

CHURCH & DWIGHT CO INC /DE/  
Form 10-K/A  
March 16, 2005

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-K/A**

---

**Amendment No. 1**

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

For the fiscal year ended December 31, 2004

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, New Jersey**  
(Address of principal executive offices)

**08543-5297**  
(Zip Code)

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

---

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$1 par value	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

**Securities registered pursuant to Section 12(g) of the Act: None**

---

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 and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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 an accelerated filer (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of July 2, 2004 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$1,659 million. For purposes of making this calculation only, the registrant included all directors, executive officers and beneficial owners of more than ten percent of the Common Stock of the Company as affiliates. The aggregate market value is based on the closing price of such stock on the New York Stock Exchange on July 2, 2004.

As of March 8, 2005, 63,378,667 shares of Common Stock were outstanding.

**Documents Incorporated by Reference**

Certain provisions of the registrant's definitive proxy statement to be filed not later than April 30, 2005 are incorporated by reference in Items 10 through 14 of Item III of this Annual Report on Form 10-K.



**EXPLANATORY NOTE**

Church & Dwight Co., Inc. is filing this amendment on Form 10-K/A to its Form 10-K for the year ended December 31, 2004 solely to correct three typographical errors contained in note 19 (Unaudited Quarterly Financial Information) to Church & Dwight's consolidated financial statements, which are included in Item 8 of the Form 10-K. The corrections relate to the amounts of basic net income per share in the second quarter of 2004 and diluted net income per share in the first and second quarters of 2004. The Form 10K/A does not otherwise amend the Form 10-K.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

## CHURCH &amp; DWIGHT CO., INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,		
	2004	2003	2002
<i>(Dollars in thousands, except per share data)</i>			
<b>Net Sales</b>	<b>\$ 1,462,062</b>	\$ 1,056,874	\$ 1,047,149
Cost of sales	<b>928,674</b>	738,883	735,928
<b>Gross Profit</b>	<b>533,388</b>	317,991	311,221
Marketing expenses	<b>161,183</b>	88,807	86,195
Selling, general and administrative expenses	<b>200,452</b>	117,333	120,512
<b>Income from Operations</b>	<b>171,753</b>	111,851	104,514
Equity in earnings of affiliates	<b>15,115</b>	28,632	21,520
Investment earnings	<b>3,225</b>	1,322	1,793
Other income (expense) - net	<b>1,628</b>	(313)	(2,618)
Loss on early extinguishment of debt	<b>(22,871)</b>	(4,127)	
Interest expense	<b>(41,407)</b>	(20,400)	(23,974)
<b>Income before minority interest and taxes</b>	<b>127,443</b>	116,965	101,235
Minority interest	<b>4</b>	30	143
<b>Income before taxes</b>	<b>127,439</b>	116,935	101,092
Income taxes	<b>38,631</b>	35,974	34,402
<b>Net Income</b>	<b>\$ 88,808</b>	\$ 80,961	\$ 66,690
Weighted average shares outstanding (in thousands) Basic	<b>61,868</b>	60,341	59,445
Weighted average shares outstanding (in thousands) Diluted	<b>68,066</b>	64,508	62,714
<b>Net Income Per Share Basic</b>	<b>\$ 1.44</b>	\$ 1.34	\$ 1.12
<b>Net Income Per Share Diluted</b>	<b>\$ 1.36</b>	\$ 1.28	\$ 1.07

See Notes to Consolidated Financial Statements.

## CHURCH &amp; DWIGHT CO., INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

	December 31,	
	2004	2003
<i>(Dollars in thousands, except share data)</i>		
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 145,540	\$ 75,634
Accounts receivable, less allowances of \$1,171 and \$1,969	166,203	107,553
Inventories	148,898	84,176
Deferred income taxes	7,600	14,109
Current portion of long-term note receivable	1,015	942
Prepaid expenses	11,240	6,808
Assets held for sale	13,300	
<b>Total Current Assets</b>	<b>493,796</b>	<b>289,222</b>
<b>Property, Plant and Equipment (Net)</b>	<b>332,204</b>	<b>258,010</b>
<b>Note Receivable</b>	<b>7,751</b>	<b>8,766</b>
<b>Equity Investment in Affiliates</b>	<b>13,255</b>	<b>152,575</b>
<b>Long-term Supply Contracts</b>	<b>4,881</b>	<b>5,668</b>
<b>Tradenames and Other Intangibles</b>	<b>474,285</b>	<b>119,374</b>
<b>Goodwill</b>	<b>511,643</b>	<b>259,444</b>
<b>Other Assets</b>	<b>40,183</b>	<b>26,558</b>
<b>Total Assets</b>	<b>\$ 1,877,998</b>	<b>\$ 1,119,617</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Short-term borrowings	\$ 98,239	\$ 62,337
Accounts payable and accrued expenses	242,024	148,958
Current portion of long-term debt	5,797	3,560
Income taxes payable	11,479	17,199
<b>Total Current Liabilities</b>	<b>357,539</b>	<b>232,054</b>
<b>Long-term Debt</b>	<b>754,706</b>	<b>331,149</b>
<b>Deferred Income Taxes</b>	<b>108,216</b>	<b>61,000</b>
<b>Deferred and Other Long-term Liabilities</b>	<b>39,384</b>	<b>33,164</b>
<b>Pension, Nonpension Postretirement and Postemployment Benefits</b>	<b>57,836</b>	<b>23,459</b>
<b>Minority Interest</b>	<b>287</b>	<b>297</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred Stock-\$1.00 par value		
Authorized 2,500,000 shares, none issued		
Common Stock-\$1.00 par value		
Authorized 100,000,000 shares, issued 69,991,482 shares	69,991	69,991
Additional paid-in capital	47,444	27,882
Retained earnings	510,480	435,677

Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-K/A

Accumulated other comprehensive (loss)	<u>(3,110)</u>	<u>(13,962)</u>
	<b>624,805</b>	519,588
Common stock in treasury, at cost: 6,803,296 shares in 2004 and 8,812,445 shares in 2003	<u>(64,775)</u>	<u>(81,094)</u>
<b>Total Stockholders Equity</b>	<b>560,030</b>	438,494
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 1,877,998</b>	<b>\$ 1,119,617</b>

See Notes to Consolidated Financial Statements.

## CHURCH &amp; DWIGHT CO., INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOW

	Year ended December 31,		
	2004	2003	2002
<i>(Dollars in thousands)</i>			
<b>Cash Flow From Operating Activities</b>			
<b>Net Income</b>	\$ 88,808	\$ 80,961	\$ 66,690
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	39,093	30,224	27,890
Net loss on disposal and write-down of assets	4,805	2,721	6,193
Equity in earnings of affiliates	(15,115)	(28,632)	(21,520)
Deferred income taxes	12,863	12,490	17,817
Net non-cash charges related to loss on early extinguishment of debt	3,592	4,127	
Other	(1,839)	330	2,072
Change in assets and liabilities: (net of effects of acquisitions and divestitures)			
Decrease (increase) in accounts receivable	42,730	(6,290)	5,876
Decrease (increase) in inventories	4,876	16,508	16,771
(Increase) decrease in prepaid expenses	(1,286)	509	(394)
Increase (decrease) in accounts payable	5,254	(12,262)	(22,963)
Increase in income taxes payable	7,214	7,394	10,199
Increase in other liabilities	3,893	9,790	5,138
<b>Net Cash Provided by Operating Activities</b>	<b>194,888</b>	<b>117,870</b>	<b>113,769</b>
<b>Cash Flow From Investing Activities</b>			
Additions to property, plant and equipment	(34,977)	(32,211)	(38,739)
Contingent acquisition payments	(5,666)	(3,597)	
Distributions from affiliates	5,626	4,570	4,670
Investment in affiliates, net of cash acquired			(2,731)
Proceeds from notes receivable	942	870	5,803
Proceeds from sale of fixed assets	1,350		1,460
Purchase of new businesses (net of cash acquired of \$64,506 in 2004, \$0 in 2003 and \$365 in 2002)	(194,201)	(110,674)	(7,756)
Other	1,261	(174)	(1,077)
<b>Net Cash Used in Investing Activities</b>	<b>(225,665)</b>	<b>(141,216)</b>	<b>(38,370)</b>
<b>Cash Flow From Financing Activities</b>			
Proceeds from short-term borrowing	35,475	56,807	2,457
Proceeds from long-term borrowing	790,000	350,000	
Repayments of long-term borrowings	(725,109)	(379,524)	(52,751)
Proceeds from stock options exercised	18,633	12,640	10,868
Payment of cash dividends	(14,005)	(12,495)	(11,888)
Deferred financing costs	(8,613)	(5,569)	(476)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>96,381</b>	<b>21,859</b>	<b>(51,790)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>4,302</b>	<b>819</b>	<b>247</b>
<b>Net Change in Cash and Cash Equivalents</b>	<b>69,906</b>	<b>(668)</b>	<b>23,856</b>
<b>Cash and Cash Equivalents at Beginning of Year</b>	<b>75,634</b>	<b>76,302</b>	<b>52,446</b>
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 145,540</b>	<b>\$ 75,634</b>	<b>\$ 76,302</b>



Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-K/A

Cash paid during the year for:			
Interest (net of amounts capitalized)	<b>\$ 38,801</b>	\$ 15,806	\$ 23,362
	<b>_____</b>	<b>_____</b>	<b>_____</b>
Income taxes	<b>\$ 25,131</b>	\$ 15,515	\$ 4,421
	<b>_____</b>	<b>_____</b>	<b>_____</b>
Acquisitions in which liabilities were assumed are as follows:			
Fair value of assets	<b>\$ 554,990</b>	\$ 111,610	\$ 14,889
Purchase price	<b>(262,230)</b>	(110,674)	(8,121)
	<b>_____</b>	<b>_____</b>	<b>_____</b>
Liabilities assumed	<b>\$ 292,760</b>	\$ 936	\$ 6,768
	<b>_____</b>	<b>_____</b>	<b>_____</b>

See Notes to Consolidated Financial Statements.

## CHURCH &amp; DWIGHT CO., INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

Years ended December 31, 2004, 2003 and 2002

	Number of Shares		Amounts					Accumulated Other Comprehensive Income (Loss)	Comprehensive Income
	Common Stock	Treasury Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings			
<i>(in thousands)</i>									
<b>January 1, 2002</b>	69,991	(11,277)	\$ 69,991	\$ (95,453)	\$ 5,084	\$ 312,409	\$ (9,728)		
Net Income						66,690		\$ 66,690	
Translation adjustments							(3,732)	(3,732)	
Minimum pension liability, net of taxes of \$1,497							(2,417)	(2,417)	
Interest rate swap agreements, net of taxes of \$645							(1,042)	(1,042)	
<b>Comprehensive Income</b>								<b>\$ 59,499</b>	
Compensation expense relating to stock options					804				
Cash dividends						(11,888)			
Stock option plan transactions including related income tax benefit of \$5,923		1,125		6,556	10,235				
Other stock issuances		6		40	97				
<b>December 31, 2002</b>	69,991	(10,146)	69,991	(88,857)	16,220	367,211	(16,919)		
Net Income						80,961		\$ 80,961	
Translation adjustments							4,498	4,498	
Minimum pension liability, net of taxes of \$969							(1,513)	(1,513)	
Company portion of Armkel accumulated other comprehensive (loss) net of taxes of \$1,152							(2,294)	(2,294)	
Interest rate swap agreements, net of taxes of \$1,380							2,266	2,266	
<b>Comprehensive Income</b>								<b>\$ 83,918</b>	
Cash dividends						(12,495)			
Stock option plan transactions including related income tax benefit of \$6,522		1,323		7,704	11,458				
Other stock issuances		11		59	204				

Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-K/A

<b>December 31, 2003</b>	69,991	(8,812)	69,991	(81,094)	27,882	435,677	(13,962)	
<b>Net Income</b>						<b>88,808</b>		<b>\$ 88,808</b>
<b>Translation adjustments</b>							<b>7,523</b>	<b>7,523</b>
<b>Minimum pension liability, net of tax benefits of \$274</b>							<b>(289)</b>	<b>(289)</b>
<b>Company portion of Armkel accumulated other comprehensive (loss), net of taxes of \$879</b>							<b>3,475</b>	<b>3,475</b>
<b>Interest rate swap Agreements, net of taxes of \$55</b>							<b>143</b>	<b>143</b>
<b>Comprehensive Income</b>								<b>\$ 99,660</b>
<b>Cash dividends</b>						<b>(14,005)</b>		
<b>Stock option plan transactions including related income tax benefit of \$15,516</b>		<b>1,999</b>		<b>16,225</b>	<b>17,924</b>			
<b>Other stock issuances</b>		<b>10</b>		<b>94</b>	<b>1,638</b>			
<b>December 31, 2004</b>	<b>69,991</b>	<b>(6,803)</b>	<b>\$ 69,991</b>	<b>\$ (64,775)</b>	<b>\$ 47,444</b>	<b>\$ 510,480</b>		<b>\$ (3,110)</b>

See Notes to Consolidated Financial Statements.

---

**CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Accounting Policies**

*Business*

The Company develops, manufactures and markets a broad range of consumer and specialty products. It sells its products, primarily under the ARM & HAMMER and TROJAN brand names, to consumers through supermarkets, drug stores and mass merchandisers; and to industrial customers and distributors.

*Basis of Presentation*

The accompanying Consolidated Financial Statements are presented in accordance with accounting principles generally accepted in the United States of America. The accompanying Consolidated Financial Statements include the accounts of the Company and its majority-owned subsidiaries. The Company accounts for equity investments on the cost method for those investments in which it does not control nor have the ability to exert significant influence over the investee, which is generally when the Company has less than a 20 percent ownership interest. In circumstances where the Company has greater than a 20 percent ownership interest and has the ability to exercise significant influence but does not control the investee, the investment is accounted for under the equity method. As a result, the Company accounts for its less than 20% interest in USA Metro, Inc. on the cost basis and accounts for its 50% interest in its Armand Products Company joint venture ( Armand ) and the ArmaKleen Company joint venture ( ArmaKleen ) under the equity method of accounting. Both Armand and ArmaKleen companies are specialty chemical companies and the Company's portion of their equity earnings is included in the corporate segment in Note 17. Neither company is considered a significant subsidiary; therefore, summarized financial statement data is not presented. On May 28, 2004, the Company purchased the remaining 50% ownership interest of Armkel, LLC ( Armkel ) that it did not own from affiliates of Kelso & Company ( the Armkel acquisition ) for a purchase price of \$262 million and Armkel was merged into the Company. Results of operations for the business are included in the Company's consolidated financial statements from May 29, 2004. Prior to May 28, 2004, the Company accounted for its investment in Armkel under the equity method. All material intercompany transactions and profits have been eliminated in consolidation.

