

COLGATE PALMOLIVE CO  
Form 10-K  
February 19, 2015

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

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

For the fiscal year ended December 31, 2014

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

(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)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
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Common Stock, \$1.00 par value	New York Stock Exchange
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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
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Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

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The aggregate market value of Colgate-Palmolive Company Common Stock held by non-affiliates as of June 30, 2014 (the last business day of its most recently completed second quarter) was approximately \$62.1 billion.

There were 907,081,762 shares of Colgate-Palmolive Company Common Stock outstanding as of January 31, 2015.

DOCUMENTS INCORPORATED BY REFERENCE:

Documents

Form 10-K Reference

Portions of Proxy Statement for the 2015 Annual Meeting of  
Stockholders

Part III, Items 10 through 14

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## PART I

### ITEM 1. BUSINESS

#### (a) General Development of the Business

Colgate-Palmolive Company (together with its subsidiaries, the “Company” or “Colgate”) is a leading consumer products company whose products are marketed in over 200 countries and territories throughout the world. Colgate was founded in 1806 and incorporated under the laws of the State of Delaware in 1923.

For recent business developments and other information, refer to the information set forth under the captions “Executive Overview and Outlook,” “Results of Operations,” “Restructuring and Related Implementation Charges” and “Liquidity and Capital Resources” in Part II, Item 7 of this report.

#### (b) Financial Information about Segments

Worldwide Net sales and Operating profit by business segment and geographic region during the last three years appear under the caption “Results of Operations” in Part II, Item 7 of this report and in Note 15, Segment Information to the Consolidated Financial Statements.

#### (c) Narrative Description of the Business

The Company operates in two product segments: Oral, Personal and Home Care; and Pet Nutrition. Colgate is a global leader in Oral Care with the leading toothpaste and manual toothbrush brands throughout many parts of the world according to market share data. Colgate’s Oral Care products include Colgate Total, Colgate Sensitive Pro-Relief, Colgate Max Fresh, Colgate Optic White and Colgate Luminous White toothpastes, Colgate 360° and Colgate Slim Soft manual toothbrushes and Colgate Optic White, Colgate Total and Colgate Plax mouthwash. Colgate’s Oral Care business also includes pharmaceutical products for dentists and other oral health professionals.

Colgate is a leader in many product categories of the Personal Care market with global leadership in liquid hand soap, which it sells under the Palmolive, Protex and Softsoap brands. Colgate’s Personal Care products also include Palmolive, Sanex and Softsoap brand shower gels, Palmolive, Irish Spring and Protex bar soaps and Speed Stick, Lady Speed Stick and Sanex deodorants and antiperspirants. Colgate is the market leader in liquid hand soap in the U.S. with its line of Softsoap brand products according to market share data. Colgate’s Personal Care business outside the U.S. also includes Palmolive and Caprice shampoos and conditioners.

Colgate manufactures and markets a wide array of products for the Home Care market, including Palmolive and Ajax dishwashing liquids, Fabuloso and Ajax household cleaners and Murphy’s Oil Soap. Colgate is a market leader in fabric softeners with leading brands including Suavitel in Latin America and Soupline in Europe. Colgate is a market leader in fabric softeners in the South Pacific according to market share data.

Sales of Oral, Personal and Home Care products accounted for 46%, 21% and 20%, respectively, of the Company’s total worldwide Net sales in 2014. Geographically, Oral Care is a significant part of the Company’s business in Asia, comprising approximately 86% of Net sales in that region for 2014.

Colgate, through its Hill's Pet Nutrition segment ("Hill's"), is a world leader in specialty pet nutrition products for dogs and cats with products marketed in over 95 countries worldwide. Hill's markets pet foods primarily under three trademarks: Hill's Science Diet, which is sold by authorized pet supply retailers and veterinarians for everyday nutritional needs; Hill's Prescription Diet, a range of therapeutic products sold by veterinarians and authorized pet supply retailers to help nutritionally manage disease conditions in dogs and cats; and Hill's Ideal Balance, a range of products with natural ingredients, sold by authorized pet supply retailers and veterinarians. Sales of Pet Nutrition products accounted for 13% of the Company's total worldwide Net sales in 2014.

For more information regarding the Company's worldwide Net sales by product category, refer to Note 1, Nature of Operations and Note 15, Segment Information to the Consolidated Financial Statements.

For additional information regarding market share data, see "Market Share Information" in Part II, Item 7 of this report.

#### Research and Development

Strong research and development capabilities and alliances enable Colgate to support its many brands with technologically sophisticated products to meet consumers' oral, personal and home care and pet nutrition needs. The Company's spending related to research and development activities was \$277 million in 2014, \$267 million in 2013 and \$259 million in 2012.

