ASHLAND INC.
Form 10-Q
February 02, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended December 31, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _________ to ___________

Commission file number 1-32532

ASHLAND INC.

(a Kentucky corporation)
I.R.S. No. 20-0865835

50 E. RiverCenter Boulevard
P.O. Box 391
Covington, Kentucky 41012-0391
Telephone Number (859) 815-3333

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. Yes þ No o

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 during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes þ 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. (Check One):

Large Accelerated Filer þ	Accelerated Filer o
Non-Accelerated Filer o	Smaller Reporting Company o
(Do not check if a 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 ¨ No þ

At December 31, 2010, there were 79,040,152 shares of Registrant's Common Stock outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONSOLIDATED INCOME

(In millions except per share data - unaudited)	Three months ended December 31 2010	2009
SALES	$1,433	$1,324
COSTS AND EXPENSES		
Cost of sales	1,040	906
Selling, general and administrative expense	286	284
Research and development expense	20	20
	1,346	1,210
EQUITY AND OTHER INCOME	12	13
OPERATING INCOME	99	127
Net interest and other financing expense	(27)	(41)
Net gain on acquisitions and divestitures (a)	21	-
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	93	86
Income tax expense - Note K	31	22
INCOME FROM CONTINUING OPERATIONS	62	64
Income from discontinued operations (net of income taxes) - Note E (b)	25	22
NET INCOME	$87	$86
BASIC EARNINGS PER SHARE - Note N		
Income from continuing operations	$.79	$.84
Income from discontinued operations	.32	.29
Net income	$1.11	$1.13
DILUTED EARNINGS PER SHARE - Note N		
Income from continuing operations	$.78	$.82
Income from discontinued operations	.31	.28
Net income	$1.09	$1.10
DIVIDENDS PAID PER COMMON SHARE	$.15	$.075

(a) Includes a gain of $19 million for the three months ended December 31, 2010 related to the formation of an expanded global joint venture with Süd-Chemie AG. The gain is primarily attributable to the fair market value of the additional Castings Solutions net assets contributed to the expanded global joint venture exceeding the recorded values.

(b) Includes income of $23 million and $12 million for the three months ended December 31, 2010 and 2009, respectively, related to the direct operating results of the Distribution business. Due to its expected sale, the direct operating results of this business have been presented as discontinued operations for each period presented in accordance with U.S. GAAP.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions - unaudited)	December 31 2010	September 30 2010
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$374	$417
Accounts receivable (a)	1,005	1,115
Inventories - Note H	497	447
Deferred income taxes	112	112
Held for sale - Note D (b)	656	693
Other assets	61	49
	2,705	2,833
NONCURRENT ASSETS		
Auction rate securities - Note G	22	22
Goodwill - Note I	2,083	2,148
Intangibles - Note I	1,089	1,111
Asbestos insurance receivable (noncurrent portion) - Note M	452	459
Deferred income taxes	336	336
Held for sale - Note D (b)	271	270
Other assets	623	514
	4,876	4,860
PROPERTY, PLANT AND EQUIPMENT		
Cost	3,003	3,096
Accumulated depreciation and amortization	(1,235)	(1,258)
	1,768	1,838
TOTAL ASSETS	$9,349	$9,531
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term debt - Note J	$77	$71
Current portion of long-term debt - Note J	39	45
Trade and other payables	640	727
Accrued expenses and other liabilities	404	523
Held for sale - Note D (b)	274	321
	1,434	1,687
NONCURRENT LIABILITIES		
Long-term debt (noncurrent portion) - Note J	1,114	1,108
Employee benefit obligations - Note L	1,368	1,372
Asbestos litigation reserve (noncurrent portion) - Note M	826	841
Deferred income taxes	149	145

Other liabilities	581	575
	4,038	4,041
STOCKHOLDERS' EQUITY	3,877	3,803
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$9,349	$9,531

(a) Accounts receivable includes an allowance for doubtful accounts of $29 million and $28 million at December 31, 2010 and September 30, 2010, respectively.

(b) Primarily relates to assets and liabilities of the Distribution business that have qualified for held for sale classification in accordance with U.S. GAAP due to its expected sale.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONSOLIDATED STOCKHOLDERS' EQUITY

(In millions - unaudited)	Common stock	Paid-in capital	Retained earnings	Accumulated other comprehensive loss (a)	Total
BALANCE AT SEPTEMBER 30, 2010	$ 1	$ 665	$ 3,482	$ (345)	$ 3,803
Total comprehensive income (loss) (b)			87	(18)	69
Regular dividend, $.15 per common share			(12)		(12)
Common shares issued under stock incentive and other plans (c)		17			17
BALANCE AT DECEMBER 31, 2010	$ 1	$ 682	$ 3,557	$ (363)	$ 3,877

(a) At December 31, 2010, the after-tax accumulated other comprehensive loss of $363 million was comprised of pension and postretirement obligations of $620 million for 2010 and net unrealized translation gains of $257 million.

(b) Reconciliations of net income to total comprehensive (loss) income follow.

(In millions)	Three months ended December 31 2010	2009
Net income	$ 87	$ 86
Unrealized translation loss, net of tax	(18)	(19)
Total comprehensive income	$ 69	$ 67

(c) Common shares issued were 231,358 for the three months ended December 31, 2010.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONDENSED CONSOLIDATED CASH FLOWS

(In millions - unaudited)	Three months ended December 31 2010	2009
CASH FLOWS (USED) PROVIDED BY OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		
Net income	$87	$86
Income from discontinued operations (net of income taxes)	(25)	(22)
Adjustments to reconcile income from continuing operations to cash flows from operating activities		
Depreciation and amortization	73	74
Debt issuance cost amortization	4	6
Deferred income taxes	4	26
Equity income from affiliates	(3)	(6)
Distributions from equity affiliates	2	6
Gain from sale of property and equipment	(3)	(2)
Stock based compensation expense	4	3
Stock contributions to qualified savings plans	12	9
Net gain on acquisitions and divestitures	(21)	-
Change in operating assets and liabilities (a)	(172)	(125)
	(38)	55
CASH FLOWS (USED) PROVIDED BY INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		
Additions to property, plant and equipment	(22)	(21)
Proceeds from disposal of property, plant and equipment	4	3
Purchase of operations - net of cash acquired	(5)	-
Proceeds from sale of operations or equity investments	21	-
Proceeds from sales and maturities of available-for-sale securities	-	44
	(2)	26
CASH FLOWS (USED) PROVIDED BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		
Proceeds from issuance of long-term debt	11	-
Repayment of long-term debt	(10)	(25)
Proceeds from short-term debt	6	6
Cash dividends paid	(12)	(6)
Proceeds from exercise of stock options	1	1
Excess tax benefits related to share-based payments	1	-
	(3)	(24)
CASH (USED) PROVIDED BY CONTINUING OPERATIONS	(43)	57
Cash (used) provided by discontinued operations		
Operating cash flows	-	(7)
Investing cash flows	(1)	-
Effect of currency exchange rate changes on cash and cash equivalents	1	4
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(43)	54

