

DUPONT E I DE NEMOURS & CO

Form 10-Q

October 26, 2009

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

## FORM 10-Q

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

For the quarterly period ended September 30, 2009

OR

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**  
(State or other Jurisdiction of  
Incorporation or Organization)

**51-0014090**  
(I.R.S. Employer  
Identification No.)

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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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that registrant was required to submit and post such files.) Yes  No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller reporting company

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

The Registrant had 903,730,000 shares (excludes 87,041,000 shares of treasury stock) of common stock, \$0.30 par value, outstanding at October 15, 2009.

Table of Contents**E. I. DU PONT DE NEMOURS AND COMPANY****Table of Contents**

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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Table of Contents**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 September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net sales	\$ 5,961	\$ 7,297	\$ 19,690	\$ 24,709
Other income, net	195	420	824	1,057
Total	6,156	7,717	20,514	25,766
Cost of goods sold and other operating charges	4,560	5,916	14,752	18,298
Selling, general and administrative expenses	770	873	2,584	2,794
Research and development expense	335	360	989	1,050
Interest expense	100	98	312	272
Employee separation / asset related charges, net			265	
Total	5,765	7,247	18,902	22,414
Income before income taxes	391	470	1,612	3,352
(Benefit from) provision for income taxes	(23)	98	288	706
Net income	414	372	1,324	2,646
Less: Net income attributable to noncontrolling interests	5	5	10	10
Net income attributable to DuPont	\$ 409	\$ 367	\$ 1,314	\$ 2,636
Basic earnings per share of common stock	\$ 0.45	\$ 0.40	\$ 1.44	\$ 2.91
Diluted earnings per share of common stock	\$ 0.45	\$ 0.40	\$ 1.44	\$ 2.89
Dividends per share of common stock	\$ 0.41	\$ 0.41	\$ 1.23	\$ 1.23

See Notes to the Consolidated Financial Statements.

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

	September 30, 2009	December 31, 2008
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 2,249	\$ 3,645
Marketable securities	906	59
Accounts and notes receivable, net	7,126	5,140
Inventories	4,392	5,681
Prepaid expenses	125	143
Income taxes	558	643
Total current assets	15,356	15,311
Property, plant and equipment, net of accumulated depreciation (September 30, 2009 - \$17,590; December 31, 2008 - \$16,800)	11,080	11,154
Goodwill	2,138	2,135
Other intangible assets	2,582	2,710
Investment in affiliates	991	844
Other assets	4,021	4,055
<b>Total</b>	<b>\$ 36,168</b>	<b>\$ 36,209</b>
<b>Liabilities and Stockholders Equity</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 2,554	\$ 3,128
Short-term borrowings and capital lease obligations	3,525	2,012
Income taxes	138	110
Other accrued liabilities	3,345	4,460
Total current liabilities	9,562	9,710
Long-term borrowings and capital lease obligations	7,545	7,638
Other liabilities	10,830	11,169
Deferred income taxes	148	140
Total liabilities	28,085	28,657
<b>Commitments and contingent liabilities</b>		
<b>Stockholders equity</b>		
Preferred stock	237	237
Common stock, \$0.30 par value; 1,800,000,000 shares authorized; Issued at September 30, 2009 - 990,770,000; December 31, 2008 - 989,415,000	297	297
Additional paid-in capital	8,463	8,380
Reinvested earnings	10,644	10,456
Accumulated other comprehensive loss	(5,267)	(5,518)
Common stock held in treasury, at cost (87,041,000 shares at September 30, 2009 and December 31, 2008)	(6,727)	(6,727)
Total DuPont stockholders equity	7,647	7,125
Noncontrolling interests	436	427
Total equity	8,083	7,552

<b>Total</b>	\$	36,168	\$	36,209
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See Notes to the Consolidated Financial Statements.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Operating activities</b>		
Net income attributable to DuPont	\$ 1,314	\$ 2,636
Adjustments to reconcile net income attributable to DuPont to cash provided by operating activities:		
Depreciation	938	870
Amortization of intangible assets	219	226
Contributions to pension plans	(243)	(210)
Other noncash charges and credits - net	858	162
Change in operating assets and liabilities - net	(2,163)	(3,190)
Cash provided by operating activities	923	494
<b>Investing activities</b>		
Purchases of property, plant and equipment	(990)	(1,406)
Investments in affiliates	(105)	(53)
Payments for businesses - net of cash acquired	(12)	(72)
Proceeds from sales of assets - net of cash sold	51	23
Net increase in short-term financial instruments	(800)	(33)
Forward exchange contract settlements	(757)	(117)
Other investing activities - net	(12)	(24)
Cash used for investing activities	(2,625)	(1,682)
<b>Financing activities</b>		
Dividends paid to stockholders	(1,119)	(1,123)
Net increase in borrowings	1,408	2,974
Proceeds from exercise of stock options		94
Other financing activities - net	(14)	(37)
Cash provided by financing activities	275	1,908
Effect of exchange rate changes on cash	31	(32)
<b>(Decrease) Increase in cash and cash equivalents</b>	<b>\$ (1,396)</b>	<b>\$ 688</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>3,645</b>	<b>1,305</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$ 2,249</b>	<b>\$ 1,993</b>

See Notes to the 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 generally accepted accounting principles 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, 2008, collectively referred to as the 2008 Annual Report. 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.

