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

<u>*Agriculture & Nutrition*</u>

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

<u>*Coatings & Color Technologies*</u>

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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(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)	(554)
Total	$ 4,481	$ 4,941

Note 8. Goodwill and Other Intangible Assets

There were no significant changes in Goodwill for the six-month period ended June 30, 2007.

The gross carrying amounts and accumulated amortization in total and by major class of Other intangible assets are as follows:

	June 30, 2007			December 31, 2006		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Intangible assets subject to amortization (Definite-lived):						
Purchased technology	$ 2,097	$ (1,331)	$ 766	$ 2,099	$ (1,253)	$ 846
Patents	149	(52)	97	141	(46)	95
Trademarks	53	(16)	37	53	(14)	39
Other	537	(211)	326	536	(192)	344
	2,836	(1,610)	1,226	2,829	(1,505)	1,324
Intangible assets not subject to amortization (Indefinite-lived):						
Trademarks / tradenames	180		180	180		180
Pioneer germplasm	975		975	975		975
	1,155		1,155	1,155		1,155
Total	$ 3,991	$ (1,610)	$ 2,381	$ 3,984	$ (1,505)	$ 2,479

The aggregate amortization expense for definite-lived intangible assets was $54 and $110 for the three- and six-month periods ended June 30, 2007, respectively, and $56 and $115 for the three- and six-month periods ended June 30, 2006. The estimated aggregate pretax amortization expense for 2007 and each of the next five years is approximately $225, $210, $180, $145, $140 and $120.

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(Dollars in millions, except per share)

Note 9. Commitments and Contingent Liabilities

Guarantees

Product Warranty Liability

The company warrants, generally to the original purchasers of its products, that it will, at its option, repair or replace, without charge, its products if they fail due to a manufacturing defect. The terms of these warranties vary (30 days to, in limited cases, 15 years) by product. The company s estimated product warranty liability as of June 30, 2007, is $28. The company has recourse provisions for certain products that would enable recovery from third parties for amounts paid under the warranties. The company accrues for product warranties when, based on available information, it is probable that customers will make claims under warranties relating to products that have been sold and a reasonable estimate of the costs (based on historical claims experience relative to sales) can be made.

Indemnifications

In connection with acquisitions and divestitures, the company has indemnified respective parties against certain liabilities that may arise in connection with these transactions and business activities prior to the completion of the transaction. The term of these indemnifications, which typically pertain to environmental, tax and product liabilities, is generally indefinite. In addition, the company indemnifies its duly elected or appointed directors and officers to the fullest extent permitted by Delaware law, against liabilities incurred as a result of their activities for the company, such as adverse judgments relating to litigation matters. If the indemnified party were to incur a liability or have a liability increase as a result of a successful claim, pursuant to the terms of the indemnification, the company would be required to reimburse the indemnified party. The maximum amount of potential future payments is generally unlimited. The carrying amounts recorded for all indemnifications as of June 30, 2007, and December 31, 2006, is $103 and $105, respectively. Although it is reasonably possible that future payments may exceed amounts accrued, due to the nature of indemnified items, it is not possible to make a reasonable estimate of the maximum potential loss or range of loss. No assets are held as collateral and no specific recourse provisions exist.

In connection with the sale of the majority of the net assets of Textiles and Interiors (INVISTA), the company indemnified the purchasers, subsidiaries of Koch Industries, Inc., against certain liabilities primarily related to taxes, legal and environmental matters and other representations and warranties. The estimated fair value of these obligations of $70 is included in the indemnifications balance of $103 at June 30, 2007. The fair value of these obligations was based on management s best estimate of the value expected to be required to issue the indemnifications in a standalone, arm s length transaction with an unrelated party and, where appropriate, by the utilization of probability weighted discounted net cash flow models.

Obligations for Equity Affiliates & Others

The company has directly guaranteed various debt obligations under agreements with third parties related to equity affiliates, customers, suppliers and other unaffiliated companies. At June 30, 2007, the company had directly guaranteed $586 of such obligations, and $237 relating to guarantees of historical obligations for divested subsidiaries and affiliates. This represents the maximum potential amount of future (undiscounted) payments that the company could be required to make under the guarantees. The company would be required to perform on these guarantees in the event of default by the guaranteed party. No material loss is anticipated by reason of such agreements and guarantees.

