DUPONT E I DE NEMOURS & CO
Form 10-Q
August 03, 2018
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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 June 30, 2018

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.)

974 Centre Road, Wilmington, Delaware 19805
(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, smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer x	Accelerated Filer o
Non-Accelerated Filer o	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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 100 shares of common stock, $0.30 par value, outstanding at June 30, 2018, all of which are held by DowDuPont Inc.

The Registrant meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q (as modified by a grant of no-action relief dated February 12, 2018) and is therefore filing this form with reduced disclosure format.

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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)

(In millions, except per share amounts)	Successor Three Months Ended June 30, 2018	Predecessor Three Months Ended June 30, 2017	Successor Six Months Ended June 30, 2018	Predecessor Six Months Ended June 30, 2017
Net sales	$ 8,545	$ 6,971	$ 15,244	$ 14,290
Cost of goods sold	5,669	3,963	10,516	8,115
Other operating charges		168		368
Research and development expense	396	387	778	755
Selling, general and administrative expenses	1,182	1,256	2,141	2,446
Amortization of intangibles	333		648	
Restructuring and asset related charges - net	91	160	188	312
Integration and separation costs	327		582	
Sundry income (expense) - net	194	(132)	241	70
Interest expense	86	99	166	183
Income from continuing operations before income taxes	655	806	466	2,181
Provision for income taxes on continuing operations	141	84	168	281
Income from continuing operations after income taxes	514	722	298	1,900
Income (loss) from discontinued operations after income taxes	—	147	(5)	90
Net income	514	869	293	1,990
Net income attributable to noncontrolling interests	1	7	8	15
Net income attributable to DuPont	$ 513	$ 862	$ 285	$ 1,975
Basic earnings per share of common stock:				
Basic earnings per share of common stock from continuing operations		$ 0.82		$ 2.17
Basic earnings per share of common stock from discontinued operations		0.17		0.10
Basic earnings per share of common stock		$ 0.99		$ 2.27
Diluted earnings per share of common stock:				
Diluted earnings per share of common stock from continuing operations		$ 0.82		$ 2.16
Diluted earnings per share of common stock from discontinued operations		0.17		0.10
Diluted earnings per share of common stock		$ 0.99		$ 2.26
Dividends declared per share of common stock		$ 0.38		$ 0.76

See Notes to the Consolidated Financial Statements beginning on page 7.

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E. I. du Pont de Nemours and Company
Consolidated Statements of Comprehensive Income (Unaudited)

(In millions)	Successor Three Months Ended June 30, 2018	Predecessor Three Months Ended June 30, 2017	Successor Six Months Ended June 30, 2018	Predecessor Six Months Ended June 30, 2017
Net income	$ 514	$ 869	$ 293	$ 1,990
Other comprehensive (loss) income - net of tax:				
Cumulative translation adjustments	(1,923)	275	(966)	653
Adjustments to pension benefit plans	3	88	7	197
Adjustments to other benefit plans	—	3	—	7
Derivative instruments	(16)	(8)	(5)	(11)
Total other comprehensive (loss) income	(1,936)	358	(964)	846
Comprehensive (loss) income	(1,422)	1,227	(671)	2,836
Comprehensive income attributable to noncontrolling interests - net of tax	1	7	8	15
Comprehensive (loss) income attributable to DuPont	$ (1,423)	$ 1,220	$ (679)	$ 2,821

See Notes to the Consolidated Financial Statements beginning on page 7.

