COLGATE PALMOLIVE CO
Form 10-Q
October 25, 2012

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 September 30, 2012

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 ¨

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 x	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	472,481,714	September 30, 2012

PART I. FINANCIAL INFORMATION

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net sales	$4,332	$4,383	$12,799	$12,562
Cost of sales	1,803	1,921	5,372	5,365
Gross profit	2,529	2,462	7,427	7,197
Selling, general and administrative expenses	1,501	1,489	4,443	4,314
Other (income) expense, net	1	(62)	37	(35)
Operating profit	1,027	1,035	2,947	2,918
Interest expense, net	4	10	20	37
Income before income taxes	1,023	1,025	2,927	2,881
Provision for income taxes	326	349	932	952
Net income including noncontrolling interests	697	676	1,995	1,929
Less: Net income attributable to noncontrolling interests	43	33	121	88
Net income attributable to Colgate-Palmolive Company	$654	$643	$1,874	$1,841
Earnings per common share, basic	$1.38	$1.32	$3.93	$3.76
Earnings per common share, diluted	$1.36	$1.31	$3.89	$3.73
Dividends declared per common share	$0.62	$0.58	$1.82	$1.69

See Notes to Condensed Consolidated Financial Statements.

COLGATE-PALMOLIVE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in Millions)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income including noncontrolling interests	$697	$676	$1,995	$1,929
Other comprehensive income, net of tax				
Cumulative translation adjustments	89	(483)	(23)	(186)
Retirement Plan and other retiree benefit adjustments	25	29	35	57
Gains (losses) on available-for-sale securities	(5)	(2)	9	46
Unrealized gains (losses) on cash flow hedges	(2)	—	3	(4)
Total Other comprehensive income, net of tax	107	(456)	24	(87)
Total Comprehensive income including noncontrolling interests	804	220	2,019	1,842
Less: Net income attributable to noncontrolling interests	43	33	121	88
Less: Cumulative translation adjustments attributable to noncontrolling interests	8	(5)	4	(3)
Total Comprehensive income attributable to noncontrolling interests	51	28	125	85
Total Comprehensive income attributable to Colgate-Palmolive Company	$753	$192	$1,894	$1,757

See Notes to Condensed Consolidated Financial Statements.

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

	September 30, 2012	December 31, 2011
Assets		
Current Assets		
Cash and cash equivalents	$909	$878
Receivables (net of allowances of $56 and $49, respectively)	1,857	1,675
Inventories	1,384	1,327
Other current assets	611	522
Total current assets	4,761	4,402
Property, plant and equipment:		
Cost	7,587	7,324
Less: Accumulated depreciation	(3,902)	(3,656)
	3,685	3,668
Goodwill, net	2,634	2,657
Other intangible assets, net	1,322	1,341
Deferred income taxes	82	115
Other assets	940	541
Total assets	$13,424	$12,724
Liabilities and Shareholders’ Equity		
Current Liabilities		
Notes and loans payable	$53	$34
Current portion of long-term debt	250	346
Accounts payable	1,181	1,244
Accrued income taxes	288	392
Other accruals	1,928	1,700
Total current liabilities	3,700	3,716
Long-term debt	4,943	4,430
Deferred income taxes	327	252
Other liabilities	1,757	1,785
Shareholders’ Equity		
Common stock	733	733
Additional paid-in capital	1,444	1,336
Retained earnings	16,654	15,649
Accumulated other comprehensive income (loss)	(2,455)	(2,475)
Unearned compensation	(39)	(60)
Treasury stock, at cost	(13,830)	(12,808)
Total Colgate-Palmolive Company shareholders’ equity	2,507	2,375
Noncontrolling interests	190	166
Total shareholders’ equity	2,697	2,541
Total liabilities and shareholders’ equity	$13,424	$12,724