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In certain cases, the company has recourse to assets held as collateral, as well as personal guarantees from customers and suppliers. Assuming liquidation, these assets are estimated to cover approximately 42 percent of the $281 of guaranteed obligations of customers and suppliers. Set forth below are the company s guaranteed obligations at June 30, 2007:

	Short-Term	Long-Term	Total
Obligations for customers, suppliers and other unaffiliated companies[1]:			
Bank borrowings (terms up to 5 years)	$134	$145	$279
Revenue bonds (term 2 years)		2	2
Obligations for equity affiliates [2] :			
Bank borrowings (terms up to 6 years)	253	24	277
Leases on equipment and facilities (terms of 2 to 3 years)		28	28
Total obligations for customers, suppliers, other unaffiliated companies and equity affiliates	$387	$199	$586
Obligations for divested subsidiaries and affiliates [3] :			
Conoco Inc. (Conoco) (terms from 1-19 years)		134	134
Consolidation Coal Sales Company (term 3-4 years)		103	103
Total obligations for divested subsidiaries and affiliates		237	237
	$387	$436	$823

1 Existing guarantees for customers and suppliers arose as part of contractual agreements.

2 Existing guarantees for equity affiliates arose for liquidity needs in normal operations.

3 The company has guaranteed

certain obligations and liabilities related to divested subsidiaries, including Conoco and its subsidiaries and affiliates and Consolidation Coal Sales Company. The Restructuring, Transfer and Separation Agreement between DuPont and Conoco requires Conoco to use its best efforts to have Conoco, or any of its subsidiaries, substitute for DuPont. Conoco and Consolidation Coal Sales Company have indemnified the company for any liabilities the company may incur pursuant to these guarantees.

Residual Value Guarantees

As of June 30, 2007, the company had one synthetic lease program relating to short-lived equipment. In connection with this synthetic lease program, the company had residual value guarantees in the amount of $102 at June 30, 2007. The guarantee amounts are tied to the unamortized lease values of the assets under synthetic lease and are due should the company decide neither to renew these leases nor to exercise its purchase option. At June 30, 2007, the company had no liabilities recorded for these obligations. Any residual value guarantee amounts paid to the lessor may be recovered by the company from the sale of the assets to a third party.

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(Dollars in millions, except per share)

Litigation

Benlate®

In 1991, DuPont began receiving claims by growers that use of Benlate® 50 DF fungicide had caused crop damage. DuPont has since been served with thousands of lawsuits, most of which have been disposed of through trial, dismissal or settlement. The status of Benlate® cases is indicated in the table below:

	Number of Cases
Balance at December 31, 2006	60
Filed	
Resolved	(16)
Balance at March 31, 2007	44
Filed	
Resolved	(31)
Balance at June 30, 2007	13

At June 30, 2007, there were nine cases pending in Florida state court, involving allegations that Benlate® caused crop damage. The court dismissed for failure to prosecute one of the nine cases in November 2006 on DuPont s motion. Plaintiffs are expected to appeal. Two of the nine cases, involving twenty-seven Costa Rican fern growers, were tried during the second quarter of 2006 resulting in a $56 judgment against DuPont. At trial, the plaintiffs sought damages in the range of $270 to $400. The plaintiffs, as well as DuPont, have filed post trial motions and DuPont will appeal the verdict. DuPont believes that the appeal will be resolved in its favor and, therefore, has not established a reserve relating to the judgment.

At June 30, 2007, there were two pending cases seeking to reopen settlements with the company by alleging that it committed fraud and misconduct, as well as violations of federal and state racketeering laws. In 2005, one of the two pending cases was settled in part for $1.2 and the Hawaii state court granted DuPont s motion dismissing the remainder of the case. However, plaintiffs have appealed the dismissal. During the second quarter 2007, the company settled five cases that were pending in Hawaii for $8.5. During the first quarter 2007, the dismissal of the sixteen reopener cases pending in Florida was affirmed and the cases were closed.

At June 30, 2007, there were two cases pending before the Delaware state court, involving allegations that Benlate® caused birth defects to children exposed in utero. In April 2007, DuPont reached a settlement in principle of $9 with the six plaintiffs in these two cases as well as twenty-six other claimants represented by the same attorney. If the settlement is approved by the court and finalized, it will resolve all birth defects claims known by DuPont to exist.