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E. I. du Pont de Nemours and Company
Condensed Consolidated Balance Sheets (Unaudited)

(In millions, except share amounts)	Successor June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$4,421	$7,250
Marketable securities	374	952
Accounts and notes receivable - net	7,734	5,239
Inventories	6,303	8,633
Other current assets	1,311	981
Total current assets	20,143	23,055
Investment in nonconsolidated affiliates	1,459	1,595
Property, plant and equipment - net of accumulated depreciation (June 30, 2018 - $1,071; December 31, 2017 - $443)	11,832	12,435
Goodwill	45,510	45,589
Other intangible assets	26,866	27,726
Deferred income taxes	361	480
Other assets	1,839	2,084
Total Assets	$108,010	$112,964
Liabilities and Equity		
Current liabilities		
Short-term borrowings and capital lease obligations	$3,701	$2,779
Accounts payable	4,002	4,831
Income taxes payable	138	149
Accrued and other current liabilities	3,024	4,384
Total current liabilities	10,865	12,143
Long-Term Debt	9,728	10,291
Other Noncurrent Liabilities		
Deferred income tax liabilities	5,424	5,836
Pension and other post employment benefits - noncurrent	7,389	7,787
Other noncurrent obligations	1,837	1,975
Total noncurrent liabilities	24,378	25,889
Commitments and contingent liabilities		
Stockholders' equity		
Preferred stock, without par value – cumulative; 23,000,000 shares authorized; issued at June 30, 2018 and December 31, 2017:		
$4.50 Series – 1,673,000 shares (callable at $120)	169	169
$3.50 Series – 700,000 shares (callable at $102)	70	70
Common stock, $.30 par value; 1,800,000,000 shares authorized; issued at June 30, 2018 and December 31, 2017 - 100	—	—
Additional paid-in capital	74,845	74,727
(Accumulated deficit) Retained earnings	(1,201)	175
Accumulated other comprehensive loss	(1,345)	(381)
Total DuPont stockholders' equity	72,538	74,760
Noncontrolling interests	229	172

Total equity	72,767	74,932
Total Liabilities and Equity	$108,010	$112,964

See Notes to the Consolidated Financial Statements beginning on page 7.

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

(In millions)	Successor Six Months Ended June 30, 2018	Predecessor Six Months Ended June 30, 2017
Operating activities		
Net income	$ 293	$ 1,990
Adjustments to reconcile net income to cash used for operating activities:		
Depreciation and amortization	1,314	570
Provision for deferred income tax	(99)	
Net periodic pension (benefit) cost	(163)	219
Pension contributions	(123)	(2,994)
Net gain on sales of property, businesses, consolidated companies, and investments	(13)	(202)
Restructuring and asset related charges - net	188	
Asset related charges		279
Amortization of inventory step-up	1,385	
Other net loss	248	279
Changes in operating assets and liabilities - net	(4,621)	(4,196)
Cash used for operating activities	(1,591)	(4,055)
Investing activities		
Capital expenditures	(601)	(524)
Proceeds from sales of property, businesses, and consolidated companies - net of cash divested	50	296
Investments in and loans to nonconsolidated affiliates	—	(22)
Purchases of investments	(991)	(4,243)
Proceeds from sales and maturities of investments	1,576	2,633
Foreign currency exchange contract settlements		(29)
Other investing activities - net	—	(43)
Cash provided by (used for) investing activities	34	(1,932)
Financing activities		
Change in short-term (less than 90 days) borrowings	454	3,011
Proceeds from issuance of long-term debt	254	2,234
Payments on long-term debt	(272)	(204)
Proceeds from exercise of stock options	57	203
Dividends paid to stockholders	(5)	(664)
Distributions to DowDuPont	(1,658)	
Other financing activities	(41)	(49)
Cash (used for) provided by financing activities	(1,211)	4,531
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(103)	105
Change in cash classified as held for sale	—	(18)
Decrease in cash, cash equivalents and restricted cash	(2,871)	(1,369)
Cash, cash equivalents and restricted cash at beginning of period	7,808	4,548
Cash, cash equivalents and restricted cash at end of period	$ 4,937	$ 3,179

See Notes to the Consolidated Financial Statements beginning on page 7.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

E.I. du Pont de Nemours and Company
Notes to the Consolidated Financial Statements (Unaudited)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Statements
The accompanying unaudited interim 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, 2017, collectively referred to as the “2017 Annual Report”. The interim Consolidated Financial Statements include the accounts of the company and all of its subsidiaries in which a controlling interest is maintained.

