KIMBERLY CLARK CORP
Form 10-Q
August 08, 2007

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, 2007**

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 incorporation or organization)	(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)

No change
(Former name, former address and former fiscal year, if changed since last report)

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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 31, 2007, there were 425,612,341 shares of the Corporation's common stock outstanding.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Three Months Ended June 30		Six Months Ended June 30	
(Millions of dollars, except per share amounts)	**2007**	2006	**2007**	2006
Net Sales	**$ 4,502.0**	$ 4,161.4	**$ 8,887.3**	$ 8,229.3
Cost of products sold	**3,056.0**	2,873.8	**6,089.0**	5,788.6
Gross Profit	**1,446.0**	1,287.6	**2,798.3**	2,440.7
Marketing, research and general expenses	**797.6**	741.9	**1,530.2**	1,454.4
Other (income) and expense, net	**(.3)**	1.6	**3.3**	21.8
Operating Profit	**648.7**	544.1	**1,264.8**	964.5
Nonoperating expense	**(47.5)**	(7.6)	**(75.1)**	(23.4)
Interest income	**7.4**	6.6	**14.0**	13.0
Interest expense	**(51.9)**	(55.1)	**(102.8)**	(109.4)
Income Before Income Taxes and Equity Interests	**556.7**	488.0	**1,100.9**	844.7
Provision for income taxes	**(111.5)**	(131.0)	**(223.6)**	(230.3)
Income Before Equity Interests	**445.2**	357.0	**877.3**	614.4
Share of net income of equity companies	**42.8**	42.9	**87.8**	81.9
Minority owners' share of subsidiaries' net income	**(26.2)**	(22.3)	**(51.3)**	(43.6)
Net Income	**$ 461.8**	$ 377.6	**$ 913.8**	$ 652.7

Per Share Basis:

Net Income				
Basic	**$ 1.01**	$ .82	**$ 2.01**	$ 1.42
Diluted	**$ 1.00**	$ .82	**$ 1.99**	$ 1.41
Cash Dividends Declared	**$ .53**	$ .49	**$ 1.06**	$ .98

See Notes to Consolidated Financial Statements.

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

(Millions of dollars)	June 30, 2007	December 31, 2006
ASSETS		
Current Assets		
Cash and cash equivalents	$ 457.0	$ 360.8
Accounts receivable, net	2,401.6	2,336.7
Inventories	2,243.5	2,004.5
Other current assets	552.8	567.7
Total Current Assets	5,654.9	5,269.7
Property	15,892.3	15,404.9
Less accumulated depreciation	8,021.8	7,720.1
Net Property	7,870.5	7,684.8
Investments in Equity Companies	445.1	392.9
Goodwill	2,955.7	2,860.5
Other Assets	920.4	859.1
	$ 17,846.6	$ 17,067.0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Debt payable within one year	$ 1,335.1	$ 1,326.4
Accounts payable	1,711.0	1,530.8
Accrued expenses	1,562.9	1,603.8
Other current liabilities	310.3	554.8
Total Current Liabilities	4,919.3	5,015.8
Long-Term Debt	2,278.4	2,276.0
Noncurrent Employee Benefits	1,864.1	1,887.6
Deferred Income Taxes	231.9	391.1
Other Liabilities	617.4	183.1
Minority Owners' Interests in Subsidiaries	428.5	422.6
Preferred Securities of Subsidiary	811.9	793.4
Stockholders' Equity	6,695.1	6,097.4
	$ 17,846.6	$ 17,067.0

See Notes to Consolidated Financial Statements.

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

(Millions of dollars)	Six Months Ended June 30 **2007**	2006
Operating Activities		
Net income	**$ 913.8**	$ 652.7
Depreciation and amortization	**412.9**	499.6
Stock-based compensation	**37.6**	36.1
Changes in operating working capital	**(100.5)**	(71.9)
Deferred income tax provision	**(90.2)**	(99.8)
Net losses on asset dispositions	**14.7**	74.0
Equity companies' earnings in excess of dividends paid	**(55.5)**	(48.1)
Minority owners' share of subsidiaries' net income	**51.3**	43.6
Postretirement benefits	**.5**	30.7
Other	**(8.6)**	1.8
Cash Provided by Operations	**1,176.0**	1,118.7
Investing Activities		
Capital spending	**(544.0)**	(398.6)
Acquisition of businesses, net of cash acquired	**(15.7)**	-
Proceeds from sales of investments	**12.4**	17.4
Proceeds from dispositions of property	**60.0**	24.7
Net decrease in time deposits	**17.9**	17.0
Investments in marketable securities	**(4.1)**	(18.7)
Other	**(24.9)**	(7.1)
Cash Used for Investing	**(498.4)**	(365.3)
Financing Activities		
Cash dividends paid	**(465.8)**	(434.5)
Net increase (decrease) in short-term debt	**8.2**	(111.5)
Proceeds from issuance of long-term debt	**27.4**	31.4
Repayments of long-term debt	**(35.7)**	(62.8)
Proceeds from exercise of stock options	**213.5**	106.1
Acquisitions of common stock for the treasury	**(315.5)**	(301.1)
Other	**(16.7)**	(11.2)
Cash Used for Financing	**(584.6)**	(783.6)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**3.2**	3.6
Increase (decrease) in Cash and Cash Equivalents	**96.2**	(26.6)
Cash and Cash Equivalents, beginning of year	**360.8**	364.0
Cash and Cash Equivalents, end of period	**$ 457.0**	$ 337.4

See Notes to Consolidated Financial Statements.