*Fiscal Calendar*

The Company's fiscal year begins on January 1 of the year stated and ends on December 31. Quarterly periods are based on a 4-4-5 methodology (4 weeks-4 weeks-5 weeks). 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.

*Use of Estimates*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent gains and losses at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Management makes estimates regarding inventory valuation, promotional and sales returns reserves, the carrying amount of goodwill and other intangible assets, the realization of deferred tax assets, tax reserves, liabilities related to pensions and other postretirement benefit obligations and other matters that affect the reported amounts and other disclosures in the financial statements. Estimates by their nature are based on judgment and available information. Therefore, actual results could differ materially from those estimates, and it is possible that changes in such estimates could occur in the near term.

#### *Revenue Recognition*

Revenue is recognized when finished goods are delivered to our customers or when finished goods are picked up by a customer's carrier.

#### *Promotional and Sales Returns Reserves*

The Company conducts extensive promotional activities, primarily through the use of off-list discounts, slotting, co-op advertising, periodic price reduction arrangements, and end-aisle and other in-store display. All such costs are netted against sales. Slotting costs are recorded when the related sale is recognized. Co-op advertising costs are recorded when the customer places the advertisement for the Company's products. Discounts relating to price reduction arrangements are recorded when the related sale takes place. Costs associated with end-aisle or other in-store displays are recorded when product is sold relating to the promotion. The reserves for sales returns and consumer and trade promotion liabilities are established based on the Company's best estimate of the amounts necessary to settle future and existing obligations for such items on products sold as of the balance sheet date. The Company uses historical trend experience and coupon redemption provider input in arriving at coupon reserve requirements, and forecasted appropriations, customer and sales organization inputs, and historical trend analysis in arriving at the reserves required for other promotional activities and sales returns. While the Company believes that promotional and sales returns reserves are adequate and that the judgment applied is appropriate, amounts estimated to be due and payable could differ materially from actual costs incurred in the future.

*Cost of Sales, Marketing and Selling, General and Administrative Expenses*

Cost of sales includes costs related to the manufacture of the Company's products (including raw material costs, inbound freight costs, direct labor, and indirect plant costs such as plant supervision, receiving, inspection, maintenance labor and materials, depreciation, taxes and insurance), purchasing, production planning, operations management, logistics, freight to customers, warehousing costs and internal transfer freight costs.

Marketing expenses include costs for advertising (excluding the costs of co-op advertising programs, which are reflected in net sales), costs for coupon insertion (mainly the cost of printing and distribution), consumer promotion costs (such as on-shelf advertisements and floor ads), public relations, package design expense and market research costs.

Selling, general and administrative expenses include costs related to functions such as sales, corporate management, marketing administration and legal, among others. Such costs include compensation related costs (such as benefits, profit sharing, deferred compensation and employer contributions to the 401K savings plan); travel and entertainment related expenses; trade show expenses; insurance; professional and other consulting fees; costs related to temporary staff; staff relocation costs; and non-capitalizable software related costs.

*Impairment of Long-lived Assets*

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. In such situations, long-lived assets are considered impaired when estimated future cash flows (undiscounted and without interest charges) resulting from the use of the asset and its eventual disposition are less than the asset's carrying amount. While the Company believes that its estimates of future cash flows are reasonable, different assumptions regarding such cash flows could materially affect its estimates. When an impairment is indicated, the estimated future cash flows are then discounted to determine the estimated fair value of the asset and an impairment charge is recorded for the difference between the carrying value and the net present value of estimated future cash flows.

*Foreign Currency Translation*

Financial statements of foreign subsidiaries are translated into U.S. dollars in accordance with Statement of Financial Accounting Standards (SFAS) No. 52. Unrealized gains and losses are recorded in Accumulated Other Comprehensive Loss. Gains and losses on foreign currency transactions were recorded in the accompanying Consolidated Statements of Income.

*Cash Equivalents*

Cash equivalents consist of highly liquid short-term investments, which mature within three months of purchase.

*Inventories*

Inventories are valued at the lower of cost or market. Approximately 31% and 45% of the inventory at December 31, 2004 and 2003, respectively, were determined utilizing the last-in, first-out (LIFO) method. The cost of substantially all inventory in the Company's Specialty Products segment as well as inventory sold under the ARM & HAMMER and BRILLO trademarks in the Consumer Domestic segment is determined utilizing the LIFO method. The cost of the remaining inventory is determined using the first-in, first-out (FIFO) method. When appropriate, the Company writes down the carrying value of its inventory to the lower of cost or market (net realizable value), including any costs to sell or dispose the adjusted inventory. The Company identifies any slow moving, obsolete or excess inventory to determine whether a valuation allowance is indicated. The determination of whether inventory items are slow moving, obsolete or in excess of needs requires estimates and assumptions about the future demand for the Company's products, technological changes, and new product introductions. The estimates as to the future demand used in the valuation of inventory are dependent on the ongoing success of the Company's products. In addition, the Company's allowance for obsolescence may be impacted by the rationalization of the number of stock keeping units. To minimize this risk, the Company evaluates its inventory levels and expected usage on a periodic basis and records adjustments as required. Adjustments to reduce the inventory's net realizable value were \$5.9 million at December 31, 2004, and \$3.2 million at December 31, 2003.

#### *Property, Plant and Equipment*

Property, plant and equipment and additions thereto are stated at cost. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets. Estimated useful lives for building and improvements, machinery and equipment, and office equipment range from 9-40, 3-20, and 3-10 years, respectively. Routine repairs and maintenance are expensed when incurred. Leasehold improvements are depreciated over the lease term, except when the lease renewal has been determined to be reasonably assured and failure to renew the lease imposes a penalty on the Company.

Property, plant and equipment are reviewed periodically for possible impairment in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company's impairment review is based on an undiscounted cash flow analysis at the lowest level for which identifiable cash flows exist. The analysis requires management judgment with respect to changes in technology, the continued success of product lines, and future volume, revenue and expense growth rates. The Company conducts annual reviews for idle and underutilized equipment, and reviews business plans for possible impairment implications. Impairment occurs when the carrying value of the asset exceeds the future undiscounted cash flows. When an impairment is indicated, the estimated future cash flows are then discounted to determine the estimated fair value of the asset and an impairment charge is recorded for the difference between the carrying value and the net present value of estimated future cash flows.

#### *Software*

The Company accounts for software in accordance with Statement of Position (SOP) 98-1 *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. SOP 98-1 requires companies to capitalize certain costs of developing computer software. Amortization is recorded using the straight-line method over the estimated useful lives of the software, which is estimated to be 5 years.

#### *Long-Term Supply Contracts*

Long-term supply contracts represent advance payments made by the Company under multi-year contracts with suppliers of raw materials and finished goods inventory. Such advance payments are applied over the lives of the contracts using the straight-line method.

#### *Derivatives*

All derivatives are recognized as assets or liabilities at fair value in the accompanying Consolidated Balance Sheets.

Derivatives designated as hedges are either (1) a hedge of the fair value of a recognized asset or liability ( *fair value hedge*), or (2) a hedge of the variability of cash flows to be received or paid related to a recognized asset or liability ( *cash flow hedge*).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges, along with the gain or loss on the hedged asset or liability that is attributable to the hedged risk, are recorded in current period earnings.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recorded in Accumulated Other Comprehensive Loss until earnings are affected by the variability of cash flows of the hedged asset or liability. Any ineffectiveness related to these hedges is recorded directly in earnings. The amount of the ineffectiveness was not material.

Changes in the fair value of derivatives not designated or qualifying as an accounting hedge are recorded directly to earnings.

#### *Goodwill and Other Intangible Assets*



The Company accounts for Goodwill and Other Intangible Assets in accordance with SFAS No. 142. Under SFAS No. 142, goodwill and intangible assets with indefinite useful lives are not amortized but are reviewed for impairment at least annually. Intangible assets with finite lives are amortized over their estimated useful lives using the straight-line method.

*Research and Development*

Research & development costs in the amount of \$33.0 million in 2004, \$26.9 million in 2003 and \$26.9 million in 2002 were charged to operations as incurred.

*Earnings Per Share*

Basic EPS is calculated based on income available to common shareholders and the weighted-average number of shares outstanding during the reported period. Diluted EPS includes additional dilution to the Company's earnings from common stock issuable pursuant to the exercise of stock options outstanding and effective after December 15, 2004, and the dilutive effect of contingently convertible debt instruments (see below).

In August 2003, the Company issued \$100 million of 5.25% convertible senior debentures that may be converted into shares of the Company's common stock prior to maturity, currently at a conversion price of approximately \$31.00 per share, subject to adjustment in certain circumstances. The Emerging Issues Task Force (EITF) concluded in EITF Issue 04-8, "The Effect of Contingently Convertible Debt on Diluted Earnings per Share," that contingently convertible debt (Co-Cos) be treated for diluted EPS purposes as if converted from debt to equity, beginning with the date the contingently convertible debt instrument is initially issued, even if the triggering events (such as stock price) have not yet occurred. The Company has implemented this consensus in its 2004 financial statements, which had the effect of lowering 2004 diluted earnings per share by \$0.01 and did not have an effect on 2003 and 2002 earnings per share.

The following table reflects the components of common shares outstanding for each of the three years ended December 31, 2004 in accordance with SFAS No. 128:

<i>(In thousands)</i>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Weighted average common shares outstanding - basic	<b>61,868</b>	60,341	59,445
Dilutive effect of stock options	<b>2,972</b>	2,958	3,269
Dilutive effect of convertible debt	<b>3,226</b>	1,209	
Equivalent average common shares outstanding - diluted	<b>68,066</b>	64,508	62,714
Antidilutive stock options outstanding	<b>895</b>	848	911

On August 6, 2004, the Company announced a 3 for 2 stock split. The shares from the stock split were distributed on September 1, 2004 to shareholders of record at the close of business on August 16, 2004. All share and per share information in this report reflects the impact of the stock split.

#### *Employee Stock Based Compensation*

The Company accounts for costs of stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, rather than the fair-value based method in Statement of Financial Accounting Standards No. 123 (SFAS 123),

Accounting for Stock-Based Compensation. In connection with the Armkel acquisition, the Company paid cash and issued options to purchase 97,500 shares of Company common stock at an exercise price of \$22.88 per share to certain executives under Armkel's Equity Appreciation Rights Plan (EAR Plan). The unvested portion of the EAR Plan options is being amortized over a two year vesting period and is recognized as expense as vesting occurs. In 2004, the amount recognized as expense for the stock options granted under the EAR Plan was approximately \$0.4 million. The Company recognized compensation expense (net of tax) of approximately \$0 in 2003 and \$0.5 million in 2002, respectively, in accordance with APB 25. Had compensation cost been determined based on the fair values of the stock options at the date of grant in accordance with SFAS 123, the Company would have recognized additional compensation expense, net of taxes, of \$4.3 million, \$3.9 million and \$4.5 million for 2004, 2003 and 2002, respectively, and the Company's pro forma net income and pro forma net income per share for 2004, 2003 and 2002 would have been as follows:

<i>(In thousands, except for per share data)</i>	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Net Income</b>			
As reported	<b>\$ 88,808</b>	\$ 80,961	\$ 66,690
Pro forma	<b>84,536</b>	77,058	62,707
<b>Net Income per Share: basic</b>			
As reported	<b>\$ 1.44</b>	\$ 1.34	\$ 1.12
Pro forma	<b>1.37</b>	1.28	1.05
<b>Net Income per Share: diluted</b>			
As reported	<b>\$ 1.36</b>	\$ 1.28	\$ 1.07
Pro forma	<b>1.30</b>	1.22	1.01

#### *Comprehensive Income*

Comprehensive income consists of net income, foreign currency translation adjustments, changes in the fair value of certain derivative financial instruments designated and qualifying as cash flow hedges, and minimum pension liability adjustments, and is presented in the Consolidated Statements of Changes in Stockholders' Equity and in note 14.

*Income Taxes*

The Company recognizes deferred income taxes under the liability method; accordingly, deferred income taxes are provided to reflect the future consequences of differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. Management provides valuation allowances against the deferred tax asset for amounts which are not considered more likely than not to be realized. The Company records liabilities in income taxes payable for potential assessments in various tax jurisdictions. The liabilities relate to tax return positions, although supportable by the Company, may be challenged by the tax authorities. The Company adjusts these liabilities as a result of changes in tax legislation, interpretations of laws by Courts, rulings by tax authorities, changes in estimates and the closing of the statute of limitations. The Company's tax rate includes the impact of the liabilities and any changes to the liabilities. Settlement of any issue with the tax authorities would require the use of cash. Favorable resolution of an issue would be recognized as a reduction to our annual tax rate. The Internal Revenue Service is currently examining the Company's 2002 US Federal Corporation Income Tax Return.

*Recent Accounting Pronouncements*

In January 2004, the FASB issued FASB Staff Position (FSP) No. 106-1, Accounting and Disclosure Requirements to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act). The Act introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The FSP permits a sponsor of a postretirement health care plan that provides a prescription drug benefit to

make a one-time election to defer accounting for the effects of the Act. The Company's consolidated financial statements and notes reflect the effects of the Act on the postretirement health care plan. The effect of adopting the provisions of this FSP did not have a material effect to the Company's consolidated financial statements.

In August 2003, the Company issued \$100 million of 5.25% convertible senior debentures that may be converted into shares of the Company's common stock prior to maturity, currently at a conversion price of approximately \$31.00 per share, subject to adjustment in certain circumstances. Because of the inclusion of the contingent convertibility feature of the debentures, the Company's diluted net income per common share does not currently give effect to the dilution from the conversion of the debentures until the Company's share price exceeds 120% of the conversion price or until the occurrence of certain specified events. However, the Emerging Issues Task Force (EITF) concluded in EITF Issue 04-8, *The Effect of Contingently Convertible Debt on Diluted Earnings per Share*, that contingently convertible debt (Co-Cos) be treated for diluted EPS purposes as if converted from debt to equity, beginning with the date the contingently convertible debt instrument is initially issued, even if the triggering events (such as stock price) have not yet occurred. The effective date would be reporting periods ending on or after December 15, 2004 and prior period EPS amounts presented for comparative purposes would have to be restated. The Company has implemented this consensus in its 2004 financial statements, which had the effect of lowering 2004 diluted earnings per share by \$0.01 and did not have an effect on 2003 and 2002 earnings per share.

