

KIMBERLY CLARK CORP
Form 10-Q
May 07, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from.....to.....

Commission file number 1-225

KIMBERLY-CLARK CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware (State or other jurisdiction of incorporation or organization) | 39-0394230 (I.R.S. Employer Identification No.) |
|---|---|

P. O. Box 619100
Dallas, Texas
75261-9100
(Address of principal executive offices)
(Zip Code)

(972) 281-1200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Edgar Filing: KIMBERLY CLARK CORP - Form 10-Q

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) 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 | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of April 30, 2010, there were 413,971,851 shares of the Corporation's common stock outstanding.

Table of Contents

KIMBERLY-CLARK CORPORATION

| | |
|--|----|
| <u>PART I – FINANCIAL INFORMATION</u> | 2 |
| <u>Item 1. Financial Statements</u> | 2 |
| <u>CONSOLIDATED INCOME STATEMENT</u> | 2 |
| <u>CONDENSED CONSOLIDATED BALANCE SHEET</u> | 3 |
| <u>CONDENSED CONSOLIDATED CASH FLOW STATEMENT</u> | 4 |
| <u>CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME</u> | 5 |
| <u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u> | 6 |
| <u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 24 |
| <u>Item 4. Controls and Procedures</u> | 32 |
| <u>PART II – OTHER INFORMATION</u> | 33 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 33 |
| <u>Item 6. Exhibits</u> | 34 |

Table of Contents

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENT
(Unaudited)

Three Months Ended

March 31

(Millions of dollars, except per share amounts)

2010

2009

| | | |
|---|----------|----------|
| Net Sales | \$ 4,835 | \$ 4,493 |
| Cost of products sold | 3,188 | 3,039 |
| Gross Profit | 1,647 | 1,454 |
| Marketing, research and general expenses | 881 | 749 |
| Other (income) and expense, net | 101 | 77 |
| Operating Profit | 665 | 628 |
| Interest income | 5 | 8 |
| Interest expense | (61) | (73) |
| Income Before Income Taxes and Equity Interests | 609 | 563 |
| Provision for income taxes | (241) | (164) |
| Income Before Equity Interests | 368 | 399 |
| Share of net income of equity companies | 43 | 32 |
| Net Income | 411 | 431 |
| Net income attributable to noncontrolling interests | (27) | (24) |

Edgar Filing: KIMBERLY CLARK CORP - Form 10-Q

| | | | | |
|---|----|-----|----|-----|
| Net Income Attributable to Kimberly-Clark Corporation | \$ | 384 | \$ | 407 |
|---|----|-----|----|-----|

Per Share Basis:

| | | | | |
|---|--|--|--|--|
| Net Income Attributable to Kimberly-Clark Corporation | | | | |
|---|--|--|--|--|

| | | | | |
|-------|----|-----|----|-----|
| Basic | \$ | .92 | \$ | .98 |
|-------|----|-----|----|-----|

| | | | | |
|---------|--|-----|--|-----|
| Diluted | | .92 | | .98 |
|---------|--|-----|--|-----|

| | | | | |
|-------------------------|----|-----|----|-----|
| Cash Dividends Declared | \$ | .66 | \$ | .60 |
|-------------------------|----|-----|----|-----|

See Notes to Consolidated Financial Statements.

Table of Contents

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED BALANCE SHEET
 (Unaudited)

| (Millions of dollars) | March 31, 2010 | December 31, 2009 |
|---------------------------------|-------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 669 | \$ 798 |
| Accounts receivable, net | 2,557 | 2,566 |
| Inventories | 2,104 | 2,033 |
| Other current assets | 389 | 467 |
| Total Current Assets | 5,719 | 5,864 |
| Property | 16,942 | 16,934 |
| Less accumulated depreciation | 8,984 | 8,901 |
| Net Property | 7,958 | 8,033 |
| Investments in Equity Companies | 398 | 355 |
| Goodwill | 3,277 | 3,275 |
| Long-Term Notes Receivable | 608 | 607 |
| Other Assets | 1,037 | 1,075 |
| | \$ 18,997 | \$ 19,209 |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities

| | | |
|----------------------------------|--------------|--------------|
| Debt payable within one year | \$ 1,001 | \$ 610 |
| Accounts payable | 1,995 | 1,920 |
| Accrued expenses | 1,839 | 2,064 |
| Other current liabilities | 421 | 329 |
| Total Current Liabilities | 5,256 | 4,923 |

| | | |
|--|-------|-------|
| Long-Term Debt | 4,387 | 4,792 |
| Noncurrent Employee Benefits | 1,807 | 1,989 |
| Long-Term Income Taxes Payable | 201 | 168 |
| Deferred Income Taxes | 409 | 377 |
| Other Liabilities | 207 | 218 |
| Redeemable Preferred and Common Securities of Subsidiaries | 1,052 | 1,052 |

Stockholders' Equity

| | | |
|-----------------------------------|--------------|--------------|
| Kimberly-Clark Corporation | 5,396 | 5,406 |
| Noncontrolling Interests | 282 | 284 |
| Total Stockholders' Equity | 5,678 | 5,690 |

\$ 18,997 \$ 19,209

See Notes to Consolidated Financial Statements.

Table of Contents

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
 CONDENSED CONSOLIDATED CASH FLOW STATEMENT
 (Unaudited)

| | Three Months | |
|--|----------------|------------|
| | Ended March 31 | |
| (Millions of dollars) | 2010 | 2009 |
| Operating Activities | | |
| Net income | \$ 411 | \$ 431 |
| Depreciation and amortization | 193 | 177 |
| Stock-based compensation | 4 | 10 |
| (Increase) decrease in operating working capital | (157) | 156 |
| Deferred income taxes | 86 | (46) |
| Net losses on asset dispositions | 10 | 8 |
| Equity companies' earnings in excess of dividends paid | (41) | (32) |
| Postretirement benefits | (149) | (21) |
| Other | 107 | 9 |
| Cash Provided by Operations | 464 | 692 |
| Investing Activities | | |
| Capital spending | (184) | (211) |
| Acquisition of businesses, net of cash acquired | - | (11) |
| Proceeds from sales of investments | 10 | 5 |
| Proceeds from dispositions of property | - | 3 |
| Net decrease in time deposits | 61 | 57 |
| Other | (6) | (12) |

| | | |
|--|--------|--------|
| Cash Used for Investing | (119) | (169) |
| Financing Activities | | |
| Cash dividends paid | (250) | (240) |
| Net (decrease) increase in short-term debt | (10) | 245 |
| Proceeds from issuance of long-term debt | - | 2 |
| Repayments of long-term debt | (4) | (10) |
| Cash paid on redeemable preferred securities of subsidiary | (13) | (13) |
| Shares purchased from noncontrolling interests | - | (278) |
| Proceeds from exercise of stock options | 21 | 16 |
| Acquisitions of common stock for the treasury | (141) | - |
| Other | (20) | (17) |
| Cash Used for Financing | (417) | (295) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (57) | - |
| Increase in Cash and Cash Equivalents | (129) | 228 |
| Cash and Cash Equivalents, beginning of year | 798 | 364 |
| Cash and Cash Equivalents, end of period | \$ 669 | \$ 592 |

See Notes to Consolidated Financial Statements.

Table of Contents

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
 CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 (Unaudited)

| (Millions of dollars) | Three Months Ended March 31 | |
|--|--------------------------------|---------------|
| | 2010 | 2009 |
| Net Income | \$ 411 | \$ 431 |
| Other Comprehensive Income, Net of Tax: | | |
| Unrealized currency translation adjustments | (26) | (361) |
| Employee postretirement benefits | 36 | 32 |
| Other | 2 | (6) |
| Total Other Comprehensive Income, Net of Tax | 12 | (335) |
| Comprehensive Income | 423 | 96 |
| Comprehensive income attributable to noncontrolling interests | 33 | (9) |
| Comprehensive Income Attributable to Kimberly-Clark Corporation | \$ 390 | \$ 105 |

See Notes to Consolidated Financial Statements.

Table of Contents

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1. Accounting Policies

Basis of Presentation

The accompanying unaudited condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring adjustments, considered necessary for a fair presentation have been included.

For further information, refer to the Consolidated Financial Statements and footnotes included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2009.

