

CHURCH & DWIGHT CO INC /DE/  
Form 10-Q  
November 02, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended September 30, 2015

Commission file number 1-10585

CHURCH & DWIGHT CO., INC.

(Exact name of registrant as specified in its charter)

Delaware 13-4996950  
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)  
500 Charles Ewing Boulevard, Ewing, N.J. 08628

(Address of principal executive offices)

Registrant's telephone number, including area code: (609) 806-1200

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

Name of each exchange

Title of each class on which registered  
Common Stock, \$1 par value 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 twelve months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of October 29, 2015, there were 131,122,903 shares of Common Stock outstanding.

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## PART I – FINANCIAL INFORMATION

## ITEM 1: FINANCIAL STATEMENTS

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

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(In millions, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Net Sales	\$861.8	\$ 841.8	\$2,521.2	\$ 2,432.1
Cost of sales	476.0	474.3	1,406.8	1,368.8
Gross Profit	385.8	367.5	1,114.4	1,063.3
Marketing expenses	92.8	96.6	297.4	297.8
Selling, general and administrative expenses	102.4	93.7	312.0	288.1
Income from Operations	190.6	177.2	505.0	477.4
Equity in earnings (losses) of affiliates	3.1	3.4	(8.4 )	7.9
Investment earnings	0.2	0.6	1.2	1.7
Other income (expense), net	(0.8 )	(1.1 )	(4.4 )	(1.6 )
Interest expense	(7.4 )	(6.9 )	(22.9 )	(20.5 )
Income before Income Taxes	185.7	173.2	470.5	464.9
Income taxes	65.3	57.3	169.2	157.6
Net Income	\$120.4	\$ 115.9	\$301.3	\$ 307.3
Weighted average shares outstanding - Basic	131.1	133.7	131.3	135.5
Weighted average shares outstanding - Diluted	133.6	136.0	133.8	137.9
Net income per share - Basic	\$0.92	\$ 0.87	\$2.29	\$ 2.27
Net income per share - Diluted	\$0.90	\$ 0.85	\$2.25	\$ 2.23
Cash dividends per share	\$0.335	\$ 0.31	\$1.01	\$ 0.93

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

(In millions)

	Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,

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	2015	2014	2015	2014
Net Income	\$120.4	\$ 115.9	\$301.3	\$ 307.3
Other comprehensive income, net of tax:				
Foreign exchange translation adjustments	(13.1 )	(19.3 )	(17.8 )	(14.8 )
Defined benefit plan adjustments	0.0	0.0	3.9	0.7
Income (loss) from derivative agreements	2.3	0.9	3.7	0.0
Other comprehensive income	(10.8 )	(18.4 )	(10.2 )	(14.1 )
Comprehensive income	\$109.6	\$ 97.5	\$291.1	\$ 293.2

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions, except share and per share data)

	September 30, 2015	December 31, 2014
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$210.6	\$423.0
Accounts receivable, less allowances of \$0.9 and \$1.9	330.7	322.9
Inventories	274.3	245.9
Deferred income taxes	14.3	14.4
Other current assets	21.8	26.3
<b>Total Current Assets</b>	<b>851.7</b>	<b>1,032.5</b>
Property, Plant and Equipment, Net	610.0	616.2
Equity Investment in Affiliates	7.9	24.8
Trade Names and Other Intangibles, Net	1,279.5	1,272.4
Goodwill	1,354.3	1,325.0
Other Assets	114.4	110.4
<b>Total Assets</b>	<b>\$4,217.8</b>	<b>\$4,381.3</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Current Liabilities</b>		
Short-term borrowings	\$25.0	\$146.7
Current portion of long-term debt	250.0	249.9
Accounts payable and accrued expenses	486.3	507.7
Income taxes payable	21.7	1.0
<b>Total Current Liabilities</b>	<b>783.0</b>	<b>905.3</b>
Long-term Debt	706.0	698.6
Deferred Income Taxes	495.1	484.1
Deferred and Other Long-term Liabilities	157.0	163.1
Pension, Postretirement and Postemployment Benefits	27.1	28.3
<b>Total Liabilities</b>	<b>2,168.2</b>	<b>2,279.4</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Preferred Stock, \$1.00 par value, Authorized 2,500,000 shares; none issued	0.0	0.0
Common Stock, \$1.00 par value, Authorized 300,000,000 shares; 146,427,550 shares issued	146.4	146.4
Additional paid-in capital	374.1	364.8
Retained earnings	2,584.8	2,414.9
Accumulated other comprehensive loss	(44.9 )	(34.7 )
Common stock in treasury, at cost: 15,434,991 shares in 2015 and 13,075,944 shares in 2014	(1,010.8 )	(789.5 )

