

CHURCH & DWIGHT CO INC /DE/
Form 10-Q
May 06, 2008

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

FORM 10-Q

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

For the quarterly period ended March 28, 2008

Commission file number 1-10585

CHURCH & DWIGHT CO., INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

13-4996950
(I.R.S. Employer Identification No.)

469 North Harrison Street, Princeton, N.J. 08543-5297
(Address of principal executive office)

Registrant's telephone number, including area code: (609) 683-5900

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 twelve 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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or smaller reporting company. See 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"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

As of May 1, 2008, there were 66,478,398 shares of Common Stock outstanding.

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PART I - FINANCIAL INFORMATION

ITEM 1: FINANCIAL STATEMENTS

CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

(Dollars in thousands, except per share data)	Three Months Ended	
	March 28, 2008	March 30, 2007
Net Sales	\$ 552,867	\$ 514,335
Cost of sales	328,761	314,459
Gross Profit	224,106	199,876
Marketing expense	53,485	45,852
Selling, general and administrative expenses	77,859	71,881
Income from Operations	92,762	82,143
Equity in earnings of affiliates	2,380	2,260
Investment earnings	2,569	1,633
Other income (expense), net	2,198	(414)
Interest expense	(12,505)	(15,201)
Income before minority interest and income taxes	87,404	70,421
Minority interest	2	(5)
Income before income taxes	87,402	70,426
Income taxes	31,211	25,327
Net Income	\$ 56,191	\$ 45,099
Weighted average shares outstanding - Basic	66,343	65,570
Weighted average shares outstanding - Diluted	70,817	70,024
Net income per share - Basic	\$ 0.85	\$ 0.69
Net income per share - Diluted	\$ 0.81	\$ 0.66
Dividends Per Share	\$ 0.08	\$ 0.07

See Notes to Condensed Consolidated Financial Statements.

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CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 28, 2008	December 31, 2007
(Dollars in thousands, except share and per share data)		
Assets		
Current Assets		
Cash and cash equivalents	\$ 208,062	\$ 249,809
Accounts receivable, less allowances of \$4,512 and \$4,548	243,513	247,898
Inventories	214,966	213,651
Deferred income taxes	13,370	13,508
Note receivable – current	1,324	1,263
Prepaid expenses	11,554	9,224
Total Current Assets	692,789	735,353
Property, Plant and Equipment (Net)	339,808	350,853
Note Receivable	2,342	3,670
Equity Investment in Affiliates	9,563	10,324
Long-term Supply Contracts	2,323	2,519
Tradenames and Other Intangibles	657,464	665,168
Goodwill	688,128	688,842
Other Assets	72,866	75,761
Total Assets	\$ 2,465,283	\$ 2,532,490
Liabilities and Stockholders' Equity		
Current Liabilities		
Short-term borrowings	\$ 15,293	\$ 115,000
Accounts payable and accrued expenses	269,958	303,071
Current portion of long-term debt	39,582	33,706
Income taxes payable	24,561	6,012
Total Current Liabilities	349,394	457,789
Long-term Debt	692,982	707,311
Deferred Income Taxes	161,152	162,746
Other Long Term Liabilities	93,515	87,769
Pension, Postretirement and Postemployment Benefits	34,716	36,416
Minority Interest	196	194
Total Liabilities	1,331,955	1,452,225
Commitments and Contingencies		
Stockholders' Equity		
Preferred Stock-\$1.00 par value		
Authorized 2,500,000 shares, none issued	-	-
Common Stock-\$1.00 par value		
Authorized 150,000,000 shares, issued 69,991,482 shares	69,991	69,991
Additional paid-in capital	127,812	121,902
Retained earnings	942,752	891,868
Accumulated other comprehensive income	33,923	39,128
	1,174,478	1,122,889
Common stock in treasury, at cost:		

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3,579,010 shares in 2008 and 3,747,719 shares in 2007	(41,150)	(42,624)
Total Stockholders' Equity	1,133,328	1,080,265
Total Liabilities and Stockholders' Equity	\$ 2,465,283	\$ 2,532,490

See Notes to Condensed Consolidated Financial Statements.

