DUPONT E I DE NEMOURS & CO
Form 10-Q
October 25, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2011

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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 x No o

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

Large Accelerated Filer x	Accelerated Filero
Non-Accelerated Filer o	Smaller reporting companyo

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

The Registrant had 923,919,000 shares (excludes 87,041,000 shares of treasury stock) of common stock, $0.30 par value, outstanding at October 15, 2011.

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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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales	$9,238	$7,001	$29,536	$24,101
Other income, net	161	66	415	890
Total	9,399	7,067	29,951	24,991
Cost of goods sold and other operating charges	7,107	5,443	21,129	17,223
Selling, general and administrative expenses	1,014	782	3,177	2,796
Research and development expense	557	409	1,418	1,178
Interest expense	116	103	331	309
Employee separation / asset related charges, net	36	—	36	—
Total	8,830	6,737	26,091	21,506
Income before income taxes	569	330	3,860	3,485
Provision for (benefit from) income taxes	109	(39)	727	811
Net income	460	369	3,133	2,674
Less: Net income attributable to noncontrolling interests	8	2	32	19
Net income attributable to DuPont	$452	$367	$3,101	$2,655
Basic earnings per share of common stock	$0.48	$0.40	$3.33	$2.92
Diluted earnings per share of common stock	$0.48	$0.40	$3.28	$2.89
Dividends per share of common stock	$0.41	$0.41	$1.23	$1.23

See Notes to the Consolidated Financial Statements beginning on page 6.

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

	September 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$2,750	$4,263
Marketable securities	229	2,538
Accounts and notes receivable, net	8,544	5,635
Inventories	6,413	5,967
Prepaid expenses	154	122
Deferred income taxes	705	534
Total current assets	18,795	19,059
Property, plant and equipment, net of accumulated depreciation (September 30, 2011 - $19,362; December 31, 2010 - $18,628)	13,235	11,339
Goodwill	5,493	2,617
Other intangible assets	5,550	2,704
Investment in affiliates	1,079	1,041
Other assets	3,642	3,650
Total	$47,794	$40,410
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$3,981	$4,230
Short-term borrowings and capital lease obligations	3,301	133
Income taxes	520	225
Other accrued liabilities	3,568	4,801
Total current liabilities	11,370	9,389
Long-term borrowings and capital lease obligations	12,200	10,137
Other liabilities	11,065	11,026
Deferred income taxes	1,135	115
Total liabilities	35,770	30,667
Commitments and contingent liabilities		
Stockholders' equity		
Preferred stock	237	237
Common stock, $0.30 par value; 1,800,000,000 shares authorized; Issued at September 30, 2011 - 1,010,894,000; December 31, 2010 - 1,004,351,000	303	301
Additional paid-in capital	9,983	9,227
Reinvested earnings	13,432	12,030
Accumulated other comprehensive loss	(5,684)	(5,790)
Common stock held in treasury, at cost (87,041,000 shares at September 30, 2011 and December 31, 2010)	(6,727)	(6,727)
Total DuPont stockholders' equity	11,544	9,278
Noncontrolling interests	480	465
Total equity	12,024	9,743

Total	$47,794	$40,410

See Notes to the Consolidated Financial Statements beginning on page 6.

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

	Nine Months Ended September 30,	
	2011	2010
Operating activities		
Net income	$3,133	$2,674
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation	944	904
Amortization of intangible assets	195	142
Contributions to pension plans	(272)	(704)
Other noncash charges and credits - net	846	442
Change in operating assets and liabilities - net	(4,415)	(3,423)
Cash provided by operating activities	431	35
Investing activities		
Purchases of property, plant and equipment	(1,211)	(899)
Investments in affiliates	(35)	(71)
Payments for businesses - net of cash acquired	(6,459)	—
Proceeds from sales of assets - net of cash sold	62	173
Net decrease in short-term financial instruments	2,365	201
Forward exchange contract settlements	(299)	396
Other investing activities - net	1	(94)
Cash used for investing activities	(5,576)	(294)
Financing activities		
Dividends paid to stockholders	(1,152)	(1,122)
Net increase in borrowings	4,503	1,327
Repurchase of common stock	(672)	—
Proceeds from exercise of stock options	833	199
Other financing activities - net	52	(18)
Cash provided by financing activities	3,564	386
Effect of exchange rate changes on cash	68	(60)
(Decrease) increase in cash and cash equivalents	$(1,513)	$67
Cash and cash equivalents at beginning of period	4,263	4,021
Cash and cash equivalents at end of period	$2,750	$4,088

See Notes to the Consolidated Financial Statements beginning on page 6.

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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 audited Consolidated Financial Statements and Notes thereto contained in the company’s Annual Report on Form 10-K for the year ended December 31, 2010, collectively referred to as the ‘2010 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 for which DuPont is the primary beneficiary. Certain reclassifications of prior year’s data have been made to conform to current year classifications.