New Accounting Standards

Effective January 1, 2010, the Corporation adopted new accounting requirements issued by the Financial Accounting Standards Board (“FASB”) for determining when a company must consolidate a variable interest entity (“VIE”) in which the company has an interest. Under the new requirements, a company must perform a qualitative analysis when determining whether it must consolidate a VIE. If the company has an interest in a VIE that provides it with the power to direct the most significant activities of the VIE, and the obligation to absorb significant losses or the right to receive significant benefits of the VIE, the company must consolidate the VIE. A company is required to perform ongoing reassessments to determine if it must consolidate a VIE. This differs from previous guidance, which prescribed a quantitative analysis to determine whether to consolidate a VIE and required this analysis be reassessed only when specific events occur.

Adoption of the new accounting requirements had no impact on the Corporation’s Consolidated Financial Statements. Under the new requirements, the Corporation determined that it must continue to consolidate a financing entity used to monetize long-term notes received from the sale of certain nonstrategic timberlands and its Luxembourg-based financing subsidiary. Factors considered by the Corporation in making these determinations included the purpose of the entities, the types and significance of intercompany transactions, and the benefits obtained by the Corporation and the nonaffiliated parties that have invested in these entities. The Corporation does not anticipate any changes to these entities that would result in the Corporation not continuing to consolidate them. See Note 2 for the carrying values and fair values of the significant financial assets, liabilities and redeemable preferred securities of these consolidated VIEs.

The Corporation also has investments in real estate entities that generate income tax credits and tax losses that are used to reduce the Corporation’s income tax liabilities. Under the new requirements, the Corporation determined that it must continue to consolidate certain of its real estate entities and must continue to not consolidate certain of its other real estate entities that are accounted for under the equity method. Factors considered by the Corporation in making these determinations included the rights of the Corporation or nonaffiliated parties to manage the operations of the individual entities and the eventual sale of the real estate assets.

Table of Contents

Note 1. (Continued)

The assets of the consolidated real estate VIEs are classified principally as property in the Corporation's condensed Consolidated Balance Sheet and have a carrying amount aggregating \$39 million at March 31, 2010 that serves as collateral for the obligations of these ventures. The obligations have a carrying amount aggregating \$25 million, of which \$6 million is included in debt payable within one year and \$19 million is included in long-term debt. The fair value of these obligations is estimated at \$25 million at March 31, 2010. Neither the creditors nor the other beneficial interest holders of these consolidated ventures have recourse to the general credit of the Corporation, except for \$8 million of permanent financing debt, which is guaranteed by the Corporation.

As of March 31, 2010, the Corporation had net equity of \$8 million in its nonconsolidated real estate VIEs. As of March 31, 2010, total permanent financing debt for these nonconsolidated entities was \$94 million. A total of \$29 million of the permanent financing debt is guaranteed by the Corporation, and the remainder of this debt is secured solely by the properties and is nonrecourse to the Corporation.

Note 2. Fair Value Measurements

The following fair value information is based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The three levels in the hierarchy used to measure fair value are:

Level 1 – Unadjusted quoted prices in active markets accessible at the reporting date for identical assets and liabilities.

Level 2 – Quoted prices for similar assets or liabilities in active markets. Quoted prices for identical or similar assets and liabilities in markets that are not considered active or financial instruments for which all significant inputs are observable, either directly or indirectly.

Level 3 – Prices or valuations that require inputs that are significant to the valuation and are unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

During the first quarter of 2010, there were no significant transfers between level 1, 2, or 3 fair value determinations.

Table of Contents

Note 2. (Continued)

Set forth below are the assets and liabilities that are measured on a recurring basis at fair value as of March 31, 2010, together with the inputs used to develop those fair value measurements.

| | March 31 | Fair Value Measurements | | |
|---------------------------------------|---------------|-------------------------|--------------|-------------|
| | | Level 1 | Level 2 | Level 3 |
| (Millions of dollars) | | | | |
| Assets | | | | |
| Company-owned life insurance ("COLI") | \$ 44 | \$ - | \$ 44 | \$ - |
| Available-for-sale securities | 19 | 14 | - | 5 |
| Derivatives | 52 | - | 52 | - |
| Total | \$ 115 | \$ 14 | \$ 96 | \$ 5 |
| Liabilities | | | | |
| Derivatives | \$ 52 | \$ - | \$ 52 | \$ - |

The COLI policies are a source of funding primarily for the Corporation's nonqualified employee benefits and are included in other assets. Available-for-sale securities are included in other current assets and other assets, as appropriate. The derivative assets and liabilities are included in other current assets, other assets, accrued expenses and other liabilities, as appropriate.

Level 1 Fair Values - The fair values of certain available-for-sale securities are based on quoted market prices in active markets for identical assets. Unrealized losses on these securities aggregating \$3 million are recorded in other comprehensive income until realized. The unrealized losses have not been recognized in earnings because the Corporation has both the intent and ability to hold the securities for a period of time sufficient to allow for an anticipated recovery of fair value to the cost of such securities.

Level 2 Fair Values - The fair value of the COLI policies is derived from investments in a mix of money market, fixed income and equity funds managed by unrelated fund managers. The fair values of derivatives used to manage interest rate risk and commodity price risk are based on LIBOR rates and interest rate swap curves and NYMEX price quotations, respectively. The fair value of hedging instruments used to manage foreign currency risk is based on quotations of spot currency rates and forward points, which are converted into implied forward currency rates. Additional information on the Corporation's use of derivative instruments is contained in Note 8.

Level 3 Fair Values - The fair value of certain available-for-sale securities acquired in the fourth quarter of 2009 is based on quoted market prices for the exchange-traded securities, adjusted to reflect the restrictions placed on the sale of these securities. There was no significant change in the fair value from the date of acquisition through March 31, 2010.

Fair Value Disclosures

The following table includes the fair value of the Corporation's financial instruments as of March 31, 2010, for which fair value disclosure is required:

Table of Contents

Note 2. (Continued)

| (Millions of dollars) | Carrying Amount | Estimated Fair Value |
|---|-----------------|----------------------|
| Assets | | |
| Cash and cash equivalents(a) | \$ 669 | \$ 669 |
| Time deposits (included in other current assets)(b) | 133 | 133 |
| Long-term notes receivable(c) | 608 | 593 |
| Other note receivable (included in accounts receivable and other assets) | 21 | 21 |
| Liabilities and redeemable preferred and common securities of subsidiaries | | |
| Short-term debt(d) | 100 | 100 |
| Monetization loan(c) | 397 | 398 |
| Long-term debt(e) | 4,891 | 5,365 |
| Redeemable preferred and common securities of subsidiaries(f) | 1,052 | 1,146 |

(a) Cash equivalents are comprised of certificates of deposit, time deposits and other interest-bearing investments with original maturity dates of 90 days or less, all of which are recorded at cost, which approximates fair value.

(b) Time deposits are comprised of deposits with original maturities of more than 90 days but less than one year, all of which are recorded at cost, which approximates fair value.

(c) Long-term notes receivable represent held-to-maturity securities, which arose from the sale of nonstrategic timberlands and related assets. The notes are backed by irrevocable standby letters of credit issued by money center banks. A consolidated VIE has an outstanding long-term monetization loan secured by the related note held by this VIE (indicated by Note 1 and Loan 1 below). The following summarizes the terms of the notes and the monetization loan as of March 31, 2010 (millions of dollars):

| Description | Face Value | Carrying Amount | Maturity | Interest Rate(1) |
|-------------|------------|-----------------|------------|----------------------|
| Note 1 | \$ 397 | \$ 392 | 09/30/2014 | LIBOR |
| Note 2 | 220 | 216 | 07/07/2011 | LIBOR minus 12.5 bps |
| Loan 1 | 397 | 397 | 01/31/2011 | LIBOR plus 127 bps |

(1) Payable quarterly, 3-month LIBOR

The difference between the carrying amount of the notes and their fair value represents an unrealized loss position for which an other-than-temporary impairment has not been recognized in earnings because the Corporation has both the intent and ability to hold the notes for a period of time sufficient to allow for an anticipated recovery of fair value to the carrying amount of the notes. Neither the notes nor the monetization loan are traded in active markets. Accordingly, their fair values were calculated using a floating rate pricing model that compared the stated spread to the fair value spread to determine the price at which each of the financial instruments should trade. The

model used the following inputs to calculate fair values: face value, current LIBOR rate, fair value credit spread, stated spread, maturity date and interest payment dates.

Table of Contents

Note 2. (Continued)

- (d) Short-term debt issued by non-U.S. subsidiaries is recorded at cost, which approximates fair value.
- (e) Long-term debt includes long-term debt instruments and the portion payable within the next twelve months (\$504 million). Fair values were estimated based on quoted prices for financial instruments for which all significant inputs were observable, either directly or indirectly.
- (f) The redeemable preferred securities are not traded in active markets. Accordingly, their fair values were calculated using a pricing model that compares the stated spread to the fair value spread to determine the price at which each of the financial instruments should trade. The model used the following inputs to calculate fair values: face value, current benchmark rate, fair value spread, stated spread, maturity date and interest payment dates. The fair value and the carrying amount of the redeemable common securities of \$41 million were based on an independent third-party appraisal, adjusted for current market conditions.