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 U.S. 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 accounting principles generally accepted in the U.S. 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 thereto included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2006.

New Accounting Standard

In February 2007, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS 159"). SFAS 159 allows entities to choose, at specified election dates, to measure many financial instruments (financial assets and liabilities) at fair value (the "Fair Value Option"). The election is made on an instrument-by-instrument basis and is irrevocable. If the Fair Value Option is elected for an instrument, SFAS 159 specifies that all subsequent changes in fair value for that instrument be reported in earnings. SFAS 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. The Corporation does not intend to apply the Fair Value Option to any of its existing financial assets or liabilities.

Note 2. Accounting for Uncertainty in Income Taxes

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109, Accounting for Income Taxes* ("FIN 48"). FIN 48 addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements by standardizing the level of confidence needed to recognize uncertain tax benefits and the process for measuring the amount of benefit to recognize. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition.

The Corporation adopted FIN 48, effective January 1, 2007. As a result, the Corporation recorded an increase in income tax liabilities for uncertain tax benefits and a decrease in retained earnings of $34.2 million resulting from a cumulative effect adjustment. As of January 1, 2007, the total amount of unrecognized income tax benefits was approximately $490 million. Of this amount, about $375 million would reduce the Corporation's effective tax rate if recognized.

The Corporation recognizes accrued interest and penalties related to unrecognized tax benefits in income tax expense. As of January 1, 2007, total accrued penalties and net accrued interest with respect to income taxes was approximately $37 million.

As also required by FIN 48, the Corporation has classified the amounts it has recorded for uncertain tax benefits in the Consolidated Balance Sheet as other liabilities (non-current) to the extent that payment is not anticipated within one year. Prior year financial statements have not been reclassified.

Note 2. (Continued)

It is reasonably possible that a number of uncertainties could be settled within the next 12 months. Transfer pricing is the most significant uncertainty, which may be resolved by entering into a revised advance pricing agreement between the U.S. and the U.K. Various other uncertain tax positions related to federal taxes are being discussed at the IRS Appeals level in the U.S. Other less significant uncertain tax positions also may be settled of which none are individually significant. Settlement of these matters is not expected to have a material effect on the Corporation's financial condition, results of operations or liquidity.

As of January 1, 2007, the following tax years remain subject to examination for the major jurisdictions where we do business:

Jurisdiction	Years
United States	2004 to 2006
United Kingdom	1999 to 2006
Canada	2003 to 2006
Korea	2004 to 2006
Australia	2002 to 2006

State income tax returns are generally subject to examination for a period of 3 to 5 years after filing of the respective return. The state impact of any federal changes remains subject to examination by various states for a period of up to two years after formal notification to the states. The Corporation and its subsidiaries have various state income tax returns in the process of examination, administrative appeals or litigation.

Note 3. Strategic Cost Reduction Plan

In July 2005, the Corporation authorized a multi-year plan to further improve its competitive position by accelerating investments in targeted growth opportunities and strategic cost reductions aimed at streamlining manufacturing and administrative operations, primarily in North America and Europe.

The strategic cost reductions commenced in the third quarter of 2005 and are expected to be substantially completed by December 31, 2008. Based on current estimates, the strategic cost reductions are expected to result in cumulative charges of approximately $875 to $925 million before tax ($615 - $650 million after tax) over that three and one-half year period.

By the end of 2008, it is anticipated there will be a net workforce reduction of about 10 percent, or approximately 6,000 employees. Since the inception of the strategic cost reductions, a net workforce reduction of more than 3,700 has occurred. Approximately 20 manufacturing facilities, or 17 percent of the Corporation's worldwide total, are expected to be sold or closed, and an additional 4 facilities are expected to be streamlined. As of June 30, 2007, charges have been recorded related to strategic cost reduction initiatives for 23 facilities. To date, 11 facilities have been disposed of. Three additional facilities have been closed and are being marketed for sale.

Note 3. (Continued)

The following pretax charges were incurred in connection with the strategic cost reductions:

(Millions of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	**2007**	2006
Noncash charges	**$ 20.7**	$ 59.3	**$ 44.6**	$ 183.4
Charges (credits) for workforce reductions	**(10.6)**	18.0	**(6.0)**	95.0
Other cash charges	**6.9**	10.9	**15.3**	18.1
Charges for special pension and other benefits	**.8**	1.2	**4.5**	1.5
Total pretax charges	**$ 17.8**	$ 89.4	**$ 58.4**	$ 298.0

The following table summarizes the noncash charges:

(Millions of dollars)	Three Months Ended June 30		Six Months Ended June 30	
	2007	2006	**2007**	2006
Incremental depreciation and amortization	**$ 19.3**	$ 56.2	**$ 49.7**	$ 134.4
Asset write-offs	**1.4**	2.5	**4.7**	37.7
(Gain) loss on asset dispositions	**-**	.6	**(9.8)**	11.3
Noncash charges	**$ 20.7**	$ 59.3	**$ 44.6**	$ 183.4

The following table summarizes the cash charges recorded and reconciles such charges to accrued expenses at June 30:

(Millions of dollars)	**2007**	2006
Accrued expenses – beginning of the year	**$ 111.2**	$ 28.2
Charges (credits) for workforce reductions	**(6.0)**	95.0
Other cash charges	**15.3**	18.1
Cash payments	**(63.0)**	(81.7)
Currency	**2.3**	.1
Accrued expenses at June 30	**$ 59.8**	$ 59.7

