KIMBERLY CLARK CORP
Form 10-Q
August 05, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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	**39-0394230**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 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 x 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 x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 x

As of July 29, 2011, there were 391,802,755 shares of the Corporation s common stock outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES

CONSOLIDATED INCOME STATEMENT

(Unaudited)

(Millions of dollars, except per share amounts)	Three Months Ended June 30 2011	Three Months Ended June 30 2010	Six Months Ended June 30 2011	Six Months Ended June 30 2010
Net Sales	**$ 5,259**	$ 4,857	**$ 10,288**	$ 9,692
Cost of products sold	**3,702**	3,213	**7,268**	6,401
Gross Profit	**1,557**	1,644	**3,020**	3,291
Marketing, research and general expenses	**940**	929	**1,861**	1,810
Other (income) and expense, net	**(8)**	4	**(10)**	105
Operating Profit	**625**	711	**1,169**	1,376
Interest income	**4**	6	**8**	11
Interest expense	**(71)**	(60)	**(135)**	(121)
Income Before Income Taxes and Equity Interests	**558**	657	**1,042**	1,266
Provision for income taxes	**(173)**	(181)	**(325)**	(422)
Income Before Equity Interests	**385**	476	**717**	844
Share of net income of equity companies	**47**	47	**87**	90
Net Income	**432**	523	**804**	934
Net income attributable to noncontrolling interests	**(24)**	(25)	**(46)**	(52)
Net Income Attributable to Kimberly-Clark Corporation	**$ 408**	$ 498	**$ 758**	$ 882
Per Share Basis:				
Net Income Attributable to Kimberly-Clark Corporation				
Basic	**$ 1.04**	$ 1.20	**$ 1.90**	$ 2.12
Diluted	**1.03**	1.20	**1.89**	2.11
Cash Dividends Declared	**$ .70**	$ .66	**$ 1.40**	$ 1.32

See Notes to Consolidated Financial Statements.

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KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEET

(Unaudited)

(Millions of dollars)	June 30 2011	December 31 2010
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 908**	$ 876
Accounts receivable, net	**2,537**	2,472
Notes receivable	**220**	218
Inventories	**2,521**	2,373
Other current assets	**536**	389
Total Current Assets	**6,722**	6,328
Property	**18,585**	17,877
Less accumulated depreciation	**10,171**	9,521
Net Property	**8,414**	8,356
Investments in Equity Companies	**420**	374
Goodwill	**3,486**	3,403
Long-Term Notes Receivable	**393**	393
Other Assets	**1,045**	1,010
	$ 20,480	$ 19,864
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Debt payable within one year	**$ 1,008**	$ 344
Redeemable preferred securities of subsidiary	**505**	506
Trade accounts payable	**2,358**	2,206
Accrued expenses	**1,984**	1,909
Other current liabilities	**333**	373
Total Current Liabilities	**6,188**	5,338
Long-Term Debt	**5,424**	5,120
Noncurrent Employee Benefits	**1,437**	1,810
Long-Term Income Taxes Payable	**264**	260
Deferred Income Taxes	**526**	369
Other Liabilities	**243**	224
Redeemable Preferred and Common Securities of Subsidiaries	**541**	541
Stockholders Equity		
Kimberly-Clark Corporation	**5,556**	5,917
Noncontrolling interests	**301**	285
Total Stockholders Equity	**5,857**	6,202
	$ 20,480	$ 19,864

See Notes to Consolidated Financial Statements.

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KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

(Unaudited)

