COLGATE PALMOLIVE CO
Form 10-Q
July 28, 2011

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 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 x 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 x No o

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 T	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 x

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	486,495,953	June 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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net sales	$4,185	$3,814	$8,179	$7,643
Cost of sales	1,781	1,572	3,444	3,133
Gross profit	2,404	2,242	4,735	4,510
Selling, general and administrative expenses	1,421	1,292	2,825	2,647
Other (income) expense, net	15	2	27	237
Operating profit	968	948	1,883	1,626
Interest expense, net	11	14	27	30
Income before income taxes	957	934	1,856	1,596
Provision for income taxes	311	304	603	579
Net income including noncontrolling interests	646	630	1,253	1,017
Less: Net income attributable to noncontrolling interests	24	27	55	57
Net income attributable to Colgate-Palmolive Company	$622	$603	$1,198	$960
Earnings per common share, basic	$1.27	$1.21	$2.44	$1.92
Earnings per common share, diluted	$1.26	$1.17	$2.42	$1.86
Dividends declared per common share*	$-	$-	$1.11	$0.97

* Two dividends were declared in the first quarters of 2011 and 2010.

See Notes to Condensed Consolidated Financial Statements.

COLGATE-PALMOLIVE COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in Millions)
(Unaudited)

	June 30, 2011	December 31, 2010
Assets		
Current Assets		
Cash and cash equivalents	$739	$490
Receivables (net of allowances of $55 and $53, respectively)	1,819	1,610
Inventories	1,417	1,222
Other current assets	495	408
Total current assets	4,470	3,730
Property, plant and equipment:		
Cost	7,575	7,160
Less: Accumulated depreciation	(3,744)	(3,467)
	3,831	3,693
Goodwill, net	2,920	2,362
Other intangible assets, net	1,457	831
Deferred income taxes	90	84
Other assets	476	472
Total assets	$13,244	$11,172
Liabilities and Shareholders’ Equity		
Current Liabilities		
Notes and loans payable	$38	$48
Current portion of long-term debt	953	561
Accounts payable	1,236	1,165
Accrued income taxes	373	272
Other accruals	1,649	1,682
Total current liabilities	4,249	3,728
Long-term debt	4,020	2,815
Deferred income taxes	180	108
Other liabilities	1,651	1,704
Shareholders’ Equity		
Common stock	733	733
Additional paid-in capital	1,218	1,132
Retained earnings	14,983	14,329
Accumulated other comprehensive income (loss)	(1,748)	(2,115)
	15,186	14,079
Unearned compensation	(80)	(99)
Treasury stock, at cost	(12,137)	(11,305)

Total Colgate-Palmolive Company shareholders' equity	2,969	2,675
Noncontrolling interests	175	142
Total shareholders' equity	3,144	2,817
Total liabilities and shareholders' equity	$13,244	$11,172

See Notes to Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Operating Activities		
Net income including noncontrolling interests	$1,253	$1,017
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operations:		
Depreciation and amortization	202	185
Venezuela hyperinflationary transition charge	—	271
Stock-based compensation expense	56	60
Deferred income taxes	46	55
Cash effects of changes in:		
Receivables	(153)	(35)
Inventories	(148)	(85)
Accounts payable and other accruals	(50)	(206)
Other non-current assets and liabilities	(52)	40
Net cash provided by operations	1,154	1,302
Investing Activities		
Capital expenditures	(225)	(204)
Purchases of marketable securities and investments	(80)	(13)
Proceeds from sale of marketable securities and investments	171	—
Payment for acquisitions, net of cash acquired	(960)	—
Other	(17)	2
Net cash used in investing activities	(1,111)	(215)
Financing Activities		
Principal payments on debt	(1,869)	(2,514)
Proceeds from issuance of debt	3,433	2,757
Dividends paid	(568)	(520)
Purchases of treasury shares	(1,017)	(978)
Proceeds from exercise of stock options and excess tax benefits	220	141
Net cash provided by (used in) financing activities	199	(1,114)
Effect of exchange rate changes on Cash and cash equivalents	7	(18)
Net increase (decrease) in Cash and cash equivalents	249	(45)
Cash and cash equivalents at beginning of period	490	600
Cash and cash equivalents at end of period	$739	$555
Supplemental Cash Flow Information		
Income taxes paid	$513	$621

See Notes to Condensed Consolidated Financial Statements.

4

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

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 Europe/South Pacific segment (95%) and 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

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions Except Share and Per Share Amounts)
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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 six months ended June 30, 2011, Other (income) expense, net includes $10 in transaction costs related to the acquisition, of which $7 relates to the second quarter.

Pursuant to the Purchase Agreement, Colgate and Unilever also entered into a Transition Services Agreement, pursuant to 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 Europe for up to two years following the closing.

In connection with the Sanex acquisition, Colgate agreed to sell its laundry detergent brands in Colombia to Unilever for approximately $215. The detergent sale is expected to close on or about July 29, 2011 and as a result of the sale, the Company expects to recognize a pretax gain of approximately $203 and aftertax gain of approximately $130 in the third quarter.