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	417	352
CASH AND CASH EQUIVALENTS - END OF PERIOD	$374	$406

(a) Excludes changes resulting from operations acquired or sold.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission regulations. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. These statements omit certain information and footnote disclosures required for complete annual financial statements and, therefore, should be read in conjunction with Ashland's Annual Report on Form 10-K for the fiscal year ended September 30, 2010. Results of operations for the period ended December 31, 2010 are not necessarily indicative of results to be expected for the year ending September 30, 2011. Certain prior period data has been reclassified in the Condensed Consolidated Financial Statements and accompanying footnotes to conform to current period presentation.

Ashland is composed of four reporting segments: Ashland Aqualon Functional Ingredients (Functional Ingredients), Ashland Hercules Water Technologies (Water Technologies), Ashland Performance Materials (Performance Materials) and Ashland Consumer Markets (Consumer Markets). On November 5, 2010, Ashland signed a definitive agreement to sell substantially all of the assets and liabilities of Ashland Distribution (Distribution). As a result of this expected sale, the operating results and assets and liabilities related to Distribution have been reflected as discontinued operations for all periods presented. See Notes D, E and Q for additional information on the Distribution divestiture and reporting segment results.

The preparation of Ashland's Condensed Consolidated Financial Statements requires management to make estimates and assumptions that affect the reported amounts of certain assets, liabilities, revenues, expenses and related disclosures of contingent assets and liabilities as well as qualifying subsequent events. Significant items that are subject to such estimates and assumptions include, but are not limited to, long-lived assets (including goodwill and intangible assets), employee benefit obligations, income taxes, and liabilities and receivables associated with asbestos litigation, environmental remediation and asset retirement obligations. Although management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, actual results could differ significantly from the estimates under different assumptions or conditions.

Ashland's results are affected by domestic and international economic, political, legislative, regulatory and legal actions. Economic conditions, such as recessionary trends, inflation, interest and monetary exchange rates, government fiscal policies, and changes in the prices of hydrocarbon-based products and other raw materials, can have a significant effect on operations. While Ashland maintains reserves for anticipated liabilities and carries various levels of insurance, Ashland could be affected by civil, criminal, regulatory or administrative actions, claims or proceedings relating to asbestos, environmental remediation or other matters.

NOTE B – NEW ACCOUNTING STANDARDS

Changes to estimates of financial statement impacts due to the adoption of new accounting standards and new accounting standards issued during the current fiscal year are included in interim financial reporting. A detailed listing of all new accounting policies material to Ashland is included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

In October 2009, the Financial Accounting Standards Board (FASB) issued accounting guidance related to separating consideration in multiple-deliverable revenue arrangements (ASC 605-25 Revenue Recognition – Multiple-Element Arrangements). Under this guidance, multiple-deliverable arrangements will be accounted for separately (rather than as a combined unit) by selecting the best evidence of selling price among vendor-specific objective evidence, third-party evidence or estimated selling price. Additionally, this guidance eliminates the residual method of allocation and requires that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. This guidance became effective for Ashland on October 1, 2010. The adoption of this guidance did not have a material impact on the Condensed Consolidated Financial Statements.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE C – ACQUISITIONS

Ara Quimica

In April 2010, Ashland acquired the remaining 50% interest in Ara Quimica S.A. (Ara Quimica), a leading producer of custom unsaturated polyester resin formulations for the composites industry in South America, for $28 million. Prior to the acquisition, Ashland owned a 50% interest in Ara Quimica, which it recorded as an equity method investment within the Performance Materials reporting segment. Ara Quimica recorded sales of approximately $56 million from its most recent fiscal year ended September 30, 2010. As a result of this transaction, Ashland recorded $19 million of current assets and $61 million of long-term assets, which included $55 million of goodwill and intangible assets. In addition, Ashland recorded $18 million of current liabilities and $6 million of noncurrent liabilities.

Hercules

On November 13, 2008, Ashland completed its acquisition of Hercules Incorporated (Hercules). The total merger consideration for outstanding Hercules Common Stock was $2,594 million, including $2,096 million in cash, $450 million in Ashland Common Stock with the remaining value of the transaction related to cash consideration and value for restricted stock units, stock options and transaction costs. In addition, Ashland inherited $798 million in debt as a part of the transaction. The acquired businesses of Hercules now comprise the Functional Ingredients reporting segment, as well as a significant portion of the Water Technologies reporting segment. The total debt borrowed upon the closing of the merger was approximately $2,300 million with the remaining cash consideration for the transaction paid from Ashland’s existing cash at the date of the transaction.

NOTE D – DIVESTITURES

Ashland Distribution

On November 5, 2010, Ashland signed a definitive agreement with TPG Accolade, LLC (TPG) to sell substantially all of the assets of its global distribution business conducted by the Ashland Distribution (Distribution) segment. The transaction is an asset sale with the total cash proceeds expected to be $930 million, before transaction fees and taxes, subject to post-closing working capital adjustments and certain other adjustments, as specified in the definitive agreement. Ashland anticipates recording a significant gain, which includes a tax valuation allowance release of approximately $60 million to $70 million, upon the closing of the transaction, which is expected at the end of the March 2011 quarter. The closing is subject to regulatory approvals and satisfaction of other customary closing conditions. Ashland Distribution recorded sales of $3,419 million during the most recently completed fiscal year ended September 30, 2010 and employs approximately 2,000 employees across North America and Europe.

Since this transaction signifies Ashland’s exit from the Distribution business, it qualifies as a discontinued operation. Therefore, the results of operations of Distribution have been classified as discontinued operations for all periods presented. Certain indirect corporate costs previously allocated to the Distribution reporting segment that do not qualify for discontinued operations accounting classification are now reported as costs within the Unallocated and other section of continuing operations, and for the three months ended December 31, 2010 and 2009 were $7 million and $9 million, respectively. Ashland is currently analyzing and developing plans to reduce these costs.

Ashland will retain and has agreed to indemnify TPG for certain liabilities of the Distribution business arising prior to the closing of the sale, which include pension and other postretirement benefits, as well as certain other potential liabilities, including certain litigation and environmental liabilities relating to the pre-closing period, as described in the agreement. Costs related to these expenses were $4 million for the three months ended December 31, 2010 and 2009 and have been included within the Unallocated and other section of continuing operations.