Total Stockholders' Equity	2,049.6	2,101.9
Total Liabilities and Stockholders' Equity	\$4,217.8	\$4,381.3

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

(Unaudited)

(In millions)

	Nine Months Ended September 30, 2015	September 30, 2014
Cash Flow From Operating Activities		
Net Income	\$ 301.3	\$ 307.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation expense	44.1	43.3
Amortization expense	32.2	24.4
Deferred income taxes	20.4	10.5
Equity in net earnings of affiliates	(9.0 )	(7.9 )
Distributions from unconsolidated affiliates	9.8	8.4
Non-cash pension settlement charge	8.4	0.0
Non-cash compensation expense	14.2	15.0
Asset impairment charge and other asset write-offs	17.9	5.6
Other	5.1	1.1
Change in assets and liabilities:		
Accounts receivable	(20.1 )	5.0
Inventories	(36.5 )	(10.0 )
Other current assets	2.7	2.1
Accounts payable and accrued expenses	(3.1 )	(2.6 )
Income taxes payable	41.7	26.4
Excess tax benefit on stock options exercised	(13.6 )	(14.6 )
Other operating assets and liabilities, net	(6.7 )	(5.3 )
Net Cash Provided By Operating Activities	408.8	408.7



Cash Flow From Investing Activities			
Additions to property, plant and equipment	(44.7 )	(36.2 )	
Acquisitions	(74.9 )	(216.1 )	
Other	(3.0 )	(1.3 )	
Net Cash Used In Investing Activities	(122.6 )	(253.6 )	
Cash Flow From Financing Activities			
Short-term debt borrowings (repayments)	(121.7 )	250.4	
Proceeds from stock options exercised	23.3	24.5	
Excess tax benefit on stock options exercised	13.6	14.6	
Payment of cash dividends	(131.4 )	(126.0 )	
Purchase of treasury stock	(263.1 )	(435.0 )	
Other	(1.0 )	(0.1 )	
Net Cash Used In Financing Activities	(480.3 )	(271.6 )	
Effect of exchange rate changes on cash and cash equivalents	(18.3 )	(10.2 )	
Net Change In Cash and Cash Equivalents	(212.4 )	(126.7 )	
Cash and Cash Equivalents at Beginning of Period	423.0	496.9	
Cash and Cash Equivalents at End of Period	\$ 210.6	\$ 370.2	

See Notes to Condensed Consolidated Financial Statements (Unaudited).

CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW-CONTINUED

(Unaudited)

(In millions)

	Nine Months Ended	
	September 30, 2015	September 30, 2014
Cash paid during the year for:		
Interest (net of amounts capitalized)	\$ 15.8	\$ 14.2
Income taxes	\$ 110.7	\$ 122.2
Supplemental disclosure of non-cash investing activities:		
Property, plant and equipment expenditures included in Accounts Payable	\$ 5.5	\$ 11.9

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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

## CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Nine Months Ended September 30, 2015 and 2014

(Unaudited)

(In millions)

	Number of Shares		Amounts					Total		
	Common Stock	Treasury Stock	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Church & Dwight Co., Inc. Stockholders' Equity	Noncontrolling Stockholders' Interest	Total Stockholders' Equity
December 31, 2013	146.4	(7.5 )	\$ 146.4	\$ 352.9	\$ 2,168.5	\$ 0.2	\$(368.1 )	\$ 2,299.9	\$ 0.1	\$ 2,300.0
Net income	0.0	0.0	0.0	0.0	307.3	0.0	0.0	307.3	0.0	307.3
Other comprehensive income (loss)	0.0	0.0	0.0	0.0	0.0	(14.1 )	0.0	(14.1 )	0.0	(14.1 )
Cash dividends	0.0	0.0	0.0	0.0	(126.0 )	0.0	0.0	(126.0 )	0.0	(126.0 )
Stock purchases	0.0	(6.4 )	0.0	0.0	0.0	0.0	(435.0 )	(435.0 )	0.0	(435.0 )
Stock based compensation expense and stock option plan transactions, including related income tax benefits of \$14.9	0.0	1.0	0.0	9.9	0.0	0.0	43.6	53.5	0.0	53.5
Other stock issuances	0.0	0.1	0.0	0.6	0.0	0.0	1.1	1.7	0.0	1.7
September 30, 2014	146.4	(12.8 )	\$ 146.4	\$ 363.4	\$ 2,349.8	\$(13.9 )	\$(758.4 )	\$ 2,087.3	\$ 0.1	\$ 2,087.4
December 31, 2014	146.4	(13.1 )	\$ 146.4	\$ 364.8	\$ 2,414.9	\$(34.7 )	\$(789.5 )	\$ 2,101.9	\$ 0.0	\$ 2,101.9

