BAXTER INTERNATIONAL INC
Form 424B2
August 17, 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 they are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion, dated August 17, 2009

Preliminary Prospectus Supplement
(To Prospectus dated July 31, 2009)

Filed Pursuant to Rule 424(b)(2)
Registration No. 333-160966

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Baxter International Inc.

% Senior Notes due 2019

We are offering $ aggregate principal amount of % Senior Notes due 2019. Interest on the notes is payable semi-annually in arrears on and of each year, beginning on , 2010. The notes will mature on , 2019. We may at our option redeem the notes, at any time, in whole or in part, at a make whole redemption price as described in the section of this prospectus supplement entitled Description of the Notes Optional Redemption. If a change of control triggering event as described in this prospectus supplement occurs, we will be required to offer to purchase the notes from the holders as described in the section of this prospectus supplement entitled Description of the Notes Offer to Purchase Upon Change of Control Triggering Event.

The notes will be our general senior unsecured and unsubordinated obligations and will rank equal in priority with all of our existing and future unsecured and unsubordinated indebtedness and senior in right of payment to any existing and future subordinated indebtedness.

Investing in the notes involves risks that are described in the Risk Factors section beginning on page S-3 of this prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Price to Public(1)	Underwriting Discounts and Commissions	Proceeds to Baxter(2)
% Senior Notes due 2019	%	%	%
Total	$	$	$

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

(2) Before expenses in connection with this offering. See Underwriting.

Currently, there is no public market for the notes. The notes will not be listed on any national securities exchange or any automated dealer quotation system.

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

BofA Merrill Lynch **J.P. Morgan** **RBS**

The date of this prospectus supplement is August , 2009.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. Before making a decision to invest in the notes, you should read this entire prospectus supplement, including the section entitled Risk Factors, as well as the accompanying prospectus and the documents incorporated by reference in this prospectus supplement and the accompanying prospectus that are described in the section entitled Where You Can Find More Information in the accompanying prospectus.

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus, and the documents incorporated by reference is accurate only as of the respective dates of those documents in which the information is contained. Our business, financial condition, results of operations and prospects may have changed since those dates.

Unless we have indicated otherwise, or the context otherwise requires, references to Baxter, we, us, and our in this prospectus supplement and the accompanying prospectus are to Baxter International Inc. and its subsidiaries.

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PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights selected information contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. As a result, it is not complete and does not contain all of the information that may be important to you or that you should consider when making an investment decision with respect to the notes. You should read the following summary in conjunction with the more detailed information contained in this prospectus supplement, the accompanying prospectus and the documents we have incorporated by reference, before making a decision to invest in the notes.

Baxter International Inc.

Baxter International Inc. was incorporated under Delaware law in 1931. Our principal executive offices are located at One Baxter Parkway, Deerfield, Illinois 60015 and our telephone number is (847) 948-2000. We develop, manufacture and market products that save and sustain the lives of people with hemophilia, immune disorders, infectious diseases, kidney disease, trauma and other chronic and acute medical conditions. As a global diversified healthcare company, we apply a unique combination of expertise in medical devices, pharmaceuticals and biotechnology to create products that advance patient care worldwide. Our products are used by hospitals, kidney dialysis centers, nursing homes, rehabilitation centers, doctors offices, clinical and medical research laboratories, and by patients at home under physician supervision. We manufacture products in 26 countries and sell them in over 100 countries.

We operate in three segments, each of which is a strategic business that is managed separately because each business develops, manufactures and sells distinct products and services. The BioScience business manufactures recombinant and plasma-based proteins to treat hemophilia and other bleeding disorders; plasma-based therapies to treat immune deficiencies, alpha 1-antitrypsin deficiency, burns and shock, and other chronic and acute blood-related conditions; products for regenerative medicine, such as biosurgery products and technologies used in adult stem-cell therapies; and vaccines. The Medication Delivery business manufactures intravenous (IV) solutions and administration sets, premixed drugs and drug-reconstitution systems, pre-filled vials and syringes for injectable drugs, IV nutrition products, infusion pumps, and inhalation anesthetics, as well as products and services related to pharmacy compounding, drug formulation and packaging technologies. The Renal business provides products to treat end-stage renal disease, or irreversible kidney failure. The business manufactures solutions and other products for peritoneal dialysis (PD), a home-based therapy, and also distributes products for hemodialysis (HD), which is generally conducted in a hospital or clinic. These businesses enjoy leading positions in the medical products and services fields.

For additional information regarding our business, we refer you to our filings with the Securities and Exchange Commission that are incorporated into this prospectus supplement and the accompanying prospectus by reference. Please read the section in the accompanying prospectus entitled Where You Can Find More Information.

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THE OFFERING

The following is a summary of the notes and is not intended to be complete. It does not contain all of the information that may be important to you. For a more complete understanding of the notes, please refer to the section entitled Description of the Notes in this prospectus supplement and the section entitled Description of Debt Securities in the accompanying prospectus.

Issuer	Baxter International Inc., a Delaware corporation
Notes Offered	$ aggregate principal amount of % Senior Notes due 2019.
Maturity	The notes will mature on , 2019.
Interest	Interest on the notes will accrue from the date of their issuance at the rate of % per annum.
Interest Payment Dates	Interest on the notes is payable semi-annually in arrears on and of each year. The first interest payment on the notes will be made on , 2010.
Ranking	The notes are senior unsecured and unsubordinated obligations of ours and rank equal in priority with all of our existing and future unsecured and unsubordinated indebtedness and senior in right of payment to any existing and future subordinated indebtedness. See the section of this prospectus supplement entitled Description of the Notes Ranking.
Optional Redemption	We may at our option redeem the notes, at any time, in whole or in part, at a make-whole redemption price as described in the section of this prospectus supplement entitled Description of the Notes Optional Redemption.
Change of Control Triggering Event	Upon the occurrence of a Change of Control Triggering Event, as defined under Description of the Notes Offer to Purchase Upon Change of Control Triggering Event, we will be required to make an offer to repurchase the notes at a price equal to 101% of their aggregate principal amount, plus accrued and unpaid interest to, but not including, the date of repurchase.
Certain Covenants	The indenture governing the notes contains certain covenants that, among other things, limit our ability and the ability of certain of our subsidiaries to create liens on our assets. These covenants are subject to a number of important limitations and exceptions. See the section in the accompanying prospectus entitled Description of Debt Securities Certain Covenants.
Further Issuances	We reserve the right, from time to time, without the consent of the holders of the notes, to issue additional notes of the same series on terms and conditions substantially identical to those of the notes, which additional notes shall increase the aggregate principal amount of, and shall be

	consolidated and form a single series with, the notes.
Use of Proceeds	We will use the net proceeds from the sale of the notes for general corporate purposes, including the refinancing of indebtedness.
Trustee, Registrar and Paying Agent	The Bank of New York Mellon Trust Company, N.A. (as successor in interest to J.P. Morgan Trust Company, National Association).
Governing Law	The indenture and the notes will be governed by the laws of the State of New York.

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RISK FACTORS

Before you decide to invest in the notes, you should carefully consider the following risk factors as well as the risk factors discussed in our Annual Report on Form 10-K for the year ended December 31, 2008, which is incorporated by reference in this prospectus supplement and the accompanying prospectus. See the section entitled Where You Can Find More Information in the accompanying prospectus.

The notes are our obligations and not obligations of our subsidiaries and will be effectively subordinated to the claims of our subsidiaries creditors.

The notes are exclusively our obligations and not obligations of our subsidiaries. We are a holding company and, accordingly, we conduct substantially all of our operations through our subsidiaries. As a result, our cash flow and our ability to service our debt, including the notes, depends upon the earnings and operating capital requirements of our subsidiaries. We depend on the distribution of earnings, loans or other payments by our subsidiaries to us. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due pursuant to the notes or to make any funds available to us for such payment, whether by dividends, distributions, loans or other payments. The ability of our subsidiaries to make any payments to us will depend on our subsidiaries earnings, business and tax considerations and any legal restrictions.

As a result of our structure, the notes will effectively rank junior to all existing and future indebtedness, trade payables and other liabilities of our subsidiaries. Our right to receive any assets of any of our subsidiaries upon their liquidation or reorganization, and therefore the right of holders of the notes to participate in those assets, will be subject to the prior claims of our subsidiaries creditors, including trade creditors. In addition, even if we were a creditor of any of our subsidiaries, our rights as a creditor would be subordinate to any security interest in the assets of our subsidiaries and any indebtedness of our subsidiaries senior to that held by us.

An active trading market for the notes may not develop.

Currently there is no public market for the notes and we do not plan to list the notes on any national securities exchange or automated dealer quotation system. As a result, an active trading market for the notes may not develop or, if one does develop, it may not be sustained. If an active trading market for the notes fails to develop or cannot be sustained, the trading price and liquidity of the notes could be adversely affected.

The liquidity of any trading market in the notes, and the market price quoted for the notes, also may be adversely affected by changes in the overall market for these securities and by changes in our financial performance or prospects. In addition, we may determine from time to time in the future to purchase the notes through open market purchases, privately negotiated transactions, tender offers, exchange offers or otherwise, which would create a more limited market for the notes.

We could enter into various transactions that could increase the amount of our outstanding indebtedness, adversely affect our capital structure or credit ratings, or otherwise adversely affect holders of the notes.

The indenture governing the notes does not generally prevent us from entering into a variety of acquisition, change of control, refinancing, recapitalization or other highly leveraged transactions. As a result, we could enter into any such transaction even though the transaction could increase the total amount of our outstanding indebtedness, adversely affect our capital structure or credit ratings, or otherwise adversely affect the holders of the notes.

We may not be able to repurchase all of the notes upon a change of control triggering event, which would result in a default under the notes.

We will be required to offer to repurchase the notes upon the occurrence of a change of control triggering event as provided in the indenture governing the notes. However, we may not have sufficient funds to repurchase the notes in cash at such time. In addition, our ability to repurchase the notes for cash may be limited by law or the terms of other agreements relating to our indebtedness outstanding at the time. The failure to make such repurchase would result in a default under the notes.

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CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus and the documents incorporated by reference herein and therein include forward-looking statements within the meaning of the federal securities laws. These forward-looking statements are identified by their use of terms and phrases such as believe, anticipate, could, estimat intend, may, plan, expect, and similar expressions. The statements are based on assumptions about many important factors, including assumptions concerning:

- demand for and market acceptance risks for new and existing products, such as ADVATE (Antihemophilic Factor (Recombinant), Plasma/Albumin-Free Method) and IGIV (immune globulin intravenous), and other therapies;
- our ability to identify business development and growth opportunities for existing products;
- product quality or patient safety issues, leading to product recalls, withdrawals, launch delays, sanctions, seizures, litigation, or declining sales;
- future actions of regulatory bodies and other government authorities that could delay, limit or suspend product development, manufacturing or sale or result in seizures, injunctions, monetary sanctions or criminal or civil penalties, including any sanctions available under the Consent Decree entered into with the United States Food and Drug Administration concerning the COLLEAGUE and SYNDEO pumps;
- foreign currency fluctuations, particularly due to reduced benefits from our natural hedges and limitations on the ability to cost-effectively hedge resulting from the recent financial market and currency volatility;
- fluctuations in supply and demand for plasma protein products;
- reimbursement policies of government agencies and private payers;
- changes in healthcare legislation and regulation, including through healthcare reform in the United States or globally, which may affect pricing, reimbursement or other elements of our business;
- production yields, regulatory clearances and customers final purchase commitments with respect to our pandemic vaccine;
- product development risks, including satisfactory clinical performance, the ability to manufacture at appropriate scale, and the general unpredictability associated with the product development cycle;
- the ability to enforce the company s patent rights or patents of third parties preventing or restricting the company s manufacture, sale or use of affected products or technology;
- the impact of geographic and product mix on our sales;
- the impact of competitive products and pricing, including generic competition, drug reimportation and disruptive technologies;
- inventory reductions or fluctuations in buying patterns by wholesalers or distributors;

the availability and pricing of acceptable raw materials and component supply;

global regulatory, trade and tax policies;

any changes in law concerning the taxation of income, including income earned outside the United States;

actions by tax authorities in connection with ongoing tax audits;

our ability to realize the anticipated benefits of restructuring initiatives;

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our ability to realize the anticipated benefits from our joint product development and commercialization arrangements, including the transaction with SIGMA International General Medical Apparatus, LLC;

changes in credit agency ratings;

any impact of the commercial and credit environment on the company and its customers and suppliers;

continued developments in the market for transfusion therapies products and Fenwal Inc. s ability to execute with respect to the acquired business; and

those factors described in the section of this prospectus supplement entitled Risk Factors as well as other factors identified in our other filings with the Securities and Exchange Commission, including those described under the caption Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008, which is incorporated by reference in this prospectus supplement and the accompanying prospectus and available on our website.