Note 3. Highly Inflationary Accounting for Venezuelan Operations

In 2003, the Venezuelan government enacted currency restrictions which have affected the ability of the Corporation's Venezuelan subsidiary ("K-C Venezuela") to obtain U.S. dollars at the official exchange rate to pay for significant imports of finished goods, raw materials and services to support its operations. For transactions that do not qualify for settlement at the official exchange rate, a market exists for the acquisition and exchange of bolivar-and U.S. dollar-denominated bonds, effectively resulting in a parallel market exchange rate substantially unfavorable to the official exchange rate.

In instances during 2009 when the U.S. dollar-denominated imports did not receive government approval to be settled at the official exchange rate of 2.15 bolivars to the U.S. dollar, K-C Venezuela measured the transactions from U.S. dollars to bolivars at the parallel exchange rate. In instances during 2009 when the U.S. dollar-denominated imports received government approval to be settled at the official exchange rate, K-C Venezuela measured the transactions from U.S. dollars to bolivars at the official exchange rate. During 2009, K-C Venezuela used the official rate to translate its operating results from the bolivar functional currency into U.S. dollars, based on its dividend remittance history at that rate.

The cumulative inflation in Venezuela for the three years ended December 31, 2009 was more than 100 percent, based on the Consumer Price Index/National Consumer Price Index. As a result, effective January 1, 2010, K-C Venezuela began accounting for its operations as highly inflationary, as required by U.S. GAAP. Under highly inflationary accounting, K-C Venezuela's functional currency became the U.S. dollar, and its income statement and balance sheet are measured into U.S. dollars using both current and historical rates of exchange. The effect of changes in exchange rates on bolivar-denominated monetary assets and liabilities is reflected in income.

On January 8, 2010, the Venezuelan government devalued its currency and established a dual official exchange rate structure of 2.6 bolivars to the U.S. dollar for essentials and 4.3 bolivars to the U.S. dollar for non-essentials. If access to the official exchange rate were granted, the finished goods and raw materials imported by K-C Venezuela would qualify at the 4.3 bolivars to the U.S. dollar exchange rate.

Table of Contents

Note 3. (Continued)

The Corporation determined that under highly inflationary accounting, the parallel exchange rate is the appropriate exchange rate to measure K-C Venezuela's bolivar-denominated transactions into U.S. dollars as this is the rate at which K-C Venezuela has substantially converted the bolivars it generated from its operations during first quarter 2010 into U.S. dollars to pay for significant imports of finished goods, raw materials and services to support its operations.

As a result of the adoption of highly inflationary accounting, the Corporation recorded an after tax charge of \$96 million in first quarter 2010 to remeasure K-C Venezuela's bolivar-denominated net monetary asset position into U.S. dollars at a parallel exchange rate of approximately 6 bolivars per U.S. dollar. In the condensed Consolidated Cash Flow Statement, this non-cash charge was included in Other in Cash Provided by Operations. This charge was recorded in the following Consolidated Income Statement line items:

| | Millions of dollars | |
|---------------------------------|---------------------|-----|
| Cost of products sold | \$ | 19 |
| Other (income) and expense, net | | 79 |
| Provision for income taxes | | (2) |
| Net charge | \$ | 96 |

At March 31, 2010, K-C Venezuela had a bolivar-denominated net monetary asset position of 357 million bolivars. For the full year 2009, K-C Venezuela represented approximately 3 percent of consolidated net sales, and 1 percent of consolidated operating profit and net income attributable to the Corporation.

Note 4. Inventories

The following schedule presents inventories by major class:

| (Millions of dollars) | March 31, 2010 | | | December 31, 2009 | | |
|--|----------------|--------------|-------|-------------------|--------------|-------|
| | LIFO | Non- LIFO | Total | LIFO | Non- LIFO | Total |
| At the lower of cost determined on the FIFO or weighted-average cost methods | | | | | | |

or market:

| | | | | | | |
|--|---------------|-----------------|-----------------|---------------|-----------------|-----------------|
| Raw materials | \$ 139 | \$ 300 | \$ 439 | \$ 137 | \$ 282 | \$ 419 |
| Work in process | 172 | 96 | 268 | 177 | 111 | 288 |
| Finished goods | 661 | 681 | 1,342 | 573 | 685 | 1,258 |
| Supplies and other | - | 278 | 278 | - | 277 | 277 |
| | 972 | 1,355 | 2,327 | 887 | 1,355 | 2,242 |
| Excess of FIFO or weighted-average cost over LIFO cost | (223) | - | (223) | (209) | - | (209) |
| Total | \$ 749 | \$ 1,355 | \$ 2,104 | \$ 678 | \$ 1,355 | \$ 2,033 |

The Corporation uses the LIFO method of valuing inventory for financial reporting purposes for most U.S. inventories. Interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs. An actual valuation of inventory under the LIFO method is made at the end of each year based on the inventory levels and costs at that time.

Table of Contents

Note 5. Employee Postretirement Benefits

The table below presents benefit cost information for defined benefit plans and other postretirement benefit plans:

| (Millions of dollars) | Defined Benefit Plans | | Other Postretirement Benefit Plans | |
|--------------------------------|-----------------------------|-------|---------------------------------------|-------|
| | Three Months Ended March 31 | | | |
| | 2010 | 2009 | 2010 | 2009 |
| Service cost | \$ 14 | \$ 16 | \$ 4 | \$ 3 |
| Interest cost | 77 | 77 | 11 | 13 |
| Expected return on plan assets | (84) | (65) | - | - |
| Recognized net actuarial loss | 25 | 43 | - | - |
| Other | 3 | 1 | 1 | 1 |
| Net periodic benefit cost | \$ 35 | \$ 72 | \$ 16 | \$ 17 |

During the first quarter of 2010 and 2009, the Corporation made cash contributions of approximately \$175 million and \$90 million, respectively, to its pension trusts. The Corporation currently anticipates contributing about \$240 million for the full year 2010 to its pension trusts.

For the U.S. pension plan, the Corporation utilizes an equity collar strategy to reduce the volatility of returns on investments. In January 2010, zero-cost equity collars were established on \$1.3 billion of U.S. equity exposure.

Note 6. Earnings Per Share

There are no adjustments required to be made to net income for purposes of computing basic and diluted EPS. The average number of common shares outstanding is reconciled to those used in the basic and diluted EPS computations as follows:

Average Common Shares
Outstanding

Three Months

Ended March 31

Edgar Filing: KIMBERLY CLARK CORP - Form 10-Q

| (Millions of shares) | 2010 | 2009 |
|--|-------|-------|
| Average shares outstanding | 416.2 | 413.7 |
| Participating securities | 1.4 | 1.9 |
| Basic | 417.6 | 415.6 |
| Dilutive effect of stock options | .9 | .1 |
| Dilutive effect of restricted share and restricted share unit awards | .8 | .2 |
| Diluted | 419.3 | 415.9 |

Table of Contents

Note 6. (Continued)

Options outstanding during the three month periods ended March 31, 2010 and 2009, to purchase 14.6 million and 24.1 million shares of common stock, respectively, were not included in the computation of diluted EPS because the exercise prices of the options were greater than the average market price of the common shares during the periods.

The number of common shares outstanding as of March 31, 2010 and 2009 was 414.9 million and 413.9 million, respectively.

Note 7. Stockholders' Equity

Set forth below is a reconciliation of comprehensive income and stockholders' equity attributable to Kimberly-Clark Corporation and noncontrolling interests for the three months ended March 31, 2010 and 2009. Also reconciled for the same periods are the redeemable preferred and common securities of subsidiaries, which are required to be classified outside of stockholders' equity.

| (Millions of dollars) | Stockholders' Equity Attributable to | | | |
|---|---|--------------------|-----------------------------|---|
| | Comprehensive Income | The Corporation | Noncontrolling Interests | Redeemable Securities of Subsidiaries |
| Balance at December 31, 2009 | | \$ 5,406 | \$ 284 | \$ 1,052 |
| Comprehensive Income: | | | | |
| Net income | \$ 411 | 384 | 13 | 14 |
| Other comprehensive income, net of tax: | | | | |
| Unrealized translation | (26) | (33) | 6 | 1 |
| Employee postretirement benefits | 36 | 37 | (1) | - |
| Other | 2 | 2 | - | - |
| Total Comprehensive Income | \$ 423 | | | |
| Stock-based awards exercised or vested | | 19 | - | - |
| Income tax benefits on stock-based compensation | | 1 | - | - |
| Shares repurchased | | (150) | - | - |
| Recognition of stock-based compensation | | 4 | - | - |
| Dividends declared | | (275) | (20) | - |
| Other | | 1 | - | (2) |
| Return on redeemable preferred | | - | - | (13) |

securities and noncontrolling
interests

| | | | | | | |
|---------------------------|----|-------|----|-----|----|-------|
| Balance at March 31, 2010 | \$ | 5,396 | \$ | 282 | \$ | 1,052 |
|---------------------------|----|-------|----|-----|----|-------|

The net unrealized currency translation adjustments for the three months ended March 31, 2010 are primarily due to a weakening of the U.S. dollar versus the euro and the British pound.