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CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

(Dollars in thousands)	Three Months Ended	
	March 28, 2008	March 30, 2007
Cash Flow From Operating Activities		
Net Income	\$ 56,191	\$ 45,099
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,212	14,614
Equity in earnings of affiliates	(2,380)	(2,260)
Distributions from unconsolidated affiliates	2,564	1,461
Deferred income taxes	2,103	4,096
Gain on sale of subsidiary	(3,005)	-
Asset impairment charges and other asset write-offs	5,626	595
Non cash compensation expense	2,424	2,819
Unrealized foreign exchange gain and other	(2,558)	176
Change in assets and liabilities:		
Accounts receivable	3,436	2,183
Inventories	(3,549)	(20,176)
Prepaid expenses	(2,409)	(2,217)
Accounts payable and accrued expenses	(30,473)	(30,556)
Income taxes payable	20,936	14,546
Excess tax benefit on stock options exercised	(1,872)	(3,837)
Other liabilities	477	3,057
Net Cash Provided By Operating Activities	62,723	29,600
Cash Flow From Investing Activities		
Additions to property, plant and equipment	(6,283)	(11,294)
Proceeds from sale of subsidiary	9,620	-
Acquisitions (net of cash acquired)	-	(181)
Return of capital from equity affiliates	-	150
Proceeds from note receivable	1,263	-
Contingent acquisition payments	(305)	(370)
Other	(111)	152
Net Cash Provided by (Used In) Investing Activities	4,184	(11,543)
Cash Flow From Financing Activities		
Long-term debt repayment	(8,453)	(39,537)
Short-term debt (repayments) borrowings - net	(100,000)	15,011
Bank overdrafts	293	(1,939)
Proceeds from stock options exercised	2,761	6,445
Excess tax benefit on stock options exercised	1,872	3,837
Payment of cash dividends	(5,307)	(4,584)
Net Cash Used In Financing Activities	(108,834)	(20,767)
Effect of exchange rate changes on cash and cash equivalents	180	(28)
Net Change in Cash and Cash Equivalents	(41,747)	(2,738)
Cash and Cash Equivalents at Beginning Of Period	249,809	110,476
Cash and Cash Equivalents at End Of Period	\$ 208,062	\$ 107,738

See Notes to Condensed Consolidated Financial Statements.

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CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW-CONTINUED
(Unaudited)

SUPPLEMENTAL CASH FLOW INFORMATION (Dollars in thousands)	Three Months Ended	
	March 28, 2008	March 30, 2007
Cash paid during the three months for:		
Interest (net of amounts capitalized)	\$ 9,270	\$ 12,424
Income taxes (net of refunds)	\$ 7,584	\$ 4,369
Supplemental disclosure of non-cash investing activities:		
Property, plant and equipment expenditures included in Accounts Payable	\$ 932	\$ 686

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CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Three Months Ended March 28, 2008

(Unaudited)

(In thousands)	Number of Shares				Amounts		Accumulated Other Comprehensive	
	Common Stock	Treasury Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Income (Loss)	Comprehensive Income
December 31, 2007	69,991	(3,748)	\$ 69,991	\$ (42,624)	\$ 121,902	\$ 891,868	\$ 39,128	
Net income	-	-	-	-	-	56,191	-	\$ 56,191
Translation adjustments	-	-	-	-	-	-	(2,880)	(2,880)
Interest rate agreements (net of taxes)	-	-	-	-	-	-	(2,325)	(2,325)
Comprehensive income	-	-	-	-	-	-	-	\$ 50,986
Cash dividends	-	-	-	-	-	(5,307)	-	
Stock based compensation expense and stock option plan transactions (including tax benefit)	-	163	-	1,423	5,790	-	-	
Stock purchases	-	-	-	-	-	-	-	
Other stock issuances	-	6	-	51	120	-	-	
March 28, 2008	69,991	(3,579)	\$ 69,991	\$ (41,150)	\$ 127,812	\$ 942,752	\$ 33,923	

See Notes to Condensed Consolidated Financial Statements.

