DOW CHEMICAL CO /DE/
Form 424B3
August 04, 2009
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The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Filed Pursuant to Rule 424(b)(3)
Registration No. 333-140859

SUBJECT TO COMPLETION DATED AUGUST 4, 2009

PRELIMINARY PROSPECTUS SUPPLEMENT

(To Prospectus dated February 23, 2007)

$

The Dow Chemical Company

$ % Notes due 2012

$ % Notes due 2015

The notes due 2012 will bear interest at the rate of % per year and the notes due 2015 will bear interest at the rate of % per year. The interest rate on the notes may be adjusted under the circumstances described in this prospectus supplement under Description of the Notes Interest Rate Adjustment. Interest on the notes will be payable on and of each year, beginning , 2010. The notes due 2012 will mature on , 2012 and the notes due 2015 will mature on , 2015. We may redeem the notes at our option, at any time in whole, or from time to time in part, at the applicable redemption prices set forth under Description of the Notes Optional Redemption. If we experience a change of control repurchase event, we may be required to offer to purchase the notes from holders as described under Description of the Notes Repurchase at the Option of Holders Upon Change of Control Repurchase Event.

The notes will be our senior unsecured obligations and will rank equally in right of payment with all of our other senior unsecured indebtedness from time to time outstanding. The notes will be issued only in registered form in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.

Investing in the notes involves risks that are described under Risk Factors beginning on page S-10.

	Per Note due 2012	Total	Per Note due 2015	Total
Public offering price (1)	%	$	%	$
Underwriting discount	%	$	%	$
Proceeds, before expenses, to us	%	$	%	$

(1) Plus accrued interest from August , 2009 if settlement occurs after such date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the notes or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes to purchasers in book-entry form only through The Depository Trust Company for the accounts of its participants, including Clearstream Banking, société anonyme and Euroclear Bank, S.A./N.V. as operator of the Euroclear System, on or about August , 2009.

Joint Book-Running Managers

BofA Merrill Lynch **Citi** **HSBC** **Morgan Stanley**

August , 2009.

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You should rely only on the information contained in or incorporated by reference into this prospectus supplement or the accompanying prospectus. Neither we nor the underwriters have authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it.

Neither we nor the underwriters are making an offer of these securities in any jurisdiction where the offer is not permitted.

You should not assume that the information contained or incorporated by reference into this prospectus supplement or the accompanying prospectus is accurate as of any date other than the dates on the front of this prospectus supplement or the accompanying prospectus, or the date on the report incorporated by reference or the information contained therein, as the case may be.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is comprised of two parts. The first part is this prospectus supplement, which contains the terms of this offering of notes and other information. The second part is the accompanying prospectus dated February 23, 2007, which is part of our Registration Statement on Form S-3 (No. 333-140859) and contains more general information, some of which does not apply to this offering.

This prospectus supplement may add to, update or change the information in the accompanying prospectus. If information in this prospectus supplement is inconsistent with information in the accompanying prospectus, this prospectus supplement will apply and will supersede that information in the accompanying prospectus.

It is important for you to read and consider all information contained or incorporated by reference into this prospectus supplement and the accompanying prospectus in making your investment decision. You should also read and consider the information in the documents to which we have referred you in Where You Can Find More Information in this prospectus supplement.

No person is authorized to give any information or to make any representation that is different from, or in addition to, those contained or incorporated by reference into this prospectus supplement or the accompanying prospectus and, if given or made, such information or representations must not be relied upon as having been authorized. Neither the delivery of this prospectus supplement and the accompanying prospectus, nor any sale made hereunder, shall under any circumstances create any implication that there has been no change in our affairs since the date of this prospectus supplement, or that the information contained or incorporated by reference into this prospectus supplement or the accompanying prospectus is correct as of any time subsequent to the date of such information.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the notes in certain jurisdictions may be restricted by law. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell, or an invitation on our behalf or the underwriters or any of them, to subscribe to or purchase any of the notes, and may not be used for or in connection with an offer or solicitation by anyone, in any jurisdiction in which such an offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. See Underwriting.

In this prospectus supplement, unless otherwise stated or the context otherwise requires, references to Dow, we, us, our, and Company refer The Dow Chemical Company and its consolidated subsidiaries, which, prior to April 1, 2009, did not include Rohm and Haas Company and its subsidiaries and, since April 1, 2009, has included Rohm and Haas Company and its subsidiaries. References to TDCC refer to The Dow Chemical Company excluding its subsidiaries. References to Rohm and Haas refer to Rohm and Haas Company and its consolidated subsidiaries. If we use a capitalized term in this prospectus supplement and do not define the term in this document, it is defined in the accompanying prospectus.

CAUTIONARY STATEMENTS RELATING TO FORWARD-LOOKING INFORMATION

This prospectus supplement and the accompanying prospectus, and the documents incorporated herein by reference, may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act) and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). Those statements relate to developments, results, conditions or other events we expect or anticipate will occur in the future. We intend words such as believes, anticipates, may, should, could, plans, expects similar expressions to identify forward-looking statements. The forward-looking statements involve risks and uncertainties that may affect our operations, markets, products, services, prices and other factors as more fully discussed elsewhere in this prospectus supplement and in the documents incorporated herein by reference. These risks and uncertainties include, but are not limited to, economic, competitive, legal, governmental and technological factors. Accordingly, there is no assurance that our expectations will be realized. We assume no obligation to provide revisions to any forward-looking statements should circumstances change, except as otherwise required by securities and other applicable laws.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information about us and this offering discussed elsewhere in this prospectus supplement, the accompanying prospectus or the documents that we have filed with the Securities and Exchange Commission (the SEC) that are incorporated herein by reference. It does not contain all of the information that is important to you in deciding whether to purchase the notes. We encourage you to read the entire prospectus supplement, the accompanying prospectus and the documents that we have filed with the SEC that are incorporated herein by reference, including the financial statements and notes thereto, prior to deciding whether to purchase the notes.

Dow s Business

Dow is a diversified chemical company that combines the power of science and technology with the Human Element to constantly improve what is essential to human progress. The Company delivers a broad range of products and services to customers in approximately 160 countries, connecting chemistry and innovation with the principles of sustainability to help provide everything from fresh water, food and pharmaceuticals to paints, packaging and personal care products. In 2008, Dow had annual sales of $57.5 billion and employed approximately 46,000 people worldwide, with approximately 6,000 engaged in various research and development activities. The Company has 150 manufacturing sites in 35 countries and produces approximately 3,300 products. On April 1, 2009, Dow acquired Rohm and Haas Company, a global specialty materials company with sales of $10 billion in 2008, 98 manufacturing sites in 30 countries and approximately 15,000 employees worldwide. Dow conducts its worldwide operations through global businesses, which are reported in eight operating segments, as shown below.

Electronic and Specialty Materials, consisting of the Electronic Materials and Specialty Materials businesses, and the Company s share of the results of Dow Corning Corporation, a joint venture of the Company;

Coatings and Infrastructure, consisting of the Adhesives and Functional Polymers; Dow Building and Construction; and Dow Coating Materials businesses;

Health and Agricultural Sciences, consisting of Dow AgroSciences and the Agrofresh business;

Performance Systems, consisting of the Automotive Systems; Dow Elastomers; Dow Wire and Cable; Polyurethane Systems and Epoxy Systems; Dow Fiber Solutions; and Dow Oil and Gas businesses;

Performance Products, consisting of the Amines; Emulsion Polymers; Epoxy; Oxygenated Solvents; Performance Fluids, Polyglycols, and Surfactants; Performance Monomers; and Polyurethanes businesses; the results of the Dow Haltermann and SAFECHEM subsidiaries; and a portion of the results of the OPTIMAL Group of Companies and the SCG-Dow Group, joint ventures of the Company;

Basic Plastics, consisting of the Polyethylene; Polypropylene; Styrenics; Polycarbonate and Compounds and Blends; and Basic Plastics Licensing and Catalyst businesses; along with the results of Equipolymers, Americas Styrenics LLC, and Univation Technologies, LLC, as well as a portion of the results of EQUATE Petrochemical Company K.S.C. and the SCG-Dow Group, all joint ventures of the Company;

Basic Chemicals, consisting of the Chlor-Alkali/Chlor-Vinyl, Ethylene Oxide/Ethylene Glycol, and Chlorinated Organics businesses, along with the results of MEGlobal, and a portion of the results of EQUATE Petrochemical Company K.S.C. and the OPTIMAL Group of Companies, all joint ventures of the Company; and

Hydrocarbons and Energy, consisting of the Hydrocarbons and Energy business, along with the results of Compañía Mega, S.A., and a portion of the results of the SCG-Dow Group, both joint ventures of the Company.

In 2008, Dow sold approximately 3,300 products and its services to customers in approximately 160 countries throughout the world. Thirty-six percent of its sales were to customers in North America; 38 percent were in Europe; while the remaining 26 percent were to customers in Asia Pacific, Latin America, India, the Middle East and Africa.

In 2008, Dow s net sales increased 7 percent over 2007 to $57.5 billion, setting a new sales record for Dow, as a 12 percent increase in prices outweighed a 5 percent decline in volume. The increase in prices was principally in response to higher feedstock and energy purchased costs, which were up $5.9 billion compared with 2007. Reported earnings in 2008 of $579 million declined from $2,887 million in 2007. The earnings decline in 2008 was largely due to a deterioration in global demand, higher feedstock and energy and other raw material costs, lower equity in earnings from nonconsolidated affiliates reflecting demand destruction, goodwill impairment losses, and the impact of a restructuring plan announced toward the end of 2008 as part of a series of actions to advance Dow s strategy and respond to the recent, severe economic downturn. The restructuring plan included the elimination of approximately 5,000 jobs (including planned divestitures) and the closure of facilities in high-cost locations. In addition, Dow announced the temporary idling of nearly 200 plants. Overall, Dow s focus on price and volume management and control of discretionary spending helped to partially offset deteriorating results in a challenging economic environment. In 2008, Dow reported strong cash flow from operating activities of $4.7 billion and ended the year with $2.8 billion of cash and cash equivalents.

Dow had net sales of $20,363 million for the six months ended June 30, 2009, a decrease of 35 percent compared with net sales of $31,140 million reported for the six months ended June 30, 2008. Net sales for the six months ended June 30, 2009 include net sales for Rohm and Haas from April 1, 2009 only. On a pro forma basis, sales for the first half of 2009 were $22,132 million, down 39 percent from $36,208 million , as prices declined 20 percent, driven principally by decreases in feedstock and energy costs (which were down $6.7 billion or 50 percent), while volume declined 19 percent due to an overall decrease in global demand. Net income (loss) available for The Dow Chemical Company common stockholders for the six months ended June 30, 2009 was a net loss of $462 million, down from net income of $1,703 million for the six months ended June 30, 2008. Results for the first half of 2009 were reduced by net pretax restructuring charges of $681 million ($462 million after tax); a one-time pretax increase in cost of sales of $209 million ($132 million after tax) related to the fair value step-up of inventories acquired from Rohm and Haas on April 1, 2009, and sold in the second quarter; pretax transaction and other acquisition costs related to the Rohm and Haas acquisition of $134 million ($102 million after tax); and our $29 million share ($27 million after tax) of a restructuring charge recorded in the first quarter by Dow Corning Corporation. Despite significantly lower feedstock and energy costs and our cost control efforts, earnings declined due to lower selling prices and lower volume, as well as a decline in our equity in the earnings of nonconsolidated affiliates, as our joint ventures were also impacted by poor economic conditions.

Dow continues to implement a strategy designed to reduce earnings cyclicality and improve earnings growth by increasing investments in the Performance businesses and growing the Basics businesses through cost-advantaged joint ventures. In furtherance of this strategy, on April 1, 2009, Dow acquired Rohm and Haas Company (the Merger). The Merger was financed initially with borrowing approximately $9.2 billion under a term loan (the Term Loan) from a syndicate of lenders, and the proceeds of the issuance of $4 billion of cumulative convertible perpetual preferred stock, Series A, $2.5 billion of cumulative perpetual preferred stock, Series B (Series B Preferred Stock) and $500 million of a separate series of cumulative convertible perpetual preferred stock, Series C (Series C Convertible Preferred Stock). These financing transactions are referred to as the Financing Transactions, and together with the Merger, are referred to as the Original Transactions.

Following the Original Transactions, through a series of transactions, we (i) consummated a public offering of 150,000,000 shares of our common stock, including shares offered by certain selling stockholders, (ii) consummated a public offering of senior notes in the aggregate amount of $6 billion, including notes offered by certain selling noteholders, (iii) repurchased from the Series B Preferred Stock investors all shares of our

Series B Preferred Stock in consideration for shares of our common stock and our 8.55% Notes due 2019, all of which were subsequently resold by such investors as part of our public equity and debt offerings described in (i) and (ii) above, (iv) issued 36,698,005 shares of our common stock to the employee stock ownership component of The Dow Chemical Company Employees Savings Plan, (v) used the net proceeds from the issuance of our common stock and debt securities to repay approximately $1.6 billion of our borrowings under our revolving credit facility and approximately $4.5 billion of our borrowings under the Term Loan and (vi) converted all shares of the Series C Convertible Preferred Stock into 30,997,900 shares of our common stock, all of which were sold by the Series C Convertible Preferred Stock investors in a forward sale offering (all such transactions, together with the Original Transactions, the Transactions).