The twenty-six cases involving damage to shrimp pending against the company in state court in Florida were settled for $2.5 during the second quarter 2007. Plaintiffs filed a motion seeking sanctions for alleged discovery defaults in all of the cases, including the two cases in which judgment has been entered for the company. The court denied most of the sanctions sought by plaintiffs, but did impose on DuPont the reasonable and necessary attorney fees incurred by plaintiffs in moving for sanctions. Plaintiffs have renewed their efforts to have the two cases won by DuPont reinstated as a sanction for alleged discovery violations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share)

The company does not believe that Benlate® caused the damages alleged in each of these cases and denies the allegations of fraud and misconduct. The company continues to defend itself in ongoing matters. As of June 30, 2007, the company has incurred costs and expenses of approximately $2 billion associated with these matters. The company has recovered approximately $275 of its costs and expenses through insurance and does not expect additional insurance recoveries, if any, to be significant. At June 30, 2007, the company has reserves of $11.5 related to the settlements of the birth defect claims and shrimp cases.

PFOA

Environmental Actions Involving the Washington Works Site and Surrounding Area

In November 2006, DuPont entered into an Order on Consent under the Safe Drinking Water Act (SDWA) with the U.S. Environmental Protection Agency (EPA) establishing a precautionary interim screening level for PFOA (collectively, perfluorooctanoic acids and its salts, including the ammonium salt) of 0.5 parts per billion (ppb) in drinking water sources in the area around the DuPont Washington Works site located in Parkersburg, West Virginia. As part of the Order on Consent, DuPont conducted a survey and performed sampling and analytical testing of certain public and private water systems in the area. DuPont is required under the agreement to offer to install water treatment systems or an EPA-approved alternative if PFOA levels are detected at or above 0.5 ppb. Since PFOA was detected at levels above 0.5 ppb in some private water wells, the company expects to install such treatment systems. Management believes the company s reserves for costs it may incur as a result are adequate.

In 2001, DuPont and the West Virginia Department of Environmental Protection (WVDEP) signed a multimedia Consent Order (the WV Order) that required environmental sampling and analyses and the development of screening levels for PFOA that is used or managed by the Washington Works plant. As a result, in 2002, the WVDEP established a screening level of 150 micrograms PFOA per liter screening level for drinking water, a soil screening level of 240 parts per million, a screening level of 1 microgram per cubic meter for air and a screening level of 1360 ppb for aquatic life. Under the WV Order, sanctions could be imposed if any of the screening levels were exceeded. Based on sampling through 2006 and air dispersion modeling, DuPont has not exceeded these screening levels. The company conducted annual sampling in 2007 for the City of Parkersburg and the results were below the screening level. In addition, environmental sampling of the PFOA levels in the groundwater and drinking water has been conducted across the Ohio River pursuant to a Memorandum of Understanding among DuPont, the Ohio Environmental Protection Agency, the WVDEP and the Division of Health and Human Resources, (the Ohio MOU). Additional monitoring was conducted in Ohio through 2006. In late 2005 DuPont and the EPA entered into a Memorandum of Understanding (EPA MOU) that requires DuPont to monitor PFOA in the soil, air, water and biota around the Washington Works site. At June 30, 2007, DuPont has reserves of about $0.4 to fund its activities under the WV Order, EPA MOU and Order on Consent, including the installation of water treatment systems.

EPA Administrative Complaints

In July and December 2004, the EPA filed administrative complaints against DuPont alleging that the company failed to comply with the technical reporting requirements of the Toxic Substances Control Act (TSCA) and the Resource Conservation and Recovery Act (RCRA) regarding PFOA. The first complaint related to information about PFOA for a period beginning in June 1981 through March 2001; the second related to information about PFOA for a period beginning in late July 2004 to mid-October 2004. In December 2005, the parties entered into a settlement agreement to resolve the original counts set forth in the complaints and the additional counts raised by the EPA in

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2005. As a result in 2005, the company established reserves of $16.5 to fund its obligations under the settlement agreement. The agreement requires the company to pay civil fines of $10.25 and complete two Supplemental Environmental Projects at a total cost of $6.25 by December 27, 2008. The company paid the civil fines of $10.25 in January 2006.

