DUPONT E I DE NEMOURS & CO
Form 10-Q
August 01, 2007

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

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2007

OR

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

Commission File Number 1-815

E. I. du Pont de Nemours and Company
(Exact Name of Registrant as Specified in Its Charter)

Delaware	51-0014090
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1007 Market Street, Wilmington, Delaware 19898
(Address of Principal Executive Offices)
(302) 774-1000
(Registrant s Telephone Number)

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer o

Indicate by check mark whether the Registrant is a shell company (as defined by Rule12b-2 of the Exchange Act). Yes o No þ

920,528,264 shares (excludes 87,041,427 shares of treasury stock) of common stock, $0.30 par value, were outstanding at July 16, 2007.

E. I. DU PONT DE NEMOURS AND COMPANY

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The terms DuPont or the company as used herein refer to E. I. du Pont de Nemours and Company and its consolidated subsidiaries, or to E. I. du Pont de Nemours and Company, as the context may indicate.

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Part I. Financial Information

Item 1. CONSOLIDATED FINANCIAL STATEMENTS
E. I. du Pont de Nemours and Company
Consolidated Income Statements (Unaudited)
(Dollars in millions, except per share)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Net sales	$ 7,875	$ 7,442	$ 15,720	$ 14,836
Other income, net	364	396	680	666
Total	8,239	7,838	16,400	15,502
Cost of goods sold and other operating charges	5,555	5,227	11,101	10,564
Selling, general and administrative expenses	877	853	1,715	1,644
Amortization of intangible assets	54	56	110	115
Research and development expense	337	328	647	641
Interest expense	108	119	207	233
Total	6,931	6,583	13,780	13,197
Income before income taxes and minority interests	1,308	1,255	2,620	2,305
Provision for income taxes	335	279	700	510
Minority interests in earnings of consolidated subsidiaries	1	1	3	3
Net income	$ 972	$ 975	$ 1,917	$ 1,792
Basic earnings per share of common stock	$ 1.05	$ 1.05	$ 2.07	$ 1.94
Diluted earnings per share of common stock	$ 1.04	$ 1.04	$ 2.05	$ 1.92
Dividends per share of common stock	$ 0.37	$ 0.37	$ 0.74	$ 0.74

See Notes to Consolidated Financial Statements.

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E. I. du Pont de Nemours and Company
Consolidated Balance Sheets (Unaudited)
(Dollars in millions, except per share)

	June 30, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 987	$ 1,814
Marketable debt securities	102	79
Accounts and notes receivable, net	7,370	5,198
Inventories	4,481	4,941
Prepaid expenses	199	182
Income taxes	675	656
Total current assets	13,814	12,870
Property, plant and equipment, net of accumulated depreciation (June 30, 2007 $15,575; December 31, 2006 $15,221)	10,478	10,498
Goodwill	2,108	2,108
Other intangible assets	2,381	2,479
Investment in affiliates	802	803
Other assets	3,267	3,019
Total	$ 32,850	$ 31,777
Liabilities and Stockholders Equity		
Current liabilities		
Accounts payable	$ 2,539	$ 2,711
Short-term borrowings and capital lease obligations	2,375	1,517
Income taxes	369	178
Other accrued liabilities	2,921	3,534
Total current liabilities	8,204	7,940
Long-term borrowings and capital lease obligations	5,664	6,013
Other liabilities	7,455	7,692
Deferred income taxes	395	269
Total liabilities	21,718	21,914
Minority interests	442	441
Commitments and contingent liabilities		

Stockholders equity		
Preferred stock	237	237
Common stock, $0.30 par value; 1,800,000,000 shares authorized; Issued at June 30, 2007 1,007,310,039; December 31, 2006 1,009,109,136	302	303
Additional paid-in capital	8,187	7,797
Reinvested earnings	10,516	9,679
Accumulated other comprehensive loss	(1,825)	(1,867)
Common stock held in treasury, at cost (87,041,427 shares at June 30, 2007 and December 31, 2006)	(6,727)	(6,727)
Total stockholders equity	10,690	9,422
Total	$ 32,850	$ 31,777

See Notes to Consolidated Financial Statements.