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,	
	2012	2011
Operating Activities		
Net income including noncontrolling interests	$1,995	$1,929
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operations:		
Depreciation and amortization	317	315
Business realignment and other cost-saving initiatives	(35)	130
Gain before tax on sales of non-core product lines	—	(207)
Voluntary benefit plan contributions	(101)	(178)
Stock-based compensation expense	98	102
Deferred income taxes	71	134
Cash effects of changes in:		
Receivables	(166)	(127)
Inventories	(48)	(147)
Accounts payable and other accruals	(27)	62
Other non-current assets and liabilities	29	44
Net cash provided by operations	2,133	2,057
Investing Activities		
Capital expenditures	(317)	(324)
Sale of property and non-core product lines	38	241
Purchases of marketable securities and investments	(501)	(108)
Proceeds from sale of marketable securities and investments	120	173
Payment for acquisitions, net of cash acquired	(29)	(972)
Other	65	(8)
Net cash used in investing activities	(624)	(998)
Financing Activities		
Principal payments on debt	(3,684)	(2,720)
Proceeds from issuance of debt	4,131	4,074
Dividends paid	(951)	(850)
Purchases of treasury shares	(1,344)	(1,386)
Proceeds from exercise of stock options and excess tax benefits	390	316
Net cash provided by (used in) financing activities	(1,458)	(566)
Effect of exchange rate changes on Cash and cash equivalents	(20)	(38)
Net increase (decrease) in Cash and cash equivalents	31	455
Cash and cash equivalents at beginning of the period	878	490
Cash and cash equivalents at end of the period	$909	$945
Supplemental Cash Flow Information		
Income taxes paid	$949	$769

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, 2011, 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. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, "Presentation of Comprehensive Income." ASU No. 2011-05 eliminates the option to disclose other comprehensive income and its components in the statement of changes in equity. As permitted under ASU No. 2011-05, the Company elected to present items of net income and other comprehensive income in two separate consecutive statements beginning in the first quarter of 2012.

4. 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 €676 ($966). 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.

Total purchase price consideration of $966 has been allocated to the net assets acquired based on their respective fair values at June 20, 2011, as follows:

Recognized amounts of assets acquired and liabilities assumed:	
Inventories	$26
Property, plant and equipment, net	3
Other intangible assets, net	596
Goodwill, net	411
Accrued income taxes	(48)
Long-term deferred income taxes	(18)
Long-term other liabilities	(4)
Fair value of net assets acquired	$966

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COLGATE-PALMOLIVE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Other intangible assets acquired include trademarks of $403 with an indefinite useful life and customer relationships of $193 with useful lives ranging from 15 to 18 years.

Goodwill of $411 was allocated between the Europe/South Pacific segment (90%) and the Greater Asia/Africa segment (10%). The Company expects that substantially all of the goodwill will be deductible for tax purposes. Pro forma results of operations have not been presented, as the impact on the Company’s consolidated financial statements is not material. For the nine months ended September 30, 2011, Other (income) expense, net included $12 in transaction costs related to the acquisition, of which $2 related to the third quarter.

Sale of Detergent Business in Colombia

In connection with the Sanex acquisition, Colgate sold its non-core laundry detergent business 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 of 2011. These operations were not material to the Company’s Net sales, Net income or Earnings per share.

Sale of Land in Mexico

On September 13, 2011, the Company’s Mexican subsidiary entered into an agreement to sell to the United States of America 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. During the third quarter of 2012, the Company received the second installment of $36. The Company is re-investing 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, the Company expects to make capital improvements and incur costs to exit the site through 2014. These exit costs will primarily be related to staff leaving indemnities, accelerated depreciation and demolition to make the site building-ready. In 2011, the Company recorded $13 of pretax costs ($9 of aftertax costs) related to the sale, of which $7 of pretax costs ($5 of aftertax costs) related to the third quarter. During the nine months ended September 30, 2012, the Company incurred an additional $20 of pretax costs ($15 of aftertax costs) related to the sale, of which $7 of pretax costs ($5 of aftertax costs) related to the third quarter.

5. Inventories

Inventories by major class are as follows:

	September 30, 2012	December 31, 2011
Raw materials and supplies	$341	$319
Work-in-process	63	54
Finished goods	980	954
Total Inventories	$1,384	$1,327

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

6. Shareholders' Equity

Changes in the components of Shareholders' Equity for the nine months ended September 30, 2012 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, 2011	$733	$1,336	$(60)	$(12,808)	$15,649	$(2,475)	$166
Net income					1,874		121
Other comprehensive income, net of tax						20	4
Dividends					(869)		(82)
Stock-based compensation expense		98					
Shares issued for stock options		73		257			
Shares issued for restricted stock awards		(69)		69			
Treasury stock acquired				(1,344)			
Other		6	21	(4)			(19)
Balance, September 30, 2012	$733	$1,444	$(39)	$(13,830)	$16,654	$(2,455)	$190

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.