Department of Justice: Grand Jury Subpoena

On May 17, 2005, DuPont was served with a grand jury subpoena from the U.S. District Court for the District of Columbia. The subpoena, which was served by the Environmental Crimes Section of the Environment and Natural Resources Division of the Department of Justice (DOJ), relates to PFOA, ammonium perfluorooctanoate (APFO), C-8 and FC-143. The subpoena calls for the production of documents previously produced to the EPA and other documents related to those chemicals. DuPont has been and will continue to be fully responsive to the DOJ in this matter and has begun the production of documents. It is expected that the collection, review and production of documents will continue throughout 2007. Several former DuPont employees have been subpoenaed to testify before the grand jury.

Actions: Drinking Water

In August 2001, a class action, captioned Leach v. DuPont, was filed in West Virginia state court against DuPont and the Lubeck Public Service District. DuPont uses PFOA as a processing aid to manufacture fluoropolymer resins and dispersions at various sites around the world including its Washington Works plant in West Virginia. The complaint alleged that residents living near the Washington Works facility had suffered, or may suffer, deleterious health effects from exposure to PFOA in drinking water. The relief sought included damages for medical monitoring, diminution of property values and punitive damages plus injunctive relief to stop releases of PFOA. DuPont and attorneys for the class reached a settlement agreement in 2004 and as a result, the company established reserves of $108 in 2004. The agreement was approved by the Wood County Circuit Court on February 28, 2005 after a fairness hearing. The settlement binds a class of approximately 80,000 residents. As defined by the court, the class includes those individuals who have consumed, for at least one year, water containing 0.05 ppb or greater of PFOA from any of six designated public water sources or from sole source private wells.

In July 2005, the company paid the plaintiffs attorneys fees and expenses of $23 and made a payment of $70, which class counsel has designated to fund a community health project. The company is also funding a health study by an independent science panel of experts in the communities exposed to PFOA to evaluate available scientific evidence on whether any probable link exists between exposure to PFOA and human disease. The independent science panel health study is estimated to cost $18, of which $5 was originally placed in an interest-bearing escrow account. At present, the expected timeframe to complete the study is three to five years. In addition, the company is providing state-of-the art water treatment systems designed to reduce the level of PFOA in water to six area water districts, including the Little Hocking Water Association (LHWA), until the science panel determines that PFOA does not cause disease or until applicable water standards can be met without such treatment. At June 30, 2007, the estimated cost of constructing, operating and maintaining these systems is $19 of which $10 was originally placed in an interest-bearing escrow account. As a result of payments and activities undertaken related to the settlement agreement during the period, the reserve balance at June 30, 2007, was $23, including $5 in interest bearing escrow accounts.

The settlement resulted in the dismissal of all claims asserted in the lawsuit except for personal injury claims. If the independent science panel concludes that no probable link exists between exposure to PFOA and any diseases, then the settlement would also resolve personal injury claims. If it concludes that a probable link does exist between exposure to PFOA and any diseases, then DuPont would also fund up to $235 for a medical monitoring program to pay for such medical

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testing. In this event, plaintiffs would retain their right to pursue personal injury claims. All other claims in the lawsuit would remain dismissed by the settlement. DuPont believes that it is remote that the panel will find a probable link. Therefore, at June 30, 2007, the company had not established any reserves related to medical monitoring or personal injury claims. However, there can be no assurance as to what the independent science panel will conclude.

The company is funding a voluntary bottled water program (estimated to cost about $3) for residents in the Little Hocking area water district on an interim basis until the installation of the water treatment systems. In June 2007, the LHWA notified DuPont that it intends to file suit under RCRA alleging imminent and substantial endangerment to health and or the environment based on detection of PFOA in its wells. DuPont denies any such endangerment exists and intends to vigorously defend itself if a lawsuit is filed.

