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DELTA & PINE LAND CO
Form 10-Q
January 08, 2007

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 November 30, 2006

OR

() TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 000-21788

Exact name of registrant as specified in its charter:
DELTA AND PINE LAND COMPANY

State of Incorporation: Delaware
I.R.S. Employer Identification Number: 62-1040440

Address of Principal Executive Offices (including zip code):
One Cotton Row, Scott, Mississippi 38772

Registrant's telephone number, including area code:
(662) 742-4000

Indicate by check mark whether 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 ()

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 (x) Accelerated Filer () Non-Accelerated Filer ()

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES () NO (x)

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$0.10 Par Value, 36,526,871 shares outstanding as of December 31, 2006.

DELTA AND PINE LAND COMPANY AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Consolidated Financial Statements

DELTA AND PINE LAND COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)
(Unaudited)

November 30,
2006

ASSETS

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CURRENT ASSETS:			
Cash and cash equivalents	\$	65,453	\$
Marketable securities		-	
Receivables, net		13,319	
Inventories		64,092	
Prepaid expenses		1,432	
Deferred income taxes		7,902	

Total current assets		152,198	
PROPERTY, PLANT AND EQUIPMENT, NET			60,544
EXCESS OF COST OVER NET ASSETS OF			
BUSINESSES ACQUIRED		4,183	
INTANGIBLES, NET		8,309	
OTHER ASSETS		1,094	
DEFERRED INCOME TAXES		21,801	

TOTAL ASSETS	\$	248,129	\$
		=====	
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES :			
Notes payable and current maturities of long-term debt	\$	3,320	\$
Accounts payable		21,409	
Accrued expenses		50,350	
Income taxes payable		4,953	

Total current liabilities		80,032	

LONG-TERM DEBT		-	

MINORITY INTEREST IN SUBSIDIARIES		6,233	

COMMITMENTS AND CONTINGENCIES (Note 10)			
STOCKHOLDERS' EQUITY:			
Preferred stock, par value \$0.10 per share; 2,000,000 shares authorized; Series			
A Junior Participating Preferred, par value \$0.10 per share; 501,989, 501,989			
and 501,989 shares authorized; no shares issued or			
outstanding;		-	
Series M Convertible Non-Voting Preferred, par value \$0.10 per			
share;		107	
1,066,667 shares authorized, issued and outstanding			
Common stock, par value \$0.10 per share; 100,000,000 shares authorized;			
42,110,900, 42,053,167 and 40,944,440 shares issued;			
36,473,176, 36,415,567 and 35,900,334 shares outstanding		4,211	
Capital in excess of par value		114,380	
Retained earnings		182,010	
Accumulated other comprehensive loss		(1,823)	
Treasury stock, at cost; 5,637,724, 5,637,600 and 5,044,106 shares		(137,021)	

TOTAL STOCKHOLDERS' EQUITY		161,864	

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$	248,129	\$
		=====	

The accompanying notes are an integral part of these financial statements.

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DELTA AND PINE LAND COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE THREE MONTHS ENDED
(in thousands, except per share amounts)
(Unaudited)

	November 30, 2006
NET SALES AND LICENSING FEES	\$ 14,25
COST OF SALES	8,73
GROSS PROFIT	5,52
OPERATING EXPENSES:	
Research and development	6,15
Selling	3,76
General and administrative	6,05
Total operating expenses	15,97
OPERATING LOSS	(10,45)
INTEREST INCOME, NET	1,57
OTHER EXPENSE, NET	(4,41)
EQUITY IN NET LOSS OF AFFILIATE	(54)
MINORITY INTEREST IN EARNINGS OF SUBSIDIARIES	(1,67)
LOSS BEFORE INCOME TAXES	(15,51)
INCOME TAX BENEFIT	6,16
NET LOSS	(9,35)
DIVIDENDS ON PREFERRED STOCK	(18)
NET LOSS APPLICABLE TO COMMON SHARES	\$ (9,53)
BASIC AND DILUTED NET LOSS PER SHARE	\$ (0.2)
NUMBER OF SHARES USED IN BASIC AND DILUTED NET LOSS PER SHARE CALCULATIONS	36,45
DIVIDENDS PER COMMON SHARE	\$ 0.1

The accompanying notes are an integral part of these financial statements.

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DELTA AND PINE LAND COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED
(in thousands)
(Unaudited)

	November 30, 2006	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (9,358)	\$
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,455	
(Gain) loss on sale of assets	(20)	
Excess tax benefits from stock-based compensation arrangements	(367)	
Equity in net loss of affiliate	541	
Foreign exchange gain	(24)	
Accretion of debt discount	36	
Minority interest in earnings of subsidiaries	1,672	
Stock-based compensation expense	677	
Change in deferred income taxes	536	
Changes in assets and liabilities:		
Receivables	257,004	
Inventories	(31,998)	
Prepaid expenses	742	
Intangibles and other assets	(123)	
Accounts payable	(7,510)	
Accrued expenses	(225,237)	
Income taxes payable	(9,222)	
Net cash used in operating activities	(20,196)	
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of marketable securities	27,600	
Purchases of property and equipment	(1,625)	
Sales of investments and property	45	
Investment in affiliate	(600)	
Net cash provided by (used in) investing activities	25,420	
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of short-term debt	(4,604)	
Dividends paid	(6,382)	
Payments to acquire treasury stock	-	
Minority interest in dividends paid by subsidiaries	(467)	
Cash settlement of employee stock awards	(5)	
Proceeds from exercise of stock options	1,611	
Excess tax benefits from stock-based compensation arrangements	367	
Net cash used in financing activities	(9,480)	
EFFECTS OF FOREIGN CURRENCY EXCHANGE RATES	18	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,238)	
CASH AND CASH EQUIVALENTS, August 31	69,691	

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CASH AND CASH EQUIVALENTS, November 30	\$ 65,453	\$
	=====	=====

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid during the three months for:		
Income taxes	\$ 2,232	\$

The accompanying notes are an integral part of these financial statements.

DELTA AND PINE LAND COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for the fair presentation of the consolidated financial statements have been included. The business of Delta and Pine Land Company and its subsidiaries ("D&PL"; or the "Company") is seasonal in nature; thus, the results of operations for the three month periods ended November 30, 2006 and 2005 are not necessarily indicative of the results to be expected for the full year. D&PL's investment in its 50%-owned affiliate DeltaMax Cotton, LLC ("DeltaMax") is accounted for using the equity method. For further information, reference should be made to the consolidated financial statements and footnotes thereto included in D&PL's Annual Report to Stockholders on Form 10-K for the year ended August 31, 2006.

Merger with Monsanto Company

On August 14, 2006, D&PL entered into an Agreement and Plan of Merger (the "Merger Agreement") with Monsanto and its wholly-owned subsidiary, Monsanto Sub, Inc., pursuant to which Monsanto Sub, Inc. will be merged with and into D&PL and D&PL will become a wholly-owned subsidiary of Monsanto.

Under the terms of the Merger Agreement, upon consummation of the merger, each outstanding share of D&PL common and preferred stock (except shares held by D&PL or by Monsanto and its subsidiaries) will be converted into a right to receive \$42.00 per share in cash, without interest, provided that stockholders who so elect have the right to seek payment of the appraised value of their shares under Section 262 of the Delaware General Corporation Law.

The Merger Agreement was approved by D&PL's stockholders on December 21, 2006 at the special shareholders meeting.

The closing of the merger is subject to the expiration of the waiting periods under the Hart-Scott-Rodino Anti-Trust Improvements Act of 1976 (the "H-S-R Act"). On September 27, 2006, the United States Department of Justice, Antitrust Division (the "USDOJ"), requested additional information and documents from Monsanto and D&PL under the H-S-R Act (the "Second Request"). This Second Request extends the waiting period under the H-S-R Act during which the parties are prohibited from closing the merger until 30 days after both parties

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substantially comply with the Second Request, unless the waiting period is terminated earlier by the USDOJ or is extended with D&PL's and Monsanto's consent.