Note 3. (Continued)

Termination benefits related to workforce reductions were accrued in accordance with the requirements of SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146"), SFAS No. 112, *Employers' Accounting for Postemployment Benefits,* and SFAS No. 88, *Employers' Accounting for Settlements & Curtailments of Defined Benefit Pension Plans and for Termination Benefits,* as appropriate. Retention bonuses related to workforce reductions were accrued in accordance with SFAS 146. The majority of the termination benefits and retention bonuses will be paid within 12 months of accrual. The termination benefits were provided under: a special-benefit arrangement for affected employees in the U.S.; standard benefit practices in the U.K.; applicable union agreements; or local statutory requirements, as appropriate. Incremental depreciation and amortization was based on changes in useful lives and estimated residual values of assets that are continuing to be used, but will be removed from service before the end of their originally assumed service period.

Costs of the initiatives have not been recorded at the business segment level, as the strategic cost reductions are corporate decisions. These charges are included in the following income statement captions:

(Millions of dollars)	Three Months Ended June 30 **2007**	Three Months Ended June 30 2006	Six Months Ended June 30 **2007**	Six Months Ended June 30 2006
Cost of products sold	**$ 10.7**	$ 66.4	**$ 52.5**	$ 222.1
Marketing, research and general expenses	**7.1**	23.0	**15.2**	65.0
Other (income) and expense, net	**-**	-	**(9.3)**	10.9
Pretax charges	**17.8**	89.4	**58.4**	298.0
Provision for income taxes	**(7.9)**	(29.3)	**(33.5)**	(82.7)
Minority owners' share of subsidiaries' net income	**(.1)**	.2	**(.1)**	(1.4)
Total charges	**$ 9.8**	$ 60.3	**$ 24.8**	$ 213.9

See Note 9 for additional information on the strategic cost reductions by business segment.

Actual pretax charges recorded for the strategic cost reductions relate to activities in the following geographic areas for the three months ended June 30:

	2007			
(Millions of dollars)	**North America**	**Europe**	**Other**	**Total**
Incremental depreciation	**$ 13.4**	**$ 6.7**	**$ (.8)**	**$ 19.3**
Asset write-offs	**1.2**	**(.2)**	**.4**	**1.4**
Charges (credits) for workforce reductions and special pension and other benefits	**5.3**	**(18.7)**	**3.6**	**(9.8)**
Loss on asset disposals and other charges	**4.8**	**1.2**	**.9**	**6.9**
Total charges (credits)	**$ 24.7**	**$ (11.0)**	**$ 4.1**	**$ 17.8**

Note 3. (Continued)

(Millions of dollars)	2006 North America		Europe		Other		Total	
Incremental depreciation and amortization	$	39.1	$	10.8	$	6.3	$	56.2
Asset write-offs		.9		1.6		-		2.5
Charges for workforce reductions and special pension and other benefits		17.5		1.3		.4		19.2
Loss on asset disposals and other charges		10.1		1.1		.3		11.5
Total charges	$	67.6	$	14.8	$	7.0	$	89.4

Actual pretax charges recorded for the strategic cost reductions relate to activities in the following geographic areas for the six months ended June 30:

(Millions of dollars)	**2007** **North America**		**Europe**		**Other**		**Total**	
Incremental depreciation	**$**	**29.3**	**$**	**19.7**	**$**	**.7**	**$**	**49.7**
Asset write-offs		**3.0**		**1.2**		**.5**		**4.7**
Charges (credits) for workforce reductions and special pension and other benefits		**11.6**		**(17.0)**		**3.9**		**(1.5)**
Loss on asset disposals and other charges		**8.8**		**5.0**		**1.0**		**14.8**
Total charges	**$**	**52.7**	**$**	**8.9**	**$**	**6.1**	**$**	**67.7**

(Millions of dollars)	2006 North America		Europe		Other		Total	
Incremental depreciation and amortization	$	77.6	$	38.4	$	18.4	$	134.4
Asset write-offs		23.5		14.0		.2		37.7
Charges for workforce reductions and special pension and other benefits		25.4		65.4		5.7		96.5
Loss on asset disposals and other charges		18.0		.3		.2		18.5
Total charges	$	144.5	$	118.1	$	24.5	$	287.1

Note 4. Inventories

The following schedule presents inventories by major class:

(Millions of dollars)	June 30, 2007	December 31, 2006
At lower of cost on the First-In, First-Out (FIFO) method or market:		
Raw materials	**$ 425.6**	$ 398.3
Work in process	**315.9**	298.6
Finished goods	**1,461.8**	1,263.4
Supplies and other	**256.6**	242.6
	2,459.9	2,202.9
Excess of FIFO cost over Last-In, First-Out (LIFO) cost	**(216.4)**	(198.4)
Total	**$ 2,243.5**	$ 2,004.5

The Corporation uses the LIFO method of valuing inventory for financial reporting purposes for most U.S. inventories. 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. Accordingly, interim LIFO calculations are based on management's estimates of expected year-end inventory levels and costs and are subject to the final year-end LIFO inventory valuation.

FIFO cost of total inventories on the LIFO method was $1,073.3 million and $936.0 million at June 30, 2007 and December 31, 2006, respectively.