7. Earnings Per Share

	Three Months Ended					
	September 30, 2012			September 30, 2011		
	Income	Shares (millions)	Per Share	Income	Shares (millions)	Per Share
Net income attributable to Colgate-Palmolive Company	$654			$643		
Basic EPS	654	474.9	$1.38	643	486.7	$1.32
Stock options and restricted stock		4.3			3.8	
Diluted EPS	$654	479.2	$1.36	$643	490.5	$1.31

For the three months ended September 30, 2012 and 2011, the average number of stock options that were anti-dilutive and not included in diluted earnings per share calculations were 607,263 and 1,202,090, respectively.

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

	Nine Months Ended September 30, 2012			September 30, 2011		
	Income	Shares (millions)	Per Share	Income	Shares (millions)	Per Share
Net income attributable to Colgate-Palmolive Company	$1,874			$1,841		
Basic EPS	1,874	477.4	$3.93	1,841	489.9	$3.76
Stock options and restricted stock		4.1			3.5	
Diluted EPS	$1,874	481.5	$3.89	$1,841	493.4	$3.73

For the nine months ended September 30, 2012 and 2011, the average number of stock options that were anti-dilutive and not included in diluted earnings per share calculations were 629,944 and 422,263, respectively.

8. Retirement Plans and Other Retiree Benefits

Components of net periodic benefit cost for the three and nine months ended September 30, 2012 and 2011 were as follows:

	Pension Benefits				Other Retiree Benefits	
	United States		International			
	Three Months Ended September 30,					
	2012	2011	2012	2011	2012	2011
Service cost	$4	$5	$6	$6	$2	$2
Interest cost	24	24	9	9	9	8
Annual ESOP allocation	—	—	—	—	—	—
Expected return on plan assets	(28)	(27)	(7)	(7)	(1)	(1)
Amortization of transition and prior service costs (credits)	2	2	1	—	—	—
Amortization of actuarial loss	17	12	2	2	5	3
Net periodic benefit cost	$19	$16	$11	$10	$15	$12

	Pension Benefits				Other Retiree Benefits	
	United States		International			
	Nine Months Ended September 30,					
	2012	2011	2012	2011	2012	2011
Service cost	$18	$18	$17	$16	$8	$8
Interest cost	73	75	26	28	30	29
Annual ESOP allocation	—	—	—	—	(1)	(1)
Expected return on plan assets	(84)	(83)	(19)	(21)	(2)	(2)
Amortization of transition and prior service costs (credits)	7	7	1	2	2	3
Amortization of actuarial loss	46	35	7	7	13	12
Net periodic benefit cost	$60	$52	$32	$32	$50	$49

For the nine months ended September 30, 2012 and 2011, the Company made voluntary contributions of $101 and $178, respectively, to its U.S. postretirement plans.

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

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, all U.S. federal income tax returns through December 31, 2007 have been audited by the IRS and there are limited matters in administrative appeals for years 2002 through 2007, the settlement of which is not expected to have a material adverse effect on the Company’s results of operations, cash flows or financial condition. With a few exceptions, the Company is no longer subject to U.S., state and local income tax examinations for the years prior to 2007. In addition, the Company has subsidiaries in various foreign jurisdictions that have statutes of limitations for tax audits generally ranging from three to six years. 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.

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 $225 (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 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.

COLGATE-PALMOLIVE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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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 $131. 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 clarification with a special appeals chamber of the 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 $78, 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, and in January 2012, a special appeals chamber of the Taxpayers’ Council denied the Company’s appeal. The Company plans to appeal this decision. 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, if not at the administrative level, in the Brazilian federal courts. The Company intends to challenge this assessment vigorously.

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 substantially all of these investigations also involve other consumer goods companies and/or retail customers. The status of the various pending matters is discussed below.

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Fines have been imposed on the Company in the following matters, although, as noted below, the Company is appealing each of these fines:

In December 2009, the Swiss competition law authority imposed a fine of $6 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.

In December 2011, the French competition law authority found that four consumer goods companies had entered into agreements on pricing and promotion of heavy duty detergents for which Colgate’s French subsidiary was fined $46 in connection with a divested business. The Company is appealing the fine in the French courts.

In March 2012, the French competition law authority found that three pet food producers, including the Company’s Hill’s France subsidiary, had violated the competition law, for which it imposed a fine of $6 on the Company’s Hill’s France subsidiary for alleged restrictions on exports from France. The Company is appealing the fine in the French courts.

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

The German competition law authority has alleged that 17 branded goods companies, including the Company’s German subsidiary, exchanged sensitive information related to the German market. The Company has responded to this formal claim of violations.