Principles of Consolidation and Basis of Presentation
DowDuPont Inc. ("DowDuPont") was formed on December 9, 2015 to effect an all-stock, merger of equals strategic combination between The Dow Chemical Company ("Dow") and DuPont (the "Merger Transaction"). On August 31, 2017 at 11:59 pm ET, (the "Merger Effectiveness Time") pursuant to the Agreement and Plan of Merger, dated as of December 11, 2015, as amended on March 31, 2017 (the "Merger Agreement"), Dow and DuPont each merged with wholly owned subsidiaries of DowDuPont ("Mergers") and, as a result of the Mergers, Dow and DuPont became subsidiaries of DowDuPont (collectively, the "Merger"). Prior to the Merger, DowDuPont did not conduct any business activities other than those required for its formation and matters contemplated by the Merger Agreement. DowDuPont intends to pursue, subject to certain customary conditions, including, among others, the effectiveness of registration statements filed with the Securities and Exchange Commission and approval by the Board of Directors of DowDuPont, the separation of the combined company's agriculture business, specialty products business and materials science business through a series of tax-efficient transactions (collectively, the "Intended Business Separations").

For purposes of DowDuPont's financial statement presentation, Dow was determined to be the accounting acquirer in the Merger and DuPont's assets and liabilities are reflected at fair value as of the Merger Effectiveness Time. In connection with the Merger and the related accounting determination, DuPont has elected to apply push-down accounting and reflect in its financial statements the fair value of its assets and liabilities. DuPont's interim Consolidated Financial Statements for periods following the close of the Merger are labeled “Successor” and reflect DowDuPont’s basis in the fair values of the assets and liabilities of DuPont. All periods prior to the closing of the Merger reflect the historical accounting basis in DuPont's assets and liabilities and are labeled “Predecessor.” The interim Consolidated Financial Statements and footnotes include a black line division between the columns titled "Predecessor" and "Successor" to signify that the amounts shown for the periods prior to and following the Merger are not comparable. See Note 3 for additional information on the Merger.

Transactions between DuPont and DowDuPont, Dow and their affiliates and other associated companies are reflected in the Successor consolidated financial statements and disclosed as related party transactions when material. Related party transactions with Dow and DowDuPont are included in Note 7.

As a condition of the regulatory approval for the Merger Transaction, the company was required to divest certain assets related to its crop protection business and research and development ("R&D") organization, specifically the company’s Cereal Broadleaf Herbicides and Chewing Insecticides portfolios, including Rynaxypyr®, Cyazypyr® and Indoxacarb as well as the crop protection R&D pipeline and organization, excluding seed treatment, nematicides, and late-stage R&D programs. On March 31, 2017, the company entered into a definitive agreement (the "FMC

Transaction Agreement") with FMC Corporation ("FMC"). Under the FMC Transaction Agreement, FMC would acquire the crop protection business and R&D assets that DuPont was required to divest in order to obtain European Commission ("EC") approval of the Merger Transaction as described above, (the "Divested Ag Business") and DuPont agreed to acquire certain assets relating to FMC’s Health and Nutrition segment, excluding its Omega-3 products (the "H&N Business") (collectively, the "FMC Transactions").

On November 1, 2017, the company completed the FMC Transactions through the disposition of the Divested Ag Business and the acquisition of the H&N Business. The sale of the Divested Ag Business meets the criteria for discontinued operations and as such, results of operations are presented as discontinued operations and have been excluded from continuing operations for all periods presented. The sum of the individual earnings per share amounts from continuing operations and discontinued operations may not equal the total company earnings per share amounts due to rounding. The comprehensive income and cash flows related to the Divested Ag Business have not been segregated and are included in the interim Consolidated Statements of Comprehensive Income and interim Condensed Consolidated Statements of Cash Flows, respectively, for all periods presented. Amounts related to the Divested Ag Business are consistently included or excluded from the Notes to the interim Consolidated Financial Statements based on the respective financial statement line item. See Note 4 for additional information.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Certain reclassifications of prior year's data have been made to conform to current year's presentation. As described in Note 2, effective January 1, 2018, the company adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2017-07, Compensation - Retirement Benefits (Topic 715), Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. In conjunction with the adoption of this ASU, the company retrospectively reclassified the non-service components of net periodic benefit cost in the interim Consolidated Income Statements. See Note 2 for more information.