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Net income	0.0	0.0	0.0	0.0	301.3	0.0	0.0	301.3	0.0	301.3
Other comprehensive										
income (loss)	0.0	0.0	0.0	0.0	0.0	(10.2 )	0.0	(10.2 )	0.0	(10.2 )
Cash dividends	0.0	0.0	0.0	0.0	(131.4 )	0.0	0.0	(131.4 )	0.0	(131.4 )
Stock purchases	0.0	(3.2 )	0.0	0.0	0.0	0.0	(263.1 )	(263.1 )	0.0	(263.1 )
Transfer of stock for settlement										
of share repurchase agreement	0.0	0.1	0.0	(4.1 )	0.0	0.0	4.1	0.0	0.0	0.0
Stock based compensation										
expense and stock option plan										
transactions, including related										
income tax benefits of \$13.6	0.0	0.8	0.0	13.4	0.0	0.0	37.7	51.1	0.0	51.1
September 30, 2015	146.4	(15.4 )	\$146.4	\$374.1	\$2,584.8	\$(44.9 )	\$(1,010.8)	\$2,049.6	\$ 0.0	\$2,049.6

See Notes to Condensed Consolidated Financial Statements (Unaudited).

CHURCH & DWIGHT CO., INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(In millions, except per share data)

1. Basis of Presentation

The condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014, the condensed consolidated statements of income and comprehensive income for the three and nine months ended September 30, 2015 and September 30, 2014, and the condensed consolidated statements of cash flow and stockholders' equity for the nine months ended September 30, 2015 and September 30, 2014 have been prepared by Church & Dwight Co., Inc. (the "Company"). In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at September 30, 2015 and results of operations and cash flows for all periods presented have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014 (the "Form 10-K"). The results of operations for the period ended September 30, 2015 are not necessarily indicative of the operating results for the full year.

The Company incurred research and development expenses in the third quarter of 2015 and 2014 of \$16.0 and \$14.8, respectively. The Company incurred research and development expenses in the first nine months of 2015 and 2014 of \$48.1 and \$42.3, respectively. These expenses are included in selling, general and administrative expenses.

2. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance that clarifies the principles for recognizing revenue. The guidance provides that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to receive for those goods or services. The guidance is effective for annual and interim periods beginning after December 15, 2017, and allows companies to apply the requirements retrospectively, either to all prior periods presented or through a cumulative adjustment in the year of adoption. Early adoption is allowed for annual and interim periods beginning after December 15, 2016. The Company is currently evaluating the impact, if any, that the adoption of the guidance will have on its consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued guidance that changes the presentation of certain debt issuance costs in the financial statements. The guidance requires debt issuance costs to be presented as a direct deduction from the associated debt liability rather than as an asset. Amortization of the costs will continue to be reported as interest expense. The guidance is effective for interim and annual reporting periods beginning after December 15, 2015, and will be applied retrospectively for each prior period presented in the financial statements. This guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In April 2015, the FASB issued guidance that clarifies the accounting treatment for cloud computing arrangements. The guidance provides that if an arrangement includes a software license, then the software license element should be accounted for consistent with the acquisition of other software licenses. If the arrangement does not include a software license, the arrangement should be accounted for as a service contract. This guidance is effective for interim and annual periods beginning after December 15, 2015, and may be applied retrospectively or prospectively. This guidance is not expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

In July 2015, the FASB issued guidance on simplifying the measurement of inventory. Inventory within the scope of this update is required to be measured at the lower of its cost or net realizable value, with net realizable value being the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The guidance is effective for interim and annual periods beginning after December 15, 2016, with early adoption permitted, and will be applied prospectively. The Company is currently evaluating the impact, if any, that the adoption of the guidance will have on its consolidated financial position, results of operations or cash flows.