In the second quarter of 2006, three purported class actions were filed alleging that drinking water had been contaminated by PFOA in excess of 0.05 ppb due to alleged releases from certain DuPont plants. One of these cases was filed in West Virginia state court on behalf of customers of the Parkersburg City Water District, but was removed on DuPont s motion to the U.S. District Court for the Southern District of West Virginia. The other two purported class actions were filed in New Jersey. One was filed in federal court on behalf of individuals who allegedly drank water contaminated by releases from DuPont s Chambers Works plant in Deepwater, New Jersey. The second was filed in state court on behalf of customers serviced primarily by the Pennsville Township Water Department and was removed to New Jersey federal district court on DuPont s motion. The New Jersey cases have been combined for purposes of discovery and the complaints have been amended to allege that drinking water had been contaminated by PFOA in excess of 0.04 ppb. The company intends to defend itself vigorously against these lawsuits alleging contamination of drinking water sources.

While DuPont believes that it is reasonably possible that it could incur losses related to PFOA matters in addition to those matters discussed above for which it has established reserves, a range of such losses, if any, cannot be reasonably estimated at this time.

Consumer Products Class Actions

	Number of Cases
Balance at December 31, 2006	22
Filed	1
Resolved	
Balance at March 31, 2007	23
Filed	
Resolved	
Balance at June 30, 2007	23

As of June 30, 2007, twenty-three intrastate class actions have been filed on behalf of consumers who have purchased cookware with Teflon® non-stick coating in federal district courts against DuPont. The actions were filed on behalf of consumers in Colorado, Connecticut, Delaware, the District of Columbia, Florida, Illinois, Indiana, Iowa, Kentucky, Massachusetts, Michigan, Missouri, New Jersey, New Mexico, New York, Ohio, Oklahoma, Pennsylvania, South Carolina, Texas and West Virginia. Two of the 23 actions were filed in California. By order of the Judicial Panel on Multidistrict Litigation, all of these actions have been combined for coordinated and consolidated

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pre-trial proceedings in federal district court for the Southern District of Iowa. Under the court s latest case management order, a ruling on whether these cases can proceed as class actions is expected in 2008.

The actions allege that DuPont violated state laws by engaging in deceptive and unfair trade practices by failing to disclose to consumers that products containing Teflon® were or are potentially harmful to consumers and that DuPont has liability based on state law theories of negligence and strict liability. The actions allege that Teflon® contained or released harmful and dangerous substances; including a chemical (PFOA) alleged to have been determined to be likely to cause cancer in humans. The actions seek unspecified monetary damages for consumers who purchased cooking products containing Teflon®, as well as the creation of funds for medical monitoring and independent scientific research, attorneys fees and other relief. In December 2005, a motion was filed by a single named plaintiff in the Superior Court for the Province of Quebec, Canada seeking authorization to institute a class action on behalf of all Quebec consumers who have purchased or used kitchen items, household appliances or food-packaging containing Teflon® or Zonyl® non-stick coatings. A ruling on this motion is expected from the Court in 2007. Damages are not quantified, but are alleged to include the cost of replacement products as well as one hundred dollars per class member as exemplary damages.

The company believes that the twenty-three class actions and the motion filed in Quebec are without merit and, therefore, believes it is remote that it will incur losses related to these actions. At June 30, 2007, the company had not established any reserves related to these matters.

Elastomers Antitrust Matters

Since 2002, the U.S., European Union (EU) and Canadian antitrust authorities have investigated the synthetic rubber markets for possible violations. These investigations included DuPont Dow Elastomers, LLC (DDE), as a result of its participation in the polychloroprene (PCP) and ethylene propylene diene monomer (EPDM) markets. DDE was a joint venture between The Dow Chemical Company (Dow) and DuPont.

In April 2004, DuPont and Dow entered into a series of agreements under which DuPont obtained complete control over directing DDE s response to these investigations and the related litigation and DuPont agreed to a disproportionate share of the venture s liabilities and costs related to these matters. Consequently, DuPont bears any potential liabilities and costs up to the initial $150. Dow is obligated to indemnify DuPont for up to $72.5 by paying 15 to 30 percent toward liabilities and costs in excess of $150. On June 30, 2005, DDE became a wholly owned subsidiary of DuPont and was renamed DuPont Performance Elastomers LLC (DPE).

In July 2007, DPE pled guilty to conspiring to fix prices and was fined CDN $4, approximately $3.8 USD, resolving all criminal antitrust allegations against it related to PCP in Canada.