4. Inventories

Inventories by major class are as follows:

	June 30, 2011	December 31, 2010
Raw materials and supplies	$ 333	$ 295
Work-in-process	70	50
Finished goods	1,014	877
Total Inventories	$ 1,417	$ 1,222

5. Shareholders' Equity

Major changes in the components of Shareholders' Equity for the first half of 2011 are as follows:

	Colgate-Palmolive Company Shareholders' Equity						Noncontrolling Interests
	Common Stock	Additional Paid-in Capital	Unearned Compensation	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	
Balance, December 31, 2010	$ 733	$ 1,132	$ (99)	$ (11,305)	$ 14,329	$ (2,115)	$ 142
Net income					1,198		55
Other comprehensive						367	2

income, net of tax							
Dividends					(544)		(24)
Stock-based compensation expense		56					
Shares issued for stock options		51		157			
Treasury stock acquired				(1,017)			
Other		(21)	19	28			
Balance, June 30, 2011	$ 733	$ 1,218	$ (80)	$ (12,137)	$ 14,983	$ (1,748)	$ 175

Accumulated Other comprehensive income (loss), as reflected in the Condensed Consolidated Balance Sheets, primarily consists of cumulative foreign currency translation adjustments and unrecognized pension and other retiree benefit costs. Refer to Note 6 for the components of Other comprehensive income (loss).

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

6. Comprehensive Income

The following are components of comprehensive income:

	Three Months Ended					
	June 30, 2011			June 30, 2010		
	Colgate-Palmolive Company	Noncontrolling interests	Total	Colgate-Palmolive Company	Noncontrolling interests	Total
Net income	$622	$ 24	$646	$603	$ 27	$630
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	175	1	176	(148)	(1)	(149)
Retirement Plan and other retiree benefit adjustments	14	—	14	11	—	11
Gains (losses) on cash flow hedges	(4)	—	(4)	(2)	—	(2)
Other	8	—	8	(5)	—	(5)
Total Other comprehensive income (loss), net of tax	$193	$ 1	$194	$(144)	$ (1)	$(145)
Comprehensive income	$815	$ 25	$840	$459	$ 26	$485

	Six Months Ended					
	June 30, 2011			June 30, 2010		
	Colgate-Palmolive Company	Noncontrolling interests	Total	Colgate-Palmolive Company	Noncontrolling interests	Total
Net income	$1,198	$ 55	$1,253	$960	$ 57	$1,017
Other comprehensive income (loss), net of tax:						
Cumulative translation adjustment	295	2	297	(181)	(1)	(182)
Retirement Plan and other retiree benefit adjustments	28	—	28	22	—	22
Gains (losses) on cash flow hedges	(4)	—	(4)	(4)	—	(4)
Other	48	—	48	(16)	—	(16)
Total Other comprehensive income (loss), net of tax	$367	$ 2	$369	$(179)	$ (1)	$(180)

Comprehensive income	$1,565	$ 57	$1,622	$781	$ 56	$837

7

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

7. Earnings Per Share

	Three Months Ended					
	June 30, 2011			June 30, 2010		
	Income	Shares (millions)	Per Share	Income	Shares (millions)	Per Share
Net income attributable to Colgate-Palmolive Company	$622			$603		
Preferred dividends	—			(8)		
Basic EPS	622	489.5	$1.27	595	490.1	$1.21
Stock options and restricted stock		3.8			4.6	
Convertible preference stock	—	—		8	20.0	
Diluted EPS	$622	493.3	$1.26	$603	514.7	$1.17

For the three months ended June 30, 2011 and 2010, the average number of stock options that were anti-dilutive and not included in diluted earnings per share calculations were 18,734 and 18,300, respectively.

	Six Months Ended					
	June 30, 2011			June 30, 2010		
	Income	Shares (millions)	Per Share	Income	Shares (millions)	Per Share
Net income attributable to Colgate-Palmolive Company	$1,198			$960		
Preferred dividends	—			(16)		
Basic EPS	1,198	491.5	$2.44	944	491.9	$1.92
Stock options and restricted stock		3.4			4.6	
Convertible preference stock	—	—		16	20.2	
Diluted EPS	$1,198	494.9	$2.42	$960	516.7	$1.86

For the six months ended June 30, 2011 and 2010, the average number of stock options that were anti-dilutive and not included in diluted earnings per share calculations were 34,719 and 18,300, respectively.

As a result of recent rules issued by the Internal Revenue Service related to employer stock held in defined contribution plans, the Company issued a notice of redemption with respect to the 2,405,192 shares of Preference stock outstanding on December 29, 2010. At the direction of the Company's ESOP trustee, the preference shares were converted into 19,241,536 shares of common stock.