In September 2015, the FASB issued guidance simplifying the accounting for measurement-period adjustments in connection with an acquisition. The new guidance requires that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that

the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The new guidance is effective prospectively for interim and annual periods beginning after December 15, 2015, with early adoption permitted. The Company is currently evaluating the impact, if any, that the adoption of the guidance will have on its consolidated financial position, results of operations or cash flows.

There have been no accounting pronouncements issued but not yet adopted by the Company, which are currently expected to have a material impact on the Company's consolidated financial position, results of operations or cash flows.

### 3. Inventories

Inventories consist of the following:

	September 30, 2015	December 31, 2014
Raw materials and supplies	\$ 81.7	\$ 70.8
Work in process	37.0	25.0
Finished goods	155.6	150.1
Total	\$ 274.3	\$ 245.9

### 4. Property, Plant and Equipment, Net ("PP&E")

PP&E consists of the following:

	September 30, 2015	December 31, 2014
Land	\$ 25.3	\$ 25.5
Buildings and improvements	301.5	281.7
Machinery and equipment	644.0	599.3
Software	86.7	86.4
Office equipment and other assets	60.6	57.2
Construction in progress	32.8	71.5
Gross Property, Plant and Equipment	1,150.9	1,121.6
Less accumulated depreciation and amortization	540.9	505.4
Net Property, Plant and Equipment	\$ 610.0	\$ 616.2

	Three Months Ended September 30, 2015		Nine Months Ended September 30, 2014	
Depreciation and amortization on PP&E	\$ 14.5	\$ 13.9	\$ 44.1	\$ 43.3
Interest charges capitalized (in construction in progress)	\$ 0.1	\$ 0.2	\$ 0.5	\$ 0.5

The decrease in construction in progress is due to the completion of the Company's new vitamin manufacturing facility in York, Pennsylvania.



## 5. Earnings Per Share (“EPS”)

Basic EPS is calculated based on income available to holders of the Company’s common stock (“Common Stock”) and the weighted average number of shares outstanding during the reported period. Diluted EPS includes additional dilution from potential Common Stock issuable pursuant to the exercise of outstanding stock options.

The following table sets forth a reconciliation of the weighted average number of shares of Common Stock outstanding to the weighted average number of shares outstanding on a diluted basis:

	Three Months Ended		Nine Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Weighted average common shares outstanding - basic	131.1	133.7	131.3	135.5
Dilutive effect of stock options	2.5	2.3	2.5	2.4
Weighted average common shares outstanding - diluted	133.6	136.0	133.8	137.9
Antidilutive stock options outstanding	0.5	1.2	1.1	1.2

## 6. Stock Based Compensation Plans

The following table provides a summary of option activity during the nine months ended September 30, 2015:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2014	8.5	\$ 45.50		
Granted	1.1	83.81		
Exercised	(0.8 )	30.21		
Cancelled	(0.1 )	62.55		
Outstanding at September 30, 2015	8.7	\$ 51.38	6.0	\$ 282.9
Exercisable at September 30, 2015	4.9	\$ 36.86	4.3	\$ 231.5

The following table provides information regarding the intrinsic value of stock options exercised and stock compensation expense related to stock option awards.

Three Months Ended	Nine Months Ended
--------------------	-------------------

	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Intrinsic Value of Stock Options Exercised	\$9.4	\$ 7.3	\$41.7	\$ 44.5
Stock Compensation Expense Related to Stock Option Awards	\$1.7	\$ 1.7	\$13.1	\$ 13.5
Issued Stock Options	0.0	0.0	1.1	1.1
Weighted Average Fair Value of Stock Options issued (per share)	\$13.27	\$ 12.76	\$13.73	\$ 12.84
Fair Value of Stock Options Issued	\$0.0	\$ 0.1	\$14.8	\$ 14.7

The following table provides a summary of the assumptions used in the valuation of issued stock options:

	Three Months Ended September 30, 2015		September 30, 2014		Nine Months Ended September 30, 2015		September 30, 2014	
Risk-free interest rate	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %	2.0 %
Expected life in years	6.3	6.1	6.3	6.2	6.3	6.2	6.3	6.2
Expected volatility	17.1 %	20.4 %	17.1 %	20.4 %	17.2 %	20.4 %	17.2 %	20.4 %
Dividend yield	1.6 %	1.8 %	1.6 %	1.8 %	1.6 %	1.8 %	1.6 %	1.8 %

The fair value of stock options is based upon the Black Scholes option pricing model. The Company determined the stock options' lives based on historical exercise behavior and their expected volatility and dividend yield based on historical changes in stock price and dividend payments. The risk free interest rate is based on the yield of an applicable term Treasury instrument.