In late March 2007, the EU antitrust authorities issued a Statement of Objections that makes antitrust allegations regarding the PCP market against DPE, relating to the joint venture s activities, and DuPont, to which both have responded. The company expects EU antitrust authorities to issue a decision, including the imposition of fines, by year-end 2007. During 2007, as a result of these developments, the company increased its reserves for the EU matter by $65, of which DuPont expects $13 will be reimbursed by Dow. However, there can be no assurance as to what the EU antitrust authorities will decide or the amount of any fines. After the decision is issued, the company will assess whether to seek appellate review.

DDE resolved all criminal antitrust allegations against it related to PCP in the U.S. through a plea agreement with the DOJ in January 2005 which was approved by the court on March 29, 2005.

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The agreement requires the subsidiary to pay a fine of $84 which, at its election, is being paid in six equal, annual installments. The annual installment payments for 2005, 2006 and 2007 have been made. The agreement also requires the subsidiary to provide ongoing cooperation with the DOJ s investigation.

As a result of its April 2004 agreements with Dow, DuPont established reserves in 2004 of $268, of which $18 will be reimbursed by Dow. At June 30, 2007, the balance of the reserves is $177.

General

The company is subject to various lawsuits and claims arising out of the normal course of its business. These lawsuits and claims include actions based on alleged exposures to products, intellectual property and environmental matters and contract and antitrust claims. Although it is not possible to predict the outcome of these various lawsuits and claims, management does not anticipate they will have a material adverse effect on the company s consolidated financial position or liquidity. However, the ultimate liabilities may be significant to results of operations in the period recognized. The company accrues for contingencies when the information available indicates that it is probable that a liability has been incurred and the amount of the liability can be reasonably estimated.

Management has noted a nationwide trend in purported class actions against chemical manufacturers generally seeking relief such as medical monitoring, property damages, off-site remediation and punitive damages arising from alleged environmental torts without claiming present personal injuries. Such cases may allege contamination from unregulated substances or remediated sites. For example, in September 2006, a West Virginia state court certified a class action against DuPont that seeks relief including the provision of remediation services and property value diminution damages for 7,000 residential properties in the vicinity of a closed zinc smelter in Spelter, West Virginia. The action also seeks medical monitoring for an undetermined number of residents in the class area. The smelter was owned and operated by at least three companies between 1910 and 2001, including DuPont between 1928 and 1950. DuPont performed remedial measures at the request of the EPA in the late 1990 s and in 2001 repurchased the site to facilitate and complete the remediation. Trial in this matter is scheduled to begin in the third quarter of 2007. In the first quarter of 2007, the company established reserves of $15 related to this action although given the uncertainties inherent in litigation, there can be no assurance as to the final outcome.

Environmental

The company is also subject to contingencies pursuant to environmental laws and regulations that in the future may require the company to take further action to correct the effects on the environment of prior disposal practices or releases of chemical or petroleum substances by the company or other parties. The company accrues for environmental remediation activities consistent with the policy set forth in Note 1 in the company s Annual Report on Form 10-K for the period ended December 31, 2006. Much of this liability results from the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA, often referred to as Superfund), RCRA and similar state laws. These laws require the company to undertake certain investigative and remedial activities at sites where the company conducts or once conducted operations or at sites where company-generated waste was disposed. The accrual also includes estimated costs related to a number of sites identified by the company for which it is probable that environmental remediation will be required, but which are not currently the subject of CERCLA, RCRA or state enforcement activities.

Remediation activities vary substantially in duration and cost from site to site. These activities, and their associated costs, depend on the mix of unique site characteristics, evolving remediation technologies, diverse regulatory agencies and enforcement policies, as well as the presence or

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absence of potentially responsible parties. At June 30, 2007, the Consolidated Balance Sheet includes a liability of $349 relating to these matters and, in management s opinion, is appropriate based on existing facts and circumstances. The average time frame, over which the accrued or presently unrecognized amounts may be paid, based on past history, is estimated to be 15-20 years. Considerable uncertainty exists with respect to these costs and, under adverse changes in circumstances, potential liability may range up to two to three times the amount accrued as of June 30, 2007.

Other

The company has various purchase commitments incident to the ordinary conduct of business. In the aggregate, such commitments are not at prices in excess of current market nor are they significantly different than amounts disclosed in the company s Annual Report on Form 10-K for the period ended December 31, 2006. See Note 2 for a description of commitments relating to tax matters.