As part of this pending sale, Ashland expects to receive transition service fees for services to be provided to TPG subsequent to the completion of the sale. While the transition service agreements are expected to vary in duration

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE D – DIVESTITURES (continued)

depending upon the type of service provided, Ashland expects to reduce costs as the transition services are completed. See Note E – Discontinued Operations for further information on the results of operations of Distribution for all periods presented.

As a result of this divestiture, the assets and liabilities of Distribution for prior periods have been reflected as assets and liabilities held for sale within the Condensed Consolidated Balance Sheets and are comprised of the following components:

(In millions - unaudited)	December 31 2010		September 30 2010	
Accounts receivable	$	442	$	494
Inventories		210		197
Other current assets		4		2
Current assets held for sale	$	656	$	693
Property, plant and equipment, net	$	181	$	179
Goodwill and intangible assets		82		82
Noncurrent assets held for sale	$	263	$	261
Trade payables	$	268	$	315
Accrued expenses and other liabilities		6		6
Current liabilities held for sale	$	274	$	321

In addition to the Distribution assets and liabilities identified above as held for sale, Ashland held other noncurrent assets for sale of $8 million and $9 million as of December 31, 2010 and September 30, 2010, respectively, primarily related to non-operational properties and certain Valvoline Instant Oil ChangeTM locations. The noncurrent assets held for sale are required to be measured at carrying value or below this level if an impairment is indicated. The fair values were based on definitive agreements of sale or other market quotes which would be considered significant unobservable market inputs (Level 3) within the fair value hierarchy. See also Note G – Fair Value Measurements for further information on the fair value hierarchy.

Castings Solutions Joint Venture

In July 2010, Ashland and Süd-Chemie AG (Süd-Chemie) signed an agreement for the formation of an expanded global joint venture serving the foundry chemical sector. The transaction closed on November 30, 2010 and combined three businesses: Ashland's Castings Solutions business group, Süd-Chemie's Foundry-Products and Specialty Resins business unit, and Ashland-Südchemie-Kernfest GmbH (ASK), the existing fifty-percent owned European-based joint venture between Ashland and Süd-Chemie, for which Ashland historically only recognized equity income of the joint venture within its consolidated results. Ashland's Castings Solutions and ASK businesses recorded sales of $279 million and $145 million, respectively, during each businesses' most recently completed fiscal year. The Foundry-Products and Specialty Resins business unit of Süd-Chemie contributed to the joint venture generated sales of approximately $146 million for its most recently completed fiscal year.

During the fifth year of the joint venture's operations, Ashland will have the option to sell its shares in the expanded global joint venture to Süd-Chemie under mutually agreed terms. If Ashland does not execute this option by the end of the sixth year of the joint venture's operations, Süd-Chemie will have the option to acquire Ashland's shares under mutually agreed terms. Under both options, if mutually agreed terms cannot be reached, then the fair market value of the shares will be determined through an appraisal process set forth in the agreement.

Upon closing of the transaction, the joint venture distributed a $21 million net payment to Ashland in accordance with the agreement. Ashland anticipates receiving an additional cash payment from the joint venture during the

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE D – DIVESTITURES (continued)

March 2011 quarter, resulting from post-closing activities and measurements set forth in the agreement, which is expected to be approximately $25 million. Ashland recognized a pretax gain of $19 million, attributable to the fair market value of the net assets contributed to the joint venture. For the majority of the valuation of the contributed assets and liabilities, Ashland utilized the discounted cash flow method; however, the adjusted book value method was also used in some areas of the valuation. The gain was included in the net gain on acquisitions and divestitures caption in the Statement of Consolidated Income for the three months ended December 31, 2010. The recorded values of assets and liabilities contributed by Ashland to the expanded joint venture, excluding equity interests were as follows:

(In millions)		Assets (liabilities)
Cash	$	9
Accounts receivable		45
Inventories		20
Property, plant and equipment		33
Goodwill		52
Trade and other payables		(24)
Other noncurrent assets (liabilities) - net		11
	$	146

Ashland’s equity interest in the expanded joint venture qualifies for equity method accounting treatment under U.S. GAAP. As a result, future reported results of the Castings Solutions business will no longer include the sales, cost of sales or selling, general and administrative costs related to this business; however, Ashland will include the financial effects within the equity income caption of the Statements of Consolidated Income. In addition, the expanded joint venture will leave certain stranded costs that Ashland is currently analyzing and developing plans to reduce.

Pinova divestiture

In January 2010, Ashland sold its refined wood rosin and natural wood terpenes business, formerly known as Pinova, a business unit of Functional Ingredients, to TorQuest Partners in a transaction valued at approximately $75 million before tax, which was comprised of $60 million in cash and a $15 million five-year promissory note from TorQuest Partners. The Pinova business, with annual sales of approximately $85 million per year, had approximately 200 employees along with an associated manufacturing facility located in Brunswick, Georgia. As part of this transaction, TorQuest Partners has agreed to continue to manufacture certain products on behalf of Ashland.

NOTE E – DISCONTINUED OPERATIONS

As previously described in Note D, Ashland signed a definitive agreement with TPG on November 5, 2010 to sell substantially all of the assets and liabilities of Distribution. Ashland has determined that this expected sale qualifies as a discontinued operation, in accordance with U.S. GAAP, since the company will not have significant continuing involvement in the distribution business upon closing of the transaction. As a result, the previous operating results related to Distribution have been reflected as discontinued operations in the Statement of Consolidated Income, while assets and liabilities that are to be sold have been classified within the Condensed Consolidated Balance Sheet as held for sale. Sales for the three month periods ended December 31, 2010 and 2009 were $856 million and $729 million, respectively. The results of operations for the three month periods ended December 31, 2010 and 2009 are included in the table below.

Ashland is subject to liabilities from claims alleging personal injury caused by exposure to asbestos. Such claims result primarily from indemnification obligations undertaken in 1990 in connection with the sale of Riley Stoker

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE E – DISCONTINUED OPERATIONS (continued)

Corporation (Riley), a former subsidiary of Ashland, and from the acquisition of Hercules during fiscal 2009, a wholly owned subsidiary of Ashland. Adjustments to the recorded litigation reserves and related insurance receivables continue periodically and primarily reflect updates to the estimates. See Note M for more information related to the adjustments on asbestos liabilities and receivables.

Ashland's divestiture of Ashland Paving And Construction (APAC) during 2006 qualified as a discontinued operation. As a result, the previous operating results, assets and liabilities related to APAC have been reflected as discontinued operations in the Condensed Consolidated Financial Statements. Ashland has made subsequent adjustments to the gain on the sale of APAC, primarily relating to the tax effects of the sale, during the three month periods ended December 31, 2010 and 2009. Such adjustments to these and other divested businesses may continue to occur in future periods and are reflected in the period they are determined and recorded in the discontinued operations caption in the Statements of Consolidated Income.

