ASHLAND INC.
Form 10-Q
August 01, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from _________ to ___________

Commission file number 1-32532

ASHLAND INC.

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

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

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large Accelerated Filer þ	Accelerated Filer o
Non-Accelerated Filer o (Do not check if a smaller reporting company.)	Smaller Reporting Company o

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

At June 30, 2014, there were 78,052,592 shares of Registrant's Common Stock outstanding.

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
STATEMENTS OF CONSOLIDATED COMPREHENSIVE INCOME

	Three months ended June 30		Nine months ended June 30	
(In millions except per share data - unaudited)	2014	2013	2014	2013
Sales	$1,605	$1,624	$4,583	$4,621
Cost of sales	1,161	1,192	3,377	3,368
Gross profit	444	432	1,206	1,253
Selling, general and administrative expense	286	257	891	723
Research and development expense	23	26	87	79
Equity and other income (loss)	8	26	(6)	55
Operating income	143	175	222	506
Net interest and other financing expense	41	51	124	239
Net gain (loss) on divestitures	(3)	(1)	3	6
Income from continuing operations before income taxes	99	123	101	273
Income tax expense - Note I	28	34	3	55
Income from continuing operations	71	89	98	218
Income from discontinued operations (net of tax) - Note C	28	35	67	60
Net income	$99	$124	$165	$278
PER SHARE DATA				
Basic earnings per share - Note L				
Income from continuing operations	$0.91	$1.14	$1.26	$2.77
Income from discontinued operations	0.36	0.44	0.86	0.76
Net income	$1.27	$1.58	$2.12	$3.53
Diluted earnings per share - Note L				
Income from continuing operations	$0.90	$1.12	$1.24	$2.72
Income from discontinued operations	0.35	0.43	0.85	0.75
Net income	$1.25	$1.55	$2.09	$3.47
DIVIDENDS PAID PER COMMON SHARE	$0.34	$0.34	$1.02	$0.79
COMPREHENSIVE INCOME (LOSS)				
Net income	$99	$124	$165	$278
Other comprehensive income (loss), net of tax - Note M				
Unrealized translation gain (loss)	11	(9)	25	(30)
Pension and postretirement obligation adjustment	(3)	(4)	(12)	(11)
Net change in interest rate hedges	—	—	—	38

Other comprehensive income (loss)	8	(13)	13	(3)
Comprehensive income	$107	$111	$178	$275

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

ASHLAND INC. AND CONSOLIDATED SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions - unaudited)	June 30 2014	September 30 2013
ASSETS		
Current assets		
Cash and cash equivalents	$570	$346
Accounts receivable (a)	1,179	1,113
Inventories - Note F	781	758
Deferred income taxes	108	107
Other assets	75	62
Held for sale - Note B	490	487
Total current assets	3,203	2,873
Noncurrent assets		
Property, plant and equipment		
Cost	4,256	4,181
Accumulated depreciation	1,818	1,674
Net property, plant and equipment	2,438	2,507
Goodwill - Note G	2,715	2,709
Intangibles - Note G	1,364	1,437
Asbestos insurance receivable - Note K	440	437
Equity and other unconsolidated investments	84	213
Other assets	526	552
Held for sale - Note B	1,356	1,360
Total noncurrent assets	8,923	9,215
Total assets	$12,126	$12,088
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Short-term debt - Note H	$365	$308
Current portion of long-term debt - Note H	9	12
Trade and other payables	639	714
Accrued expenses and other liabilities	554	499
Held for sale - Note B	184	194
Total current liabilities	1,751	1,727
Noncurrent liabilities		
Long-term debt - Note H	2,941	2,947
Employee benefit obligations - Note J	1,219	1,110
Asbestos litigation reserve - Note K	711	735
Deferred income taxes	345	369
Other liabilities	550	548
Held for sale - Note B	80	99
Total noncurrent liabilities	5,846	5,808
Stockholders' equity	4,529	4,553