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in Millions Except Share and Per Share Amounts)
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8. Retirement Plans and Other Retiree Benefits

Components of net periodic benefit cost for three and six months ended June 30, 2011 and 2010 were as follows:

	Pension Benefits				Other Retiree Benefits	
	United States		International			
	Three Months Ended June 30,					
	2011	2010	2011	2010	2011	2010
Service cost	$ 6	$ 13	$ 5	$ 4	$ 3	$ 4
Interest cost	25	24	10	8	10	11
Annual ESOP allocation	—	—	—	—	—	(2)
Expected return on plan assets	(28)	(26)	(7)	(6)	—	—
Amortization of transition and prior service costs (credits)	3	1	1	—	1	—
Amortization of actuarial loss	12	11	3	4	4	4
Net periodic benefit cost	$ 18	$ 23	$ 12	$ 10	$ 18	$ 17

	Pension Benefits				Other Retiree Benefits	
	United States		International			
	Six Months Ended June 30,					
	2011	2010	2011	2010	2011	2010
Service cost	$13	$25	$10	$9	$6	$7
Interest cost	51	48	19	17	21	21
Annual ESOP allocation	—	—	—	—	(1)	(4)
Expected return on plan assets	(56)	(51)	(14)	(12)	(1)	(1)
Amortization of transition and prior service costs (credits)	5	2	2	—	3	—
Amortization of actuarial loss	23	22	5	5	9	7
Net periodic benefit cost	$36	$46	$22	$19	$37	$30

9. Contingencies

As a global company serving consumers in more than 200 countries and territories, the Company is routinely subject to a wide variety of legal proceedings. These include disputes relating to intellectual property, contracts, product liability, marketing, advertising, foreign exchange controls, antitrust and trade regulation, as well as labor and employment, environmental and tax matters.

Management proactively reviews and monitors the Company’s exposure to, and the impact of, environmental matters. The Company is party to various environmental matters and, as such, may be responsible for all or a portion of the cleanup, restoration and post-closure monitoring of several sites.

As a matter of course, the Company is regularly audited by the IRS and other tax authorities around the world in countries where it conducts business. In this regard, the IRS has completed its examination of the Company’s federal income tax returns through 2005. Estimated incremental tax payments related to potential disallowances for subsequent periods are not expected to be material.

The Company establishes accruals for loss contingencies when it has determined that a loss is probable and that the amount of loss, or range of loss, can be reasonably estimated. Any such accruals are adjusted thereafter as appropriate to reflect changes in circumstances.

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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The Company also determines estimates of reasonably possible losses or ranges of reasonably possible losses in excess of related accrued liabilities, if any, when it has determined that a loss is reasonably possible and it is able to determine such estimates. For those matters disclosed below, the Company currently estimates that the aggregate range of reasonably possible losses in excess of any accrued liabilities is $0 to approximately $425 (based on current exchange rates). The estimates included in this amount are based on the Company's analysis of currently available information and, as new information is obtained, these estimates may change. Due to the inherent subjectivity of the assessments and the unpredictability of outcomes of legal proceedings, any amounts accrued or included in this aggregate amount may not represent the ultimate loss to the Company from the matters in question. Thus, the Company's exposure and ultimate losses may be higher or lower, and possibly significantly so, than the amounts accrued or the range disclosed above.

Based on current knowledge, management does not believe that the ultimate resolution of loss contingencies arising from the matters discussed herein will have a material effect on the Company's consolidated financial position or its ongoing results of operations or cash flows. However, in light of the inherent uncertainties noted above, an adverse outcome in one or more of these matters could be material to the Company's results of operations or cash flows for any particular quarter or year.

Brazilian Matters

In 2001, the Central Bank of Brazil sought to impose a substantial fine on the Company's Brazilian subsidiary (approximately $167 at the current exchange rate) based on alleged foreign exchange violations in connection with the financing of the Company's 1995 acquisition of the Kolynos oral care business from Wyeth (formerly American Home Products) (the Seller), as described in the Company's Form 8-K dated January 10, 1995. The Company appealed the imposition of the fine to the Brazilian Monetary System Appeals Council (the Council), and on January 30, 2007, the Council decided the appeal in the Company's favor, dismissing the fine entirely. However, certain tax and civil proceedings that began as a result of this Central Bank matter are still outstanding as described below.

The Brazilian internal revenue authority has disallowed interest deductions and foreign exchange losses taken by the Company's Brazilian subsidiary for certain years in connection with the financing of the Kolynos acquisition. The tax assessments with interest, at the current exchange rate, approximate $134. The Company has been disputing the disallowances by appealing the assessments within the internal revenue authority's appellate process with the following results to date:

§ In June 2005, the First Board of Taxpayers ruled in the Company's favor and allowed all of the previously claimed deductions for 1996 through 1998. In March 2007, the First Board of Taxpayers ruled in the Company's favor and allowed all of the previously claimed deductions for 1999 through 2001. The tax authorities appealed these decisions to the next administrative level.

§ In August 2009, the First Taxpayers' Council (the next and final administrative level of appeal) overruled the decisions of the First Board of Taxpayers, upholding the majority of the assessments, disallowing a portion of the assessments and remanding a portion of the assessments for further consideration by the First Board of Taxpayers.

The Company has filed a motion for reconsideration with the First Taxpayers' Council and further appeals are available within the Brazilian federal courts. The Company intends to challenge these assessments vigorously. Although there can be no assurances, management believes, based on the opinion of its Brazilian legal counsel and other advisors, that the disallowances are without merit and that the Company should ultimately prevail on appeal, if necessary, in the Brazilian federal courts.