In November 2004, the FASB issued SFAS No. 151 *Inventory Costs*, an amendment for ARB. 43, Chapter 4. This Statement requires that certain abnormal costs that were included in inventory pricing such as abnormal costs for idle facility expense, excessive spoilage, double freight, and rehandling costs be treated as current period charges. In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement shall be effective for inventory costs incurred during the fiscal years beginning after June 15, 2005. The adoption of the provisions of SFAS 151 will not have a material impact on the Company's consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment*. SFAS No. 123R supersedes APB Opinion No. 25, which requires recognition of an expense when goods or services are provided. SFAS No. 123R requires the determination of the fair value of the share-based compensation at the grant date and the recognition of the related expense over the period in which the share-based compensation vests. SFAS No. 123R permits a prospective or two modified versions of retrospective application under which financial statements for prior periods are adjusted on a basis consistent with the pro forma disclosures required for those periods by the original SFAS No. 123. The Company is required to adopt the provisions of SFAS No. 123 R effectively July 1, 2005, at which time the Company will begin recognizing an expense for unvested share-based compensation that has been issued or will be issued after that date. Under the retroactive options, prior periods may be restated either as of the beginning of the year of adoption, January 1, 2005 for the Company, or for all periods presented. The Company has not yet finalized its decision concerning the transition option and measurement methodology it will utilize to adopt SFAS No. 123R, but estimates that the impact will not be materially different than the amounts shown in its pro forma disclosure.

The American Jobs Creation Act of 2004 (the AJCA) was enacted on October 22, 2004. The AJCA repeals an export incentive, creates a new deduction for qualified domestic manufacturing activities and includes a special one-time deduction of 85% of certain foreign earnings repatriated to the U.S.

The FASB issued FSP FAS 109-1, *Application of FASB Statement No. 109, Accounting for Income Taxes*, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004 (FSP FAS 109-1) on December 21, 2004. In accordance with FSP FAS 109-1, the Company will treat the deduction for qualified domestic manufacturing activities, which is effective for the Company beginning January 1, 2005, as a reduction of the income tax provision in future years as realized.

In December 2004, the FASB issued FSP FAS 109-2, *Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provision within the American Jobs Creation Act of 2004*, allowing companies additional time to evaluate the effect of the AJCA on plans for reinvestment or repatriation of foreign earnings. The Company is in the process of evaluating the effects of the repatriation provision.

*Reclassification*

Certain prior year amounts have been reclassified in order to conform with the current year presentation.

## 2. Fair Value of Financial Instruments and Risk Management

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2004 and 2003. Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments," defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties.

<i>(In thousands)</i>	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets:</b>				
Current portion of note receivable	\$ 1,015	\$ 1,015	\$ 942	\$ 942
Long-term note receivable	7,751	7,364	8,766	8,788
<b>Financial Liabilities:</b>				
Short-term borrowings	98,239	98,239	62,337	62,337
Current portion of long-term debt	5,797	5,797	3,560	3,560
Senior Subordinated Note debt @ 6.0%	250,000	252,500		
Senior Subordinated Note debt @ 9.5%	6,613	6,941		
Long-term bank debt	398,093	403,368	231,149	231,149
Convertible debt	100,000	129,620	100,000	115,790
Interest rate swap contracts			231	231

The following methods and assumptions were used to estimate the fair value of each class of financial instruments reflected in the Consolidated Balance Sheets:

### *Note Receivable*

The carrying value of the note receivable represents the face value discounted by an interest factor management believes appropriate for the credit risk involved at the date of the note. The fair value of the note receivable reflects what management believes is the appropriate interest factor at December 31, 2004 and 2003, respectively, based on similar risks in the market.

### *Short-term Borrowings*

The carrying amounts of unsecured lines of credit equal fair value because of short maturities and variable interest rates.

### *Long-term Bank Debt, Current Portion of Long-term Debt and Senior Subordinated Note Debt*

The Company determines fair value based upon prevailing value of equivalent financing.

*Convertible Debt*

The Company determines fair value of its convertible debentures based upon the debentures' quoted market value.

*Interest Rate Swap Contracts*

Carrying amounts of interest rate swap contracts are reflected on the Company's balance sheet at their fair value. The fair values are estimated amounts the Company would receive or pay to terminate the agreements at the balance sheet date, taking into account current interest rates.

*Interest Rate Risk*

The Company has total debt outstanding at December 31, 2004 of \$858.7 million, of which \$356.6 million or 42% carries a fixed rate of interest. The remaining debt balance is comprised of \$540 million in Term Loans under the Credit Agreement (which may be increased by \$250 million upon the satisfaction of certain conditions) of which \$400.3 million was outstanding as of December 31, 2004; and \$100.0 million under the revolving facility under the Credit Agreement, \$94.0 million of which was un-drawn at December 31, 2004. The Company entered into a receivables purchase agreement with the issuer of receivables-backed commercial paper in order to refinance a portion of its primary borrowing facility, and subsequently increased this facility as a result of the Armkel acquisition. The balance outstanding under this agreement was \$93.7 million at December 31, 2004. The weighted average interest rate on all these borrowings at December 31, 2004, excluding deferred financing costs and commitment fees, was approximately 4.6%.

The Company's domestic operations and its Brazilian subsidiary have other short and long-term debts that are floating rate obligations. If the floating rate were to change by 10% from the December 31, 2004 level, additional annual interest expense associated with the floating rate debt would be immaterial.

*Foreign Currency*

The Company is subject to exposure from fluctuations in foreign currency exchange rates, primarily U.S. Dollar/Euro, U.S. Dollar/ British Pound, U.S. Dollar/Canadian Dollar, U.S. Dollar/Mexican Peso, U.S. Dollar/Australian Dollar and U.S. Dollar/Brazilian Real.

As a result of the Armkel acquisition, the Company assumed intercompany loans with certain of its subsidiaries. The Company is exposed to foreign exchange accounting remeasurement gains and losses from these intercompany loans. The Company has entered into several foreign exchange contracts to hedge the net accounting remeasurement exposure on these loans. At December 31, 2004, the Company hedged 9.7 million Euro s, which is approximately 65% of the Euro debt position, with an average rate of 1.36 U.S. dollars per Euro. The Company hedged 30.0 million Mexican Peso s, which is approximately 49% of the Peso debt position, with a rate of 0.0893 U.S. dollars per peso. The Company had 4.9 million Australian Dollars, which is approximately 55% of the Australian Dollar debt position, with an average rate of 0.78 U.S. dollars per Australian dollars. The terms of these contracts are for periods of under twelve months. The purpose of the Company s foreign currency hedging activities is to protect the Company from the risk that the eventual dollar net cash inflows or outflows will be adversely affected by changes in exchange rates. These contracts do not qualify for hedge accounting in accordance with SFAS No. 133 and are marked to market in Other Expenses in the Company s Income Statement.

The Company, from time to time, enters into forward exchange contracts to hedge anticipated but not yet committed sales or purchases denominated in the Canadian dollar, the British pound and the Euro. There were no material contracts at December 31, 2004 to hedge these transactions and the Company had no outstanding contracts at December 31, 2003.

The Company is also subject to translation exposure of the Company s foreign subsidiary s financial statements. A hypothetical 10% change in the exchange rates for the U.S. Dollar to the currencies noted above at December 31, 2004 and 2003 would result in an annual currency translation gain or loss of approximately \$1.0 million in 2004 and \$0.5 million in 2003.

*Equity Derivatives*

The Company has entered into equity derivative contracts of its own stock in order to minimize the impact on earnings resulting from fluctuations in market price of shares in the Company s deferred compensation plan. These contracts, which consist of cash settled call options in the amount of 277,500 shares, which was in excess of the amount of shares related to the plan and are marked to market through earnings. The over hedge position is a result of plan participant change in investment elections during the term of the current hedge contracts. Assuming no material change in the amount of outstanding shares in the Plan, the Company will not renew certain contracts. As a result of these contracts, the Company recognized income of approximately \$2.1 million in 2004, \$1.5 million in 2003, and \$0.4 million in 2002, which reduced the charge for deferred compensation.

**3. Inventories**

Inventories are summarized as follows:

*(In thousands)*

2004                      2003



Raw materials and supplies	\$ 40,996	\$ 26,205
Work in process	7,310	204
Finished goods	100,592	57,767
	<b>\$ 148,898</b>	<b>\$ 84,176</b>

Inventories valued on the LIFO method totaled \$46.7 million and \$38.1 million at December 31, 2004 and 2003, respectively, and would have been approximately \$3.1 million and \$2.9 million higher, respectively, had they been valued using the first-in, first-out (FIFO) method.

#### 4. Property, Plant and Equipment

Property, plant and equipment consist of the following:

<i>(In thousands)</i>	2004	2003	Estimated Lives (years)
Land	\$ 13,594	\$ 6,165	N/A
Buildings and improvements	135,329	109,860	9-40
Machinery and equipment	350,591	295,255	3-20
Office equipment and other assets	37,255	27,753	3-10
Software	16,733	12,459	5
Mineral rights	999	571	Based on Volume
Construction in progress	10,421	9,574	N/A
	<b>564,922</b>	461,637	
Less accumulated depreciation, depletion and amortization	<b>232,718</b>	203,627	
Net property, plant and equipment	<b>\$ 332,204</b>	\$ 258,010	

Depreciation, depletion and amortization of property, plant and equipment amounted to \$29.9 million, \$23.8 million and \$22.2 million in 2004, 2003 and 2002, respectively. Interest charges in the amount of \$0.4 million, \$0.4 million and \$0.6 million were capitalized in connection with construction projects in 2004, 2003 and 2002, respectively.

During the second quarter of 2004, the Company recorded a plant impairment charge of \$1.5 million, which was recorded as cost of sales in the Consumer Domestic segment, as the value could not be supported by projected cash flows. During the fourth quarter of 2004, the Company wrote-off approximately \$1.8 million of manufacturing equipment removed from service that was charged to cost of sales in the Consumer Domestic segment. Also during the fourth quarter of 2004, the Company made available for sale a small foreign manufacturing facility and wrote the carrying value down by \$0.8 million to its estimated net realizable value based upon a sales agreement. This was charged to cost of sales in the Consumer International segment. The remaining value of the plant of approximately \$2.3 million was reclassified from property, plant and equipment to assets held for sale.

During the fourth quarter of 2003, the Company wrote-down the value of manufacturing assets by approximately \$1.2 million and wrote-off approximately \$ 1.5 million of manufacturing equipment removed from service. The write-down was a result of declining sales volume and discounted cash flows were used to determine its value. Both amounts are included in Cost of Sales in the Company's Consolidated Statement of Income. The charges and the remaining carrying value are included in the Consumer Domestic segment.

## 5. Unilever Oral Care Business Acquisition

On October 20, 2003, the Company purchased four oral care brands from Unilever in the United States and Canada. The purchase includes the MENTADENT brand of toothpaste and toothbrushes, PEPSODENT and AIM toothpaste, and exclusive licensing rights to CLOSE-UP toothpaste

The Company paid Unilever approximately \$104 million in cash at closing and assumed certain liabilities, and will make additional performance-based payments of between \$5 million and \$12 million payable over eight years following the transaction which will be accounted for as additional purchase price. Through December 31, 2004, the Company has made contingent payments of \$2.5 million. The acquisition was funded by obtaining new term loans through an Amendment to the Company's Credit Agreement dated September 28, 2001 (which was subsequently refinanced in May 2004 as part of the Armkel acquisition) as well as available cash. Results of operations for the businesses are included in the Company's consolidated financial statements from October 20, 2003. Separate pro forma comparative results of operations are not presented because they are not materially different from the Company's reported results of operations; however, pro forma results for the period in 2003 that the Company did not own the business are included in the pro forma income statement (see note 7).

The following table summarizes the final purchase price allocation:

*(in thousands)*

Inventories	\$ 16,402
Property, plant and equipment	5,835
Tradenames	39,349
Other long-term assets	550
Goodwill	49,064
	<hr/>
Total assets acquired	111,200

Current liabilities	(515)
Net assets acquired	<u>\$ 110,685</u>

#### 6. Armkel, LLC

On May 28, 2004, the Company purchased the remaining 50% of Armkel that it did not previously own from affiliates of Kelso & Company for a purchase price of approximately \$262 million.

The Armkel acquisition was funded using available cash and by obtaining new Term A and B Loans through an amendment to the Company's existing credit agreement. In connection with the amendment, the Company, among other things, was provided with a new Term A Loan in the amount of \$100 million, and a new Term B Loan in the amount of \$440 million, which were used to replace the Company's existing credit facility of approximately \$194 million, to replace Armkel's principal credit facility of approximately \$136 million and to provide \$210 million to fund a portion of the purchase price for the transaction. The new Term B Loan has essentially the same terms as the replaced loans, but with more favorable interest rate provisions. Results of operations for the business are included in the Company's consolidated financial statements from May 29, 2004.

The following table summarizes the historical investment and the preliminary purchase price allocation relating to purchasing Kelso's 50% interest in Armkel.

<i>(In thousands)</i>	<b>Book Value of Previously Owned Interest</b>	<b>Fair Value of Assets Acquired</b>	<b>Total as of May 28, 2004</b>
Current Assets	\$ 117,085	\$ 127,596	\$ 244,681
Property, plant and equipment	37,499	40,541	78,040
Tradenames and patents	125,000	229,133	354,133
Goodwill	102,578	153,451	256,029
Other long-term assets	10,612	4,269	14,881
<b>Total Assets</b>	<b>392,774</b>	<b>554,990</b>	<b>947,764</b>
Current liabilities	113,373	113,609	226,982
Long-term debt	111,950	121,500	233,450
Other long-term liabilities	15,946	57,651	73,597
<b>Net Assets</b>	<b>\$ 151,505</b>	<b>\$ 262,230</b>	<b>\$ 413,735</b>

The allocation of purchase price has not yet been finalized since an independent appraisal is still in process. However, management does not believe that the finalization of the purchase price allocation will have a material impact on the Consolidated Financial Statement.

The following table summarizes financial information for Armkel for the five months ending May 28, 2004 and the twelve months ended December 31, 2003 and 2002, during which the Company accounted for its 50% interest under the equity method.

<i>(In thousands)</i>	<b>Five Months</b>		
	<b>Ended</b>	<b>Twelve Months Ended</b>	<b>Twelve Months Ended</b>
	<b>May 28, 2004</b>	<b>December 31, 2003</b>	<b>December 31, 2002</b>
Income statement data:			
Net sales	\$ 192,767	\$ 410,694	\$ 383,782
Gross profit	109,915	228,419	210,833
Net income	21,554	50,239	31,214
Equity in affiliate's income recorded by the Company	10,777	25,130	18,107

For the five months ended May 28, 2004, the Company invoiced Armkel \$10.2 million for administrative and management oversight services (which is included as a reduction of selling, general and administrative expenses), purchased \$0.8 million of deodorant anti-perspirant inventory produced by Armkel in the first five months of 2004 and sold Armkel \$0.7 million of ARM & HAMMER products to be sold in international markets.