For more information concerning Dow s business, see The Business of The Dow Chemical Company.

Recent Developments

In May 2009, we announced a definitive agreement for the sale of our 45 percent ownership stake in Total Raffinaderij Nederland N.V. for an enterprise value expected to be approximately $725 million. The transaction remains subject to regulatory and other approvals and is expected to close in 2009.

On June 30, 2009, we sold the Calcium Chloride business and recognized a $162 million pretax gain. The results of operations related to the Calcium Chloride business have been reclassified and reported as discontinued operations for all periods presented.

On July 9, 2009, the preferred partnership units and accrued dividends of Tornado Finance V.O.F., our consolidated foreign subsidiary, were redeemed for a total of $520 million. The preferred partnership units were previously classified as Preferred Securities of Subsidiaries in our consolidated balance sheets, and distributions were included in Net income attributable to noncontrolling interests in our consolidated statements of operations. At June 30, 2009, the $500 million of preferred securities were classified as Accrued and other current liabilities and $20 million of accrued dividends were classified as Dividends payable in our consolidated balance sheets.

On July 30, 2009, we announced that we had reached an agreement to sell our ownership stake in OPTIMAL for $660 million. The formal signing and exchange of the related definitive agreements is expected to take place during the first week of August. The transaction remains subject to customary conditions and approvals and is expected to close in the third quarter of 2009.

On July 31, 2009, the Company entered into a definitive agreement for the sale of certain acrylic monomer and specialty latex assets, as required by the United States Federal Trade Commission (FTC), for approval of the April 1, 2009 acquisition of Rohm and Haas. The transaction is subject to approval by the FTC and other customary closing conditions, and is expected to close in the second half of 2009.

Our principal executive offices are located at 2030 Dow Center, Midland, Michigan 48674, and our telephone number is (989) 636-1000. Our Internet website address is www.dow.com. The information on or connected to our website is not incorporated by reference into this prospectus supplement or the accompanying prospectus, and you should not consider them to be a part of this prospectus supplement or the accompanying prospectus.

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Summary Historical Financial and Other Data of Dow

The following summary historical financial and other data of Dow should be read in conjunction with our consolidated financial statements, and the notes relating thereto, incorporated by reference into this prospectus supplement and the accompanying prospectus, as well as the information included herein under the caption Selected Historical Financial and Other Data of Dow. Results of Rohm and Haas are included in our consolidated results from the acquisition date forward. The results of operations related to the calcium chloride business have been reclassified and reported as discontinued operations for all periods presented.

	Six months Ended June 30,		Year Ended December 31,		
(dollars in millions) (unaudited)	**2009**	**2008**	**2008**	**2007**	**2006**
Statements of Operations Data:					
Net sales	$ 20,363	$ 31,140	$ 57,361	$ 53,375	$ 49,009
Cost of sales	17,902	27,505	51,913	46,302	41,448
Income (loss) from continuing operations before income taxes	(684)	2,271	1,277	4,192	4,938
Net income (loss) attributable to The Dow Chemical Company (1)	(320)	1,703	579	2,887	3,724
Balance Sheets Data (end of period):					
Total assets	$ 66,168	$ 52,153	$ 45,474	$ 48,801	$ 45,581
Total current assets	18,383	21,331	16,060	18,654	17,209
Total current liabilities	11,127	14,387	13,108	12,445	10,601
Working capital (2)	7,256	6,944	2,952	6,209	6,608
Property	51,673	49,273	48,391	47,708	44,381
Net property	17,377	14,624	14,294	14,388	13,722
Notes payable	695	2,225	2,360	1,548	219
Long-term debt due within one year	1,090	1,051	1,454	586	1,291
Long-term debt	21,983	8,116	8,042	7,581	8,036
Total debt (3)	23,768	11,392	11,856	9,715	9,546
Total equity (4)	20,223	20,370	13,580	19,803	17,430
Preferred securities of subsidiaries		1,000	500	1,000	1,000
Financial Ratios:					
Income (loss) from continuing operations before income taxes as a percent of net sales	(3.4)%	7.3%	2.2%	7.9%	10.1%
Return on stockholders equity (5)	(4.7)	16.9	4.3	14.9	21.8
Debt as a percent of total capitalization (6)	54.0	34.8	45.7	31.8	34.1
Ratio of earnings to fixed charges (7)		6.2x	2.3x	5.3x	6.0x

(1) Changed from Net income (loss) available for common stockholders due to retrospective application of Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements.

(2) Working capital equals Total current assets minus Total current liabilities.

(3) Total debt equals Notes payable plus Long-term debt due within one year and Long-term debt.

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(4) Impact of retrospective application of SFAS No. 160 to equity section of balance sheets:

(dollars in millions)	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	Year Ended December 31, 2008	Year Ended December 31, 2007	Year Ended December 31, 2006
Net stockholders equity (as reported prior to January 1, 2009)	$ 19,719(1)	$ 20,133	$ 13,511(1)	$ 19,389	$ 17,065
Noncontrolling interests (2)	504	237	69	414	365
Total equity	$ 20,223	$ 20,370	$ 13,580	$ 19,803	$ 17,430

(1) Now shown as The Dow Chemical Company s stockholders equity.

(2) Changed from Minority interest in subsidiaries.

(5) Return on stockholders equity equals Net income (loss) available for The Dow Chemical Company common stockholders divided by Net stockholders equity. Net income (loss) available for The Dow Chemical Company common stockholders is annualized for purposes of the six-month calculations.

(6) Debt as a percent of total capitalization equals Total debt divided by Total debt plus Preferred securities of subsidiaries and Total equity

(7) For the six month period ended June 30, 2009, the Company s earnings were insufficient to cover fixed charges by $274 million. The six month period ended June 30, 2009 included restructuring charges of $681 million, a one-time increase in cost of sales related to fair valuation of Rohm and Haas inventories of $209 million and acquisition-related costs of $134 million.

On a pro forma basis giving effect to the Transactions, earnings for the six months ended June 30, 2009 were insufficient to cover fixed charges by $969 million. Earnings for the year ended December 31, 2008 fully covered fixed charges at a ratio of 1.2x. Unlike the Unaudited Pro Forma Combined Condensed Financial Information, the numbers on a pro forma basis do not give effect to the sale of the salt business of Morton International Inc. (MII) and the application of assumed proceeds to reduce our borrowings under the Term Loan.

For the purposes of these ratios, earnings consist of income (loss) from continuing operations before income taxes, noncontrolling interests and equity in earnings of nonconsolidated affiliates; plus fixed charges, amortization of capitalized interest and distributed income of nonconsolidated affiliates; minus capitalized interest and preferred security dividends. Fixed charges consist of interest expense and amortization of debt discount, capitalized interest, preferred security dividends, and a portion of rentals deemed to represent an interest factor.

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Summary Unaudited Pro Forma Combined Condensed

Financial Information

The following summary unaudited pro forma combined condensed financial information of Dow has been prepared to assist you in your analysis of the financial effects of the Transactions using the historical consolidated financial statements of Dow and Rohm and Haas.

The following tables set forth summary unaudited pro forma combined condensed statement of operations of Dow giving effect to the Transactions, using the acquisition method of accounting, as if the Transactions had occurred on January 1, 2008 and after giving effect to the pro forma adjustments. No pro forma balance sheet is included as the Transactions are already reflected in the balance sheet as of June 30, 2009.

In addition to presenting the effects of the Transactions, the pro forma adjustments reflect (i) the sale of the MII salt business and the application of assumed proceeds to reduce our borrowings under the Term Loan and (ii) the divestitures of the businesses required by the FTC as a condition of its approval of the Merger.

You should read this information in conjunction with Unaudited Pro Forma Combined Condensed Financial Information, Selected Historical Financial and Other Data of Dow and the consolidated financial statements and related notes of Dow and Rohm and Haas incorporated by reference into this prospectus supplement.

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The Dow Chemical Company and Subsidiaries

Summary of Unaudited Pro Forma Combined Condensed Statements of Operations

For the Year Ended December 31, 2008

(In millions, except per share amounts)	Dow	Rohm and Haas	Pro Forma Adjustments	Pro Forma Combined
Net sales	$ 57,361	$ 9,563	$ (2,283)	$ 64,641
Cost of sales	51,913	7,165	(1,888)	57,190
Income from Continuing Operations Before Income Taxes	1,277	561	(1,598)	240
Net Income (Loss) from Continuing Operations Attributable to The Dow Chemical Company	551	480	(1,039)	(8)
Net Income (Loss) from Continuing Operations Available to The Dow Chemical Company Common Stockholders	$ 551	$ 480	$ (1,379)	$ (348)
Share data				
Earnings (loss) per common share - basic	$ 0.59			$ (0.31)
Earnings (loss) per common share - diluted	$ 0.59			$ (0.31)

See Notes to the Unaudited Pro Forma Combined Condensed Financial Statements.

For the Six Months Ended June 30, 2009

(In millions, except per share amounts)	Dow	Rohm and Haas	Pro Forma Adjustments	Pro Forma Combined
Net sales	$ 20,363	$ 1,769	$ (837)	$ 21,295
Cost of sales	17,902	1,382	(563)	18,721
Income (Loss) from Continuing Operations Before Income Taxes	(684)	(58)	(628)	(1,370)
Net Income (Loss) from Continuing Operations Attributable to The Dow Chemical Company	(434)	(31)	(403)	(868)
Net Income (Loss) from Continuing Operations Available to The Dow Chemical Company Common Stockholders	$ (576)	$ (31)	$ (431)	$ (1,038)
Share data				
Earnings (loss) per common share - basic	$ (0.59)			$ (0.94)
Earnings (loss) per common share - diluted	$ (0.59)			$ (0.94)

See Notes to the Unaudited Pro Forma Combined Condensed Financial Statements.

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The Offering

Issuer	The Dow Chemical Company
Securities Offered by Us $ of % notes due 2015	$ of % notes due 2012
Maturity	The notes due 2012 will mature on , 2012. The notes due 2015 will mature on , 2015.
Interest	Interest will accrue from , 2009 at the rate of % per year, in the case of the notes due 2012 and % per year, in the case of the notes due 2015. Interest on the notes will be payable semi-annually in arrears on and of each year, beginning , 2010.
Interest Rate Adjustment	The interest rate payable on the notes of each series will be subject to adjustment from time to time if Moody s Investors Service, Inc. (Moody s) or Standard & Poor s Ratings Services, a division of The McGraw-Hill Companies, Inc. (S&P), downgrades (or downgrades and subsequently upgrades) the credit rating assigned to such series of notes as described under Description of the Notes Interest Rate Adjustment.
Optional Redemption	We may redeem the notes at our option, at any time in whole, or from time to time in part, at a redemption price equal to the greater of:

- 100% of the principal amount of the notes being redeemed; and
- the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of such payments of interest accrued as of the date of redemption), discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined in this prospectus supplement), plus basis points.

We will also pay the accrued and unpaid interest on the notes to the redemption date.

Repurchase at the Option of Holders Upon a Change of Control Repurchase Event	If we experience a Change of Control Repurchase Event (as defined in this prospectus supplement), we will be required, unless we have exercised our right to redeem the notes, to offer to purchase the notes at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest.
Ranking	The notes will be our senior unsecured obligations and will rank equally in right of payment to our other senior unsecured debt from time to time outstanding. At June 30,

2009, we had approximately $23.1 billion in principal amount of long-term indebtedness outstanding on a consolidated basis, of which $4.5 billion of subsidiary indebtedness would be structurally senior to the notes.

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Use of Proceeds	The proceeds from this offering to be received by us will be used by us (a) to repay a portion of our borrowings under the Term Loan and (b) for refinancings, renewals, replacements and refundings of outstanding indebtedness. See Use of Proceeds.
Further Issues	We may from time to time, without notice to or the consent of the holders of the notes of any series, create and issue additional debt securities having the same terms (except for the issue date, the public offering price and if applicable, the first interest payment date) and ranking equally and ratably with the notes of a series offered hereby in all respects, as described under Description of the Notes General. Any additional debt securities having such similar terms, together with the notes offered hereby, will constitute a single series of securities under the indenture.
Denomination and Form	We will issue the notes in the form of one or more fully registered global notes registered in the name of a nominee of The Depository Trust Company (DTC). Beneficial interests in the notes will be represented through book-entry accounts of financial institutions acting on behalf of beneficial owners as direct and indirect participants in DTC. Clearstream Banking, société anonyme and Euroclear Bank, S.A./ N.V., as operator of the Euroclear System, will hold interests on behalf of their participants through their respective U.S. depositaries, which in turn will hold such interests in accounts as participants of DTC. Except in the limited circumstances described in this prospectus supplement, owners of beneficial interests in the notes will not be entitled to have notes registered in their names, will not receive or be entitled to receive notes in definitive form and will not be considered holders of notes under the indenture. The notes will be issued only in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof.
Certain United States Federal Tax Considerations	For a summary of certain United States federal tax considerations relating to the purchase, ownership and disposition of the notes, see United States Federal Tax Considerations.
Risk Factors	Investing in the notes involves risks. See Risk Factors for a description of certain risks you should consider before investing in the notes.
Trustee	The Bank of New York Mellon Trust Company, N.A.
Governing Law	New York

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RISK FACTORS

You should carefully consider the following risk factors, as well as the other information included or incorporated by reference into this prospectus supplement and the accompanying prospectus, before making an investment decision. The factors described below represent our principal risk factors.