Note 5. Synthetic Fuel Partnerships

The Corporation has minority interests in two synthetic fuel partnerships. The production of synthetic fuel results in pretax losses that are reported as nonoperating expense on the Corporation's Consolidated Income Statement. The production of synthetic fuel results in tax credits as well as tax deductions for the nonoperating losses, which reduce the Corporation's income tax expense. The effects of those losses and benefits for 2007 and 2006 are shown in the following tables:

	Three Months Ended June 30			
(Millions of dollars)	**2007**		2006	
Nonoperating expense		**$ (47.5)**		$ (7.6)
Tax credits	**$ 43.9**		$ 6.6	
Tax benefit of nonoperating expense	**15.6**	**59.5**	2.6	9.2
Net synthetic fuel benefit		**$ 12.0**		$ 1.6
Per share basis – diluted		**$ .03**		$ -

Note 5. (Continued)

(Millions of dollars)	Six Months Ended June 30 **2007**		2006	
Nonoperating expense		**$ (75.1)**		$ (23.4)
Tax credits	**$ 69.5**		$ 20.4	
Tax benefit of nonoperating expense	**24.7**	**94.2**	8.3	28.7
Net synthetic fuel benefit		**$ 19.1**		$ 5.3
Per share basis – diluted		**$ .04**		$ .01

Note 6. Employee Postretirement Benefits

The tables below present the interim period disclosure required by SFAS No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits:*

	Defined Benefit Plans		Other Postretirement Benefit Plans	
	Three Months Ended June 30			
(Millions of dollars)	**2007**	2006	**2007**	2006
Service cost	**$ 20.2**	$ 21.8	**$ 3.2**	$ 3.3
Interest cost	**77.9**	73.8	**12.9**	11.4
Expected return on plan assets	**(92.8)**	(84.5)	**-**	-
Recognized net actuarial loss	**18.6**	25.0	**1.8**	.7
Other	**2.8**	3.1	**.8**	.9
Net periodic benefit cost	**$ 26.7**	$ 39.2	**$ 18.7**	$ 16.3

	Defined Benefit Plans		Other Postretirement Benefit Plans	
	Six Months Ended June 30			
(Millions of dollars)	**2007**	2006	**2007**	2006
Service cost	**$ 41.6**	$ 43.7	**$ 6.6**	$ 7.5
Interest cost	**156.6**	148.2	**25.0**	23.5
Expected return on plan assets	**(184.9)**	(167.8)	**-**	-
Recognized net actuarial loss	**37.9**	50.2	**2.6**	2.0
Other	**7.8**	5.3	**1.6**	1.7
Net periodic benefit cost	**$ 59.0**	$ 79.6	**$ 35.8**	$ 34.7

During the first and second quarters of 2007, the Corporation made cash contributions of approximately $42 million and $17 million, respectively, to its pension trusts outside the U.S. During the first and second quarters of 2006, the Corporation made cash contributions of approximately $39 million and $10 million, respectively, to its pension trusts outside the U.S. The Corporation currently anticipates contributing about $94 million for the full year 2007 to its pension trusts outside the U.S.

Note 7. 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 used in the basic EPS computations is reconciled to those used in the diluted EPS computations as follows:

	Average Common Shares Outstanding			
	Three Months Ended June 30		Six Months Ended June 30	
(Millions of shares)	**2007**	2006	**2007**	2006
Basic	**455.6**	459.0	**455.7**	459.7
Dilutive effect of stock options	**2.7**	.5	**2.7**	.7
Dilutive effect of restricted share and restricted share unit awards	**1.3**	1.3	**1.4**	1.0
Diluted	**459.6**	460.8	**459.8**	461.4

Options outstanding during the three- and six-month periods ended June 30, 2007 to purchase 3.3 million and 1.8 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.

Options outstanding during the three- and six-month periods ended June 30, 2006 to purchase 18.1 million and 18.2 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.

The number of common shares outstanding as of June 30, 2007 and 2006 was 455.3 million and 458.3 million, respectively.

Note 8. Comprehensive Income

Comprehensive income includes all changes in stockholders' equity during the periods except those resulting from investments by and distributions to stockholders.

The following schedule presents the components of comprehensive income:

	Six Months Ended June 30	
(Millions of dollars)	**2007**	2006
Net income	**$ 913.8**	$ 652.7
Unrealized currency translation adjustments	**182.5**	232.9
Employee postretirement benefits, net	**55.0**	-
Deferred gains (losses) on cash flow hedges, net of tax	**5.4**	(8.1)
Unrealized holding losses on marketable securities	**(.1)**	(.1)
Comprehensive income	**$ 1,156.6**	$ 877.4

Note 8. (Continued)

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 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 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.

The net unrealized currency translation adjustments for the six months ended June 30, 2007 are primarily due to a weakening of the U.S. dollar versus the Australian dollar, the Brazilian real and the Thai baht.

Effective December 31, 2006, the Corporation adopted SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements Nos. 87, 88, 106 and 132R* ("SFAS 158"). SFAS 158 required the Corporation to record a transition adjustment to recognize the funded status of postretirement defined benefit plans – measured as the difference between the fair value of plan assets and the benefit obligations – in its balance sheet after adjusting for derecognition of the Corporation's minimum pension liability as of December 31, 2006.

Although the Corporation adopted the provisions of SFAS 158, it incorrectly presented the $395.2 million effect of this transition adjustment as a reduction of 2006 comprehensive income on its Consolidated Statement of Stockholders' Equity for the year ended December 31, 2006. The effect of removing the SFAS 158 transition adjustment changes reported comprehensive income from $1,736.7 million to $2,131.9 million. The Corporation will correctly present the SFAS 158 transition adjustment in its 2007 Annual Report on Form 10-K.