Recent Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued authoritative guidance on fair value measurements and disclosures which becomes effective for interim and annual periods beginning after December 15, 2011. The new guidance enhances disclosures and refines certain aspects of fair value measurement that primarily affect financial instruments. The adoption of this guidance is not expected to have a material effect on the company's financial position or results of operations.

In June 2011, the FASB issued amendments to the presentation of comprehensive income which become effective for interim and annual periods beginning after December 15, 2011. The amendments eliminate the current reporting option of displaying components of other comprehensive income within the statement of changes in stockholders' equity. Under the new guidance, the company will be required to present either a single continuous statement of comprehensive income or an income statement immediately followed by a statement of comprehensive income. The company is currently evaluating which of the two presentation methods it will adopt.

Note 2. Danisco Acquisition

In January 2011, DuPont and its wholly owned subsidiary, DuPont Denmark Holding ApS (DDHA), entered into a definitive agreement with Danisco A/S (Danisco), a global enzyme and specialty food ingredients company, for DDHA to make a public tender offer for all of Danisco's outstanding shares at a price of 665 Danish Kroner (DKK) in cash per share. On April 29, 2011, DDHA increased the price of its tender offer to acquire all of the outstanding shares of Danisco to DKK 700 in cash per share.

On May 19, 2011, the company acquired approximately 92.2 percent of Danisco's outstanding shares, excluding treasury shares, pursuant to the previously announced tender offer. As of September 30, 2011, DuPont had acquired all of Danisco's remaining outstanding shares. This acquisition has established DuPont as a leader in industrial biotechnology with science-intensive innovations that address global challenges in food production and reduced fossil fuel consumption. The Danisco acquisition is valued at $6,417, plus net debt assumed of $617.

As part of the acquisition, DuPont incurred $3 and $85 in transaction related costs in the third quarter 2011 and year-to-date 2011, respectively. These costs were recorded in cost of goods sold and other operating charges.

In the second and third quarters 2011, the businesses acquired from Danisco contributed net sales of $1,000 and net income attributable to DuPont of $(50), which excludes $20 after-tax ($26 pre-tax) of additional interest expense related to the debt issued to finance the acquisition. These contributions included a $125 after-tax ($175 pre-tax) charge related to the fair value step-up of inventories acquired and sold during this time period.

The following unaudited pro forma summary presents DuPont's consolidated results of operations as if Danisco had been acquired on January 1, 2010. These amounts were calculated after conversion from International Financial Reporting Standards to GAAP and adjusting Danisco's results to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment, and intangible assets had been applied from January 1, 2010, together with the consequential tax effects. These adjustments also reflect the additional interest expense incurred on the debt to finance the purchase. The 2011 pro forma earnings were adjusted to exclude the acquisition related costs incurred in 2011 and the nonrecurring expense related to the fair value inventory step-up adjustment. The 2010 pro forma earnings were adjusted to include these charges. The pro forma financial information presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the acquisition and borrowings undertaken to finance the acquisition had taken place at the beginning of 2010.

(Dollars in millions, except per share)

	Pro forma for the Three Months Ended September 30,		Pro forma for the Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales	$9,238	$7,678	$30,757	$26,110
Net income attributable to DuPont	544	400	3,344	2,531

The following table summarizes the fair value of the assets acquired and liabilities assumed as of the acquisition date:

Fair value of assets acquired	
Cash and cash equivalents	$48
Accounts and notes receivable [1]	522
Inventories [2]	709
Property, plant and equipment	1,720
Goodwill [3]	2,900
Other intangible assets [4]	2,859
Other current and non-current assets	79
Total assets acquired	$8,837
Fair value of liabilities assumed	
Accounts payable and other accrued liabilities	$482
Short-term borrowings	342
Long-term borrowings	323
Other liabilities	219
Deferred income taxes [5]	1,054
Total liabilities assumed	$2,420

1 The gross amount of accounts and notes receivable acquired was $531, of which $9 was expected to be uncollectible.

2 The fair value of inventories acquired included a step-up in the value of $175, of which $132 and $175 was expensed to cost of goods sold and other operating charges for the three and nine month periods ended September 30, 2011, respectively.

3 Goodwill will not be deductible for statutory tax purposes. Goodwill is attributable to Danisco's workforce and the synergies in technology, operations and market access that are expected from the acquisition. Approximately $900 and $2,000 of goodwill was allocated to the Industrial Biosciences and Nutrition & Health segments, respectively.

4 Other intangible assets acquired of $1,002 are indefinite-lived (see Note 9).

5 The deferred income tax liabilities assumed represent the adjustments for the tax impact of fair value adjustments, primarily relating to definite-lived intangible assets.