Table of Contents

Note 7. (Continued)

| (Millions of dollars) | Stockholders' Equity Attributable to | | | |
|--|---|--------------------|-----------------------------|---|
| | Comprehensive Income | The Corporation | Noncontrolling Interests | Redeemable Securities of Subsidiaries |
| Balance at December 31, 2008 | | \$ 3,878 | \$ 383 | \$ 1,032 |
| Comprehensive Income: | | | | |
| Net income | \$ 431 | 407 | 10 | 14 |
| Other Comprehensive income, net of tax: | | | | |
| Unrealized translation | (361) | (330) | (31) | - |
| Employee postretirement benefits | 32 | 34 | (2) | - |
| Other | (6) | (6) | - | - |
| Total Comprehensive Income | \$ 96 | | | |
| Stock-based awards exercised or vested | | 14 | - | - |
| Recognition of stock-based compensation | | 10 | - | - |
| Dividends declared | | (248) | (14) | - |
| Additional investment in subsidiary and other | | (184) | (108) | 13 |
| Return on redeemable preferred securities | | - | - | (13) |
| Balance at March 31, 2009 | | \$ 3,575 | \$ 238 | \$ 1,046 |

Net unrealized currency gains or losses resulting from the translation of assets and liabilities of non-U.S. subsidiaries, except those in highly inflationary economies, are accumulated in a separate section of stockholders' equity. For these operations, changes in exchange rates generally do not affect cash flows; therefore, unrealized translation adjustments are recorded in stockholders' equity rather than income. Upon the sale or substantially complete liquidation of any of these subsidiaries, the applicable unrealized translation adjustment would be removed from stockholders' equity and reported as part of the gain or loss on the sale or liquidation.

Also included in stockholders' equity are the effects of foreign exchange rate changes on intercompany balances of a long-term investment nature and transactions designated as hedges of net foreign investments.

Table of Contents

Note 7. (Continued)

The purchase of additional ownership in an already controlled subsidiary is recorded as an equity transaction with no gain or loss recognized in consolidated net income or comprehensive income. The following schedule reflects the effect of a change in ownership interest between the Corporation and a noncontrolling interest.

| | Three Months | |
|---|----------------|-------|
| | Ended March 31 | |
| | 2009 | |
| Net Income attributable to Kimberly-Clark Corporation | \$ | 407 |
| Decrease in Kimberly-Clark Corporation's additional paid-in capital for purchase of remaining shares in its Andean region subsidiary(a) | | (133) |
| Change from net income attributable to Kimberly-Clark Corporation and transfers to noncontrolling interests | \$ | 274 |

(a) During the first quarter of 2009, the Corporation acquired the remaining 31 percent interest in its Andean region subsidiary, Colombiana Kimberly Colpapel S.A., for \$289 million. The acquisition was recorded as an equity transaction that reduced noncontrolling interests, accumulated other comprehensive income ("AOCI") and additional paid-in capital classified in stockholders' equity by \$278 million and increased investments in equity companies by \$11 million.

Note 8. Objectives and Strategies for Using Derivatives

As a multinational enterprise, the Corporation is exposed to risks, such as changes in foreign currency exchange rates, interest rates, commodity prices and certain investments of its defined benefit pension plans. A variety of practices are employed to manage these risks, including operating and financing activities and, where deemed appropriate, the use of derivative instruments. The Corporation's policies allow the use of derivatives for risk management purposes and prohibit their use for speculation. The Corporation's policies also prohibit the use of any leveraged derivative instrument. Foreign currency derivative instruments, interest rate swaps, equity collars and the majority of commodity hedging contracts are entered into with major financial institutions.

On the date the derivative contract is entered into, the Corporation formally designates certain derivatives as cash flow, fair value or net investment hedges (each discussed below), and establishes how the effectiveness of these hedges will be assessed and measured. This process links the derivatives to the transactions or financial balances they are hedging. Changes in the fair value of derivatives not designated as hedging instruments are recorded to earnings when they occur.

Table of Contents

Note 8. (Continued)

Set forth below is a summary of the fair values of the Corporation's derivative instruments as of March 31, classified by the risks they are used to manage:

| (Millions of dollars) | Assets | | Liabilities | |
|--------------------------------|--------|-------|-------------|-------|
| | 2010 | 2009 | 2010 | 2009 |
| Foreign currency exchange risk | \$ 20 | \$ 55 | \$ 35 | \$ 38 |
| Interest rate risk | 32 | 10 | 6 | 5 |
| Commodity price risk | - | - | 11 | 29 |
| Total | \$ 52 | \$ 65 | \$ 52 | \$ 72 |

Foreign Currency Exchange Risk Management

The Corporation has a centralized U.S. dollar functional currency international treasury operation ("In-House Bank") that manages foreign currency exchange risks by netting, on a daily basis, exposures to recorded non-U.S. dollar assets and liabilities and entering into derivative instruments with third parties whenever the net exposure in any single currency exceeds predetermined limits. These derivative instruments are not designated as hedging instruments. Changes in the fair value of these instruments are recorded in earnings when they occur. The In-House Bank also records the gain or loss on the remeasurement of its non-U.S. dollar denominated monetary assets and liabilities in earnings. Consequently, the effect on earnings from the use of these non-designated derivatives is substantially neutralized by the recorded transactional gains and losses. The In-House Bank's daily notional derivative positions with third parties averaged approximately \$1.2 billion in the first quarter of 2010 and its average net exposure for the quarter was \$.9 billion. The In-House Bank used eight counterparties for its foreign exchange derivative contracts.

The Corporation enters into derivative instruments to hedge a portion of the net foreign currency exposures of its non-U.S. operations principally for their forecasted purchases of pulp, which are priced in U.S. dollars. The derivative instruments used to manage these exposures are designated and qualify as cash flow hedges. The Corporation also hedges a portion of the net foreign currency exposures of its non-U.S. operations for imported intercompany finished goods and work-in-process priced in U.S. dollars and euros through the use of derivative instruments that are designated and qualify as cash flow hedges.

Gains and losses on these cash flow hedges, to the extent effective, are recorded in other comprehensive income net of related income taxes and released to earnings as the related finished goods inventory containing the pulp and imported intercompany purchases are sold to unaffiliated customers. As of March 31, 2010, approximately \$450 million notional value of outstanding derivative contracts was designated as cash flow hedges for the forecasted purchases of pulp and intercompany finished goods and work-in-process.

The foreign currency exposure on intercompany balances, primarily loans, is hedged with derivative instruments with third parties. At March 31, 2010, the notional amount of these derivative positions was \$820 million, of which \$220 million was designated as fair value hedges and the remainder was undesignated.

Table of Contents

Note 8. (Continued)

Foreign Currency Translation Risk Management

Translation adjustments result from translating foreign entities' financial statements to U.S. dollars from their functional currencies. Translation exposure, which results from changes in translation rates between functional currencies and the U.S. dollar, generally is not hedged. However, consistent with other years, a portion of the Corporation's net investment in its Mexican affiliate has been hedged. At March 31, 2010, the Corporation had in place net investment hedges of approximately \$120 million for a portion of its investment in its Mexican affiliate. Changes in the fair value of net investment hedges are recognized in other comprehensive income to offset the change in value of the net investment being hedged. There was no significant ineffectiveness on these hedges as of March 31, 2010.

Interest Rate Risk Management

Interest rate risk is managed using a portfolio of variable- and fixed-rate debt composed of short- and long-term instruments and interest rate swaps. The objective is to maintain a cost-effective mix that management deems appropriate. From time to time, interest rate swap contracts, which are derivative instruments, are entered into to facilitate the maintenance of the desired ratio of variable- and fixed-rate debt. These derivative instruments are designated and qualify as fair value hedges. At March 31, 2010, interest rate swap contracts with an aggregate notional value of \$320 million were in place.