Significant Accounting Policies
The company has updated its revenue recognition policy since issuance of its 2017 Annual Report as a result of the adoption of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) in the first quarter 2018. See Notes 2 and 5 for additional information. See Note 1, "Summary of Significant Accounting Policies," in the 2017 Annual Report for more information on DuPont's other significant accounting policies.

Revenue
The company recognizes revenue when its customer obtains control of promised goods or services, in an amount that reflects the consideration which the company expects to receive in exchange for those goods or services. To determine revenue recognition for the arrangements that the company determines are within the scope of Topic 606, the company performs the following five steps: (1) identify the contract(s) with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. See Note 5 for additional information on revenue recognition.

Changes in Accounting and Reporting
Within the Successor periods, DuPont made the following changes in accounting and reporting to harmonize its accounting and reporting with DowDuPont.

Within the Successor periods of the interim Consolidated Income Statements:

- Included royalty income within net sales. In the Predecessor periods, royalty income is included within sundry income (expense) - net.
- Eliminated the other operating charges line item. In the Successor periods, a majority of these costs are included within cost of goods sold. These costs are also included in selling, general and administrative expenses and amortization of intangibles in the Successor periods.
- Presented amortization of intangibles as a separate line item. In the Predecessor periods, amortization is included within selling, general and administrative expenses, other operating charges, and research and development expenses.
- Presented integration and separation costs as a separate line item. In the Predecessor periods, these costs are included within selling, general and administrative expenses.
- Included interest accrued related to unrecognized tax benefits within the provision for income taxes on continuing operations. In the Predecessor periods, interest accrued related to unrecognized tax benefits is included within sundry income (expense) - net.

Within the Successor period of the interim Condensed Consolidated Statements of Cash Flows:

- Included foreign currency exchange contract settlements within cash flows from operating activities, regardless of hedge accounting qualification. In the Predecessor period, DuPont reflected non-qualified hedge programs, specifically forward contracts, options and cash collateral activity, within cash flows from investing activities. In the Predecessor period, DuPont reflected cash flows from qualified hedge programs within the line item to which the program related (i.e., revenue hedge cash flows presented within changes from accounts receivable).

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 2 - RECENT ACCOUNTING GUIDANCE

Recently Adopted Accounting Guidance

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) which was further updated in March, April, May and December 2016, as well as September and November 2017. The new guidance clarifies the principles for recognizing revenue and develops a common revenue standard for GAAP. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. The new standard resulted in additional disclosure requirements to describe the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard permits the use of either the retrospective or modified retrospective (cumulative-effect) transition method of adoption.

The company adopted this standard in the first quarter of 2018 and applied the modified retrospective transition method to contracts not completed at the date of initial application. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting under Topic 605 (Revenue Recognition). The company recognized the cumulative effect of applying the new revenue standard as an adjustment to the opening balance of retained earnings in the beginning of 2018. See Note 5 for additional disclosures regarding the company's contracts with customers.

In accordance with Topic 606, the disclosure of the impact of adoption to the company's Consolidated Balance Sheet was as follows:

(In millions, except per share amounts)	As Reported December 31, 2017	Effect of Adoption of ASU 2014-09	Updated January 1, 2018
Current assets			
Accounts and notes receivable - net	$ 5,239	$ 79	$ 5,318
Inventories	8,633	(53)	8,580
Other current assets	981	101	1,082
Deferred income taxes	$ 480	$ 1	$ 481
Liabilities and Equity			
Current liabilities			
Accounts payable	$ 4,831	$ (3)	$ 4,828
Accrued and other current liabilities	4,384	120	4,504
Deferred income tax liabilities	$ 5,836	$ 3	$ 5,839