Note 10. Comprehensive Income

The following sets forth the company s total comprehensive income for the periods shown:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Net income	$ 972	$ 975	$ 1,917	$ 1,792
Cumulative translation adjustment	10	21	22	25
Net revaluation and clearance of cash flow hedges to earnings	(8)	2	(9)	(1)
Pension benefit plans	27		45	
Other benefit plans	(15)		(28)	
Net unrealized gains on available for sale securities	12	2	12	6
Total	$ 998	$ 1,000	$ 1,959	$ 1,822

Note 11. Derivatives and Other Hedging Instruments

The company s objectives and strategies for holding derivative instruments are included the company s Annual Report on Form 10-K for the year ended December 31, 2006, at Note 25, Derivatives and Other Hedging Instruments. Cash flow ineffectiveness reported in earnings for the three and six months ended June 30, 2007 was a pretax loss of $1 and a pretax gain of $1, respectively. There were no hedge gains or losses excluded from the assessment of hedge effectiveness or reclassifications to earnings for forecasted transactions that did not occur related to cash flow hedges.

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The following table summarizes the effect of cash flow hedges on accumulated other comprehensive income (loss) for the periods shown:

	Three Months Ended June 30, 2007			Six Months Ended June 30, 2007		
	Pretax	Tax	After-Tax	Pretax	Tax	After-Tax
Beginning balance	$ 26	$ (10)	$ 16	$ 27	$ (10)	$ 17
Additions and revaluations of derivatives designated as cash flow hedges				11	(3)	8
Clearance of hedge results to earnings	(14)	6	(8)	(26)	9	(17)
Ending balance	$ 12	$ (4)	$ 8	$ 12	$ (4)	$ 8
Amounts expected to be reclassified into earnings over the next twelve months	$ 10	$ (3)	$ 7	$ 10	$ (3)	$ 7

Note 12. Employee Benefits

The following sets forth the components of the company s net periodic benefit (credit)/cost for pensions:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Service cost	$ 100	$ 99	$ 194	$ 198
Interest cost	306	296	611	590
Expected return on plan assets	(450)	(406)	(898)	(811)
Amortization of unrecognized loss	29	66	58	133
Amortization of prior service cost	4	12	9	21
Curtailment/settlement loss				3
Net periodic benefit (credit)/cost	$ (11)	$ 67	$ (26)	$ 134

The company disclosed in its Consolidated Financial Statements for the year ended December 31, 2006, that it expected to contribute approximately $290 to its pension plans, other than to the principal U.S. pension plan in 2007. As of June 30, 2007, contributions of $160 have been made to these pension plans and the company anticipates additional contributions during the remainder of 2007 to total approximately $130.

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The following sets forth the components of the company s net periodic benefit cost for other postretirement benefits:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	**2007**	2006
Service cost	$ 9	$ 8	$ 17	$ 16
Interest cost	58	54	117	108
Amortization of unrecognized loss	14	11	30	23
Amortization of prior service benefit	(39)	(39)	(78)	(78)
Net periodic benefit cost	$ 42	$ 34	$ 86	$ 69

The company disclosed in its Consolidated Financial Statements for the year ended December 31, 2006, that it expected to make payments of approximately $340 to its other postretirement benefit plans in 2007. Through June 30, 2007, the company has made benefit payments of $146 related to its postretirement benefit plans and anticipates additional payments during the remainder of 2007 to total approximately $172.

Note 13. Segment Information

Segment sales include transfers. Segment pretax operating income (PTOI) is defined as operating income before income taxes, minority interests, exchange gains (losses), corporate expenses and net interest.

Effective January 1, 2007, the company changed the alignment of certain businesses within its Agriculture & Nutrition and Performance Materials segments, and Bio-Based Materials which is included within Other. These changes were made to better align the businesses with the growth platform that management believes will provide more opportunity for synergy and technology development in future periods. In addition, segment sales no longer include a pro rata share of equity affiliates sales. Results for prior years shown below have been reclassified to conform to current year classifications.

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Three Months Ended June 30,	Agriculture & Nutrition	Coatings & Color Technologies	Electronic & Communication Technologies	Performance Materials	Pharmaceuticals	Safety & Protection	Other	Total [1]
2007								
Segment sales	$ 2,074	$ 1,701	$ 979	$ 1,679	$	$ 1,466		