#### Distribution; Raw Materials; Competition; Trademarks and Patents

The Company's products are marketed by a direct sales force at individual operating subsidiaries or business units and by distributors or brokers. No single customer accounts for 10% or more of the Company's sales.

The majority of raw and packaging materials are purchased from other companies and are available from several sources. No single raw or packaging material represents, and no single supplier provides, a significant portion of the Company's total material requirements. For certain materials, however, new suppliers may have to be qualified under industry, governmental and Colgate standards, which can require additional investment and take some period of time. Raw and packaging material commodities such as resins, pulp, essential oils, tropical oils, tallow, poultry, corn and soybeans are subject to market price variations.

The Company's products are sold in a highly competitive global marketplace which has experienced increased trade concentration and the growing presence of large-format retailers and discounters. Products similar to those produced and sold by the Company are available from multinational and local competitors in the U.S. and overseas. Certain of the Company's competitors are larger and have greater resources than the Company. In addition, private label brands sold by retail trade chains are a source of competition for certain of the Company's product lines. Product quality, innovation, brand recognition, marketing capability and acceptance of new products largely determine success in the Company's operating segments.

Trademarks are considered to be of material importance to the Company's business. The Company follows a practice of seeking trademark protection in the U.S. and throughout the world where the Company's products are sold. Principal global and regional trademarks include Colgate, Palmolive, Speed Stick, Lady Speed Stick, Softsoap, Irish Spring, Protex, Sorriso, Kolynos, elmex, Tom's of Maine, Sanex, Ajax, Axion, Fabuloso, Soupline and Suavitel, as well as Hill's Science Diet, Hill's Prescription Diet and Hill's Ideal Balance. The Company's rights in these trademarks endure for as long as they are used and/or registered. Although the Company actively develops and maintains a portfolio of patents, no single patent is considered significant to the business as a whole.

#### Environmental Matters

The Company has programs that are designed to ensure that its operations and facilities meet or exceed standards established by applicable environmental rules and regulations. Capital expenditures for environmental control facilities totaled \$41 million for 2014. For future years, expenditures are currently expected to be of a similar magnitude. For additional information regarding environmental matters refer to Note 13, Commitments and Contingencies to the Consolidated Financial Statements.

## Employees

As of December 31, 2014, the Company employed approximately 37,700 employees.

## Executive Officers of the Registrant

The following is a list of executive officers as of February 19, 2015:

Name	Age	Date First Elected Officer	Present Title
Ian Cook	62	1996	Chairman of the Board President and Chief Executive Officer
Fabian T. Garcia	55	2003	Chief Operating Officer Global Innovation and Growth, Europe/South Pacific and Hill's Pet Nutrition
Franck J. Moison	61	2002	Chief Operating Officer Emerging Markets and Business Development
Dennis J. Hickey	66	1998	Chief Financial Officer
Andrew D. Hendry	67	1991	Vice Chairman
Jennifer M. Daniels	51	2014	Chief Legal Officer and Secretary
Victoria L. Dolan	55	2011	Vice President and Corporate Controller
John J. Huston	60	2002	Senior Vice President Office of the Chairman
Delia H. Thompson	65	2002	Senior Vice President Investor Relations
Daniel B. Marsili	54	2005	Senior Vice President Global Human Resources
P. Justin Skala	55	2008	President Colgate – North America and Global Sustainability
Noel R. Wallace	50	2009	President Colgate – Latin America
Patricia Verduin	55	2011	Chief Technology Officer
Nigel B. Burton	56	2012	Chief Marketing Officer

Each of the executive officers listed above has served the registrant or its subsidiaries in various executive capacities for the past five years with the exception of Jennifer M. Daniels, who joined the Company in 2014 as Chief Legal Officer and Secretary. Ms. Daniels joined the Company from NCR Corporation where she was Senior Vice President, General Counsel and Secretary. Prior to joining NCR Corporation in 2010, Ms. Daniels was Vice President, General Counsel and Secretary of Barnes & Noble, Inc., which she joined in 2007.

Under the Company's By-Laws, the officers of the corporation hold office until their respective successors are chosen and qualified or until they have resigned, retired or been removed by the affirmative vote of a majority of the Board of Directors of the Company (the "Board"). There are no family relationships between any of the executive officers, and there is no arrangement or understanding between any executive officer and any other person pursuant to which the executive officer was elected.

## (d) Financial Information about Geographic Areas

For financial data by geographic region, refer to the information set forth under the caption “Results of Operations” in Part II, Item 7, of this report and in Note 15, Segment Information to the Consolidated Financial Statements. For a discussion of risks associated with our international operations, see Item 1A “Risk Factors.”