Actual results may differ materially from those projected in the forward-looking statements. We do not undertake to update our forward-looking statements.

USE OF PROCEEDS

We estimate the net proceeds to us from the sale of the notes will be approximately $ million, after deducting underwriting discounts and estimated offering expenses payable by us. We intend to use the net proceeds from the sale of the notes for general corporate purposes, including the refinancing of indebtedness.

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DESCRIPTION OF THE NOTES

The following description is a summary of the terms of the notes being offered by this prospectus supplement and supplements the description of the general terms and provisions of the debt securities contained in the accompanying prospectus and, to the extent it is inconsistent, replaces the description in the accompanying prospectus. The descriptions in this prospectus supplement and the accompanying prospectus contain a description of certain terms of the notes and the indenture under which the notes will be issued, but do not purport to be complete. The descriptions are qualified in their entirety by reference to the indenture, dated as of August 8, 2006, between us and The Bank of New York Mellon Trust Company, N.A. (as successor in interest to J.P. Morgan Trust Company, National Association), as trustee and supplemental indenture No. 5 to be entered into between us and The Bank of New York Mellon Trust Company, N.A., as trustee. A copy of the indenture is filed with the Securities and Exchange Commission as an exhibit to the registration statement relating to this prospectus and you should refer to the indenture for provisions that may be important to you.

General

We will issue the notes under the indenture, dated as of August 8, 2006, between us and The Bank of New York Mellon Trust Company, N.A. (as successor in interest to J.P. Morgan Trust Company, National Association), as trustee, and to be amended and supplemented by supplemental indenture No. 5 to be entered into between us and the trustee (as so amended and supplemented, the indenture). The indenture has been qualified as an indenture under the Trust Indenture Act of 1939. The terms of the indenture are those provided in the indenture and those made a part of the indenture by the Trust Indenture Act. The notes will constitute debt securities under the indenture as described in the accompanying prospectus. In addition to the notes, we may issue, from time to time, other series of debt securities under the indenture. Such other series will be separate from and independent of the notes.

The notes will initially be issued in an aggregate principal amount of $. We may, from time to time, without the consent of the existing holders of the notes, issue additional notes under the indenture having the same terms as the notes in all respects, except for the issue date and, in some cases, the initial interest payment date. Any such additional notes will be consolidated with and form a single series with the notes being offered by this prospectus supplement.

Each note will bear interest at the rate of % per annum. Interest will be payable semi-annually on and of each year beginning on , 2010. We will make each interest payment to the holders of record of the notes as of the close of business on the immediately preceding and (whether or not a business day). Interest on the notes will be calculated on the basis of a 360-day year of twelve 30-day months. The notes will mature on , 2019.

If any interest payment date falls on a day that is not a business day, payment will be made on the next succeeding business day, and no interest will accrue for the period from and after the interest payment date to the next succeeding business day. As used in this prospectus supplement, the term business day means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in The City of New York are authorized or obligated by or pursuant to law, regulation or executive order to close.

The notes will be issued in the form of one or more global securities registered in the name of the nominee of The Depository Trust Company (which we may refer to along with its successors in such capacity as the depositary). The notes will only be issued in denominations of $2,000 and integral multiples of $1,000 in excess thereof. Payments on notes issued as a global security will be made to the depositary, the nominee of the depositary or in the event that no depositary is used, to a paying agent for the notes. See the section entitled Description of Debt Securities Book-Entry

Securities in the accompanying prospectus.

With certain exceptions and pursuant to certain requirements set forth in the indenture, we may discharge our obligations under the indenture with respect to the notes as described in the sections entitled Description of Debt Securities Satisfaction and Discharge and Defeasance and Covenant Defeasance in the accompanying prospectus.

The notes will not be subject to a sinking fund provision.

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Ranking

The notes are our direct, unsecured and unsubordinated obligations and will rank equal in priority of payment with all of our other existing and future unsecured and unsubordinated indebtedness, and senior in right of payment to any future subordinated indebtedness. At June 30, 2009, we had approximately $3.82 billion of senior unsecured indebtedness outstanding. In addition to the notes, we may issue other series of debt securities under the indenture. There is no limit on the total aggregate principal amount of debt securities that we can issue under the indenture.

The notes will be structurally subordinated to all indebtedness and other liabilities, including trade payables, of our subsidiaries. See Risk Factors above and the section entitled Description of Debt Securities Ranking in the accompanying prospectus.

Optional Redemption

The notes will be redeemable in whole at any time or in part, from time to time, at our option, at a make whole redemption price equal to the greater of (1) 100% of the principal amount of the notes to be redeemed plus accrued and unpaid interest to the redemption date, and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed (not including any portion of the payment of interest accrued as of the date of redemption) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate, as defined below, plus basis points, plus accrued and unpaid interest to the date of redemption.

Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Comparable Treasury Issue means the United States Treasury security selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes.

Comparable Treasury Price means, with respect to any redemption date, (1) the average of four Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations, or (2) if we obtain fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

Independent Investment Banker means one of the Reference Treasury Dealers that we shall appoint.

Reference Treasury Dealers means (1) Banc of America Securities LLC, J.P. Morgan Securities Inc. and RBS Securities Inc. and their respective successors; provided, however, that if any of the foregoing shall cease to be a primary U.S. government securities dealer (Primary Treasury Dealer), we shall substitute another nationally recognized investment banking firm that is a Primary Treasury Dealer, and (2) at our option, additional Primary Treasury Dealers selected by us.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by us, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to us by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third business day preceding such redemption date.

To exercise our option to redeem the notes, we will give each holder of notes to be redeemed a notice in writing at least 30 days but not more than 60 days before the redemption date. If we elect to redeem fewer than all the notes, the trustee will select the particular notes to be redeemed by such method as the trustee deems fair and appropriate and in accordance with the indenture.

Unless a default occurs in payment of the redemption price, from and after the redemption date interest will cease to accrue on the notes or portions thereof called for redemption.

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Offer to Purchase Upon Change of Control Triggering Event

If a Change of Control Triggering Event occurs, unless we have exercised our option to redeem the notes as described above, we will be required to make an offer (the Change of Control Offer) to each holder of the notes to repurchase all or any part (equal to $2,000 or an integral multiple of $1,000 in excess thereof) of that holder s notes on the terms set forth in the notes. In the Change of Control Offer, we will be required to offer payment in cash equal to 101% of the aggregate principal amount of notes repurchased, plus accrued and unpaid interest, if any, on the notes repurchased to the date of repurchase (the Change of Control Payment). Within 30 days following any Change of Control Triggering Event or, at our option, prior to any Change of Control, but after public announcement of the transaction that constitutes or may constitute the Change of Control, a notice will be mailed to holders of the notes describing the transaction that constitutes or may constitute the Change of Control Triggering Event and offering to repurchase the notes on the date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is mailed (the Change of Control Payment Date). The notice will, if mailed prior to the date of consummation of the Change of Control, state that the offer to purchase is conditioned on the Change of Control Triggering Event occurring on or prior to the Change of Control Payment Date.

On the Change of Control Payment Date, we will, to the extent lawful:

- accept for payment all notes or portions of notes properly tendered pursuant to the Change of Control Offer;
- deposit with the paying agent an amount equal to the Change of Control Payment in respect of all notes or portions of notes properly tendered; and
- deliver or cause to be delivered to the trustee the notes properly accepted together with an officers certificate stating the aggregate principal amount of notes or portions of notes being repurchased.

We will not be required to comply with the obligations relating to repurchasing the notes if a third party instead satisfies them. In addition, we will not repurchase any notes if there has occurred and is continuing on the Change of Control Payment Date an event of default under the indenture, other than a default in the payment of the Change of Control Payment upon a Change of Control Triggering Event.

We will comply with the requirements of Rule 14e-1 under the Securities Exchange Act of 1934 (the Exchange Act), and any other securities laws and regulations applicable to the repurchase of the notes. To the extent that the provisions of any such securities laws or regulations conflict with the change of control offer provisions of the notes, we will comply with those securities laws and regulations and will not be deemed to have breached our obligations under the change of control offer provisions of the notes by virtue of any such conflict.

If a Change of Control Offer is made, there can be no assurance that we will have available funds sufficient to make the Change of Control Payment for all of the notes that may be tendered for repurchase.

For purposes of the change of control offer provisions of the notes, the following terms will be applicable:

Change of Control means the occurrence of any of the following: (1) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person (as that term is used in Section 13(d)(3) of the Exchange Act), other than us or one of our subsidiaries, becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of our Voting Stock or other Voting Stock into which our Voting Stock is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares, (2) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or

substantially all of our assets and the assets of our subsidiaries, taken as a whole, to one or more persons (as that term is defined in the indenture), other than us or one of our subsidiaries, (3) the adoption of a plan relating to our liquidation or dissolution, or (4) the replacement of a majority of our board of directors over a two-year period from the directors who constituted our board of directors at the beginning of such period, and such replacement directors shall not have been approved by at least a majority of our board of directors then still in office (either by a specific vote or by approval of a proxy

statement in which such member was named as a nominee for election as a director) who either were members of such board of directors at the beginning of such period or whose election as a member of such board of directors was previously so approved. Notwithstanding the foregoing, a transaction will not be deemed to be a Change of Control if (1) we become a direct or indirect wholly-owned subsidiary of a holding company and (2)(A) the direct or indirect holders of the Voting Stock of such holding company immediately following that transaction are substantially the same as the holders of our Voting Stock immediately prior to that transaction or (B) immediately following that transaction no person (as that term is used in Section 13(d)(3) of the Exchange Act) (other than a holding company satisfying the requirements of this sentence) is the beneficial owner, directly or indirectly, of more than 50% of the Voting Stock of such holding company.

Change of Control Triggering Event means the occurrence of both a Change of Control and a Rating Event.

Investment Grade Rating means a rating equal to or higher than Baa3 (or the equivalent) by Moody s and BBB- (or the equivalent) by S&P, and the equivalent investment grade credit rating from any replacement Rating Agency or Rating Agencies.

Moody s means Moody s Investors Service, Inc.

Rating Agencies means (1) each of Moody s and S&P, and (2) if either Moody s or S&P ceases to rate the notes or fails to make a rating of the notes publicly available for reasons outside of our control, a nationally recognized statistical rating organization within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act selected by us (as certified by a resolution of our board of directors) as a replacement agency for Moody s or S&P, or both of them, as the case may be.

Rating Event means the rating on the notes is lowered by each of the Rating Agencies and the notes are rated below an Investment Grade Rating by each of the Rating Agencies on any day within the 60-day period (which 60-day period will be extended so long as the rating of the notes is under publicly announced consideration for a possible downgrade by any of the Rating Agencies but no longer than 180 days) after the earlier of (1) the occurrence of a Change of Control and (2) public notice of our intention to effect a Change of Control; provided, however, that a Rating Event otherwise arising by virtue of a particular reduction in rating will not be deemed to have occurred in respect of a particular Change of Control (and thus will not be deemed a Rating Event for purposes of the definition of Change of Control Triggering Event) if the Rating Agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the trustee in writing at our or its request that the reduction was the result, in whole or in part, of any event or circumstance comprised of or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control has occurred at the time of the Rating Event).

S&P means Standard & Poor s Rating Services, a division of The McGraw-Hill Companies, Inc.

Voting Stock means, with respect to any specified person (as that term is used in Section 13(d)(3) of the Exchange Act), as of any date, the capital stock of such person that is at the time entitled to vote generally in the election of the board of directors of such person.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, transfer, conveyance or other disposition, in one or a series of related transactions, of all or substantially all of our assets and the assets of our subsidiaries, taken as a whole. Although there is a limited body of case law interpreting the phrase substantially all, there is no precise established definition of such phrase under applicable law. Accordingly, the ability of a holder of the notes to require us to repurchase that holder s notes as a result of the sale, transfer, conveyance or other disposition of less than all of our assets and the assets of our subsidiaries, taken as a whole, to one or more persons may be

uncertain.

Under clause (4) of the definition of Change of Control, a change of control will occur if a majority of our board of directors is replaced over a two year period by directors who have not been approved by the directors then in office. Under a recent Delaware Chancery Court interpretation of a similar provision, our board of directors could approve a slate of shareholder-nominated directors without endorsing them, while simultaneously recommending and endorsing its own slate. Accordingly, under such interpretation, our board

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of directors could approve a slate of directors that includes a majority of dissident directors nominated pursuant to a proxy contest, and the ultimate election of such dissident slate would not constitute a Change of Control that would trigger a holder s right to require us to repurchase the holder s notes as described above.