Components of amounts reflected in the Statements of Consolidated Income related to discontinued operations are presented in the following table for the three months ended December 31, 2010 and 2009.

	Three months ended December 31	
(In millions)	2010	2009
Income from discontinued operations (net of tax)		
Distribution (a)	$ 23	$ 12
Asbestos-related litigation reserves and receivables	1	9
Gain on disposal of discontinued operations (net of tax)		
APAC	1	1
Total income from discontinued operations (net of tax)	$ 25	$ 22

(a) For the three months ended December 31, 2010 and 2009, the pretax income reported for Distribution was $32 million and $19 million, respectively.

NOTE F – RESTRUCTURING ACTIVITIES

Ashland periodically implements restructuring programs related to acquisitions, divestitures or other cost reduction programs in order to enhance profitability through streamlined operations and an improved overall cost structure for each business. The total restructuring cost incurred for these programs for the three months ended December 31, 2009 was $2 million and was classified within the selling, general and administrative expenses caption. Additional costs from reductions in resources, facilities and business realignment or divestitures may occur in future periods, which could include charges related to additional severance, plant closings, reassessed pension plan valuations or other items.

As of December 31, 2010, the remaining restructuring reserves for these programs principally consisted of severance payments from the Hercules Integration Plan and the recent Performance Materials restructuring, which consisted of several plant closings and operational redesign to eliminate excess capacity that was announced during the prior fiscal year.

The following table details at December 31, 2010 and 2009, the amount of restructuring reserves related to the programs discussed above, and the related activity in these reserves for the three months ended December 31, 2010 and 2009. The reserves are included in accrued expenses and other liabilities in the Condensed Consolidated Balance Sheet and are expected to be fully utilized by the end of fiscal 2011.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE F – RESTRUCTURING ACTIVITIES (continued)

(In millions)		Severance
Balance as of September 30, 2009	$	38
Restructuring reserve		2
Utilization (cash paid or otherwise settled)		(9)
Balance at December 31, 2009	$	31
Balance as of September 30, 2010	$	26
Utilization (cash paid or otherwise settled)		(5)
Balance at December 31, 2010	$	21

NOTE G – FAIR VALUE MEASUREMENTS

As required by U.S. GAAP, Ashland uses applicable guidance for defining fair value, the initial recording and periodic remeasurement of certain assets and liabilities measured at fair value and related disclosures for instruments measured at fair value. Fair value accounting guidance establishes a fair value hierarchy, which prioritizes the inputs to valuation techniques used to measure fair value into three broad levels. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An instrument's categorization within the fair value hierarchy is based upon the lowest level on input that is significant to the instrument's fair value measurement. The three levels within the fair value hierarchy are described as follows:

Level 1 — Observable inputs such as unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 — Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 — Unobservable inputs for the asset or liability for which there is little, if any, market activity at the measurement date. Unobservable inputs reflect Ashland's own assumptions about what market participants would use to price the asset or liability. The inputs are developed based on the best information available in the circumstances, which might include occasional market quotes or sales of similar instruments or Ashland's own financial data such as internally developed pricing models, discounted cash flow methodologies, as well as instruments for which the fair value determination requires significant management judgment.

For assets that are measured using quoted prices in active markets (Level 1), the total fair value is the published market price per unit multiplied by the number of units held without consideration of transaction costs. Assets and liabilities that are measured using significant other observable inputs (Level 2) are primarily valued by reference to quoted prices of similar assets or liabilities in active markets (market approach), adjusted for any terms specific to that asset or liability. For all other assets and liabilities for which unobservable inputs are used (Level 3), fair value is derived through the use of fair value models, such as a discounted cash flow model or other standard pricing models that Ashland deems reasonable.

The following table summarizes financial asset instruments subject to recurring fair value measurements as of December 31, 2010. Ashland did not have any financial liability instruments subject to recurring fair value measurements as of December 31, 2010.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE G – FAIR VALUE MEASUREMENTS (continued)

(In millions)	Carrying value	Total fair value	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets					
Cash and cash equivalents	$ 374	$ 374	$ 374	$ -	$ -
Auction rate securities	22	22	-	-	22
Deferred compensation investments (a)	176	176	64	112	-
Investment of captive insurance company (a)	2	2	2	-	-
Total assets at fair value	$ 574	$ 574	$ 440	$ 112	$ 22

(a) Included in other noncurrent assets in the Condensed Consolidated Balance Sheet.

The following table summarizes financial asset instruments subject to recurring fair value measurements as of September 30, 2010. Ashland did not have any financial liability instruments subject to recurring fair value measurements as of September 30, 2010.

(In millions)	Carrying value	Total fair value	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets					
Cash and cash equivalents	$ 417	$ 417	$ 417	$ -	$ -
Auction rate securities	22	22	-	-	22
Deferred compensation investments (a)	169	169	62	107	-
Investment of captive insurance company (a)	2	2	2	-	-
Total assets at fair value	$ 610	$ 610	$ 481	$ 107	$ 22

(a) Included in other noncurrent assets in the Condensed Consolidated Balance

Sheet.

Level 3 instruments

Auction rate securities

At December 31, 2010 and September 30, 2010, Ashland held at par value $25 million of student loan auction rate securities for which there was not an active market with consistent observable inputs. In February 2008, the auction rate securities market became largely illiquid, as there was not enough demand to purchase all of the securities that holders desired to sell at par value during certain auctions. Since this time, the market for auction rate securities has failed to achieve equilibrium. Due to the uncertainty as to when active trading will resume in the auction rate securities market, Ashland believes the recovery period for certain of these securities may extend beyond a twelve-month period. As a result, these instruments have been classified as noncurrent assets in the Condensed Consolidated Balance Sheet.

During the December 2009 quarter, Ashland liquidated $50 million par value auction rate securities for $44 million in cash proceeds, which approximated book value. The following table provides a reconciliation of the beginning and ending balances of Ashland's auction rate securities, as these are Ashland's only assets measured at fair value using significant unobservable inputs (Level 3).

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE G – FAIR VALUE MEASUREMENTS (continued)

(In millions)		Level 3
Balance as of October 1, 2010	$	22
Sales of auction rate securities		-
Balance as of December 31, 2010	$	22
Balance as of October 1, 2009	$	170
Sales of auction rate securities		(44)
Balance as of December 31, 2009	$	126

Derivative and hedging activities

Currency hedges

Ashland conducts business in a variety of foreign currencies. Accordingly, Ashland regularly uses foreign currency derivative instruments to manage exposure on certain transactions denominated in foreign currencies to curtail the earnings volatility effects of short-term assets and liabilities denominated in currencies other than the functional currency of an entity.