During 2003 and 2002, the Company invoiced Armkel \$24.4 million and \$22.5 million respectively, for administrative and manufacturing services, and purchased \$1.9 million and \$7.1 million of deodorant anti-perspirant inventory produced by Armkel at its cost. The Company sold Armkel \$2.9 million and \$1.4 million of ARM & HAMMER products to be sold in international markets in 2003 and 2002, respectively. Armkel

Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-K/A

invoiced the Company \$1.7 million for transition administrative services in 2002. The Company had an open receivable from Armkel of approximately \$6.7 million December 31, 2003.

**7. Unaudited Pro Forma Results**

The following pro forma information gives effect to the Company's purchase of Kelso's interest in Armkel and the Unilever oral care business as if they occurred on January 1, 2003. Pro forma adjustments include inventory step-up charges, equity appreciation rights, additional interest expense and the related income tax impact, as well as elimination of intercompany sales.

Pro forma comparative net sales, net income and basic and diluted earnings per share for the twelve months ended December 31, 2004 and December 31, 2003 are as follows:

	Twelve Months		Twelve Months	
	Ended		Ended	
	December 31, 2004		December 31, 2003	
	Reported	Pro forma	Reported	Pro forma
<i>(Dollars in thousands, except per share data)</i>				
Net Sales	<b>\$ 1,462,062</b>	\$ 1,654,087	<b>\$ 1,056,874</b>	\$ 1,558,209
Net Income	<b>88,808</b>	113,328	<b>80,961</b>	101,542
Earnings Per Share Basic	<b>1.44</b>	1.84	<b>1.34</b>	1.68
Earnings Per Share Diluted	<b>1.36</b>	1.74	<b>1.28</b>	1.61

**8. Goodwill and Other Intangibles**

The Company accounts for goodwill and other intangibles in accordance with SFAS No. 142, Goodwill and Other Intangible Assets.

The following table discloses the carrying value of all intangible assets:

	December 31, 2004				December 31, 2003			
	Gross Carrying Amount	Accum. Amort.	Net	Amort. Period (years)	Gross Carrying Amount	Accum. Amort.	Net	Amort. Period (years)
<i>(In thousands)</i>								
<b>Amortized intangible assets:</b>								
Tradenames	\$ 77,433	\$ (12,759)	\$ 64,674	10-20	\$ 69,645	\$ (7,839)	\$ 61,806	10-20
Formulas	22,320	(3,023)	19,297	10-20	6,281	(1,430)	4,851	10-20
Non Compete Agreement	1,143	(350)	793	10	1,143	(233)	910	10
<b>Total</b>	<b>\$ 100,896</b>	<b>\$ (16,132)</b>	<b>\$ 84,764</b>		<b>\$ 77,069</b>	<b>\$ (9,502)</b>	<b>\$ 67,567</b>	
<b>Unamortized intangible assets Carrying value:</b>								
Tradenames	\$ 389,521				\$ 51,807			
<b>Total</b>	<b>\$ 389,521</b>				<b>\$ 51,807</b>			

The increase in tradenames as compared to the values at December 31, 2003 is primarily due to the consolidation of Armkel and the final valuation adjustments associated with the Unilever brands acquired in 2003. Furthermore, in connection with the Armkel acquisition, the tradenames acquired reflect their estimated fair market value as of May 28, 2004, per an independent appraisal.

Intangible amortization expense amounted to \$6.6 million for the twelve months of 2004 and \$2.1 million for the same period of 2003. The Company's current estimated intangible amortization will be approximately \$7.2 million in each of the next five years.

In accordance with SFAS No. 142, the Company completed the annual impairment test of the valuation of unamortized tradenames, and based upon the results, there was no impairment. During 2002, the Company recorded a \$2.3 million impairment charge related to one of its unamortized tradenames due to changes in market conditions and included the charge in selling, general and administrative expenses. This charge affected the Company's Consumer Domestic segment. Fair value was determined using discounted cash flows. This tradename, which had a carrying value of approximately \$4.8 million, was subsequently amortized as it has been determined to have a finite life.

The changes in the carrying amount of goodwill for the twelve months ended December 31, 2004 are as follows:

<i>(In thousands)</i>	Consumer			Total
	Consumer Domestic	Consumer International	Specialty	
Balance December 31, 2003	\$ 235,920	\$ 931	\$ 22,593	\$ 259,444
Tradenname and fixed asset valuation adjustments	(3,862)			(3,862)
Goodwill associated with the Armkel acquisition	236,335	19,694		256,029
Other		37	(5)	32
Balance December 31, 2004	\$ 468,393	\$ 20,662	\$ 22,588	\$ 511,643

## 9. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following:

<i>(In thousands)</i>	2004	2003
Trade accounts payable	\$ 110,473	\$ 79,927
Accrued marketing and promotion costs	71,689	41,038
Accrued wages and related costs	30,361	10,630
Accrued profit-sharing	12,513	7,097
Other taxes payable	4,248	497
Other accrued current liabilities	12,740	9,769
	<b>\$ 242,024</b>	<b>\$ 148,958</b>

**10. Short-Term Borrowings and Long-Term Debt**

Short-term borrowings and long-term debt consist of the following:

*(In thousands)*

	<u>Dec. 31, 2004</u>	<u>Dec. 31, 2003</u>
Syndicated Financing Loan	\$	\$ 230,000
Term B Loan	<b>400,338</b>	
Amount due 2005	\$ 5,113	
Amount due 2006	4,012	
Amount due 2007	4,012	
Amount due 2008	4,012	
Amount due 2009	4,012	
Amount due 2010 & subsequent	379,177	
Convertible Debentures due on August 15, 2033	<b>100,000</b>	100,000
Securitization of Accounts Receivable due on April 13, 2005	<b>93,700</b>	56,300
Senior Subordinated Note (6%) due December 22, 2012	<b>250,000</b>	
Senior Subordinated Note (9 1/2%) due August 15, 2009	<b>6,400</b>	
Premium on 6% Senior Subordinated Note	<b>213</b>	
Various Debt due to Brazilian Banks \$4,470 in 2005, \$620 in 2006, \$228 in 2007	<b>5,318</b>	7,356
Industrial Revenue Refunding Bond Due in installments of \$685 from 2005-2007 and \$650 in 2008	<b>2,705</b>	3,390
Other International Debt	<b>68</b>	
<b>Total debt</b>	<b>858,742</b>	397,046
<b>Less: current maturities</b>	<b>104,036</b>	65,897
<b>Net long-term debt</b>	<b>\$ 754,706</b>	<b>\$ 331,149</b>

As of December 31, 2004, the principal payments required to be made with respect to the Company's consolidated total debt are as follows:

*(In thousands)*

2005	\$ 104,036
2006	5,317
2007	4,925
2008	4,662
2009	10,625
2010 and subsequent	729,177
	<b>\$ 858,742</b>

The Company had outstanding total debt of \$858.7 million and cash of \$145.5 million (of which \$56.5 million resides in foreign subsidiaries). Total debt less cash ( Net debt ) was \$713.2 million at December 31, 2004. The Company had outstanding total debt of \$397.0 million, and cash of \$75.6 million, resulting in net debt of \$321.4 million at December 31, 2003.



During the first quarter of 2003, the Company entered into a receivables purchase agreement with an issuer of receivables-backed commercial paper in order to refinance a portion, \$60.0 million, of its primary credit facility. The transaction resulted in a reclassification of long-term debt to short-term debt in the Company's consolidated balance sheet. Under this arrangement, the Company sold, and will sell from time to time, throughout the three-year term of the agreement, its trade accounts receivable to a wholly-owned, consolidated, special purpose finance subsidiary, Harrison Street Funding LLC, a Delaware limited liability company (Harrison). Harrison in turn sold, and will sell on an ongoing basis, to the commercial paper issuer an undivided interest in the pool of accounts receivable. The receivables assets and the short-term borrowings of Harrison are included in the consolidated financial statements of the Company. The transactions were entered into to reduce certain expenses associated with the credit facility in addition to lowering the Company's financing costs by accessing the commercial paper market. During July 2004, as a result of the Armkel acquisition, the Company amended its accounts receivable securitization agreement to increase the capacity that can be borrowed from \$60 million to \$100 million. The balance outstanding under the agreement on December 31, 2004 was \$93.7 million. The proceeds of the increased borrowing were used to make a voluntary Term A Loan payment on August 4, 2004.

In August of 2003, the Company issued \$100 million principal amount of 5.25% convertible senior debentures due August 15, 2033 through a private placement to qualified institutional buyers. The debentures rank equal in right of payment with all of the Company's existing and future unsecured senior indebtedness. The debentures are effectively subordinated in right of payment to all of the Company's existing and future secured indebtedness to the extent of the value of the assets securing that indebtedness and to all of the existing and future indebtedness and other liabilities of the Company's subsidiaries. The Company has the right to redeem all or part of the debentures on or after August 15, 2008. Interest is paid semi-annually on August 15th and February 15th of each year.

On each of August 15, 2010, August 15, 2013, August 15, 2018, August 15, 2023 and August 15, 2028, or in the event of a change in control, holders may require the Company to repurchase all or any portion of the debentures at a purchase price equal to 100.0% of the

principal amount of the debentures, plus accrued and unpaid interest to the date of repurchase. The Company must pay cash for any debentures repurchased on August 15, 2010. However, the Company may choose to pay cash, shares of its common stock, or a combination of cash or shares of its common stock for any debentures repurchased on August 15, 2013, August 15, 2018, August 15, 2023 or August 15, 2028 or following a change in control.

Holders may convert their debentures into shares of the Company's common stock prior to maturity at a conversion rate of 32.26 shares of common stock per each \$1,000 principal amount of debentures, which is equivalent to a conversion price of approximately \$31.00 per share, subject to adjustment in certain circumstances. A holder may convert the debentures into the Company's common stock under the following circumstances: during any conversion period prior to August 15, 2032, if the sale price of the Company's common stock is more than 120% of the conversion price for at least 20 trading days in the 30 consecutive trading day period ending on the first day of that conversion period (the 20% conversion price premium); the trading price of a debenture falls below a specified threshold; specified credit rating events with respect to the debentures occur; the Company calls the debentures for redemption; or specified corporate transactions occur.

In conjunction with the Armkel acquisition, the Company entered into an amended and restated credit agreement (the Credit Agreement) with several banks and other financial institutions, The Bank of Nova Scotia, Fleet National Bank and National City Bank, each as a documentation agent, Citicorp North America, Inc., as syndication agent, and J.P. Morgan Chase Bank, as administrative agent. The Credit Agreement provides for (i) a five year term loan in a principal amount of \$100.0 million (the Term A Loan), (ii) a seven year term loan in the principal amount of \$440.0 million, which term loan may be increased by up to an additional \$250.0 million upon the satisfaction of certain conditions (the Term B Loan, and together with the Term A Loan, the Term Loans), and (iii) a five year multi-currency revolving credit and letter of credit facility in an aggregate principal amount of up to \$100.0 million (the Revolving Loans), \$94.0 million of which was undrawn at December 31, 2004. The Term Loans were used to finance the acquisition of the remaining 50% interest in Armkel not previously owned by the Company, pay amounts outstanding under Armkel's principal credit facility of approximately \$136.0 million and refinance the Company's principal credit facility of approximately \$194.0 million. The Revolving Loans are available for general corporate purposes. The obligations of the Company under the Credit Agreement are secured by substantially all of the assets of the Company and certain of its domestic subsidiaries. Those domestic subsidiaries have also guaranteed the loan obligations under the Credit Agreement. The Term Loans and the Revolving Loans bear interest under one of two rate options, selected by the Company, equal to (a) either (i) a eurocurrency rate (adjusted for any reserve requirements) (Eurocurrency Rate) or (ii) the greater of the prime rate, the secondary market rate for three-month certificates of deposit (adjusted for any reserve requirements) plus the applicable FDIC assessment rate plus 1.0%, or the federal funds effective rate plus 0.5% (Alternate Base Rate), plus (b) an applicable margin. The applicable margin is determined by the Company's current leverage ratio. At the closing date of the Credit Agreement, the applicable margin was (a) 1.75% for the Eurocurrency Rate and (b) 0.75% for the Alternate Base Rate.

During the fourth quarter of 2004, the Company issued \$250 million of 6.0% Senior Subordinated Notes due December 15, 2012 in a private placement. In conjunction with the placement, the Company effected a cash tender offer and consent solicitation for any and all of the outstanding Armkel 9 1/2% Senior Subordinated Notes due 2009 that it assumed as part of the Armkel acquisition. The price paid for each \$1,000 principal amount of Notes tendered and accepted for payment (including a consent payment of \$30 per \$1,000 principal amount of Notes) was \$1,086.80, plus accrued and unpaid interest to the payment date. Of the outstanding balance of \$225 million, \$218.6 million was purchased by the Company. As a result, the Company incurred a fourth quarter loss on early extinguishment of debt charge of \$14.9 million (which included the write-off of existing deferred financing costs).

As noted above, on December 22, 2004, the Company issued \$250 million of 6.0% senior subordinated notes due December 15, 2012 (Notes) with interest paid semi-annually. The Notes were issued at par and the Company received net proceeds of \$225 million. That amount was used to redeem \$218.6 million of the Armkel notes and the balance was used to make voluntary bank debt repayments. The notes will be guaranteed on an unsecured senior basis by substantially all of the Company's existing and future domestic subsidiaries whose annual revenues (other than intercompany revenues) or total assets (other than intercompany receivables) are \$100,000 or more. The notes will be redeemable at the Company's option, in whole or in part, at any time on or after December 15, 2008, at pre-determined redemption prices, together with accrued and unpaid interest, if any, to the date of redemption. The notes will be redeemable at the Company's option, in whole or in part, at any time prior to December 15, 2008, at a price equal to 100% of the principal amount plus accrued and unpaid interest, if any, to the date of redemption plus a make-whole premium. At any time prior to December 15, 2007, The Company may redeem up to 35% of the original principal amount of the notes (calculated after giving effect to any issuance of additional notes issued under the same indenture) with the proceeds of one or more equity offerings of the Company's capital stock at a redemption price of 106.0% of the principal amount of the notes, together with accrued and unpaid interest, if any, to the date of redemption.