In 2002, the Brazilian Federal Public Attorney filed a civil action against the federal government of Brazil, Laboratorios Wyeth-Whitehall Ltda. (the Brazilian subsidiary of the Seller) and the Company, as represented by its Brazilian subsidiary, seeking to annul an April 2000 decision by the Brazilian Board of Tax Appeals that found in favor of the Seller's Brazilian subsidiary on the issue of whether it had incurred taxable capital gains as a result of the divestiture of Kolynos. The action seeks to make the Company's Brazilian subsidiary jointly and severally liable for any tax due from the Seller's Brazilian subsidiary. Although there can be no assurances, management believes, based on the opinion of its Brazilian legal counsel, that the Company should ultimately prevail in this action. The Company intends to challenge this action vigorously.

In December 2005, the Brazilian internal revenue authority issued to the Company's Brazilian subsidiary a tax assessment with interest and penalties of approximately $79, at the current exchange rate, based on a claim that certain purchases of U.S. Treasury bills by the subsidiary and their subsequent disposition during the period 2000 to 2001 were subject to a tax on foreign exchange transactions. The Company is disputing the assessment within the internal revenue authority's administrative appeals process. In October 2007, the Second Board of Taxpayers, which has jurisdiction over these matters, ruled in favor of the internal revenue authority. In January 2008, the Company appealed this decision to the next administrative level. Although there can be no assurances, management believes, based on the advice of its Brazilian legal counsel, that the tax assessment is without merit and that the Company should prevail on appeal either at the administrative level or, if necessary, in the Brazilian federal courts. The Company intends to challenge this assessment vigorously.

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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European Competition Matters

Since February 2006, the Company has learned that investigations relating to potential competition law violations involving the Company's subsidiaries had been commenced by governmental authorities in a number of European countries and by the European Commission. The Company understands that many of these investigations also involve other consumer goods companies and/or retail customers. The status of the various pending matters is discussed below.

Fines have been imposed on the Company in the following matters, although the Company is appealing these fines:

§ In December 2009, the Swiss competition law authority imposed a fine of $5 on the Company's GABA subsidiary for alleged violations of restrictions on parallel imports into Switzerland. The Company is appealing the fine in the Swiss courts.

§ In January 2010, the Spanish competition law authority found that four suppliers of shower gel had entered into an agreement regarding product down-sizing, for which Colgate's Spanish subsidiary was fined $3. The Company is appealing the fine in the Spanish courts.

§ In December 2010, the Italian competition law authority found that 16 consumer goods companies, including the Company's Italian subsidiary, exchanged competitively sensitive information in the cosmetics sector, for which the Company's Italian subsidiary was fined $3. The Company is appealing the fine in the Italian courts.

Currently, formal claims of violations, or statements of objections, are pending against the Company as follows:

§ The French competition authority alleges agreements on pricing and promotion of heavy duty detergents among four consumer goods companies, including the Company's French subsidiary.

§ The French competition authority alleges violations of competition law by three pet food producers, including the Company's Hill's France subsidiary, focusing on exclusivity arrangements.

§ The German competition authority alleges that 17 branded goods companies, including the Company's German subsidiary, exchanged sensitive information related to the German market.

The Company has responded to each of these formal claims of violations. Investigations are ongoing in Belgium, France and Greece, but no formal claims of violations have been filed in these jurisdictions except in France as noted above.

Since December 31, 2010, the following matters have been resolved:

§ In April 2011, the investigation by the European Commission was resolved with no formal claims of violations or decisions made against the Company. To the Company's knowledge, there are no other investigations by the European Commission relating to potential competition law violations involving the Company or its subsidiaries.

§ In May 2011, the Dutch competition authority closed its investigation and no decision was made against the Company or its Dutch subsidiary.

11

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The Company's policy is to comply with antitrust and competition laws and, if a violation of any such laws is found, to take appropriate remedial action and to cooperate fully with any related governmental inquiry. The Company has undertaken a comprehensive review of its selling practices and related competition law compliance in Europe and elsewhere and, where the Company has identified a lack of compliance, it has undertaken remedial action. Competition and antitrust law investigations often continue for several years and can result in substantial fines for violations that are found. Such fines, depending on the gravity and duration of the infringement as well as the value of the sales involved, have amounted, in some cases, to hundreds of millions of dollars. While the Company cannot predict the final financial impact of these competition law issues as these matters may change, the Company evaluates developments in these matters quarterly and accrues liabilities as and when appropriate.

ERISA Matters

In October 2007, a putative class action claiming that certain aspects of the cash balance portion of the Colgate-Palmolive Company Employees' Retirement Income Plan (the Plan) do not comply with the Employee Retirement Income Security Act was filed against the Plan and the Company in the United States District Court for the Southern District of New York. Specifically, Proesel, et al. v. Colgate-Palmolive Company Employees' Retirement Income Plan, et al. alleges improper calculation of lump sum distributions, age discrimination and failure to satisfy minimum accrual requirements, thereby resulting in the underpayment of benefits to Plan participants. Two other putative class actions filed earlier in 2007, Abelman, et al. v. Colgate-Palmolive Company Employees' Retirement Income Plan, et al., in the United States District Court for the Southern District of Ohio, and Caufield v. Colgate-Palmolive Company Employees' Retirement Income Plan, in the United States District Court for the Southern District of Indiana, both alleging improper calculation of lump sum distributions and, in the case of Abelman, claims for failure to satisfy minimum accrual requirements, were transferred to the Southern District of New York and consolidated with Proesel into one action, In re Colgate-Palmolive ERISA Litigation. The complaint in the consolidated action alleges improper calculation of lump sum distributions and failure to satisfy minimum accrual requirements, but does not include a claim for age discrimination. The relief sought includes recalculation of benefits in unspecified amounts, pre- and post-judgment interest, injunctive relief and attorneys' fees. This action has not been certified as a class action as yet. The parties are in discussions via non-binding mediation to determine whether the action can be settled. The Company and the Plan intend to contest this action vigorously should the parties be unable to reach a settlement.