	Six Months Ended June 30	
(Millions of dollars)	**2011**	**2010**
Operating Activities		
Net income	**$ 804**	$ 934
Depreciation and amortization	**530**	402
Stock-based compensation	**31**	28
Increase in operating working capital	**(62)**	(189)
Deferred income taxes	**136**	(9)
Net losses on asset dispositions	**10**	15
Equity companies earnings in excess of dividends paid	**(49)**	(54)
Postretirement benefits	**(361)**	(173)
Other	**(18)**	97
Cash Provided by Operations	**1,021**	1,051
Investing Activities		
Capital spending	**(435)**	(363)
Proceeds from sales of investments	**9**	19
Proceeds from dispositions of property		3
Investments in time deposits	**(78)**	(95)
Maturities of time deposits	**71**	155
Other	**1**	(8)
Cash Used for Investing	**(432)**	(289)
Financing Activities		
Cash dividends paid	**(549)**	(525)
Net increase in short-term debt	**287**	128
Proceeds from issuance of long-term debt	**700**	4
Repayments of long-term debt	**(13)**	(16)
Cash paid on redeemable preferred securities of subsidiary	**(27)**	(27)
Proceeds from exercise of stock options	**202**	36
Acquisitions of common stock for the treasury	**(1,206)**	(486)
Other	**13**	(26)
Cash Used for Financing	**(593)**	(912)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**36**	(63)
Increase (decrease) in Cash and Cash Equivalents	**32**	(213)
Cash and Cash Equivalents, beginning of year	**876**	798
Cash and Cash Equivalents, end of period	**$ 908**	$ 585

See Notes to Consolidated Financial Statements.

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KIMBERLY-CLARK CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
(Millions of dollars)	**2011**	**2010**	**2011**	**2010**
Net Income	**$ 432**	$ 523	**$ 804**	$ 934
Other Comprehensive Income, Net of Tax:				
Unrealized currency translation adjustments	**218**	(325)	**440**	(351)
Employee postretirement benefits	**(1)**	17		53
Other	**(8)**	5	**(28)**	7
Total Other Comprehensive Income, Net of Tax	**209**	(303)	**412**	(291)
Comprehensive Income	**641**	220	**1,216**	643
Comprehensive income attributable to noncontrolling interests	**29**	10	**56**	43
Comprehensive Income Attributable to Kimberly-Clark Corporation	**$ 612**	$ 210	**$ 1,160**	$ 600

See Notes to Consolidated Financial Statements.

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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 our Annual Report on Form 10-K for the year ended December 31, 2010. The terms Corporation, Kimberly-Clark, K-C, we, our and us refer to Kimberly-Clark Corporation and its consolidated subsidiaries.

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.

During the three months ended June 30, 2011 and 2010, there were no significant transfers among level 1, 2, or 3 fair value determinations.

Set forth below are the assets and liabilities that are measured on a recurring basis at fair value and the inputs used to develop those fair value measurements.

	June 30 2011	Fair Value Measurements		
		Level 1	Level 2	Level 3
		(Millions of dollars)		
Assets				
Company-owned life insurance (COLI)	$ 47	$	$ 47	$
Available-for-sale securities	16	16		
Derivatives	100		100	
Total	$ 163	$ 16	$ 147	$
Liabilities				
Derivatives	$ 64	$	$ 64	$

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	December 31 2010	Fair Value Measurements Level 1	Level 2	Level 3
		(Millions of dollars)		
Assets				
Company-owned life insurance (COLI)	$ 46	$	$ 46	$
Available-for-sale securities	15	15		
Derivatives	70		70	
Total	$ 131	$ 15	$ 116	$
Liabilities				
Derivatives	$ 48	$	$ 48	$

The COLI policies are a source of funding primarily for our nonqualified employee benefits and are included in other assets. Available-for-sale securities are included in other assets. 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 $2 million at June 30, 2011 and December 31, 2010 are recorded in other comprehensive income until realized. The unrealized losses have not been recognized in earnings because we have 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 our use of derivative instruments is contained in Note 9.

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Fair Value Disclosures

The following table includes the fair value of our financial instruments for which disclosure of fair value is required:

	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	June 30, 2011		December 31, 2010	
	(Millions of dollars)			
Assets				
Cash and cash equivalents[a]	**$ 908**	**$ 908**	$ 876	$ 876
Time deposits[b]	**93**	**93**	80	80
Notes receivable[c]	**613**	**602**	611	597
Liabilities and redeemable preferred and common securities of subsidiaries				
Short-term debt[d]	**367**	**367**	79	79
Monetization loan[c]	**397**	**394**	397	397
Long-term debt[e]	**5,668**	**6,308**	4,988	5,556
Redeemable preferred and common securities of subsidiaries[f]	**1,046**	**1,117**	1,047	1,127

(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, included in Other current assets on the Condensed Consolidated Balance Sheet, 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) 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 variable interest entity (VIE) has an outstanding long-term monetization loan secured by the related note held by this VIE (indicated by Note 1 and Loan below). The following summarizes the terms of the notes and the monetization loan as of June 30, 2011 (millions of dollars):

Description	Face Value	Carrying Amount	Maturity	Interest Rate[1]
Note 1	**$ 397**	**$ 393**	09/30/2014	LIBOR
Loan	**397**	**397**	01/31/2014	LIBOR plus 75 bps
Note 2[2]	**220**	**220**	07/07/2011	LIBOR minus 12.5 bps

(1) Payable quarterly, 3-month LIBOR.