(e) Available Information

The Company's web site address is [www.colgatepalmolive.com](http://www.colgatepalmolive.com). The information contained on the Company's web site is not included as a part of, or incorporated by reference into, this Annual Report on Form 10-K. The Company makes available, free of charge, on its web site its annual reports on Form 10-K, its quarterly reports on Form 10-Q, its interactive data files posted pursuant to Rule 405 of Regulation S-T, its current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") as soon as reasonably practicable after the Company has electronically filed such material with, or furnished it to, the United States Securities and Exchange Commission (the "SEC"). Also available on the Company's web site are the Company's Code of Conduct and Corporate Governance Guidelines, the charters of the Committees of the Board, reports under Section 16 of the Exchange Act of transactions in Company stock by directors and officers and its proxy statements.

ITEM 1A. RISK FACTORS

Set forth below is a summary of the material risks to an investment in our securities. These risks are not the only ones we face. Additional risks not presently known to us or that we currently deem immaterial may also have an adverse effect on us. If any of the below risks actually occur, our business, results of operations, cash flows or financial condition could be materially and adversely impacted, which might cause the value of our securities to decline.

We face risks associated with significant international operations, including exposure to foreign currency fluctuations.

We operate on a global basis with approximately 80% of our Net sales originating in markets outside the U.S. While geographic diversity helps to reduce our exposure to risks in any one country or part of the world, it also means that we are subject to the full range of risks associated with significant international operations, including, but not limited to:

changes in exchange rates for foreign currencies, which may reduce the U.S. dollar value of revenues, profits and cash flows we receive from non-U.S. markets or increase our supply costs, as measured in U.S. dollars, in those markets, exchange controls and other limits on our ability to import raw materials or finished product or to repatriate earnings from overseas,

political or economic instability, social or labor unrest or changing macroeconomic conditions in our markets, including as a result of volatile commodity prices, including the price of oil,

lack of well-established or reliable legal systems in certain countries where we operate,

foreign ownership restrictions and the potential for nationalization or expropriation of property or other resources, and other foreign or domestic legal and regulatory requirements, including those resulting in potentially adverse tax consequences or the imposition of onerous trade restrictions, price controls, labor laws, profit controls or other government controls.

These risks could have a significant impact on our ability to sell our products on a competitive basis in international markets and may adversely affect our business, results of operations, cash flows and financial condition.

In an effort to minimize the impact on earnings of foreign currency rate movements, we engage in a combination of selling price increases, where permitted, sourcing strategies, cost-containment measures and selective hedging of foreign currency transactions. However, these measures may not succeed in offsetting any negative impact of foreign currency rate movements on our business and results of operations.

For example, the Company's ability to manage its Venezuelan operations has been and will continue to be negatively impacted by difficult conditions in Venezuela, including the significant devaluations of the Venezuelan bolivar that occurred in 2010 and in February 2013 and the effective devaluations that occurred in 2014 as a result of the introduction of a multi-tier foreign exchange system in 2014. Since April 2012, when price controls affecting most of our Venezuelan subsidiary's ("CP Venezuela") product portfolio became effective, we have not been able to implement price increases without government approval, which has limited our ability to offset the effects of continuing high inflation and the impact of currency devaluations. In addition, labor laws limit our ability to manage overhead costs and, at times, production at CP Venezuela has been negatively impacted by local labor issues. Going forward, additional government actions, including in the form of further currency devaluations or effective devaluations or continued or worsening import authorization controls, foreign exchange, price or profit controls or expropriation or other form of government take-over could have further adverse impacts on our business, results of operations, cash flows and financial condition, as could economic instability resulting from the decline in the price of oil. For additional information regarding these and other risks associated with our operations in Venezuela, refer to Part II, Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations - Executive Overview and Outlook" and Note 14, Venezuela to the Consolidated Financial Statements.

Significant competition in our industry could adversely affect our business.

We face vigorous competition worldwide, including from local competitors and other large, multinational companies, some of which have greater resources than we do. We face this competition in several aspects of our business, including, but not limited to, the pricing of products, promotional activities, new product introductions and expansion into new geographies. Such competition also extends to administrative and legal challenges of product claims and advertising. Our ability to compete also depends on the strength of our brands and on our ability to defend our patent, trademark and trade dress rights against legal challenges brought by competitors.

We may be unable to anticipate the timing and scale of such initiatives or challenges by competitors or to successfully counteract them, which could harm our business. In addition, the cost of responding to such initiatives and challenges, including management time, out-of-pocket expenses and price reductions, may affect our performance in the relevant period. A failure to compete effectively could adversely affect our business, results of operations, cash flows and financial condition.

Our business is subject to legal and regulatory risks in the U.S. and abroad.