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E. I. du Pont de Nemours and Company
Consolidated Statements of Cash Flows (Unaudited)
(Dollars in millions)

	Six Months Ended June 30,	
	2007	2006
Operating activities		
Net income	$ 1,917	$ 1,792
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	579	571
Amortization of intangible assets	110	115
Contributions to pension plans	(160)	(131)
Other noncash charges and credits, net	116	237
Change in operating assets and liabilities, net	(2,179)	(2,516)
Cash provided by operating activities	383	68
Investing activities		
Purchases of property, plant and equipment	(621)	(715)
Investments in affiliates	(23)	(12)
Payments for businesses, net of cash acquired		(51)
Proceeds from sales of assets, net of cash sold	44	34
Net (increase) decrease in short-term financial instruments	(17)	110
Forward exchange contract settlements	(72)	57
Other investing activities, net	17	28
Cash used for investing activities	(672)	(549)
Financing activities		
Dividends paid to stockholders	(692)	(689)
Net increase in borrowings	472	298
Acquisition of treasury stock	(600)	
Proceeds from exercise of stock options	365	41
Other financing activities, net	(80)	(72)
Cash used for financing activities	(535)	(422)
Effect of exchange rate changes on cash	(3)	(13)
Decrease in cash and cash equivalents	$ (827)	$ (916)

Cash and cash equivalents at beginning of period	1,814	1,736
Cash and cash equivalents at end of period	$ 987	$ 820

See Notes to Consolidated Financial Statements.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share)

Note 1. Summary of Significant Accounting Policies

Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the results for interim periods have been included. Results for interim periods should not be considered indicative of results for a full year. These interim Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Notes thereto contained in the company s Annual Report on Form 10-K for the year ended December 31, 2006. The Consolidated Financial Statements include the accounts of the company and all of its subsidiaries in which a controlling interest is maintained, as well as variable interest entities in which DuPont is considered the primary beneficiary. Certain reclassifications of prior year s data have been made to conform to current year classifications.

Accounting Standards Issued Not Yet Adopted

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements, (SFAS 157) which addresses how companies should measure fair value when required for recognition or disclosure purposes under GAAP. The standard s provisions will be applied to existing accounting measurements and related disclosures that are based on fair value. SFAS 157 does not require any new fair value measurements. The standard applies a common definition of fair value to be used throughout GAAP, with emphasis on fair value as a market based measurement versus an entity-specific measurement, and establishes a hierarchy of fair value measurement methods. The disclosure requirements are expanded to include the extent to which companies use fair value measurements, the methods and assumptions used to measure fair value and the effect of fair value measurements on earnings. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The new standard s provisions applicable to the company will be applied prospectively beginning January 1, 2008, and the company is currently evaluating the impact of adoption on its consolidated financial statements.

In June 2007, the FASB ratified Emerging Issues Task Force 07-3, Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities (EITF 07-3). EITF 07-3 requires nonrefundable advance payments for research and development goods or services to be deferred and capitalized. Expense is recognized as the services are performed or goods are delivered. EITF 07-3 is effective for fiscal years beginning after December 15, 2007. The company is currently evaluating the impact of adopting EITF 07-3 and at present, management does not believe that adoption of EITF 07-3 will have a material effect on the company s financial position, liquidity or results of operations.

Note 2. Effect of Adoption of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48)

Each year the company files hundreds of income tax returns in the various national, state and local income taxing jurisdictions in which it operates. These tax returns are subject to examination and possible challenge by the taxing authorities. Positions challenged by the taxing authorities may be settled or appealed by the company. As a result, there is an uncertainty in income taxes recognized in the company s financial statements in accordance with SFAS No. 109, Accounting for Income Taxes (SFAS 109).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share)

In 2006, the FASB issued FIN 48, which clarifies the application of SFAS 109 by defining criteria that an individual income tax position must meet for any part of the benefit of that position to be recognized in an enterprise s financial statements and provides guidance on measurement, derecognition, classification, accounting for interest and penalties, accounting in interim periods, disclosure, and transition.

In accordance with the transition provisions, the company adopted FIN 48 effective January 1, 2007. This resulted in a $116 reduction in the previously accrued liabilities and a corresponding $116 increase in Reinvested earnings at January 1, 2007. In accordance with FIN 48, the total amount of global unrecognized tax benefits at January 1, 2007 was $1,070. Of the $1,070 of unrecognized tax benefits, $714 relates to tax positions, which if recognized would reduce tax expense. The total gross accrued interest and penalties at January 1, 2007 was $134. Interest accrued related to unrecognized tax benefits is included in interest income, net of miscellaneous interest expense, under Other income, net. Income tax related penalties are included in the provision for income taxes.

The company and/or its subsidiaries files income tax returns in the United States of America (U.S.) federal jurisdiction, and various states and non-U.S. jurisdictions. With few exceptions, the company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 1999. Given the uncertainty regarding when tax authorities will complete their examinations and the possible outcomes of their examinations, a current estimate of the range of reasonably possible significant increases or decreases that may occur within the next twelve months cannot be made. For those items of which we are aware, we do not believe any change to the unrecognized tax benefit to be significant.