**Subsequent Events**

The company's management has evaluated the period from October 1, 2009 through October 26, 2009, the date the financial statements herein were issued, for subsequent events requiring recognition or disclosure in the financial statements. Effective October 1, 2009, the company has redefined its external reporting to the following aggregated segments: Agriculture & Nutrition, Electronics & Communications, Performance Coatings, Performance Materials, Safety & Protection, Performance Chemicals and Pharmaceuticals. The company will begin reporting under the redefined structure in its 2009 Annual Report on Form 10-K. No additional material subsequent events were identified.

**Accounting Standards Issued Not Yet Adopted**

In December 2008, the Financial Accounting Standards Board (FASB) issued authoritative guidance on employer's disclosures about postretirement benefit plan assets, which is effective for fiscal years ending after December 15, 2009. The new requirement expands disclosures for assets held by employer pension and other postretirement benefit plans. This requirement will not affect the company's financial position or results of operations.

In June 2009, FASB issued authoritative guidance on accounting for transfers of financial assets, which is effective for reporting periods beginning after November 15, 2009. The new requirement limits the circumstances in which a financial asset may be de-recognized when the transferor has not transferred the entire financial asset or has continuing involvement with the transferred asset. The concept of a qualifying special-purpose entity, which had previously facilitated sale accounting for certain asset transfers, is removed by the new requirement. The

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company expects that this will not have a material effect on its financial position or results of operations.

In June 2009, FASB issued authoritative guidance on accounting for variable interest entities, which is effective for reporting periods beginning after November 15, 2009. The amendments change the process for how an enterprise determines which party consolidates a variable interest entity (VIE) to a primarily qualitative analysis. The party that consolidates the VIE (the primary beneficiary) is defined as the party with (1) the power to direct activities of the VIE that most significantly affect the VIE's economic performance and (2) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE. Upon adoption, reporting enterprises must reconsider their conclusions on whether an entity should be consolidated and should a change result, the effect on net assets will be recorded as a cumulative effect adjustment to retained earnings. The company expects that upon adoption this will not have a material effect on its financial position or results of operations.

Table of Contents**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS***(Dollars in millions, except per share)***Note 2. Reporting of Noncontrolling Interests**

Effective January 1, 2009, the company implemented the provisions for the reporting of noncontrolling interests in the company's Consolidated Financial Statements and accompanying notes. The provision changed the accounting and reporting of minority interests (now referred to as noncontrolling interests) in the company's Consolidated Financial Statements. The following tables illustrate the changes in equity for the three and nine months ended September 30, 2009 and 2008, respectively:

<b>Consolidated Changes in Equity for the Three Months Ended September 30, 2009</b>	<b>Total</b>	<b>Comprehensive Income</b>	<b>Preferred Stock</b>	<b>Common Stock</b>	<b>Additional Paid-in- Capital</b>	<b>Reinvested Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Treasury Stock</b>	<b>Noncontrolling Interests</b>
Beginning balance	\$ 7,907		\$ 237	\$ 297	\$ 8,441	\$ 10,611	\$ (5,385)	\$ (6,727)	\$ 433
Comprehensive income:									
Net income	414	414				409			5
Other comprehensive income (loss), net of tax:									
Cumulative translation adjustment	55	55					55		
Net revaluation and clearance of cash flow hedges to earnings	22	22					22		
Pension benefit plans	50	50					50		
Other benefit plans	(9)	(9)					(9)		
Net unrealized gain on securities									
Other comprehensive income	118	118							
Comprehensive income	532	532(1)							
Common dividends	(375)					(373)			(2)
Preferred dividends	(3)					(3)			
Common stock issued - compensation plans	22				22				
<b>Total Equity as of September 30, 2009</b>	<b>\$ 8,083</b>		<b>\$ 237</b>	<b>\$ 297</b>	<b>\$ 8,463</b>	<b>\$ 10,644</b>	<b>\$ (5,267)</b>	<b>\$ (6,727)</b>	<b>\$ 436</b>

<b>Consolidated Changes in Equity for the Three Months Ended September 30, 2008</b>	<b>Total</b>	<b>Comprehensive Income</b>	<b>Preferred Stock</b>	<b>Common Stock</b>	<b>Additional Paid-in- Capital</b>	<b>Reinvested Earnings</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Treasury Stock</b>	<b>Noncontrolling Interests</b>
Beginning balance	\$ 13,344		\$ 237	\$ 297	\$ 8,336	\$ 11,466	\$ (706)	\$ (6,727)	\$ 441
Comprehensive income:									
Net income	372	372				367			5
Other comprehensive income (loss), net of tax:									
Cumulative translation adjustment	(102)	(102)					(101)		(1)
Net revaluation and clearance of cash flow hedges to earnings	(141)	(141)					(140)		(1)
Pension benefit plans	6	6					6		
Other benefit plans	(12)	(12)					(12)		