10. Segment Information

The Company evaluates segment performance based on several factors, including Operating profit. The Company uses Operating profit as a measure of the operating segment performance because it excludes the impact of corporate-driven decisions related to interest expense and income taxes. Corporate operations include stock-based compensation related to stock options and restricted stock awards, research and development costs, Corporate overhead costs, restructuring and related implementation costs, and gains and losses on sales of non-core product lines and assets. The Company reports these items within Corporate operations as they relate to Corporate-based responsibilities and decisions and are not included in the internal measures of segment operating performance used by the Company in order to measure the underlying performance of the business segments. In 2010, Corporate Operating profit also includes the one-time $271 charge related to the transition to hyperinflationary accounting in Venezuela as of January 1, 2010. For further information regarding Venezuela, refer to Note 12.

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Net sales and Operating profit by segment were as follows:

	Three Months Ended June 30, 2011	2010	Six Months Ended June 30, 2011	2010
Net sales				
Oral, Personal and Home Care				
North America	$ 744	$ 768	$ 1,462	$ 1,521
Latin America	1,231	1,055	2,328	2,061
Europe/South Pacific	857	770	1,689	1,594
Greater Asia/Africa	816	730	1,629	1,460
Total Oral, Personal and Home Care	3,648	3,323	7,108	6,636
Pet Nutrition	537	491	1,071	1,007
Total Net sales	$ 4,185	$ 3,814	$ 8,179	$ 7,643
Operating profit				
Oral, Personal and Home Care				
North America	$ 194	$ 227	$ 386	$ 444
Latin America	360	303	686	643
Europe/South Pacific	170	184	355	375
Greater Asia/Africa	199	189	402	378
Total Oral, Personal and Home Care	923	903	1,829	1,840
Pet Nutrition	140	134	281	275
Corporate	(95)	(89)	(227)	(489)
Total Operating profit	$ 968	$ 948	$ 1,883	$ 1,626

11. Fair Value Measurements and Financial Instruments

The Company uses available market information and other valuation methodologies in assessing the fair value of financial instruments. Judgment is required in interpreting market data to develop the estimates of fair value and, accordingly, changes in assumptions or the estimation methodologies may affect the fair value estimates. The Company is exposed to credit losses in the event of nonperformance by counterparties to financial instrument contracts; however, nonperformance is considered unlikely as it is the Company's policy to contract only with diverse, highly rated counterparties.

The Company is exposed to market risk from foreign currency exchange rates, interest rates and commodity price fluctuations. Volatility relating to these exposures is managed on a global basis by utilizing a number of techniques, including working capital management, supplier agreements management, selling price increases, selective borrowings in local currencies and entering into selective derivative instrument transactions, issued with standard features, in accordance with the Company's treasury and risk management policies, which prohibit the use of derivatives for speculative purposes and leveraged derivatives for any purpose. It is the Company's policy to enter into derivative instrument contracts with terms that match the underlying exposure being hedged. Hedge ineffectiveness, if any, is not material for any period presented.

The Company’s derivative instruments include interest rate swap contracts, foreign currency contracts and commodity contracts. The Company utilizes interest rate swap contracts to manage its targeted mix of fixed and floating rate debt, and these swaps are valued using observable benchmark rates (Level 2 valuation). Foreign currency contracts consist of forward, option and swap contracts utilized to hedge a portion of the Company’s foreign currency purchases, assets and liabilities created in the normal course of business as well as the net investment in certain foreign subsidiaries. These contracts are valued using observable market rates (Level 2 valuation). Commodity futures contracts are utilized to hedge the purchases of raw materials used in the Company’s operations. These contracts are measured using quoted commodity exchange prices (Level 1 valuation). The duration of foreign currency and commodity contracts generally does not exceed 12 months.