Our obligation to purchase the notes following a Change of Control Triggering Event is subject to the provisions described in the accompanying prospectus described in the section entitled Description of Debt Securities Defeasance and Covenant Defeasance.

Book-Entry and Settlement

The notes will be represented by one or more fully registered global notes that will be deposited with, or on behalf of, The Depository Trust Company (DTC), the depositary for the notes, and registered in the name of Cede & Co., the nominee of DTC. All interests in the global notes will be subject to the operations and procedures of DTC, Euroclear Bank S.A./N.V. (Euroclear) and Clearstream Banking, société anonyme (Clearstream, Luxembourg). A description of DTC s procedures is set forth in the accompanying prospectus under the heading Description of Debt Securities Book-Entry Securities.

Clearstream, Luxembourg and Euroclear hold interests on behalf of their participating organizations through customers securities accounts in Clearstream, Luxembourg s and Euroclear s names on the books of their respective depositaries, which hold those interests in customers securities accounts in the depositaries names on the books of DTC. At the present time, Citibank, N.A. acts as U.S. depositary for Clearstream, Luxembourg and JPMorgan Chase Bank, N.A. acts as U.S. depositary for Euroclear (the U.S. Depositaries).

Clearstream, Luxembourg holds securities for its participating organizations (Clearstream Participants) and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg interfaces with domestic markets in several countries.

Clearstream, Luxembourg is registered as a bank in Luxembourg, and as such is subject to regulation by the Commission de Surveillance du Secteur Financier and the Banque Centrale du Luxembourg, which supervise and oversee the activities of Luxembourg banks. Clearstream, Luxembourg participants are world-wide financial institutions including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations, and may include the underwriters or their affiliates. Indirect access to Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with a Clearstream, Luxembourg participant. Clearstream, Luxembourg has established an electronic bridge with Euroclear as the operator of the Euroclear system (the Euroclear Operator) in Brussels to facilitate settlement of trades between Clearstream, Luxembourg and the Euroclear Operator.

Distributions with respect to the notes held beneficially through Clearstream, Luxembourg will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures, to the extent received by the U.S. Depositary for Clearstream, Luxembourg.

Euroclear holds securities and book-entry interests in securities for participating organizations (Euroclear Participants) and facilitates the clearance and settlement of securities transactions between Euroclear Participants and between Euroclear Participants and participants of certain other securities intermediaries through electronic book-entry changes in accounts of such participants or other securities intermediaries. Euroclear provides Euroclear Participants, among other things, with safekeeping, administration, clearance and settlement, securities lending and borrowing, and related

services. Euroclear Participants are investment banks, securities brokers and dealers, banks, central banks, supranationals, custodians, investment managers, corporations, trust companies and certain other organizations, and may include the underwriters or their affiliates. Non-participants in Euroclear may hold and transfer beneficial interests in a global note through accounts with a participant in the Euroclear system or any other securities intermediary that holds a book-entry interest in a global note through one or more securities intermediaries standing between such other securities intermediary and Euroclear.

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Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear system and applicable Belgian law (collectively, the Terms and Conditions). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants and has no record of or relationship with persons holding through Euroclear Participants.

Distributions with respect to notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions to the extent received by the U.S. Depositary for Euroclear.

Transfers between Euroclear Participants and Clearstream, Luxembourg Participants will be effected in the ordinary way in accordance with their respective rules and operating procedures. Subject to compliance with the transfer restrictions applicable to the global notes described herein or in the accompanying prospectus, cross-market transfers between direct participants in DTC, on the one hand, and Euroclear Participants or Clearstream Participants, on the other hand, will be effected through DTC in accordance with DTC s rules on behalf of Euroclear or Clearstream, Luxembourg, as the case may be, by its U.S. Depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, Luxembourg, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (European time) of such system. Euroclear or Clearstream, Luxembourg, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its U.S. Depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the global note in DTC, and making or receiving payment in accordance with normal procedures for same-day fund settlement applicable to DTC. Euroclear Participants and Clearstream Participants may not deliver instructions directly to their respective U.S. Depositaries.

Due to time zone differences, the securities accounts of a Euroclear or Clearstream Participant purchasing an interest in a global note from a direct participant in DTC will be credited, and any such crediting will be reported to the relevant Euroclear Participant or Clearstream Participant, during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, Luxembourg) immediately following the settlement date of DTC. Cash received in Euroclear or Clearstream, Luxembourg as a result of sales of interests in a global note by or through a Euroclear or Clearstream Participant to a direct participant in DTC will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream, Luxembourg cash account only as of the business day for Euroclear or Clearstream, Luxembourg following DTC s settlement date.

The information in this section concerning Euroclear and Clearstream, Luxembourg and their book-entry systems has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy of that information.

Although Euroclear and Clearstream, Luxembourg have agreed to the foregoing procedures to facilitate transfers of interests in the global notes among Euroclear Participants and Clearstream, Luxembourg Participants, they are under no obligation to perform or to continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the underwriters take any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations.

The Trustee, Registrar and Paying Agent

The Bank of New York Mellon Trust Company, N.A. (as successor in interest to J.P. Morgan Trust Company, National Association) will be the trustee, registrar and paying agent with respect to the notes.

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UNDERWRITING

We and the underwriters named below, for whom Banc of America Securities LLC, J.P. Morgan Securities Inc. and RBS Securities Inc. are acting as representatives, have entered into an underwriting agreement relating to the offering and sale of the notes. In the underwriting agreement, we have agreed to sell to each underwriter, and each underwriter has agreed to purchase from us, the principal amount of the notes set forth opposite the name of that underwriter below:

Underwriter	Principal Amount of Notes
Banc of America Securities LLC	$
J.P. Morgan Securities Inc.	
RBS Securities Inc.	
Total	$

The obligations of the underwriters under the underwriting agreement, including their agreement to purchase the notes from us, are several and not joint. Those obligations are also subject to the satisfaction of certain conditions in the underwriting agreement. The underwriters have agreed to purchase all of the notes if any of them are purchased. We will deliver the notes to the underwriters at the closing of this offering when the underwriters pay us the purchase price for the notes.

In the underwriting agreement, we have agreed that we will indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute in respect of these liabilities.

We estimate that the offering expenses payable by us in connection with the issuance of the notes, excluding underwriting discounts and commissions, will be approximately $. The underwriters have agreed to make a payment to us of $, in reimbursement of a portion of the estimated expenses payable by us in connection with the issuance of the notes.

The notes are new issues of securities with no established trading market. We do not intend to apply for the notes to be listed on any securities exchange or to arrange for the notes to be quoted on any quotation system. The underwriters have advised us that they intend to make a market in the notes. However, they are not obligated to do so and may discontinue any market-making at any time in their sole discretion. Therefore, we cannot assure you that a liquid trading market will develop for the notes, that you will be able to sell your notes at a particular time or that the prices that you receive when you sell will be favorable.

The underwriters initially propose to offer the notes directly to the public at the offering prices described on the cover page of this prospectus supplement, and to certain dealers at prices that represent a concession not in excess of % of the principal amount of the notes. Any underwriter may allow, and any such dealer may re-allow, a concession not in excess of % of the principal amount of the notes to certain other dealers. After the initial offering of the notes, the underwriters may from time to time vary the offering prices and other selling terms.

In connection with the offering, the underwriters may purchase and sell the notes in the open market. These transactions may include short sales, purchases to cover positions created by short sales and stabilizing transactions. Short sales involve the sale by the underwriters of a greater principal amount of notes than they are required to

purchase in the offering. The underwriters may close out any short position by purchasing notes in the open market. A short position is more likely to be created if underwriters are concerned that there may be downward pressure on the price of the notes in the open market prior to the completion of the offering. Stabilizing transactions consist of various bids for or purchases of the notes made by the underwriters in the open market prior to the completion of the offering. Purchases to cover a short position and stabilizing transactions may have the effect of preventing or slowing a decline in the market price of the notes. Additionally, these purchases may stabilize, maintain or otherwise affect the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market. These transactions may be effected in the over-the-counter market or otherwise.

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Certain of the underwriters and their affiliates perform investment banking and other capital markets services for us in the ordinary course of business. They have received customary fees and commissions for these services. In addition, an affiliate of J.P. Morgan Securities Inc. is the administrative agent of, and certain affiliates of the underwriters are, among other things, lenders under, our credit facility dated December 20, 2006.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), each underwriter has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date) it has not made and will not make an offer of notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State at any time:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than 43,000,000; and (3) an annual net turnover of more than 50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives; or

(d) in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of notes to the public in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each underwriter has represented and agreed that:

(a) it has only communicated, or caused to be communicated, and will only communicate, or cause to be communicated, any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (as amended) (the FSMA)), received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(b) it has complied, and will comply, with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

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LEGAL MATTERS

David P. Scharf, Baxter s Corporate Vice President, Deputy General Counsel and Corporate Secretary, will pass upon certain legal matters for us with respect to the securities. Mr. Scharf owns shares of, and options on, Baxter common stock, both directly and as a participant in various stock and employee benefit plans. Certain legal matters for the underwriters with respect to the securities will be passed upon by Sidley Austin LLP, Chicago, Illinois. Sidley Austin LLP has represented us from time to time on various unrelated legal matters.

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PROSPECTUS

Baxter International Inc.

Debt Securities

By this prospectus, we may offer debt securities from time to time.

This prospectus describes some of the general terms that may apply to these debt securities. We will provide you with the specific terms and the offering prices of these debt securities in supplements to this prospectus. The prospectus supplements may also add, update or change information contained in this prospectus. You should read this prospectus and any prospectus supplement, as well as the documents incorporated and deemed to be incorporated by reference in this prospectus, carefully before you invest. This prospectus may not be used to offer and sell debt securities unless accompanied by a prospectus supplement or a free writing prospectus.

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

We may sell these securities on a continuous or delayed basis directly, through agents, dealers or underwriters as designated from time to time, or through a combination of these methods. We reserve the sole right to accept, and together with any agents, dealers and underwriters, reserve the right to reject, in whole or in part, any proposed purchase of securities. If any agents, dealers or underwriters are involved in the sale of any securities, the applicable prospectus supplement will set forth any applicable commissions or discounts. Our net proceeds from the sale of securities also will be set forth in the applicable prospectus supplement.

This prospectus is dated July 31, 2009.

You should rely only on the information incorporated by reference or provided in this prospectus. Baxter International Inc. has not authorized anyone to provide you with different information. You should not assume that the information provided in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents, as applicable. This prospectus does not constitute an offer to sell or a solicitation of an offer to buy by anyone in any jurisdiction in which such offer or solicitation is not authorized, or in which the person is not qualified to do so, or to any person to whom it is unlawful to make such offer or solicitation.

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Prospectus

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ABOUT THIS PROSPECTUS

This prospectus is part of an automatic shelf registration statement that we have filed with the Securities and Exchange Commission (the SEC) as a well-known seasoned issuer as defined in Rule 405 under the Securities Act of 1933, as amended. Under the shelf registration process, we may, at any time and from time to time, in one or more offerings, sell debt securities under this prospectus.

The exhibits to our registration statement contain the full text of certain contracts and other important documents we have summarized in this prospectus. Since these summaries may not contain all the information that you may find important in deciding whether to purchase the securities we offer, you should review the full text of these documents. The registration statement and the exhibits can be obtained from the SEC as indicated under the heading Where You Can Find More Information.

This prospectus only provides you with a general description of the debt securities we may offer. Each time we sell debt securities, we will provide a prospectus supplement that contains specific information about the terms of the offering, including the specific amounts, prices and terms of the debt securities offered. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with the additional information described below under the heading Where You Can Find More Information before making an investment decision.

References in this prospectus to Baxter, we, us and our are to Baxter International Inc. and its subsidiaries, except as otherwise indicated.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public from the SEC s website at *http://www.sec.gov*. You may also read and copy any document we file with the SEC at the SEC s Public Reference Room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. Information about us, including our SEC filings, is also available through our website at *http://www.baxter.com*. However, information on our website is not a part of this prospectus or the accompanying prospectus supplement.

This prospectus is part of a registration statement on Form S-3 filed by us with the SEC under the Securities Act of 1933. As permitted by SEC rules, this prospectus does not contain all of the information included in the registration statement and the accompanying exhibits filed with the SEC. You may refer to the registration statement and its exhibits for more information.