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Net unrealized loss on securities	(6)	(6)				(6)		
Other comprehensive loss	(255)	(255)						
Comprehensive income	117	117(1)						
Common dividends	(373)				(372)			(1)
Preferred dividends	(3)				(3)			
Common stock issued - compensation plans	32			32				
Total Equity as of September 30, 2008	\$ 13,117	\$ 237	\$ 297	\$ 8,368	\$ 11,458	\$ (959)	\$ (6,727)	\$ 443

(1) Includes comprehensive income attributable to noncontrolling interests of \$5 and \$3 for the three months ended September 30, 2009 and 2008, respectively.

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*(Dollars in millions, except per share)*

Consolidated Changes in Equity for the Nine Months Ended September 30, 2009	Total	Comprehensive Income	Preferred Stock	Common Stock	Additional Paid-in- Capital	Reinvested Earnings	Accumulated Other		
							Comprehensive Loss	Treasury Stock	Noncontrolling Interests
Beginning balance	\$ 7,552		\$ 237	\$ 297	\$ 8,380	\$ 10,456	\$ (5,518)	\$ (6,727)	\$ 427
Acquisition of a majority interest in a consolidated subsidiary	1								1
Purchase of subsidiary shares from noncontrolling interest	(1)								(1)
Comprehensive income:									
Net income	1,324	1,324				1,314			10
Other comprehensive income (loss), net of tax:									
Cumulative translation adjustment	80	80					80		
Net revaluation and clearance of cash flow hedges to earnings	62	62					60		2
Pension benefit plans	137	137					137		
Other benefit plans	(27)	(27)					(27)		
Net unrealized gain on securities	1	1					1		
Other comprehensive income	253	253							
Comprehensive income	1,577	1,577(1)							
Common dividends	(1,121)					(1,118)			(3)
Preferred dividends	(8)					(8)			
Common stock issued - compensation plans	83				83				
<b>Total Equity as of September 30, 2009</b>	<b>\$ 8,083</b>		<b>\$ 237</b>	<b>\$ 297</b>	<b>\$ 8,463</b>	<b>\$ 10,644</b>	<b>\$ (5,267)</b>	<b>\$ (6,727)</b>	<b>\$ 436</b>

Consolidated Changes in Equity for the Nine Months Ended September 30, 2008	Total	Comprehensive Income	Preferred Stock	Common Stock	Additional Paid-in- Capital	Reinvested Earnings	Accumulated Other		
							Comprehensive Loss	Treasury Stock	Noncontrolling Interests
Beginning balance	\$ 11,578		\$ 237	\$ 296	\$ 8,179	\$ 9,945	\$ (794)	\$ (6,727)	\$ 442
Comprehensive income:									
Net income	2,646	2,646				2,636			10
Other comprehensive income (loss), net of tax:									
Cumulative translation adjustment	(27)	(27)					(26)		(1)
Net revaluation and clearance of cash flow hedges to earnings	(120)	(120)					(118)		(2)
Pension benefit plans	31	31					31		
Other benefit plans	(37)	(37)					(37)		
Net unrealized loss on securities	(15)	(15)					(15)		
Other comprehensive loss	(168)	(168)							
Comprehensive income	2,478	2,478(1)							
Common dividends	(1,121)					(1,115)			(6)
Preferred dividends	(8)					(8)			
Common stock issued - compensation plans	190			1	189				
	<b>\$ 13,117</b>		<b>\$ 237</b>	<b>\$ 297</b>	<b>\$ 8,368</b>	<b>\$ 11,458</b>	<b>\$ (959)</b>	<b>\$ (6,727)</b>	<b>\$ 443</b>

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Total Equity as of September 30,  
2008

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(1) Includes comprehensive income attributable to noncontrolling interests of \$12 and \$7 for the nine months ended September 30, 2009 and 2008, respectively.

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

*(Dollars in millions, except per share)*

**Note 3. Fair Value Measurements**

In 2008, the company implemented the accounting requirements for financial assets and financial liabilities reported at fair value and related disclosures. Effective January 1, 2009, the company prospectively implemented the accounting requirements for non-financial assets and non-financial liabilities reported or disclosed at fair value, except for non-financial items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually).

The requirement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The disclosures focus on the inputs used to measure fair value.

The company has determined that its financial assets and liabilities are level 1 and level 2 in the fair value hierarchy. The company uses the following valuation techniques to measure fair value for its financial assets and financial liabilities:

Level 1 - Quoted market prices in active markets for identical assets or liabilities

Level 2 - Significant other observable inputs (e.g. quoted prices for similar items in active markets, quoted prices for identical or similar items in markets that are not active, inputs other than quoted prices that are observable such as interest rate and yield curves, and market-corroborated inputs)

At September 30, 2009, the following financial assets and financial liabilities were measured at fair value on a recurring basis using the type of inputs shown:

**September 30,**