Pursuant to the Merger Agreement, D&PL agreed that, until the merger is consummated or the Merger Agreement is earlier terminated (except as otherwise expressly permitted by the terms of the Merger Agreement), it will, and it will cause its subsidiaries to, (i) carry on its business in the ordinary course, (ii) use reasonable best efforts to preserve intact its current business organization and goodwill, (iii) keep available the services of its current officers and employees, and (iv) preserve its relationships with suppliers, distributors, customers and others.

The Company incurred approximately \$4.4 million of expenses related to the merger in the quarter ended November 30, 2006, including legal and advisory fees and other incremental costs directly associated with the merger. These expenses are reported as a component of Other Expense, Net in the Consolidated Statements of Operations.

Recently Issued Financial Accounting Standards

SFAS 158 - Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefits, an Amendment of FASB Statements 87, 88, 106 and 132(R). In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefits, an Amendment of FASB Statements 87, 88, 106, and 132(R)". This statement requires an employer with a defined benefit pension plan to (1) recognize the funded status of the benefit plan in its statement of financial position, (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to FASB Statement No. 87 or FASB Statement No. 106, (3) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position, and (4) disclose in the notes to the financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. Adoption of SFAS No. 158 is required by the end of the fiscal year ending after December 15, 2006. Therefore, the Company will adopt this standard by August 31, 2007. The Company is presently evaluating the impact that adopting SFAS 158 will have on its financial position and results of operations.

FIN 48 - Accounting for Uncertainty in Income Taxes. In July 2006, FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), was issued. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained based solely on the technical merits as of the reporting date. FIN 48 also requires additional disclosures of unrecognized tax benefits, including a reconciliation of the beginning and ending balances. FIN 48 is effective for fiscal years beginning after December 15, 2006. Therefore, the Company expects to implement FIN 48 beginning on September 1, 2007. The Company is presently evaluating the impact that adopting FIN 48 will have on its financial position and results of operations.

SAB 108 - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. In September 2006, staff from the Securities and Exchange Commission issued Staff Accounting Bulletin 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"), which addresses

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how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in current-year financial statements. SAB 108 requires companies to quantify misstatements using both the balance sheet and income statement approaches and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB 108 is effective for fiscal years ending on or after November 15, 2006. The Company is still evaluating the impact that adoption of this standard will have on its financial position and results of operations.

2. COMPREHENSIVE LOSS

Total comprehensive loss for the three months ended November 30, 2006 and 2005, was (in thousands):

	Three Months Ended	
	November 30, 2006	November 30, 2005
Net loss	\$ (9,358)	\$ (9,44
Other comprehensive (loss) income:		
Foreign currency translation (losses) gains	(195)	44
Net realized and unrealized gains (losses) on hedging instruments	471	(20
Income tax benefit related to other comprehensive (loss) income	(110)	(7
Other comprehensive income, net of tax	166	16
Total comprehensive loss	\$ (9,192)	\$ (9,27

3. SEGMENT DISCLOSURES

D&PL is in a single line of business and operates in two business segments, domestic and international. D&PL's reportable segments offer similar products; however, the business units are managed separately due to the geographic dispersion of their operations. D&PL breeds, produces, conditions and markets proprietary varieties of cotton and soybean planting seed in the United States. The international segment offers cottonseed in several foreign countries through both export sales and in-country operations. D&PL develops its proprietary seed products through research and development efforts in the United States and certain foreign countries.

D&PL's chief operating decision maker utilizes revenue information in assessing performance and making overall operating decisions and resource allocations. Profit and loss information is reported by segment to the chief operating decision maker and D&PL's Board of Directors. The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies in D&PL's Annual Report to Stockholders on Form 10-K filed for the year ended August 31, 2006.

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Information about D&PL's segments for the three month periods ended November 30, 2006 and 2005 is as follows (in thousands):

	Three Months Ended	
	November 30, 2006	November 30, 2005
Net sales and licensing fees (by segment)		
Domestic	\$ 216	\$ 397
International	14,039	9,428
	\$ 14,255	\$ 9,825
	\$ 14,255	\$ 9,825
Net sales and licensing fees		
Cottonseed	\$ 13,473	\$ 9,069
Soybean seed	17	(22)
Other	765	778
	\$ 14,255	\$ 9,825
	\$ 14,255	\$ 9,825
Operating loss		
Domestic	\$ (12,899)	\$ (12,990)
International	2,442	878
	\$ (10,457)	\$ (12,112)
	\$ (10,457)	\$ (12,112)

4. STOCK-BASED COMPENSATION PLANS

Share-Based Payments. Effective September 1, 2005, the Company adopted SFAS No. 123R utilizing the modified prospective approach. Under the modified prospective approach, SFAS No. 123R applies to new awards and to awards that were outstanding on September 1, 2005 and are subsequently modified or cancelled. Additionally, compensation cost for the portion of awards for which the requisite service had not been rendered as of September 1, 2005 will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes previously under SFAS No. 123, "Accounting for Stock-Based Compensation." The Company charged to income \$677,000 of compensation expense for stock options, Restricted Stock and Restricted Stock Units in the first quarter of 2007, versus \$812,000 in the prior year period.

Options. The Company recognized gross compensation cost associated with all of its outstanding stock option awards of \$337,000, prior to a tax benefit of \$134,000, in the first quarter of 2007, versus \$414,000, prior to a tax benefit of \$133,000, in the prior year period. At November 30, 2006, there was approximately \$1.4 million of unrecognized compensation cost related to stock option awards, net of an anticipated tax benefit of \$532,000, which is expected to be recognized over a weighted-average period of two years, which represents the remaining employees' service periods. There were approximately 2.3 million

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stock options available for grant at November 30, 2006.

The following table represents stock option activity for the quarter ended November 30, 2006:

	Number of Shares	Price Range		Intr Va
Outstanding at August 31, 2006	2,720,067	\$ 16.91	\$47.31	
Exercised	(57,609)	17.85	30.06	
Outstanding at November 30, 2006	2,662,458	\$ 16.91	\$47.31	\$ 45,
Exercisable at November 30, 2006	2,393,562	\$ 16.91	\$47.31	\$ 40,

The following table summarizes certain information about outstanding and exercisable stock options at November 30, 2006:

Options Outstanding				Options E
Exercise Price Range	Number	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number
\$16.91 - \$19.99	1,231,740	4.0	\$ 19.08	1,147,466
\$20.00 - \$29.99	1,179,888	5.0	\$ 26.47	995,266
\$30.00 - \$39.99	248,830	4.5	\$ 31.62	248,830
\$40.00 - \$47.31	2,000	1.4	\$ 47.31	2,000
	2,662,458	4.5	\$ 28.55	2,393,562

Restricted Stock and Restricted Stock Units. In the first quarter of 2007, 54 Restricted Stock Units were granted to directors for dividends on previously issued Restricted Stock Units, with related compensation cost of approximately \$2,000. Compensation cost was determined based on the market price of the Company's common stock at the time of award and took into consideration dividend restrictions and expected forfeitures. Compensation cost will be recognized as expense ratably over the three-year vesting period.

For the three months ended November 30, 2006, the Company recognized gross compensation cost associated with all of its Restricted Stock and Restricted Stock Units awards of approximately \$340,000, prior to a tax benefit of \$135,000, versus \$398,000, prior to a tax benefit of \$128,000, in the prior year period. At November 30, 2006, there was \$2.0 million of unrecognized compensation cost related to shares of Restricted Stock and Restricted Stock Units which is expected to be recognized, net of an anticipated tax benefit of \$760,000, over a weighted-average period of two years. There were approximately 1.9 million shares available for grants of Restricted Stock and Restricted Stock Units at November 30, 2006.

