

KIMBERLY CLARK CORP
Form 10-Q
May 09, 2008

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, 2008

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)

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 No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (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

As of April 30, 2008, there were 418,434,887 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)

| (Millions of dollars, except per share amounts) | Three Months Ended March 31 | |
|--|--------------------------------|------------|
| | 2008 | 2007 |
| Net Sales | \$ 4,812.7 | \$ 4,385.3 |
| Cost of products sold | 3,357.0 | 3,033.0 |
| Gross Profit | 1,455.7 | 1,352.3 |
| Marketing, research and general expenses | 798.4 | 732.6 |
| Other (income) and expense, net | (6.8) | 3.6 |
| Operating Profit | 664.1 | 616.1 |
| Nonoperating expense | - | (27.6) |
| Interest income | 8.3 | 6.6 |
| Interest expense | (74.7) | (50.9) |
| Income Before Income Taxes and Equity Interests | 597.7 | 544.2 |
| Provision for income taxes | (164.6) | (112.1) |
| Income Before Equity Interests | 433.1 | 432.1 |
| Share of net income of equity companies | 43.4 | 45.0 |
| Minority owners' share of subsidiaries' net income | (35.6) | (25.1) |
| Net Income | \$ 440.9 | \$ 452.0 |

Per Share Basis:

| | | | |
|-------------------------|----|------|--------|
| Net Income | | | |
| Basic | \$ | 1.05 | \$.99 |
| Diluted | \$ | 1.04 | \$.98 |
| Cash Dividends Declared | \$ | .58 | \$.53 |

See Notes to Consolidated Financial Statements.

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

| (Millions of dollars) | March 31, 2008 | December 31, 2007 |
|---|-------------------|----------------------|
| ASSETS | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 524.7 | \$ 472.7 |
| Accounts receivable, net | 2,606.8 | 2,560.6 |
| Inventories | 2,612.6 | 2,443.8 |
| Other current assets | 509.0 | 619.5 |
| Total Current Assets | 6,253.1 | 6,096.6 |
| Property | 16,567.5 | 16,243.0 |
| Less accumulated depreciation | 8,337.2 | 8,149.0 |
| Net Property | 8,230.3 | 8,094.0 |
| Investments in Equity Companies | 428.6 | 390.0 |
| Goodwill | 3,013.5 | 2,942.4 |
| Other Assets | 986.9 | 916.7 |
| | \$ 18,912.4 | \$ 18,439.7 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current Liabilities | | |
| Debt payable within one year | \$ 1,282.4 | \$ 1,097.9 |
| Accounts payable | 1,737.2 | 1,768.3 |
| Accrued expenses | 1,602.1 | 1,782.8 |
| Other current liabilities | 418.4 | 279.6 |
| Total Current Liabilities | 5,040.1 | 4,928.6 |
| Long-Term Debt | 4,442.6 | 4,393.9 |
| Noncurrent Employee Benefits | 1,541.1 | 1,558.5 |
| Long-Term Income Taxes Payable | 240.9 | 288.3 |
| Deferred Income Taxes | 398.5 | 369.7 |
| Other Liabilities | 210.5 | 188.3 |
| Minority Owners' Interests in Subsidiaries | 459.6 | 484.1 |
| Redeemable Preferred Securities of Subsidiary | 1,010.9 | 1,004.6 |
| Stockholders' Equity | 5,568.2 | 5,223.7 |
| | \$ 18,912.4 | \$ 18,439.7 |

See Notes to Consolidated Financial Statements.