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The following summarizes the fair value of the Company's derivative instruments and other financial instruments at June 30, 2011 and December 31, 2010:

	Assets			Liabilities		
	Account	Fair Value		Account	Fair Value	
Designated derivative instruments		6/30/11	12/31/10		6/30/11	12/31/10
Interest rate swap contracts	Other assets	$ 26	$ 22	Other liabilities	$ 2	$ 7
Foreign currency contracts	Other current assets	9	10	Other accruals	11	10
Commodity contracts	Other current assets	¾	4	Other accruals	1	¾
Total designated		$ 35	$ 36		$ 14	$ 17
Derivatives not designated						
Foreign currency contracts	Other current assets	¾	¾	Other accruals	$ 1	$ 2
Total not designated		¾	¾		$ 1	$ 2
Total derivative instruments		$ 35	$ 36		$ 15	$ 19
Other financial instruments						
Marketable securities	Other current assets	$ 53	$ 74			
Available-for-sale securities	Other assets	229	228			
Total other financial instruments		$ 282	$ 302			

The carrying amount of cash, cash equivalents, accounts receivable and short-term debt approximated fair value as of June 30, 2011 and December 31, 2010. The estimated fair value of the Company's long-term debt, including the current portion, as of June 30, 2011 and December 31, 2010, was $5,224 and $3,613, respectively, and the related carrying value was $4,973 and $3,376, respectively. The estimated fair value of long-term debt was derived principally from quoted prices on the Company's outstanding fixed-term notes (Level 2 valuation).

Fair value hedges

The Company has designated all interest rate swap contracts and certain foreign currency forward and option contracts as fair value hedges, for which the gain or loss on the derivative and the offsetting loss or gain on the hedged item are recognized in current earnings. The impact of foreign currency contracts is recognized in Selling, general and administrative expenses and the impact of interest rate swap contracts is recognized in Interest expense, net.

During the second quarter of 2011, the Company issued $250 of six-year notes at a fixed rate of 2.625% and $250 of three-year notes at a fixed rate of 1.250% under the Company's shelf registration statement. The Company simulteneously entered into interest rate swaps to effectively convert the fixed rate of the notes to a variable rate.

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Activity related to fair value hedges recorded during the three-month periods ended June 30, 2011 and 2010 was as follows:

	2011			2010		
	Foreign Currency Contracts	Interest Rate Swaps	Total	Foreign Currency Contracts	Interest Rate Swaps	Total
Notional Value at June 30,	$538	$1,288	$1,826	$1,090	$600	$1,690
Gain (loss) on derivative	¾	11	11	(8)	5	(3)
Gain (loss) on hedged items	¾	(11)	(11)	8	(5)	3

Activity related to fair value hedges recorded during the six-month periods ended June 30, 2011 and 2010 was as follows:

	2011			2010		
	Foreign Currency Contracts	Interest Rate Swaps	Total	Foreign Currency Contracts	Interest Rate Swaps	Total
Notional Value at June 30,	$538	$1,288	$1,826	$1,090	$600	$1,690
Gain (loss) on derivative	6	8	14	(4)	9	5
Gain (loss) on hedged items	(6)	(8)	(14)	4	(9)	(5)

Cash flow hedges

All of the Company's commodity contracts and certain foreign currency forward contracts have been designated as cash flow hedges, for which the effective portion of the gain or loss is reported as a component of Other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings.

Activity related to cash flow hedges recorded during the three-month periods ended June 30, 2011 and 2010 was as follows:

	2011			2010		
	Foreign Currency Contracts	Commodity Contracts	Total	Foreign Currency Contracts	Commodity Contracts	Total
Notional Value at June 30,	$350	$30	$380	$219	$17	$236
Gain (loss) recognized in OCI	(4)	(2)	(6)	¾	(1)	(1)
Gain (loss) reclassified into Cost of sales	(4)	2	(2)	2	(1)	1

Activity related to cash flow hedges recorded during the six-month periods ended June 30, 2011 and 2010 was as follows:

	2011			2010		
	Foreign Currency Contracts	Commodity Contracts	Total	Foreign Currency Contracts	Commodity Contracts	Total
Notional Value at June 30,	$350	$30	$380	$219	$17	$236
Gain (loss) recognized in OCI	(7)	¾	(7)	1	(3)	(2)
Gain (loss) reclassified into Cost of sales	(8)	5	(3)	3	(1)	2

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

The net gain (loss) recognized in OCI for both foreign currency contracts and commodity contracts is expected to be recognized in Cost of sales within the next twelve months.

Net investment hedges

The Company has designated certain foreign currency forward and option contracts and certain foreign currency-denominated debt as net investment hedges, for which the gain or loss on the instrument is reported as a component of Currency translation adjustments within OCI, along with the offsetting gain or loss on the hedged items.

Activity related to net investment hedges recorded during the three-month periods ended June 30, 2011 and 2010 was as follows:

	2011			2010		
	Foreign Currency Contracts	Foreign Currency Debt	Total	Foreign Currency Contracts	Foreign Currency Debt	Total
Notional Value at June 30,	$88	$333	$421	$123	$337	$460
Gain (loss) on instruments	(3)	(19)	(22)	5	16	21
Gain (loss) on hedged items	3	19	22	(5)	(16)	(21)

Activity related to net investment hedges recorded during the six-month periods ended June 30, 2011 and 2010 was as follows:

	2011			2010		
	Foreign Currency Contracts	Foreign Currency Debt	Total	Foreign Currency Contracts	Foreign Currency Debt	Total
Notional Value at June 30,	$88	$333	$421	$123	$337	$460
Gain (loss) on instruments	(10)	(33)	(43)	4	34	38
Gain (loss) on hedged items	10	33	43	(4)	(34)	(38)

Derivatives Not Designated as Hedging Instruments

Derivatives not designated as hedging instruments for each period consist of a cross-currency swap which serves as an economic hedge of a foreign currency deposit, for which the gain or loss on the instrument and the offsetting gain or loss on the hedged item are recognized in Other (income) expense, net for each period. The cross-currency swap outstanding at December 31, 2010 was settled during the quarter, resulting in a realized loss of $6 which was offset by a corresponding gain on an underlying deposit. A new cross-currency swap with similar terms and an underlying foreign currency deposit was entered into during June 2011.