The terms of the subordinated note and credit agreement place a limit on the amount of certain cash payments the Company can make. This limitation includes the amount the Company can pay in dividends on its common stock. As long as the Company is not in default under either agreement, the limitation ( which is a percent of net income relative to the Company's consolidated leverage ratio) is such that the Company does not currently anticipate having an effect on the its ability to pay dividends at its current rate.

In addition, QGN has lines of credit which enable it to borrow up to \$7 million in its local currency, of which approximately \$3 million was utilized as of December 31, 2004 and 2003. The weighted average interest rate on these borrowings at December 31, 2004 and 2003 was approximately 18.0% and 15.3%, respectively. QGN's long-term debt is at various interest rates that are determined by several inflation indexes in Brazil.

**11. Income Taxes**

The components of income before taxes are as follows:

<i>(in thousands)</i>	2004	2003	2002
Domestic	<b>\$ 113,000</b>	\$ 108,908	\$ 96,752
Foreign	<b>14,439</b>	8,027	4,340
<b>Total</b>	<b>\$ 127,439</b>	<b>\$ 116,935</b>	<b>\$ 101,092</b>

The following table summarizes the provision for U.S. federal, state and foreign income taxes:

<i>(in thousands)</i>	2004	2003	2002
<b>Current:</b>			
U.S. federal	<b>\$ 16,475</b>	\$ 16,598	\$ 10,487
State	<b>4,485</b>	3,149	3,450
Foreign	<b>4,808</b>	3,737	2,648
	<b>25,768</b>	23,484	16,585
<b>Deferred:</b>			
U.S. federal	<b>11,539</b>	11,595	17,825
State	<b>1,509</b>	1,579	1,116
Foreign	<b>(185)</b>	(684)	(1,124)
	<b>12,863</b>	12,490	17,817
<b>Total provision</b>	<b>\$ 38,631</b>	<b>\$ 35,974</b>	<b>\$ 34,402</b>

Deferred tax (assets)/liabilities consist of the following at December 31:

<i>(in thousands)</i>	2004	2003
<b>Current net deferred tax assets:</b>		
Promotions, principally coupons	<b>\$ (826)</b>	\$ (3,817)
Reserves and other liabilities	<b>(4,352)</b>	(726)
Accounts receivable	<b>(1,265)</b>	(3,920)
Net operating loss	<b>(5,586)</b>	(1,700)
Capitalization of inventory costs	<b>(483)</b>	(1,056)
Tax credits	<b>(1,608)</b>	(1,608)
Unrealized (gain)/loss on foreign exchange	<b>6,520</b>	(1,282)

Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-K/A

Total current deferred tax assets	(7,600)	(14,109)
Long-term deferred tax asset:		
Nonpension postretirement of foreign affiliates	(899)	
Minimum pension liability of foreign affiliates	(5,376)	
Net operating loss	(1,710)	
Depreciation and amortization	991	
Goodwill	4,757	
Other	(383)	
	(2,620)	
Current deferred tax liability:		
Reserves and other liabilities	(97)	
Inventory related	1,536	
	1,439	
Noncurrent net deferred tax liabilities:		
Nonpension postretirement and postemployment benefits	(6,840)	(6,233)
Deferred compensation	(13,628)	(10,639)
Reserves and other liabilities	(972)	(2,369)
Investment valuation difference	(741)	(88)
Loss carryforward of foreign subsidiary	(3,070)	(1,552)
Foreign exchange translation adjustment	(27)	(2,749)
Depreciation and amortization	138,126	56,653
Net operating loss carryforward	(6,765)	(13,410)
Difference between book and tax losses of equity investment	2,145	37,000
Tax credits	(4,418)	(1,868)
Minimum pension liability	(5,857)	(2,466)
Contribution carryforward	(4,028)	(2,496)
Other	(4,030)	(1,621)
Valuation allowance	5,370	12,838
Goodwill	12,951	
Net noncurrent deferred tax liabilities	108,216	61,000
Net deferred tax liability	\$ 99,435	\$ 46,891

Long term deferred tax assets are presented in other assets in the December 31, 2004 balance sheet. Current deferred tax liability is presented in Accounts Payable and Accrued Expenses in the December 31, 2004 balance sheet. The change in the valuation allowance relates to the Company being able to realize the benefit of certain loss carryforwards.

The difference between tax expense and the tax that would result from the application of the federal statutory rate is as follows:

(in thousands)

	2004	2003	2002
Statutory rate	35%	35%	35%
Tax that would result from use of the federal statutory rate	\$ 44,605	\$ 40,927	\$ 35,382
Depletion	(483)	(405)	(420)
Research & development credit	(4,662)	(600)	(600)
State and local income tax, net of federal effect	4,022	3,073	2,968
Varying tax rates of foreign affiliates	(432)	233	(45)
Benefit from extraterritorial income exclusion	(755)	(770)	(825)
Taxes included in equity in earnings (loss) from affiliates	(1,761)	(2,592)	(1,551)
Resolution of state audits		(3,400)	
Contributions of inventory	(700)	(875)	(860)
Other	(1,203)	385	353
	(5,974)	(4,953)	(980)
Recorded tax expense	\$ 38,631	\$ 35,974	\$ 34,402
Effective tax rate	30.3%	30.8%	34.0%

At December 31, 2004, the Company had net operating loss carryforwards for federal, foreign and state of \$12.0 million, \$26.2 million and \$14.5 million, respectively. These net operating losses expire on various dates through December 31, 2020.

The Company has undistributed earnings of foreign subsidiaries of approximately \$39.3 million at December 31, 2004 for which deferred taxes have not been provided. These earnings, which are considered to be invested indefinitely, subject to the Company's final determination of the impact of the AJCA discussed below, would be subject to US tax if they were remitted as dividends. At this time it is not practicable to determine the deferred tax liability on these earnings.

The AJCA was enacted on October 22, 2004. The AJCA repeals an export incentive, creates a new deduction for qualified domestic manufacturing activities and includes a special one-time deduction of 85% of certain foreign earnings repatriated to the U.S. In accordance with FSP FAS 109-1, the Company will treat the deduction for qualified domestic manufacturing activities, which is effective for the Company beginning January 1, 2005, as a reduction of the income tax provision in future years as realized. In connection with FSP FAS 109-2, which allows companies additional time to evaluate the effect of the AJCA on plans for reinvestment or repatriation of foreign earnings, the Company has not decided on whether, or to what extent, the Company may repatriate foreign earnings under the AJCA. The range of the income tax effect of the repatriation cannot be reasonably estimated at this time.

The Company records liabilities in income taxes payable for potential assessments in various tax jurisdictions. The liabilities relate to tax return positions, although supportable by the Company, may be challenged by the tax authorities. The Company adjusts these liabilities as a result of changes in tax legislation, interpretations of laws by Courts, rulings by tax authorities, changes in estimates and the closing of the statute of

limitations. The Company's tax rate includes the impact of the liabilities and any changes to the liabilities. Settlement of any issue with the tax authorities would require the use of cash. Favorable resolution of an issue would be recognized as a reduction to our annual tax rate. The Internal Revenue Service is currently examining the Company's 2002 US Federal Corporation Income Tax Return.

**12. Benefit Plans**

The Company has defined benefit pension plans covering certain hourly employees. Pension benefits to retired employees are based upon their length of service and a percentage of qualifying compensation during the final years of employment. The Company's funding policy is consistent with federal funding requirements.

The Company maintains unfunded plans, which provide medical benefits for eligible domestic retirees and their dependents and employees in Canada. The Company accounts for these benefits in accordance with SFAS 106, Employers' Accounting for Postretirement Benefits Other than Pensions. This standard requires the cost of such benefits to be recognized during the employee's active working career.

The following table provides information on the status of the plans at December 31:

<i>(In thousands)</i>	<b>Pension Plans</b>		<b>Nonpension Postretirement Benefit Plans</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
<b>Change in Benefit Obligation:</b>				
Benefit obligation at beginning of year	\$ 24,299	\$ 21,643	\$ 14,792	\$ 13,711
Benefit obligation acquired during year <i>Armkel</i>	92,463		2,506	
Adjustment to prior year obligation			(7)	
Service cost	1,706	148	510	336
Interest cost	4,551	1,450	1,040	817
Plan participants' contributions	214			
Actuarial (gain) loss	4,348	2,865	2,087	677
Plan amendments			(125)	
Settlements	(2,019)			
Effects of exchange rate changes	5,903		312	
Benefits paid	(5,239)	(1,807)	(1,159)	(749)
<b>Benefit obligation at end of year</b>	<b>\$ 126,226</b>	<b>\$ 24,299</b>	<b>\$ 19,956</b>	<b>\$ 14,792</b>
<b>Change in Plan Assets:</b>				
Fair value of plan assets at beginning of year	\$ 16,161	\$ 14,952	\$	\$
Fair value of assets acquired during year <i>Armkel</i>	64,588			
Actual return on plan assets (net of expenses)	5,000	1,516		
Employer contributions	4,459	1,500	1,159	749
Plan participants' contributions	214			
Actuarial (gain)/loss	4			
Settlements	(3,463)			
Effects of exchange rate changes	4,316			
Benefits paid	(5,239)	(1,807)	(1,159)	(749)
<b>Fair value of plan assets at end of year</b>	<b>\$ 86,040</b>	<b>\$ 16,161</b>	<b>\$</b>	<b>\$</b>
<b>Reconciliation of the Funded Status:</b>				
Funded status	\$ (40,186)	\$ (8,138)	\$ (19,956)	\$ (14,792)



Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-K/A

Unrecognized prior service cost (benefit)	<b>269</b>	27	<b>(500)</b>	(461)
Unrecognized actuarial (gain) loss	<b>9,735</b>	6,970	<b>1,689</b>	(431)
Loss due to currency fluctuations	<b>122</b>	(22)	<b>7</b>	
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net amount recognized at end of year	<b>\$ (30,060)</b>	\$ (1,163)	<b>\$ (18,760)</b>	\$ (15,684)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Accumulated benefit obligation	<b>\$ 115,587</b>	\$ 23,747	<b>\$</b>	<b>\$</b>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

Amounts recognized in the statement of financial position consist of:

	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Accrued benefit liability	<b>\$ (36,965)</b>	\$ (7,559)	<b>\$ (18,760)</b>	\$ (15,684)
Prepaid benefit cost	<b>72</b>			
Accumulated other comprehensive income	<b>6,833</b>	6,396		
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net amount recognized at end of year	<b>\$ (30,060)</b>	\$ (1,163)	<b>\$ (18,760)</b>	\$ (15,684)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

The Company's pension plan weighted-average asset allocations at December 31, 2004 and 2003, by asset category are as follows:

	Plan Assets at	
	December 31,	
	2004	2003
Equity Securities	55%	45%
Debt Securities	21%	51%
Fixed Income	19%	
Other	5%	4%
	<b>100%</b>	<b>100%</b>

The Company's investment policy is designed to provide flexibility in the asset mix decision based on management's assessment of economic conditions with the overall objective being maximum rates of return appropriately balanced to minimize market risks. While our asset mix has varied significantly over the last two years as a result of the Armkel acquisition, our long-term strategic goal is to reach an asset mix comprising approximately 60% equity securities and 40% debt/fixed income securities.

Weighted-average assumptions used to determine benefit obligations as of December 31:

	Pension Plans		Nonpension Postretirement Benefit Plans	
	2004	2003	2004	2003
	Discount rate	5.58%	6.00%	5.72%
Rate of compensation increase	4.15%	4.85%		

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:

	Pension Plans		Nonpension Postretirement Benefit Plans	
	2004	2003	2004	2003
	Discount rate	5.96%	6.75%	6.00%
Rate of compensation increase	4.29%	4.85%		
Expected return on plan assets	7.61%	8.72%		

Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-K/A

The Company had a settlement loss in the fourth quarter of 2004 to one of the Canadian pension plans due to the Company's decision to terminate the plan.

Net Pension and Net Postretirement Benefit Costs consisted of the following components:

<i>(In thousands)</i>	Pension Costs			Postretirement Costs		
	2004	2003	2002	2004	2003	2002
<b>Components of Net Periodic Benefit Cost:</b>						
Service cost	\$ 1,706	\$ 148	\$ 140	\$ 510	\$ 336	\$ 446
Interest cost	4,551	1,450	1,338	1,040	817	876
Expected return on plan assets	(4,242)	(1,261)	(1,442)			
Amortization of transition obligation				156		
Amortization of prior service cost	3	3	3	(86)	(79)	(79)
Recognized actuarial (gain) or loss	264	299	46	(2)	(87)	(40)
Settlement loss	2,019					
<b>Net periodic benefit cost</b>	<b>\$ 4,301</b>	<b>\$ 639</b>	<b>\$ 85</b>	<b>\$ 1,618</b>	<b>\$ 987</b>	<b>\$ 1,203</b>

The Company's pension and postretirement benefit costs are developed from actuarial valuations. Inherent in these valuations are key assumptions provided by the Company to our actuaries, including the discount rate and expected long-term rate of return on plan assets. Material changes in the Company's pension and postretirement benefit costs may occur in the future due to changes in these assumptions.

The discount rate is subject to change each year, consistent with changes in applicable high-quality, long-term corporate bond indices. Based on the expected duration of the benefit payments for our pension plans and postretirement plans we refer to applicable indices such as the Moody's AA Corporate Bond Index to select a rate at which we believe the pension benefits could be effectively settled. Based on the published rates as of December 31, 2004, as well as selected Corporate bonds matching our estimated cash flows of the plans, the Company

used a discount rate of 5.75% for the three remaining domestic plans, a decline of 25 basis points from the 6.00% rate used in 2003. This had the effect of increasing the projected benefit obligation for pensions and the accumulated postretirement benefit obligation by approximately \$1.5 million and \$0.4 million, respectively, for the year ended December 31, 2004.

The expected long-term rate of return on pension plan assets is selected by taking into account a historical trend based on a 15 year average, the expected duration of the projected benefit obligation for the plans, the asset mix of the plans, and known economic and market conditions at the time of valuation. Based on these factors, the Company's weighted average expected long-term rate of return as of December 31, 2004 is 7.61%, a decline of 111 basis points from the 8.72% rate used at December 31, 2003. This decrease is due to the change in expected long-term rate of the Company's domestic plans from 8.75% to 8.25% and the inclusion of Armkel's plans. A 50 basis point change in the expected long-term rate of return would result in less than a \$0.4 million change in pension expense for 2005.