Ashland contracts with counter-parties to buy and sell foreign currencies to offset the impact of exchange rate changes on transactions denominated in non-functional currencies, including short-term inter-company loans. These contracts generally require exchange of one foreign currency for another at a fixed rate at a future date and generally have maturities of less than twelve months. All contracts are marked-to-market with net changes in fair value recorded within the selling, general and administrative expenses caption. For the three months ended December 31, 2010 and 2009, losses of less than $1 million and $1 million, respectively, were recorded in the Statement of Consolidated Income for these contracts. The impacts of these contracts were largely offset by gains and losses resulting from the impact of changes in exchange rates on transactions denominated in non-functional currencies.

Ashland's net loss position on foreign currency derivatives outstanding in the Condensed Consolidated Balance Sheet as of December 31, 2010 was less than $1 million, consisting of a gain of $1 million with a notional amount of $94 million offset by a loss of $1 million with a notional amount of $93 million, and was included in other noncurrent assets and liabilities, respectively. The net gain position on foreign currency derivatives outstanding in the Condensed Consolidated Balance Sheet as of September 30, 2010 was $1 million, consisting of a gain of $2 million with a notional amount of $86 million offset by a loss of $1 million with a notional amount of $41 million, and was included in other noncurrent assets and liabilities, respectively. As of December 31, 2010, there were no open foreign currency derivatives which qualified for hedge accounting treatment.

Interest rate hedges

During 2009, Ashland purchased a three year interest rate cap on a notional amount of $300 million of variable rate debt. This interest rate cap fixes Ashland's interest rate on that outstanding variable interest rate debt when LIBOR interest rates equal or exceed 7% on a reset date. This interest rate cap qualifies as an interest rate swap within the provisions of the Senior Credit Agreement. This instrument does not qualify for hedge accounting and therefore gains or losses reflecting changes in fair value, along with the amortization of the upfront premium paid by Ashland to purchase the instrument, are reported in the Statements of Consolidated Income within the net interest and other financing expense caption. As of December 31, 2010 and September 30, 2010, the fair value on the interest rate cap was less than $1 million and recorded within the other noncurrent assets caption of the Condensed Consolidated Balance Sheet.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE G – FAIR VALUE MEASUREMENTS (continued)

Other financial instruments

At December 31, 2010 and September 30, 2010, Ashland’s long-term debt had a carrying value of $1,153 million compared to a fair value of $1,398 million and $1,402 million, respectively. The fair values of long-term debt are based on quoted market prices or, if market prices are not available, the present values of the underlying cash flows discounted at Ashland’s incremental borrowing rates.

NOTE H – INVENTORIES

Inventories are carried at the lower of cost or market. Certain chemicals, plastics and lubricants are valued at cost using the last-in, first-out (LIFO) method. The remaining inventories are stated at cost using the average cost method. The following table summarizes Ashland’s inventories as of the reported Condensed Consolidated Balance Sheet dates.

(In millions)	December 31 2010	September 30 2010
Finished products	$ 368	$ 326
Raw materials, supplies and work in process	180	175
LIFO carrying values	(51)	(54)
	$ 497	$ 447

NOTE I – GOODWILL AND OTHER INTANGIBLES

In accordance with U.S. GAAP, Ashland reviews goodwill and other intangible assets for impairment annually and when events and circumstances indicate an impairment may have occurred. The annual assessment is performed as of July 1 and consists of Ashland determining each reporting unit’s current fair value compared to its current carrying value. Ashland has determined its reporting units for allocation of goodwill include the Functional Ingredients, Water Technologies, Performance Materials and Consumer Markets reportable segments. Prior to its sale to TPG, Distribution was treated as a separate reporting unit for allocation of goodwill. Ashland performed its most recent annual goodwill impairment test as of July 1, 2010, and determined at that time, that no impairment existed.

The following is a progression of goodwill by segment for the period ended December 31, 2010.

(In millions)	Functional Ingredients	Water Technologies	Performance Materials (a)	Consumer Markets	Total

Balance at September 30, 2010	$ 1,080	$ 620	$ 333	$ 115	$ 2,148
Divestitures	-	-	(52)	-	(52)
Currency translation adjustment	(13)	-	-	-	(13)
Balance at December 31, 2010	$ 1,067	$ 620	$ 281	$ 115	$ 2,083

(a) Within the Performance Materials reportable segment as of September 30, 2010, because further discrete financial information is provided and management regularly reviews this information, this reportable segment was further broken down into the Castings Solutions and Composite Polymers/Specialty Polymers and Adhesives reporting units. Goodwill consisted of $52 million and $281 million, respectively, for the Castings Solutions and Composite Polymers/Specialty Polymers and Adhesives reporting units as of September 30, 2010. The reduction of $52 million of goodwill is related to the contribution of Ashland’s Castings Solutions business to the expanded global joint venture with Süd-Chemie.

Intangible assets principally consist of trademarks and trade names, intellectual property, customer lists and sale contracts. Intangible assets are amortized on a straight-line basis over their estimated useful lives. The cost of trademarks and trade names is amortized principally over 15 to 25 years, intellectual property over 5 to 20 years, customer relationships over 3 to 24 years and other intangibles over 2 to 50 years.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE I – GOODWILL AND OTHER INTANGIBLES (continued)

Certain intangible assets within trademarks and trade names have been classified as indefinite lived and had a balance of $290 million as of December 31, 2010 and September 30, 2010. In accordance with U.S. GAAP, Ashland annually reviews these intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. In conjunction with the July 1 annual assessment of indefinite-lived intangible assets, Ashland's models did not indicate any impairment. Intangible assets were comprised of the following as of December 31, 2010 and September 30, 2010.

	December 31, 2010		
(In millions)	Gross carrying amount	Accumulated amortization	Net carrying amount
Trademarks and trade names	$ 353	$ (28)	$ 325
Intellectual property	331	(68)	263
Customer relationships	579	(87)	492
Other intangibles	35	(26)	9
Total intangible assets	$ 1,298	$ (209)	$ 1,089

	September 30, 2010		
(In millions)	Gross carrying amount	Accumulated amortization	Net carrying amount
Trademarks and trade names	$ 353	$ (27)	$ 326
Intellectual property	331	(63)	268
Customer relationships	583	(78)	505
Other intangibles	39	(27)	12
Total intangible assets	$ 1,306	$ (195)	$ 1,111

Amortization expense recognized on intangible assets for the three months ended December 31 was $17 million for 2010 and $18 million for 2009 and is primarily included in the selling, general and administrative expenses caption of the Statements of Consolidated Income. Estimated amortization expense for future periods is $69 million in 2011 (includes three months actual and nine months estimated), $67 million in 2012, $66 million in 2013, $64 million in 2014 and $62 million in 2015.