Activity related to these contracts during the three-month periods ended June 30, 2011 and 2010 was as follows:

	2011 Cross-currency Swap	2010 Cross-currency Swap
Notional Value at June 30,	$ 96	$ 90
Gain (loss) on instrument	¾	¾
Gain (loss) on hedged item	¾	¾

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Activity related to these contracts during the six-month periods ended June 30, 2011 and 2010 was as follows:

	2011 Cross-currency Swap	2010 Cross-currency Swap
Notional Value at June 30,	$ 96	$ 90
Gain (loss) on instrument	(4)	6
Gain (loss) on hedged item	4	(6)

Other Financial Instruments

Marketable securities consist of bank deposits with original maturities greater than 90 days (Level 1 valuation).

Available-for-sale securities consist of the fixed income investments discussed below.

In 2010, the Company invested in a portfolio of euro-denominated investment grade fixed income securities, including corporate bonds, with maturities generally ranging from one to three years. During the second quarter of 2011, the Company liquidated the investment portfolio as part of the cash management strategy to fund the acquisition of the Sanex business. The portfolio was considered a Level 1 investment as all of the securities had quoted prices on an active exchange with daily liquidity. At December 31, 2010, the portfolio's fair value was $132 and was reported in Other assets in the Condensed Consolidated Balance Sheet.

Through its subsidiary in Venezuela, the Company is also invested in U.S. dollar-linked, devaluation-protected bonds issued by the Venezuelan government. As of December 31, 2010, these bonds were considered Level 3 as there was no trading activity in the market at the end of 2010 and their value was determined using unobservable inputs reflecting the Company's own assumptions. As of June 30, 2011, these bonds are actively traded and, therefore, are considered Level 2 as their value is determined based upon observable market-based inputs or unobservable inputs that are corroborated by market data.

The following table presents a reconciliation of the Venezuelan investments at fair value for the six months ended June 30:

	2011	2010
Beginning balance as of January 1	$ 96	$ 46
Unrealized gain (loss) on investment	62	(16)
Purchases and sales during the period	71	¾
Ending balance as of June 30	$ 229	$ 30

As a result of the Venezuelan government's elimination of the two-tier exchange rate structure effective January 1, 2011, these bonds have revalued and, based on recent market activity, the Company recorded an unrealized gain of $62 in the first quarter of 2011. For further information regarding Venezuela, refer to Note 12 below.

COLGATE-PALMOLIVE COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

12. Venezuela

Effective January 1, 2010, Venezuela was designated as hyperinflationary and therefore the functional currency for the Company's Venezuelan subsidiary (CP Venezuela) became the U.S. dollar. As a result, the impact of Venezuelan currency fluctuations is reported in income. The change in the reporting currency from the Venezuelan bolivar fuerte to the U.S. dollar resulted in a one-time charge of $271 recorded within Other (income) expense, net in the first quarter of 2010. This charge primarily represented the premium paid to acquire U.S. dollar-denominated cash ($150) and bonds ($152) at the parallel market rate, offset by $31 for U.S. dollar-denominated payables. Previously these items had been remeasured at the parallel market rate and then translated for financial reporting purposes at the official rate of 2.15.

On January 8, 2010, the Venezuelan government announced its decision to devalue its currency and implement a two-tier exchange rate structure. As a result, the official exchange rate changed from 2.15 to 2.60 for essential goods and 4.30 for non-essential goods. The devaluation resulted in a one-time pretax gain of $46 recorded in Other (income) expense and an aftertax gain of $59 in the first quarter of 2010 related to the remeasurement of the local balance sheet and lower taxes on accrued but unpaid remittances from Venezuela. In December 2010, the Venezuelan government announced that effective January 1, 2011 the 2.60 exchange rate for essential goods would be abolished. As a result, CP Venezuela incurred an aftertax loss of $36 in the fourth quarter of 2010 related to the remeasurement of certain local balance sheet items for which the 2.60 exchange rate will no longer be received. This loss was offset by lower taxes on accrued but unpaid remittances.

The Company remeasures the financial statements of CP Venezuela at the rate at which it expects to remit future dividends, which currently is 4.30. As a result of the devaluations of the Venezuelan bolivar fuerte, the local currency operations of CP Venezuela now translate into fewer U.S. dollars.

For the six months ended June 30, 2011, CP Venezuela represented 5% of the Company's consolidated Net sales. At June 30, 2011, CP Venezuela's bolivar fuerte-denominated monetary net asset position was approximately $207, which does not include $229 of devaluation-protected bonds issued by the Venezuelan government, as these bonds provide protection against devaluations by adjusting the amount of bolivares fuertes received at maturity for any devaluation subsequent to issuance. As described in Note 11, these bonds are considered a Level 2 investment.