Risks Relating to Our Business

For a discussion of the risks related to our business and industries, see Part II Other Information Item 1A. Risk Factors in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2009.

Risks Relating to the Merger and Related Financing Transactions

We substantially increased our leverage in order to finance the Merger.

To finance a portion of the Merger, we entered into the Term Loan with a syndicate of banks. As of June 30, 2009, we had $23.8 billion of consolidated indebtedness. On April 1, 2009, we borrowed $9.2 billion under the Term Loan in connection with the Merger and as of June 30, 2009, we had $4.1 billion outstanding. We also had $900 million outstanding under our revolving credit facility. For additional information, see Capitalization. Increased indebtedness may increase our vulnerability to adverse economic conditions and reduce our flexibility to respond to changing business and economic conditions or fund capital expenditure or working capital needs because we will require additional funds to service our indebtedness. Our ratio of total indebtedness to capitalization at June 30, 2009 was 54.0%. After giving effect to the Transactions, for the year ended December 31, 2008, we would have had pro forma interest expense of $1,816 million compared to our historical interest expense of $648 million for the same period.

Additionally, the Term Loan expires on April 1, 2010. Although the Term Loan may be extended at our option, subject to certain conditions, for a maximum of $8 billion, such extension would increase our costs of indebtedness as it would require the payment of an extension fee and would increase the interest rate of the term loan on the date of extension, on the 90th day following such date and on each successive 90th day thereafter.

Rohm and Haas may have liabilities that are not known, probable or estimable at this time.

As a result of the Merger, Rohm and Haas has become our subsidiary and we have effectively assumed all of Rohm and Haas liabilities, whether or not asserted. In addition, there may be liabilities that are neither probable nor estimable at this time which may become probable and estimable in the future. Any such liabilities, individually or in the aggregate, could have a material adverse effect on our business. Additional information regarding Rohm and Haas contingent liabilities, including potential remedial and natural resource liabilities at Berry s Creek and Wood-Ridge, New Jersey arising out of releases of contaminants from a former mercury manufacturing facility acquired by MII, can be found in Note 25: Contingent Liabilities, Guarantees and Commitments to Rohm and Haas audited financial statements and notes thereto for the year ended December 31, 2008 and Note 13: Contingent Liabilities, Guarantees and Commitments to Rohm and Haas interim financial statements and notes thereto for the three months ended March 31, 2009, included as Exhibits 99.1 and 99.2, respectively, to our Current Report on Form 8-K/A filed with the SEC on May 5, 2009, which is incorporated herein by reference.

We have incurred significant transaction, integration and restructuring costs in connection with the Merger.

We have incurred significant transaction costs related to the Merger. In addition, we as a combined company have incurred, and will continue to incur, integration and restructuring costs as we integrate Rohm and Haas businesses with our businesses. Although we expect that the realization of benefits and efficiencies related to the integration of the businesses may offset these transaction, integration and restructuring costs over time, no assurances can be made that this net benefit will be achieved in the near term, or at all, which could adversely affect our financial condition and results of operations.

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If we are unable to retain key Rohm and Haas personnel following the Merger, the combined business may suffer.

The success of the Merger will depend in part on our ability to retain key Rohm and Haas employees who will continue to be employed by us after the Merger. If these key employees terminate their employment, our sales, marketing or development activities might be adversely affected, management s attention might be diverted from successfully integrating Rohm and Haas operations to hiring suitable replacements, we may not be able to locate suitable replacements for any such key employees that leave us, and our business may suffer.

The historical and unaudited pro forma financial information included elsewhere in this prospectus supplement may not be representative of our results as a combined company after the Merger, and accordingly, you have limited financial information on which to evaluate the combined company and your investment decision.

We and Rohm and Haas operated as separate companies prior to the Merger. We have had no prior history as a combined entity and our operations have been managed on a combined basis only since April 1, 2009. The pro forma financial information, which was prepared in accordance with Article 11 of the SEC s Regulation S-X, is presented for informational purposes only and is not necessarily indicative of the financial position or results of operations that would have actually occurred had the Merger been completed at or as of the dates indicated, nor is it indicative of the future operating results or financial position of the combined company. The pro forma financial information does not reflect future nonrecurring charges resulting from the Merger. The Unaudited Pro Forma Combined Condensed Statements of Operations do not reflect future events that may occur after the Merger, including the potential realization of operating cost savings (synergies) or restructuring activities or other costs related to the planned integration of Rohm and Haas, and do not consider potential impacts of current market conditions on revenues, expense efficiencies or asset dispositions (with the exception of MII). The pro forma financial information presented in this prospectus supplement is based in part on certain assumptions regarding the Merger that we believe are reasonable under the circumstances. We cannot assure you that our assumptions will prove to be accurate over time.

Risks Relating to the Notes

The notes are effectively subordinated to the existing and future liabilities of our subsidiaries.

The notes are the senior unsecured obligations of TDCC and will rank equally in right of payment to TDCC s other senior unsecured debt from time to time outstanding. The notes are not secured by any of TDCC s assets. Any future claims of secured lenders with respect to assets securing their loans will be prior to any claim of the holders of the notes with respect to those assets.

TDCC s subsidiaries are separate and distinct legal entities from TDCC. TDCC s subsidiaries have no obligation to pay any amounts due on the notes or to provide TDCC with funds to meet its payment obligations on the notes, whether in the form of dividends, distributions, loans or other payments. In addition, any payment of dividends, loans or advances by TDCC s subsidiaries could be subject to statutory or contractual restrictions. Payments to TDCC by its subsidiaries will also be contingent upon the subsidiaries earnings and business considerations. TDCC s right to receive any assets of any of its subsidiaries upon their bankruptcy, liquidation or reorganization, and therefore the right of the holders of the notes to participate in those assets, will be effectively subordinated to the claims of that subsidiary s creditors, including trade creditors. In addition, even if TDCC is a creditor of any of its subsidiaries, its right as a creditor would be subordinate to any security interest in the assets of its subsidiaries and any indebtedness of its subsidiaries senior to that held by TDCC. At June 30, 2009, we had approximately $23.1 billion in principal amount of long-term indebtedness (including the current portion thereof) outstanding on a consolidated basis, of which $4.5 billion of subsidiary indebtedness was structurally senior to the notes.

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We may not be able to repurchase the notes upon a change of control.

Upon the occurrence of specific kinds of change of control events, unless we have exercised our right to redeem the notes, each holder of notes will have the right to require us to repurchase all or any part of such holder s notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase. If we experience a Change of Control Repurchase Event, there can be no assurance that we would have sufficient financial resources available to satisfy our obligations to repurchase the notes. Our failure to purchase the notes as required under the indenture governing the notes would result in a default under the indenture, which could have material adverse consequences for us and the holders of the notes. See Description of the Notes Repurchase at the Option of Holders Upon Change of Control Repurchase Event.

The indenture does not restrict the amount of additional debt that we may incur.

The notes and indenture under which the notes will be issued do not place any limitation on the amount of unsecured debt that may be incurred by us. Our incurrence of additional debt may have important consequences for you as a holder of the notes, including making it more difficult for us to satisfy our obligations with respect to the notes, a loss in the trading value of your notes, if any, and a risk that the credit rating of the notes is lowered or withdrawn.

Our credit ratings may not reflect all risks of your investments in the notes.

Our credit ratings are an assessment by rating agencies of our ability to pay our debts when due. Consequently, real or anticipated changes in our credit ratings will generally affect the market value of the notes. As discussed above, our short- and long-term credit ratings were recently downgraded. These credit ratings may not reflect the potential impact of risks relating to structure or marketing of the notes. Agency ratings are not a recommendation to buy, sell or hold any security, and may be revised or withdrawn at any time by the issuing organization. Each agency s rating should be evaluated independently of any other agency s rating.

If an active trading market does not develop for the notes, you may be unable to sell your notes or to sell your notes at a price that you deem sufficient.

The notes are new issues of securities for which there currently is no established trading market. We do not intend to list the notes on a national securities exchange. While the underwriters of the notes have advised us that they intend to make a market in the notes, the underwriters will not be obligated to do so and may stop their market-making at any time. No assurance can be given:

- that a market for the notes will develop or continue;
- as to the liquidity of any market that does develop; or
- as to your ability to sell any notes you may own or the price at which you may be able to sell your notes.

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USE OF PROCEEDS

We expect the net proceeds to us from this offering will be approximately $ million (after deducting underwriting discounts and our estimated offering expenses). We intend to use all of such net proceeds (i) to repay a portion of our borrowings under the Term Loan, which we entered into to finance a portion of the Merger, and (ii) for refinancings, renewals, replacements and refundings of outstanding indebtedness. The borrowings under the Term Loan accrue interest at a rate per annum equal to either a base rate or LIBOR plus, in each case, an applicable margin (which interest rate currently is approximately 3.809%), and have a maturity date of April 1, 2010, which may be extended for one year for a maximum of $8 billion.

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CAPITALIZATION

The following table sets forth, as of June 30, 2009, our consolidated cash and cash equivalents, short-term debt and long-term debt and equity on an actual basis and as adjusted to give effect to the issuance of the notes offered hereby and the application of the net proceeds. See Use of Proceeds.

You should read this table in conjunction with Selected Historical Financial and Other Data of Dow, Unaudited Pro Forma Combined Condensed Financial Information, and the consolidated financial statements and related notes thereto which are incorporated by reference herein.

	At June 30, 2009 (dollars in millions)	
	Actual	As Adjusted
Cash and cash equivalents	$ 2,648	$ 2,648
Short-term debt (includes notes payable and current maturities of long-term debt)	$ 1,785	$ 1,785
Long-term debt:		
Revolving credit agreement	$ 900	$
Promissory notes and debentures	12,578	
Term Loan	4,137	
Other long-term debt	5,458	
Notes due 2012 offered hereby		
Notes due 2015 offered hereby		
Less: current maturities of long-term debt	(1,090)	
Total long-term debt	21,983	
Equity:		
Cumulative Convertible Perpetual Preferred Stock, Series A	4,000	4,000
Common stock (1)	2,906	2,906
Additional paid-in capital	2,010	2,010
Retained earnings	16,242	16,242
Accumulated other comprehensive loss	(4,047)	(4,047)
Unearned ESOP shares	(541)	(541)
Treasury stock at cost	(851)	(851)
The Dow Chemical Company s stockholders equity	19,719	19,719
Noncontrolling interests	504	504
Total equity	20,223	20,223
Total long-term debt and equity	$ 42,206	$

(1) This number does not give effect to the issuance of common stock upon conversion of any shares of our Cumulative Convertible Perpetual Preferred Stock, Series A.

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SELECTED HISTORICAL FINANCIAL AND OTHER DATA OF DOW

The following table sets forth selected historical financial and other data of Dow and, except as otherwise indicated below, is derived from our audited consolidated financial statements and unaudited consolidated financial statements. You should read the following information in conjunction with our consolidated financial statements incorporated by reference into this prospectus supplement and the accompanying prospectus. Results of Rohm and Haas are included in our consolidated results from the acquisition date forward. The results of operations related to the calcium chloride business have been reclassified and reported as discontinued operations for all periods presented.