Note 3. Other Income, Net

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Cozaar®/Hyzaar® income	$ 239	$ 199	$ 463	$ 367
Royalty income	23	36	48	62
Interest income, net of miscellaneous interest expense	37	39	59	69
Equity in earnings of affiliates	18	21	24	31
Net gains on sales of assets	15	3	25	3
Net exchange gains (losses)	5	34	(16)	21
Miscellaneous income and expenses, net	27	64	77	113
Total	$ 364	$ 396	$ 680	$ 666

The company routinely uses forward exchange contracts to offset its net exposures, by currency, related to the foreign currency-denominated monetary assets and liabilities of its operations. The objective of this program is to maintain an approximately balanced position in foreign currencies in order to minimize, on an after tax basis, the effects of exchange rate changes. The net pretax exchange gains and losses are largely offset by the associated tax impact.

Miscellaneous income and expenses, net, principally includes sales of technology and intangible assets, insurance recoveries, litigation settlements and other miscellaneous items.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share)

Note 4. Restructuring Activities

During the three and six months ended June 30, 2007, there were no significant changes in estimates related to reserves established for restructuring initiatives recorded in 2006 or in prior years. A complete discussion of all restructuring initiatives is included in the company s Annual Report on Form 10-K for the year ended December 31, 2006, at Note 5, Restructuring Activities.

The account balances and activity for the company s restructuring programs are as follows:

	2006 Programs	2004 Programs	2002 Programs	Total
Balance at December 31, 2006	$ 152	$ 13	$ 12	$ 177
Employee separation payments	(31)	(6)	(2)	$ (39)
Credits to income	(1)			(1)
Balance at June 30, 2007	$ 120	$ 7	$ 10	$ 137

Agriculture & Nutrition

As of June 30, 2007, approximately 340 employees were separated relating to the 2006 Agriculture & Nutrition refocus plan.

Coatings & Color Technologies

As of June 30, 2007, approximately 970 employees were separated relating to the 2006 Coatings & Color Technologies business transformation plan.

Note 5. Provision for Income Taxes

In the second quarter 2007, the company recorded a tax provision of $335, including $15 of tax expense associated with the company s policy of hedging the foreign currency-denominated monetary assets and liabilities of its operations. Year-to-date 2007 also includes $10 of tax benefit associated with the company s hedging policy.

In the second quarter 2006, the company recorded a tax provision of $279, including $17 of tax expense associated with the company s policy of hedging the foreign currency-denominated monetary assets and liabilities of its operations. Also included in the second quarter 2006 is a tax benefit of $31 associated with an increase in the deferred tax assets of a European subsidiary for a tax basis investment loss recognized on the local tax return. Year-to-date 2006 also included a net tax benefit of $41 related to the reversal of certain prior year tax contingencies previously reserved and an additional $3 of tax expense associated with the company s hedging policy.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share)

Note 6. Earnings Per Share of Common Stock

Set forth below is a reconciliation of the numerator and denominator for basic and diluted earnings per share calculations for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Numerator:				
Net income	$ 972.4	$ 974.6	$ 1,917.3	$ 1,791.6
Preferred dividends	(2.5)	(2.5)	(5.0)	(5.0)
Net income available to common stockholders	$ 969.9	$ 972.1	$ 1,912.3	$ 1,786.6
Denominator:				
Weighted-average number of common shares - Basic	923,816,790	922,227,761	923,907,117	921,723,199
Dilutive effect of the company s employee compensation plans and accelerated share repurchase agreement	8,992,190	9,726,173	9,119,647	9,168,969
Weighted-average number of common shares - Diluted	932,808,980	931,953,934	933,026,764	930,892,168

The following average number of stock options were antidilutive, and therefore, were not included in the diluted earnings per share calculations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Average Number of Stock Options	21,412,754	57,356,128	21,593,411	68,224,821

The 35.9 million and 46.6 million decreases in the average number of stock options that were antidilutive in the three- and six-month periods ended June 30, 2007 compared to the same June 30, 2006 periods, respectively, were primarily due to the increase in the company s average stock price. Additionally, the 12.8 million stock options that expired unexercised and were cancelled in January 2007 were included in the average number of stock options that were antidilutive in the three and six months ended June 30, 2006.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions, except per share)

Note 7. Inventories

	June 30, 2007	December 31, 2006
Finished products	$ 3,109	$ 3,075
Semifinished products	1,006	1,616
Raw materials and supplies	934	804
	5,049	5,495
Adjustment of inventories to a last-in, first-out (LIFO) basis	(568)	