On December 31, 2004 the accumulated benefit obligation related to our pension plans exceeded the fair value of the pension plan assets (such excess is referred to as an un-funded accumulated benefit obligation). This difference is attributed to (1) an increase in the accumulated benefit obligation that resulted from the decrease in the interest rate used to discount the projected benefit obligation to its present settlement amount from 6.00% to 5.75%, partially offset by (2) the increase in the market value of the plan assets at December 31, 2004. As a result, in accordance with SFAS No. 87, the Company recognized an additional minimum pension liability of \$1.4 million included in benefit obligations, and recorded a charge, net of tax, to accumulated other comprehensive loss of \$0.8 million which decreased stockholders' equity. The charge to stockholders' equity for the excess of additional pension liability represents a net loss not yet recognized as pension expense. Based on the aforementioned assumptions, the income statement impact for 2004 is estimated to be approximately \$0.8 million charged to earnings.

The pension plan assets primarily consist of equity mutual funds, fixed income funds and a guaranteed investment contract fund.

The Company estimates it will be required to make cash contributions to its pension plans of approximately \$5.4 million in 2005. The contribution is \$0.9 million higher than 2004 due to the inclusion of Armkel's pension plans.

The accumulated postretirement benefit obligation has been determined by application of the provisions of the Company's medical plans including established maximums and sharing of costs, relevant actuarial assumptions and health-care cost trend rates projected at 12.56% for 2005 and decreasing to an ultimate rate of 5.13% in 2014. The Company has a maximum annual benefit based on years of service for those participants over 65 years of age.

The following chart shows the effect of a 1% change in healthcare cost trends:

*(in thousands)*

	<u>2004</u>	<u>2003</u>
Effect of 1% increase in health-care cost trend rates on:		
Postretirement benefit obligation	\$ 997	\$ 906
Total of service cost and interest cost component	96	77
Effect of 1% decrease in health-care cost trend rates on:		
Postretirement benefit obligation	(892)	(811)
Total of service cost and interest cost component	(85)	(68)

*Deferred Compensation Plan*

The Company maintains a deferred compensation plan in which certain management and highly compensated employees are eligible to defer a maximum of 100% of their regular compensation and bonuses and non-employee Board members are eligible to defer up to 100% of their directors' compensation. The compensation deferred under this plan is credited with earnings or losses based upon changes in values of investments elected by the plan participant. Each plan participant is fully vested in all deferred compensation and earnings credited to his or her account. The deferrals are invested by the Company through a trust. The trust invests these deferred amounts based upon the elections made by the participants, with the exception of elections made for Church & Dwight stock. The liability to plan participants for contribution designation to Company stock is based on the changes in the quoted fair value of the Company's stock. The invested deferred amounts are invested in either equity mutual funds or money market accounts. The Company uses hedging instruments to minimize the cost related to the volatility of Church & Dwight stock. At December 31, 2004 and 2003, the liability under these plans amounted to \$32.4 million and \$24.4 million, respectively and the funded balances amounted to \$21.3 million and \$16.3 million, respectively. The amounts charged to earnings, including the effect of the hedges, totaled \$1.5 million, \$2.0 million, and \$2.1 million in 2004, 2003 and 2002, respectively.

The Company also maintains a defined contribution profit-sharing plan for salaried and certain hourly employees. Amounts charged to earnings for this plan were \$9.8 million, \$6.8 million and \$7.1 million in 2004, 2003 and 2002, respectively.

The Company also has an employee 401K savings plan. The Company matches 50% of each employee's contribution up to a maximum of 6% of the employee's earnings. The Company's matching contributions to the savings plan were \$2.5 million, \$2.0 million and \$2.3 million in 2004, 2003 and 2002, respectively.

### 13. Stock Option Plans

The Company has options outstanding under three equity compensation plans. Under the 1983 Stock Option Plan and the 1994 Incentive Stock Option Plan, the Company may grant options to key management employees. Under the Stock Option Plan for Directors the Company grants options to non-employee directors. Options outstanding under the plans are issued at market value, vest on the third anniversary of the date of grant and must be exercised within ten years of the date of grant. A total of 10.5 million shares of the Company's common stock is authorized for issuance for the exercise of stock options.

Stock option transactions for the three years ended December 31, 2004 were as follows:

	Number of Shares	Weighted Average Exercise Price
Outstanding at January 1, 2002	7,359,086	\$ 10.37
Grants	1,008,495	22.13
Exercised	1,124,925	9.65
Cancelled	39,864	15.84
Outstanding at December 31, 2002	7,202,792	12.09
Grants	851,385	22.49
Exercised	1,322,799	9.55
Cancelled	125,090	17.32
<b>Outstanding at December 31, 2003</b>	<b>6,606,288</b>	<b>13.76</b>
<b>Grants</b>	<b>1,023,296</b>	<b>27.58</b>
<b>Exercised</b>	<b>1,998,539</b>	<b>9.32</b>
<b>Cancelled</b>	<b>234,459</b>	<b>15.00</b>
<b>Outstanding at December 31, 2004</b>	<b>5,396,586</b>	<b>\$ 17.97</b>

At December 31, 2004, 2003 and 2002, 2,720,108 options, 3,865,113 options and 4,177,395 options were exercisable, respectively.

The table below summarizes information relating to options outstanding and exercisable at December 31, 2004.

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Outstanding As of 12/31/2004	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable as of 12/31/2004	Weighted Average Exercise Price

Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-K/A

\$5.01 - \$10.00	1,179,418	2.6	\$ 8.06	1,117,805	\$ 8.09
\$10.01 - \$15.00	850,108	4.6	\$ 12.45	850,108	\$ 12.45
\$15.01 - \$20.00	825,038	6.2	\$ 16.75	741,788	\$ 16.42
\$20.01 - \$25.00	1,623,912	7.8	\$ 22.06	10,407	\$ 20.31
\$25.01 - \$30.00	824,860	9.3	\$ 39.49		
\$30.01 - \$35.00	93,250	9.4	\$ 31.08		
	<u>5,396,586</u>	<u>6.2</u>	<u>\$ 17.97</u>	<u>2,720,108</u>	<u>\$ 11.77</u>

The fair value of options granted in 2004, 2003 and 2002 is \$10.9 million, \$6.8 million, and \$8.9 million, respectively and the weighted average fair value per share of options granted in 2004, 2003 and 2002 is \$11.99, \$7.97 and \$8.79, respectively.

The fair value of options granted in 2004, 2003 and 2002 is estimated on the date the options are granted based on the Black Scholes option-pricing model with the following weighted-average assumptions:

*(in thousands)*

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Risk-free interest rate	4.3%	3.1%	4.6%
Expected life	6.6 years	6.5 years	6.5 years
Expected volatility	28.2%	34.5%	34.8%
Dividend yield	0.7%	0.9%	0.9%

**14. Comprehensive Income**

Comprehensive income is defined as net income and other changes in stockholders' equity from transactions and other events from sources other than stockholders. The components of changes in other comprehensive income (expense) are as follows:

	<u>Foreign Currency Adjustments</u>	<u>Minimum Pension Liability</u>	<u>Interest Rate Swap Agreements</u>	<u>Armkel Related<sup>(1)</sup></u>	<u>Accumulated Other Comprehensive Income (loss)</u>
Balance January 1, 2002	\$ (8,361)	\$	\$ (1,367)	\$	\$ (9,728)
Comprehensive Income changes during the year (net of tax of \$2,142)	(3,732)	(2,417)	(1,042)		(7,191)
Balance Dec. 31, 2002	(12,093)	(2,417)	(2,409)		(16,919)
Comprehensive Income changes during the year (net of tax of \$993)	4,498	(1,513)	2,266	(2,294)	2,957
<b>Balance Dec. 31, 2003</b>	<b>(7,595)</b>	<b>(3,930)</b>	<b>(143)</b>	<b>(2,294)</b>	<b>(13,962)</b>
<b>Comprehensive Income changes during the year (net of tax of \$659)</b>	<b>7,523</b>	<b>(289)</b>	<b>143</b>	<b>3,475</b>	<b>10,852</b>
<b>Balance Dec. 31, 2004</b>	<b>\$ (72)</b>	<b>\$ (4,219)</b>	<b>\$</b>	<b>\$ 1,181</b>	<b>\$ (3,110)</b>

<sup>(1)</sup> Balances pertain to the Company's portion of the Armkel other accumulated income (loss).

**15. Common Stock Voting Rights and Rights Agreement**

At the Company's Annual Meeting of Stockholders held on May 8, 2003, shareholders voted to amend the Company's Restated Certificate of Incorporation to eliminate time phased voting rights. Prior to such amendment, each share of Company common stock beneficially owned by the same person for a period of at least 48 consecutive months was entitled to four votes per share, while all other shares were entitled to one vote. As a result of this amendment, each share of Company common stock is entitled to one vote.

On August 27, 1999, the Board of Directors adopted a Shareholder Rights Plan (the Plan) that essentially reinstates a Shareholder Rights Plan originally enacted in 1989, which had terminated. In connection with the adoption of the Plan, the Board declared a dividend of one preferred share purchase right for each outstanding share of Company Common Stock. Each right, which is not presently exercisable, entitles the holder to purchase one one-hundredth of a share of Junior Participating Preferred Stock at an exercise price of \$200.00. In the event that any person, acquires 20% or more of the outstanding shares of Common Stock, each holder of a right (other than the acquiring person or group) will be entitled to receive, upon payment of the exercise price, that number of shares of Common Stock into which the Junior Participating Preferred Stock is convertible having a market value equal to two times the exercise price. In order to retain flexibility and the ability to maximize shareholder value in the event of unknown future transactions, the Board of Directors retains the power to redeem the rights for a set amount.

The rights were issued on September 13, 1999, payable to shareholders of record at the close of business on that date. The rights will expire on September 13, 2009.



On August 6, 2004, the Company announced a 3 for 2 stock split. The shares from the stock split were distributed on September 1, 2004 to shareholders of record at the close of business on August 16, 2004. All share and per share information in this report reflects the impact of the stock split.

**16. Commitments, Contingencies and Guarantees**

a. Rent expense amounted to \$11.9 million in 2004, \$8.5 million in 2003 and \$8.9 million in 2002. The Company is obligated for minimum annual rentals under non-cancelable long-term operating leases as follows:

<i>(In thousands)</i>	
2005	\$ 15,406
2006	13,472
2007	10,441
2008	8,277
2009	8,272
2010 and thereafter	17,449
<b>Total future minimum lease commitments</b>	<b>\$ 73,317</b>

The Company accounts for step rent provisions and escalation clauses under its operating leases on a straight-line basis in accordance with the provisions of paragraph 15 of SFAS 13. Any capital improvement funding or other lease concessions are taken into account when computing lease payments on a straight-line basis. None of the Company's lease payments is computed based on an index or other rate.

b. In December 1981, the Company formed a partnership with a supplier of raw materials which mines and processes sodium mineral deposits owned by each of the two partners in Wyoming. The Company purchases the majority of its sodium raw material requirements from the partnership. This agreement terminates upon two years' written notice by either company. The Company has an annual commitment to purchase 240,000 tons, based upon market price. There are no other material transactions with the partnership or the Company's partner.

c. On January 17, 2002, a petition for appraisal, Cede & Co., Inc. and GAMCO Investors, Inc. v. Medpointe Healthcare Inc., Civil Action No. 19354, was filed in the Court of Chancery of the State of Delaware demanding a determination of the fair value of shares of Medpointe. The action was brought by purported former shareholders of Carter-Wallace in connection with the merger on September 28, 2001 of MCC Acquisition Sub Corporation with and into Carter-Wallace. The merged entity subsequently changed its name to Medpointe. The petitioners sought an appraisal of the fair value of their shares in accordance with Section 262 of the Delaware General Corporation Law. The matter was heard by the court on March 10 and 11, 2003, at which time the petitioners purportedly held approximately 2.3 million shares of Medpointe. An additional post-trial hearing was held on January 20, 2004 to address the valuation of the Company. On July 30, 2004 the Court issued a letter informing the parties that it had determined that the fair value of a share of Carter-Wallace on the Merger Date to be \$24.45, and that interest at the annual rate of 7.5% compounded quarterly should be added to the award.

Medpointe and certain former Carter-Wallace shareholders were party to an indemnification agreement pursuant to which such shareholders would be required to indemnify Medpointe from a portion of the damages suffered by Medpointe in relation to the exercise of appraisal rights by the former Carter-Wallace shareholders in the merger. Pursuant to the agreement, the shareholders agreed to indemnify Medpointe for 40% of any Appraisal Damages (defined as the recovery greater than the per share merger price times the number of shares in the appraisal class) suffered by Medpointe in relation to the merger; provided that if the total amount of Appraisal Damages exceeds \$33.3 million, then the indemnifying stockholders will indemnify Medpointe for 100% of any damages suffered in excess of that amount. The Company, in turn, was party to an agreement with Medpointe pursuant to which it agreed to indemnify Medpointe and certain related parties against 60% of any Appraisal Damages for which Medpointe remains liable. The maximum liability to the Company pursuant to the indemnification agreement was \$12 million.

On March 27, 2003, GAMCO Investors, Inc. filed another complaint in the New York Supreme Court seeking damages from MedPointe, the former directors of Carter-Wallace, and one of the former shareholders of Carter-Wallace. The complaint alleges breaches of fiduciary duty in connection with certain employment agreements with former Carter-Wallace executives, the sale of Carter Wallace's consumer products business to the Company and the merger of MCC Acquisition Sub Corporation with and into Carter-Wallace. The complaint sought monetary damages and equitable relief, including among other things, invalidation of the transactions. On May 21, 2004, the court dismissed certain of the plaintiffs claims. The Company was not named as a defendant in this action and believed it had no liability.

On October 12, 2004, Medpointe and the plaintiffs settled both of the legal actions described above. In connection with the settlement of the legal actions, the Company entered into a settlement agreement and release with Medpointe pursuant to which, in settlement of the Company's indemnification obligations or other claims that Medpointe may have against the Company and certain persons related to the Company, the Company agreed to pay Medpointe \$8.1 million, of which \$4.9 million is included in interest expense in the third quarter of 2004 and \$3.2 million was applied towards goodwill. Payment was made by the Company during the fourth quarter of 2004.

d. The Company's distribution of condoms under the Trojan and other trademarks is regulated by the U.S. Food and Drug Administration (FDA). Certain of the Company's condoms and similar condoms sold by its competitors contain the spermicide nonoxynol-9 (N-9). The World Health Organization and other interested groups have issued reports suggesting that N-9 should not be used rectally or for multiple daily acts of vaginal intercourse, given the ingredient's potential to cause irritation to human membranes. The Company expects the FDA to issue non-binding draft guidance concerning the labeling of condoms with N-9, although the timing of such draft guidance remains uncertain. The Company believes

that condoms with N-9 provide an acceptable added means of contraceptive protection and is cooperating with the FDA concerning the appropriate labeling revisions, if any. However, the Company cannot predict the outcome of the FDA review. While awaiting further FDA guidance, the Company has implemented interim labeling revisions that caution against rectal use and more-than-once-a-day vaginal use of N-9-containing condoms, and has launched a public information campaign to communicate these messages to the affected communities. If the FDA or state governments promulgate rules which prohibit or restrict the use of N-9 in condoms (such as new labeling requirements), the financial condition and operating results of the Company could suffer.

e. On January 30, 2004 a suit was filed against the Company by Fleming Companies, Inc. in the US Bankruptcy Court, District of Delaware. Fleming, a customer of the Company, previously filed a voluntary petition for bankruptcy under Chapter 11, Title 11 of the United States Bankruptcy Code on April 1, 2003. Fleming sought the recovery of certain preference payments and overpayments made to the Company in the amount of approximately \$4.2 million. In addition, Fleming claimed that it is owed approximately \$1.9 million relating to a vendor agreement with the Company.