The SEC allows us to incorporate by reference in this prospectus information that we file with it, which means that we are disclosing important business and financial information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and information that we file later with the SEC will automatically update and supersede information contained in documents filed earlier with the SEC or contained in this prospectus. This prospectus incorporates by reference the documents filed by us listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 prior to the termination of the offering under this prospectus; *provided*, *however*, that we are not incorporating, in each case, any documents or information deemed to have been furnished and not filed in accordance with SEC rules:

Annual Report on Form 10-K for the year ended December 31, 2008;

Quarterly Reports on Form 10-Q for the quarters ended March 31, 2009 and June 30, 2009; and

Current Reports on Form 8-K, filed with the SEC on February 26, 2009 and April 24, 2009.

You may also request a copy of those filings, excluding exhibits unless such exhibits are specifically incorporated by reference, at no cost by writing or telephoning us at the following address:

Corporate Secretary
Baxter International Inc.
One Baxter Parkway
Deerfield, Illinois 60015
(847) 948-2000

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THE COMPANY

Baxter International Inc. was incorporated under Delaware law in 1931. Baxter develops, manufactures and markets products that save and sustain the lives of people with hemophilia, immune disorders, infectious diseases, kidney disease, trauma and other chronic and acute medical conditions. As a global, diversified healthcare company, Baxter applies a unique combination of expertise in medical devices, pharmaceuticals and biotechnology to create products that advance patient care worldwide. These products are used by hospitals, kidney dialysis centers, nursing homes, rehabilitation centers, doctors offices, clinical and medical research laboratories, and by patients at home under physician supervision.

The BioScience, Medication Delivery and Renal segments comprise Baxter s continuing operations.

BioScience. The BioScience business manufactures recombinant and plasma-based proteins to treat hemophilia and other bleeding disorders; plasma-based therapies to treat immune deficiencies, alpha 1-antitrypsin deficiency, burns and shock, and other chronic and acute blood-related conditions; products for regenerative medicine, such as biosurgery products and technologies used in adult stem-cell therapies; and vaccines.

Medication Delivery. The Medication Delivery business manufactures intravenous (IV) solutions and administration sets, premixed drugs and drug-reconstitution systems, pre-filled vials and syringes for injectable drugs, IV nutrition products, infusion pumps, and inhalation anesthetics, as well as products and services related to pharmacy compounding, drug formulation and packaging technologies.

Renal. The Renal business provides products to treat end-stage renal disease, or irreversible kidney failure. The business manufactures solutions and other products for peritoneal dialysis (PD), a home-based therapy, and also distributes products for hemodialysis (HD), which is generally conducted in a hospital or clinic.

Baxter manufactures products in 26 countries and sells them in over 100 countries. Baxter employs about 48,500 people. Baxter s corporate offices are located at One Baxter Parkway, Deerfield, Illinois 60015, and the telephone number is (847) 948-2000.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for the years and period indicated:

	Six Months Ended June 30,	Years Ended December 31,				
	2009	2008	2007	2006	2005	2004
Ratio of earnings to fixed charges(1)	14.49	12.17	12.26	11.56	7.27	3.16

(1) For purposes of computing the ratios, (i) earnings consist of income from continuing operations before income taxes, plus fixed charges less capitalized interest costs, as adjusted for net losses or net gains of less than majority-owned affiliates, net of dividends and (ii) fixed charges consist of interest costs and estimated interest in rentals and exclude interest on uncertain tax positions. The ratio of earnings to fixed charges reflects the

January 1, 2009 adoption of a new accounting standard that requires a company to present a consolidated net income measure that includes the amount attributable to noncontrolling interests (historically referred to as minority interests) for all periods presented. Prior to January 1, 2009, the noncontrolling interests share of net income was included in other (income) expense, net. All prior years presented have been restated in accordance with this standard.

Income from continuing operations before income taxes includes certain significant items as follows:

2008: $125 million charge relating to infusion pumps, $31 million impairment charge and $19 million of charges relating to acquired in-process and collaboration research and development (IPR&D).

2007: $70 million charge for restructuring, $56 million charge relating to litigation and $61 million of charges relating to acquired IPR&D.

2006: $76 million charge relating to infusion pumps.

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2005: $109 million benefit relating to restructuring charge adjustments, $126 million of charges relating to infusion pumps and a $50 million charge relating to the exit of hemodialysis instrument manufacturing.

2004: $543 million charge for restructuring, $289 million charge for impairments and $115 million for other special charges.

Excluding these significant items, the ratio of earnings to fixed charges was 12.97, 13.25, 12.02, 7.56 and 8.04 in 2008, 2007, 2006, 2005, and 2004, respectively.

Please refer to the financial statements and financial information incorporated by reference in this prospectus for more information relating to the foregoing. See Where You Can Find More Information.

USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement accompanying this prospectus, the net proceeds from the sale of the debt securities to which this prospectus relates will be used for general corporate purposes. General corporate purposes may include repayment and refinancing of debt, acquisitions, additions to working capital, capital expenditures, stock repurchase programs and investments in our subsidiaries. Net proceeds may be temporarily invested prior to use.

DESCRIPTION OF DEBT SECURITIES

The debt securities will be issued under the indenture dated as of August 8, 2006 between us and The Bank of New York Mellon Trust Company, N.A. (as successor to J.P. Morgan Trust Company, National Association), as trustee, as subsequently supplemented. We have summarized selected provisions of the indenture and the debt securities below. This summary is not complete and is qualified in its entirety by reference to the indenture. A copy of the indenture is filed with the SEC as an exhibit to the registration statement relating to this prospectus and you should refer to the indenture for provisions that may be important to you. For purposes of this summary, the terms we, our, ours and us refer only to Baxter and not to any of our subsidiaries.

You should carefully read the summary below, the applicable prospectus supplement and the provisions of the indenture before investing in our debt securities.

General

We may issue debt securities at any time and from time to time in one or more series without limitation on the aggregate principal amount. The indenture gives us the ability to reopen a previous issue of a series of debt securities and issue additional debt securities of the same series. We will describe the particular terms of each series of debt securities we offer in a supplement to this prospectus. If any particular terms of the debt securities described in a prospectus supplement differ from any of the terms described in this prospectus, then the terms described in the applicable prospectus supplement will supercede the terms described in this prospectus. The terms of our debt securities will include those set forth in the indenture and those made a part of the indenture by the Trust Indenture Act of 1939.

Unless otherwise indicated in the prospectus supplement, principal of, premium, if any, and interest on the debt securities will be payable, and the transfer of debt securities will be registrable, at any office or agency maintained by Baxter for that purpose. The debt securities will be issued only in fully registered form without coupons and, unless otherwise indicated in the applicable prospectus supplement, in denominations of $1,000 or integral multiples thereof.

No service charge will be made for any registration of transfer or exchange, redemption or repayment of the debt securities, but Baxter may require you to pay a sum sufficient to cover any tax or other governmental charge imposed in connection with the transfer or exchange.

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Terms

We will describe the specific terms of the series of debt securities being offered in a supplement to this prospectus. These terms will include some or all of the following:

the title of the debt securities;

any limit on the aggregate principal amount of the debt securities;

the date or dates on which the principal and premium, if any, of the debt securities will be payable or the method used to determine or extend those dates;

any interest rate on the debt securities, any date from which interest will accrue, any interest payment dates and regular record dates for interest payments, or the method used to determine any of the foregoing;

any foreign currency, currencies or currency units in which payments on the debt securities will be payable and the manner for determining the equivalent amount in U.S. currency;

any provisions for payments on the debt securities in one or more currencies or currency units other than those in which the debt securities are stated to be payable;

any provisions that would determine payments on the debt securities by reference to an index, formula or other method;

the place or places where payments on the debt securities will be payable, the debt securities may be presented for registration of transfer or exchange, and notices and demands to or upon us relating to the debt securities may be made;

any provisions for redemption of the debt securities;

any provisions that would allow or obligate us to redeem, purchase or repay the debt securities prior to their maturity pursuant to any sinking fund or analogous provision or at the option of the holder;

the terms of any right or obligation to convert or exchange the debt securities into any other securities or property;

the denominations in which we will issue the debt securities, if other than denominations of an integral multiple of $1,000;

the portion of the principal amount of the debt securities that will be payable if the maturity of the debt securities is accelerated, if other than the entire principal amount;

the applicability of the provisions described below under Satisfaction and Discharge or such other means of satisfaction or discharge;

any variation of the defeasance and covenant defeasance sections of the indenture and the manner in which our election to defease the debt securities will be evidenced, if other than by a board resolution;

the appointment of any paying agents for the debt securities, if other than the trustee;

if varying from the description herein, whether we will issue the debt securities in the form of temporary or permanent global securities, the depositories for the global securities, and provisions for exchanging or transferring the global securities;

any deletion or addition to or change in the events of default for the debt securities and any change in the rights of the trustee or the holders of the debt securities arising from an event of default including, among others, the right to declare the principal amount of the debt securities due and payable;

any addition to or change in the covenants in the indenture;

any restriction or condition on the transferability of the debt securities;

any subordination provisions and related definitions in the case of subordinated debt securities;

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any additions or changes to the indenture necessary to issue the debt securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons; and

any other terms of the debt securities consistent with the indenture.

Any limit on the maximum total principal amount for any series of the debt securities may be increased by resolution of our board of directors. We may sell the debt securities, including original issue discount securities, at a substantial discount below their stated principal amount. If there are any special United States federal income tax considerations applicable to debt securities we sell at an original issue discount, we will describe them in the prospectus supplement. In addition, we will describe in the prospectus supplement any special United States federal income tax considerations and any other special considerations for any debt securities we sell that are denominated in a currency or currency unit other than U.S. currency.

Ranking

Unless otherwise indicated in the prospectus supplement, the debt securities offered by this prospectus will:

be our general unsecured obligations,

rank equally with all of our other unsecured and unsubordinated indebtedness, and

with respect to the assets and earnings of our subsidiaries, effectively rank below all of the liabilities of our subsidiaries.

A substantial portion of our assets are owned through our subsidiaries, many of which have significant debt or other liabilities of their own which will be structurally senior to the debt securities. Unless otherwise indicated in the prospectus supplement, none of our subsidiaries will have any obligations with respect to the debt securities. Therefore, Baxter s rights and the rights of Baxter s creditors, including holders of debt securities, to participate in the assets of any subsidiary upon any such subsidiary s liquidation may be subject to the prior claims of the subsidiary s other creditors.

Subject to the exceptions, and subject to compliance with the applicable requirements set forth in the indenture, we may discharge our obligations under the indenture with respect to our debt securities as described below under Defeasance and Covenant Defeasance.

Optional Redemption

Unless otherwise indicated in the prospectus supplement, the debt securities will be redeemable in whole or in part, at the option of Baxter, at any time at a redemption price set forth in the prospectus supplement to be determined at the time the debt securities are issued. Notice of any redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of debt securities to be redeemed. Unless a default occurs in payment of the redemption price, from and after the redemption date interest will cease to accrue on the debt securities or portions thereof called for redemption.