From time to time, derivatives are used to hedge the anticipated issuance of fixed-rate debt. These exposures are hedged with forward-starting swaps or "treasury locks" (e.g., a 10-year "treasury lock" hedging the anticipated underlying U.S. Treasury interest rate related to issuance of 10-year debt). These swaps are designated as cash flow hedges. At March 31, 2010, outstanding forward-starting swaps with an aggregate notional value of \$250 million were in place.

Commodity Price Risk Management

The Corporation uses derivative instruments to hedge a portion of its exposure to market risk arising from changes in the price of natural gas. Hedging of this risk is accomplished by entering into forward swap contracts, which are designated as cash flow hedges of specific quantities of natural gas expected to be purchased in future months.

As of March 31, 2010, outstanding commodity forward contracts were in place to hedge forecasted purchases of about 15 percent of the Corporation's estimated natural gas requirements for the balance of the current year and a lesser percentage for future periods.

Effect of Derivative Instruments on Results of Operations and Other Comprehensive Income

Fair Value Hedges

Derivative instruments that are designated and qualify as fair value hedges are used to manage interest rate risk and certain U.S. dollar denominated intercompany debt. The fair values of these instruments are recorded as an asset or liability, as appropriate, with the offset recorded in current earnings. The offset to the change in fair values of the hedged debt instruments also is recorded in current earnings. Changes in the fair value of derivative instruments that hedge the U.S. dollar denominated intercompany debt are recorded in current earnings as well as the change in fair value of the hedged intercompany debt. The realized gain or loss on the derivatives that hedge interest rate risk is amortized to interest expense over the life of the related debt.

Fair value hedges resulted in no significant ineffectiveness in the three month period ended March 31, 2010. For the three month periods ended March 31, 2010 and 2009, no gain or loss was recognized in earnings as a result of a hedged firm commitment no longer qualifying as a fair value hedge.

Table of Contents

Note 8. (Continued)

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is initially recorded in other comprehensive income, net of related income taxes, and recognized in earnings in the same period that the hedged exposure affects earnings.

Cash flow hedges resulted in no significant ineffectiveness in the three month period ended March 31, 2010. For the three month period ending March 31, 2010 and 2009, no gains or losses were recognized in earnings as a result of the discontinuance of cash flow hedges due to the original forecasted transaction no longer being probable of occurring. At March 31, 2010, \$1 million of after-tax losses are expected to be reclassified from accumulated other comprehensive income primarily to cost of sales during the next twelve months, consistent with the timing of the underlying hedged transactions. The maximum maturity of cash flow hedges in place at March 31, 2010 is December 2011.

Quantitative Information about the Corporation's Use of Derivative Instruments

The following tables display the location and fair values of derivative instruments presented in the Consolidated Balance Sheet and the location and amount of gains and losses reported in the Consolidated Income Statement and Statement of Other Comprehensive Income ("OCI").

Effect of Derivative Instruments on the Consolidated Income Statement
for the three months ended March 31, 2010 and 2009 (Millions of dollars)

| Foreign exchange contracts | Income Statement Classification | Gain or (Loss) Recognized in Income | |
|-------------------------------------|---------------------------------|-------------------------------------|---------|
| | | 2010 | 2009 |
| Fair Value Hedges | Other income and (expense), net | \$ (8) | \$ (15) |
| Undesignated Hedging Instruments(a) | Other income and (expense), net | \$ (19) | \$ (76) |

(a) The majority of the gains and (losses) on these instruments arise from derivatives entered into with third parties to manage foreign currency exchange exposure on the remeasurement of non-U.S. dollar denominated monetary assets and liabilities. Consequently, the effect on earnings from the use of these undesignated derivatives is substantially neutralized by the recorded transactional gains and losses.

Table of Contents

Note 8. (Continued)

| (Millions of dollars) | Amount of Gain or (Loss) Recognized in OCI | | Income Statement Classification of Gain or (Loss) Reclassified from AOCI | Gain or (Loss) Reclassified from AOCI into Income | |
|------------------------------|--|--------|--|---|------|
| | 2010 | 2009 | | 2010 | 2009 |
| Cash Flow Hedges | | | | | |
| Interest rate contracts | \$ (7) | \$ 7 | Interest expense | \$ 1 | \$ 1 |
| Foreign exchange contracts | 5 | 18 | Cost of products sold | (11) | 18 |
| Commodity contracts | (10) | (22) | Cost of products sold | (3) | (12) |
| Total | \$ (12) | \$ 3 | | \$ (13) | \$ 7 |
| Net Investment Hedges | | | | | |
| Foreign exchange contracts | \$ (4) | \$ (8) | | \$ - | \$ - |

| (Millions of dollars) | Fair Values of Derivative Instruments | | | |
|--|---------------------------------------|------------|------------------------|------------|
| | Asset Derivatives at March 31 2010 | | 2009 | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives designated as hedging instruments: | | | | |
| Interest rate contracts | Other current assets | \$ 24 | Other current assets | \$ - |
| Interest rate contracts | Other assets | 8 | Other assets | 10 |
| Foreign exchange contracts | Other current assets | 11 | Other current assets | 25 |

| | | | | | | |
|-------|--|----|----|--|----|----|
| Total | | \$ | 43 | | \$ | 35 |
|-------|--|----|----|--|----|----|

Undesignated derivatives:

| | | | | | | |
|----------------------------|----------------------|----|---|----------------------|----|----|
| Foreign exchange contracts | Other current assets | \$ | 9 | Other current assets | \$ | 30 |
|----------------------------|----------------------|----|---|----------------------|----|----|

| | | | | | | |
|-------------------------|--|----|----|--|----|----|
| Total asset derivatives | | \$ | 52 | | \$ | 65 |
|-------------------------|--|----|----|--|----|----|

Table of Contents

Note 8. (Continued)

| (Millions of dollars) | Fair Values of Derivative Instruments | | | |
|--|---------------------------------------|--------------|------------------------|--------------|
| | 2010 | | 2009 | |
| | Balance Sheet Location | Fair Value | Balance Sheet Location | Fair Value |
| Derivatives designated as hedging instruments: | | | | |
| Interest rate contracts | Accrued expenses | \$ - | Accrued expenses | \$ 5 |
| Foreign exchange contracts | Accrued expenses | 18 | Accrued expenses | 13 |
| Commodity contracts | Accrued expenses | 10 | Accrued expenses | 26 |
| Commodity contracts | Other liabilities | 1 | Other liabilities | 3 |
| Total | | \$ 29 | | \$ 47 |
| Undesignated Derivatives: | | | | |
| Foreign exchange contracts and other | Accrued expenses | \$ 23 | Accrued expenses | \$ 25 |
| Total liability derivatives | | \$ 52 | | \$ 72 |

Table of Contents

Note 9. Description of Business Segments

The Corporation is organized into operating segments based on product groupings. These operating segments have been aggregated into four reportable global business segments: Personal Care; Consumer Tissue; K-C Professional & Other; and Health Care. The reportable segments were determined in accordance with how the Corporation's executive managers develop and execute the Corporation's global strategies to drive growth and profitability of the Corporation's worldwide Personal Care, Consumer Tissue, K-C Professional & Other and Health Care operations. These strategies include global plans for branding and product positioning, technology, research and development programs, cost reductions including supply chain management, and capacity and capital investments for each of these businesses. Segment management is evaluated on several factors, including operating profit. Segment operating profit excludes other income and (expense), net. Corporate & Other Assets include the Corporation's investments in equity affiliates, finance operations, real estate entities, and deferred tax assets.

The principal sources of revenue in each global business segment are described below:

- The Personal Care segment manufactures and markets disposable diapers, training and youth pants and swimpants; baby wipes; feminine and incontinence care products; and related products. Products in this segment are primarily for household use and are sold under a variety of brand names, including Huggies, Pull-Ups, Little Swimmers, GoodNites, Kotex, Lightdays, Depend, Poise and other brand names.
- The Consumer Tissue segment manufactures and markets facial and bathroom tissue, paper towels, napkins and related products for household use. Products in this segment are sold under the Kleenex, Scott, Cottonelle, Viva, Andrex, Scottex, Hakle, Page and other brand names.
- The K-C Professional & Other segment manufactures and markets facial and bathroom tissue, paper towels, napkins, wipers and a range of safety products for the away-from-home marketplace. Products in this segment are sold under the Kimberly-Clark, Kleenex, Scott, WypAll, Kimtech, KleenGuard, Kimcare and Jackson brand names.
- The Health Care segment manufactures and markets disposable health care products such as surgical drapes and gowns, infection control products, face masks, exam gloves, respiratory products, pain management products and other disposable medical products. Products in this segment are sold under the Kimberly-Clark, Ballard, ON-Q and other brand names.