Total liabilities and stockholders' equity	$12,126	$12,088

(a) Accounts receivable includes an allowance for doubtful accounts of $14 million and $12 million at June 30, 2014 and September 30, 2013, respectively.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

(In millions - unaudited)	Common stock	Paid-in capital	Retained earnings	Accumulated other comprehensive income (a)	Total
BALANCE AT SEPTEMBER 30, 2013	$1	$506	$3,758	$288	$4,553
Total comprehensive income			165	13	178
Regular dividends, $1.02 per common share			(79)		(79)
Common shares issued under stock incentive and other plans (b)		2			2
Repurchase of common shares (c)		(125)			(125)
BALANCE AT JUNE 30, 2014	$1	$383	$3,844	$301	$4,529

(a) At June 30, 2014 and September 30, 2013, the after-tax accumulated other comprehensive income of $301 million and $288 million, respectively, was comprised of unrecognized prior service credits as a result of certain employee benefit plan amendments of $68 million and $80 million, respectively, and net unrealized translation gains of $233 million and $208 million, respectively.

(b) Common shares issued were 559,952 for the nine months ended June 30, 2014.

(c) As of June 30, 2014, the repurchase of common shares includes $125 million associated with the prepaid variable share repurchase agreement discussed in Note M of Notes to Condensed Consolidated Financial Statements.

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

	Nine months ended June 30	
(In millions - unaudited)	2014	2013
CASH FLOWS PROVIDED (USED) BY OPERATING ACTIVITIES FROM CONTINUING OPERATIONS		
Net income	$165	$278
Income from discontinued operations (net of tax)	(67)	(60)
Adjustments to reconcile income from continuing operations to cash flows from operating activities		
Depreciation and amortization	281	267
Debt issuance cost amortization	11	62
Purchased in-process research and development impairment	9	4
Deferred income taxes	(20)	16
Equity income from affiliates	(22)	(21)
Distributions from equity affiliates	7	8
Gain from sale of property and equipment	(1)	(1)
Stock based compensation expense	26	24
Net gain on divestitures	(3)	(6)
Impairment of equity method investment	50	—
Losses on pension and other postretirement plan remeasurement	121	—
Change in operating assets and liabilities (a)	(153)	(174)
Total cash flows provided by operating activities from continuing operations	404	397
CASH FLOWS PROVIDED (USED) BY INVESTING ACTIVITIES FROM CONTINUING OPERATIONS		
Additions to property, plant and equipment	(152)	(155)
Proceeds from disposal of property, plant and equipment	9	4
Purchase of operations - net of cash acquired	(2)	—
Proceeds from sale of operations or equity investments	92	1
Total cash flows used by investing activities from continuing operations	(53)	(150)
CASH FLOWS PROVIDED (USED) BY FINANCING ACTIVITIES FROM CONTINUING OPERATIONS		
Proceeds from issuance of long-term debt	—	2,320
Repayment of long-term debt	(12)	(2,605)
Proceeds from short-term debt	58	112
Repurchase of common stock	(125)	(150)
Debt issuance costs	—	(38)
Cash dividends paid	(79)	(62)
Proceeds from exercise of stock options	1	1
Excess tax benefits related to share-based payments	9	5
Total cash flows used by financing activities from continuing operations	(148)	(417)
CASH PROVIDED (USED) BY CONTINUING OPERATIONS	203	(170)
Cash provided (used) by discontinued operations		
Operating cash flows	48	53
Investing cash flows	(27)	(31)

Effect of currency exchange rate changes on cash and cash equivalents	—	2
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	224	(146)
CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD	346	523
CASH AND CASH EQUIVALENTS - END OF PERIOD	$570	$377

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

SEE NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and Securities and Exchange Commission regulations. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. These statements omit certain information and footnote disclosures required for complete annual financial statements and, therefore, should be read in conjunction with Ashland's Annual Report on Form 10-K for the fiscal year ended September 30, 2013. Results of operations for the period ended June 30, 2014 are not necessarily indicative of results to be expected for the year ending September 30, 2014. Certain prior period data has been reclassified in the Condensed Consolidated Financial Statements and accompanying footnotes to conform to current period presentation.