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CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The condensed consolidated balance sheets as of March 28, 2008 and December 31, 2007, the condensed consolidated statements of income and cash flow for the three months ended March 28, 2008 and March 30, 2007 and the condensed consolidated statement of stockholders' equity for the three months ended March 28, 2008 have been prepared by the Company. In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at March 28, 2008 and results of operations and cash flow for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2007. The results of operations for the periods ended March 28, 2008 are not necessarily indicative of the operating results for the full year.

The Company's fiscal year begins on January 1st and ends on December 31st. Quarterly periods are based on a 4 weeks - 4 weeks - 5 weeks methodology. As a result, the first quarter can include a partial or expanded week in the first four week period of the quarter. Similarly, the last five week period in the fourth quarter could include a partial or expanded week. Certain subsidiaries operating outside of North America are included for periods beginning and ending one month prior to the period presented, which enables timely processing of consolidating results. There were no material intervening events that occurred at these locations in the one month period prior to the period presented.

The Company incurred research & development expenses in the first quarter of 2008 and 2007 of \$12.0 million and \$10.3 million, respectively. These expenses are included in selling, general and administrative expenses.

2. Recently Adopted Accounting Pronouncements

Statement of Financial Accounting Standards ("SFAS") No. 157, "Fair Value Measurements", was issued in September 2006 and, except as noted below, is effective for fiscal years beginning after November 15, 2007. SFAS No. 157 provides a single definition of fair value to be utilized under other accounting pronouncements that require fair value measurements, establishes a framework for measuring fair value in Generally Accepted Accounting Practices ("GAAP"), and expands disclosures about fair value measurements. The statement generally is to be applied prospectively, so that it does not require any new fair value measurements. Under Financial Accounting Standards Board ("FASB") Staff Position ("FSP") No. FAS 157-2, "Effective Date of FASB Statement No. 157," the FASB deferred for one year, the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). SFAS No. 157 enables the reader of the financial statements to assess the inputs (generally, assumptions that market participants would use) used in pricing an asset or liability by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. SFAS No. 157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The Company generally applies fair value techniques on a non-recurring basis associated with; (1) valuing potential impairment loss related to goodwill and indefinite-lived intangible assets accounted for pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets," and (2) valuing potential impairment loss related to long-lived assets accounted for pursuant to SFAS No. 144, "Accounting for Impairment and Disposal of Long-Lived Assets."

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CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED

The following table summarizes the carrying amounts and fair values of certain assets:

(In thousands)	Carrying Amount	March 28, 2008		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Deferred compensation related investments	\$ 32,175	\$ -	\$ 32,175	\$ -
Diesel hedge contract	1,936	-	1,936	-
	\$ 34,111	\$ -	\$ 34,111	\$ -
Liabilities				
Interest rate collars	\$ 5,767	\$ -	\$ 5,767	\$ -
Deferred compensation liability	48,543	15,006	33,537	-
	\$ 54,310	\$ 15,006	\$ 39,304	\$ -

The fair value of the deferred compensation liability that is characterized as Level 1 is associated with investments in notional amounts of Company stock. The assets and liabilities characterized as Level 2 derive their value from observable investments.

The fair value of the diesel hedge is measured using the Department of Energy's diesel index for the duration of the contract.

The fair value for the interest rate collars was derived using the forward three month libor curve for the duration of the respective collars and a credit spread.

3. Inventories consist of the following:

(In thousands)	March 28, 2008	December 31, 2007
Raw materials and supplies	\$ 51,009	\$ 53,516
Work in process	9,308	9,169
Finished goods	154,649	150,966
	\$ 214,966	\$ 213,651

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CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-CONTINUED

4. Property, Plant and Equipment consist of the following:

(In thousands)	March 28, 2008	December 31, 2007
Land	\$ 11,069	\$ 11,343
Buildings and improvements	145,167	147,114
Machinery and equipment	423,746	436,104
Office equipment and other assets	38,792	40,380
Software	32,504	33,336
Mineral rights	1,521	1,490