Certain Covenants

Restrictions on the creation of secured debt. Unless otherwise indicated in the prospectus supplement, Baxter will not, and will not cause or permit any restricted subsidiary to, create, incur, assume or guarantee any indebtedness that

is secured by a security interest in any principal facilities of Baxter or any restricted subsidiary or in shares of stock owned directly or indirectly by Baxter in any restricted subsidiary or in indebtedness for money borrowed by one of its restricted subsidiaries from Baxter or another of the restricted subsidiaries (secured debt) unless the debt securities then outstanding and any other indebtedness of or guaranteed by Baxter or such restricted subsidiary then entitled to be so secured is secured equally and ratably

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with or prior to any and all other obligations and indebtedness thereby secured, with exceptions as listed in the indenture. These restrictions do not apply to indebtedness secured by:

any security interest on any property which is a parcel of real property at a manufacturing plant, a warehouse or an office building and which is acquired, constructed, developed or improved by Baxter or a restricted subsidiary, which security interest secures or provides for the payment of all or any part of the acquisition cost of the property or the cost of the construction, development or improvement of the property and which security interest is created prior to, at the same time as, or within 120 days after (i) in the case of the acquisition of property, the completion of the acquisition of the property and (ii) in the case of construction, development or improvement of property, the later to occur of the completion of such construction, development or improvement or the commencement of operation, use or commercial production of the property;

any security interest on property existing at the time of the acquisition of such property by Baxter or a restricted subsidiary which security interest secures obligations assumed by Baxter or a restricted subsidiary;

any security interest arising from conditional sales agreements or title retention agreements with respect to property acquired by Baxter or any restricted subsidiary;

security interests existing on the property or on the outstanding shares or indebtedness of a corporation or firm at the time the corporation or firm becomes a restricted subsidiary or is merged or consolidated with Baxter or a restricted subsidiary or at the time the corporation or firm sells, leases or otherwise disposes of its property as an entirety or substantially as an entirety to Baxter or a restricted subsidiary;

security interests securing indebtedness of a restricted subsidiary to Baxter or to another restricted subsidiary;

mechanics and other statutory liens arising in the ordinary course of business in respect of obligations which are not due or which are being contested in good faith;

security interests arising by reason of deposit with, or the giving of any form of security to, any governmental agency which is required by law as a condition to the transaction of any business;

security interests for taxes, assessments or governmental charges or levies not yet delinquent or security interests for taxes, assessments or governmental charges or levies already delinquent but which are being contested in good faith;

security interests arising in connection with legal proceedings, including judgment liens, so long as the proceedings are being contested in good faith and, in the case of judgment liens, the execution has been stayed;

landlords liens on fixtures leased by Baxter or a restricted subsidiary in the ordinary course of business;

security interests arising in connection with contracts and subcontracts with or made at the request of the United States, any state, or any department, agency or instrumentality of the United States or any state;

security interests that secure an obligation issued by the United States or any state, territory or possession of the United States or any of their political subdivisions or the District of Columbia, in connection with the financing of the cost of construction or acquisition of a principal facility or a part of a principal facility;

security interests by reason of deposits to qualify Baxter or a restricted subsidiary to conduct business, to maintain self-insurance, or to obtain the benefits of, or comply with, laws;

the extension of any security interest existing on the date of the indenture on a principal facility to additions, extensions or improvements to the principal facility and not as a result of borrowing money or the securing of indebtedness incurred after the date of the indenture; or

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any extension, renewal or refunding, or successive extensions, renewals or refundings, in whole or in part of any secured debt secured by any security interest listed above, provided that the principal amount of the secured debt secured thereby does not exceed the principal amount outstanding immediately prior to the extension, renewal or refunding and that the security interest securing the secured debt is limited to the property which, immediately prior to the extension, renewal or refunding, secured the secured debt and additions to the property.

For purposes of the indenture, principal facilities are any manufacturing plants, warehouses, office buildings and parcels of real property owned by Baxter or any restricted subsidiary, provided each such facility has a gross book value, without deduction for any depreciation reserves, in excess of 2% of Baxter s consolidated net tangible assets other than any facility that is determined by Baxter s board of directors to not be of material importance to the business conducted by Baxter and its subsidiaries taken as a whole. For purposes of the indenture, consolidated net tangible assets are the total amount of assets that would be included on Baxter s consolidated balance sheet under generally accepted accounting principles after deducting all short-term liabilities and liability items, except for indebtedness payable more than one year from the date of incurrence and all goodwill, trade names, trademarks, patents, unamortized debt discount and unamortized expense incurred in the issuance of debt and other like intangibles, except for prepaid royalties.

Notwithstanding the limitations on secured debt described above, Baxter and any restricted subsidiary may create, incur, assume or guarantee secured debt, without equally and ratably securing the debt securities, provided that the sum of such secured debt and all other secured debt entered into after the date of the indenture, other than secured debt permitted as described in the bullet points above, does not exceed 15% of Baxter s consolidated net tangible assets.

For purposes of the indenture, a restricted subsidiary is any corporation in which Baxter owns voting securities entitling it to elect a majority of the directors and which is either designated as a restricted subsidiary in accordance with the indenture or:

existed as such on the date of the indenture or is the successor to, or owns, any equity interest in, a corporation which so existed;

has its principal business and assets in the United States;

the business of which is other than the obtaining of financing in capital markets outside the United States or the financing of the acquisition or disposition of real or personal property or dealing in real property for residential or office building purposes; and

does not have assets substantially all of which consist of securities of one or more corporations which are not restricted subsidiaries.

Restrictions on Mergers, Consolidations and Transfers of Assets. Unless otherwise indicated in the prospectus supplement, Baxter will not consolidate with or merge into or sell, transfer or lease all or substantially all of its respective properties and assets to another person unless:

in the case of a merger, Baxter is the surviving corporation, or

the person into which Baxter is merged or which acquires all or substantially all of the properties and assets of Baxter expressly assumes all of the obligations of Baxter relating to the debt securities and the indenture.

Upon any of the consolidation, merger or transfer, the successor corporation will be substituted for Baxter under the indenture. The successor corporation may then exercise all of the powers and rights of Baxter under the indenture, and Baxter will be released from all of its obligations and covenants under the debt securities and the indenture. If Baxter leases all or substantially all of its assets, the lessee corporation will be the successor and may exercise all of the respective powers and rights under the indenture but Baxter will not be released from its obligations and covenants under the debt securities and the indenture.

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Events of Default

The indenture defines an event of default with respect to any series of debt securities. Unless we inform you otherwise in the prospectus supplement, each of the following will be an event of default under the indenture for any series of debt securities:

- our failure to pay interest on any of the debt securities when due, and continuance of the default for a period of 30 days;
- our failure to pay principal or premium, if any, on that series of debt securities when due, whether at maturity or otherwise;
- our failure to perform, or our breach, of any covenant or warranty in the indenture in respect of that series, other than a covenant or warranty included in the indenture solely for the benefit of another series of debt securities, and continuance of that failure or breach, without that failure or breach having been cured or waived, for a period of 90 days after the trustee gives notice to us or, in the case of notice by the holders, the holders of not less than 25% in aggregate principal amount of the outstanding debt securities of that series give notice to us and the trustee, specifying the default or breach;
- specified events involving our bankruptcy, insolvency or reorganization; or
- any other event of default we may provide for that series.

Additional or different events of default applicable to a series of debt securities may be described in a prospectus supplement. An event of default under one series of debt securities does not necessarily constitute an event of default under any other series of debt securities. The indenture provides that, within 90 days after the occurrence of any default with respect to a series of debt securities, the trustee will mail to all holders of debt securities of such series notice of the default, unless the default has been cured or waived. However, the indenture provides that the trustee may withhold notice of a default with respect to a series of debt securities, except a default in payment of principal, premium, if any, or interest, if any, if the trustee considers it in the best interest of the holders to do so. In the case of a default in the performance, or breach, of any covenant or warranty in the indenture or in respect of a series of debt securities, no notice will be given until at least 30 days after the occurrence of the default or breach. As used in this paragraph, the term default means any event which is, or after notice or lapse of time or both would become, an event of default with respect to a series of debt securities.

The indenture provides that if an event of default, other than an event of default relating to events of bankruptcy, insolvency or reorganization, with respect to a series of debt securities occurs and is continuing, either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series may declare the principal of, and accrued and unpaid interest, if any, on, the debt securities in that series to be due and payable immediately. The indenture also provides that if an event of default relating to events of bankruptcy, insolvency or reorganization with respect to a series of debt securities occurs then the principal of, and accrued and unpaid interest, if any, on, all the debt securities of that series will automatically become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder of the debt securities. However, upon specified conditions, the holders of a majority in aggregate principal amount of the outstanding debt securities of a series may rescind and annul an acceleration of the debt securities of that series and its consequences.

Subject to the provisions of the Trust Indenture Act of 1939 requiring the trustee, during the continuance of an event of default under the indenture, to act with the requisite standard of care, the trustee is under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders of debt securities unless

those holders have offered to the trustee security or indemnity satisfactory to the trustee against the costs, expenses and liabilities that may be incurred by taking such action.

Subject to this requirement, holders of a majority in aggregate principal amount of the outstanding debt securities of a series have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee under the indenture with respect to the debt securities of such series.

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The indenture requires the annual filing with the trustee of a certificate signed by the principal executive officer, the principal financial officer or the principal accounting officer of Baxter that states whether Baxter is in default under the terms, provisions or conditions of the indenture.

Notwithstanding any other provision of the indenture, the holder of a debt security will have the right, which is absolute and unconditional, to receive payment of the principal of, and premium, if any, and interest, if any, on that debt security on the respective due dates for those payments and to institute suit for the enforcement of those payments, and this right will not be impaired without the consent of the holder.

Modification and Waivers

The indenture permits Baxter and the trustee, with the consent of the holders of a majority in aggregate principal amount of the outstanding debt securities of a series affected by a modification or amendment, to modify or amend any of the provisions of the indenture or of the debt securities or the rights of the holders of the debt securities under the indenture. However, no modification or amendment may, without the consent of the holder of each outstanding debt security affected by the modification or amendment, among other things:

change the stated maturity of the principal of, or premium, if any, or any installment of interest, if any, with respect to the debt securities;

reduce the principal of or any premium on the debt securities or reduce the rate of interest on or the redemption or repurchase price of the debt securities;

change any place where or the currency in which the principal of, any premium or interest on, any debt security is payable;

impair the holder s right to institute suit to enforce any payment on or after the stated maturity of the debt securities or, in the case of redemption, on or after the redemption date;

reduce the percentage in principal amount of outstanding debt securities whose holders must consent to any modification or amendment or any waiver of compliance with specific provisions of the indenture or specified defaults under the indenture and their consequences;

make certain modifications to the provisions for modification of the indenture and for certain waivers, except to increase the principal amount of outstanding debt securities necessary to consent to any such change; or

make any change that adversely affects the right, if any, to convert or exchange any debt security for common stock or other securities in accordance with its terms.

The indenture also contains provisions permitting Baxter and the trustee, without the consent of the holders of the debt securities, to modify or amend the indenture, among other things:

to convey to the trustee as security for the debt securities any property or assets which Baxter may desire;

to evidence succession of another corporation to Baxter, or its successors, and the assumption by the successor corporation of the covenants, agreements and obligations of Baxter;

to add covenants and agreements of Baxter to those included in the indenture for the protection of holders of debt securities and to make the occurrence of a default of any such covenants or agreements a default or an

event of default permitting enforcement of the remedies set forth in the indenture;

to add, delete or modify the events of default with respect to any series of debt securities the form and terms of which are being established pursuant to such supplemental indenture;

to prohibit the authentication and delivery of additional series of debt securities under the indenture;

to cure any ambiguity or correct or supplement any provision contained in the indenture or any supplemental indenture which may be defective or inconsistent with any other provisions contained therein;

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to make such other provisions in regard to matters or questions arising under the indenture as are not inconsistent with the provisions of the indenture or any supplemental indenture and shall not adversely affect the interests of the holders of the debt securities in any material respect;

to establish the form and terms of debt securities of any series issued under the indenture; or

to evidence and provide for acceptance of appointment under the indenture by a successor trustee with respect to the debt securities of one or more series or to add to or change any of the provisions of the indenture as shall be necessary to provide for or facilitate the administration of the trusts under the indenture by more than one trustee.

The holders of a majority in aggregate principal amount of the outstanding debt securities may waive our compliance with some of the restrictive provisions of the indenture. The holders of a majority in aggregate principal amount of the outstanding debt securities may, on behalf of all holders of debt securities, waive any past default under the indenture with respect to the debt securities and its consequences, except a default in the payment of the principal of, or premium, if any, or interest, if any, on the debt securities or a default in respect of a covenant or provision which cannot be modified or amended without the consent of the holder of each outstanding debt security.

In order to determine whether the holders of the requisite principal amount of the outstanding debt securities have taken an action under an indenture as of a specified date:

the principal amount of an original issue discount security that will be deemed to be outstanding will be the amount of the principal that would be due and payable as of that date upon acceleration of the maturity to that date,

if, as of that date, the principal amount payable at the stated maturity of a debt security is not determinable, for example, because it is based on an index, the principal amount of the debt security deemed to be outstanding as of that date will be an amount determined in the manner prescribed for the debt security,

the principal amount of a debt security denominated in one or more foreign currencies or currency units that will be deemed to be outstanding will be the U.S. currency equivalent, determined as of that date in the manner prescribed for the debt security, of the principal amount of the debt security or, in the case of a debt security described in the two preceding bullet points, of the amount described above, and

debt securities owned by us or any other obligor upon the debt securities or any of our or their affiliates will be disregarded and deemed not to be outstanding.

Satisfaction and Discharge

Upon the direction of Baxter, the indenture will cease to be of further effect with respect to any debt security specified, subject to the survival of specified provisions of the indenture, when:

either

all debt securities issued under the indenture, subject to exceptions, have been delivered to the trustee for cancellation, or

all debt securities issued under the indenture have become due and payable or will become due and payable at their stated maturity within one year or are to be called for redemption within one year and Baxter has deposited with the trustee, in trust, funds in United States dollars, or direct or indirect obligations of the United States (government obligations) in an amount sufficient to pay the entire indebtedness on the debt securities including the principal, premium, if any, interest, if any, to the date of the deposit, if the debt securities have become due and payable, or to the maturity or redemption date of the debt securities, as the case may be;

Baxter has paid all other sums payable under the indenture with respect to the outstanding debt securities issued under the indenture; and

the trustee has received each officer s certificate and opinion of counsel called for by the indenture.