Ashland is composed of three reportable segments: Ashland Specialty Ingredients (Specialty Ingredients), Ashland Performance Materials (Performance Materials) and Valvoline (formerly Ashland Consumer Markets). On February 18, 2014, Ashland signed a definitive agreement to sell substantially all of the assets and liabilities of Ashland Water Technologies (Water Technologies) and completed the sale on July 31, 2014. As a result of this sale, the operating results and cash flows related to Water Technologies have been reflected as discontinued operations in the Statements of Consolidated Comprehensive Income and Statements of Condensed Consolidated Cash Flows, while assets and liabilities that are to be sold have been classified within the Condensed Consolidated Balance Sheet as held for sale. In addition to the sale of Water Technologies, Ashland has realigned certain components remaining in its portfolio of businesses, which includes divesting its Casting Solutions joint venture on June 30, 2014. See Notes B, C, D and O for additional information on the Water Technologies and Casting Solutions joint venture divestitures and its reported results as well as Ashland's current reportable segment results and business realignment.

Use of estimates, risks and uncertainties

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

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

New accounting standards

A description of new U.S. GAAP accounting standards issued and adopted during the current year is required in interim financial reporting. A detailed listing of all new accounting standards relevant to Ashland is included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2013. The following standards were either issued or became effective during the current period.

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

NOTE A – SIGNIFICANT ACCOUNTING POLICIES (continued)

In May 2014, the FASB issued accounting guidance outlining a single comprehensive five step model for entities to use in accounting for revenue arising from contracts with customers (ASC 606 Revenue from Contracts with Customers). The new guidance supersedes most current revenue recognition guidance, in an effort to converge the revenue recognition principles within U.S. GAAP. This new guidance also requires entities to disclose certain quantitative and qualitative information regarding the nature, amount, timing and uncertainty of qualifying revenue and cash flows arising from contracts with customers. Entities have the option of using a full retrospective or a modified retrospective approach to adopt the new guidance. This guidance will become effective for Ashland on October 1, 2017. Ashland is currently evaluating the new accounting standard and the available implementation options the standard allows as well as the impact this new guidance will have on Ashland's Condensed Consolidated Financial Statements.

In April 2014, the FASB issued accounting guidance amending the requirements for reporting discontinued operations (ASC 205 Presentation of Financial Statements and ASC 360 Property, Plant and Equipment). This guidance limits the requirement for discontinued operations treatment to the disposal of a component of an entity, or a group of components of an entity, that represents a strategic shift that has (or will have) a major effect on an entity’s operations and financial results. Additionally, this new guidance no longer precludes discontinued operations presentation based on continuing involvement or cash flows following the disposal. This guidance will become effective prospectively for Ashland on October 1, 2015, with early adoption permitted, and will impact Ashland's determination and disclosure of discontinued operations treatment for subsequent qualifying divestitures.

In February 2013, the FASB issued accounting guidance related to the reporting of amounts reclassified out of accumulated other comprehensive income (ASC 220 Comprehensive Income). This guidance sets forth new disclosure requirements for items reclassified from accumulated other comprehensive income by requiring disclosures for both the changes in accumulated other comprehensive income by component and where the significant items reclassified from accumulated other comprehensive income are classified in the Statements of Consolidated Comprehensive Income. This guidance became effective for Ashland on October 1, 2013 and impacted Ashland’s disclosure of the reclassifications from accumulated other comprehensive income.

In December 2011, the FASB issued accounting guidance related to the offsetting of certain assets and liabilities on the balance sheet (ASC 210 Balance Sheet). The new guidance requires disclosures to provide information to help reconcile differences in the offsetting requirements within U.S. GAAP. This guidance became effective for Ashland on October 1, 2013. The adoption of this guidance did not have a material impact on the Condensed Consolidated Financial Statements.