	Six Months Ended June 30,		Year Ended December 31,				
(dollars in millions) (unaudited)	2009	2008	2008	2007	2006	2005	2004
Statements of Operations Data:							
Net sales	$ 20,363	$ 31,140	$ 57,361	$ 53,375	$ 49,009	$ 46,186	$ 40,063
Cost of sales	17,902	27,505	51,913	46,302	41,448	38,194	34,175
Research and development expenses	673	666	1,310	1,305	1,164	1,073	1,022
Selling, general and administrative expenses	1,106	1,012	1,966	1,861	1,660	1,542	1,434
Amortization of intangibles	134	47	92	72	50	55	81
Goodwill impairment losses			239				
Restructuring charges	681		839	578	591	114	543
Purchased in-process research and development charges			44	57			
Acquisition-related expenses	100		49				
Gain on asset divestitures related to formation of nonconsolidated affiliates							563
Asbestos-related credit			54		177		
Equity in earnings of nonconsolidated affiliates	187	525	787	1,122	959	964	923
Sundry income net	20	83	89	324	137	755	136
Interest income	21	49	86	130	185	138	86
Interest expense and amortization of debt discount	679	296	648	584	616	702	747
Income (Loss) from continuing operations before income taxes	(684)	2,271	1,277	4,192	4,938	6,363	3,769
Provision (credit) for income taxes	(273)	536	651	1,230	1,142	1,769	867
Net income (loss) from continuing operations	(411)	1,735	626	2,962	3,796	4,594	2,902
Income from discontinued operations, net of income taxes	114	11	28	23	21	23	17
Income (Loss) before cumulative effect of change in accounting principle	(297)	1,746	654	2,985	3,817	4,617	2,919
Cumulative effect of change in accounting principle						(20)	
Net income (loss) (1)	(297)	1,746	654	2,985	3,817	4,597	2,919
Net income attributable to noncontrolling interests (2)	23	43	75	98	93	82	122
Net income (loss) attributable to The Dow Chemical Company	(320)	1,703	579	2,887	3,724	4,515	2,797
Net income (loss) available for The Dow Chemical Company common stockholders (3)	$ (462)	$ 1,703	$ 579	$ 2,887	$ 3,724	$ 4,515	$ 2,797
Balance Sheets Data (end of period):							
Total assets	$ 66,168	$ 52,153	$ 45,474	$ 48,801	$ 45,581	$ 45,934	$ 45,885
Total current assets	18,383	21,331	16,060	18,654	17,209	17,404	15,890
Total current liabilities	11,127	14,387	13,108	12,445	10,601	10,663	10,506
Working capital (4)	7,256	6,944	2,952	6,209	6,608	6,741	5,384
Property	51,673	49,273	48,391	47,708	44,381	41,934	41,898
Net property	17,377	14,624	14,294	14,388	13,722	13,537	13,828
Notes payable	695	2,225	2,360	1,548	219	241	104
Long-term debt due within one year	1,090	1,051	1,454	586	1,291	1,279	861
Long-term debt	21,983	8,116	8,042	7,581	8,036	9,186	11,629

Total debt (5)	23,768	11,392	11,856	9,715	9,546	10,706	12,594
Total equity (6)	20,223	20,370	13,580	19,803	17,430	15,660	12,719
Preferred securities of subsidiaries		1,000	500	1,000	1,000	1,000	1,000
Financial Ratios:							
Research and development expenses as a percent of net sales	3.3%	2.1%	2.2%	2.4%	2.4%	2.3%	2.6%
Income (loss) from continuing operations before income taxes as a percent of net sales	(3.4)	7.3	2.3	7.9	10.1	13.8	9.4
Return on stockholders equity (7)	(4.7)	16.9	4.3	14.9	21.8	29.5	22.8
Debt as a percent of total capitalization (8)	54.0	34.8	45.7	31.8	34.1	39.1	47.9
Ratio of earnings to fixed charges (9)		6.2x	2.3x	5.3x	6.0x	7.1x	4.2x
General:							
Capital expenditures	$ 559	$ 956	$ 2,276	$ 2,075	$ 1,775	$ 1,597	$ 1,333
Depreciation	1,079	992	2,016	1,959	1,904	1,904	1,904

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(1) Caption added due to retrospective application of SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements.

(2) Changed from Minority interests share in income, due to retrospective application of SFAS No. 160.

(3) Changed from Net Income (Loss) Available for Common Stockholders due to retrospective application of SFAS No. 160.

(4) Working capital equals Total current assets minus Total current liabilities.

(5) Total debt equals Notes payable plus Long-term debt due within one year and Long-term debt.

(6) Impact of retrospective application of SFAS No. 160 to equity section of balance sheets:

(dollars in millions) (unaudited)	Six Months Ended June 30, 2009	2008	Year Ended December 31, 2008	2007	2006	2005	2004
Net stockholders equity (as reported prior to January 1, 2009)	$ 19,719(1)	$ 20,133	$ 13,511(1)	$ 19,389	$ 17,065	$ 15,324	$ 12,270
Noncontrolling interests (2)	504	237	69	414	365	336	449
Total equity	$ 20,223	$ 20,370	$ 13,580	$ 19,803	$ 17,430	$ 15,660	$ 12,719

(1) Now shown as The Dow Chemical Company s stockholders equity.

(2) Changed from Minority Interest in Subsidiaries.

(7) Return on stockholders equity equals Net income (loss) available for The Dow Chemical Company common stockholders divided by Net stockholders equity. Net income (loss) available for The Dow Chemical Company common stockholders is annualized for purposes of the six-month calculations.

(8) Debt as a percent of total capitalization equals Total debt divided by Total debt plus Preferred securities of subsidiaries and Total equity.

(9) For the six month period ended June 30, 2009, the Company s earnings were insufficient to cover fixed charges by $274 million. The six month period ended June 30, 2009 included restructuring charges of $681 million, a one-time increase in cost of sales related to fair valuation of Rohm and Haas inventories of $209 million and acquisition-related costs of $134 million.

On a pro forma basis giving effect to the Transactions, earnings for the six months ended June 30, 2009 were insufficient to cover fixed charges by $969 million. Earnings for the year ended December 31, 2008 fully covered fixed charges at a ratio of 1.2x. Unlike the Unaudited Pro Forma Combined Condensed Financial Information, the numbers on an a pro forma basis do not give effect to the sale of the MII salt business and the application of assumed proceeds to reduce our borrowings under the Term Loan.

For the purposes of these ratios, earnings consist of income (loss) from continuing operations before income taxes, noncontrolling interests and equity in earnings of nonconsolidated affiliates; plus fixed charges, amortization of capitalized interest and distributed income of nonconsolidated affiliates; minus capitalized interest and preferred security dividends. Fixed charges consist of interest expense and amortization of debt discount, capitalized interest, preferred security dividends, and a portion of rentals deemed to represent an interest factor.

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UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL INFORMATION

Introduction

The following Unaudited Pro Forma Combined Condensed Statements of Operations (pro forma financial information) are based on the historical consolidated financial statements and the accompanying notes of the Company and Rohm and Haas and have been prepared to illustrate the effects of the Company s acquisition of Rohm and Haas, assuming the acquisition was consummated on January 1, 2008. No pro forma balance sheet is included as the Transactions are already reflected in the balance sheet as of June 30, 2009.

The accompanying pro forma financial information should be read in conjunction with the historical financial statements and the accompanying notes of the Company included in the Annual Report on Form 10-K for the year ended December 31, 2008, filed with the Commission on February 20, 2009; the Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 filed with the SEC on May 4, 2009; the Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 filed with the SEC on August 3, 2009; as well as the historical financial statements and the accompanying notes of Rohm and Haas for the three years ended December 31, 2008, 2007 and 2006, and for the quarter ended March 31, 2009, included in the Current Report on Form 8-K/A filed with the SEC on May 5, 2009.

The pro forma financial information, which was prepared in accordance with Article 11 of Regulation S-X, is not necessarily indicative of the financial position or results of operations that would have actually occurred had the acquisition been completed at or as of the dates indicated, nor is it indicative of the future operating results or financial position of the combined company. The pro forma financial information does not reflect future nonrecurring charges resulting from the acquisition, or future events that may occur after the acquisition of Rohm and Haas, including the potential realization of operating cost savings (synergies) or restructuring activities or other costs related to the planned integration of Rohm and Haas, and does not consider potential impacts of current market conditions on revenues, expense efficiencies or asset dispositions (with the exception of the Rohm and Haas salt business and divestitures required by the FTC).

Transaction Background

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

The Company pursued the acquisition of Rohm and Haas to make the Company a leading specialty chemicals and advanced materials company, combining the two organizations best-in-class technologies, broad geographic reach and strong industry channels to create a business portfolio with significant growth opportunities.

Pursuant to the terms and conditions of the Merger Agreement, each outstanding share of Rohm and Haas common stock was converted into the right to receive cash of $78 per share, plus additional cash consideration of $0.97 per share. The additional cash consideration represented 8 percent per annum on the $78 per share consideration from January 10, 2009 to the closing of the Merger, less dividends declared by Rohm and Haas with a dividend record date between January 10, 2009 and the closing of the Merger. All options to purchase shares of common stock of Rohm and Haas granted under the Rohm and Haas stock option plans and all other equity-based compensation awards, whether vested or unvested as of April 1, 2009, became fully vested and converted into the right to receive cash of $78.97 per share, less any applicable exercise price. Total cash consideration paid to Rohm and Haas shareholders was $15.7 billion.

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The Dow Chemical Company and Subsidiaries

Unaudited Pro Forma Combined Condensed Statements of Operations

For the Year Ended December 31, 2008

(dollars in millions, except per share amounts)	Dow	Rohm and Haas	Pro Forma Adjustments	Ref.	Pro Forma Combined
Net Sales	$ 57,361	$ 9,563	$ (1,898)	(G)	$ 64,641
			(385)	(H)	
Cost of sales	51,913	7,165	136	(C)	57,190
			(1,639)	(G)	
			(385)	(H)	
Research and development expenses	1,310	327	4	(C)	1,639
			(2)	(G)	
Selling, general and administrative expenses	1,966	1,138	20	(C)	3,018
			(106)	(G)	
Amortization of intangibles	92	63	290	(D)	437
			(8)	(G)	
Restructuring charges	839	198	(3)	(G)	1,034
Special charges	332	1			333
Asbestos-related credit	54				54
Equity in earnings of nonconsolidated affiliates	787	97			884
Sundry income (expense) net	89	(59)	(3)	(G)	27
Interest income	86	16	(1)	(G)	101
Interest expense and amortization of debt discount	648	164	962	(I)	1,816
			42	(E)	
Income from Continuing Operations Before Income Taxes	1,277	561	(1,598)		240
Provision for income taxes	651	77	(559)	(F)	169
Net Income from Continuing Operations	626	484	(1,039)		71
Net income attributable to noncontrolling interests	75	4			79
Net Income (Loss) from Continuing Operations Attributable to The Dow Chemical Company	551	480	(1,039)		(8)
Preferred stock dividends			340	(J)	340
Net Income (Loss) from Continuing Operations Available to The Dow Chemical Company Common Stockholders	$ 551	$ 480	$ (1,379)		$ (348)
Share Data					
Earnings (Loss) per common share basic	$ 0.59				$ (0.31)
Earnings (Loss) per common share diluted	$ 0.59			(K)	$ (0.31)
Common stock dividends declared per share of common stock	$ 1.68				$ 1.68
Weighted-average common shares outstanding basic	930.4		181.0	(J)	1,111.4
Weighted-average common shares outstanding diluted	939.0		181.0	(J)	1,120.0

See Notes to the Unaudited Pro Forma Combined Condensed Financial Statements.

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The Dow Chemical Company and Subsidiaries

Unaudited Pro Forma Combined Condensed Statements of Income

For the Six-Month Period Ended June 30, 2009

(dollars in millions, except per share amounts)			
Less discount on issuance of long-term debt		(206)	(215)
Less unamortized debt issuance costs		(2,377)	(2,476)
Less current maturities		(11,041)	(44)
Long-term portion	$	79,289	$90,098

In the second quarter of 2018, the Company renewed its $13,000 and $11,000 committed lines of credit and extended the maturity date of each to May 2020, it renewed its $10,000 committed line of credit and extended the maturity date to September 2019, and it renewed its $7,500 committed line of credit, lowering the interest rate to LIBOR plus 1.15% and extended the maturity date to June 2020.

6. Interest Rate Swap Agreement

The Company is exposed to certain risks relating to its ongoing business operations. The primary risk managed by using derivative instruments is interest rate risk. The Company utilizes an interest rate swap agreement to effectively convert the Company's $12,000 variable-rate debt issue to a fixed rate. Interest rate swaps are contracts in which a series of interest rate cash flows are exchanged over a prescribed period. The notional amount on which the interest payments are based ($12,000) is not exchanged. The interest rate swap provides that the Company pays the counterparty a fixed interest rate of 3.16% on the notional amount of $12,000. In exchange, the counterparty pays the Company a variable interest rate based on 59% of the U.S. Dollar one-month LIBOR rate on the notional amount. The intent is for the variable rate received from the swap counterparty to approximate the variable rate the Company pays to bondholders on its variable rate debt issue, resulting in a fixed rate being paid to the swap counterparty and reducing the Company's interest rate risk. The Company's net payment rate on the swap was 1.92% and 2.43% during the three months ended September 30, 2018 and 2017, respectively, and 2.02% and 2.53% during the nine months ended September 30, 2018 and 2017, respectively.

The interest rate swap agreement is classified as a financial derivative used for non-trading activities. The accounting standards regarding accounting for derivatives and hedging activities require companies to recognize all derivative instruments as either assets or liabilities at fair value on the balance sheet. In accordance with the standards, the interest rate swap is recorded on the balance sheet in other deferred credits at fair value (see Note 7).