In December 2004, the Company settled this matter with the Reclamation Creditors Trust, successor in interest to the debtors, including Fleming, in the amount of \$1.1 million. This amount was paid in January 2005.

f. The Company has commitments to acquire approximately \$75 million of raw material and packaging supplies from its vendors. The packaging supplies are in either a converted or non-converted status. This enables the Company to respond quickly to changes in customer orders/requirements.

g. The Company has outstanding letters of credit of approximately \$6.1 million with several banks which guarantee payment for such things as insurance claims in the event of the Company's insolvency, a year's worth of lease payments on a warehouse, and 200 days of interest on an Industrial Revenue Bond borrowing.

h. In connection with the acquisition of the oral care brands from Unilever, the Company will make additional performance-based payments of a minimum of \$5 million and a maximum of \$12 million over the eight year period following the date of acquisition. All payments will be accounted for as additional purchase price. Through December 31, 2004, the Company has paid approximately \$2.5 million.

i. The Company, in the ordinary course of its business, is the subject of, or a party to, various pending or threatened legal actions. The Company believes that any ultimate liability arising from these actions will not have a material adverse effect on its financial position.

## 17. Segments

### *Segment Information*

As a result of the Armkel acquisition in May 2004, the Company has redefined its reportable segments. The Company has identified its reportable segments based on differences in the nature of products and organizational and ownership structures. Specifically, the Company has identified the following segments: Consumer Domestic, Consumer International, Specialty Products Division (SPD).

Segment revenues are derived from the sale of the following products:

<u>Segment</u>	<u>Products</u>
Consumer Domestic	Deodorizing and cleaning, laundry, and personal care products
Consumer International	Primarily personal care products
SPD	Specialty chemical products

The Company had 50 percent ownership interests in Armand and ArmaKleen as of December 31, 2004. Since the Company did not control these entities as of December 31, 2004, they were accounted for under the equity method in the consolidated financial statements of the Company. With respect to periods prior to the Armkel acquisition, the equity earnings of Armkel's domestic results were included in the Consumer Domestic segment, and its international results in the Consumer International segment. The equity earnings of Armand and ArmaKleen are

included in Corporate.

The following table presents selected financial information relating to the Company's segments for each of the three years in the period ended December 31, 2004. All amounts are presented in thousands. The Company's segment presentation for the years presented has been revised from prior period presentations to conform with the new segments. The segment discussion also presents product line fluctuations.

	Consumer Domestic	Consumer Inter 1	C&D SPD	Corporate (1)	As Reported
<b>Net Sales</b>					
<b>2004</b>	<b>\$ 1,077,101</b>	<b>\$ 176,694</b>	<b>\$ 208,267</b>	<b>\$</b>	<b>\$ 1,462,062</b>
2003	832,064	36,974	187,836		1,056,874
2002	832,474	31,642	183,033		1,047,149
<b>Gross Profit</b>					
<b>2004</b>	<b>413,304</b>	<b>81,411</b>	<b>54,085</b>	<b>(15,412)</b>	<b>533,388</b>
2003	269,273	11,882	48,980	(12,144)	317,991
2002	259,823	9,718	52,654	(10,974)	311,221
<b>Marketing Expenses</b>					
<b>2004</b>	<b>126,471</b>	<b>31,321</b>	<b>3,391</b>		<b>161,183</b>
2003	81,371	5,439	1,997		88,807
2002	78,530	4,147	3,518		86,195
<b>Selling, General and Admin.</b>					
<b>2004</b>	<b>150,990</b>	<b>37,025</b>	<b>27,849</b>	<b>(15,412)</b>	<b>200,452</b>
2003	99,107	2,996	27,374	(12,144)	117,333
2002	101,430	2,720	27,336	(10,974)	120,512
<b>Operating Profit</b>					
<b>2004</b>	<b>135,843</b>	<b>13,065</b>	<b>22,845</b>		<b>171,753</b>
2003	88,795	3,447	19,609		111,851
2002	79,863	2,851	21,800		104,514
<b>Income from Affiliates</b>					
<b>2004</b>	<b>5,744</b>	<b>5,033</b>		<b>4,338</b>	<b>15,115</b>
2003	16,330	8,800		3,502	28,632
2002	13,678	4,429		3,413	21,520
<b>Loss on Early Extinguishment of Debt (2)</b>					
<b>2004</b>				<b>22,871</b>	<b>22,871</b>
2003				4,127	4,127
2002					
<b>Interest Expense (2)</b>					
<b>2004</b>	<b>32,753</b>	<b>3,147</b>	<b>5,507</b>		<b>41,407</b>
2003	16,177	632	3,591		20,400
2002	18,316	647	5,011		23,974
<b>Investment Earning (2)</b>					
<b>2004</b>	<b>2,551</b>	<b>245</b>	<b>429</b>		<b>3,225</b>
2003	1,048	42	232		1,322
2002	1,370	48	375		1,793
<b>Other Income (Expense) (2)</b>					
<b>2004</b>	<b>1,287</b>	<b>124</b>	<b>217</b>		<b>1,628</b>
2003	(248)	(10)	(55)		(313)
2002	(2,000)	(71)	(547)		(2,618)
<b>Income Before Taxes and Minority</b>					
<b>2004</b>	<b>112,672</b>	<b>15,320</b>	<b>17,984</b>	<b>(18,533)</b>	<b>127,443</b>
2003	89,748	11,647	16,195	(625)	116,965
2002	74,595	6,610	16,617	3,413	101,235

<b>Identifiable Assets</b>					
<b>2004</b>	<b>1,382,870</b>	<b>274,244</b>	<b>172,978</b>	<b>47,905</b>	<b>1,877,997</b>
2003	681,912	11,943	156,773	268,989	1,119,617
2002	579,756	8,916	147,073	252,496	988,241
<b>Capital Expenditures</b>					
<b>2004</b>	<b>22,260</b>	<b>5,572</b>	<b>7,145</b>		<b>34,977</b>
2003	23,739		8,472		32,211
2002	27,841		10,898		38,739
<b>Depreciation, Depletion and Amortization</b>					
<b>2004</b>	<b>27,684</b>	<b>2,388</b>	<b>9,021</b>		<b>39,093</b>
2003	21,854	180	8,190		30,224
2002	19,734	213	7,943		27,890

(1) The Corporate segment reflects the following:

1. The administrative costs of the production planning and logistics functions, which are included in segment Selling, General and Administrative expenses but are elements of cost of goods sold in the Company's Consolidated Statements of Income. Such amounts were \$15,412, \$12,144, and \$10,974 for 2004, 2003 and 2002, respectively.
  2. Equity in earnings of affiliates from Armand Products and the Armakleen Company
  3. Loss on early extinguishment of debt
  4. Corporate assets include note receivable, deferred income taxes and the Company's investment in unconsolidated affiliates.
- (2) Interest Expense, Interest Income, and Other Income (Expense) were allocated to the Consumer Domestic, Consumer International and C&D SPD segments based upon each segment's relative Operating Profit.

Other than the differences noted in footnotes (1) and (2) above, the accounting policies followed by each of the segments, including intersegment transactions, are substantially consistent with the accounting policies set forth in footnote 1 to the consolidated financial statements.

The following table shows product line revenues from external customers for each of the three years in the period ended December 31, 2004.

<i>(In thousands)</i>	<u>2004</u>	<u>2003</u>	<u>2002</u>
Consumer Domestic			
Deodorizing Products	\$ 265,150	\$ 241,245	\$ 255,756
Laundry Products	415,159	404,098	400,476
Personal Care Products	396,792	186,721	176,242
<b>Total Consumer Domestic</b>	<b>1,077,101</b>	832,064	832,474
Consumer International	176,694	36,974	31,642
C&D Specialty Products	208,267	187,836	183,033
<b>Total Consolidated Net Sales</b>	<b>\$ 1,462,062</b>	<b>\$ 1,056,874</b>	<b>\$ 1,047,149</b>

### *Geographic Information*

Approximately 83%, 91% and 92% of the net sales reported in the accompanying consolidated financial statements in 2004, 2003 and 2002, respectively were to customers in the United States. Approximately 92%, 94% and 95% of long-lived assets were located in the U.S. at December 31, 2004, 2003 and 2002, respectively. No one country accounts for more than 4% of consolidated net sales and 6% of total assets.

### *Customers*

A group of three C&D Consumer customers accounted for approximately 26% of consolidated net sales in 2004, of which a single customer (Wal-Mart Stores, Inc.) accounted for approximately 18%. A group of three C&D Consumer customers accounted for approximately 26% of consolidated net sales in 2003, of which Wal-Mart accounted for approximately 17%. A group of three customers accounted for approximately 23% of consolidated net sales in 2002 of which Wal-Mart accounted for approximately 16%.

### *Supplemental Financial Information of Guarantor and Non-Guarantor Operations*

The 6% senior subordinated notes and 9 1/2% senior subordinated notes are fully and unconditionally guaranteed by Church & Dwight Co., Inc. and certain domestic subsidiaries of the Company on a joint and several basis. The following information is being presented to comply with SEC Regulation S-X, Item 3-10.



Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-K/A

Supplemental information for condensed consolidated balance sheets at December 31, 2004 and December 31, 2003, condensed consolidated income statements for the twelve months ended December 31, 2004 and December 31, 2003, and condensed consolidated statements of cash flows for the twelve-month periods ended December 31, 2004 and December 31, 2003 is summarized as follows (amounts in thousands):

**Statements of Income**

	<b>For The Twelve Months Ended</b>			
	<b>December 31, 2004</b>			
	<b>Non-</b>			
	<b>Guarantor Subsidiaries</b>	<b>Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Total Consolidated</b>
Net sales	\$ 1,263,551	\$ 224,628	\$ (26,117)	\$ 1,462,062
Cost of sales	817,411	137,380	(26,117)	928,674
Gross profit	446,140	87,248		533,388
Operating expenses	293,679	67,956		361,635
Income from operations	152,461	19,292		171,753
Equity in earnings of affiliates	15,115			15,115
Investment earnings	2,297	928		3,225
Intercompany income (expense)	(724)	724		
Other income (expense)	2,621	(993)		1,628
Loss on early extinguishment of debt	(22,871)			(22,871)
Interest expense	(38,202)	(3,205)		(41,407)
Income before taxes	110,697	16,746		127,443
Income taxes	34,008	4,623		38,631
Minority interest	4			4
Net Income	\$ 76,685	\$ 12,123	\$	\$ 88,808

**Statements of Income**

	<b>For The Twelve Months Ended</b>			
	<b>December 31, 2003</b>			
	<b>Non-</b>			
	<b>Guarantor Subsidiaries</b>	<b>Guarantor Subsidiaries</b>	<b>Eliminations</b>	<b>Total Consolidated</b>
Net sales	\$ 995,622	\$ 79,804	\$ (18,552)	\$ 1,056,874
Cost of sales	695,860	61,575	(18,552)	738,883
Gross profit	299,762	18,229		317,991
Operating expenses	196,816	9,324		206,140
Income from operations	102,946	8,905		111,851
Equity in earnings of affiliates	28,632			28,632
Investment earnings	1,255	67		1,322

Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-K/A

Intercompany income (expense)	(3,624)	3,624		
Other income (expense)	(473)	160		(313)
Loss on early extinguishment of debt	(4,127)			(4,127)
Interest expense	(18,044)	(2,356)		(20,400)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Income before taxes	106,565	10,400		116,965
Income taxes	32,920	3,054		35,974
Minority interest	30			30
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Net Income	\$ 73,615	\$ 7,346	\$	\$ 80,961
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

**Consolidated Balance Sheet**

	December 31, 2004			
	Non-			
	Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Total Consolidated
<b>Current Assets</b>				
Cash and cash equivalents	\$ 81,949	\$ 63,591	\$	\$ 145,540
Accounts receivable (net of allowances)	10,030	156,173		166,203
Inventories	104,578	44,320		148,898
Deferred income taxes	1,764	5,836		7,600
Note receivable - current	1,015			1,015
Net assets held for sale	11,000	2,300		13,300
Prepaid expenses	7,698	3,542		11,240
<b>Total Current Assets</b>	<b>218,034</b>	<b>275,762</b>		<b>493,796</b>
<b>Property, Plant and Equipment (Net)</b>	<b>277,255</b>	<b>54,949</b>		<b>332,204</b>
<b>Notes Receivable</b>	<b>78,098</b>		<b>(70,347)</b>	<b>7,751</b>
<b>Equity Investment in Affiliates</b>	<b>113,672</b>		<b>(100,417)</b>	<b>13,255</b>
<b>Long-term Supply Contracts</b>	<b>4,881</b>			<b>4,881</b>
<b>Intangibles</b>	<b>930,601</b>	<b>55,327</b>		<b>985,928</b>
<b>Other Assets</b>	<b>36,862</b>	<b>3,321</b>		<b>40,183</b>
<b>Total Assets</b>	<b>\$ 1,659,403</b>	<b>\$ 389,359</b>	<b>\$ (170,764)</b>	<b>\$ 1,877,998</b>
<b>Liabilities and Stockholders' Equity</b>				
<b>Current Liabilities</b>				
Short-term borrowings	\$	\$ 98,239	\$	\$ 98,239
Accounts payable and accrued expenses	171,416	70,610	(2)	242,024
Intercompany accounts	7,874	(7,874)		
Current portion of long-term debt	5,797			5,797
Income taxes payable	12,052	(573)		11,479
<b>Total Current Liabilities</b>	<b>197,139</b>	<b>160,402</b>	<b>(2)</b>	<b>357,539</b>
<b>Long-term Debt</b>	<b>753,858</b>	<b>848</b>		<b>754,706</b>
<b>Notes Payable</b>		<b>81,339</b>	<b>(81,339)</b>	
<b>Deferred Income Taxes</b>	<b>93,640</b>	<b>14,576</b>		<b>108,216</b>
<b>Deferred and Other Long-term Liabilities</b>	<b>37,906</b>	<b>1,478</b>		<b>39,384</b>
<b>Pension, Postretirement and Postemployment Benefits</b>	<b>38,120</b>	<b>19,716</b>		<b>57,836</b>
<b>Minority Interest</b>		<b>287</b>		<b>287</b>
<b>Commitments and Contingencies</b>				
<b>Stockholders' Equity</b>				
Common Stock	69,991	56,628	(56,628)	69,991
Additional paid-in capital	47,444	28,118	(28,118)	47,444
Retained earnings	489,117	22,855	(1,492)	510,480
Accumulated other comprehensive (loss)	(3,037)	3,112	(3,185)	(3,110)
	603,515	110,713	(89,423)	624,805
Common stock in treasury, at cost	(64,775)			(64,775)

Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-K/A

<b>Total Stockholders Equity</b>	<u>538,740</u>	<u>110,713</u>	<u>(89,423)</u>	<u>560,030</u>
<b>Total Liabilities and Stockholders Equity</b>	<u>\$ 1,659,403</u>	<u>\$ 389,359</u>	<u>\$ (170,764)</u>	<u>\$ 1,877,998</u>

## Consolidated Balance Sheet

	December 31, 2003			
	Non-			
	Guarantor Subsidiaries	Guarantor Subsidiaries	Eliminations	Total Consolidated
<b>Current Assets</b>				
Cash and cash equivalents	\$ 68,975	\$ 6,659	\$	\$ 75,634
Accounts receivable (net of allowances)	30,501	77,052		107,553
Inventories	75,111	9,065		84,176
Deferred income taxes	14,054	55		14,109
Note receivable - current	942			942
Prepaid expenses	6,115	693		6,808
<b>Total Current Assets</b>	<b>195,698</b>	<b>93,524</b>		<b>289,222</b>
<b>Property, Plant and Equipment (Net)</b>	<b>236,520</b>	<b>21,490</b>		<b>258,010</b>
<b>Notes Receivable</b>	<b>8,766</b>			<b>8,766</b>
<b>Equity Investment in Affiliates</b>	<b>189,435</b>		<b>(36,860)</b>	<b>152,575</b>
<b>Long-term Supply Contracts</b>	<b>5,668</b>			<b>5,668</b>
<b>Tradenames and Other Intangibles</b>	<b>117,550</b>	<b>1,824</b>		<b>119,374</b>
<b>Goodwill</b>	<b>247,702</b>	<b>11,742</b>		<b>259,444</b>
<b>Other Assets</b>	<b>24,870</b>	<b>1,688</b>		<b>26,558</b>
<b>Total Assets</b>	<b>\$ 1,026,209</b>	<b>\$ 130,268</b>	<b>\$ (36,860)</b>	<b>\$ 1,119,617</b>
<b>Liabilities and Stockholders' Equity</b>				
<b>Current Liabilities</b>				
Short-term borrowings	\$	\$ 62,337	\$	\$ 62,337
Accounts payable and accrued expenses	137,751	11,207		148,958
Intercompany accounts	(14,214)	14,214		
Current portion of long-term debt	3,560			3,560
Income taxes payable	15,470	1,729		17,199
<b>Total Current Liabilities</b>	<b>142,567</b>	<b>89,487</b>		<b>232,054</b>
<b>Long-term Debt</b>	<b>329,830</b>	<b>1,319</b>		<b>331,149</b>
<b>Deferred Income Taxes</b>	<b>60,447</b>	<b>553</b>		<b>61,000</b>
<b>Deferred and Other Long-term Liabilities</b>	<b>32,776</b>	<b>388</b>		<b>33,164</b>
<b>Postretirement and Postemployment Benefits</b>	<b>23,180</b>	<b>279</b>		<b>23,459</b>
<b>Minority Interest</b>		<b>297</b>		<b>297</b>
<b>Commitments and Contingencies</b>				
<b>Stockholders' Equity</b>				
Common Stock	69,991	14,701	(14,701)	69,991
Additional paid-in capital	27,882	17,761	(17,761)	27,882
Retained earnings	426,439	10,730	(1,492)	435,677
Accumulated other comprehensive (loss)	(5,809)	(5,247)	(2,906)	(13,962)
	518,503	37,945	(36,860)	519,588
Common stock in treasury, at cost	(81,094)			(81,094)

Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-K/A

<b>Total Stockholders Equity</b>	437,409	37,945	(36,860)	438,494
<b>Total Liabilities and Stockholders Equity</b>	\$ 1,026,209	\$ 130,268	\$ (36,860)	\$ 1,119,617

## Statements of Cash Flows

	For The Twelve Months Ended		
	December 31, 2004		
	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Total Consolidated
<b>Cash Flow From Operating Activities:</b>			
<b>Net Income</b>	\$ 76,685	\$ 12,123	\$ 88,808
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>			
Depreciation, depletion and amortization	35,185	3,908	39,093
Net loss on disposal and writedown of assets	4,547	258	4,805
Equity in earnings of affiliates	(15,115)		(15,115)
Deferred income taxes	12,677	186	12,863
Net non-cash charges related to loss on early extinguishment of debt	3,592		3,592
Other	(1,483)	(356)	(1,839)
Change in assets and liabilities: (net of effects of acquisitions and divestitures)			
Decrease (increase) in accounts receivable	18,326	24,404	42,730
Decrease in inventories	2,864	2,012	4,876
Decrease (increase) in prepaid expenses	2,560	(3,846)	(1,286)
Increase in accounts payable	357	4,897	5,254
Increase (decrease) in income taxes payable	13,768	(6,554)	7,214
(Decrease) increase in intercompany and other liabilities	(57,405)	61,298	3,893
<b>Net Cash Provided by Operating Activities</b>	<b>96,558</b>	<b>98,330</b>	<b>194,888</b>
<b>Cash Flow From Investing Activities:</b>			
Additions to property, plant & equipment	(27,231)	(7,746)	(34,977)
Contingent acquisition payments	(5,666)		(5,666)
Distributions from affiliates	5,626		5,626
Proceeds from note receivable	942		942
Proceeds from sale of fixed assets		1,350	1,350
Purchase of new businesses	(131,595)	(62,606)	(194,201)
Other	1,411	(150)	1,261
<b>Net Cash Used in Investing Activities</b>	<b>(156,513)</b>	<b>(69,152)</b>	<b>(225,665)</b>
<b>Cash Flow from Financing Activities:</b>			
Proceeds from short term borrowing		35,475	35,475
Proceeds from long-term debt borrowing	790,000		790,000
Repayments of long-term debt (repayment)	(724,571)	(538)	(725,109)
Intercompany debt transactions	11,485	(11,485)	
Proceeds from stock options exercised	18,633		18,633
Payment of cash dividends	(14,005)		(14,005)
Deferred financing costs	(8,613)		(8,613)
<b>Net Cash Provided by Financing Activities</b>	<b>72,929</b>	<b>23,452</b>	<b>96,381</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>		<b>4,302</b>	<b>4,302</b>
<b>Net Change In Cash &amp; Cash Equivalents</b>	<b>12,974</b>	<b>56,932</b>	<b>69,906</b>
<b>Cash And Cash Equivalents At Beginning of Year</b>	<b>68,975</b>	<b>6,659</b>	<b>75,634</b>



<b>Cash And Cash Equivalents At End of Period</b>	<u>\$ 81,949</u>	<u>\$ 63,591</u>	<u>\$ 145,540</u>
---	------------------	------------------	-------------------

## Statements of Cash Flows

	For The Twelve Months Ended		
	December 31, 2003		
	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Total Consolidated
<b>Cash Flow From Operating Activities:</b>			
<b>Net Income</b>	\$ 73,613	\$ 7,348	\$ 80,961
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation, depletion and amortization	28,624	1,600	30,224
Disposal and write-down of assets	6,848		6,848
Equity in earnings of affiliates	(28,632)		(28,632)
Deferred income taxes	12,490		12,490
Loss on early extinguishment of debt			
Other	330		330
Change in assets and liabilities:			
Decrease (increase) in accounts receivable	60,231	(66,521)	(6,290)
Decrease in inventories	15,928	580	16,508
Decrease (increase) in prepaid expenses	29	480	509
Decrease in accounts payable	(10,201)	(2,061)	(12,262)
Increase in income taxes payable	7,394		7,394
(Decrease) increase in intercompany and other liabilities	13,380	(3,590)	9,790
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>180,034</b>	<b>(62,164)</b>	<b>117,870</b>
<b>Cash Flow From Investing Activities:</b>			
Additions to property, plant & equipment	(29,220)	(2,991)	(32,211)
Proceeds from note receivable	870		870
Acquisition of Biovance stock	(3,597)		(3,597)
Distributions from affiliates	4,570		4,570
Purchase of new business	(110,674)		(110,674)
Other long-term assets	(174)		(174)
<b>Net Cash Used in Investing Activities</b>	<b>(138,225)</b>	<b>(2,991)</b>	<b>(141,216)</b>
<b>Cash Flow from Financing Activities:</b>			
Long-term debt borrowing	350,000		350,000
Long-term debt (repayment)	(435,962)	56,438	(379,524)
Proceeds (repayments) from short-term borrowings	56,807		56,807
Proceeds from stock options exercised	12,640		12,640
Payment of cash dividends	(12,495)		(12,495)
Intercompany debt transactions	(10,000)	10,000	
Deferred financing costs	(5,569)		(5,569)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<b>(44,579)</b>	<b>66,438</b>	<b>21,859</b>
Effect of exchange rate changes on cash and cash equivalents		819	819
<b>Net Change In Cash &amp; Cash Equivalents</b>	<b>(2,770)</b>	<b>2,102</b>	<b>(668)</b>
<b>Cash And Cash Equivalents At Beginning of Year</b>	<b>71,745</b>	<b>4,557</b>	<b>76,302</b>

<b>Cash And Cash Equivalents At End of Period</b>	<b>\$ 68,975</b>	<b>\$ 6,659</b>	<b>\$ 75,634</b>
---	------------------	-----------------	------------------

**18. Assets Held For Sale**

As part of the Armkel acquisition, the Company has title to property and facilities in Cranbury, New Jersey, which includes research facilities that are in use as well as assets that are held for sale. In the third quarter of 2004, the Company entered into a contract to sell sections of the land available for development (and demolish the remaining buildings at the buyer's expense), subject to obtaining environmental and other regulatory approvals. This contract is to be finalized before the end of 2005. The Company is currently in negotiations to sell the remaining assets held for sale. The value expected to be received for all land at the Cranbury, NJ location (other than that related to the research facilities), net of costs to sell, is approximately \$11.0 million, which is allocated to the Consumer Domestic segment.

In January 2005, the Company signed a letter of intent to sell its manufacturing plant in Mexico. The plant will continue its operations under the new owner. The value expected to be received for this facility in Mexico, net of costs to sell, is approximately \$2.3 million, which is allocated to the Consumer International segment.

**19. Unaudited Quarterly Financial Information**

The unaudited quarterly results of operations are prepared in conformity with generally accepted accounting principles and reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the results of operations for the periods presented. Adjustments are of a normal, recurring nature, except as discussed in the accompanying notes.

<i>(in thousands, except for per share data)</i>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>	<b>Full Year</b>
<b>2004</b>					
Net sales	\$ 295,991	\$ 340,785	\$ 420,310	\$ 404,976	\$ 1,462,062
Gross profit	96,562	119,676	160,589	156,561	533,388
Income from operations	38,460	41,428	53,401	38,464	171,753
Equity in earnings of affiliates	9,824	2,792	1,143	1,356	15,115
Net income	29,906	19,573	27,401	11,928	88,808
Net income per share - basic	\$ 0.49	\$ 0.32	\$ 0.44	\$ 0.19	\$ 1.44
Net income per share - diluted	\$ 0.46	\$ 0.30	\$ 0.42	\$ 0.18	\$ 1.36
<b>2003</b>					
Net sales	\$ 248,298	\$ 256,263	\$ 265,566	\$ 286,747	\$ 1,056,874
Gross profit	73,834	79,573	80,542	84,042	317,991
Income from operations	28,781	25,049	28,874	29,147	111,851
Equity in earnings of affiliates	8,152	12,528	5,164	2,788	28,632
Net income	20,946	24,626	19,522	15,867	80,961
Net income per share - basic	\$ 0.35	\$ 0.41	\$ 0.32	\$ 0.26	\$ 1.34
Net income per share - diluted	\$ 0.33	\$ 0.39	\$ 0.31	\$ 0.25	\$ 1.28
<b>2002</b>					
Net sales	\$ 256,802	\$ 258,463	\$ 263,786	\$ 268,098	\$ 1,047,149
Gross profit	73,250	75,938	81,200	80,833	311,221
Income from operations	27,227	24,293	28,149	24,845	104,514
Equity in earnings of affiliates	917	11,364	5,453	3,786	21,520
Net income	14,923	18,652	17,575	15,540	66,690
Net income per share - basic	\$ 0.25	\$ 0.31	\$ 0.29	\$ 0.26	\$ 1.12

Edgar Filing: CHURCH & DWIGHT CO INC /DE/ - Form 10-K/A

Net income per share diluted \$ 0.24 \$ 0.30 \$ 0.28 \$ 0.25 \$ 1.07

Fourth quarter 2004, includes a \$1.8 million write off of manufacturing equipment that was removed from service, and a \$14.9 million charge for net loss on early extinguishment of debt associated with refinancing the Company's subordinated notes.

Third quarter 2004 includes an \$6.1 million accounting charge relating to the step-up of opening inventory values associated with the Armkel acquisition.

Second quarter includes an \$8.0 million charge for the early extinguishment of debt associated with refinancing its bank debt to effect the Armkel acquisition and a \$4.1 million accounting charge related to the step-up of opening inventory that was associated with the Armkel acquisition.

Fourth quarter 2003 includes a \$2.7 million impairment charge on manufacturing equipment and a net \$2.6 million loss associated with the acquisition of the oral care business from Unilever. The \$2.6 million loss includes a \$5.9 million accounting charge related to the step-up of opening inventory values and a \$4.9 million charge to write off deferred financing costs related to previous financing transactions and the settlement of interest rate swap agreements.

Fourth quarter 2002 includes a \$5.1 million trademark, equipment and plant obsolescence charge.

Third Quarter 2002 includes a \$1.1 million trademark impairment charge.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 15, 2005.

**CHURCH & DWIGHT CO., INC.**

By: */s/ James R. Craigie*

---

James R. Craigie  
President and Chief Executive Officer