NOTE B - DIVESTITURES

Water Technologies

On February 18, 2014, Ashland entered into a definitive agreement to sell its Water Technologies business to a fund managed by Clayton, Dubilier & Rice (CD&R) in a transaction valued at approximately $1.8 billion. Ashland completed the sale to CD&R on July 31, 2014. Ashland expects after-tax net proceeds from the sale to total approximately $1.4 billion, which primarily will be used to return capital to shareholders in the form of share repurchases. Water Technologies recorded sales of $1.7 billion during the most recently completed fiscal year ended September 30, 2013 and employs approximately 3,000 employees throughout the Americas, Europe and Asia Pacific. Since this transaction signifies Ashland’s exit from the Water Technologies business, Ashland has classified Water Technologies’ results of operations and cash flows within the Statements of Consolidated Comprehensive Income and Statements of Condensed Consolidated Cash Flows as discontinued operations for all periods

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

NOTE B – DIVESTITURES (continued)

presented. Certain indirect corporate costs included within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income that were previously allocated to the Water Technologies reportable segment do not qualify for classification within discontinued operations and are now reported as selling, general and administrative expense within continuing operations on a consolidated basis and within the Unallocated and other segment. These costs were $9 million and $10 million during the three months ended June 30, 2014 and 2013, respectively, and $28 million and $27 million during the nine months ended June 30, 2014 and 2013, respectively. Ashland is continuing to implement plans to eliminate these costs as part of the global restructuring program.

Ashland will retain and has agreed to indemnify CD&R for certain liabilities of the Water Technologies business arising prior to the closing of the sale, including certain pension and postretirement liabilities, environmental remediation liabilities and certain legacy liabilities relating to businesses disposed or discontinued by the Water Technologies business. Costs directly related to these retained liabilities have been included within the discontinued operations caption of the Statements of Consolidated Comprehensive Income during the three and nine months ended June 30, 2014 and 2013, respectively.

Ashland will provide certain transition services to CD&R for a fee. While the transition services vary in duration depending upon the type of service provided, Ashland expects to reduce costs as the transition services are completed.

See Note C for further information on the results of operations of Water Technologies for all periods presented.

Held for sale classification

The assets and liabilities of Water Technologies for current and prior periods have been reflected as assets and liabilities held for sale within the Condensed Consolidated Balance Sheets and are comprised of the following components:

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

NOTE B – DIVESTITURES (continued)

(In millions)	June 30 2014	September 30 2013
Accounts receivable (a)	$325	$332
Inventories	145	141
Other assets	20	14
Current assets held for sale	$490	$487
Net property, plant and equipment	$347	$335
Goodwill	650	657
Intangibles	345	354
Equity and other unconsolidated investments	5	5
Other assets	9	9
Noncurrent assets held for sale	$1,356	$1,360
Trade and other payables	$161	$171
Accrued expenses and other liabilities	23	23
Current liabilities held for sale	$184	$194
Employee benefit obligations	$63	$64
Deferred income taxes	14	32
Other liabilities	3	3
Noncurrent liabilities held for sale	$80	$99

(a) Accounts receivable includes an allowance for doubtful accounts of $5 million at June 30, 2014 and September 30, 2013, respectively.

The noncurrent assets held for sale are required to be measured at the lower of carrying value or fair value less costs to sell. Fair values are based on definitive agreements or sale or other market quotes which would be considered significant unobservable market inputs (Level 3) within the fair value hierarchy. See also Note E for further information on the fair value hierarchy.

Casting Solutions joint venture

During 2014, Ashland, in conjunction with its partner, initiated a process to sell the ASK Chemicals GmbH (ASK) joint venture, in which Ashland has 50% ownership. As part of the sale process, Ashland determined during March 2014 that the fair value of its investment in the ASK joint venture was less than the carrying value and that an other than temporary impairment had occurred. As a result, Ashland recognized impairment charges of $4 million, which offset equity income during the quarter, and $50 million related to its investment in the ASK joint venture during the three and nine months ended June 30, 2014, respectively. These charges were recognized within the equity and other income (loss) caption of the Statements of Consolidated Comprehensive Income.

