

Edgar Filing: COLGATE PALMOLIVE CO - Form 10-Q

COLGATE PALMOLIVE CO  
Form 10-Q  
April 30, 2002

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 2002.

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

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COLGATE-PALMOLIVE COMPANY

(Exact name of registrant as specified in its charter)

DELAWARE

13-1815595

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(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 ☐

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Indicate the number of shares outstanding of each of the issuers classes of common stock, as of the latest practical date:

Class	Shares Outstanding	Date
-----	-----	-----
Common, \$1.00 par value	547,123,679	March 31, 2002

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## PART I. FINANCIAL INFORMATION

### COLGATE-PALMOLIVE COMPANY

#### CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Millions Except Per Share Amounts)  
(Unaudited)

	Three Months Ended	
	March 31,	
	2002	2001
Net sales	\$2,195.2	\$2,212.2
Cost of sales	992.4	1,031.8
Gross profit	1,202.8	1,180.4
Selling, general and administrative expenses	742.1	738.9
Interest expense	36.9	47.4
Interest income	(2.0)	(3.8)
Income before income taxes	425.8	397.9
Provision for income taxes	136.1	130.0
Net income	\$ 289.7	\$ 267.9
Earnings per common share:		
Basic	\$ .52	\$ .47
Diluted	\$ .49	\$ .44
Dividends declared per common share*	\$ .36	\$ .32

\* Two dividends were declared in each period.  
See Notes to Condensed Consolidated Financial Statements.

### COLGATE-PALMOLIVE COMPANY

#### CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Millions)

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(Unaudited)

## ASSETS

	March 31, 2002	December 31, 2001
Current assets:		
Cash and cash equivalents	\$ 184.8	\$ 172.
Receivables (less allowances of \$44.7 and \$45.6)	1,148.5	1,124.
Inventories	709.0	677.
Other current assets	251.8	228.
	2,294.1	2,203.
Property, plant and equipment:		
Cost	4,426.0	4,408.
Less: Accumulated depreciation	1,947.6	1,895.
	2,478.4	2,513.
Goodwill and other intangible assets	1,875.8	1,904.
Other assets	404.3	363.
	\$ 7,052.6	\$ 6,984.

See Notes to Condensed Consolidated Financial Statements.

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## COLGATE-PALMOLIVE COMPANY

### CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Millions)  
(Unaudited)

## LIABILITIES AND SHAREHOLDERS' EQUITY

	March 31, 2002	December 31, 2001
Current liabilities:		
Notes and loans payable	\$ 125.2	\$ 101.6

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Current portion of long-term debt	352.8	325.5
Accounts payable	654.4	678.1
Accrued income taxes	207.3	195.0
Other accruals	921.8	823.3
	-----	-----
	2,261.5	2,123.5
Long-term debt	2,950.3	2,812.0
Deferred income taxes	459.1	480.6
Other liabilities	738.7	722.3
Shareholders' equity:		
Preferred stock	335.3	341.3
Common stock	732.9	732.9
Additional paid-in capital	1,153.5	1,168.7
Retained earnings	5,734.7	5,643.6
Accumulated other comprehensive income	(1,512.2)	(1,491.2)
	-----	-----
	6,444.2	6,395.3
Unearned compensation	(342.8)	(345.4)
Treasury stock, at cost	(5,458.4)	(5,203.5)
	-----	-----
	643.0	846.4
	-----	-----
	\$ 7,052.6	\$ 6,984.8
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

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## COLGATE-PALMOLIVE COMPANY

### CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Millions)  
(Unaudited)

	Three Months Ended	
	March 31,	
	2002	2001
	-----	-----
Operating Activities:		
-----		
Net income	\$ 289.7	\$ 267.9
Adjustments to reconcile net income to net cash provided by operations:		
Restructured operations	(1.6)	(0.8)
Depreciation and amortization	71.7	83.5
Income taxes and other, net	29.7	82.8
Cash effects of changes in:		

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Receivables	(11.9)	37.2
Inventories	(38.9)	(32.4)
Payables and accruals	(14.6)	(94.0)
	-----	-----
Net cash provided by operating activities	324.1	344.2
Investing Activities:		
-----		
Capital expenditures	(50.3)	(47.0)
(Investment in) sale of marketable securities	(1.0)	4.7
Other	(50.3)	(2.6)
	-----	-----
Net cash used for investing activities	(101.6)	(44.9)
Financing Activities:		
-----		
Principal payments on debt	(193.1)	(190.9)
Proceeds from issuance of debt	385.0	358.3
Dividends paid	(99.7)	(89.8)
Purchase of common stock	(295.5)	(356.2)
Other	(5.8)	3.1
	-----	-----
Net cash used for financing activities activities	(209.1)	(275.5)
Effect of exchange rate changes on cash and cash equivalents	(1.3)	(2.5)
	-----	-----
Net increase in cash and cash equivalents	12.1	21.3
Cash and cash equivalents at beginning of period	172.7	206.6
	-----	-----
Cash and cash equivalents at end of period	\$ 184.8	\$ 227.9
	=====	=====

See Notes to Condensed Consolidated Financial Statements.