The Company uses regulatory accounting treatment rather than hedge accounting to defer the unrealized gains and losses on its interest rate swap. Instead of the effective portion being recorded as other comprehensive income or loss and the ineffective portion being recognized in earnings using the cash flow hedge accounting rules provided by the derivative accounting standards, the entire unrealized swap value is recorded as a regulatory asset. Based on current ratemaking treatment, the Company expects the unrealized gains and losses to be recognized in rates as a component of interest expense as the swap settlements occur. Swap settlements are recorded in the income statement with the hedged item as interest expense. Swap settlements resulted in the reclassification from regulatory assets to interest expense of $58 and $74 during the three months ended September 30, 2018 and 2017, respectively, and $183 and $229 during the nine months ended September 30, 2018 and 2017, respectively. The overall swap result was a (gain) loss of $(87) and $44 for the three months ended September 30, 2018 and 2017, respectively, and a (gain) loss of $(434) and $173 for the nine months ended September 30, 2018 and 2017, respectively. The Company expects to reclassify $192 from regulatory assets to interest expense as a result of swap settlements over the next 12 months.

The interest rate swap agreement contains provisions that require the Company to maintain a credit rating of at least BBB- with Standard & Poor's. If the Company's rating were to fall below this rating, it would be in violation of these provisions, and the counterparty to the derivative could request immediate payment if the derivative was in a liability position. On February 9, 2018, Standard & Poor's affirmed the Company's credit rating at A-, with a stable outlook and adequate liquidity. The Company's interest rate swap was in a liability position as of September 30, 2018. If a violation due to credit rating, or some other default provision, were triggered on September 30, 2018, the Company would have been required to pay the counterparty approximately $1,598.

The interest rate swap will expire on October 1, 2029. Other than the interest rate swap, the Company has no other derivative instruments.

7. Fair Value Measurements

The accounting standards regarding fair value measurements establish a fair value hierarchy which indicates the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs include quoted prices for identical instruments and are the most observable. Level 2 inputs include quoted prices for similar assets and observable inputs such as interest rates, commodity rates and yield curves. Level 3 inputs are not observable in the market and include management's own judgments about the assumptions market participants would use in pricing the asset or liability.

The Company has recorded its interest rate swap liability at fair value in accordance with the standards. The liability is recorded under the caption "Other deferred credits" on the balance sheet. The table below illustrates the fair value of the interest rate swap as of the end of the reporting period.

Description	September 30, 2018	Fair Value Measurements at Reporting Date Using Significant Other Observable Inputs (Level 2)
Interest Rate Swap	$1,573	$1,573

Fair values are measured as the present value of all expected future cash flows based on the LIBOR-based swap yield curve as of the date of the valuation. These inputs to this calculation are deemed to be Level 2 inputs. The balance sheet carrying value reflects the Company's credit quality as of September 30, 2018. The rate used in discounting all prospective cash flows anticipated to be made under this swap reflects a representation of the yield to maturity for 30-year debt on utilities rated A- as of September 30, 2018. The use of the Company's credit rating resulted in a reduction in the fair value of the swap liability of $25 as of September 30, 2018. The fair value of the swap reflecting the Company's credit quality as of December 31, 2017 is shown in the table below.

Description	December 31, 2017	Fair Value Measurements at Reporting Date Using Significant Other Observable Inputs (Level 2)
Interest Rate Swap	$2,196	$2,196

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The carrying amount of current assets and liabilities that are considered financial instruments approximates fair value as of the dates presented. The Company's total long-term debt, with a carrying value of $92,913 at September 30, 2018, and $92,833 at December 31, 2017, had an estimated fair value of approximately $99,000 and $108,000, respectively. The estimated fair value of debt was calculated using a discounted cash flow technique that incorporates a market interest yield curve with adjustments for duration and risk profile. These inputs to this calculation are deemed to be Level 2 inputs. The Company recognized its credit rating in determining the yield curve, and did not factor in third party credit enhancements including bond insurance on the 2006 York County Industrial Development Authority issue and the letter of credit on the 2008 Pennsylvania Economic Development Financing Authority Series A issue.

Customers' advances for construction and note receivable had carrying values at September 30, 2018 of $6,855 and $255, respectively. At December 31, 2017, customers' advances for construction and note receivable had carrying values of $6,324 and $255, respectively. The relative fair values of these amounts cannot be accurately estimated since the timing of future payment streams is dependent upon several factors, including new customer connections, customer consumption levels and future rate increases.

8. Commitments

The Company entered into a consent order agreement with the Pennsylvania Department of Environmental Protection in December 2016 after the Company determined it exceeded the action level for lead as established by the Lead and Copper Rule, or LCR, issued by the U.S. Environmental Protection Agency. Under the agreement, the Company committed to exceed the LCR replacement schedule by replacing all of the remaining known company-owned lead service lines within four years from the agreement. The cost for these service line replacements was approximately $2,059 through September 30, 2018 and is included in utility plant. Additional costs of approximately $112 are expected to complete the replacements, and have been integrated into the Company's annual capital budgets.

Due to its exceedance in 2016, the Company was required under the LCR to complete two rounds of compliance testing at the customer's tap in 2017. The water samples did not exceed the action level either time. As a result, the Company was able to reduce its monitoring to annual compliance tests beginning in 2018. The Company completed its compliance testing at the customer's tap in 2018 and the water samples did not exceed the action level. In addition, the Company is performing in excess of the required actions under the LCR. Specifically, the Company is providing the affected customers with a free water test and a 200 gallon per month credit to flush their line in order to reduce any lead content until their lead service line has been replaced. The cost of the water tests and flushing credits was $1 and $2 for the three months ended September 30, 2018 and 2017, respectively, and $4 and $13 for the nine months ended September 30, 2018 and 2017, respectively. Additional amounts for water tests and flushing credits are not expected to have a material impact on the financial position of the Company.

The Company was granted approval by the Pennsylvania Public Utility Commission, or PPUC, to modify its tariff to include the cost of the replacement of lead customer-owned service lines that are discovered when the Company replaces its lead service lines, and to include the cost of the annual replacement of up to 400 lead customer-owned service lines whenever they are discovered, regardless of the material used for the company-owned service line over nine years from the agreement. The tariff modification allows the Company to replace customer-owned service lines at its own initial cost. The Company will record the costs as a regulatory asset to be recovered in future base rates to customers, over a reasonable period of at least four but not more than six years. The cost for the customer-owned lead service line replacements under the four-year tariff modification was approximately $264 through September 30, 2018 and is included as a regulatory asset. Additional replacements are expected to be approximately $13 under the four-year tariff modification, assuming the average percentage of customer-owned lead service lines that were replaced when company-owned lead service lines were replaced through September 30, 2018 remains consistent over the entire replacement period. The Company is unable to predict how many lead customer-owned service lines are in

use, and, therefore, its current estimate of $1,040 for replacements under the nine-year tariff modification is subject to adjustment as more facts become available.

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9. Revenue

The following table shows the Company's revenues disaggregated by service and customer type.

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Water utility service				
Residential	$7,969	$7,886	$22,740	$22,690
Commercial and industrial	3,598	3,616	10,093	10,128
Fire protection	744	739	2,178	2,207
Wastewater utility service				
Residential	186	235	696	608
Commercial and industrial	46	57	171	135
Billing and revenue collection services	16	16	48	48
Collection services	13	14	45	49
Other revenue	3	6	15	19
Total Revenue from Contracts with Customers	12,575	12,569	35,986	35,884
Rents from regulated property	123	123	382	352
Total Operating Revenue	$12,698	$12,692	$36,368	$36,236

Utility Service

The Company provides utility service as a distinct and single performance obligation to each of its water and wastewater customers. The transaction price is detailed in the tariff pursuant to an order by the PPUC and made publicly available. There is no variable consideration and no free service, special rates, or subnormal charges to any customer. Due to the fact that the contract includes a single performance obligation, no judgment is required to allocate the transaction price. The performance obligation is satisfied over time through the continuous provision of utility service through a stand-ready obligation to perform and the transfer of water or the collection of wastewater through a series of distinct transactions that are identical in nature and have the same pattern of transfer to the customer. The Company uses an output method to recognize the utility service revenue over time. The stand-ready obligation is recognized through the passage of time in the form of a fixed charge and the transfer of water or the collection of wastewater is recognized at a per unit rate based on the actual or estimated flow through the meter. Each customer is invoiced every month and the invoice is due within twenty days. The utility service has no returns or warranties associated with it. No revenue is recognized from performance obligations satisfied in prior periods and no performance obligations remain unsatisfied as of the end of the reporting period. A contract asset for unbilled revenue is recognized for the passage of time and the actual or estimated usage from the latest meter reading to the end of the accounting period. The methodology is standardized and consistently applied to reduce bias and the need for judgment.

Billing and Revenue Collection Service

The Company provides billing and revenue collection service as distinct performance obligations to four municipalities within the service territory of the Company. The municipalities provide wastewater service to their residents and the Company acts as the billing and revenue collection agent for the municipalities. The transaction price is a fixed amount per bill prepared as established in the contract. There is no variable consideration. Due to the fact that both the billing performance obligation and the revenue collection performance obligation are materially complete by the end of the reporting period, the Company does not allocate the transaction price between the two performance obligations. The performance obligations are satisfied at a point in time when the bills are sent as the municipalities receive all the benefits and bears all of the risk of non-collection at that time. Each municipality is invoiced when the bills are complete and the invoice is due within thirty days. The billing and revenue collection

service has no returns or warranties associated with it. No revenue is recognized from performance obligations satisfied in prior periods and no performance obligations remain unsatisfied as of the end of the reporting period.

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Collection Service

The Company provides collection service as a distinct and single performance obligation to several municipalities within the service territory of the Company. The municipalities provide wastewater service to their residents. If those residents are delinquent in paying for their wastewater service, the municipalities request that the Company post for and shut off the supply of water to the premises of those residents. When the resident is no longer delinquent, the Company will restore water service to the premises. The transaction price for each posting, each shut off, and each restoration is a fixed amount as established in the contract. There is no variable consideration. Due to the fact that the contract includes a single performance obligation, no judgment is required to allocate the transaction price. The performance obligation is satisfied at a point in time when the posting, shut off, or restoration is completed as the municipalities receive all the benefits in the form of payment or no longer providing wastewater service. Each municipality is invoiced periodically for the posting, shut offs, and restorations that have been completed since the last billing and the invoice is due within thirty days. The collection service has no returns or warranties associated with it. No revenue is recognized from performance obligations satisfied in prior periods and no performance obligations remain unsatisfied as of the end of the reporting period. A contract asset for unbilled revenue is recognized for postings, shut offs, and restorations that have been completed from the last billing to the end of the accounting period.

Service Line Protection Plan

The Company provides service line protection as a distinct and single performance obligation to current water customers that choose to participate. The transaction price is detailed in the plan's terms and conditions and made publicly available. There is no variable consideration. Due to the fact that the contract includes a single performance obligation, no judgment is required to allocate the transaction price. The performance obligation is satisfied over time through the continuous provision of service line protection through a stand-ready obligation to perform. The Company uses an output method to recognize the service line protection revenue over time. The stand-ready obligation is recognized through the passage of time. A customer has a choice to prepay for an entire year or to pay in advance each month. The service line protection plan has no returns or extended warranties associated with it. No revenue is recognized from performance obligations satisfied in prior periods and no material performance obligations remain unsatisfied as of the end of the reporting period.

10. Rate Matters

From time to time, the Company files applications for rate increases with the PPUC and is granted rate relief as a result of such requests. The most recent rate request was filed by the Company on May 30, 2018, and sought an annual increase in water rates of $6,399 and an annual increase in wastewater rates of $289. The Company, the Office of Consumer Advocate, the Office of Small Business Advocate and the PPUC's Bureau of Investigation and Enforcement have reached a tentative settlement agreement to increase water rates to produce approximately $3,361 in additional annual revenues and to increase wastewater rates to produce approximately $289 in additional annual revenues. The settlement agreement is subject to PPUC approval and would be effective on March 1, 2019.

The PPUC permits water utilities to collect a distribution system improvement charge, or DSIC. The DSIC allows the Company to add a charge to customers' bills for qualified replacement costs of certain infrastructure without submitting a rate filing. This surcharge mechanism typically adjusts periodically based on additional qualified capital expenditures completed or anticipated in a future period. The DSIC is capped at 5% of base rates, and is reset to zero when new base rates that reflect the costs of those additions become effective or when a utility's earnings exceed a regulatory benchmark. The Company's earnings are currently below the regulatory benchmark allowing the Company to collect DSIC. The DSIC provided revenues of $512 and $1,428 for the three and nine months ended September 30, 2018, respectively, and revenues of $405 and $467 for the three and nine months ended September 30, 2017.