In April 2014, Ashland and its partner announced that they had entered into a definitive agreement to sell the ASK joint venture to investment funds affiliated with Rhône Capital, LLC (Rhône), a London and New York-based private equity investment firm. Total pre-tax proceeds to the sellers was $205 million, which included $176 million in cash and a $29 million note from Rhône. Ashland and its partner completed the sale to Rhône on June 30, 2014 and proceeds were split evenly between Ashland and its partner under the terms of the 50/50 joint venture.

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

NOTE C – DISCONTINUED OPERATIONS

In the current and previous periods, Ashland has or expects to divest certain businesses that have qualified as discontinued operations. The operating results from these divested businesses and subsequent adjustments related to ongoing assessments of certain retained liabilities and tax items have been recorded within the discontinued operations caption in the Statements of Consolidated Comprehensive Income for all periods presented and are discussed further within this note.

As previously described in Note B, Ashland completed the sale to CD&R of substantially all of the assets and liabilities of its Water Technologies business on July 31, 2014. Ashland has determined that this sale qualifies as a discontinued operation, in accordance with U.S. GAAP, since Ashland will not have significant continuing involvement in the Water Technologies business. As a result, the previous operating results and cash flows related to Water Technologies have been reflected as discontinued operations in the Statements of Consolidated Comprehensive Income and Statements of Condensed Consolidated Cash Flows, while assets and liabilities that are to be sold have been classified within the Condensed Consolidated Balance Sheet as held for sale. Sales for the three months ended June 30, 2014 and 2013 were $441 million and $435 million, respectively, and were $1,308 million and $1,281 million for the nine months ended June 30, 2014 and 2013, respectively.

Ashland is subject to liabilities from claims alleging personal injury caused by exposure to asbestos. Such claims result primarily from indemnification obligations undertaken in 1990 in connection with the sale of Riley Stoker Corporation (Riley), a former subsidiary of Ashland, and from businesses previously divested by Hercules, a wholly-owned subsidiary of Ashland that was acquired in 2009. Adjustments to the recorded litigation reserves and related insurance receivables are recorded within discontinued operations. See Note K for more information related to the adjustments on asbestos liabilities and receivables.

On March 31, 2011, Ashland completed the sale to Nexeo Solutions, LLC of substantially all of the assets and certain liabilities of its global distribution business which previously comprised the Ashland Distribution (Distribution) reportable segment. Ashland determined that this sale qualified as a discontinued operation, in accordance with U.S. GAAP, since Ashland does not have significant continuing involvement in the distribution business. Ashland has made subsequent adjustments to the gain on sale of Distribution, primarily relating to the tax effects of the sale.

On August 28, 2006, Ashland completed the sale of the stock of Ashland Paving and Construction, Inc. (APAC) for $1.3 billion, which qualified as a discontinued operation. Therefore, previous operating results, assets and liabilities related to APAC have been reflected as discontinued operations in the Condensed Consolidated Financial Statements. Ashland has made subsequent adjustments to the gain on the sale of APAC, primarily relating to the tax effects of the sale, during the three and nine months ended June 30, 2013.

During 2003, Ashland completed the sale of the net assets of its Electronic Chemicals business and certain related subsidiaries that qualified as a discontinued operation. Ashland has made subsequent adjustments to the sale of Electronic Chemicals, primarily relating to environmental liabilities and tax effects of the sale. Due to the ongoing assessment of certain matters associated with this divestiture, subsequent adjustments to this sale may continue in future periods in the discontinued operations caption in the Statements of Consolidated Comprehensive Income.

Components of amounts reflected in the Statements of Consolidated Comprehensive Income related to discontinued operations are presented in the following table for the three and nine months ended June 30, 2014 and 2013.