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; income and expense not associated with the business segments; and the costs of corporate decisions related to the strategic cost reductions described in Note 3.

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.

Note 9. (Continued)

- 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 and Kimcare brand names.

- The Health Care segment manufactures and markets disposable health care products such as surgical gowns, drapes, infection control products, sterilization wrap, face masks, exam gloves, respiratory products and other disposable medical products. Products in this segment are sold under the Kimberly-Clark, Ballard and other brand names.

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

(Millions of dollars)	Three Months Ended June 30 **2007**	Three Months Ended June 30 2006	Six Months Ended June 30 **2007**	Six Months Ended June 30 2006
NET SALES:				
Personal Care	**$ 1,881.5**	$ 1,715.1	**$ 3,679.1**	$ 3,340.1
Consumer Tissue	**1,568.6**	1,434.4	**3,161.7**	2,931.6
K-C Professional & Other	**763.0**	704.0	**1,460.4**	1,356.8
Health Care	**296.7**	317.8	**599.4**	618.3
Corporate & Other	**9.0**	7.7	**17.0**	16.7
Intersegment sales	**(16.8)**	(17.6)	**(30.3)**	(34.2)
Consolidated	**$ 4,502.0**	$ 4,161.4	**$ 8,887.3**	$ 8,229.3

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Note 9. (Continued)

(Millions of dollars)	Three Months Ended June 30 **2007**	2006	Six Months Ended June 30 **2007**	2006
OPERATING PROFIT (reconciled to income before income taxes):				
Personal Care	**$ 393.2**	$ 328.4	**$ 740.4**	$ 628.6
Consumer Tissue	**168.9**	177.6	**376.0**	386.6
K-C Professional & Other	**119.9**	113.9	**228.6**	218.4
Health Care	**52.0**	58.3	**107.6**	109.6
Other income and (expense), net	**.3**	(1.6)	**(3.3)**	(21.8)
Corporate & Other	**(85.6)**	(132.5)	**(184.5)**	(356.9)
Total Operating Profit	**648.7**	544.1	**1,264.8**	964.5
Nonoperating expense	**(47.5)**	(7.6)	**(75.1)**	(23.4)
Interest income	**7.4**	6.6	**14.0**	13.0
Interest expense	**(51.9)**	(55.1)	**(102.8)**	(109.4)
Income Before Income Taxes	**$ 556.7**	$ 488.0	**$ 1,100.9**	$ 844.7

Note: Other income and (expense), net and Corporate & Other include the following amounts of pretax charges for the strategic cost reductions. In 2007, Corporate & Other also includes the related implementation costs.

(Millions of dollars)	Three Months Ended June 30 **2007**	2006	Six Months Ended June 30 **2007**	2006
Other income and (expense), net	**$ -**	$ -	**$ 9.3**	$ (10.9)
Corporate and Other	**(28.8)**	(89.4)	**(90.9)**	(287.1)

Note 9. (Continued)

The following table presents the pretax charges for the strategic cost reductions related to activities in the Corporation's business segments:

(Millions of dollars)	Three Months Ended June 30 **2007**	2006	Six Months Ended June 30 **2007**	2006
Personal Care	**$ 22.2**	$ 56.3	**$ 50.2**	$ 171.9
Consumer Tissue	**(12.9)**	16.8	**3.0**	79.8
K-C Professional & Other	**4.0**	4.0	**6.6**	10.7
Health Care	**4.5**	12.3	**7.9**	24.7
Total	**$ 17.8**	$ 89.4	**$ 67.7**	$ 287.1

Total pretax charges that are expected to be incurred for the strategic cost reductions by business segment are: Personal Care - $495 to $510 million; Consumer Tissue - $190 to $205 million; K-C Professional & Other - $75 to $85 million; and Health Care - $115 to $125 million.

Note 10. Subsequent Events

On July 23, 2007, the Corporation entered into a short-term Revolving Credit Agreement with Citibank, N.A., as Administrative Agent, and certain other banks (the "Short-Term Facility"). The Corporation borrowed $2 billion under the Short-Term Facility on July 27, 2007 to fund the settlement of the accelerated share repurchase agreement discussed below.

On July 24, 2007, the Corporation announced that it entered into an accelerated share repurchase agreement (the "ASR Agreement") through which it would purchase $2 billion of outstanding shares of its common stock. Under the ASR Agreement, the Corporation purchased approximately 29.6 million shares of common stock from Bank of America, N.A. ("Bank of America") at an initial purchase price of $67.48 per share. These repurchased shares are classified as treasury shares.

Bank of America is expected to repurchase an equivalent number of shares in the open market during the period from July 26, 2007 to June 20, 2008 (the "Repurchase Period"). The ASR Agreement includes a provision that would allow Bank of America, at its discretion, to accelerate the program so that the Repurchase Period may end as early as March 10, 2008. The initial purchase price per share is subject to an adjustment based on the volume weighted average price per share of the Corporation's shares of common stock during the Repurchase Period.