On May 17, 2018, the PPUC, in conjunction with its review of the effects of the Tax Cuts and Jobs Act of 2017, or the 2017 Tax Act, issued an order which directs utilities with pending rate cases, including the Company, to address the issues related to the 2017 Tax Act in the context of an overall review of the Company's rates and rate structure in lieu of any immediate action. The PPUC expects the Company and the other interested parties to address the effect of the federal tax rate reduction on the rates charged during the rate case review, including whether a retroactive surcharge or other measure is necessary to account for the tax rate change that became effective January 1, 2018. The Company addressed this issue in its tentative settlement agreement and has agreed to return $2,117 to ratepayers as a reconcilable negative surcharge to bills generated from March 2019 through February 2020. Based on this agreement, the Company recorded a regulatory liability of $1,314 as of September 30, 2018 by reducing revenue by $1,191 for the nine months ended September 30, 2018 including the gross-up of revenue necessary to return, in rates, the effect of this temporary tax difference, and reclassified $123 from excess accumulated deferred income taxes recorded at December 31, 2017. The settlement agreement is subject to PPUC approval, but the Company does not expect this treatment to change in future periods.

11. Pensions

Components of Net Periodic Pension Cost

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
Service cost	$253	$270	$761	$810
Interest cost	378	398	1,136	1,194
Expected return on plan assets	(698)	(599)	(2,094)	(1,796)
Amortization of actuarial loss	102	123	305	369
Amortization of prior service cost	(3)	(3)	(10)	(9)
Rate-regulated adjustment	543	386	1,627	1,157
Net periodic pension expense	$575	$575	$1,725	$1,725

Pension service cost is recorded in operating expenses. All other components of net periodic pension cost are recorded as other pension costs in other income (expenses).

Employer Contributions

The Company previously disclosed in its financial statements for the year ended December 31, 2017 that it expected to contribute $2,300 to its pension plans in 2018. For the nine months ended September 30, 2018, contributions of $1,725 have been made. The Company expects to contribute the remaining $575 during the final quarter of 2018.

12. Stock-Based Compensation

On May 2, 2016, the Company's stockholders approved The York Water Company Long-Term Incentive Plan, or LTIP. The LTIP was adopted to provide the incentive of long-term stock-based awards to officers, directors and key employees. The LTIP provides for the granting of nonqualified stock options, incentive stock options, stock appreciation rights, performance restricted stock grants and units, restricted stock grants and units, and unrestricted stock grants. A maximum of 100,000 shares of common stock may be issued under the LTIP over the ten-year life of the plan. The maximum number of shares of common stock subject to awards that may be granted to any participant

in any one calendar year is 2,000. Shares of common stock issued under the LTIP may be treasury shares or authorized but unissued shares. The LTIP will be administered by the Compensation Committee of the Board, or the full Board, provided that the full Board will administer the LTIP as it relates to awards to non-employee directors of the Company. The Company filed a registration statement with the Securities and Exchange Commission on May 11, 2016 covering the offering of stock under the LTIP. The LTIP was effective on July 1, 2016.

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On May 7, 2018, the Board awarded stock to non-employee directors effective May 7, 2018. This stock award vested immediately. On May 7, 2018, the Compensation Committee awarded restricted stock to officers and key employees effective May 7, 2018. This restricted stock award vests ratably over three years beginning May 7, 2018.

The restricted stock awards provide the grantee with the rights of a shareholder, including the right to receive dividends and to vote such shares, but not the right to sell or otherwise transfer the shares during the restriction period. As a result, the awards are included in common shares outstanding on the balance sheet. Restricted stock awards result in compensation expense valued at the fair market value of the stock on the date of the grant and are amortized ratably over the restriction period.

The following tables summarize the stock grant amounts and activity for the nine months ended September 30, 2018.

	Number of Shares	Grant Date Weighted Average Fair Value
Nonvested at beginning of the period	1,127	$37.76
Granted	3,743	$32.70
Vested	(1,624)	$33.56
Forfeited	-	-
Nonvested at end of the period	3,246	$34.03

For the three months ended September 30, 2018 and 2017, the statement of income includes $11 and $7 of stock-based compensation, respectively, and related recognized tax benefits of $3 in each period. For the nine months ended September 30, 2018 and 2017, the statement of income includes $68 and $41 of stock-based compensation and related recognized tax benefits of $19 and $17, respectively. The total fair value of the shares vested in the nine months ended September 30, 2018 was $55. Total stock based compensation related to nonvested awards not yet recognized is $110 which will be recognized over the remaining three year vesting period.

13. Income Taxes

The 2017 Tax Act among other things, reduces the federal statutory corporate tax rate for tax years beginning in 2018 from 34% to 21%, eliminates certain deductions, and eliminates bonus depreciation on qualified water and wastewater property.

The Company filed for a change in accounting method under the Internal Revenue Service tangible property regulations effective in 2014. Under the change in accounting method, the Company is permitted to deduct the costs of certain asset improvements that were previously being capitalized and depreciated for tax purposes as an expense on its income tax return. This ongoing deduction results in a reduction in the effective income tax rate, a net reduction in income tax expense, and a reduction in the amount of income taxes currently payable. It also results in increases to deferred tax liabilities and regulatory assets representing the appropriate book and tax basis difference on capital additions.

The Company's effective tax rate was 19.6% and 22.0% for the three months ended September 30, 2018 and 2017, respectively, and 17.6% and 26.7% for the nine months ended September 30, 2018 and 2017, respectively. The Company's effective tax rate is lower for the three and nine months ended September 30, 2018 compared to 2017, due to the lower Federal income tax rate. The level of eligible asset improvements placed in service was lower for three months ended September 30, 2018 but higher for the nine months ended September 30, 2018 as compared to 2017. The effective tax rate will vary depending on the level of eligible asset improvements that are placed in service each period and the full implementation of the 2017 Tax Act.

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14. Impact of Recent Accounting Pronouncements

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-09, Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting. This ASU clarifies when a change to the terms or conditions of a share-based payment award must be accounted for as a modification. The guidance requires modification accounting if the fair value, vesting condition or the classification of the award is not the same immediately before and after a change to the terms and conditions of the award. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption available. The Company adopted the standard on January 1, 2018. The adoption did not have an impact on its financial position, results of operations and cash flows.

In March 2017, the FASB issued ASU No. 2017-07, Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post-Retirement Benefit Cost. This ASU requires employers to report the service cost component in the same line item as other compensation costs arising from services rendered by employees during the reporting period. The other components of net benefit costs will be presented in the income statement separately from the service cost and outside of a subtotal of income from operations. In addition, only the service cost component may be eligible for capitalization where applicable. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption available. The Company adopted the standard on January 1, 2018. The adoption of this standard resulted in the reclassification on the statements of income of the components of net periodic pension cost other than service cost from operating expenses to other pension costs in other income (expenses) of $322 and $305 for the three months ended September 30, 2018 and 2017, respectively, and $964 and $915 for the nine months ended September 30, 2018 and 2017, respectively.

In August 2016, the FASB issued ASU No. 2016-15, Statement of Cash Flows (Topic 320): Classification of Certain Cash Receipts and Cash Payments. This ASU clarifies how certain cash receipts and payments should be presented in the statement of cash flows. The ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption available. The Company adopted the standard on January 1, 2018. The adoption did not have an impact on its financial position, results of operations and cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which replaces the existing guidance in Accounting Standard Codification 840 – Leases. This ASU requires a dual approach for lessee accounting under which a lessee would account for leases as finance leases or operating leases. Both finance leases and operating leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability. For finance leases, the lessee would recognize interest expense and amortization of the right-of-use asset, and for operating leases, the lessee would recognize a straight-line total lease expense. This ASU is effective for fiscal years beginning after December 15, 2018, and for interim periods within those fiscal years. The Company has not identified any material leases under this standard, so it expects the adoption will not have a material effect on its financial position, results of operations and cash flows. The Company will continue to evaluate ASU No. 2016-02 through the date of adoption.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers. This ASU supersedes the revenue recognition requirements in Accounting Standards Codification 605—Revenue Recognition and most industry-specific guidance throughout the Codification. The standard requires that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, deferring the effective date of this amendment for public companies by one year to fiscal years beginning after December 15, 2017. Early adoption was permitted for fiscal years beginning after December 15, 2016, the original effective date. The standard permits the use of either a retrospective or cumulative effect transition method. The Company adopted the standard on January 1, 2018. The Company determined that the revenue recognized under the new standard is materially the

same as it recognized under previous guidance. In addition, the Company determined the timing of when the revenue is recognized is materially the same as it recognized under previous guidance. As a result, there is no impact on its results of operations or cash flows. The Company has complied with the new disclosure requirements included in this standard which does have a significant impact on its disclosures. The Company selected the modified retrospective transition method, but based on the determination that there was no change to its revenue recognition, no cumulative effect of the changes was required to be recorded.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (In thousands of dollars, except per share amounts)

Forward-looking Statements

Certain statements contained in this report on Form 10-Q constitute "forward-looking statements" within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. Words such as "may," "should," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements. These forward-looking statements include certain information relating to the Company's business strategy; statements including, but not limited to:

- the amount and timing of rate changes and other regulatory matters including the recovery of costs recorded as regulatory assets;
- expected profitability and results of operations;
- trends;
- goals, priorities and plans for, and cost of, growth and expansion;
- strategic initiatives;
- availability of water supply;
- water usage by customers; and
- the ability to pay dividends on common stock and the rate of those dividends.

The forward-looking statements in this report reflect what the Company currently anticipates will happen. What actually happens could differ materially from what it currently anticipates will happen. The Company does not intend to make a public announcement when forward-looking statements in this report are no longer accurate, whether as a result of new information, what actually happens in the future or for any other reason. Important matters that may affect what will actually happen include, but are not limited to:

- changes in weather, including drought conditions or extended periods of heavy rainfall;
- levels of rate relief granted;
- the level of commercial and industrial business activity within the Company's service territory;
- construction of new housing within the Company's service territory and increases in population;
- changes in government policies or regulations, including the tax code;
- the ability to obtain permits for expansion projects;
- material changes in demand from customers, including the impact of conservation efforts which may impact the demand of customers for water;
- changes in economic and business conditions, including interest rates;
- loss of customers;
- changes in, or unanticipated, capital requirements;
- the impact of acquisitions;
- changes in accounting pronouncements;
- changes in the Company's credit rating or the market price of its common stock;
- the ability to obtain financing; and
- other matters set forth in Item 1A, "Risk Factors" of the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

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General Information

The primary business of the Company is to impound, purify to meet or exceed safe drinking water standards and distribute water. The Company also owns and operates three wastewater collection systems and two treatment systems. The Company operates within its franchised water territory, which covers 39 municipalities within York County, Pennsylvania and nine municipalities within Adams County, Pennsylvania. The Company's wastewater operations include portions of four municipalities in York County, Pennsylvania. The Company is regulated by the Pennsylvania Public Utility Commission, or PPUC, for both water and wastewater in the areas of billing, payment procedures, dispute processing, terminations, service territory, debt and equity financing and rate setting. The Company must obtain PPUC approval before changing any practices associated with the aforementioned areas.

Water service is supplied through the Company's own distribution system. The Company obtains the bulk of its water supply from both the South Branch and East Branch of the Codorus Creek, which together have an average daily flow of 73.0 million gallons. This combined watershed area is approximately 117 square miles. The Company has two reservoirs, Lake Williams and Lake Redman, which together hold up to approximately 2.2 billion gallons of water. The Company supplements its reservoirs with a 15-mile pipeline from the Susquehanna River to Lake Redman which provides access to an additional supply of 12.0 million gallons of untreated water per day. The Company also owns seven wells which are capable of providing a safe yield of approximately 366,000 gallons per day to supply water to its customers in Carroll Valley Borough and Cumberland Township, Adams County. As of September 30, 2018, the Company's average daily availability was 35.4 million gallons, and average daily consumption was approximately 19.5 million gallons. The Company's service territory had an estimated population of 198,000 as of December 31, 2017. Industry within the Company's service territory is diversified, manufacturing such items as fixtures and furniture, electrical machinery, food products, paper, ordnance units, textile products, air conditioning systems, laundry detergent, barbells and motorcycles.

The Company's water business is somewhat dependent on weather conditions, particularly the amount and timing of rainfall. Revenues are particularly vulnerable to weather conditions in the summer months. Prolonged periods of hot and dry weather generally cause increased water usage for watering lawns, washing cars, and keeping golf courses and sports fields irrigated. Conversely, prolonged periods of dry weather could lead to drought restrictions from governmental authorities. Despite the Company's adequate water supply, customers may be required to cut back water usage under such drought restrictions which would negatively impact revenues. The Company has addressed some of this vulnerability by instituting minimum customer charges which are intended to cover fixed costs of operations under all likely weather conditions.