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The following represents Restricted Stock and Restricted Stock Units activity for the quarter ended November 30, 2006:

	Restricted Stock		Restrictio
	Number of Shares	Weighted Avg. Grant Date Fair Value	Number of Shares
Non-vested at August 31, 2006	95,143	\$25.09	14,80
Granted	-	-	5
Vested	(124)	22.17	
Non-vested at November 30, 2006	95,019	\$25.09	14,86

5. INVENTORIES

Inventories consisted of the following as of (in thousands):

	November 30, 2006	August 31, 2006
Finished goods	\$ 32,317	\$ 22,102
Raw materials	37,661	17,353
Growing crops	1,418	1,844
Supplies	1,520	805
	72,916	42,104
Less reserves	(8,824)	(10,504)
	\$ 64,092	\$ 31,600

Finished goods and raw material inventory are valued at the lower of average cost or market. Growing crops are recorded at cost. Elements of cost in inventories include raw materials, direct production costs, manufacturing overhead and immaterial general and administrative expenses. Inventory reserves relate to estimated damaged, obsolete and excess inventory. The provision recorded for damaged, obsolete and excess inventory for the quarters ended November 30, 2006 and 2005 was approximately \$357,000 and \$742,000, respectively. See Note 9 for a description of hedging activities related to inventory.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consisted of the following as of (in thousands):

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	November 30, 2006	August 31, 2006
	-----	-----
Land and improvements	\$ 6,516	\$ 6,501
Buildings and improvements	45,445	45,282
Machinery and equipment	68,365	67,635
Germplasm	7,500	7,500
Breeder and foundation seed	2,000	2,000
Construction in progress	3,569	2,974
	-----	-----
	133,395	131,892
Less accumulated depreciation	(72,851)	(70,826)
	-----	-----
	\$ 60,544	\$ 61,066
	=====	=====

Depreciation expense during the quarters ended November 30, 2006 and 2005 was approximately \$2.3 million and \$2.0 million, respectively.

7. INTANGIBLES

The components of identifiable intangible assets were as follows as of (in thousands):

	November 30, 2006		August 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	-----	-----	-----	-----
Trademarks	\$ 3,182	\$ (1,056)	\$ 3,182	\$ (1,037)
Commercialization agreements	400	(156)	400	(149)
Licenses	3,388	(445)	3,388	(417)
Patents	2,432	(259)	2,309	(245)
Other	2,120	(1,297)	2,039	(1,194)
	-----	-----	-----	-----
	\$11,522	\$ (3,213)	\$ 11,318	\$ (3,042)
	=====	=====	=====	=====

Amortization expense for identifiable intangible assets during the quarters ended November 30, 2006 and 2005 was approximately \$168,000 and \$120,000, respectively. Identifiable intangible asset amortization expense is estimated to be \$391,000 for the remainder of 2007 and \$510,000 in each of the fiscal years from 2008 to 2012.

8. INVESTMENT IN AFFILIATE

D&PL owns a 50% interest in DeltaMax Cotton, LLC, a limited liability company jointly owned with Verdia, Inc., a subsidiary of DuPont. Established in May 2002, the DeltaMax joint venture was formed to create, develop and commercialize

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herbicide tolerant and insect resistant traits for the cottonseed market. D&PL has licensed from DeltaMax the developed traits for commercialization in both the U.S. and other cotton-producing countries in the world. For the quarters ended November 30, 2006 and 2005, D&PL's equity in the net loss of DeltaMax was approximately \$541,000 and \$814,000, respectively.

9. DERIVATIVE FINANCIAL INSTRUMENTS

Accumulated other comprehensive loss includes the following pre-tax amounts related to the Company's soybean hedging program for the three-month periods ended November 30, 2006 and 2005 (in thousands):

		2006
Deferred net (loss) gain, as of August 31	\$	(136)
Net gains (losses) on hedging instruments arising during the three months		471
Net change in accumulated other comprehensive gain (loss)		471
Deferred net gain on derivative instruments included in accumulated other comprehensive loss at November 30	\$	335

The deferred net gain of \$335,000 included in accumulated other comprehensive loss at November 30, 2006 consists of \$320,000 of net realized gains, and \$15,000 of net unrealized gains. The deferred net gain will be recognized in earnings within the next twelve to eighteen months; however, the actual amount that will be charged to earnings may vary as a result of changes in market conditions.

For the three-month periods ended November 30, 2006 and 2005, D&PL recorded no gains or losses in earnings as a result of hedge ineffectiveness or discontinuance of cash flow hedges related to soybeans.

10. COMMITMENTS AND CONTINGENCIES

Merger with Monsanto

The August 14, 2006 Merger Agreement signed by D&PL and Monsanto contains various provisions related to the possible termination of the Merger Agreement if certain events occur or do not occur, as the case may be. Depending upon the termination event, one of the following may occur: (i) Monsanto may be required to pay D&PL a termination payment of \$600 million; (ii) the royalty paid to Monsanto under certain licenses with D&PL may be reduced; or (iii) D&PL may be required to pay Monsanto a termination payment of \$15 million. The termination events also impact various dispute and litigation issues pending between D&PL and Monsanto, which are described more fully below in this footnote.

Product Liability Claims

D&PL is named as a defendant in various lawsuits that allege, among other things, that certain of D&PL's products (including those containing Monsanto's technology) did not perform as the farmer had anticipated or expected. In some of these cases, Monsanto and/or the dealer or distributor who sold the seed are also named as defendants. In all cases where the seed sold contained either or both of Monsanto's Bollgard and/or Roundup Ready gene technologies, and where the farmer alleged a failure of one or more of those technologies, D&PL has

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tendered the defense of the case to Monsanto and requested indemnity. Pursuant to the terms of the February 2, 1996 Bollgard Gene License and Seed Services Agreement (the "Bollgard Agreement") and the February 2, 1996 Roundup Ready Gene License and Seed Services Agreement (the "Roundup Ready Agreement") (both as amended December 1999, January 2000, March 2003, and August 2006 and the Roundup Ready Agreement as additionally amended July 1996), D&PL has a right to be contractually indemnified by Monsanto against all claims arising out of the failure of Monsanto's gene technology. Pharmacia remains liable for Monsanto's performance under these indemnity agreements. Some of the product liability lawsuits contain varietal claims which are aimed solely at D&PL. D&PL does not have a right to indemnification from Monsanto for any claims involving varietal characteristics separate from or in addition to the failure of the Monsanto technology. D&PL believes that the resolution of these matters will not have a material adverse impact on the consolidated financial statements. D&PL intends to vigorously defend itself in these matters.

Other Legal Matters

On December 9, 2003, Bayer BioScience N.V. and Bayer CropScience GmbH (collectively "Bayer") filed a suit in the Federal Court of Australia alleging that the importing, exporting, selling and other alleged uses by Deltapine Australia Pty Ltd., D&PL's wholly-owned Australian subsidiary ("Deltapine Australia"), of Bollgard II(R) cottonseed infringes Bayer's Australian patent that claims an alleged invention entitled "Prevention of Bt Resistance Development." The suit seeks an injunction, damages and other relief against Deltapine Australia. Deltapine Australia disputes the validity, infringement and enforceability of Bayer's patent. On April 16, 2004, Deltapine Australia responded to the suit, denying infringement and asserting affirmative defenses and cross claims. The suit is in pretrial proceedings. Due to the status of this matter, management is unable to determine the impact of this matter on the consolidated financial statements.

On February 17, 2006, D&PL initiated a dispute resolution proceeding under the 1996 Option Agreement and the 2002 Bollgard Gene License on the issue of whether Monsanto's implementation of a farmer licensing system for the Bollgard gene technology in Brazil violates D&PL's and its local affiliates' rights to an exclusive license to develop, produce and sell Bollgard planting seed in Brazil. On March 27, 2006, D&PL submitted this issue to arbitration before the American Arbitration Association ("AAA"). As part of this arbitration, D&PL sought to enjoin Monsanto's implementation of its farmer licensing system and is seeking damages incurred by D&PL and its affiliates. In July 2006, the Arbitration Panel conducted a preliminary hearing. The Panel denied a preliminary injunction without prejudice to granting a permanent injunction upon final hearing. On August 14, 2006, Monsanto and D&PL entered into a settlement agreement under which further proceedings in this arbitration are stayed pending the proposed merger between Monsanto and D&PL and/or a mutually agreed resolution of this dispute, provided that net technology fees collected under the farmer licensing system during the period of stay will be divided between Monsanto and its affiliates and D&PL and its affiliates in a ratio of 56%/44%. MDM Sementes de Algodao Limitada, D&PL's affiliate in Brazil, sold cotton seed containing Bollgard gene technology in Brazil in the 2007 sales season.