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Defeasance and Covenant Defeasance

Baxter may elect with respect to the debt securities issued under the indenture either

to defease and be discharged from all of its obligations with respect to the outstanding debt securities (defeasance), except for, among other things,

the obligation to register the transfer or exchange of the debt securities,

the obligation to replace temporary or mutilated, destroyed, lost or stolen debt securities,

the obligation to maintain an office or agency in respect of the debt securities, and

the obligation to hold monies for payment in trust, or

to be released from its obligations with respect to the debt securities under specified covenants in the indenture including those described under the heading Certain Covenants Restrictions on the creation of secured debt , and any omission to comply with those obligations will not constitute a default or an event of default with respect to the debt securities (covenant defeasance),

in either case upon the irrevocable deposit by Baxter with the trustee, or other qualifying trustee, in trust for that purpose, of an amount in United States dollars and/or government obligations which, through the payment of principal and interest in accordance with their terms, will provide money in an amount sufficient to pay the principal, premium, if any, and interest, if any, on the due dates for those payments.

The defeasance or covenant defeasance described above will only be effective if, among other things:

it will not result in a breach or violation of, or constitute a default under, the indenture or any other material agreement or instrument to which Baxter is a party or is bound;

in the case of defeasance, Baxter will have delivered to the trustee an opinion of independent counsel confirming that

Baxter has received from or there has been published by the Internal Revenue Service a ruling, or

since the date of the indenture there has been a change in applicable federal income tax law,

in either case to the effect that, and based on this ruling or change in law, the opinion of counsel will confirm that the holders of the debt securities then outstanding will not recognize income, gain or loss for federal income tax purposes as a result of the defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the defeasance had not occurred;

in the case of covenant defeasance, Baxter will have delivered to the trustee an opinion of independent counsel to the effect that the holders of the debt securities then outstanding will not recognize income, gain or loss for federal income tax purposes as a result of the covenant defeasance and will be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the covenant defeasance had not occurred;

if the cash and/or government obligations deposited are sufficient to pay the principal of, and premium, if any, and interest, if any, with respect to the debt securities provided the debt securities are redeemed on a particular redemption date, Baxter will have given the trustee irrevocable instructions to redeem the debt securities on that date; and

no event of default or event which with notice or lapse of time or both would become an event of default with respect to the debt securities will have occurred and be continuing on the date of the deposit into trust, and, solely in the case of defeasance, no event of default or event which with notice or lapse of time or both would become an event of default arising from specified events of bankruptcy, insolvency or reorganization with respect to Baxter will have occurred and be continuing during the period through and including the 91st day after the date of the deposit into trust.

In the event covenant defeasance is effected with respect to the debt securities and those debt securities are declared due and payable because of the occurrence of any event of default other than an event of default

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with respect to the covenants as to which covenant defeasance has been effected, which would no longer be applicable to the debt securities after covenant defeasance, the amount of monies and/or government obligations deposited with the trustee to effect covenant defeasance may not be sufficient to pay amounts due on the debt securities at the time of any acceleration resulting from that event of default. However, Baxter would remain liable to make payment of those amounts due at the time of acceleration.

Book-Entry Securities

Unless otherwise indicated in the prospectus supplement, the debt securities will be issued in the form of one or more fully registered global notes that will be deposited with, or on behalf of, The Depository Trust Company, New York, New York (DTC) and registered in the name of DTC s nominee, Cede & Co. Global notes are not exchangeable for definitive note certificates except in the specific circumstances described below. For purposes of this prospectus, Global Note refers to the Global Note or Global Notes representing an entire issue of debt securities. So long as DTC, or its nominee, is the registered owner of a Global Note, DTC or the nominee, as the case may be, will be considered the sole owner or holder of such debt securities under the indenture. Except as provided below, you will not be entitled to have debt securities registered in your name, will not receive or be entitled to receive physical delivery of debt securities in definitive form, and will not be considered the owner or holder thereof under the indenture.

Except as set forth below, a Global Note may be transferred, in whole or in part, only to another nominee of DTC or to a successor of DTC or its nominee.

DTC has advised us that it is:

a limited-purpose trust company under New York Banking law;

a banking organization within the meaning of the New York Banking law;

a member of the Federal Reserve System;

a clearing corporation within the meaning of the New York Uniform Commercial Code; and

a clearing agency registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934.

DTC holds securities that its participants deposit with DTC and facilitates the settlement of transactions among its participants in such securities, through electronic computerized book-entry changes in participants accounts, thereby eliminating the need for physical movement of securities certificates. DTC s direct participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. Access to the DTC system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of debt securities under the DTC system must be made by or through direct participants, which will receive a credit for the debt securities on DTC s records. The ownership interest of each actual purchaser of each debt security will be recorded on the direct and indirect participants records. These beneficial owners will not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the debt securities are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in debt securities, except

in the event that use of the book-entry system for the debt securities is discontinued.

To facilitate subsequent transfers, all debt securities deposited by participants with DTC are registered in the name of DTC s partnership nominee, Cede & Co. The deposit of debt securities with DTC and their registration in the name of Cede & Co. will not change the beneficial ownership of the debt securities. DTC has no knowledge of the actual beneficial owners of the debt securities; DTC s records reflect only the identity of the direct participants

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to whose accounts such debt securities are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices will be sent to DTC. If less than all of the debt securities of a series are being redeemed, DTC s practice is to determine by lot the amount of the interest of each direct participant in such series to be redeemed.

In any case where a vote may be required with respect to the debt securities of any series, neither DTC nor its nominee will consent or vote with respect to such debt securities. Under its usual procedures DTC mails an omnibus proxy to Baxter as soon as possible after the record date. The omnibus proxy assigns Cede & Co. s consenting or voting rights to those direct participants to whose accounts interests in the debt securities of the series are credited on the record date (identified in the listing attached to the omnibus proxy).

Principal and interest payments, if any, on the debt securities will be made to Cede & Co, as nominee of DTC. DTC s practice is to credit direct participants accounts, upon DTC s receipt of funds and corresponding detail information from Baxter or the trustee, on the applicable payment date in accordance with their respective holdings shown on DTC s records. Payments by participants to beneficial owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in street name, and will be the responsibility of such participant and not of DTC, Baxter or the trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. is the responsibility of us or the trustee. Disbursement of payments from Cede & Co. to direct participants is DTC s responsibility. Disbursements of payments to beneficial owners is the responsibility of direct and indirect participants.

In any case where we have made a tender offer for the purchase of any debt securities, a beneficial owner must give notice through a participant to a tender agent to elect to have its debt securities purchased or tendered. The beneficial owner must deliver debt securities by causing the direct participants to transfer the participant s interest in the debt securities, on DTC s records, to a tender agent. The requirement for physical delivery of debt securities in connection with an optional tender or a mandatory purchase is satisfied when the ownership rights in the debt securities are transferred by direct participants on DTC s records and followed by a book-entry credit of tendered debt securities to the tender agent s DTC account.

We obtained the information in this section concerning DTC and DTC s book-entry system from sources that we believe to be reliable, but we take no responsibility for the accuracy of this information.

Weighted average shares outstanding:

Basic			
114.9	114.4	114.9	114.4
Outstanding stock options impact			
-	-	.2	-
Diluted			
114.9	114.4	115.1	114.4

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Six months ended June 30,	
	2007	2008
	(unaudited)	
Cash flows from operating activities:		
Net income (loss)	$ 21.2	$ (6.1)
Depreciation and amortization	32.6	34.1
Benefit plan expense greater (less) than cash funding requirements:		
Defined benefit pension expense	(2.5)	(7.0)
Other postretirement benefit expense	.3	.2
Deferred income taxes	28.0	(13.5)
Minority interest	3.0	1.4
Equity in:		
TIMET	(26.9)	-
Other	(.5)	.6
Net distributions from (contributions to) Ti02 manufacturing joint venture	(1.4)	2.9
Other, net	2.2	2.6
Change in assets and liabilities:		
Accounts and other receivables, net	(50.2)	(73.0)
Inventories, net	(3.7)	14.9
Accounts payable and accrued liabilities	(8.7)	1.3
Accounts with affiliates	(10.4)	10.4
Income taxes	6.7	(6.8)
Other, net	(1.3)	(2.0)
Net cash used in operating activities	(11.6)	(40.0)
Cash flows from investing activities:		
Capital expenditures	(22.8)	(40.6)
Capitalized permit costs	(5.0)	(7.2)
Purchases of:		
CompX common stock	-	(1.0)
TIMET common stock	(.7)	-
Marketable securities	(17.2)	(5.6)
Proceeds from disposal of marketable securities	20.9	4.9
Change in restricted cash equivalents, net	2.4	(4.5)
Other, net	2.0	1.7
Net cash used in investing activities	(20.4)	(52.3)

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

(In millions)

	Six months ended June 30,	
	2007	2008
	(unaudited)	
Cash flows from financing activities:		
Indebtedness:		
Borrowings	$ 177.6	$ 216.6
Principal payments	(159.7)	(181.9)
Deferred financing costs paid	-	(.9)
Valhi cash dividends paid	(22.8)	(22.7)
Distributions to minority interest	(4.4)	(3.7)
Treasury stock acquired	(3.1)	-
Issuance of common stock and other	1.0	-
Net cash provided by (used in) financing activities	(11.4)	7.4
Cash and cash equivalents - net change from:		
Operating, investing and financing activities	(43.4)	(84.9)
Currency translation	1.2	2.0
Cash and cash equivalents at beginning of period	189.2	138.3
Cash and cash equivalents at end of period	$ 147.0	$ 55.4
Supplemental disclosures:		
Cash paid for:		
Interest, net of amounts capitalized	$ 30.6	$ 35.4
Income taxes, net	11.0	3.8
Accrual for capital expenditures	1.4	6.0
Accrual for capitalized permit costs	.2	.9
Noncash financing activities:		
Dividend of TIMET common stock	$ 899.3	$ -
Issuance of preferred stock in settlement of tax obligation	667.3	-

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE LOSS

Six months ended June 30, 2008

(In millions)

	Preferred stock	Common stock	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income (loss)	Treasury stock	Total stockholders' equity	Comprehensive loss
					(unaudited)			
Balance at December 31, 2007	$ 667.3	$ 1.2	$ 10.4	$ (74.1)	$ 51.5	$ (37.9)	$ 618.4	
Net loss	-	-	-	(6.1)	-	-	(6.1)	$ (6.1)
Other comprehensive loss, net	-	-	-	-	(7.3)	-	(7.3)	(7.3)
Cash dividends	-	-	(10.5)	(12.2)	-	-	(22.7)	
Other, net	-	-	.1	-	-	-	.1	
Balance at June 30, 2008	$ 667.3	$ 1.2	$ -	$ (92.4)	$ 44.2	$ (37.9)	$ 582.4	
Comprehensive loss								$ (13.4)

See accompanying Notes to Condensed Consolidated Financial Statements.

VALHI, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(unaudited)

Note 1 - Organization and basis of presentation:

Organization - We are majority owned by Contran Corporation, which through its subsidiaries owns approximately 93% of our outstanding common stock at June 30, 2008. Substantially all of Contran's outstanding voting stock is held by trusts established for the benefit of certain children and grandchildren of Harold C. Simmons (for which Mr. Simmons is the sole trustee) or is held directly by Mr. Simmons or other persons or related companies to Mr. Simmons. Consequently, Mr. Simmons may be deemed to control Contran and us.

Basis of Presentation - Consolidated in this Quarterly Report are the results of our majority-owned and wholly-owned subsidiaries, including NL Industries, Inc., Kronos Worldwide, Inc., CompX International, Inc., Tremont LLC and Waste Control Specialists LLC ("WCS"). Kronos (NYSE: KRO), NL (NYSE: NL) and CompX (NYSE: CIX) each file periodic reports with the Securities and Exchange Commission ("SEC").