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

| (Millions of dollars) | Three Months Ended March 31 | |
|--|--------------------------------|----------------|
| | 2008 | 2007 |
| Operating Activities | | |
| Net income | \$ 440.9 | \$ 452.0 |
| Depreciation and amortization | 199.5 | 214.6 |
| Stock-based compensation | 17.6 | 13.9 |
| Increase in operating working capital | (230.9) | (98.8) |
| Deferred income tax provision | 8.1 | (34.9) |
| Net losses on asset dispositions | 10.4 | 2.7 |
| Equity companies' earnings in excess of dividends paid | (43.4) | (44.0) |
| Minority owners' share of subsidiaries' net income | 35.6 | 25.1 |
| Postretirement benefits | (8.1) | (11.4) |
| Other | 14.4 | 5.3 |
| Cash Provided by Operations | 444.1 | 524.5 |
| Investing Activities | | |
| Capital spending | (221.1) | (281.8) |
| Acquisition of businesses, net of cash acquired | (16.5) | (15.7) |
| Proceeds from sales of investments | 23.1 | 7.5 |
| Proceeds from dispositions of property | - | 58.0 |
| Net decrease in time deposits | 47.4 | 42.8 |
| Investments in marketable securities | - | (3.4) |
| Other | (2.5) | (5.5) |
| Cash Used for Investing | (169.6) | (198.1) |
| Financing Activities | | |
| Cash dividends paid | (223.7) | (224.1) |
| Net increase (decrease) in short-term debt | 168.2 | (40.1) |
| Proceeds from issuance of long-term debt | 30.9 | 3.9 |
| Repayments of long-term debt | (4.0) | (5.6) |
| Cash paid on redeemable preferred securities of subsidiary | (7.0) | - |
| Proceeds from exercise of stock options | 54.2 | 101.4 |
| Acquisitions of common stock for the treasury | (207.9) | (158.5) |
| Other | (29.5) | (24.8) |
| Cash Used for Financing | (218.8) | (347.8) |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | (3.7) | 2.6 |
| Increase (Decrease) in Cash and Cash Equivalents | 52.0 | (18.8) |
| Cash and Cash Equivalents, beginning of year | 472.7 | 360.8 |

| | | | | |
|--|----|-------|----|-------|
| Cash and Cash Equivalents, end of period | \$ | 524.7 | \$ | 342.0 |
|--|----|-------|----|-------|

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 United States of America (“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, 2007.

New Accounting Standards

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 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 was effective as of the beginning of the first fiscal year that began after November 15, 2007. The Corporation has not applied the Fair Value Option to any of its existing financial assets or liabilities.

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (“SFAS 141(R)"). SFAS 141(R) requires the acquirer in a business combination to:

- recognize 100 percent of the fair values of acquired assets, including goodwill, and assumed liabilities, with only limited exceptions, even if the acquirer has not acquired 100 percent of the target entity,
 - fair value contingent consideration arrangements at the acquisition date,
- expense transaction costs as incurred rather than being considered part of the fair value of an acquirer’s interest,
 - fair value certain preacquisition contingencies, such as environmental or legal issues,
 - limit accrual of the costs for a restructuring plan in purchase accounting, and
- capitalize the value of acquired research and development as an indefinite-lived intangible asset, subject to impairment accounting, rather than being expensed at the acquisition date.

SFAS 141(R) is effective for fiscal years beginning after December 15, 2008. Adoption is prospective, and early adoption is not permitted. Adoption of SFAS 141(R) is not expected to have a material effect on the Corporation’s financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (“SFAS 160”). SFAS 160 clarifies the classification of noncontrolling interests (i.e., minority owners’ interests in subsidiaries) in consolidated balance sheets and the accounting for and reporting of transactions between the reporting entity and holders of such noncontrolling interests.

Note 1. (Continued)

Under SFAS 160:

- Noncontrolling interests are reported as an element of consolidated equity, thereby eliminating the current practice of classifying minority owners' interests within a mezzanine section of the balance sheet.
- The current practice of reporting minority owners' share of subsidiaries' net income will change. Reported net income will consist of the total income of all consolidated subsidiaries, with separate disclosure on the face of the income statement of the split of that income between the controlling and noncontrolling interests.
- Increases and decreases in the noncontrolling ownership interest amount will be accounted for as equity transactions. If the controlling interest loses control and deconsolidates a subsidiary, full gain or loss on the transition will be recognized.