On June 16, 2006, D&PL submitted to arbitration before the AAA issues involving D&PL's rights to exclusive rights to Bollgard technology in two additional Ex-United States countries. Pursuant to settlement agreements entered into on August 14, 2006, the arbitration with respect to the exclusive licenses in the two Ex-United States countries and a dispute resolution proceeding involving the confidentiality provisions of the Bollgard and Roundup Ready Licenses were stayed pending the merger between Monsanto and D&PL.

The Company is currently investigating the circumstances relating to certain payments made by certain employees and third party contractors of the foreign

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office of a wholly owned subsidiary of the Company. The Company believes that payments of less than \$10,000 per year were made to low-level local officials. The Company first learned of such payments in 2004 and took corrective actions to assure that the payments complied with the Foreign Corrupt Practices Act. Further issues arose with regard to such payments in the course of due diligence in connection with the Merger with Monsanto.

These payments resulted in inaccuracies in the books and records of the Company's subsidiary, for which the Company might be subject to liability under the U.S. Foreign Corrupt Practices Act (FCPA). The Company is also investigating the extent to which these payments were permissible facilitating payments or were impermissible payments for which the Company might be subject to liability under the FCPA. The Company has voluntarily notified the U.S. Department of Justice and the Securities and Exchange Commission that the Company has identified and is addressing these matters. There can be no assurance as to what action, if any, either of these authorities might take with regard to these matters. Due to the status of this matter, management is unable to determine the impact of this matter on the consolidated financial statements.

D&PL vs. Monsanto Company and Pharmacia Corporation

On December 20, 1999, Monsanto withdrew its pre-merger notification filed pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976 ("H-S-R Act") effectively terminating Monsanto's efforts to gain government approval of the merger of Monsanto with D&PL under the May 8, 1998 Merger Agreement (the "1998 Merger Agreement"). On December 30, 1999, D&PL filed suit in the First Judicial District of Bolivar County, Mississippi, seeking, among other things, the payment of the \$81 million termination fee due pursuant to the 1998 Merger Agreement, compensatory damages and punitive damages. On January 2, 2000, D&PL and Monsanto reached an agreement whereby D&PL would withdraw the suit, without prejudice, for the purpose of negotiating a settlement of D&PL's claims, and Monsanto would immediately pay the \$81 million. On January 3, 2000, Monsanto paid to D&PL the termination fee of \$81 million as required by the 1998 Merger Agreement. On January 18, 2000, after unsuccessful negotiations, D&PL re-filed its suit, (the "1998 Merger Litigation"). D&PL seeks in excess of \$1 billion in compensatory and \$1 billion in punitive damages for breach of the 1998 Merger Agreement.

On September 12, 2003, Monsanto amended its answer to include four counterclaims against D&PL. Monsanto is seeking an unspecified amount of damages for its counterclaims, including the \$81 million paid by Monsanto to D&PL as a termination fee and related expenses. D&PL answered the counterclaims, denying all liability. On December 21, 2004, Monsanto filed a motion to amend its answer to withdraw two of its four counterclaims. On February 17, 2005, D&PL filed a motion with the trial court to amend its complaint to add a claim against Monsanto for fraudulently inducing D&PL to extend the deadline to complete the merger with Monsanto. The Mississippi Supreme Court has stayed the proceedings in this case pending the resolution of two interlocutory appeals filed by D&PL.

Pursuant to the Agreement and Plan of Merger between Monsanto, Monsanto Sub, Inc. and D&PL, entered into on August 14, 2006 (the "2006 Merger Agreement"), Monsanto and D&PL have agreed to take steps necessary to stay the 1998 Merger Litigation for a period of up to twelve months. On August 27, 2006, the Mississippi Supreme Court entered an Order staying proceedings in the 1998 Merger Litigation through February 27, 2007. The 2006 Merger Agreement provides the 1998 Merger Litigation will be dismissed with prejudice upon certain circumstances including (1) completion of the merger, (2) the merger is not completed by the Outside Date (as defined in the 2006 Merger Agreement) and certain regulatory approvals have not been obtained, or the completion of the merger is prevented by a law or order related to anti-trust or completion law, (3) Monsanto breaches any covenant or agreement in the 2006 Merger Agreement in

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a material respect and fails to cure upon notice, or (4) D&PL breaches the covenants and agreements in the 2006 Merger Agreement in a material respect and fails to cure upon notice. (In the circumstances described in items (2) and (3), Monsanto is required to pay D&PL \$600 million in cash.) In the following circumstances, the stay of the 1998 Merger Litigation will terminate and the parties may then pursue any and all rights in that litigation: (1) D&PL breaches its representations or warranties under the 2006 Merger Agreement and fails to cure upon notice, (2) the merger has not been completed by the Outside Date and there has been a material adverse change with respect to D&PL, or (3) the 2006 Merger Agreement is terminated by agreement of D&PL and Monsanto or for any reason other than as specified above.

11. EARNINGS PER SHARE

For the quarters ended November 30, 2006 and 2005, common share equivalents were not included in D&PL's calculation of diluted loss per share because their inclusion would have been antidilutive since D&PL reported a net loss for each of the aforementioned quarters. As a result, basic and diluted losses per share are the same in each respective quarter ended November 30, 2006 and 2005.

For D&PL, items that are considered in the determination of common share equivalents include the Series M Convertible Non-Voting Preferred shares, stock options, Restricted Stock and Restricted Stock Units. At November 30, 2006 and 2005, the total of those items was approximately 3.8 million and 3.3 million, respectively. The computation of common share equivalents is dependent on the weighted-average market value of D&PL common stock during the period under consideration, among other things. Therefore, only a portion of these items would be considered common share equivalents for purposes of the diluted earnings per share calculation.

12. EMPLOYEE BENEFIT PLANS

Substantially all full-time employees are covered by a noncontributory defined benefit plan (the "Plan"). Benefits are paid to employees, or their beneficiaries, upon retirement, death or disability based on their final average compensation over the highest consecutive five years. D&PL's funding policy is to make contributions to the Plan that are at least equal to the minimum amounts required to be funded in accordance with the provisions of ERISA.

Effective January 1992, D&PL adopted a Supplemental Executive Retirement Plan (the "SERP"), which will pay supplemental pension benefits to certain employees whose benefits from the Plan were decreased as a result of certain changes made to the Plan. The benefits from the SERP will be paid in addition to any benefits the participants may receive under the Plan and will be paid from Company assets, not Plan assets. For further information about D&PL's employee benefit plans, reference should be made to Note 11 to the consolidated financial statements contained in D&PL's Annual Report on Form 10-K for the year ended August 31, 2006.

The components of net periodic pension expense for D&PL's Plan and SERP follow as of (in thousands):

	Pension Three Months Ended		
	November 30, 2006	November 30, 2005	No
Service cost	\$ 235	\$ 273	\$

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Interest cost	328	287
Expected return on assets	(372)	(295)
Amortization of prior service cost	-	4
Recognized net actuarial loss (gain)	117	180
	-----	-----
Net periodic pension expense (benefit)	\$ 308	\$ 449
	=====	=====

The amount of the minimum pension liability that is recorded as a component of Accrued Expenses at November 30, 2006 was \$4.4 million. As of November 30, 2006, D&PL had not made any contributions to the Plan for fiscal year 2007.

As of November 30, 2006, no contributions have been made to the SERP for fiscal year 2007. D&PL presently does not anticipate contributing any amounts to the SERP in 2007.

