the Michigan Office of Administrative Hearings and Rules on March 28, 2008. Following subsequent discussions between the Company and the MDEQ, a Remedial Investigation Work Plan along with a revised Scope of Work for the Saginaw River was submitted to the MDEQ on June 10, 2008. The Midland Circuit Court matter has been stayed by agreement of the parties.

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Discussions between the Company and the MDEQ that occurred in 2004 and early 2005 regarding how to proceed with off-site corrective action under the License resulted in the execution of the Framework for an Agreement Between the State of Michigan and The Dow Chemical Company (the "Framework") on January 20, 2005. The Framework committed the Company to propose a remedial investigation work plan by the end of 2005, conduct certain studies, and take certain immediate interim remedial actions in the City of Midland and along the Tittabawassee River.