The unaudited Condensed Consolidated Financial Statements contained in this Quarterly Report have been prepared on the same basis as the audited Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 that we filed with the SEC on March 13, 2008 (the "2007 Annual Report"), except as disclosed in Note 14. In our opinion, we have made all necessary adjustments (which include only normal recurring adjustments) in order to state fairly, in all material respects, our consolidated financial position, results of operations and cash flows as of the dates and for the periods presented. We have condensed the Consolidated Balance Sheet at December 31, 2007 contained in this Quarterly Report as compared to our audited Consolidated Financial Statements at that date, and we have omitted certain information and footnote disclosures (including those related to the Consolidated Balance Sheet at December 31, 2007) normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Certain reclassifications have been made to conform the prior year's Consolidated Financial Statements to the current year's classifications. At December 31, 2007 we originally classified approximately $12.2 million with our noncurrent reserve for uncertain tax positions which should have been classified with our noncurrent deferred income tax liability; the Condensed Consolidated Balance Sheet at December 31, 2007, as presented herein, has properly classified such $12.2 million with our noncurrent deferred income tax liability. Our results of operations for the interim periods ended June 30, 2008 may not be indicative of our operating results for the full year. The Condensed Consolidated Financial Statements contained in this Quarterly Report should be read in conjunction with our 2007 Consolidated Financial Statements contained in our 2007 Annual Report.

Unless otherwise indicated, references in this report to "we," "us" or "our" refer to Valhi, Inc and its subsidiaries (NYSE: VHI), taken as a whole.

Note 2 - Business segment information:

Business segment	Entity	% owned at June 30, 2008
Chemicals	Kronos	95%
Component products	CompX	87%
Waste management	WCS	100%

Our ownership of Kronos includes 59% we hold directly and 36% held directly by NL. We own 83% of NL. Our ownership of CompX is through NL.

	Three months ended June 30,		Six months ended June 30,	
	2007	2008	2007	2008
	(In millions)			
Net sales:				
Chemicals	$ 342.6	$ 391.8	$ 656.6	$ 724.4
Component products	45.3	43.7	88.8	84.2
Waste management	1.1	.6	2.6	1.5
Total net sales	$ 389.0	$ 436.1	$ 748.0	$ 810.1
Cost of sales:				
Chemicals	$ 279.7	$ 333.3	$ 524.1	$ 609.3
Component products	33.4	32.7	64.8	63.8
Waste management	3.0	3.7	6.1	7.0
Total cost of sales	$ 316.1	$ 369.7	$ 595.0	$ 680.1
Gross margin:				
Chemicals	$ 62.9	$ 58.5	$ 132.5	$ 115.1
Component products	11.9	11.0	24.0	20.4
Waste management	(1.9)	(3.1)	(3.5)	(5.5)
Total gross margin	$ 72.9	$ 66.4	$ 153.0	$ 130.0
Operating income (loss):				
Chemicals	$ 24.6	$ 10.8	$ 54.9	$ 21.8
Component products	4.8	4.5	10.4	7.5
Waste management	(3.2)	(5.5)	(6.2)	(9.9)
Total operating income	26.2	9.8	59.1	19.4
Equity in earnings of:				
TIMET	-	-	26.9	-

Other	1.0	(.2)	.5	(.6)
General corporate items:				
Securities earnings	8.1	11.0	16.3	17.6
Insurance recoveries	.5	1.6	3.0	1.7
General expenses, net	(11.0)	(9.0)	(17.0)	(14.6)
Interest expense	(15.9)	(17.7)	(31.5)	(35.1)
Income (loss) before income taxes	$ 8.9	$ (4.5)	$ 57.3	$ (11.6)

Segment results we report may differ from amounts separately reported by our various subsidiaries and affiliates due to purchase accounting adjustments and related amortization or differences in the way we define operating income. Intersegment sales are not material.

Note 3 – Accounts and other receivables, net:

	December 31, 2007	June 30, 2008
	(In millions)	
Accounts receivable	$ 239.2	$ 324.7
Refundable income taxes	7.7	7.9
Receivable from affiliates:		
Contran – income taxes, net	4.4	-
Other	.2	.1
Other receivables	4.6	3.6
Allowance for doubtful accounts	(2.4)	(2.4)
Total	$ 253.7	$ 333.9

Note 4 - Inventories, net:

	December 31, 2007	June 30, 2008
	(In millions)	
Raw materials:		
Chemicals	$ 66.2	$ 49.5
Component products	6.3	9.1
Total raw materials	72.5	58.6
Work in process:		
Chemicals	19.9	18.1
Component products	9.8	9.2
Total in-process products	29.7	27.3
Finished products:		
Chemicals	171.6	181.3
Component products	8.2	7.5
Total finished products	179.8	188.8
Supplies (primarily chemicals)	55.9	62.5
Total	$ 337.9	$ 337.2

Note 5 - Other noncurrent assets:

	December 31, 2007	June 30, 2008
	(In millions)	
Available-for-sale marketable securities:		
The Amalgamated Sugar Company LLC	$ 250.0	$ 250.0
TIMET	60.2	31.8
Other	9.6	8.2
Total	$ 319.8	$ 290.0
Investment in affiliates:		
TiO2 manufacturing joint venture	$ 118.5	$ 115.6
Other	19.4	18.8
Total	$ 137.9	$ 134.4
Other assets:		
Waste disposal site operating permits, net	$ 29.8	$ 37.6
Deferred financing costs	8.2	8.6
IBNR receivables	7.8	8.4
Other	21.5	29.7
Total	$ 67.3	$ 84.3

Our available-for-sale marketable securities are carried at fair value using quoted market prices, Level 1 inputs as defined by Statement of Financial Accounting Standards (“SFAS”) No. 157, Fair Value Measurements, except for our investment The Amalgamated Sugar Company. Our investment in Amalgamated is measured using significant unobservable inputs, Level 3 as defined by SFAS No. 157. Please refer to Note 4 in our 2007 Annual Report for a complete description of the valuation methodology for our investment in Amalgamated. There have been no changes to the carrying value of this investment during the periods presented.

Note 6 - Accounts payable and accrued liabilities:

	December 31, 2007	June 30, 2008
	(In millions)	
Current:		
Accounts payable	$ 115.6	$ 117.7
Employee benefits	37.6	33.9
Payable to affiliates:		
Louisiana Pigment Company	11.4	11.2
Contran – trade items	7.1	8.3
Contran – income taxes, net	-	4.2
TIMET	.5	.5
Accrued sales discounts and rebates	15.3	18.8
Environmental costs	15.4	13.4
Deferred income	4.0	2.3
Interest	8.3	8.8
Reserve for uncertain tax positions	.3	.1
Other	52.3	63.1
Total	$ 267.8	$ 282.3
Noncurrent:		
Reserve for uncertain tax positions	$ 47.2	$ 48.6
Insurance claims and expenses	15.2	14.4
Employee benefits	8.4	9.0
Other	6.9	7.2
Total	$ 77.7	$ 79.2

Note 7 - Long-term debt:

	December 31, 2007	June 30, 2008
	(In millions)	
Valhi - Snake River Sugar Company	$ 250.0	$ 250.0
Subsidiary debt:		
Kronos International:		
6.5% Senior Secured Notes	585.5	626.1
European revolving bank credit facility	-	28.3
CompX promissory note payable to TIMET	50.0	50.0

Kronos U.S. revolving bank credit facility	15.4	22.8
Other	5.7	5.7
Total subsidiary debt	656.6	732.9
Total debt	906.6	982.9
Less current maturities	16.8	24.7
Total long-term debt	$ 889.8	$ 958.2

During the first six months of 2008, we borrowed a net euro 18.0 million ($28.5 million when borrowed/repaid) under Kronos' European bank credit facility and a net $7.4 million under Kronos' U.S. bank credit facility. The average interest rate on these outstanding borrowings at June 30, 2008 was 6.2% and 5.0%, respectively.

During the second quarter of 2008, we amended our European revolving bank credit facility to extend the maturity date by three years to May 2011. As part of such amendment, the interest rate on outstanding borrowings under the credit facility increased to the applicable interbank rate plus 1.75%. All of the other terms and debt covenants of the amended facility remained substantially the same.

Kronos' U.S. and Canadian bank credit facilities currently mature in September 2008 and January 2009, respectively. We are in various stages of renegotiating such facilities, and expect to have new agreements of extensions in place prior to their respective maturity dates.

Note 8 - Employee benefit plans:

Defined benefit plans - The components of our net periodic defined benefit pension cost are presented in the table below.

	Three months ended June 30,		Six months ended June 30,	
	2007	2008	2007	2008
	(In millions)			
Service cost	$ 2.0	$ 1.8	$ 3.9	$ 3.5
Interest cost	6.5	7.7	13.0	15.0
Expected return on plan assets	(7.0)	(8.2)	(14.0)	(16.2)
Amortization of prior service cost	.1	.3	.3	.5
Amortization of net transition obligations	.1	.1	.2	.2
Recognized actuarial losses	2.0	1.1	3.9	2.3
Total	$ 3.7	$ 2.8	$ 7.3	$ 5.3

Postretirement benefits - The components of our net periodic postretirement benefit cost are presented in the table below.

	Three months ended June 30,		Six months ended June 30,	
	2007	2008	2007	2008
	(In millions)			
Service cost	$ .1	$ .1	$ .2	$ .2
Interest cost	.5	.7	1.0	1.1
Amortization of prior service credit	-	(.1)	(.2)	(.2)
Recognized actuarial losses	-	-	.1	.1
Total	$ .6	$ .7	$ 1.1	$ 1.2

Contributions - We expect our 2008 contributions for our pension and postretirement benefit plans to be consistent with the amounts we disclosed in our 2007 Annual Report.

Note 9 – Stockholders' equity:

Share repurchases - Our board of directors has previously authorized the repurchase of up to 10.0 million shares of our common stock in open market transactions, including block purchases, or in privately negotiated transactions, which may include transactions with our affiliates or subsidiaries. We may purchase the stock from time to time as market conditions permit. The stock repurchase program does not include specific price targets or timetables and may be suspended at any time. Depending on market conditions, we may terminate the program prior to completion. We will use cash on hand to acquire the shares. Repurchased shares could be retired and cancelled or may be added to our treasury stock and used for employee benefit plans, future acquisitions or other corporate purposes. We did not purchase any shares of our common stock during the first six months of 2008, and at June 30, 2008, approximately 4.0 million shares were available for purchase under the repurchase authorization.

Note 10 - Other income, net:

	Six months ended June 30,	
	2007	2008
	(In millions)	
Securities earnings:		
Dividends and interest	$ 15.8	$ 18.2
Securities transactions, net	.5	(.6)
Total securities earnings	16.3	17.6
Currency transactions, net	1.4	(2.9)
Insurance recoveries	3.0	1.7
Other, net	3.1	1.7
Total	$ 23.8	$ 18.1

Interest income in the first six months of 2008 includes $4.3 million related to certain escrow funds discussed in Note 13.

Note 11 - Provision for income taxes (benefit):

	Six months ended June 30,	
	2007	2008
	(In millions)	
Expected tax expense (benefit), at U.S. federal statutory income tax rate of 35%	$ 20.1	$ (4.0)
Incremental U.S. tax and rate differences on equity in earnings	2.2	2.8
Non-U.S. tax rates	(.3)	-
Nondeductible expenses	1.5	-
German tax attribute adjustment	8.7	(7.2)
Change in reserve for uncertain tax positions	.1	1.0
U.S. state income taxes, net	.8	.3
Other, net	-	.2
Provision for income taxes (benefit)	$ 33.1	$ (6.9)

During the second quarter of 2008, we recognized a $7.2 million non-cash deferred income tax benefit related to a European Court ruling that resulted in the favorable resolution of certain income tax issues in Germany and an increase in the amount of our German corporate and trade tax net operating loss carryforwards.

Tax authorities are continuing to examine certain of our foreign tax returns and have or may propose tax deficiencies, including penalties and interest. We cannot guarantee that these tax matters will be resolved in our favor due to the inherent uncertainties involved in settlement initiatives and court and tax proceedings. We believe we have adequate accruals for additional taxes and related interest expense which could ultimately result from tax examinations. We believe the ultimate disposition of tax examinations should not have a material adverse effect on our consolidated financial position, results of operations or liquidity. We currently estimate that our unrecognized tax benefits will decrease by $3.3 million within the next twelve months due to the reversal of certain timing differences and the expiration of certain statutes.