13. CREDIT FACILITY

Delta and Pine Land Company and certain of its subsidiaries maintain an unsecured \$75 million credit agreement (the "Credit Agreement") with Bank of America, N.A. (the "Bank"). The Credit Agreement provides for unsecured revolving loans up to a maximum aggregate amount outstanding of \$75 million, plus Letters of Credit which were outstanding prior to the execution of the Credit Agreement in the amount of approximately \$2 million. Of the total commitment, \$50 million represents a seasonal commitment available from October to July of each year. The Credit Agreement is set to expire on July 31, 2007, at which time all outstanding amounts under the Credit Agreement will be due and payable, subject to the Company's right to request an additional one-year extension and the Bank's acceptance of that request.

In general, borrowings under the Credit Agreement bear interest at a rate calculated according to a Eurodollar rate, plus 0.55%. The Eurodollar rate is generally the 30-day, 60-day or 90-day LIBOR rate. The Company is also required to pay an annual fee of 0.125% of the daily-unused portion of the Credit Agreement. The primary financial covenant requires the Company's funded indebtedness under the Credit Agreement to not exceed 50% of certain current and long-term assets, defined in the Credit Agreement and determined as of the last day of each fiscal quarter.

During the quarter ended November 30, 2006, the Company did not borrow against the credit facility. As of November 30, 2006, there were no borrowings outstanding under the Credit Agreement.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW/OUTLOOK

Research and seed development remains the foundation of our company. During 2006, our cottonseed varieties were planted on approximately 51% of all the cotton acreage in the U.S. Our farmer customers continue to enjoy the benefits of high yielding germplasm which incorporates Monsanto's first and second generation insect traits. During 2007, in addition to our Bollgard II varieties, we expect to offer as many as nine varieties containing the second generation Monsanto insect resistant (Bollgard II(R), or "BG II") and herbicide tolerance traits (Roundup Ready Flex(R), or "RRF") and expect to have enough seed to plant three million acres containing these traits. Four of these varieties are single-gene RRF and five varieties contain both the RRF gene technology and BG II. Additionally, we continue to dedicate resources to the development of the traits we have licensed from Syngenta and DuPont, which, with respect to Syngenta, is expected to be launched later this decade, and for DuPont, 2011 and

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beyond.

Internationally, we began sales of transgenic cotton varieties in Brazil during the first quarter of 2007 as well as the introduction of hybrids at our joint ventures in China. We began selling Bollgard cotton hybrids in India in 2006 and, subject to regulatory approvals, we expect to sell BG II hybrids in India beginning in 2008.

Consistent with prior years, we are reporting a loss for the first quarter of 2007, as the only sales occurring in the first quarter are from our international operations in the Southern Hemisphere, primarily Argentina, Australia, Brazil and South Africa. Domestic sales of our cotton and soybean seed products will begin late in the second quarter and continue until early in the fourth quarter. International sales will continue throughout the year. The first quarter of 2007 loss was slightly lower than that incurred in the first quarter of the prior year, due primarily to higher international sales volumes and the introduction of transgenic cotton varieties in Brazil, offset by expenses incurred in connection with our pending merger with Monsanto and an increase in operating expenses.

Monsanto Merger

On September 27, 2006, we received a request for additional information from the USDOJ regarding our pending merger with Monsanto. We are committed to cooperate with the antitrust authorities to allow a thorough review within the allotted time frame. Under the terms of the Merger Agreement, the initial period established for satisfaction of the merger closing conditions was February 14, 2007; however, there is an automatic extension period of six months provided for in the Merger Agreement, if necessary, to complete the anti-trust review. Presently, we expect the antitrust review will not be completed by February 14, 2007 and that the extension will be effected in order to allow authorities to complete their review.

2007 Earnings Guidance

We have increased our prices on many of our conventional and transgenic cotton product offerings in 2007, due to increased costs, but we expect such increases to exceed anticipated higher costs. We expect earnings from our International business to be flat to moderately improved over 2006 due to the introduction of transgenic cotton varieties in Brazil and sales of cotton hybrids in China offset by declining results in the profitable Australia market due to poor growing conditions. While the initial introduction of hybrids in China was well received, we expect to continue to experience challenges at our joint ventures in China due to strong local competitive pressures and the Chinese government's refusal (until recently) to approve our new products.

For the fiscal year 2007, we expect to report earnings per diluted share in the range of \$1.10 to \$1.20, after charges of \$0.26 per diluted share related to expenses incurred in connection with our pending merger with Monsanto. The 2007 guidance takes into consideration additional revenues expected to be derived from seed price increases and seed mix changes, partially offset by additional costs related to product development and the launch of new technologies from Monsanto, costs related to the development of DuPont and Syngenta technologies, expenses related to share-based compensation and sales and marketing expenses.

Earnings are significantly affected by planted cotton acreage in the U.S. Based on current market conditions (primarily commodity prices and the cost of inputs), the Company expects that U.S. cotton plantings could decrease compared to 2006 due to increases in corn and soybean acreage. However, because it is too early to determine the extent and the geographic areas in which planted cotton acreage could be reduced, the Company's earnings guidance is based on the assumption that 2007 cotton acreage will be the same as 2006, as well as on

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assumptions regarding maintaining our market share and achieving our product/sales mix targets. For illustrative purposes, for every 500,000 acre decrease in planted cotton acreage in states east of Texas, the Company estimates that its earnings per share could be reduced by \$0.12 to \$0.14 per diluted share. Presently, industry forecasters estimate that acreage in 2007 could be down as much as ten percent, due to an expected increase in corn and soybean acres. Once we have enough information to make an informed estimate of 2007 acreage, we will revise guidance as appropriate.

RESULTS OF OPERATIONS

Due to the seasonal nature of our business, we typically incur losses in our first and fourth quarters because the majority of our domestic sales are made in our second and third quarters. Sales in the first and fourth quarters are generally limited to those made to export markets and those made by our non-U.S. joint ventures and subsidiaries located primarily in the Southern hemisphere.

The following sets forth selected operating data of D&PL (in thousands):

	For the Three Months Ended	
	November 30, 2006	November 30, 2005
Operating results-		
Net sales and licensing fees	\$ 14,255	\$ 9,825
Gross profit	5,520	3,162
Operating expenses	15,977	15,274
Operating loss	(10,457)	(12,112)
Loss before income tax benefit	(15,519)	(13,933)
Net loss applicable to common shares	(9,539)	(9,605)

The following sets forth selected balance sheet data of D&PL at the following dates (in thousands):

	November 30, 2006	August 31, 2006
	Balance sheet summary-	
Current assets	\$ 152,198	\$ 409,267
Current liabilities	80,032	325,116
Working capital	72,166	84,151
Property, plant and equipment, net	60,544	61,066
Total assets	248,129	506,254
Outstanding borrowings	3,320	7,883
Stockholders' equity	161,864	174,656

Three months ended November 30, 2006, compared to three months ended November 30, 2005:

For the quarter ended November 30, 2006, we reported a net loss of \$9.4 million, which equaled the net loss in the comparable prior-year quarter. International revenue increases were offset by higher operating expenses and expenses related to our pending merger with Monsanto.

Net sales and licensing fees increased approximately \$4.4 million to \$14.3 million and gross profit increased approximately \$2.4 million to \$5.5 million. The revenue increase was attributable to international operations, particularly in South America and China, offset by lower revenues in Australia and South

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Africa. South America sales volumes were impacted primarily by the introduction of transgenic cotton varieties in Brazil as well as an increase in Brazilian cotton acreage. The introduction of hybrids in China contributed to the increased sales volumes at our joint ventures. Sales volumes in Australia continue to be impacted by lower cotton acreage due to drought-imposed water restrictions and competition. The decrease in South Africa occurred as a result of lower cotton acreage, due to lower cotton lint prices in relation to other crops as well as dry weather conditions.

Operating expenses increased approximately \$703,000 to \$16.0 million in the first quarter of 2007. This increase was primarily driven by higher compensation costs, advertising expenses, and increased operating expenses in our international division as a result of higher sales volumes, offset by lower professional services fees.

We reported net other expense of approximately \$4.4 million for the quarter ended November 30, 2006, compared to \$1.2 million for the same period in the prior year. The increase of \$3.2 million is primarily attributed to \$4.4 million in expenses associated with our proposed merger with Monsanto offset by a \$1.2 million reduction in legal costs associated with the Monsanto litigation now either stayed or settled pending the outcome of the merger.

OFF-BALANCE SHEET ARRANGEMENTS

We do not currently utilize off-balance sheet arrangements.

CONTRACTUAL OBLIGATIONS

As of November 30, 2006, we owed approximately \$6.8 million for a portion of our raw materials that had been received from the 2006 production season. This amount represents the amount due on seed production delivered that had not yet been paid. It does not include other amounts that may become due from contingencies contained in seed production contracts. The amount owed of \$6.8 million is included in Current Liabilities in our Consolidated Balance Sheet at November 30, 2006.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to adopt accounting policies and make significant judgments and estimates to develop amounts reflected and disclosed in the financial statements. In many cases, there are alternative policies or estimation techniques that could be used. We maintain a thorough process to review the application of our accounting policies and to evaluate the appropriateness of the many estimates that are required to prepare our financial statements. However, even under optimal circumstances, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information.

Information regarding our "Critical Accounting Policies and Estimates" can be found in our Annual Report to Stockholders on Form 10-K for the year ended August 31, 2006. The four critical accounting policies that we believe are either the most judgmental, or involve the selection or application of alternative accounting policies, and are material to our financial statements are those relating to revenue recognition, including accounting for various incentive programs (crop loss and replant programs), provision for damaged, obsolete and excess inventory, deferred income taxes and contingent liabilities. Management has discussed the development and selection of these critical accounting policies and estimates with the Audit Committee of our Board of Directors and with our independent registered public accounting firm.

RECENTLY ISSUED FINANCIAL ACCOUNTING STANDARDS

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SFAS 158 - Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefits, an Amendment of FASB Statements 87, 88, 106 and 132(R). In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Benefits, an Amendment of FASB Statements 87, 88, 106, and 132(R)". This statement requires an employer with a defined benefit pension plan to (1) recognize the funded status of the benefit plan in its statement of financial position, (2) recognize as a component of other comprehensive income, net of tax, the gains or losses and prior service costs or credits that arise during the period but are not recognized as components of net periodic benefit cost pursuant to FASB Statement No. 87 or FASB Statement No. 106, (3) measure defined benefit plan assets and obligations as of the date of the employer's fiscal year-end statement of financial position, and (4) disclose in the notes to the financial statements additional information about certain effects on net periodic benefit cost for the next fiscal year that arise from delayed recognition of the gains or losses, prior service costs or credits, and transition asset or obligation. Adoption of SFAS No. 158 is required by the end of the fiscal year ending after December 15, 2006. Therefore, we will adopt this standard by August 31, 2007. We are presently evaluating the impact that adopting SFAS 158 will have on our financial position and results of operations.

FIN 48 - Accounting for Uncertainty in Income Taxes. In July 2006, FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), was issued. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 requires that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained based solely on the technical merits as of the reporting date. FIN 48 also requires additional disclosures of unrecognized tax benefits, including a reconciliation of the beginning and ending balances. FIN 48 is effective for fiscal years beginning after December 15, 2006. Therefore, we expect to implement FIN 48 beginning on September 1, 2007. We are presently evaluating the impact that adopting FIN 48 will have on our financial position and results of operations.

SAB 108 - Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. In September 2006, staff from the Securities and Exchange Commission issued Staff Accounting Bulletin 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"), which addresses how the effects of prior-year uncorrected misstatements should be considered when quantifying misstatements in current-year financial statements. SAB 108 requires companies to quantify misstatements using both the balance sheet and income statement approaches and to evaluate whether either approach results in quantifying an error that is material in light of relevant quantitative and qualitative factors. SAB 108 is effective for fiscal years ending on or after November 15, 2006. We are still evaluating the impact that adoption of this standard will have on our financial position and results of operations.

LIQUIDITY AND CAPITAL RESOURCES

In the United States, we purchase seed from contract growers in our first and second quarters. Seed conditioning, treating and packaging commence late in our first quarter and continue through our third quarter. Seasonal cash needs normally begin to increase in our first quarter and cash needs peak in our third quarter. Cash is generated and loan repayments, if applicable, normally begin in the middle of our third quarter and are typically completed by our first quarter of the following year. In some cases, we offer customers financial incentives to make early payments. To the extent we attract early payments from customers, bank borrowings, if any, are reduced.

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In the United States, we record revenue and accounts receivable for technology licensing fees on transgenic seed sales upon shipment, usually in our second and third fiscal quarters. Receivables from seed sales generally become due in May and June. The licensing fees are due in September, at which time we receive payment. We then pay Monsanto its royalty for the Bollgard, Bollgard II, Roundup Ready and Roundup Ready Flex licensing fees, which is recorded as a component of cost of sales. As a result of the timing of these events, licensing fees receivable and royalties' payable peak at our fiscal year end, August 31.

The seasonal nature of our business significantly impacts cash flow and working capital requirements. Historically, we have maintained credit facilities, and used early payments by customers and cash from operations to fund working capital needs. In the past, we have borrowed on a short-term basis to meet seasonal working capital needs. From 2002 through 2005, we used cash generated from operations and other available cash to meet working capital needs. In 2006, we utilized our credit facility to fund working capital needs, in addition to early payments from customers and cash from operations. We continue to evaluate potential uses of our cash for purposes other than for working capital needs. Other potential uses of our cash in the future may be the acquisition of, or funding of, alternative technologies (such as, or in addition to, DeltaMax and Syngenta) that could be used to enhance our product portfolio and ultimately our long-term earnings potential and/or an investment in new markets outside the United States such as India. The Merger Agreement restricts us from authorizing, recommending or proposing, or entering into an agreement in principle or an agreement with respect to any merger, consolidation or business combination (other than the Monsanto merger) or any acquisition or disposition of any assets, except that in the case of the acquisition or disposition of assets, the Merger Agreement does not prevent us and our subsidiaries from:

- o acquiring or disposing of assets outside of the ordinary course of business consistent with past practice so long as the aggregate amount of those assets to be acquired or disposed of are less than \$10 million; or
- o acquiring or disposing of assets in the ordinary course of business consistent with past practice.

However, the Merger Agreement does prohibit us, without Monsanto's prior written consent, from purchasing, redeeming, or otherwise acquiring our outstanding shares, or increasing our quarterly dividend rate above \$0.17 per share.

We maintain an unsecured \$75 million credit agreement (the "Credit Agreement") with Bank of America, N.A. (the "Bank"). The Credit Agreement provides for unsecured revolving loans up to a maximum aggregate amount outstanding of \$75 million, plus Letters of Credit which were outstanding prior to the execution of the Credit Agreement in the amount of approximately \$2 million. Of the total commitment, \$50 million represents a seasonal commitment available from October to July of each year. The Credit Agreement is set to expire on July 31, 2007, at which time all outstanding amounts under the Credit Agreement will be due and payable, subject to the Company's right to request an additional one-year extension and the Bank's acceptance of that request. Additionally, at the option of the Bank the Credit Agreement can be terminated upon a change in control as defined in the Credit Agreement.

In general, borrowings under the Credit Agreement bear interest at a rate calculated according to a Eurodollar rate, plus 0.55%. The Eurodollar rate is generally the 30-day, 60-day or 90-day LIBOR rate. We are also required to pay unused fees of 0.125% annually calculated on the daily-unused portion of the Credit Agreement. The primary financial covenant requires the Company's funded indebtedness under the Credit Agreement to not exceed 50% of certain current and long-term assets, defined in the Credit Agreement and determined as of the last

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day of each fiscal quarter.

During the quarter ended November 30, 2006, the Company did not borrow under the Credit Agreement. As of November 30, 2006, there were no amounts outstanding under the Credit Agreement.

Capital expenditures were \$1.6 million and \$2.4 million in the three months ended November 30, 2006 and 2005, respectively. We anticipate that capital expenditures will approximate \$8.0 million to \$10.0 million in 2007.

For the three months ended November 30, 2006, aggregate dividends of \$6.4 million have been paid on common and preferred shares. The Board of Directors anticipates that quarterly dividends of \$0.17 per share will continue to be paid in the future; however, the Board of Directors reviews this policy quarterly. Based on a quarterly dividend of \$0.17 per share in 2007, aggregate preferred and common stock dividends should approximate \$25.5 million in 2007. Pursuant to the Merger Agreement executed with Monsanto, our Board of Directors is precluded from increasing the quarterly dividend rate above \$0.17 per share.

CASH USED FOR SHARE REPURCHASES

Pursuant to the Merger Agreement executed with Monsanto, we are precluded from future repurchases or issuances of our own shares except our Board of Directors has authorized the issuance of approximately 155,000 shares of Restricted Stock or Restricted Stock Units to our directors, officers and key employees in accordance with the provisions of the 2005 Omnibus Stock Plan. These shares of Restricted Stock and Restricted Stock Units, if issued, will vest over a three year period. However, at the effective time of the merger, those shares of Restricted Stock and Restricted Stock Units will become immediately vested and will be converted into the right to receive \$42.00 per share in cash without interest and less any applicable withholding tax. If the merger does not close, these instruments will vest 40% on the first anniversary of their issuance, 30% on the second anniversary of their issuance and the remaining 30% on the third anniversary of their issuance.

From September 1, 2006 through November 30, 2006, 124 shares of restricted D&PL common stock held by an employee were tendered to the Company on the day the restrictions lapsed (approximate value of \$5,000). The employee received cash in lieu of shares net of applicable income taxes related to the exercise of the employee's stock award. Pursuant to our stock option and award plans and our stock repurchase plan, the surrender of these shares is treated as an open market repurchase for purposes of determining the amount that may be repurchased under the June 2005 repurchase authorization. Under that plan, we have remaining authorization of approximately \$27.4 million subject to the terms of the Merger Agreement noted above.

Cash provided from operations, cash on hand, early payments from customers and borrowings under the credit facility should be sufficient to meet our 2007 working capital needs.

AVAILABILITY OF INFORMATION ON OUR WEBSITE

Additional information (including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) and 15(d) of the Exchange Act, and statements of beneficial ownership) is available free of charge at our website at www.deltaandpine.com under Media & News, as soon as reasonably practicable after we electronically file such material with or furnish such material to the Securities and Exchange Commission.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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We have exposure relative to fluctuations in the price of soybean raw material inventory, foreign currency fluctuations and interest rate changes. For more information about market risk and how we manage specific risk exposures, see Notes 1 and 15 to our consolidated financial statements contained in our Annual Report on Form 10-K for the year ended August 31, 2006. Also see Note 9 of the Notes to Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q for further details about our exposure to market risk.

The fair value of derivative commodity instruments outstanding as of November 30, 2006, was \$15,000. A 10% adverse change in the underlying commodity prices upon which these contracts are based would result in a \$129,000 loss in future earnings (not including the gain on the underlying commodities).

Our earnings are also affected by fluctuations in the value of the U.S. dollar compared to foreign currencies as a result of transactions in foreign markets. We conduct non-U.S. operations through subsidiaries and joint ventures in, primarily, Argentina, Australia, Brazil, China, South Africa and Turkey. At November 30, 2006, the result of a uniform 10% change in the value of the dollar relative to the currencies in which our transactions are denominated would not cause a material impact on net earnings.

For the three months ended November 30, 2006, a 10% adverse change in the interest rate that we earned on our cash that we invested would not have resulted in a material change to our net interest income or cash flow.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

D&PL's chief executive officer and chief financial officer have evaluated the effectiveness of the design and operation of D&PL's disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e)) as of November 30, 2006. Based on that evaluation, the chief executive officer and chief financial officer have concluded that D&PL's disclosure controls and procedures are effective to ensure that material information relating to D&PL and D&PL's consolidated subsidiaries is made known to such officers by others within these entities in order to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls.

There have not been any changes in D&PL's internal control over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, D&PL's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

A complete discussion of all known pending litigation in which D&PL is named as a defendant and a description of other legal matters can be found in Part I, Item 3, of D&PL's Annual Report on Form 10-K for the year ended August 31, 2006. The following discussion only relates to changes in the status of items reported in that Annual Report on Form 10-K, or new items that have come to the Company's attention since that time.

Regarding two lawsuits filed in the Circuit Court of Holmes County, Mississippi, motions are now pending in the August 19, 2002 case identical to those filed in the March 14, 2002 case and are scheduled to be heard in January 2007. Neither of these lawsuits alleges that the Monsanto gene technology failed, and accordingly, it does not appear that D&PL has a claim for indemnity or defense under the terms of any of the gene licenses with Monsanto.

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Regarding the December 2002 suit filed by D&PL against Nationwide Agribusiness and other insurance companies in the Circuit Court of Holmes County, Mississippi, all Appellate Briefs have now been submitted and the parties are awaiting a decision from the Fifth Circuit Court of Appeals.

Regarding the civil action filed in October 2002 in a Turkish court by Ozbugday Tarim Isletmeleri ve Tohumculuk A.S. ("OTIT"), a former distributor, seeking an injunction against D&PL's affiliate's continued sale of Sure Grow varieties in Turkey, on or about November 30, 2006, The High Court of Appeals revoked a prior decision and returned the case to the lower court for further consideration of whether Turk Deltapine should be required to post security before the case can be decided on merits.

Regarding the lawsuit filed in the Circuit Court of Hinds County, Mississippi by Product Services Company and Ted Dickerson, the request by International Paper, co-defendant, for a change in venue to another Mississippi county was denied on November 15, 2006. The case is now in pre-trial discovery.

The Company is currently investigating the circumstances relating to certain payments made by certain employees and third party contractors of the foreign office of a wholly owned subsidiary of the Company. The Company believes that payments of less than \$10,000 per year were made to low-level local officials. The Company first learned of such payments in 2004 and took corrective actions to assure that the payments complied with the Foreign Corrupt Practices Act. Further issues arose with regard to such payments in the course of due diligence in connection with the Merger with Monsanto.

These payments resulted in inaccuracies in the books and records of the Company's subsidiary, for which the Company might be subject to liability under the U.S. Foreign Corrupt Practices Act (FCPA). The Company is also investigating the extent to which these payments were permissible facilitating payments or were impermissible payments for which the Company might be subject to liability under the FCPA. The Company has voluntarily notified the U.S. Department of Justice and the Securities and Exchange Commission that the Company has identified and is addressing these matters. There can be no assurance as to what action, if any, either of these authorities might take with regard to these matters. The Company does not believe that these circumstances will have any effect on the consummation of the Merger.

Item 1A. Risk Factors

Various statements included herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on current expectations and are indicated by words or phrases such as "anticipate," "estimate," "expect," "project," "believe," "is or remains optimistic," "currently envisions" and similar words or phrases and involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements include statements relating to such matters as anticipated financial performance (including when earnings estimates are discussed), existing products, technical developments, new products, new technologies, research and development activities, and similar matters. These forward-looking statements are based largely on our expectations and are subject to a number of risks and uncertainties, many of which are beyond our control. Actual results could differ materially from these forward-looking statements as a result of, among others, changes in the competitive marketplace, including the introduction of new products or pricing changes by our competitors, changes in the economy and other similar events. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future

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events or otherwise. In light of these risks and uncertainties, we cannot assure you that the forward-looking information contained herein will in fact transpire. The risks and uncertainties that may affect the operations, performance, development and results of our business include those noted elsewhere herein and the following:

Merger with Monsanto

Our contemplated Merger with Monsanto is subject to approval by government agencies. The inability to complete this merger may have a material effect on D&PL. However, such effect cannot be known at this time.

Demand for and supply of planting seed

Demand for our seed will be affected by government programs and policies and by weather in all countries where we sell products and operate. Demand for seed is also influenced by commodity prices, the cost of other crop inputs, and the demand for a crop's end-uses such as textiles, animal feed, cottonseed oil, food and raw materials for industrial use. Weather impacts crop yields, commodity prices and the planting decisions that farmers make regarding both original planting commitments and, when necessary, replanting levels. These factors all also influence the cost and availability of seed for subsequent seasons.

Competition

The planting seed market is highly competitive, and our products face competition from a number of seed companies, diversified crop protection product companies, agricultural biotechnology companies, governmental agencies and academic and scientific institutions. In addition, several of our distributors/customers have also entered the cotton planting seed business. These competitors launched in 2006 varieties containing the Bollgard II and Roundup Ready Flex technologies at the same time we launched those technologies in our varieties. A number of crop protection product and biotechnology companies have seed production and/or distribution capabilities to ensure market access for new seed products and new technologies that may compete with the Bollgard, Bollgard II, Roundup Ready and Roundup Ready Flex gene technologies of Monsanto, our principal licensor of such technology. Our seed products and technologies contained therein may encounter substantial competition from technological advances by others or products from new market entrants. Many of our competitors are, or are affiliated with, large diversified companies that have substantially greater resources than we have.

Litigation and other legal matters

We have initiated arbitration proceedings with Monsanto, the principal licensor of our cotton technologies, concerning our rights to exclusive licenses to Monsanto's insect resistance technology in Brazil, Egypt and Burkina Faso. Each of these arbitration proceedings are currently stayed pending the approval and completion of the Merger between us and Monsanto. If this Merger should not be completed, the stay of these arbitration proceedings would be lifted. The result of these arbitrations, if adversely determined to us, could materially affect our future operations in these three countries. All other arbitration proceedings with Monsanto, including the arbitration in which Monsanto sought to terminate licenses between our companies, have been dismissed with prejudice, barring revival of the claims asserted in those proceedings.

The litigation with Monsanto arising from Monsanto's failure to consummate the 1998 Merger Agreement (the "1998 Merger Litigation") has been stayed. This litigation will be terminated upon completion of the merger between

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our Company and Monsanto pursuant to the 2006 Merger Agreement or upon any termination by us or by Monsanto of the 2006 Merger Agreement without completion of the merger except in specific circumstances, in particular, (i) by Monsanto if we breach representations and warranties in a material respect and fail to cure within twenty days after Monsanto informs us in writing of the breach, (ii) where the merger has not been completed by the Outside Date (as defined in the Merger Agreement) and a material adverse change in our Company has occurred as of the effective date of termination or (iii) for reasons other than those specified in the 2006 Merger Agreement. Under these circumstances, the stay of the 1998 Merger Litigation will be lifted and we or Monsanto would be permitted to pursue any and all rights and remedies with respect to this litigation. Under these circumstances, the results of this litigation (and the process of litigating) may materially affect the results of our business. (See Part I, Item 3, of D&PL's Annual Report on Form 10-K for the year ended August 31, 2006.)

New technologies

There is no assurance that new technologies such as the DeltaMax, DuPont and Syngenta technologies will result in commercially viable products or that such technologies will be developed in the time frame or for the amounts estimated to complete development. Also, there is no assurance that regulatory approval will be obtained for the products.

Governmental policies

The production, distribution or sale of crop seed in or to foreign markets may be subject to special risks, including fluctuations in foreign currency, exchange rate controls, expropriation, nationalization and other agricultural, economic, tax and regulatory policies of foreign governments and shipping disruptions. Particular policies which may affect our domestic and international operations include the use of and the acceptance of products that were produced from plants that have been genetically modified, the testing, quarantine and other restrictions relating to the import and export of plants and seed products, and the availability (or lack thereof) of proprietary protection for plant products. The absence or lack of enforcement of intellectual property laws may lead to counterfeit and farmer-saved seed which negatively impacts our sales. In addition, United States government policies, particularly those affecting foreign trade and investment, may impact our international operations.

Regulatory matters

The publicity related to genetically modified organisms ("GMOs") or products made from plants that contain GMOs may have an effect on our sales in the future. In 2006, approximately 96% of our cottonseed that was sold in the United States contained one or more of Monsanto's Bollgard, Bollgard II, Roundup Ready and Roundup Ready Flex gene technologies, and 96% of our soybean seed sales contained the Roundup Ready gene technology. Although many farmers have rapidly adopted these technologies, the concern of some customers and governmental entities over finished products that contain GMOs could impact demand for crops (and ultimately seed) raised from seed containing such traits. In addition, regulatory approvals for Monsanto's Bollgard and Bollgard II technologies expired in 2006. On July 7, 2006, Monsanto announced that the United States Environmental Protection Agency had extended the registration of the Bollgard technology through the 2009 growing season. Also, Bollgard II was recently granted a non-expiring re-registration by the EPA. Monsanto is responsible for obtaining and maintaining regulatory approvals for the technologies we license from them.

International operating risks

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Due to the varying levels of agricultural and social development of the international markets in which we operate and because of factors within the particular international markets we target, international profitability and growth may be less stable and predictable than domestic profitability and growth. Furthermore, actions taken by the United States government, including that taken by the United States military, the wars in Iraq and Afghanistan, and conflicts between major cotton producing nations, may serve to further complicate our ability to execute our long range ex-United States business plans because those plans include future expansion into Uzbekistan, Pakistan and India. World health concerns about infectious diseases also affect the conduct of our international business.

Government supports and trade agreements

Our farmer customers in many markets, including the United States, benefit from government support programs. The Farm Security and Rural Investment Act of 2002 covers the 2007 cotton planting season but future United States farm programs are uncertain. Various other countries, including Brazil, have challenged, and may continue to challenge, the appropriateness of United States farm programs through the World Trade Organization ("WTO") or other forums. In particular, the WTO has ruled in Brazil's favor in its challenge that certain United States programs violate the provisions of the WTO. While some programs have been changed as a result of the ruling, it is not clear if, when, or to what extent, the United States will make further modifications. However, in the event changes are made, they may negatively impact United States farmers which could result in a decline in planted cotton acreage. Also, in WTO discussions in Hong Kong in late December 2005, United States negotiators agreed to eliminate cotton export subsidies in 2006 (the "Step 2" program was eliminated on August 1, 2006) and to eliminate all agricultural export subsidies by 2013. United States farm programs and WTO rulings impacting such programs may materially affect the results of our business. In addition, the United States Congress, in an attempt to reduce the United States government's budget deficit, may also revise farm programs and/or its agricultural policy.

Other

Overall profitability will depend on the factors noted above, as well as worldwide commodity prices, our ability to successfully open new international markets, the technology partners' ability to obtain timely government approval (and maintain such approval) for existing and for additional biotechnology products on which they and we are working, the terms of such government approvals, our technology partners' ability to successfully defend challenges to proprietary technologies licensed to us and our ability to produce sufficient commercial quantities of high quality planting seed of these products. Any delay in or inability to successfully complete these projects may affect future profitability. In addition, earnings forecasts do not consider the impact of potential transactions, their related accounting and other factors, that may be under consideration by the Company, but have not yet been completed or their effect determined at the date of a particular filing.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The disclosure required under this Part II, Item 2 of this Quarterly Report on Form 10-Q is contained in Part I, Item 2 hereof under the heading "Cash Used for Share Repurchases" and is incorporated herein by reference.

Item 3. Defaults Upon Senior Securities

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None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits.

Exhibits.

31.01 Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by the Principal Executive Officer.

31.02 Certification Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by the Principal Financial and Accounting Officer.

32.01 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Principal Executive Officer.

32.02 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by the Principal Financial and Accounting Officer.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DELTA AND PINE LAND COMPANY

Date: January 8, 2007 /s/ W. Thomas Jagodinski

W. Thomas Jagodinski
President, Chief Executive Officer and Director
(Principal Executive Officer)

Date: January 8, 2007 /s/ Kenneth M. Avery

Kenneth M. Avery
Vice President - Chief Financial Officer
and Assistant Secretary
(Principal Financial and Accounting Officer)