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

NOTE C – DISCONTINUED OPERATIONS (continued)

	Three months ended June 30		Nine months ended June 30	
(In millions)	2014	2013	2014	2013
Income (loss) from discontinued operations (net of tax)				
Water Technologies (a)	$33	$28	$74	$56
Asbestos-related litigation	(5)	4	(6)	3
Distribution	(2)	(2)	(3)	(3)
Electronic Chemicals	2	—	2	—
Gain on disposal of discontinued operations (net of tax)				
APAC	—	5	—	4
Total income from discontinued operations (net of tax)	$28	$35	$67	$60

(a) For the three months ended June 30, 2014 and 2013, pretax income recorded for Water Technologies was $46 million and $35 million, respectively, and for the nine months ended June 30, 2014 and 2013, pretax income recorded for Water Technologies was $101 million and $84 million, respectively.

NOTE D – RESTRUCTURING ACTIVITIES

Ashland periodically implements corporate restructuring programs related to acquisitions, divestitures or other cost reduction programs in order to enhance profitability through streamlined operations and an improved overall cost structure for each business.

During the December 2013 quarter, Ashland announced a global restructuring program to streamline the resources used across the organization. As part of this global restructuring program, Ashland announced a voluntary severance offer (VSO) in January 2014 to certain U.S. employees. Approximately 400 employees were formally approved for the VSO. All payments related to the VSO are expected to be paid out from May through December 31, 2014. During the March 2014 quarter, an involuntary program for employees was also initiated as part of the global restructuring program and continued into the June 2014 quarter. The VSO and involuntary programs resulted in expense of $16 million and $91 million being recognized during the three and nine months ended June 30, 2014, respectively. Of these amounts, $13 million was recorded within the cost of sales caption for the nine months ended June 30, 2014, and $16 million and $78 million during the three and nine months ended June 30, 2014, respectively, were recorded within the selling, general and administrative expense caption of the Statements of Consolidated Comprehensive Income. In addition, the employee reductions resulted in a pension curtailment of $6 million being recorded during the current period. See Note J for further information. As of June 30, 2014, the remaining restructuring reserve for this global restructuring program was $68 million.

As of June 30, 2014 and 2013, the remaining $5 million and $17 million, respectively, in restructuring reserves for other previously announced programs principally consisted of expected future severance payments for programs implemented during 2011.

During the March 2014 quarter, Ashland incurred an additional $3 million lease abandonment charge related to its exit from an office facility that was obtained as part of the Hercules acquisition. The costs related to the reserve will be paid over the remaining lease term through May 2016. As of June 30, 2014 and 2013, the remaining restructuring reserve for all qualifying facility costs totaled $10 million and $8 million, respectively.

The following table summarizes the related activity in these reserves for the nine months ended June 30, 2014 and 2013. The severance reserves are included in accrued expenses and other liabilities while facility costs reserves are primarily within other noncurrent liabilities in the Condensed Consolidated Balance Sheets.

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

NOTE D – RESTRUCTURING ACTIVITIES (continued)

(In millions)	Severance	Facility costs	Total
Balance as of September 30, 2013	$17	$8	$25
Restructuring reserve	91	4	95
Reserve adjustments	(1)	—	(1)
Utilization (cash paid or otherwise settled)	(34)	(2)	(36)
Balance at June 30, 2014	$73	$10	$83
Balance as of September 30, 2012	$29	$15	$44
Reserve adjustments	4	—	4
Utilization (cash paid or otherwise settled)	(16)	(7)	(23)
Balance at June 30, 2013	$17	$8	$25

NOTE E – FAIR VALUE MEASUREMENTS

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

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

The following table summarizes financial instruments subject to recurring fair value measurements as of June 30, 2014.

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

NOTE E – FAIR VALUE MEASUREMENTS (continued)

(In millions)	Carrying value	Total fair value	Quoted prices in active markets for identical assets Level 1	Significant other observable inputs Level 2	Significant unobservable inputs Level 3
Assets					
Cash and cash equivalents	$570	$570	$570	$—	$—
Deferred compensation investments (a)	187	187	48	139	—
Investments of captive insurance company (a)	3	3	3	—	—
Foreign currency derivatives	1	1			