COLGATE-PALMOLIVE COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in Millions Except Share and Per Share Amounts)

Executive Overview and Outlook

Colgate-Palmolive Company seeks to deliver strong, consistent business results and superior shareholder returns by providing consumers on a global basis with products that make their lives healthier and more enjoyable.

To this end, the Company is tightly focused on two product segments: Oral, Personal and Home Care; and Pet Nutrition. Within these segments, the Company follows a closely defined business strategy to develop and increase market leadership positions in key product categories. These product categories are prioritized based on their capacity to maximize the use of the organization's core competencies and strong global equities and to deliver sustainable long-term growth.

Operationally, the Company is organized along geographic lines with management teams having responsibility for the business and financial results in each region. The Company competes in more than 200 countries and territories worldwide with established businesses in all regions contributing to the Company's sales and profitability. This geographic diversity and balance help to reduce the Company's exposure to business and other risks in any one country or part of the world.

The Oral, Personal and Home Care segment is operated through four reportable operating segments: North America, Latin America, Europe/South Pacific and Greater Asia/Africa, all of which sell to a variety of retail and wholesale customers and distributors. The Company, through Hill's Pet Nutrition, also competes on a worldwide basis in the pet nutrition market, selling its products principally through specialty pet retailers and the veterinary profession.

On an ongoing basis, management focuses on a variety of key indicators to monitor business health and performance. These indicators include market share, sales (including volume, pricing and foreign exchange components), organic sales growth (Net sales growth excluding the impact of foreign exchange, acquisitions and divestments), gross profit margin, operating profit, net income and earnings per share, as well as measures used to optimize the management of working capital, capital expenditures, cash flow and return on capital. The monitoring of these indicators, and the Company's corporate governance practices (including the Company's Code of Conduct), help to maintain business health and strong internal controls.

To achieve its business and financial objectives, the Company focuses the organization on initiatives to drive and fund growth. The Company seeks to capture significant opportunities for growth by identifying and meeting consumer needs within its core categories, through its focus on innovation and the deployment of valuable consumer and shopper insights in the development of successful new products regionally, which are then rolled out on a global basis. To enhance these efforts, the Company has developed key initiatives to build strong relationships with consumers, dental and veterinary professionals and retail customers. Growth opportunities are greater in those areas of the world in which economic development and rising consumer incomes expand the size and number of markets for the Company's products.

The investments needed to support this growth are developed through continuous, Company-wide initiatives to lower costs and increase effective asset utilization through which the Company seeks to become even more effective and efficient throughout its businesses, which are referred to as the Company's funding-the-growth initiatives. The

Company also continues to prioritize its investments toward its higher margin businesses, specifically Oral Care, Personal Care and Pet Nutrition.

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 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.

Also in connection with the Sanex acquisition, Colgate agreed to sell its laundry detergent brands in Colombia to Unilever for approximately $215 resulting in an aftertax gain of approximately $130. The detergent sale recently received regulatory approval and is expected to close on or about July 29, 2011. The Company now expects that this gain will be fully offset in the second half of 2011 as a result of the implementation of various business realignment and cost saving initiatives, further driving improvements in effectiveness and efficiency globally.

COLGATE-PALMOLIVE COMPANY

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in Millions Except Share and Per Share Amounts)

With over 75% of its Net sales generated outside of the United States, the Company is exposed to changes in economic conditions and foreign currency exchange rates, as well as political uncertainty in some countries, all of which could impact future operating results. For example, as discussed in detail below, the operating environment in Venezuela is challenging, with economic uncertainty fueled by currency devaluations and high inflation and governmental restrictions in the form of import authorization controls, currency exchange controls, price controls and periodic expropriation of property or other resources in non-consumer product industries.

In particular, as a result of the devaluations of the Venezuelan bolivar fuerte, described more fully in Note 12 "Venezuela" to the Condensed Consolidated Financial Statements, the local currency operations of the Company's Venezuelan subsidiary (CP Venezuela) now translate into fewer U.S. dollars. The Company has taken, and continues to take, actions to mitigate the impact of both devaluations on its operations.

Additionally, the Venezuelan government continues to impose import authorization controls and currency exchange and payment controls. During 2010, a new currency market was established and the government closed the free-floating parallel market. Under existing regulations, CP Venezuela is not permitted to access the new currency market, but continues to have limited access to U.S. dollars at the official rate, and currently only for imported goods. As a result, CP Venezuela funds its requirements for imported goods through a combination of U.S. dollars obtained from the government at the official rate, intercompany borrowings and existing U.S. dollar cash balances, which were obtained previously through parallel market transactions and through the prior liquidation of its U.S. dollar-denominated bond portfolio.

The Company's business in Venezuela and the Company's ability to repatriate its earnings continue to be negatively affected by these difficult conditions and would be further negatively affected by additional devaluations or the imposition of additional import authorization controls and currency exchange controls. For the six months ended June 30, 2011, CP Venezuela represented 5% of the Company's consolidated Net sales. At June 30, 2011, CP Venezuela's monetary local currency net asset position was approximately $207.

Looking forward, we expect global macroeconomic and market conditions to remain highly challenging. While the global marketplace in which we operate has always been highly competitive, the Company continues to experience heightened competitive activity in certain markets