The Company's business does not require large amounts of working capital and is not dependent on any single customer or a very few customers for a material portion of its business. Increases in revenues are generally dependent on the Company's ability to obtain rate increases from the PPUC in a timely manner and in adequate amounts and to increase volumes of water sold through increased consumption and increases in the number of customers served. The Company continuously looks for water and wastewater acquisition and expansion opportunities both within and outside its current service territory as well as additional opportunities to enter into bulk water contracts with municipalities and other entities to supply water.

The Company has agreements with several municipalities to provide sewer billing and collection services. The Company also has a service line protection program on a targeted basis in order to further diversify its business. Under this optional program, customers pay a fixed monthly fee, and the Company will repair or replace damaged customer service lines, as needed, subject to an annual maximum dollar amount. Opportunities to expand both initiatives are being pursued.

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Results of Operations

Three Months Ended September 30, 2018 Compared
With Three Months Ended September 30, 2017

Net income for the third quarter of 2018 was $3,800, a decrease of $131, or 3.3%, from net income of $3,931 for the same period of 2017. The primary contributing factors to the decrease were a decreased allowance for funds used during construction, higher interest on debt, and increased operating expenses, which were partially offset by lower income taxes.

Operating revenues for the third quarter of 2018 increased $6, from $12,692 for the three months ended September 30, 2017 to $12,698 for the corresponding 2018 period. The primary reason for the increase was revenues from the distribution system improvement charge, or DSIC, allowed by the PPUC of $107. Growth in the customer base also added to revenues. The average number of total customers served in the 2018 period increased as compared to the 2017 period by 577 customers, from 69,578 to 70,155 customers. The PPUC, in conjunction with its review of the effects of the Tax Cuts and Jobs Act of 2017, or the 2017 Tax Act, issued an order which directs utilities with pending rate cases, including the Company, to address the issues related to the 2017 Tax Act in the context of an overall review of the Company's rates and rate structure in lieu of any immediate action. The Company has agreed through its tentative settlement agreement to give the benefit back to customers. (See Note 10 to the financial statements included herein for additional details.) On this basis, the Company has reduced revenue by $208 by recording a regulatory liability for the portion it has agreed to give back to customers including the gross-up of revenue necessary to return, in rates, the effect of the temporary tax difference. Lower per capita consumption also affected revenues. Total per capita consumption for the 2018 period was approximately 0.1% lower than the same period last year.

Operating expenses for the third quarter of 2018 increased $29, or 0.5%, from $6,240 for the third quarter of 2017 to $6,269 for the corresponding 2018 period. The increase was primarily due to higher expenses of approximately $73 for depreciation, $50 for wages and employee benefits, $32 for purchased power, and $22 for water treatment. Other expenses increased by a net of $2. The increase was partially offset by reduced expenses of approximately $111 for West York Borough wastewater operating expenses and $39 for health insurance.

Interest on debt for the third quarter of 2018 increased $31, or 2.3%, from $1,346 for the third quarter of 2017 to $1,377 for the corresponding 2018 period. The increase was primarily due to interest on line of credit borrowings. The average debt outstanding under the lines of credit was $7,355 for the third quarter of 2018 and $4,944 for the third quarter of 2017. The weighted average interest rate on the lines of credit was 3.29% and 2.44%, for the quarters ended September 30, 2018 and 2017, respectively.

Allowance for funds used during construction decreased $258, from $311 in the third quarter of 2017 to $53 in the corresponding 2018 period, due to a planned lower volume of eligible construction. Eligible 2017 construction expenditures included an investment in an additional raw water pumping station and force main project.

Other income (expenses), net for the third quarter of 2018 reflects decreased expenses of $19 as compared to the same period of 2017. Higher earnings on life insurance policies of approximately $9 and lower retirement expenses of $9 were the primary reasons for the decrease. Other expenses decreased by a net of $1.

Income taxes for the third quarter of 2018 decreased $179, or 16.2%, compared to the same period of 2017 due to the effects of the 2017 Tax Act, partially offset by a lower volume of asset improvements eligible for the tax benefit under the Internal Revenue Service, or IRS, tangible property regulations, or TPR. (See the Income Taxes, Deferred Income Taxes and Uncertain Tax Positions section included herein for additional details.) The Company's effective tax rate was 19.6% for the third quarter of 2018 and 22.0% for the third quarter of 2017.

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Nine Months Ended September 30, 2018 Compared
With Nine Months Ended September 30, 2017

Net income for the first nine months of 2018 was $9,699, an increase of $252, or 2.7%, from net income of $9,447 for the same period of 2017. The primary contributing factors to the increase were lower income taxes and higher operating revenues, which were partially offset by increased operating expenses, a decreased allowance for funds used during construction, and higher interest on debt.

Operating revenues for the first nine months of 2018 increased $132, or 0.4%, from $36,236 for the first nine months of 2017 to $36,368 for the corresponding 2018 period. The primary reasons for the increase were revenues from the DSIC of $961 and the 2017 West York Borough wastewater acquisition of $126. Growth in the water customer base also added to revenues. The average number of water customers served in the 2018 period increased as compared to the 2017 period by 687 customers, from 66,977 to 67,664 customers. The average number of wastewater customers served in the 2018 period increased as compared to the 2017 period by 369 customers, from 1,920 to 2,289 customers, due to the acquisition. The increase in revenue was partially offset by lower per capita consumption. Total per capita consumption for the nine months of 2018 was approximately 0.5% lower than the same period last year. The Company reduced revenue by $1,191 for year-to-date period by recording a regulatory liability for the benefit of the lower tax rate effective January 1, 2018 resulting from the enactment of the 2017 Tax Act, which it has agreed to give back to customers including the gross-up of revenue necessary to return, in rates, the effect of the temporary tax difference. The settlement agreement is subject to PPUC approval, but the Company does not expect this treatment to change in future periods. For the remainder of the year, the Company expects revenues to increase slightly due to the DSIC and the continued increase in the number of water and wastewater customers from and growth within the Company's service territory. Other regulatory actions, including the impact of the 2017 Tax Act, and weather patterns could impact results.

Operating expenses for the first nine months of 2018 increased $693, or 3.7%, from $18,788 for the first nine months of 2017 to $19,481 for the corresponding 2018 period. The increase was primarily due to higher expenses of approximately $171 for depreciation, $165 for distribution system maintenance, and $151 for West York Borough wastewater operating expenses. Also adding to the increase were higher expenses of $79 for wages and employee benefits, $72 for water treatment, $59 for information technology, and $48 for a consulting engagement. Other expenses increased by a net of $81. The increase was partially offset by lower expenses of approximately $81 for health insurance, and $52 for legal expenses due to the absence of expenses for a tariff modification and lead disclosure. For the remainder of the year, the Company expects depreciation expense to continue to rise due to additional investment in utility plant, and other expenses to increase at a moderate rate as costs to treat water and to maintain and extend the distribution system continue to rise and the full cost to operate the West York Borough wastewater collection system is incurred. Overall, increases in operating expenses are expected to outpace growth in revenue in the short-term.

Interest on debt for the first nine months of 2018 increased $129, or 3.2%, from $3,988 for the first nine months of 2017 to $4,117 for the corresponding 2018 period. The increase was primarily due to interest on line of credit borrowings. The average debt outstanding under the lines of credit was $6,922 for the first nine months of 2018 and $2,124 for the first nine months of 2017. The weighted average interest rate on the lines of credit was 3.10% and 1.51%, for the nine months ended September 30, 2018 and 2017, respectively. Interest expense for the remainder of the year is expected to be higher due to continued borrowings under lines of credit and increases in short-term interest rates.

Allowance for funds used during construction decreased $454, from $630 for the first nine months of 2017 to $176 in the corresponding 2018 period, due to a planned lower volume of eligible construction. Eligible 2017 construction expenditures included an investment in an additional raw water pumping station and force main project. Allowance for funds used during construction for the remainder of the year is expected to remain consistent with the first nine

months of 2018 based on a projected increase in the amount of eligible construction offset by the completion of the raw water pumping station project.

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Other income (expenses), net for the first nine months of 2018 reflects decreased expenses of $80 as compared to the same period of 2017. Higher earnings on life insurance policies of approximately $67 and lower retirement expenses of $8 were the primary reasons for the decrease. Other expenses decreased by a net of $16. The decreased expenses were partially offset by higher charitable contributions of $11. For the remainder of the year, other income (expenses) will be largely determined by the change in market returns and discount rates for retirement programs and related assets.

Income taxes for the nine months of 2018 decreased $1,365, or 39.7%, compared to the same period of 2017 due to the effects of the 2017 Tax Act, and a higher volume of asset improvements eligible for the tax benefit under the IRS TPR. The Company's effective tax rate was 17.6% for the first nine months of 2018 and 26.7% for the first nine months of 2017. The Company's effective tax rate for the remainder of 2018 will largely be determined by the level of eligible asset improvements expensed for tax purposes that would have been capitalized for tax purposes prior to the implementation of the TPR and the full implementation of the 2017 Tax Act.

Rate Matters

See Note 10 to the financial statements included herein for a discussion of rate matters.

Effective October 1, 2018, the Company's tariff included a DSIC on revenues of 4.82%.

The benefit from the implementation of the IRS TPR and the 2017 Tax Act impacts the rate matters of the Company. The currently pending rate case settlement took into account the lower income taxes which resulted from the implementation of the IRS TPR, as well as the lower income taxes from the 2017 Tax Act, effectively reducing the amount of revenue required and lowering the Company's rate increase request.

Acquisitions and Growth

On October 8, 2013, the Company signed an agreement to purchase the wastewater assets of SYC WWTP, L.P. in Shrewsbury and Springfield Townships, York County, Pennsylvania. Completion of the acquisition is contingent upon receiving approval from all required regulatory authorities. Closing is expected in 2019, at which time the Company will add approximately 30 commercial and industrial wastewater customers.

On October 25, 2018, the Company signed an agreement to purchase the wastewater collection assets of the Jacobus Borough Sewer Authority in York County, Pennsylvania. Completion of the acquisition is contingent upon receiving approval from all required regulatory authorities. Closing is expected in the third quarter of 2019 at which time the Company will add approximately 700 wastewater customers.

In total, these acquisitions are expected to be immaterial to Company results. The Company is also pursuing other bulk water contracts and acquisitions in and around its service territory to help offset any further declines in per capita water consumption and to grow its business.

On May 10, 2017, the Company signed an emergency interconnect agreement with Dallastown-Yoe Water Authority. The effectiveness of this agreement is contingent upon receiving approval from all required regulatory authorities. Approval is expected to be granted in 2018 at which time the Company will begin construction of a water main extension to a single point of interconnection and either supply a minimum agreed upon amount of water to the authority, receive a payment in lieu of water, or provide water during an emergency, at current tariff rates.

Capital Expenditures

For the nine months ended September 30, 2018, the Company invested $10,664 in construction expenditures for routine items and the completion of a raw water pumping station, as well as various replacements and improvements to infrastructure. The Company was able to fund construction expenditures using internally-generated funds, line of credit borrowings, proceeds from its stock purchase plans and customer advances and contributions.

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The Company anticipates construction expenditures for the remainder of 2018 of approximately $6,000 exclusive of any potential acquisitions not yet approved. In addition to routine transmission and distribution projects, a portion of the anticipated expenditures will be for additional main extensions, dam improvements, expansion of a wastewater treatment plant, and various replacements and improvements to infrastructure. The Company intends to use primarily internally-generated funds for its anticipated construction and fund the remainder through line of credit borrowings, proceeds from its stock purchase plans and customer advances and contributions. Customer advances and contributions are expected to account for between 5% and 10% of funding requirements during the remainder of 2018. The Company believes it will have adequate credit facilities and access to the capital markets, if necessary, to meet its anticipated capital needs in 2018 and 2019.

Liquidity and Capital Resources

Cash

The Company manages its cash through a cash management account that is directly connected to one of its lines of credit. Excess cash generated automatically pays down outstanding borrowings under the line of credit arrangement. If there are no outstanding borrowings, the cash is used as an earnings credit to reduce banking fees. Likewise, if additional funds are needed beyond what is generated internally for payroll, to pay suppliers, to fund capital expenditures, or to pay debt service, funds are automatically borrowed under the line of credit. The Company fully utilized its cash on hand during 2017 primarily as a result of higher capital expenditures and repurchase of common stock. Subsequently, the Company has borrowed $6,502 on its lines of credit and incurred a cash overdraft on its cash management account of $795 as of September 30, 2018. The cash management facility and other lines of credit are expected to provide the necessary liquidity and funding for the Company's operations, capital expenditures, acquisitions and potential buybacks of stock for the foreseeable future.

Accounts Receivable

The accounts receivable balance tends to follow the change in revenues but is also affected by the timeliness of payments by customers and the level of the reserve for doubtful accounts. In the three months ended September 30, 2018, higher revenue as compared to the end of 2017 resulted in an increase in accounts receivable as reflected on the statement of cash flows. A reserve is maintained at a level considered adequate to provide for losses that can be reasonably anticipated based on inactive accounts with outstanding balances. Management periodically evaluates the adequacy of the reserve based on past experience, agings of the receivables, adverse situations that may affect a customer's ability to pay, current economic conditions, and other relevant factors. If the status of these factors deteriorates, the Company may incur additional expenses for uncollectible accounts and experience a reduction in its internally-generated funds.