Our business is subject to extensive legal and regulatory requirements in the U.S. and abroad. Such legal and regulatory requirements apply to most aspects of our products, including their development, ingredients, manufacture, packaging, labeling, storage, transportation, distribution, export, import, advertising and sale. U.S. federal authorities, including the U.S. Food and Drug Administration (the "FDA"), the Federal Trade Commission, the Consumer Product Safety Commission and the Environmental Protection Agency, regulate different aspects of our business, along with parallel authorities at the state and local levels and comparable authorities overseas. Also, our selling practices are regulated by competition law authorities in the U.S. and abroad.

New or more stringent legal or regulatory requirements, or more restrictive interpretations of existing requirements, could adversely impact our business, results of operations, cash flows and financial condition. For example, from time to time, various regulatory authorities and consumer groups in Europe, the U.S. and other countries request or conduct reviews of the use of various ingredients in consumer products. Triclosan, an ingredient used by us primarily in Colgate Total toothpaste and certain other oral care products, is an example of an ingredient that has undergone reviews by various regulatory authorities worldwide. Triclosan is currently being evaluated under the European Union's Regulation for the Registration, Evaluation, Authorization and Restriction of Chemicals (REACH), which requires the registration of all covered chemicals used in the European Union by 2018. In the U.S., the FDA is

evaluating the use of benzalkonium chloride (an ingredient used in certain of our hand soap products) and triclosan in hand soaps and hand sanitizers. In 2014, a law banning the sale of certain products containing triclosan was passed in Minnesota, but the law does not cover Colgate Total toothpaste. Similar legislation has been proposed in Iowa, New York and Michigan, while legislation seeking to ban the sale of all consumer products containing triclosan has been proposed in Chicago, Illinois. Environment Canada, the federal environmental authority in Canada, is also conducting a review to assess human and environmental risks of triclosan and is expected to issue its final assessment in March 2015. Depending on the findings in the final assessment, it is possible that Environment Canada will issue voluntary or mandatory risk management measures for triclosan. A decision by a regulatory or governmental authority that triclosan, or any other of our ingredients, should not be used in certain consumer products or should otherwise be newly regulated, could adversely impact our business, as could negative reactions by our consumers, trade customers or non-governmental organizations to our use of such ingredients. Additionally, an inability to develop new or reformulated products containing alternative ingredients or to obtain regulatory approval of such products on a timely basis could likewise adversely affect our business.

Because of our extensive international operations, we could be adversely affected by violations of the U.S. Foreign Corrupt Practices Act (the “FCPA”) and similar worldwide anti-bribery laws. The FCPA and similar worldwide anti-bribery laws generally prohibit companies and their intermediaries from making improper payments to government officials or other third parties for the purpose of obtaining or retaining business. While our policies mandate compliance with these anti-bribery laws, we cannot provide assurance that our internal control policies and procedures will always protect us from reckless or criminal acts committed by our employees, joint-venture partners or agents. Violations of these laws, or allegations of such violations, could disrupt our business and adversely affect our reputation and our business, results of operations, cash flows and financial condition.

While it is our policy and practice to comply with all legal and regulatory requirements applicable to our business, a finding that we are in violation of, or out of compliance with, applicable laws or regulations could subject us to civil remedies, including fines, damages, injunctions or product recalls, or criminal sanctions, any of which could adversely affect our business, results of operations, cash flows and financial condition. Even if a claim is unsuccessful, is without merit or is not fully pursued, the negative publicity surrounding such assertions regarding our products, processes or business practices could adversely affect our reputation and brand image. For information regarding our legal and regulatory matters, see Item 3 “Legal Proceedings” and Note 13, Commitments and Contingencies to the Consolidated Financial Statements.

Uncertain global economic conditions and disruptions in the credit markets may adversely affect our business.

Uncertain global economic conditions could adversely affect our business. Recent global economic trends pose challenges to our business and could result in declining revenues, profitability and cash flows. Although we continue to devote significant resources to support our brands, during periods of economic uncertainty consumers may switch to economy brands, which could reduce sales volumes of our products or result in a shift in our product mix from higher margin to lower margin product offerings. Additionally, retailers may increase pressure on our selling prices or increase promotional activity for lower-priced or value offerings as they seek to maintain sales volumes and margins.

While we currently generate significant cash flows from ongoing operations and have access to global credit markets through our various financing activities, a disruption in the credit markets could limit the availability of credit. Recent and proposed changes in the bank regulatory environment could reduce the ability of financial institutions to extend credit or increase the cost we are charged to receive credit. Reduced access to credit or increased costs could adversely affect our liquidity and capital resources or significantly increase our cost of capital. In addition, if any financial institutions that hold our cash or other investments or that are parties to our revolving credit facilities supporting our commercial paper program or other financing arrangements, such as interest rate or foreign exchange hedging instruments, were to declare bankruptcy or become insolvent, they may be unable to perform under their agreements with us. This could leave us with reduced borrowing capaci