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE J – DEBT

The following table summarizes Ashland's current and long-term debt as of the reported Condensed Consolidated Balance Sheet dates.

(In millions)	December 31 2010	September 30 2010
Term Loan A, due 2014 (a)	$ 289	$ 293
6.60% notes, due 2027	12	12
Accounts receivable securitization	40	40
9.125% notes, due 2017	631	630
Medium-term notes, due 2013-2019, interest at a weighted-average rate of 8.4% at December 31, 2010 (7.7% to 9.4%)	21	21
8.80% debentures, due 2012	20	20
Hercules Tianpu - term notes, due through 2011	7	14
Hercules Nanjing - term notes, due 2013	45	34
6.50% junior subordinated notes, due 2029	127	126
International revolver agreements, interest at a weighted-average rate of 5.1% at December 31, 2010 (1.3% to 9.8%)	36	30
Other	2	4
Total debt	1,230	1,224
Short-term debt	(77)	(71)
Current portion of long-term debt	(39)	(45)
Long-term debt (less current portion)	$ 1,114	$ 1,108

(a) Senior credit facilities.

The scheduled aggregate maturities of debt by fiscal year are as follows: $106 million remaining in 2011, $43 million in 2012, $85 million in 2013, $214 million in 2014, $9 million in 2015 and $0 million in 2016. Total borrowing capacity remaining under the $550 million revolving credit facility was $442 million, representing a reduction of $108 million for letters of credit outstanding at December 31, 2010. Additionally, at December 31, 2010, the outstanding amount of accounts receivable sold by Ashland to a wholly-owned "bankruptcy remote" special purpose subsidiary of Ashland was $585 million. As of December 31, 2010, Ashland had drawn $40 million of the approximate $328 million in available funding from qualifying receivables under this accounts receivable securitization facility.

Covenant restrictions

The Senior Credit Facilities include less restrictive covenants than the previous credit facility and no longer contain covenants associated with minimum consolidated net worth and capital expenditure limits. The covenants contain certain usual and customary representations and warranties, and usual and customary affirmative and negative covenants which include financial covenants; limitations on liens, additional indebtedness, further negative pledges, investments, payment of dividends, mergers, sale of assets and restricted payments; and other customary limitations. As of December 31, 2010, Ashland is in compliance with all debt agreement covenant restrictions.

The maximum consolidated leverage ratio permitted under the Senior Credit Facilities are as follows: 3.00 from the period December 31, 2010 through September 30, 2011 and 2.75 from December 31, 2011 and each fiscal quarter thereafter. The permitted consolidated fixed charge coverage ratio under the Senior Credit Facility is 1.50 from December 31, 2010 and for each fiscal quarter thereafter.

At December 31, 2010, Ashland's calculation of the consolidated leverage ratio was 0.9 compared to the maximum consolidated leverage ratio permitted under Ashland's Senior Credit Agreement of 3.00. At December 31, 2010, Ashland's calculation of the fixed charge coverage ratio was 4.6 compared to the permitted consolidated ratio of

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE J – DEBT (continued)

1.50. The expected sale of Distribution will cause Ashland to amend its previous calculation of these financial ratios, but will not have a significant affect on the current cushion within the ratio results.

NOTE K – INCOME TAXES

Ashland's effective tax rate is generally subjected to adjustments related to discrete items and changes within foreign effective tax rates resulting from income or loss fluctuations. The overall effective tax rate of 33.3% for the three months ended December 31, 2010 includes certain discrete items such as a $16 million tax expense from the $19 million pretax gain associated with the fair market value of the Castings Solutions contribution and a $4 million tax benefit associated with research and development tax credits for the 2010 fiscal year. In addition, the effective tax rate during this period was favorably impacted by $3 million from other miscellaneous discrete tax items.

The overall effective tax rate of 25.6% for the three months ended December 31, 2009 includes a benefit of $6 million associated with the reversal of certain foreign tax reserves.

Changes in unrecognized tax benefits are summarized as follows for the three months ended December 31, 2010.

(In millions)			
Balance at October 1, 2010	$	116	
Increases related to positions taken on items from prior years		5	
Increases related to positions taken in the current year		1	
Lapse of statute of limitations		(3	)
Balance at December 31, 2010	$	119	

It is reasonably possible that the amount of the unrecognized tax benefits may increase or decrease within the next twelve months as the result of settlements from ongoing audits, which may have material affect on the Condensed Consolidated Financial Statements.

NOTE L – EMPLOYEE BENEFIT PLANS

For the three months ended December 31, 2010, Ashland contributed $5 million to the U.S. benefit plans and $3 million to the non-U.S. benefit plans. Ashland expects to make additional contributions to the U.S. plans of approximately $10 million and to the non-U.S. plans of $25 million during the remainder of fiscal year 2011. The following table details the components of pension and other postretirement benefit costs.

(In millions)	Pension benefits 2010	Pension benefits 2009	Other postretirement benefits 2010	Other postretirement benefits 2009
Three months ended December 31				
Service cost	$ 13	$ 13	$ 1	$ 1
Interest cost	50	51	4	5
Expected return on plan assets	(57)	(54)	-	-
Amortization of prior service credit	(1)	-	-	-
Amortization of net actuarial loss (gain)	19	13	(1)	(1)
	$ 24	$ 23	$ 4	$ 5

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE M – LITIGATION, CLAIMS AND CONTINGENCIES

Asbestos litigation

Ashland and Hercules, a wholly owned subsidiary of Ashland, have liabilities from claims alleging personal injury caused by exposure to asbestos. To assist in developing and annually updating independent reserve estimates for future asbestos claims and related costs given various assumptions, Ashland retained Hamilton, Rabinovitz & Associates, Inc. (HR&A). The methodology used by HR&A to project future asbestos costs is based largely on recent experience, including claim-filing and settlement rates, disease mix, enacted legislation, open claims, and litigation defense. The claim experience of Ashland and Hercules are separately compared to the results of previously conducted third party epidemiological studies estimating the number of people likely to develop asbestos-related diseases. Those studies were undertaken in connection with national analyses of the population expected to have been exposed to asbestos. Using that information, HR&A estimates a range of the number of future claims that may be filed, as well as the related costs that may be incurred in resolving those claims.