Table of Contents

Note 9. (Continued)

The following schedules present information concerning consolidated operations by business segment:

| | Three Months | |
|--------------------------|----------------|----------|
| | Ended March 31 | |
| (Millions of dollars) | 2010 | 2009 |
| NET SALES: | | |
| Personal Care | \$ 2,137 | \$ 1,977 |
| Consumer Tissue | 1,606 | 1,574 |
| K-C Professional & Other | 730 | 651 |
| Health Care | 367 | 298 |
| Corporate & Other | 12 | 13 |
| Intersegment sales | (17) | (20) |
| Consolidated | \$ 4,835 | \$ 4,493 |

| | Three Months | |
|---|----------------|--------|
| | Ended March 31 | |
| (Millions of dollars) | 2010 | 2009 |
| OPERATING PROFIT (reconciled to income before | | |
| income taxes): | | |
| Personal Care | \$ 472 | \$ 442 |
| Consumer Tissue | 181 | 194 |

Edgar Filing: KIMBERLY CLARK CORP - Form 10-Q

| | | |
|------------------------------------|------------|------------|
| K-C Professional & Other | 107 | 80 |
| Health Care | 57 | 48 |
| Other income and (expense), net(a) | (101) | (77) |
| Corporate & Other(b) | (51) | (59) |
| Total Operating Profit | 665 | 628 |
| Interest income | 5 | 8 |
| Interest expense | (61) | (73) |
| Income Before Income Taxes | \$ 609 | \$ 563 |

Table of Contents

Note 9. (Continued)

(a) Other income and (expense), net included a \$79 million charge for the adoption of highly inflationary accounting in Venezuela effective January 1, 2010. See additional information in Note 3 to the Consolidated Financial Statements. In addition, foreign currency transaction losses totaled \$21 million in the first quarter of 2010 and \$76 million in the prior year.

(b) Included in Corporate & Other in 2010 is a \$19 million charge related to the adoption of highly inflationary accounting in Venezuela. See additional information in Note 3 to the Consolidated Financial Statements. The charges related to the business segments are as follows:

| | Millions of Dollars | |
|--------------------------|------------------------|--------|
| Personal Care | \$ | 11 |
| Consumer Tissue | | 6 |
| K-C Professional & Other | | 2 |
| Total | \$ | 19 |

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.
Introduction

This management's discussion and analysis of financial condition and results of operations is intended to provide investors with an understanding of the Corporation's recent performance, its financial condition and its prospects. The following will be discussed and analyzed:

- Overview of First Quarter 2010 Results
- Results of Operations and Related Information
- Liquidity and Capital Resources
- New Accounting Standards
- Environmental Matters
- Business Outlook

Overview of First Quarter 2010 Results

- Net sales increased 7.6 percent.
- Operating profit increased 5.9 percent and net income attributable to Kimberly-Clark Corporation decreased 5.7 percent.
- Cash provided by operations was \$464 million, a decrease of 33 percent from last year.
- An after tax charge of \$96 million was recorded in first quarter 2010 related to the January 1, 2010 adoption of highly inflationary accounting in Venezuela.
- The effective tax rate was 39.6 percent compared to 29.1 percent in the prior year.

Results of Operations and Related Information

This section presents a discussion and analysis of the Corporation's first quarter of 2010 net sales, operating profit and other information relevant to an understanding of the results of operations.

Table of Contents

First Quarter of 2010 Compared With First Quarter of 2009

Analysis of Net Sales

By Business Segment
(Millions of dollars)

| Net Sales | 2010 | 2009 |
|--------------------------|----------|----------|
| Personal Care | \$ 2,137 | \$ 1,977 |
| Consumer Tissue | 1,606 | 1,574 |
| K-C Professional & Other | 730 | 651 |
| Health Care | 367 | 298 |
| Corporate & Other | 12 | 13 |
| Intersegment sales | (17) | (20) |
| Consolidated | \$ 4,835 | \$ 4,493 |

Commentary:

Percent Change in Net Sales Versus Prior Year

| | Total Change | Volume Growth | Changes Due To | | |
|--------------------------|-----------------|------------------|----------------|----------|---------------|
| | | | Net Price | Currency | Mix/ Other |
| Consolidated | 7.6 | 2 | 1 | 5 | - |
| Personal Care | 8.1 | 3 | 1 | 5 | (1) |
| Consumer Tissue | 2.0 | (3) | - | 5 | - |
| K-C Professional & Other | 12.1 | 4 | 2 | 5 | 1 |
| Health Care | 23.2 | 20 | - | 3 | - |

- Personal care net sales in North America increased 4 percent versus the first quarter of 2009. Sales volumes were up 2 percent, currency effects benefited sales by 1 percent, and changes in net selling prices, driven by the timing of promotional activity for Huggies diapers, added an additional percent of growth. The growth in volumes was broad-based across most categories, including a double-digit increase in feminine care as a result of initial shipments of the new U by Kotex line extension that was launched toward the end of the first quarter. In addition, sales volumes for Huggies baby wipes and the Corporation's child care brands rose 5 percent and 4 percent, respectively, compared to soft year-ago results that included the impacts of a slowdown in category sales. In other areas of the business, sales volumes for adult care rose 3 percent, including early benefits from recent innovation on both the Poise and Depend brands. Finally, sales volumes for Huggies diapers were off about 5 percent in the first quarter, in part due to the previously mentioned timing of promotional activities.

Table of Contents

In Europe, personal care net sales rose 6 percent in the quarter, including a currency exchange rate benefit of 9 percent. Net selling prices declined nearly 2 percent and changes in product mix reduced sales by about 1 percent. Overall sales volumes were down slightly in the first quarter, as a 4 percent decline in Huggies diapers was nearly offset by strong growth in Huggies baby wipes and the Corporation's child care brands.

In K-C's international operations in Asia, Latin America, the Middle East, Eastern Europe and Africa, personal care net sales increased 15 percent, as changes in currency rates benefited sales by 9 percent and organic sales rose 6 percent. Sales volumes were up 7 percent, while changes in product mix reduced sales by about 1 percent. The growth in volumes was broad-based, with particular strength in China, Turkey, South Asia and Latin America.

- In North America, sales of consumer tissue products decreased approximately 4 percent compared to the year-ago period. Sales volumes were down nearly 6 percent and product mix was slightly unfavorable, while changes in net selling prices added more than 2 percent to sales, primarily due to sheet count reductions taken in the first quarter on Cottonelle bathroom tissue to improve net realized revenue. Although bathroom tissue sales volumes were down about 3 percent in the quarter, overall net sales were up modestly as a result of the sheet count reductions. Sales volumes for Kleenex facial tissue declined 3 percent in the quarter in conjunction with a mild cold and flu season. Finally, paper towel volumes fell at a double-digit rate and continue to be impacted by consumer trade-down.

In Europe, consumer tissue net sales rose about 3 percent compared with the first quarter of 2009, including favorable currency effects of 8 percent. Net selling prices decreased 3 percent, reflecting a continued competitive environment, and sales volumes were off about 2 percent in the quarter.

In K-C's international operations in Asia, Latin America, the Middle East, Eastern Europe and Africa, consumer tissue net sales increased 12 percent, as currency effects were favorable by 10 percent and organic sales rose 2 percent. Sales volumes advanced approximately 2 percent in the first quarter, while a 1 percent benefit from changes in product mix was essentially offset by slightly lower net selling prices.

- Net sales of K-C Professional (KCP) & other products increased 12.1 percent compared with the first quarter of 2009. Favorable currency effects benefited sales by 5 percent and the acquisition of Jackson Products, Inc. ("Jackson") added 3 percent of sales growth in the quarter. In addition, net selling prices increased 2 percent and changes in product mix benefited sales by 1 percent, reflecting the Corporation's continued focus on increasing net realized revenue. Organic sales volumes advanced 1 percent.

In North America, KCP net sales increased 12 percent, including an approximate 6 percent benefit from Jackson. Meanwhile, net selling prices rose 3 percent, organic sales volumes were up about 2 percent and changes in currency rates added 1 percent to sales. In Europe, KCP's sales rose 9 percent in the first quarter, including favorable currency effects of 9 percent and a benefit from Jackson of more than 1 percent. Organic sales volumes were up about 1 percent, while net selling prices fell 2 percent.