The above amounts represent the preliminary allocation of purchase price. Final determination of the fair values may result in further adjustments to the values presented above.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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Note 3. Other Income, Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Cozaar®/Hyzaar® income	$68	$109	$195	$397
Royalty income	30	36	96	89
Interest income	28	28	88	68
Equity in earnings of affiliates, excluding exchange gains/losses	34	33	117	119
Net (losses) gains on sales of assets	(1)	1	38	96
Net exchange losses [1]	(6)	(160)	(145)	(25)
Miscellaneous income and expenses, net [2]	8	19	26	146
Total	$161	$66	$415	$890

1 The company routinely uses forward exchange contracts to offset its net exposures, by currency, related to its foreign currency-denominated monetary assets and liabilities. 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 on net monetary asset positions. The net pre-tax exchange gains and losses are partially offset by the associated tax impact.

2 Miscellaneous income and expenses, net, generally includes interest items, insurance recoveries, litigation settlements and other items.

Note 4. Employee Separation / Asset Related Charges, Net

During the third quarter 2011, the company initiated a restructuring program as a result of the integration of Danisco as described below. A complete discussion of the prior restructuring initiatives is included in the company's 2010 Annual Report in Note 4, "Employee Separation / Asset Related Charges, Net." At September 30, 2011, total liabilities relating to current and prior restructuring activities were $52.

2011 Restructuring Program

During the third quarter 2011, the company initiated a series of actions to achieve the expected cost synergies associated with the Danisco acquisition. As a result, the company recorded a $36 charge in employee separation / asset related charges, net, primarily for employee separation costs in the United States of America (U.S.) and Europe. This charge reduced segment earnings as follows: Industrial Biosciences - $8, Nutrition & Health - $10, and Other - $18. The company expects this initiative and all related payments to be substantially complete in 2013.

Account balances and activity for the 2011 restructuring program are summarized below:

	Employee Separation Costs
Charges to income for three and nine months ended September 30, 2011	$36

Payments	(1)
Balance as of September 30, 2011	$35

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2009 Restructuring Program

Account balances and activity for the 2009 restructuring program are summarized below:

	Employee Separation Costs	Other Non-personnel Charges [1]	Total
Balance at December 31, 2010	$46	$1	$47
Payments	(36)	(1)	(37)
Net translation adjustment	2	—	2
Balance as of September 30, 2011	$12	$—	$12

[1] Other non-personnel charges consist of contractual obligation costs.

The actions related to the 2009 restructuring program were substantially completed by the end of 2010 with payments continuing into 2011, primarily in Europe.

Note 5. Provision for Income Taxes

In the third quarter 2011, the company recorded a tax provision of $109, including $41 of tax expense primarily associated with the company's policy of hedging the foreign currency-denominated monetary assets and liabilities of its operations.

Year-to-date 2011, the company recorded a tax provision of $727, including $101 of tax benefit primarily associated with the company's policy of hedging the foreign currency-denominated monetary assets and liabilities of its operations.

In the third quarter 2010, the company recorded a tax benefit of $39, including $157 of tax benefit primarily associated with the company’s policy of hedging the foreign currency-denominated monetary assets and liabilities of its operations.

Year-to-date 2010, the company recorded a tax provision of $811, including $54 of tax expense primarily associated with the company’s policy of hedging the foreign currency-denominated monetary assets and liabilities of its operations and $49 net tax benefit related to the adjustment of income tax accruals associated with settlements of tax contingencies related to prior years.

Each year the company files hundreds of 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 accounting for income taxes and accounting for uncertainty in income taxes. It is reasonably possible that changes to the company's global unrecognized tax benefits could be significant, however, due to the uncertainty regarding the timing of completion of audits and possible outcomes, a current estimate of the range of increases or decreases that may occur within the next twelve months cannot be made.

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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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Numerator:				
Net income attributable to DuPont	$452	$367	$3,101	$2,655
Preferred dividends	(3)	(3)	(8)	(8)
Net income available to DuPont common stockholders	$449	$364	$3,093	$2,647
Denominator:				
Weighted-average number of common shares - Basic	932,356,000	908,366,000	929,369,000	906,991,000
Dilutive effect of the company's employee compensation plans	11,129,000	10,134,000	13,443,000	7,996,000
Weighted-average number of common shares - Diluted	943,485,000	918,500,000	942,812,000	914,987,000

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Average number of stock options	8,678,000	47,108,000	2,904,000	56,845,000

The change in the average number of stock options that were antidilutive in the three and nine months ended September 30, 2011 compared to the same periods last year was primarily due to changes in the company's average stock price.

Note 7. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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);

Level 3 —	Unobservable inputs for the asset or liability, which are valued based on management's estimates of assumptions that market participants would use in pricing the asset or liability.

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The company has determined that its financial assets and liabilities are level 1 and level 2 in the fair value hierarchy. At September 30, 2011 and December 31, 2010, the following financial assets and financial liabilities were measured at fair value on a recurring basis using the type of inputs shown:

		Fair Value Measurements at September 30, 2011 Using	
	September 30, 2011	Level 1 Inputs	Level 2 Inputs
Financial assets			
Derivatives	$301	$—	$301