Internally-generated Funds

The amount of internally-generated funds available for operations and construction depends on the Company's ability to obtain timely and adequate rate relief, changes in regulations including taxes, customers' water usage, weather conditions, customer growth and controlled expenses. During the first nine months of 2018, the Company generated $14,410 internally from operations as compared to the $15,416 it generated during the first nine months of 2017 primarily due to higher income taxes paid.

Credit Lines

Historically, the Company has borrowed $15,000 to $20,000 under its lines of credit before refinancing with long-term debt or equity capital. As of September 30, 2018, the Company maintained unsecured lines of credit aggregating $41,500 with four banks at interest rates of LIBOR plus 1.15% to LIBOR plus 1.25%. The Company had $6,502 in outstanding borrowings under its lines of credit as of September 30, 2018. The weighted average interest rate on line of credit borrowings as of September 30, 2018 was 3.35%. In the second quarter of 2018, the Company renewed its $13,000 and $11,000 committed lines of credit and extended the maturity date of each to May 2020, it renewed its $10,000 committed line of credit and extended the maturity date to September 2019, and it renewed its

$7,500 line of credit, lowering the interest rate to LIBOR plus 1.15% and extended the maturity date to June 2020.

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The Company has taken steps to manage the risk of reduced credit availability. It has maintained committed lines of credit that cannot be called on demand and obtained a 2-year revolving maturity on most of its facilities. There is no guarantee that the Company will be able to obtain sufficient lines of credit with favorable terms in the future. If the Company is unable to obtain sufficient lines of credit or to refinance its line of credit borrowings with long-term debt or equity when necessary, it may have to eliminate or postpone capital expenditures. Management believes the Company will have adequate capacity under its current lines of credit to meet anticipated financing needs throughout 2018 and 2019.

Long-term Debt

The Company's loan agreements contain various covenants and restrictions. Management believes it is currently in compliance with all of these restrictions. See Note 4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017 for additional information regarding these restrictions.

The Company's total long-term debt as a percentage of the total capitalization, defined as total common stockholders' equity plus total long-term debt, was 42.8% as of September 30, 2018 and 43.7% as of December 31, 2017. The Company began using its lines of credit in 2017 and expects the debt to total capitalization ratio to increase with additional line of credit borrowings. The Company expects to allow the debt percentage to trend upward until it approaches fifty percent before considering additional equity. A debt to total capitalization ratio between forty-six and fifty percent has historically been acceptable to the PPUC in rate filings. Due to its ability to generate more cash internally, the Company has been able to keep its ratio below fifty percent.

Income Taxes, Deferred Income Taxes and Uncertain Tax Positions

The 2017 Tax Act, among other things, reduces the federal statutory corporate tax rate for tax years beginning in 2018 from 34% to 21%, eliminates certain deductions, and eliminates bonus depreciation on qualified water and wastewater property.

The Company filed for a change in accounting method under the IRS TPR effective in 2014. Under the change in accounting method, the Company is permitted to deduct the costs of certain asset improvements that were previously being capitalized and depreciated for tax purposes as an expense on its income tax return. This ongoing deduction results in a reduction in the effective income tax rate, a net reduction in income tax expense, and a reduction in the amount of income taxes currently payable. It also results in increases to deferred tax liabilities and regulatory assets representing the appropriate book and tax basis difference on capital additions.

The Company's effective tax rate will largely be determined by the level of eligible asset improvements expensed for tax purposes that would have been capitalized for tax purposes prior to the implementation of TPR and the full implementation of the 2017 Tax Act.

The Company has a substantial deferred income tax asset primarily due to the excess accumulated deferred income taxes on accelerated depreciation from the 2017 Tax Act and the differences between the book and tax balances of the pension and deferred compensation plans. The Company does not believe a valuation allowance is required due to the expected generation of future taxable income during the periods in which those temporary differences become deductible.

The Company has seen an increase in its deferred income tax liability amounts primarily as a result of the accelerated and bonus depreciation deduction available for federal tax purposes which creates differences between book and tax depreciation expense. The Company expects this trend to continue as it makes significant investments in capital expenditures subject to accelerated depreciation or TPR, but at a more modest rate due to the elimination of bonus depreciation on qualified water and wastewater property.

The Company has determined there are no uncertain tax positions that require recognition as of September 30, 2018.

Common Stock

Common stockholders' equity as a percent of the total capitalization was 57.2% as of September 30, 2018 and 56.3% as of December 31, 2017. The volume of share repurchases and line of credit borrowings, among other things, could reduce this percentage in the future. It is the Company's general intent to target a ratio between fifty and fifty-four percent.

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Credit Rating
On February 9, 2018, Standard & Poor's affirmed the Company's credit rating at A-, with a stable outlook and adequate liquidity. The Company's ability to maintain its credit rating depends, among other things, on adequate and timely rate relief, which it has been successful in obtaining, its ability to fund capital expenditures in a balanced manner using both debt and equity and its ability to generate cash flow. The Company's objectives are to continue to maximize its funds provided by operations and maintain a strong capital structure in order to be able to attract capital.

Environmental Matters

The Company entered into a consent order agreement with the Pennsylvania Department of Environmental Protection in December 2016 after the Company determined it exceeded the action level for lead as established by the Lead and Copper Rule, or LCR, issued by the U.S. Environmental Protection Agency. Under the agreement, the Company committed to exceed the LCR replacement schedule by replacing all of the remaining known company-owned lead service lines within four years from the agreement. The cost for these service line replacements was approximately $2,059 through September 30, 2018 and is included in utility plant. Additional costs of approximately $112 are expected to complete the replacements and have been integrated into the Company's annual capital budgets.

Due to its exceedance in 2016, the Company was required under the LCR to complete two rounds of compliance testing at the customer's tap in 2017. The water samples did not exceed the action level either time. As a result, the Company was able to reduce its monitoring to annual compliance tests beginning in 2018. The Company completed its compliance testing at the customer's tap in 2018 and the water samples did not exceed the action level. In addition, the Company is performing in excess of the required actions under the LCR. Specifically, the Company is providing the affected customers with a free water test and a 200 gallon per month credit to flush their line in order to reduce any lead content until their lead service line has been replaced. The cost of the water tests and flushing credits was $1 and $2 for the three months ended September 30, 2018 and 2017, respectively, and $4 and $13 for the nine months ended September 30, 2018 and 2017, respectively. Additional amounts for water tests and flushing credits are not expected to have a material impact on the financial position of the Company.

The Company was granted approval by the Pennsylvania Public Utility Commission, or PPUC, to modify its tariff to include the cost of the replacement of lead customer-owned service lines that are discovered when the Company replaces its lead service lines, and to include the cost of the annual replacement of up to 400 lead customer-owned service lines whenever they are discovered, regardless of the material used for the company-owned service line over nine years from the agreement. The tariff modification allows the Company to replace customer-owned service lines at its own initial cost. The Company will record the costs as a regulatory asset to be recovered in future base rates to customers, over a reasonable period of at least four but not more than six years. The cost for the customer-owned lead service line replacements under the four-year tariff modification was approximately $264 through September 30, 2018 and is included as a regulatory asset. Additional replacements are expected to be approximately $13 under the four-year tariff modification, assuming the average percentage of customer-owned lead service lines that were replaced when company-owned lead service lines were replaced through September 30, 2018 remains consistent over the entire replacement period. The Company is unable to predict how many lead customer-owned service lines are in use, and, therefore, its current estimate of $1,040 for replacements under the nine-year tariff modification is subject to adjustment as more facts become available.

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Critical Accounting Estimates

The methods, estimates and judgments the Company used in applying its accounting policies have a significant impact on the results reported in its financial statements. The Company's accounting policies require management to make subjective judgments because of the need to make estimates of matters that are inherently uncertain. The Company's most critical accounting estimates include regulatory assets and liabilities, revenue recognition and accounting for its pension plans. There has been no significant change in accounting estimates or the method of estimation during the quarter ended September 30, 2018.

Off-Balance Sheet Arrangements

The Company does not use off-balance sheet transactions, arrangements or obligations that may have a material current or future effect on financial condition, results of operations, liquidity, capital expenditures, capital resources or significant components of revenues or expenses. The Company does not use securitization of receivables or unconsolidated entities. For risk management purposes, the Company uses a derivative financial instrument, an interest rate swap agreement discussed in Note 6 to the financial statements included herein. The Company does not engage in trading or other risk management activities, does not use other derivative financial instruments for any purpose, has no material lease obligations, no guarantees and does not have material transactions involving related parties.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company's operations are exposed to market risks primarily as a result of changes in interest rates under its lines of credit. The Company has unsecured lines of credit with four banks having a combined maximum availability of $41,500. The first line of credit, in the amount of $13,000, is a committed line of credit with a revolving 2-year maturity (currently May 2020), and carries an interest rate of LIBOR plus 1.20%. The second line of credit, in the amount of $11,000, is a committed line of credit, which currently matures in May 2020 and carries an interest rate of LIBOR plus 1.25%. The third line of credit, in the amount of $7,500, is a committed line of credit, which matures in June 2020 and carries an interest rate of LIBOR plus 1.15%. The fourth line of credit, in the amount of $10,000, is a committed line of credit, which matures in September 2019 and carries an interest rate of LIBOR plus 1.20%. The Company had $3,502 in outstanding borrowings under its $13,000 line of credit, $2,000 in outstanding borrowings under its $7,500 line of credit, and $1,000 in outstanding borrowings under its $10,000 line of credit as of September 30, 2018. The weighted average interest rate on line of credit borrowings as of September 30, 2018 was 3.35%. Other than lines of credit, the Company has long-term fixed rate debt obligations that are not subject to interest rate risk as shown in Note 5 to the financial statements included herein, and a variable rate PEDFA loan agreement, which is subject to minimal market risk, described below.

In May 2008, the PEDFA issued $12,000 aggregate principal amount of PEDFA Exempt Facilities Revenue Bonds, Series A (the "2008 Bonds"). The proceeds of this bond issue were used to refund the $12,000 PEDFA Exempt Facilities Revenue Bonds, Series B of 2004 which were refunded due to bond insurer downgrading issues. The PEDFA then loaned the proceeds to the Company pursuant to a variable interest rate loan agreement with a maturity date of October 1, 2029. The interest rate under this loan agreement averaged 1.39% during the three months ended September 30, 2018 and 1.38% during the nine months ended September 30, 2018. In connection with the loan agreement, the Company retained its interest rate swap agreement whereby the Company exchanged its floating rate obligation for a fixed rate obligation. The purpose of the interest rate swap is to manage the Company's exposure to fluctuations in the interest rate. If the interest rate swap agreement works as intended, the receive rate on the swap should approximate the variable rate the Company pays on the PEDFA Series A 2008 Bond Issue, thereby minimizing its risk. See Note 6 to the financial statements included herein for additional information regarding the interest rate swap.

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In addition to the interest rate swap agreement, the Company entered into a Reimbursement, Credit and Security Agreement with PNC Bank, National Association ("the Bank"), dated as of May 1, 2008, in order to enhance the marketability of and to minimize the interest rate on the 2008 Bonds. This agreement provides for a direct pay letter of credit issued by the Bank to the trustee for the 2008 Bonds. The current expiration date of the letter of credit is June 30, 2020. It is reviewed annually for a potential extension of the expiration date. The Company's responsibility under this agreement is to reimburse the Bank on a timely basis for interest payments made to the bondholders and for any tendered bonds that could not be remarketed. The Company has fourteen months from the time bonds are tendered to reimburse the Bank. If the direct pay letter of credit is not renewed, the Company would be required to pay the Bank immediately for any tendered bonds and reclassify a portion of the bonds as current liabilities. In addition, the interest rate swap agreement would terminate causing a potential payment by the Company to the counterparty. Both the letter of credit and the swap agreement can potentially be transferred upon this type of event.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's President and Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based upon this evaluation, the Company's President and Chief Executive Officer along with the Chief Financial Officer concluded that the Company's disclosure controls and procedures as of the end of the period covered by this report are effective such that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) accumulated and communicated to the Company's management, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance, however, that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

No change in the Company's internal control over financial reporting occurred during the Company's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 6. Exhibits

Exhibit No.	Description
3	Amended and Restated Articles of Incorporation. Incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 4, 2010.
3.1	Amended and Restated By-Laws. Incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 26, 2012.
31.1	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934.
32.1	

	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE YORK WATER COMPANY

Date: November 2, 2018	/s/ Jeffrey R. Hines Jeffrey R. Hines Principal Executive Officer
Date: November 2, 2018	/s/ Matthew E. Poff Matthew E. Poff Principal Financial and Accounting Officer

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