Prior to entering into the ASR Agreement, the Corporation's Board of Directors also approved a new share repurchase program authorizing the Corporation to repurchase 50 million shares of the Corporation's common stock in the open market (in addition to approximately 28 million shares that remained available under the Corporation's prior share repurchase authorization). Accordingly, after execution of the ASR Agreement, the Corporation has authorization remaining to repurchase

Note 10. (Continued)

approximately 48 million additional shares. Subject to regulatory and market conditions, the Corporation intends to continue its ongoing share repurchase program in the open market during the Repurchase Period.

On July 30, the Corporation issued $450 million Floating Rate Notes due July 30, 2010; $950 million 6.125% Notes due August 1, 2017; and $700 million 6.625% Notes due August 1, 2037. The Corporation used a portion of the net proceeds from the sale of these notes to repay the Short-Term Facility. The balance of the net proceeds was used by the Corporation to repay a portion of the long-term debt that matured on August 1, 2007.

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 Second Quarter 2007 Results
- Business Segments
- Results of Operations and Related Information
- Liquidity and Capital Resources
- New Accounting Standard
- Environmental Matters
- Business Outlook

Overview of Second Quarter 2007 Results

- Net sales increased 8.2 percent compared with last year.
- Operating profit and net income increased by 19.2 percent and 22.3 percent, respectively, compared with last year.
- Cash provided by operations was $651.5 million.

Business Segments

The Corporation's scientific business was reclassified from the Health Care segment to the K-C Professional & Other segment effective January 1, 2007 to reflect the current management responsibility for that business.

Results of Operations and Related Information

This section presents a discussion and analysis of the Corporation's second quarter of 2007 net sales, operating profit and other information relevant to an understanding of the results of operations.

Second Quarter of 2007 Compared With Second Quarter of 2006

Analysis of Net Sales

By Business Segment
(Millions of dollars)

Net Sales	**2007**	2006
Personal Care	**$ 1,881.5**	$ 1,715.1
Consumer Tissue	**1,568.6**	1,434.4
K-C Professional & Other	**763.0**	704.0
Health Care	**296.7**	317.8
Corporate & Other	**9.0**	7.7
Intersegment sales	**(16.8)**	(17.6)
Consolidated	**$ 4,502.0**	$ 4,161.4

<u>*Commentary:*</u>

	Percent Change in Net Sales Versus Prior Year				
		Changes Due To			
	Total Change	Volume Growth	Net Price	Currency	Other
Consolidated	8.2	4	1	3	-
Personal Care	9.7	6	-	3	1
Consumer Tissue	9.4	3	2	4	-
K-C Professional & Other	8.4	4	1	3	-
Health Care	(6.6)	(8)	-	1	-

Consolidated net sales increased 8.2 percent from the second quarter of 2006. The growth in second quarter net sales reflects higher sales volumes of approximately 4 percent, along with a 1 percent rise in net selling prices. Product mix was slightly better than the prior year, while foreign currency effects added about 3 percent to sales.

- Net sales of personal care products climbed 9.7 percent in the second quarter, driven primarily by a 6 percent increase in sales volumes and currency benefits of 3 percent. Net selling prices and product mix both improved slightly compared with the prior year.

Personal care net sales in North America were up about 3 percent compared with the second quarter of 2006, as sales volumes grew 2 percent and net selling prices rose 1 percent. Product innovations contributed to solid volume gains in the quarter for Huggies diapers and baby wipes and for Poise and Depend incontinence care products. These increases were partially offset by lower sales of child care and feminine care products. In child care, sales volumes were down somewhat in comparison with a strong year-ago period that benefited from the introduction of two key line extensions – Pull-Ups training pants with Cool Alert and Pull-Ups Night*Time. Although Kotex feminine care sales volumes decreased year-over-year, they were similar to first quarter 2007 levels. In Europe, personal care net sales advanced more than 11 percent in the quarter, on favorable currency effects of 9 percent and a 4 percent increase in sales volumes, partially offset by a 2 percent decline in net selling prices. The volume growth was primarily attributable to higher sales of Huggies diapers, up 5 percent in the region's core markets – the U.K., France, Italy and Spain. Customers and consumers continued to respond positively to innovative Huggies Newborn and Natural Fit diapers and Huggies Little Walkers diaper pants, launched in the second half of 2006. In developing and emerging markets, personal care net sales jumped nearly 21 percent, driven by a 14 percent increase in sales volumes and currency benefits of about 6 percent. All four of the regions in the developing and emerging markets posted double-digit volume gains, with particular strength throughout most of Latin America and in Australia, South Korea, China and Russia.

- Net sales of consumer tissue products improved 9.4 percent versus the second quarter of 2006, as sales volumes and net selling prices moved higher by approximately 3 percent and 2 percent, respectively, while changes in foreign currency rates contributed an additional 4 percent.

In North America, second quarter net sales of consumer tissue products increased about 9 percent, boosted by 7 percent growth in sales volumes, along with higher net selling prices and favorable product mix, each approximately 1 percent better than the prior year. The volume gains were paced by double-digit growth for Scott bathroom tissue and Viva paper towels, behind product improvements and a stepped-up level of marketing support. Volume comparisons for Kleenex facial tissue and Cottonelle bathroom tissue also showed solid improvement, up mid single-digits, due in part to the timing of promotional activities. In Europe, consumer tissue net sales rose about 8 percent, with currency effects accounting for the entire increase. Product mix improved by 1 percent, offset by a 1 percent decrease in sales volumes, as the Corporation has shed low-margin business following the sale or closure of certain facilities in the region. Consumer tissue net sales in developing and emerging markets increased more than 10 percent, with growth in all regions. Net selling prices were about 6 percent higher in response to higher raw materials costs and currency benefits also added approximately 6 percent to sales, partially offset by a modest decline in sales volume.