(2) On the July 7, 2011 maturity date, we collected $220 million in cash.

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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 we have 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 is 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.

(d) Short-term debt is comprised of U.S. commercial paper with original maturities up to 90 days and other similar short-term debt issued by non-U.S. subsidiaries, all of which are recorded at cost, which approximates fair value.

(e) Long-term debt excludes the monetization loan and includes the portion payable within the next twelve months ($641 million at June 30, 2011 and $265 million at December 31, 2010). 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. We determined the fair value and carrying amount of the redeemable common securities were $35 million at June 30, 2011 and December 31, 2010 based on various inputs, including an independent third-party appraisal, adjusted for current market conditions.

Note 3. Pulp and Tissue Restructuring

On January 21, 2011, we initiated a pulp and tissue restructuring plan in order to exit our remaining integrated pulp manufacturing operations and improve the underlying profitability and return on invested capital of our consumer tissue and K-C Professional businesses. The restructuring involves the streamlining, sale or closure of 5 to 6 of our manufacturing facilities around the world. In conjunction with these actions, we have begun to exit certain non-strategic products, primarily non-branded offerings, and transfer some production to lower-cost facilities in order to improve overall profitability and returns. Facilities impacted by the restructuring include our pulp and tissue facility in Everett, Washington and the two facilities in Australia that manufacture pulp and tissue.

The restructuring plan commenced in the first quarter of 2011 and is expected to be completed by December 31, 2012. The restructuring is expected to result in cumulative charges of approximately $400 million to $600 million before tax ($280 million to $420 million after tax) over that period. We anticipate that the charges will fall into the following categories and approximate dollar ranges: workforce reduction costs ($50 million to $100 million); incremental depreciation ($300 million to $400 million); and other associated costs ($50 million to $100 million). Cash costs related to the streamlining of operations, sale or closure, relocation of equipment, severance and other expenses are expected to account for approximately 25 percent to 50 percent of the charges. Noncash charges will consist primarily of incremental depreciation.

As a result of the restructuring, we expect that by 2013 annual net sales will be reduced by $250 million to $300 million and operating profit will increase by at least $75 million. Most of the restructuring will impact the consumer tissue business segment.

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The following charges were incurred in connection with the restructuring:

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
	(Millions of dollars)	
Incremental depreciation	$ 76	$ 116
Charges for workforce reductions	1	43
Asset write-offs	8	8
Cost of products sold	$ 85	$ 167
Charges for workforce reductions included in Marketing, research and general expenses	5	5
Provision for income taxes	(31)	(56)
Net Charges	$ 59	$ 116

See Note 10 for additional information on the pulp and tissue restructuring charges by segment.

Pretax charges for the pulp and tissue restructuring relate to activities in the following geographic areas:

	Three Months Ended June 30, 2011			
	North America	Australia	Other	Total
	(Millions of dollars)			
Incremental depreciation	$ 52	$ 21	$ 3	$ 76
Charges for workforce reductions		6		6
Asset write-offs	6	2		8
Total charges	$ 58	$ 29	$ 3	$ 90

	Six Months Ended June 30, 2011			
	North America	Australia	Other	Total
	(Millions of dollars)			
Incremental depreciation	$ 70	$ 40	$ 6	$ 116
Charges for workforce reductions		46	2	48
Asset write-offs	6	2		8
Total charges	$ 76	$ 88	$ 8	$ 172

The following summarizes the cash charges recorded and reconciles these charges to accrued expenses:

		Millions of dollars
Accrued expenses	January 1, 2011	$

Charges for workforce reductions	**48**