## COLGATE-PALMOLIVE COMPANY

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and Shares in Millions Except Per Share Amounts)  
(Unaudited)

- The Condensed Consolidated Financial Statements reflect all normal recurring adjustments which, in management's opinion, are necessary for a fair presentation of the results for interim periods. Results of operations for the three months ended March 31, 2002 and 2001 may not be representative of results to be expected for a full year.
- Provision for certain expenses, including income taxes, media advertising,

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consumer promotion and new product introductory costs, are based on full year assumptions. Such expenses are charged to operations in the year incurred and are included in the accompanying condensed consolidated financial statements in proportion with the passage of time or with estimated annual tax rates or annual sales.

### 3. Sales Incentives and Promotional Expenses

On January 1, 2002, the Company adopted the requirements of the Financial Accounting Standards Board's Emerging Issues Task Force (EITF) Issue No. 00-14 "Accounting for Certain Sales Incentives" and Issue No. 00-25 "Vendor Income Statement Characterization of Consideration Paid to a Reseller of the Vendor's Products" that relate to the classification of various types of sales incentives and promotional expenses. The new accounting resulted in the reclassification of certain sales incentives and promotional expenses from selling, general and administrative expenses to a reduction of net sales and cost of sales, but had no impact on the Company's net income or earnings per share. The financial information for the first quarter of 2001 reflects these reclassifications which reduced net sales and cost of sales by \$80.4 and \$1.0, respectively, with an offsetting reduction in selling, general and administrative expenses.

### 4. Goodwill and Other Intangible Assets

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 142 "Goodwill and Other Intangible Assets" effective January 1, 2002. Under the new standard, goodwill and indefinite life intangible assets, such as the Company's global brands, are no longer amortized but are subject to annual impairment tests. Other intangible assets with finite lives, such as non-compete agreements, will continue to be amortized over their useful lives. The transitional impairment tests were completed and did not result in an impairment charge.

In accordance with SFAS 142, prior period amounts were not restated. A reconciliation of the previously reported net income and earnings per share for the three months ended March 31, 2001 to the amounts adjusted for the reduction of amortization expense, net of the related income tax effect, is as follows:

	Net Income	Basic EPS	Diluted EPS
	-----	-----	-----
Reported	\$ 267.9	\$ .47	\$ .44
Add: amortization adjustment	11.2	.02	.01
	-----	-----	-----
Adjusted	\$ 279.1	\$ .49	\$ .45
	=====	=====	=====

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and Shares in Millions Except Per Share Amounts)  
(Unaudited)

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The net carrying value of goodwill and other intangible assets as of March 31, 2002 is comprised of the following:

Goodwill	\$ 1,260.0
Indefinite life intangible assets	357.5
Finite life intangible assets	258.3
	-----
	\$ 1,875.8
	=====

The change in the net carrying amount of goodwill and other intangible assets during the three months ended March 31, 2002 is due to the impact of foreign currency translation adjustments and amortization of finite life intangible assets.

The net carrying value of goodwill as of March 31, 2002 by operating segment is as follows:

North America	\$ 248.9
Latin America	549.3
Europe	346.6
Asia/Africa	100.2
	-----
Total Oral, Personal and Household Care	1,245.0
Total Pet Nutrition	15.0
	-----
	\$ 1,260.0
	=====

Finite life intangible assets as of March 31, 2002, subject to amortization expense, are comprised of the following:

	Gross Carrying Amount -----	Accumulated Amortization -----	Net ---
Trademarks	\$ 367.8	\$ (114.2)	\$ 253.6
Other	42.4	(37.7)	4.7
	-----	-----	-----
	\$ 410.2	\$ (151.9)	\$ 258.3
	=====	=====	=====

Amortization expense for trademarks and other intangible assets with finite lives was \$3.2 for the three months ended March 31, 2002. Annual estimated amortization expense for each of the five succeeding fiscal years is expected to approximate \$12.0.