- Net sales of K-C Professional & Other products advanced 8.4 percent compared with the year-ago quarter. Sales volumes increased more than 4 percent, net selling prices were up about 1 percent and favorable currency effects benefited sales by 3 percent. As a result of its focused strategy to expand in the profitable, growing workplace and safety markets, global sales of K-C Professional's ("KCP") differentiated apparel, glove and wiper products continued to experience strong growth. Meanwhile, sales of washroom products posted solid gains in North America and Europe. In addition, KCP continued to capitalize on opportunities in higher growth international markets, generating double-digit net sales increases in the second quarter in both Asia and Latin America.

- Net sales of health care products were down 6.6 percent in the second quarter. Sales volumes were approximately 8 percent lower, partially offset by currency benefits of 1 percent. The decrease in sales volumes was primarily attributable to the Corporation's decision in the second half of last year to exit the latex exam glove business, along with very strong sales of face masks in the year-ago quarter primarily related to avian flu preparedness. In the exam glove category, the Corporation has successfully transitioned many customers and users from latex to its higher-margin, better performing nitrile products over the last nine months. The growth in sales volumes of nitrile exam gloves, although rapid, has not fully compensated for the drop-off in sales of latex gloves, due in part to supply constraints that have recently been resolved as new manufacturing capacity has come on line. As a result, overall sales volumes of exam gloves declined approximately 30 percent in the second quarter. In other areas of the business, second quarter sales volumes of medical devices, particularly Ballard respiratory catheters, generated solid improvement.

The Corporation believes health care sales comparisons will improve through the second half of the year, given projected growth in demand for nitrile exam gloves and the fact that sales of face masks peaked in the second and third quarters of 2006.

By Geography
(Millions of dollars)

Net Sales	**2007**	2006
North America	**$ 2,533.2**	$ 2,427.9
Outside North America	**2,138.5**	1,872.8
Intergeographic sales	**(169.7)**	(139.3)
Consolidated	**$ 4,502.0**	$ 4,161.4

<u>*Commentary:*</u>

- Net sales in North America increased 4.3 percent primarily due to higher sales volumes for personal care, family care and K-C Professional & Other products.

- Net sales outside North America increased 14.2 percent primarily due to higher personal care sales volumes, increased net selling prices for consumer tissue and favorable currency effects in Europe.

Analysis of Operating Profit

By Business Segment
(Millions of dollars)

Operating Profit	**2007**	2006
Personal Care	**$ 393.2**	$ 328.4
Consumer Tissue	**168.9**	177.6
K-C Professional & Other	**119.9**	113.9
Health Care	**52.0**	58.3
Other income and (expense), net	**.3**	(1.6)
Corporate & Other	**(85.6)**	(132.5)
Consolidated	**$ 648.7**	$ 544.1

Note: Corporate & Other includes pretax charges of $17.8 million and $89.4 million in 2007 and 2006, respectively, for the strategic cost reductions. In 2007, Corporate & Other also includes incremental implementation costs of $11.0 million related to the transfer of certain administrative processes to third-party providers.

Commentary:

	Percentage Change in Operating Profit Versus Prior Year						
				Changes Due To			
	Total Change	Volume	Net Price	Raw Materials Cost	Energy and Distribution Expense	Currency	Other [a]
Consolidated	19.2	13	9	(15)	(3)	4	11(b)
Personal Care	19.7	15	3	(6)	(1)	2	7
Consumer Tissue	(4.9)	7	17	(19)	(5)	3	(8)
K-C Professional & Other	5.3	9	7	(19)	(2)	1	9
Health Care	(10.8)	(4)	2	(8)	(6)	5	-

(a) Includes cost savings.

(b) Charges for the strategic cost reductions were about $70 million lower in 2007 than in 2006.

Consolidated operating profit for the second quarter of 2007 increased $104.6 million, or 19.2 percent from the prior year. Lower charges for strategic cost reductions increased operating profit about $70 million. Charges for the strategic cost reductions, discussed later in this MD&A and in Note 3 to the Consolidated Financial Statements, are not included in the results of the business segments. Higher sales volumes of about $60 million, increased net selling prices of more than $45 million and cost savings of more than $75 million were tempered by cost inflation of about $85 million. The inflationary increases were driven primarily by higher fiber costs, which were up about $55 million versus the second quarter of 2006 and nearly $25 million for other raw materials including nonwovens and other oil-based materials. As planned, strategic marketing expense increased $13 million, principally to support new and improved products and other targeted growth initiatives. The Corporation also incurred about $13 million in additional distribution expense related to the transition to new distribution centers and increased intermill freight. Also included in second quarter 2007 earnings were incremental charges of about $11 million related to the transfer of administrative activities to third-party providers. General and administrative expenses increased by more than $25 million due to increased compensation related accruals and organizational structure activities.

- Personal care segment operating profit increased 19.7 percent as higher sales volumes, increased net selling prices and cost savings more than offset higher raw materials costs. In North America, the benefits of higher sales volumes, increased net selling prices and cost savings were tempered by raw materials inflation and increased product improvement costs.

In Europe, operating profit increased primarily due to higher sales volumes and cost savings, partially offset by higher marketing costs. In the developing and emerging markets, the benefits of increased sales volumes and cost savings more than offset higher marketing and general expenses.