Table of Contents

In K-C's international operations in Asia, Latin America, the Middle East, Eastern Europe and Africa, KCP's net sales increased 23 percent, including benefits from currency rates totaling 10 percent. Sales volumes were up about 7 percent, with particular strength in South Asia and Latin America, and the combined impact of higher net selling prices and improved product mix increased sales by 6 percent.

- Net sales of health care products increased 23.2 percent in the first quarter. Growth was driven by a 12 percent benefit from the acquisition of I-Flow Corporation ("I-Flow") and an 8 percent increase in organic sales volumes. In addition, favorable currency exchange rates added 3 percent of sales growth in the quarter. The organic volume growth was highlighted by double-digit gains in medical devices and in exam gloves. In addition, increased global demand for face masks as a result of the H1N1 flu virus was responsible for nearly 4 percent of organic volume growth in the quarter.

By Geography
(Millions of dollars)

| Net Sales | 2010 | 2009 |
|-----------------------|---------|---------|
| North America | \$2,647 | \$2,539 |
| Outside North America | 2,364 | 2,105 |
| Intergeographic sales | (176) | (151) |
| Consolidated | \$4,835 | \$4,493 |

Commentary:

- Net sales in North America increased 4 percent compared with the prior year due to higher net selling prices and increases in sales volumes.
- Net sales outside North America increased 12 percent, particularly in Asia and Europe, due to higher volumes and favorable currency effects partially offset by lower net selling prices.

Table of Contents

Analysis of Operating Profit

By Business Segment
(Millions of dollars)

| Operating Profit | 2010 | 2009 |
|------------------------------------|--------|--------|
| Personal Care | \$ 472 | \$ 442 |
| Consumer Tissue | 181 | 194 |
| K-C Professional & Other | 107 | 80 |
| Health Care | 57 | 48 |
| Other income and (expense), net(a) | (101) | (77) |
| Corporate & Other(b) | (51) | (59) |
| Consolidated | \$ 665 | \$ 628 |

Notes:

(a) Other income and (expense), net included a \$79 million charge for the adoption of highly inflationary accounting in Venezuela effective January 1, 2010. See additional information in Note 3 to the Consolidated Financial Statements. In addition, foreign currency transaction losses totaled \$21 million in the first quarter of 2010 and \$76 million in the prior year.

(b) Included in Corporate & Other in 2010 is a \$19 million charge related to the adoption of highly inflationary accounting in Venezuela. See additional information in Notes 3 and 9 to the Consolidated Financial Statements.

Commentary:

Percentage Change in Operating Profit Versus Prior Year

| | Changes Due To | | | | | |
|--------------|-----------------|--------|-------|-------------------|----------|----------|
| | Total Change | Volume | Price | Input Costs(a) | Currency | Other(b) |
| | | | | | | |
| Consolidated | 5.9 | 5 | 6 | (11) | 11 | (5) |

| | | | | | | |
|--------------------------|-------|-----|----|------|---|------|
| Personal Care | 6.8 | 2 | 3 | (5) | 2 | 5 |
| Consumer Tissue | (6.7) | (6) | 3 | (12) | - | 8 |
| K-C Professional & Other | 33.8 | 5 | 19 | (23) | 7 | 26 |
| Health Care | 18.8 | 64 | - | (13) | 5 | (37) |

(a) Includes raw materials cost inflation and energy and distribution variations.

(b) Includes cost savings. Consolidated also includes the charge related to the adoption of highly inflationary accounting in Venezuela.

Table of Contents

Consolidated operating profit for the first quarter of 2010 was up 5.9 percent from the prior year. In addition to the effect of higher net sales, there were a number of other factors affecting year-over-year operating profit comparisons. Cost savings in the quarter from the Corporation's FORCE (Focused On Reducing Costs Everywhere) program totaled approximately \$80 million. The Corporation also realized benefits of about \$35 million related to the 2009 organization optimization initiative that streamlined its salaried workforce. Pension expense fell by nearly \$40 million, as expected, with a majority of the decrease reflected in cost of sales. Increased production volumes favorably impacted the year-over-year comparisons by approximately \$35 million. Meanwhile, inflation in key cost inputs amounted to about \$70 million overall versus 2009, including \$50 million in higher fiber costs, \$25 million for raw materials other than fiber, and \$10 million in distribution costs, partially offset by \$15 million of lower energy costs. Marketing, research and general expenses increased in the first quarter, including a \$60 million increase in strategic marketing to support the Corporation's product innovation activities and targeted growth initiatives, along with higher selling, research and administrative expenses, driven by increases to support future growth in K-C International and the I-Flow acquisition.

The Corporation recorded charges of \$19 million in Cost of products sold, and \$79 million in Other income and (expense), net related to the adoption of highly inflationary accounting in Venezuela effective January 1, 2010. In addition, Other income and (expense), net included foreign currency transaction losses of \$21 million in the first quarter of 2010 and \$76 million in the prior year.

- Personal care segment operating profit increased 6.8 percent as the benefits from cost savings, higher net selling prices, sales volume increases and production efficiencies were tempered by higher input costs and increased marketing, research and general expenses. In North America, operating profit increased primarily due to cost savings, production efficiencies, higher net selling prices and favorable currency effects, partially offset by higher input costs and increases in marketing, research and general expense. In Europe, operating profit increased due to cost savings partially offset by lower net selling prices. Operating profit in the Corporation's operations in Asia, Latin America, the Middle East, Eastern Europe and Africa decreased as the benefits from higher sales volumes were more than offset by increases in marketing, research and general expenses.
- Consumer tissue segment operating profit decreased 6.7 percent as higher input costs, lower sales volumes and increased strategic marketing expense were tempered by cost savings and production efficiencies. In North America, operating profit increased due to higher net selling prices and production efficiencies, partially offset by lower sales volumes and higher input costs. In Europe, operating profit decreased as cost savings were more than offset by lower selling prices. Operating profit in the Corporation's operations in Asia, Latin America, the Middle East, Eastern Europe and Africa decreased due to higher selling and general expenses and unfavorable currency effects, partially offset by increased sales volumes.
- Operating profit for K-C Professional & Other products increased 33.8 percent due to cost savings and higher net selling prices, partially offset by higher input costs.
- Health care segment operating profit increased 18.8 percent due to increased sales volumes and cost savings, partially offset by increased selling and general expenses.

Table of Contents

By Geography
(Millions of dollars)

| Operating Profit | 2010 | 2009 |
|-------------------------------------|--------|--------|
| North America | \$ 562 | \$ 505 |
| Outside North America | 255 | 259 |
| Other income and (expense), net (a) | (101) | (77) |
| Corporate & Other(b) | (51) | (59) |
| Consolidated | \$ 665 | \$ 628 |

Notes:

(a) Other income and (expense), net included a \$79 million charge for the adoption of highly inflationary accounting in Venezuela effective January 1, 2010. See additional information in Note 3 to the Consolidated Financial Statements. In addition, foreign currency transaction losses totaled \$21 million in the first quarter of 2010 and \$76 million in the prior year.

(b) Included in Corporate & Other in 2010 is a \$19 million charge related to the adoption of highly inflationary accounting in Venezuela. See additional information in Note 3 to the Consolidated Financial Statements.

Commentary:

- Operating profit in North America increased 11.3 percent because higher net selling prices, production efficiencies, and cost savings more than offset higher input costs and increased marketing, research and general expenses.
- Operating profit outside North America was essentially even with last year as higher sales volumes and cost savings were offset by lower net selling prices and higher strategic marketing spending.

Additional Income Statement Commentary

- Interest expense for the first quarter of 2010 was \$12 million lower than the prior year primarily due to a lower average level of debt.
- The Corporation's effective tax rate for the first quarter of 2010 was 39.6 percent compared to 29.1 percent in the prior year. The first quarter rate was above the Corporation's full-year target range of 30 to 32 percent, driven by the nondeductible currency losses resulting from the adoption of highly inflationary accounting in Venezuela and changes in tax law related to U.S. health care reform legislation, including a \$20 million charge related to the Medicare Part D subsidy, partially offset by a one-time event related to foreign tax credits.

- The Corporation's share of net income of equity companies in the first quarter increased to \$43 million from \$32 million in 2009, mainly as a result of higher net income at Kimberly-Clark de Mexico, S.A.B. de C.V. (KCM). KCM delivered double-digit growth in net sales, operating profit and net income, as results were positively impacted by solid organic sales growth, improved gross margin and favorable currency effects.