5. Inventories by major classes were as follows:

	March 31, 2002 -----	December 31, 2001 -----
Raw materials and supplies	\$ 182.5	\$ 188.0
Work-in-process	32.3	27.9
Finished goods	494.2	461.1
	-----	-----
	\$ 709.0	\$ 677.0
	=====	=====

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars and Shares in Millions Except Per Share Amounts)

(Unaudited)

6. Earnings Per Share:

	Three Months Ended March 31, 2002			Three Months Ended	
	Income	Shares	Per Share	Income	S
	-----	-----	-----	-----	-----
Net income	\$289.7			\$267.9	
Preferred dividends	(5.7)			(5.1)	
	-----			-----	
Basic EPS	284.0	549.2	\$ .52	262.8	
			=====		
Stock options		8.0			
ESOP conversion	5.7	40.0		5.0	
	-----	-----		-----	
Diluted EPS	\$289.7	597.2	\$ .49	\$267.8	
	=====	=====	=====	=====	

7. Comprehensive income

Comprehensive income is comprised of net earnings, currency translation gains and losses, and gains and losses from derivative instruments designated as cash flow hedges. Total comprehensive income for the three months ended March 31, 2002 and 2001 was \$268.7 and \$200.2, respectively, with the difference from net income primarily consisting of foreign currency translation adjustments. Accumulated other comprehensive income, as reflected in the condensed consolidated balance sheets, primarily consists of cumulative foreign currency translation adjustments.

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS



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(Dollars and Shares in Millions Except Per Share Amounts)

(Unaudited)

## 8. Segment Information

	Three months ended March 31,	
	2002	2001
Net Sales		
North America	\$ 576.7	\$ 556.9
Latin America	535.3	565.1
Europe	444.7	448.2
Asia/Africa	368.5	378.8
Total Oral, Personal and Household Care	1,925.2	1,949.0
Total Pet Nutrition	270.0	263.2
Net Sales	\$ 2,195.2	\$ 2,212.2
Earnings		
North America	\$ 143.6	\$ 127.5
Latin America	158.1	158.6
Europe	95.5	85.2
Asia/Africa	55.0	55.5
Total Oral, Personal and Household Care	452.2	426.8
Total Pet Nutrition	65.5	62.5
Corporate overhead and other	(57.0)	(47.8)
Earnings before interest and taxes	460.7	441.5
Interest expense, net	(34.9)	(43.6)
Income before income taxes	\$ 425.8	\$ 397.9

9. Reference is made to the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2001 for a complete set of financial notes including the Company's significant accounting policies.

## COLGATE-PALMOLIVE COMPANY

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

### CONDITION AND RESULTS OF OPERATIONS

(Dollars in Millions Except Per Share Amounts)

Results of Operations

Worldwide sales were \$2,195.2 in the first quarter of 2002 reflecting unit volume gains of 2.5% offset by a decline in foreign currencies. Sales, excluding divestments, decreased 0.5% and would have risen 3% excluding the effect of foreign currency declines.

First quarter sales in the Oral, Personal and Household Care segment were \$1,925.2 down 1.0% from 2001 on volume growth of 2.5% offset by foreign currencies.

Colgate-North America sales grew 3.5% in the first quarter of 2002 to \$576.7 as volume gains of 3.0% were primarily driven by new product sales and market share gains. Volume and market share gains in the Oral Care category were attributable to recently introduced products including Colgate Total Plus Whitening and Colgate Fresh Confidence toothpastes and Colgate Motion battery-powered toothbrush. In the Personal Care category, Lady Speed Stick Invisible Dry and Speed Stick Power of Nature deodorants and Softsoap Vitamins with vitamin E body wash contributed to increased volume and market shares in the region.

Colgate-Latin America sales decreased 5.0%, excluding divestments, to \$535.3 due to volume declines of 1.0% and the impact of foreign currency. Volume gains in Colombia, the Dominican Republic, Ecuador and Peru were offset by volume declines in Brazil, Mexico and Argentina. Excluding the impact of foreign currency, continuing sales would have risen 1%. Despite the volume declines in the region, recently introduced products such as Colgate Triple Action and Colgate Herbal White toothpastes and Colgate Active Flexible and Colgate Premier Ultra toothbrushes helped to strengthen our market share leadership in the Oral Care category. In the Personal and Household Surface Care categories, recently introduced products including Mennen Speed Stick Power of Nature deodorants, Fabuloso Lavender liquid cleaner and Axion Apple Fantasy dishwashing paste experienced volume gains in the region.

Colgate-Europe sales decreased 1.0% to \$444.7 as volume gains of 4.0% were negatively impacted by the weakened euro. Excluding currency, sales would have risen 3% largely due to volume gains in the United Kingdom, the Nordic Group, Russia, Poland, Portugal and Greece. Volume and market share gains within the region were primarily due to recently introduced products including Colgate Herbal and Colgate Total Plus Whitening toothpastes, Colgate Motion battery-powered toothbrush and Colgate Zig Zag manual toothbrush. Contributing to growth in the Personal and Household Surface Care categories in the region were recently introduced products including Palmolive Aromatherapy shower gel and bath foam, Palmolive Fruit Essentials translucent bar soap, Ajax glass and all purpose cleaner wipes, and Ajax Floral Fiesta powder scourer.