- Consumer tissue segment operating profit declined 4.9 percent as higher net selling prices and increased sales volumes were more than offset by raw materials cost inflation and increased marketing and general expenses. In North America, operating profit declined because higher sales volumes, increased net selling prices and cost savings were more than offset by raw materials cost inflation, primarily for pulp, increased costs for product improvements and increased marketing expenses. Operating profit in Europe increased due to cost savings, favorable currency effects and lower distribution costs exceeding the impact of raw materials cost inflation. In the developing and emerging markets, operating profit decreased as net selling price gains were more than offset by higher manufacturing and distribution costs.

- Operating profit for K-C Professional & Other products increased 5.3 percent due to cost savings, the higher sales volumes and net selling prices, partially offset by raw materials cost inflation.

- Health Care segment operating profit decreased 10.8 percent as higher raw materials cost inflation, primarily for nonwovens, unfavorable currency effects related to the Thai baht, the lower sales volumes and higher distribution and general expenses more than offset cost savings.

- Other income and (expense), net for 2007 includes nearly $3 million lower currency losses than in 2006.

By Geography
(Millions of dollars)

Operating Profit	**2007**	2006
North America	**$ 496.5**	$ 495.0
Outside North America	**237.5**	183.2
Other income and (expense), net	**.3**	(1.6)
Corporate & Other	**(85.6)**	(132.5)
Consolidated	**$ 648.7**	$ 544.1

Note: Corporate & Other includes pretax charges of $17.8 million and $89.4 million in 2007 and 2006, respectively, for the strategic cost reductions. In 2007, Corporate & Other also includes the related implementation costs.

Commentary:

- Operating profit in North America was even with last year.

- Operating profit outside North America increased 29.6 percent primarily due to higher earnings for personal care in the developing and emerging markets.

Strategic Cost Reduction Plan

During the second quarter of 2007, the Corporation continued to make progress implementing the strategic cost reduction plan that will support the targeted growth investments announced in July 2005. As previously disclosed, the Corporation plans to reduce costs by streamlining manufacturing and administrative operations primarily in North America and Europe, creating an even more competitive platform for growth and margin improvement.

Pretax charges totaling $17.8 million ($9.9 million after tax) related to these cost reduction initiatives were recorded in the second quarter of 2007. A majority of the pretax charges were noncash, primarily for incremental depreciation. Major components of the charges were for consolidation of infant and child care operations in Europe and North America and streamlining of administrative operations in North America, partially offset by the reversal of previously accrued severance for employees at a facility that, during the second quarter, the Corporation contracted to sell. Under the terms of the contract, the Corporation is not liable for that severance.

To date, employees have been notified about workforce reductions and other actions at 22 of the approximately 24 facilities slated for sale, closure or streamlining as part of the cost reduction initiatives, and pretax charges of $771.4 million (about $537 million after tax) have been recorded. The Corporation currently expects to incur cumulative pretax charges of $875 million to $925 million ($615 - $650 million after tax) through the end of 2008, which is lower than previously expected totals of $950 million to $1.0 billion ($665 - $700 million after tax). This plan is expected to yield annual pretax savings of at least $350 million in 2009. See Note 3 to the Consolidated Financial Statements for additional detail on the costs recorded in the second quarter of 2007.

Year-over-year savings of approximately $16 million were realized in the second quarter of 2007. Based upon results to date and plans for the balance of the year, the Corporation expects to meet its target of $75 million to $100 million of savings for the full year 2007. Pretax charges for the full year are expected to total approximately $120 million.

The strategic cost reductions are corporate decisions and are not included in the business segments' operating profit performance. See Note 9 to the Consolidated Financial Statements for the 2007 costs of the strategic cost reductions related to the activities in the Corporation's business segments. Second quarter 2007 charges have been recorded in cost of products sold ($10.7 million) and marketing, research and general expenses ($7.1 million).

Additional Income Statement Commentary

- Nonoperating expense of $47.5 million for the second quarter of 2007 is the Corporation's pretax loss associated with its ownership interest in the synthetic fuel partnerships described in Note 5 to the Consolidated Financial Statements.

- Interest expense decreased 5.8 percent primarily due to a higher amount of interest being capitalized for equipment construction combined with the effect of a lower average level of debt offset by higher interest rates.

- The Corporation's effective income tax rate was 20.0 percent in 2007 compared with 26.8 percent in 2006. The decrease in 2007 was primarily due to higher synthetic fuel credits.

- The Corporation's share of net income of equity affiliates was essentially the same as in 2006 despite a slight decline in net income at Kimberly-Clark de Mexico, S.A.B. de C.V. ("KCM"). Continued improvement in results for KCM's consumer business and a lower effective tax rate were offset by the absence of earnings from pulp and paper operations that were sold in the fourth quarter of last year.

First Six Months of 2007 Compared With First Six Months of 2006

Analysis of Net Sales

By Business Segment
(Millions of dollars)

Net Sales	**2007**	2006
Personal Care	**$ 3,679.1**	$ 3,340.1
Consumer Tissue	**3,161.7**	2,931.6
K-C Professional & Other	**1,460.4**	1,356.8
Health Care	**599.4**	618.3
Corporate & Other	**17.0**	16.7
Intersegment sales	**(30.3)**	(34.2)
Consolidated	**$ 8,887.3**	$ 8,229.3

<u>Commentary</u>:

Percent Change in Net Sales Versus Prior Year		
	Changes Due To	
Total Change	Volume	Net