The Belgian competition law authority has alleged that 11 branded goods companies, including the Company’s Belgian subsidiary, assisted retailers to coordinate their retail prices on the Belgian market. The Company is in the process of responding to this statement of objections.

Investigations are ongoing in France and Greece, but no formal claims of violations have been filed in these jurisdictions except in the two French matters noted above.

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. 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.

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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 costs 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.

Net sales and Operating profit by segment were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net sales				
Oral, Personal and Home Care				
North America	$797	$776	$2,310	$2,238
Latin America	1,245	1,243	3,684	3,571
Europe/South Pacific	865	972	2,569	2,661
Greater Asia/Africa	897	855	2,635	2,484
Total Oral, Personal and Home Care	3,804	3,846	11,198	10,954
Pet Nutrition	528	537	1,601	1,608
Total Net sales	$4,332	$4,383	$12,799	$12,562
Operating profit				
Oral, Personal and Home Care				
North America	$219	$213	$598	$599
Latin America	371	364	1,082	1,050
Europe/South Pacific	198	196	560	551
Greater Asia/Africa	231	202	671	604
Total Oral, Personal and Home Care	1,019	975	2,911	2,804
Pet Nutrition	147	127	440	408

Corporate	(139)	(67)	(404)	(294)
Total Operating profit	$1,027	$1,035	$2,947	$2,918

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For the nine months ended September 30, 2012, Corporate Operating profit (loss) includes costs of $21 associated with the business realignment and other cost-saving initiatives and costs of $20 related to the sale of land in Mexico. For the three months ended September 30, 2012, Corporate Operating profit (loss) includes costs of $3 associated with the business realignment and other cost-saving initiatives and costs of $7 related to the sale of land in Mexico. For the three and nine months ended September 30, 2011, Corporate Operating profit (loss) included a gain on the sale of the non-core laundry detergent business in Colombia of $207, costs of $168 associated with the business realignment and other cost-saving initiatives and costs of $7 related to the sale of land in Mexico. The business realignment and other cost-saving initiatives include the integration of Sanex, the right-sizing of the Colombia business and the closing of an oral care facility in Mississauga, Canada and a Hill's facility in Los Angeles, California. For further information regarding the Sanex acquisition, the sale of the non-core laundry detergent business in Colombia and the sale of land in Mexico, refer to Note 4.

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, 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 arising 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 twelve months.

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The following summarizes the fair value of the Company's derivative instruments and other financial instruments at September 30, 2012 and December 31, 2011:

	Assets			Liabilities		
	Account	Fair Value		Account	Fair Value	
Designated derivative instruments		9/30/12	12/31/11		9/30/12	12/31/11
Interest rate swap contracts	Other current assets	$5	$2	Other accruals	$—	$—
Interest rate swap contracts	Other assets	45	40	Other liabilities	—	2
Foreign currency contracts	Other current assets	4	8	Other accruals	9	6
Foreign currency contracts	Other assets	28	28	Other liabilities	—	—
Commodity contracts	Other current assets	5	—	Other accruals	—	1
Total designated		$87	$78		$9	$9
Derivatives not designated						
Foreign currency contracts	Other assets	$—	$3	Other liabilities	$1	$—
Total not designated		$—	$3		$1	$—
Total derivative instruments		$87	$81		$10	$9
Other financial instruments						
Marketable securities	Other current assets	$81	$72			
Available-for-sale securities	Other assets	623	236			
Total other financial instruments		$704	$308			

The carrying amount of cash, cash equivalents, accounts receivable and short-term debt approximated fair value as of September 30, 2012 and December 31, 2011. The estimated fair value of the Company's long-term debt, including the current portion, as of September 30, 2012 and December 31, 2011, was $5,635 and $5,121, respectively, and the related carrying value was $5,193 and $4,776, 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).

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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.

Activity related to fair value hedges recorded during the three-month and nine-month periods ended September 30, 2012 and 2011 was as follows:

	2012			2011		
	Foreign Currency Contracts	Interest Rate Swaps	Total	Foreign Currency Contracts	Interest Rate Swaps	Total
Notional Value at September 30,	$944	$1,338	$2,282	$619	$1,288	$1,907
Three-months ended September 30:						
Gain (loss) on derivative	(8)	5	(3)	—	22	22
Gain (loss) on hedged items	8	(5)	3	—	(22)	(22)
Nine-months ended September 30:						