Ashland asbestos-related litigation

The claims alleging personal injury caused by exposure to asbestos asserted against Ashland result primarily from indemnification obligations undertaken in 1990 in connection with the sale of Riley Stoker Corporation, a former subsidiary.

The amount and timing of settlements and number of open claims can fluctuate significantly from period to period. A summary of Ashland asbestos claims activity, excluding those related to Hercules, follows.

	Three months ended December 31		Years ended September 30		
(In thousands)	2010	2009	2010	2009	2008
Open claims - beginning of period	83	100	100	115	134
New claims filed	-	1	2	2	4
Claims settled	-	(1)	(1)	(1)	(2)
Claims dismissed	(4)	(8)	(18)	(16)	(21)
Open claims - end of period	79	92	83	100	115

A progression of activity in the asbestos reserve is presented in the following table.

Three months ended December 31 Years ended September 30

(In millions)	2010	2009	2010	2009	2008
Asbestos reserve - beginning of period	$ 537	$ 543	$ 543	$ 572	$ 610
Reserve adjustment	-	-	28	5	2
Amounts paid	(11)	(12)	(34)	(34)	(40)
Asbestos reserve - end of period	$ 526	$ 531	$ 537	$ 543	$ 572

From the range of estimates, Ashland records the amount it believes to be the best estimate of future payments for litigation defense and claim settlement costs, which generally approximates the mid-point of the estimated range of exposure from model results. Ashland reviews this estimate and related assumptions quarterly and annually updates the results of a non-inflated, non-discounted approximate 50-year model developed with the assistance of HR&A. Total reserves for asbestos claims were $526 million at December 31, 2010 compared to $537 million at September 30, 2010.

Excluding the Hercules asbestos claims further described below, Ashland has insurance coverage for most of the litigation defense and claim settlement costs incurred in connection with its asbestos claims, and coverage-in-place agreements exist with the insurance companies that provide most of the coverage currently being accessed. As a

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE M – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

result, increases in the asbestos reserve have been largely offset by probable insurance recoveries. The amounts not recoverable generally are due from insurers that are insolvent, rather than as a result of uninsured claims or the exhaustion of Ashland's insurance coverage.

For the Ashland asbestos-related obligations, Ashland has estimated the value of probable insurance recoveries associated with its asbestos reserve based on management's interpretations and estimates surrounding the available or applicable insurance coverage, including an assumption that all solvent insurance carriers remain solvent. Approximately 69% of the estimated receivables from insurance companies are expected to be due from domestic insurers, of which approximately 84% have a credit rating of B+ or higher by A. M. Best, as of December 31, 2010. The remainder of the insurance receivable is due from London insurance companies, which generally have lower credit quality ratings, and from Underwriters at Lloyd's, whose insurance policy obligations have been transferred to a Berkshire Hathaway entity. During the December 2009 quarter, Ashland entered into a new agreement with a number of London market insurance companies with respect to coverage for asbestos-related insurance claims. As a result, a $12 million increase to the Ashland asbestos receivable was recorded within the Condensed Consolidated Balance Sheet as of December 31, 2009, which had a $9 million (after-tax) effect on the Statement of Consolidated Income for the December 2009 quarter within the discontinued operations caption. As a result of this agreement and other revised estimates, Ashland no longer discounts any portion of the asbestos receivable at this time.

At December 31, 2010, Ashland's receivable for recoveries of litigation defense and claim settlement costs from insurers amounted to $414 million (excluding the Hercules receivable for asbestos claims), of which $59 million relates to costs previously paid. Receivables from insurers amounted to $421 million at September 30, 2010. During the June 2010 quarter, the model used for purposes of valuing the asbestos reserve described above, and its impact on valuation of future recoveries from insurers, was updated. This model update, along with likely settlement adjustments, caused an additional $24 million net increase in the receivable for probable insurance recoveries.

Hercules asbestos-related litigation

Hercules, a wholly-owned subsidiary of Ashland, has liabilities from claims alleging personal injury caused by exposure to asbestos. Such claims typically arise from alleged exposure to asbestos fibers from resin encapsulated pipe and tank products which were sold by one of Hercules' former subsidiaries to a limited industrial market. The amount and timing of settlements and number of open claims can fluctuate significantly from period to period. A summary of Hercules' asbestos claims activity follows.

	Three months ended December 31		Year ended September 30		
(In thousands)	2010	2009	2010	2009	(a)
Open claims - beginning of period	20	21	21	27	
New claims filed	2	-	-	1	

Claims dismissed/settled	-	-	(1)	(7)
Open claims - end of period	22	21	20	21

(a) Beginning of period represents acquisition date of November 13, 2008.

A progression of activity in the asbestos reserve is presented in the following table.

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ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE M – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

	Three months ended December 31		Year ended September 30	
(In millions)	2010	2009	2010	2009 (a)
Asbestos reserve - beginning of period	$ 375	$ 484	$ 484	$ 233
Reserve adjustments (b)	-	(35)	(93)	261
Amounts paid	(5)	(2)	(16)	(10)
Asbestos reserve - end of period	$ 370	$ 447	$ 375	$ 484

(a) Beginning of period represents acquisition date of November 13, 2008.
(b) Includes purchase accounting adjustments recorded during 2010 and 2009 as part of purchase price allocations for the Hercules acquisition.

During the December 2009 quarter, Ashland essentially completed the final valuation assessment of the Hercules asbestos claims liability existing as of the acquisition date and underlying claim files as part of transitioning to a standardized claims management approach. This assessment resulted in a $35 million and $22 million reduction to the asbestos liability and receivable, respectively, which was accounted for as an adjustment to Hercules' opening balance sheet since the adjustment related to claims that had been incurred as of the acquisition date. During the most recent annual update of this estimate, completed during the June 2010 quarter, it was determined that the liability for asbestos claims should be reduced by $58 million. Based upon review of the assumptions underlying the asbestos valuation model and the most recent claim filing and settlement trend rates for both pre- and post-acquisition periods, Ashland determined that $14 million of the $58 million adjustment should be recorded to goodwill, which was partially offset by $6 million for an increase in probable insurance recoveries, totalling to a net $8 million adjustment to goodwill. Total reserves for Hercules asbestos claims were $370 million at December 31, 2010 compared to $375 million at September 30, 2010.

For the Hercules asbestos-related obligations, Ashland has estimated the value of probable insurance recoveries associated with its asbestos reserve based on management's interpretations and estimates surrounding the available or applicable insurance coverage, including an assumption that all solvent insurance carriers remain solvent. The estimated receivable consists exclusively of domestic insurers, of which approximately 98% have a credit rating of B+ or higher by A.M. Best, as of December 31, 2010.