Colgate-Asia/Africa sales decreased 3.0% to \$368.5 as volume gains of 3.5% were negatively impacted by foreign currency. Excluding currency, sales would have risen 2%. The strongest volume gains were achieved in Australia, New Zealand, Malaysia, Hong Kong, Vietnam and South Africa. Volume gains were led by recently introduced products including Colgate Triple Action, Colgate Herbal White and Colgate Fresh Confidence toothpastes, Protex Herbal soap and talc, Palmolive Fresh soap and Softlan fabric conditioner.

Sales in the Pet Nutrition segment increased 2.5% to \$270.0 on volume gains of 4.0% with volume increases in North America and internationally. Excluding currency, sales would have risen 5%. Hill's experienced volume and market share growth in the North American specialty retail and veterinary channels led by recently introduced products including Science Diet Oral Care for cats and dogs,

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and Prescription Diet Canine b/d, a

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### COLGATE-PALMOLIVE COMPANY

#### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

#### CONDITION AND RESULTS OF OPERATIONS

(Dollars in Millions Except Per Share Amounts)

clinically proven product that reduces the signs of canine brain aging. Internationally, volume gains in Europe, Asia and the South Pacific were partially offset by declines in Latin America, which was affected by the local economic conditions.

Worldwide gross profit margin for the first quarter of 2002 increased to 54.8% from 53.4% in 2001 as the Company continued to benefit from continued streamlining of manufacturing, global sourcing and other cost reduction programs.

Selling, general and administrative expenses as a percentage of sales increased slightly to 33.8% in 2002 from 33.4% in 2001. The non-cash benefit of reduced amortization expense from the adoption of SFAS 142 was offset by an increase in non-cash pension and benefit costs and unrealized losses on foreign currency contracts. These contracts are an economic hedge of certain foreign currency debt but do not qualify for hedge accounting.

Earnings before interest and taxes (EBIT) increased 4% to \$460.7, and reached a level of 21.0% of sales versus 20.0% in the same year ago period.

Interest expense, net of interest income decreased to \$34.9 in the 2002 first quarter as compared with \$43.6 in 2001 due to the effect of lower interest rates partially offset by higher debt levels in 2002.

The effective tax rate was 32.0% and 32.7% in the first quarter of 2002 and 2001, respectively. The 32.0% reflects the Company's current estimate of its full year effective income tax rate which is slightly higher than the 2001 full year rate of 31.3%.

First quarter 2002 net income increased 8% to \$289.7 while diluted earnings per share increased 11% to \$0.49. If first quarter 2001 results were adjusted for the impact of SFAS 142, EBIT, net income and diluted earnings per share would have been \$455.5, \$279.1 and \$.45, respectively.

#### Liquidity and Capital Resources

Net cash provided by operations decreased 6% to \$324.1 in the first quarter of 2002 compared with \$344.2 in 2001. The decrease results from increased tax payments of \$133.2 in 2002 versus \$44.3 in 2001. The 2002 tax payments include \$40.7 related to 2001 fourth quarter estimated tax payments that were deferred into the first quarter of 2002 under a U.S. Government relief granted to New York City based corporate taxpayers due to the September 11th terrorist attacks. The increased tax payments are also due to the Company's increasing

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profitability and proper application of estimated tax payment rules further deferring payments into 2002. Accordingly, total tax payments for the 2002 fiscal year are expected to exceed payments made in the prior year.

At March 31, 2002, \$623.4 of commercial paper was classified as long-term debt in accordance with the Company's intent and ability to refinance these obligations on a long-term basis.

Reference should be made to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 for additional information regarding available sources of liquidity and capital.

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### COLGATE-PALMOLIVE COMPANY

#### PART II. OTHER INFORMATION

##### Item 1. Legal Proceedings

For information regarding legal matters refer to Item 3 on page 4 of the registrant's Annual Report on Form 10-K for the year ended December 31, 2001 and Note 14 to the consolidated financial statements included therein on page 38.

##### Item 6. Exhibits and Reports on Form 8-K

###### (a) Exhibits:

Exhibit 12 Ratio of Earnings to Fixed Charges.

###### (b) Reports on Form 8-K.

None.

The exhibits indicated above which are not included with the Form 10-Q are available upon request and payment of a reasonable fee approximating the registrant's cost of providing and mailing the exhibits. Inquiries should be directed to:

Colgate-Palmolive Company  
Office of the Secretary (10-Q Exhibits)  
300 Park Avenue  
New York, NY 10022-7499

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SIGNATURE

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

COLGATE-PALMOLIVE COMPANY

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(Registrant)

Principal Financial Officer:

April 30, 2002

/s/ Stephen C. Patrick

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Stephen C. Patrick  
Chief Financial Officer

Principal Accounting Officer:

April 30, 2002

/s/ Dennis J. Hickey

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Dennis J. Hickey  
Vice President and  
Corporate Controller