## 7. Share Repurchases

On January 29, 2014, the Company authorized an evergreen share repurchase program to reduce or eliminate dilution associated with the issuance of Common Stock under the Company's incentive plans. As part of the evergreen share repurchase program, in January 2015, the Company repurchased 0.5 million shares at a cost of \$41.2. On January 28, 2015, the Board authorized a share repurchase program under which the Company may repurchase up to \$500.0 shares in Common Stock (the "2015 Share Repurchase Program"). In February 2015, the Company entered into an accelerated share repurchase contract with a commercial bank to repurchase 2.6 million shares of Common Stock at a cost of \$215.0, of which approximately \$47.0 was purchased under the evergreen share repurchase program and approximately \$168.0 was purchased under the 2015 Share Repurchase Program. On April 24, 2015, the settlement date, the Company issued 83 thousand shares of Common Stock to the commercial bank in a private transaction for approximately \$7.0 to settle the accelerated share repurchase contract. On May 18, 2015, the Company repurchased 83 thousand shares from the commercial bank for approximately \$7.0 pursuant to the terms of the accelerated share repurchase contract.

## 8. Fair Value Measurements

### Fair Value Hierarchy

Accounting guidance on fair value measurements and disclosures establishes a hierarchy that prioritizes the inputs used to measure fair value (generally, assumptions that market participants would use in pricing an asset or liability) based on the quality and reliability of the information provided by the inputs, as follows:

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

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

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

The Company recognizes transfers between input levels as of the actual date of the event. There were no transfers between input levels during the nine months ended September 30, 2015.

### Fair Values of Other Financial Instruments

The following table presents the carrying amounts and estimated fair values of the Company's other financial instruments at September 30, 2015 and December 31, 2014:

		September 30, 2015		December 31, 2014	
	Input Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Financial Assets:</b>					
	Level				
Cash equivalents	2	\$ 121.6	\$ 121.6	\$ 298.0	\$ 298.0
<b>Financial Liabilities:</b>					
	Level				
Short-term borrowings	2	25.0	25.0	146.7	146.7
	Level				
2.875% Senior notes	2	399.7	393.9	399.7	393.3
	Level				
3.35% Senior notes	2	250.0	249.7	249.9	255.6
	Level				
2.45% Senior notes	2	299.9	302.0	299.8	298.6
	Level				
Fair value adjustment asset (liability) related to hedged fixed rate debt instrument	2	6.4	6.4	(0.9 )	(0.9 )

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

**Cash Equivalents:** Cash equivalents consist of highly liquid short-term investments and term bank deposits, which mature within three months. The estimated fair value of the Company's cash equivalents approximates their carrying value.

**Short-Term Borrowings:** The carrying amounts of the Company's unsecured lines of credit and commercial paper issuances approximates fair value because of their short maturities and variable interest rates.

Senior Notes: The Company determines the fair value of its senior notes based on their quoted market value or broker quotes, when possible. In the absence of observable market quotes, the notes are valued using non-binding market consensus prices that the Company seeks to corroborate with observable market data.

Hedged Fixed Rated Debt: The interest rate swap agreements the Company entered into in December 2014 convert the fixed interest rate of the 2.45% Senior Notes to a variable rate based on LIBOR. These agreements are designated as hedges of the changes in fair value of the underlying debt obligation attributable to changes in interest rates and are accounted for as fair value hedges. The fair value of these interest rate swap agreements is determined using broker quotes that the Company seeks to corroborate with observable market data and is reflected in the Consolidated Balance Sheet within Other Assets or Deferred and Other Long-term Liabilities, with an offsetting amount recorded in long-term debt to adjust the carrying amount of the hedged debt obligation.

Other: The carrying amounts of accounts receivable, and accounts payable and accrued expenses, approximated estimated fair values as of September 30, 2015 and December 31, 2014.

9. Derivative Instruments and Risk Management

The following tables summarize the fair value of the Company's derivative instruments and the effect of such derivative instruments on the Company's Consolidated Statements of Income and on Other Comprehensive Income ("OCI"):