As of December 31, 2010 and September 30, 2010, the receivables from insurers amounted to $68 million. As previously mentioned, during the June 2010 quarter, the model used for purposes of valuing the asbestos reserve and its impact on valuation of future recoveries from insurers was updated. This model update along with likely settlement adjustments caused a $28 million reduction in the receivable for probable insurance recoveries, $6 million of which was recorded to goodwill. For the Hercules asbestos-related obligations, certain reimbursements pursuant to coverage-in-place agreements with insurance carriers exist. As a result, increases in the asbestos reserve are partially offset by probable insurance recoveries.

Asbestos litigation cost projection

Projecting future asbestos costs is subject to numerous variables that are extremely difficult to predict. In addition to the significant uncertainties surrounding the number of claims that might be received, other variables include the type and severity of the disease alleged by each claimant, the long latency period associated with asbestos exposure, dismissal rates, costs of medical treatment, the impact of bankruptcies of other companies that are co-defendants in claims, uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case, and the impact of potential changes in legislative or judicial standards. Furthermore, any predictions with respect to these variables are subject to even greater uncertainty as the projection period lengthens. In light of these inherent uncertainties, Ashland believes that the asbestos reserves for Ashland and Hercules represent the best estimate within a range of possible outcomes. As a part of the process to develop these estimates of future asbestos costs, a range of long-term cost models was developed. These models are based on national studies that predict the number of people likely to develop asbestos-related diseases and are heavily influenced by assumptions regarding long-term inflation rates for indemnity payments and legal defense costs, as well as other variables mentioned previously.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE M – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

Ashland has currently estimated in various approximate 50-year models that it is reasonably possible that total future litigation defense and claim settlement costs on an inflated and undiscounted basis could range as high as approximately $830 million for the Ashland asbestos-related litigation and approximately $570 million for the Hercules asbestos-related litigation (or approximately $1.4 billion in the aggregate), depending on the combination of assumptions selected in the various models. If actual experience is worse than projected, relative to the number of claims filed, the severity of alleged disease associated with those claims or costs incurred to resolve those claims, Ashland may need to further increase the estimates of the costs associated with asbestos claims and these increases could potentially be material over time.

Environmental remediation and asset retirement obligations

Ashland and Hercules are subject to various federal, state and local environmental laws and regulations that require environmental assessment or remediation efforts (collectively environmental remediation) at multiple locations. At December 31, 2010, such locations included 93 waste treatment or disposal sites where Ashland and/or Hercules have been identified as a potentially responsible party under Superfund or similar state laws, 152 current and former operating facilities (including certain operating facilities conveyed to MAP) and about 1,225 service station properties, of which 115 are being actively remediated.

Ashland's reserves for environmental remediation amounted to $204 million at December 31, 2010 compared to $207 million at September 30, 2010, of which $159 million at December 31, 2010 and $162 million at September 30, 2010 were classified in other noncurrent liabilities on the Condensed Consolidated Balance Sheets.

The following table provides a reconciliation of the changes in the environmental contingencies and asset retirement obligations during the three months ended December 31, 2010 and 2009.

	Three months ended December 31	
(In millions)	2010	2009
Reserve - beginning of period	$ 207	$ 221
Inherited Hercules obligations	-	6
Disbursements, net of cost recoveries	(7)	(7)
Revised obligation estimates and accretion	4	3
Foreign currency translation	-	(1)
Reserve - end of period	$ 204	$ 222

The total reserves for environmental remediation reflect Ashland's estimates of the most likely costs that will be incurred over an extended period to remediate identified conditions for which the costs are reasonably estimable, without regard to any third-party recoveries. Engineering studies, probability techniques, historical experience and other factors are used to identify and evaluate remediation alternatives and their related costs in determining the estimated reserves for environmental remediation. Ashland continues to discount certain environmental sites and regularly adjusts its reserves as environmental remediation continues. Ashland has estimated the value of its probable insurance recoveries associated with its environmental reserve based on management's interpretations and estimates surrounding the available or applicable insurance coverage. At December 31, 2010 and September 30, 2010, Ashland's recorded receivable for these probable insurance recoveries was $29 million and $30 million, respectively. Environmental remediation expense, included within the selling, general and administrative expenses caption of the Statements of Consolidated Income, amounted to $5 million and $2 million for the three months ended December 31, 2010 and 2009, respectively. Environmental remediation expense, net of receivable activity, was $4 million and $1 million for the three months ended December 31, 2010 and 2009, respectively.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE M – LITIGATION, CLAIMS AND CONTINGENCIES (continued)

Environmental remediation reserves are subject to numerous inherent uncertainties that affect Ashland's ability to estimate its share of the costs. Such uncertainties involve the nature and extent of contamination at each site, the extent of required cleanup efforts under existing environmental regulations, widely varying costs of alternate cleanup methods, changes in environmental regulations, the potential effect of continuing improvements in remediation technology, and the number and financial strength of other potentially responsible parties at multiparty sites. Although it is not possible to predict with certainty the ultimate costs of environmental remediation, Ashland currently estimates that the upper end of the reasonably possible range of future costs for identified sites could be as high as approximately $360 million. No individual remediation location is material, as the largest reserve for any site is less than 10% of the remediation reserve.

Other legal proceedings and claims

Ashland Consumer Markets has established an engine guarantee associated with its ValvolineTM product line. Consumers register their vehicles to qualify for the guarantee. Ashland insures this program with a third party and therefore carries no reserve for this guarantee program.

In addition to the matters described above, there are other various claims, lawsuits and administrative proceedings pending or threatened against Ashland and its current and former subsidiaries. Such actions are with respect to commercial matters, product liability, toxic tort liability, environmental and other matters, which seek remedies or damages, some of which are for substantial amounts. While these actions are being contested, their outcome is not predictable.

NOTE N – EARNINGS PER SHARE

The following is the computation of basic and diluted earnings per share (EPS) from continuing operations. Stock options, SARs and warrants (assumed as part of the Hercules acquisition) available to purchase shares outstanding for each reporting period whose grant price was greater than the average market price of Ashland Common Stock for each applicable period were not included in the computation of income from continuing operations per diluted share because the effect of these instruments would be antidilutive. The total number of these shares outstanding was approximately 2.0 million and 2.1 million as of December 31, 2010 and 2009, respectively.

	Three months ended December 31	
(In millions except per share data)	2010	2009
Numerator		
Numerator for basic and diluted EPS – Income from continuing operations	$ 62	$ 64
Denominator		

Denominator for basic EPS – Weighted-average		
common shares outstanding	79	77
Share based awards convertible to common shares	1	1
Denominator for diluted EPS – Adjusted weighted-		
average shares and assumed conversions	80	78
EPS from continuing operations		