Note 12 - Minority interest:

	December 31, 2007	June 30, 2008
	(In millions)	
Minority interest in net assets:		
NL Industries	$ 55.6	$ 58.7
Kronos Worldwide	20.5	20.0
CompX International	14.4	13.6
Total	$ 90.5	$ 92.3

	Six months ended June 30,	
	2007	2008
	(In millions)	

Minority interest in after-tax earnings:		
NL Industries	$ .7	$ .6
Kronos Worldwide	.6	.3
CompX International	1.7	.5
Total	$ 3.0	$ 1.4

CompX stock repurchase program - CompX's board of directors has previously authorized the repurchase of its Class A common stock in open market transactions, including block purchases, or in privately-negotiated transactions at unspecified prices and over an unspecified period of time. CompX may repurchase its common stock from time to time as market conditions permit. The stock repurchase program does not include specific price targets or timetables and may be suspended at any time. Depending on market conditions, CompX may terminate the program prior to its completion. CompX may use cash on hand or debt to acquire the shares. Repurchased shares will be added to CompX's treasury and cancelled. During the first six months of 2008, CompX purchased approximately 126,000 shares of its Class A common stock in market transactions for an aggregate of $1.0 million cash. At June 30, 2008 approximately 678,000 shares were available for purchase under these repurchase authorizations.

Note 13 - Commitments and contingencies:

Lead pigment litigation - NL

NL's former operations included the manufacture of lead pigments for use in paint and lead-based paint. NL, other former manufacturers of lead pigments for use in paint and lead-based paint (together, the "former pigment manufacturers"), and the Lead Industries Association ("LIA"), which discontinued business operations in 2002, have been named as defendants in various legal proceedings seeking damages for personal injury, property damage and governmental expenditures allegedly caused by the use of lead-based paints. Certain of these actions have been filed by or on behalf of states, counties, cities or their public housing authorities and school districts, and certain others have been asserted as class actions. These lawsuits seek recovery under a variety of theories, including public and private nuisance, negligent product design, negligent failure to warn, strict liability, breach of warranty, conspiracy/concert of action, aiding and abetting, enterprise liability, market share or risk contribution liability, intentional tort, fraud and misrepresentation, violations of state consumer protection statutes, supplier negligence and similar claims.

The plaintiffs in these actions generally seek to impose on the defendants responsibility for lead paint abatement and health concerns associated with the use of lead-based paints, including damages for personal injury, contribution and/or indemnification for medical expenses, medical monitoring expenses and costs for educational programs. A number of cases are inactive or have been dismissed or withdrawn. Most of the remaining cases are in various pre-trial stages. Some are on appeal following dismissal or summary judgment rulings in favor of either the defendants or the plaintiffs. In addition, various other cases are pending (in which we are not a defendant) seeking recovery for injury allegedly caused by lead pigment and lead-based paint. Although we are not a defendant in these cases, the outcome of these cases may have an impact on cases that might be filed against us in the future.

We believe these actions are without merit, and we intend to continue to deny all allegations of wrongdoing and liability and to defend against all actions vigorously. We do not believe it is probable that we have incurred any liability with respect to all of the lead pigment litigation cases to which we are a party, and liability to us that may result, if any, in this regard cannot be reasonably estimated, because:

- we have never settled any of these cases;
- no final, non-appealable verdicts have ever been entered against us; and
- we have never ultimately been found liable with respect to any such litigation matters.

In particular, see the discussion below regarding the final resolution of the State of Rhode Island case. Accordingly, we have not accrued any amounts for any of the pending lead pigment and lead-based paint litigation cases.

New cases may continue to be filed against us. We cannot assure you that we will not incur liability in the future in respect of any of the pending or possible litigation in view of the inherent uncertainties involved in court and jury rulings. The resolution of any of these cases could result in recognition of a loss contingency accrual that could have a material adverse impact on our net income for the interim or annual period during which such liability is recognized, and a material adverse impact on our consolidated financial condition and liquidity.

In October 1999, we were served with a complaint in State of Rhode Island v. Lead Industries Association, et al. (Superior Court of Rhode Island, No. 99-5226). The State sought compensatory and punitive damages, as well as reimbursement for public and private building abatement expenses and funding of a public education campaign and health screening programs. Following a 2002 trial on the sole question of whether lead pigment in paint on Rhode Island buildings is a public nuisance resulted in a mistrial when the jury was unable to reach a verdict on the question, a second trial commenced against us and three other defendants in November 2005 on the State's remaining claims of public nuisance, indemnity and unjust enrichment. Following the State's presentation of its case, the trial court dismissed the State's claims of indemnity and unjust enrichment. In February 2006, the jury found that we and two other defendants substantially contributed to the creation of a public nuisance as a result of the collective presence of

lead pigments in paints and coatings on buildings in Rhode Island. The jury also found that we and the two other defendants should be ordered to abate the public nuisance. Following the trial, the trial court dismissed the State's claim for punitive damages. In March 2007, the final judgment and order was entered, and defendants filed an appeal. In April 2007, the State cross-appealed the issue of exclusion of past and punitive damages as well as the dismissal of one of the defendants. While the appeal was pending, the trial court continued to move forward on the abatement process. In September 2007, the State submitted its plan of abatement and defendants filed a response in December 2007. In May 2008, oral arguments on the appeal were heard by the Rhode Island Supreme Court, and in July 2008 the Supreme Court reversed the decision of the trial court, stating that the defendants' motion to dismiss should have been granted. This decision of the Rhode Island Supreme Court concludes the case in our favor, and the State of Rhode Island's plan of abatement will not be implemented.

Environmental matters and litigation

General - Our operations are governed by various environmental laws and regulations. Certain of our businesses are and have been engaged in the handling, manufacture or use of substances or compounds that may be considered toxic or hazardous within the meaning of applicable environmental laws and regulations. As with other companies engaged in similar businesses, certain of our past and current operations and products have the potential to cause environmental or other damage. We have implemented and continue to implement various policies and programs in an effort to minimize these risks. Our policy is to maintain compliance with applicable environmental laws and regulations at all of our plants and to strive to improve our environmental performance. From time to time, we may be subject to environmental regulatory enforcement under U.S. and foreign statutes, the resolution of which typically involves the establishment of compliance programs. It is possible that future developments, such as stricter requirements of environmental laws and enforcement policies, could adversely affect our production, handling, use, storage, transportation, sale or disposal of such substances. We believe that all of our facilities are in substantial compliance with applicable environmental laws.

Certain properties and facilities used in our former operations, including divested primary and secondary lead smelters and former mining locations of NL, are the subject of civil litigation, administrative proceedings or investigations arising under federal and state environmental laws. Additionally, in connection with past disposal practices, we are currently involved as a defendant, potentially responsible party ("PRP") or both, pursuant to the Comprehensive Environmental Response, Compensation and Liability Act, as amended by the Superfund Amendments and Reauthorization Act ("CERCLA"), and similar state laws in various governmental and private actions associated with waste disposal sites, mining locations, and facilities we or our predecessors currently or previously owned, operated or were used by us or our subsidiaries, or their predecessors, certain of which are on the United States Environmental Protection Agency's ("EPA") Superfund National Priorities List or similar state lists. These proceedings seek cleanup costs, damages for personal injury or property damage and/or damages for injury to natural resources. Certain of these proceedings involve claims for substantial amounts. Although we may be jointly and severally liable for these costs, in most cases we are only one of a number of PRPs who may also be jointly and severally liable. In addition, we are a party to a number of personal injury lawsuits filed in various jurisdictions alleging claims related to environmental conditions alleged to have resulted from our operations.

Environmental obligations are difficult to assess and estimate for numerous reasons including the:

- complexity and differing interpretations of governmental regulations;
- number of PRPs and their ability or willingness to fund such allocation of costs;
- financial capabilities of the PRPs and the allocation of costs among them;
- solvency of other PRPs;
- multiplicity of possible solutions; and
- number of years of investigatory, remedial and monitoring activity required.

In addition, the imposition of more stringent standards or requirements under environmental laws or regulations, new developments or changes regarding site cleanup costs or allocation of costs among PRPs, solvency of other PRPs, the results of future testing and analysis undertaken with respect to certain sites or a determination that we are potentially responsible for the release of hazardous substances at other sites, could cause our expenditures to exceed our current estimates. Because we may be jointly and severally liable for the total remediation cost at certain sites, the amount for which we are ultimately liable may exceed our accruals due to, among other things, the reallocation of costs among PRPs or the insolvency of one or more PRPs. We cannot assure you that actual costs will not exceed accrued amounts or the upper end of the range for sites for which estimates have been made, and we cannot assure you that costs will not be incurred for sites where no estimates presently can be made. Further, additional environmental matters may arise in the future. If we were to incur any future liability, this could have a material adverse effect on our consolidated financial position, results of operations and liquidity.

We record liabilities related to environmental remediation obligations when estimated future expenditures are probable and reasonably estimable. We adjust our environmental accruals as further information becomes available to us or circumstances change. We generally do not discount estimated future expenditures to their present value due to the uncertainty of the timing of the pay out. We recognize recoveries of remediation costs from other parties, if any, as assets when their receipt is deemed probable. At June 30, 2008, we had no receivables for recoveries.

We do not know and cannot estimate the exact time frame over which we will make payments for our accrued environmental costs. The timing of payments depends upon a number of factors including the timing of the actual remediation process; which in turn depends on factors outside of our control. At each balance sheet date, we estimate the amount of our accrued environmental costs we expect to pay within the next twelve months, and we classify this estimate as a current liability. We classify the remaining accrued environmental costs as a noncurrent liability.

Changes in our accrued environmental costs during the first six months of 2008 are as follows:

	Amount (In millions)
Balance at the beginning of the period	$ 55.7
Payments, net	(4.1)
Balance at the end of the period	$ 51.6
Amounts recognized in the Consolidated Balance Sheet at the end of the period:	
Current liability	$ 13.4
Noncurrent liability	38.2
Total	$ 51.6

NL - On a quarterly basis, we evaluate the potential range of our liability at sites where NL, its present or former subsidiaries have been named as a PRP or defendant. At June 30, 2008, we accrued approximately $47 million for those environmental matters related to NL which we believe are reasonably estimable. We believe that it is not possible to estimate the range of costs for certain sites. The upper end of the range of reasonably possible costs to us for sites for which we believe it is currently possible to estimate costs is approximately $68 million, including the amount currently accrued. We have not discounted these estimates to present value.

At June 30, 2008, there were approximately 20 sites for which we are not currently able to estimate a range of costs. For these sites, generally the investigation is in the early stages, and we are unable to determine whether or not NL actually had any association with the site, the nature of our responsibility, if any, for the contamination at the site and the extent of contamination at the site. The timing and availability of information on these sites is dependent on events outside of our control, such as when the party alleging liability provides information to us. At certain of these previously inactive sites, we have received general and special notices of liability from the EPA alleging that we, along with other PRPs, are liable for past and future costs of remediating environmental contamination allegedly caused by former operations conducted at the sites. These notifications may assert that NL, along with other PRPs, are liable for past clean-up costs that could be material to us if we are ultimately found liable.

In 2005, certain real property NL owned that is subject to environmental remediation, and for which we had a nominal carrying value, was taken from us in a condemnation proceeding by a governmental authority in New Jersey. The condemnation proceeds, the adequacy of which NL is disputing, were placed into escrow with a court in New Jersey and have never been remitted to us while the condemnation litigation is pending. Because such funds were placed in escrow with the court and are beyond our control, we have never given recognition to such condemnation proceeds for financial reporting purposes. In April 2008, we reached a tentative settlement agreement with such governmental authority and a real estate developer, among others, pursuant to which, among other things, NL would receive certain agreed-upon amounts in satisfaction of its claim to just compensation for the taking of its property in the condemnation proceeding, and NL would be indemnified against certain environmental liabilities related to such property. The tentative settlement agreement was subject to certain conditions which ultimately were not met, and on May 2, 2008 we terminated such agreement. In late June 2008, the settlement agreement was reinstated and remains subject to certain conditions prior to closing, which to date have not occurred. As part of such April 2008 agreement, however, NL became entitled to receive the interest accrued on the escrow funds, and in May 2008 NL received approximately $4.3 million of such interest, which was recognized as interest income during the second quarter of

2008. See Note 10.

Tremont - Prior to 2005, Tremont, another of our wholly-owned subsidiaries, entered into a voluntary settlement agreement with the Arkansas Department of Environmental Quality and certain other PRPs pursuant to which Tremont and the other PRPs would undertake certain investigatory and interim remedial activities at a former mining site partly operated by NL located in Hot Springs County, Arkansas. Tremont had entered into an agreement with Halliburton Energy Services, Inc., another PRP for this site, which provides for, among other things, the interim sharing of remediation costs associated with the site pending a final allocation of costs through an agreed-upon procedure in arbitration, as further discussed below.

On December 9, 2005, Halliburton and DII Industries, LLC, another PRP of this site, filed suit in the United States District Court for the Southern District of Texas, Houston Division, Case No. H-05-4160, against NL, Tremont and certain of its subsidiaries, M-I, L.L.C., Milwhite, Inc. and Georgia-Pacific Corporation seeking: