

COLGATE PALMOLIVE CO
Form 10-Q
October 27, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2011

OR
 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: 1-644

COLGATE-PALMOLIVE COMPANY
(Exact name of registrant as specified in its charter)

DELAWARE 13-1815595
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

300 Park Avenue, New York, New York 10022
(Address of principal executive offices) (Zip Code)

(212) 310-2000
(Registrant's telephone number, including area code)

NO CHANGES
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

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

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

Class	Shares Outstanding	Date
Common stock, \$1.00 par value	483,999,297	September 30, 2011

PART I. FINANCIAL INFORMATION

COLGATE-PALMOLIVE COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Dollars in Millions Except Per Share Amounts)
 (Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Net sales	\$4,383	\$3,943	\$12,562	\$11,586
Cost of sales	1,921	1,599	5,365	4,732
Gross profit	2,462	2,344	7,197	6,854
Selling, general and administrative expenses	1,489	1,391	4,314	4,038
Other (income) expense, net	(62	) (5	) (35	) 232
Operating profit	1,035	958	2,918	2,584
Interest expense, net	10	13	37	43
Income before income taxes	1,025	945	2,881	2,541
Provision for income taxes	349	300	952	879
Net income including noncontrolling interests	676	645	1,929	1,662
Less: Net income attributable to noncontrolling interests	33	26	88	83
Net income attributable to Colgate-Palmolive Company	\$643	\$619	\$1,841	\$1,579
Earnings per common share, basic	\$1.32	\$1.26	\$3.76	\$3.17
Earnings per common share, diluted	\$1.31	\$1.21	\$3.73	\$3.07
Dividends declared per common share	\$0.58	\$0.53	\$1.69	\$1.50

See Notes to Condensed Consolidated Financial Statements.

COLGATE-PALMOLIVE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in Millions)
(Unaudited)

	September 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	\$945	\$490
Receivables (net of allowances of \$52 and \$53, respectively)	1,677	1,610
Inventories	1,336	1,222
Other current assets	485	408
Total current assets	4,443	3,730
Property, plant and equipment:		
Cost	7,229	7,160
Less: Accumulated depreciation	(3,614)	(3,467)
	3,615	3,693
Goodwill, net	2,694	2,362
Other intangible assets, net	1,424	831
Deferred income taxes	91	84
Other assets	501	472
Total assets	\$12,768	\$11,172
Liabilities and Shareholders' Equity		
Current Liabilities		
Notes and loans payable	\$67	\$48
Current portion of long-term debt	921	561
Accounts payable	1,150	1,165
Accrued income taxes	379	272
Other accruals	1,800	1,682
Total current liabilities	4,317	3,728
Long-term debt	3,768	2,815
Deferred income taxes	275	108
Other liabilities	1,538	1,704
Shareholders' Equity		
Common stock	733	733
Additional paid-in capital	1,268	1,132
Retained earnings	15,344	14,329
Accumulated other comprehensive income (loss)	(2,199)	(2,115)
	15,146	14,079
Unearned compensation	(59)	(99)
Treasury stock, at cost	(12,420)	(11,305)
Total Colgate-Palmolive Company shareholders' equity	2,667	2,675
Noncontrolling interests	203	142
Total shareholders' equity	2,870	2,817
Total liabilities and shareholders' equity	\$12,768	\$11,172

See Notes to Condensed Consolidated Financial Statements.

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COLGATE-PALMOLIVE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in Millions)
(Unaudited)

	Nine Months Ended September 30,	
	2011	2010
Operating Activities		
Net income including noncontrolling interests	\$1,929	\$1,662
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operations:		
Depreciation and amortization	315	278
Restructuring, net of cash	130	—
Venezuela hyperinflationary transition charge	—	271
Gain before tax on sales of non-core product lines	(207)) —
Voluntary benefit plan contributions	(178)	) (35
Stock-based compensation expense	102	101
Deferred income taxes	134	91
Cash effects of changes in:		
Receivables	(127	) (56
Inventories	(147	) (63
Accounts payable and other accruals	62	(95
Other non-current assets and liabilities	44	89
Net cash provided by operations	2,057	2,243
Investing Activities		
Capital expenditures	(324	) (318
Sale of property and non-core product lines	241	3
Purchases of marketable securities and investments	(108	) (211
Proceeds from sale of marketable securities and investments	173	94
Payment for acquisitions, net of cash acquired	(972) —
Other	(8	) (6
Net cash used in investing activities	(998	) (438
Financing Activities		
Principal payments on debt	(2,720	) (3,469
Proceeds from issuance of debt	4,074	3,709
Dividends paid	(850	) (804
Purchases of treasury shares	(1,386	) (1,385
Proceeds from exercise of stock options and excess tax benefits	316	204
Net cash provided by (used in) financing activities	(566	) (1,745
Effect of exchange rate changes on Cash and cash equivalents	(38	) (6
Net increase (decrease) in Cash and cash equivalents	455	54
Cash and cash equivalents at beginning of the period	490	600
Cash and cash equivalents at end of the period	945	654
Supplemental Cash Flow Information		
Income taxes paid	\$769	\$854
See Notes to Condensed Consolidated Financial Statements.		

COLGATE-PALMOLIVE COMPANY
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
 (Dollars in Millions Except Share and Per Share Amounts)
 (Unaudited)

1. Basis of Presentation

The Condensed Consolidated Financial Statements reflect all normal recurring adjustments which, in management's opinion, are necessary for a fair statement of the results for interim periods. Results of operations for interim periods may not be representative of results to be expected for a full year. Certain prior year amounts have been reclassified to conform to the current year presentation.

For a complete set of financial notes, including the significant accounting policies of Colgate-Palmolive Company (together with its subsidiaries, the "Company" or "Colgate"), refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2010, filed with the Securities and Exchange Commission.

2. Use of Estimates

Provision for certain expenses, including income taxes, media advertising and consumer promotion, are based on full year assumptions and are included in the accompanying Condensed Consolidated Financial Statements in proportion with estimated annual tax rates, the passage of time or estimated annual sales.

3. Acquisitions and Divestitures

Sanex Acquisition

On June 20, 2011, the Company, Colgate-Palmolive Europe Sàrl, Unilever N.V. and Unilever PLC (together with Unilever N.V., "Unilever") finalized the Company's acquisition from Unilever of the Sanex personal care business in accordance with a Business and Share Sale and Purchase Agreement (the "Purchase Agreement") for an aggregate purchase price of €672 (\$960), subject to certain post-closing purchase price adjustments. The acquisition was financed with available cash, proceeds from the sale of the Company's Euro-denominated investment portfolio and the issuance of commercial paper.

Sanex is a personal care brand with a distinct positioning around healthy skin with strong market share positions and 2010 net sales of €187 (approximately \$265), primarily in Western Europe. This strategic acquisition is expected to strengthen Colgate's personal care business in Europe, primarily in the liquid body cleansing and deodorants businesses.

Total purchase price consideration of \$960 has been allocated on a preliminary basis to the net assets acquired based on their respective estimated fair values at June 20, 2011, as follows:

Recognized amounts of assets acquired and liabilities assumed:

Inventories	\$21	
Property, plant and equipment, net	7	
Other intangible assets, net	605	
Goodwill, net	411	
Accrued income taxes	(80))
Long-term other liabilities	(4))
Fair value of net assets acquired	\$960	

Other intangible assets acquired include trademarks of \$425 with an indefinite useful life and customer relationships of \$180 with useful lives ranging from 12 to 14 years.

Goodwill of \$411 was allocated between the Europe/South Pacific segment (95%) and the Greater Asia/Africa segment (5%). The Company expects that substantially all of the goodwill will be deductible for tax purposes.

The preliminary estimates of the fair value of identifiable assets acquired and liabilities assumed are subject to revisions, which may result in adjustments to the preliminary values discussed above.

COLGATE-PALMOLIVE COMPANY
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Pro forma results of operations have not been presented, as the impact on the Company's consolidated financial statements is not material. The Company expects to finalize the purchase price allocation by the end of 2011. For the nine months ended September 30, 2011, Other (income) expense, net includes \$12 in transaction costs related to the acquisition, of which \$2 relates to the third quarter.

Pursuant to the Purchase Agreement, Colgate and Unilever also entered into a Transition Services Agreement, under which Unilever agreed to provide certain transitional services in various countries for up to six months following the closing, and a Supply Agreement, pursuant to which Unilever will supply certain Sanex products to Colgate for up to two years following the closing.

Sale of Brands in Colombia

In connection with the Sanex acquisition, Colgate sold its laundry detergent brands in Colombia to Unilever for \$215. The detergent sale closed on July 29, 2011 and, as a result of the sale, the Company recognized a pretax gain of \$207 (\$135 aftertax gain) in the third quarter.

Sale of Land in Mexico

On September 13, 2011, the Company's Mexican subsidiary entered into an agreement to sell the Mexico City site on which its commercial operations, technology center and soap production facility are located. The sale price is payable in three installments, with the final installment due upon the transfer of the property, which is expected to occur in 2014. During the third quarter of 2011, the Company received the first installment of \$24 upon signing the agreement. The Company intends to re-invest these payments to relocate its soap production to a new state-of-the-art facility to be constructed at its Mission Hills, Mexico site, to relocate its commercial and technology operations within Mexico City and to prepare the existing site for transfer. As a result, over the next three years, the Company expects to make capital improvements and incur costs to exit the site. These exit costs will primarily be related to staff leaving indemnities, accelerated depreciation and demolition. During the three months ended September 30, 2011, the Company recorded \$7 of pretax costs (\$5 aftertax costs) related to the sale in Other (income) expense, net.

4. Inventories

Inventories by major class are as follows:

	September 30, 2011	December 31, 2010
Raw materials and supplies	\$324	\$295
Work-in-process	60	50
Finished goods	952	877
Total Inventories	\$1,336	\$1,222

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions Except Share and Per Share Amounts)

(Unaudited)

5. Shareholders' Equity

Changes in the components of Shareholders' Equity for the nine months ended September 30, 2011 are as follows:

	Colgate-Palmolive Company Shareholders' Equity						Noncontrolling
	Common Stock	Additional Paid-in Capital	Unearned Compensation	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Interests
Balance, December 31, 2010	\$733	\$1,132	\$(99)	\$(11,305)	\$14,329	\$(2,115)	\$142
Net income					1,841		88
Other comprehensive income, net of tax						(84)	(3)
Dividends					(826)		(24)
Stock-based compensation expense		102					
Shares issued for stock options		75					