Table of Contents

Liquidity and Capital Resources

- Cash provided by operations in the first quarter of 2010 totaled \$464 million compared to \$692 million in the prior year. The decline was driven by increases in operating working capital and higher pension plan contributions, partially offset by higher cash earnings. First quarter contributions to the Corporation's defined benefit pension plans totaled about \$175 million in 2010 versus \$90 million in 2009. The Corporation continues to target full-year 2010 pension contributions of approximately \$240 million.
- Capital spending for the quarter was \$184 million compared with \$211 million last year. The Corporation continues to target full year spending of \$1.0 to \$1.1 billion in 2010.
- During the first quarter of 2010, the Corporation repurchased approximately 2.5 million shares of its common stock at a cost of about \$150 million, in line with the Corporation's target to repurchase \$500 to \$600 million worth of its shares in 2010.
- At March 31, 2010, total debt and redeemable securities was \$6.4 billion compared with \$6.5 billion at the end of 2009.
- In 2003, the Venezuelan government enacted currency restrictions, which have affected the ability of K-C Venezuela to obtain U.S. dollars at the official exchange rate to pay for significant imports of finished goods, raw materials and services to support its operations. These exchange restrictions have negatively impacted K-C Venezuela because it has had to meet its foreign currency needs from non-government sources at the parallel exchange rates, which are substantially unfavorable to the official rate. See Note 3 to the Consolidated Financial Statements for more details about the accounting for K-C Venezuela's financial results and the previously discussed charge resulting from the January 1, 2010 adoption of highly inflationary accounting in Venezuela.

As of March 31, 2010, K-C Venezuela had a bolivar-denominated net monetary asset position of 357 million bolivars. Management does not expect further changes in the parallel market exchange rate during the remainder of 2010 to have a material impact on the Corporation's financial condition, results of operations or liquidity.

- Management believes that the Corporation's ability to generate cash from operations and its capacity to issue short-term and long-term debt are adequate to fund operating needs, capital spending, payment of dividends and other needs in the foreseeable future.

New Accounting Standards

See Note 1 to the Consolidated Financial Statements for information on recently issued accounting standards.

Table of Contents

Environmental Matters

The Corporation has been named a potentially responsible party under the provisions of the federal Comprehensive Environmental Response, Compensation and Liability Act, or analogous state statutes, at a number of waste disposal sites, none of which, individually or in the aggregate, in management's opinion, is likely to have a material adverse effect on the Corporation's business, financial condition, results of operations, or liquidity.

Business Outlook

The Corporation plans to continue to strengthen its brands, pursue targeted growth initiatives and invest for future growth. The Corporation has launched a number of innovations already this year and intends to bring more to market as the year progresses. The Corporation continues to expect that strategic marketing spending will rise at a faster pace than sales in 2010. Given recent input cost changes and expectations for additional near-term increases, particularly with pulp, the Corporation is now experiencing significantly higher cost inflation in 2010 than previously estimated. As a result, management is looking for ways to increase revenue realization and focusing on generating incremental cost savings and controlling discretionary spending to offset a substantial portion of these input cost increases.

Information Concerning Forward-Looking Statements

Certain matters contained in this report concerning the business outlook, including economic conditions, anticipated currency rates and exchange risk, anticipated impact of acquisitions, cost savings, changes in finished product selling prices, cash flow and uses of cash, capital spending, marketing spending, anticipated raw material and energy costs, anticipated financial and operating results, revenue realization strategies, contingencies and anticipated transactions of the Corporation constitute forward-looking statements and are based upon management's expectations and beliefs concerning future events impacting the Corporation. There can be no assurance that these future events will occur as anticipated or that the Corporation's results will be as estimated. For a description of certain factors that could cause the Corporation's future results to differ materially from those expressed in any such forward-looking statements, see Item 1A of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2009 entitled "Risk Factors."

Item 4. Controls and Procedures.

As of March 31, 2010, an evaluation was performed under the supervision and with the participation of the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures. Based on that evaluation, the Corporation's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Corporation's disclosure controls and procedures were effective as of March 31, 2010. There have been no significant changes during the quarter covered by this report in the Corporation's internal control over financial reporting or in other factors that could significantly affect internal control over financial reporting.

Table of Contents

PART II – OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

The Corporation repurchases shares of Kimberly-Clark common stock from time to time pursuant to publicly announced share repurchase programs. During 2010, the Corporation anticipates purchasing \$500 million to \$600 million of its common stock. All share repurchases by the Corporation during the first quarter of 2010 were made through a broker in the open market.

The following table contains information for shares repurchased during the first quarter of 2010. None of the shares in this table were repurchased directly from any officer or director of the Corporation.

| Period (2010) | Total Number of Shares Purchased(1) | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|------------------|---|------------------------------------|--|--|
| January 1 to 31 | 267,000 | \$ 59.83 | 18,267,411 | 31,732,589 |
| February 1 to 28 | 1,017,000 | 59.69 | 19,284,411 | 30,715,589 |
| March 1 to 31 | 1,197,000 | 61.16 | 20,481,411 | 29,518,589 |
| Total | 2,481,000 | | | |

(1) Share repurchases were made pursuant to a share repurchase program authorized by the Corporation's Board of Directors on July 23, 2007 that allows for the repurchase of 50 million shares in an amount not to exceed \$5 billion.

Edgar Filing: KIMBERLY CLARK CORP - Form 10-Q

In addition, during January, February and March 2010, the Corporation purchased the following shares from current or former employees in connection with the exercise of employee stock options and other awards.

| Month | Shares | Amount |
|----------|--------|-----------|
| January | 6,713 | \$409,330 |
| February | 203 | 12,068 |
| March | 1,431 | 86,933 |

Table of Contents

Item 6. Exhibits.

(a) Exhibits.

Exhibit No. (3)a. Amended and Restated Certificate of Incorporation, dated April 30, 2009, incorporated by reference to Exhibit No. (3)a of the Corporation's Current Report on Form 8-K dated May 1, 2009.

Exhibit No. (3)b. By-Laws, as amended April 30, 2009, incorporated by reference to Exhibit No. (3)b of the Corporation's Current Report on Form 8-K dated May 1, 2009.

Exhibit No. (4). Copies of instruments defining the rights of holders of long-term debt will be furnished to the Securities and Exchange Commission on request.

Exhibit No. (31)a. Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), filed herewith.

Exhibit No. (31)b. Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, filed herewith.

Exhibit No. (32)a. Certification of Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.

Exhibit No. (32)b. Certification of Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.

Exhibit No. (101).INS* XBRL Instance Document

Exhibit No. (101).SCH* XBRL Taxonomy Extension Schema Document

Exhibit No. (101).CAL* XBRL Taxonomy Extension Calculation Linkbase Document

Exhibit No. (101).LAB* XBRL Taxonomy Extension Label Linkbase Document

Exhibit No. (101).PRE* XBRL Taxonomy Extension Presentation Linkbase Document

*In accordance with Regulation S-T, the XBRL-related information in Exhibit No. (101) to this Quarterly Report on Form 10-Q shall be deemed "furnished" and not "filed."

Table of Contents

SIGNATURES

Pursuant to the requirements 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.

KIMBERLY-CLARK CORPORATION
(Registrant)

By: /s/ Mark A. Buthman
Mark A. Buthman
Senior Vice President and
Chief Financial Officer
(principal financial officer)

By: /s/ Michael T. Azbell
Michael T. Azbell
Vice President and Controller
(principal accounting officer)

May 7, 2010

Table of Contents

EXHIBIT INDEX

Exhibit No. Description

- (3)a. Amended and Restated Certificate of Incorporation, dated April 30, 2009, incorporated by reference to Exhibit No. (3)a of the Corporation's Current Report on Form 8-K dated May 1, 2009.
- (3)b. By-Laws, as amended April 30, 2009, incorporated by reference to Exhibit No. (3)b of the Corporation's Current Report on Form 8-K dated May 1, 2009.
- (4). Copies of instruments defining the rights of holders of long-term debt will be furnished to the Securities and Exchange Commission on request.
- (31)a. Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), filed herewith.
- (31)b. Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act, filed herewith.
- (32)a. Certification of Chief Executive Officer required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.
- (32)b. Certification of Chief Financial Officer required by Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and Section 1350 of Chapter 63 of Title 18 of the United States Code, furnished herewith.
- (101).INS* XBRL Instance Document
- (101).SCH* XBRL Taxonomy Extension Schema Document
- (101).CAL* XBRL Taxonomy Extension Calculation Linkbase Document
- (101).LAB* XBRL Taxonomy Extension Label Linkbase Document
- (101).PRE* XBRL Taxonomy Extension Presentation Linkbase Document

*In accordance with Regulation S-T, the XBRL-related information in Exhibit No. (101) to this Quarterly Report on Form 10-Q shall be deemed "furnished" and not "filed."