SFAS 160 is effective for fiscal years beginning after December 15, 2008. Early adoption is not permitted. Adoption is prospective, except for the following provisions, which are required to be adopted retrospectively:

- Noncontrolling interests are required to be reclassified from the mezzanine to equity, separate from the parent's shareholders' equity, in the consolidated balance sheet.
- Consolidated net income must be recast to include net income attributable to both controlling and noncontrolling interests.

Except for the reclassification of minority owners' interests into equity and the inclusion of all of the income of less than 100 percent owned subsidiaries in reported net income, adoption of SFAS 160 is not expected to have a material effect on the Corporation's financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 ("SFAS 161"). SFAS 161 applies to all derivative instruments and related hedged items accounted for under SFAS 133, Accounting for Derivative Instruments and Hedging Activities ("SFAS 133"). SFAS 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, results of operations, and cash flows.

SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Adoption of SFAS 161 is not expected to have a material effect on the Corporation's financial statements.

Note 2. Fair Value Measurements

Effective January 1, 2008, the Corporation adopted SFAS No. 157, Fair Value Measurements ("SFAS 157"), for its financial assets and liabilities, as required. In February 2008, the FASB issued FASB Staff Position No. 157-2 which deferred the effective date of SFAS 157 for nonfinancial assets and liabilities except for those recognized or disclosed on a recurring basis. SFAS 157 establishes 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.

Note 2. (Continued)

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.

Set forth below, are the financial assets and liabilities measured at fair value as of March 31, 2008, together with the inputs used to develop those fair value measurements. The Corporation has no financial assets or liabilities for which fair value was measured using Level 3 inputs.

| (Millions of dollars) | March 31, 2008 | Fair Value Measurements | |
|---------------------------------------|-----------------|-------------------------|-----------------|
| | | Level 1 | Level 2 |
| Assets | | | |
| Company-owned life insurance (“COLI”) | \$ 48.6 | \$ - | \$ 48.6 |
| Available-for-sale securities | 7.8 | 7.8 | - |
| Derivatives | 59.1 | - | 59.1 |
| Total | \$ 115.5 | \$ 7.8 | \$ 107.7 |
| Liabilities | | | |
| Derivatives | \$ 43.9 | \$ - | \$ 43.9 |

The COLI policies are a source of funding primarily for the Corporation's nonqualified employee benefit plans 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 available-for-sale securities are based on quoted market prices in active markets for identical assets.

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 (the “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 the interest rate swap curves and NYMEX price quotations, respectively. The fair value of hedging instruments used to manage foreign currency risk is based on published quotations of spot currency rates and forward points, which are converted into implied forward currency rates.

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

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Note 3. (Continued)

reductions are expected to result in cumulative charges of approximately \$880 million to \$910 million before tax (\$610 - \$630 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 approximately 5,200 has occurred. As of March 31, 2008, charges have been recorded related to strategic cost reduction initiatives for all affected facilities. To date, 14 facilities have been disposed of and three additional facilities have been closed and are being marketed for sale. Two other facilities will be closed prior to December 31, 2008. In addition, streamlining at four facilities has been completed.

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

| (Millions of dollars) | Three Months Ended March 31 | |
|--|-----------------------------|----------------|
| | 2008 | 2007 |
| Noncash charges | \$ 6.3 | \$ 23.9 |
| Charges for workforce reductions | 9.4 | 4.6 |
| Other cash charges | 4.8 | 8.4 |
| Charges for special pension and other benefits | 3.3 | 3.7 |
| Total pretax charges | \$ 23.8 | \$ 40.6 |

The following table summarizes the noncash charges:

| (Millions of dollars) | Three Months Ended March 31 | |
|---------------------------------------|-----------------------------|----------------|
| | 2008 | 2007 |
| Incremental depreciation | \$ 3.7 | \$ 30.4 |
| Asset write-offs | 1.9 | 3.3 |
| Net loss (gain) on asset dispositions | .7 | (9.8) |
| Total noncash charges | \$ 6.3 | \$ 23.9 |

The following table summarizes the cash charges recorded and reconciles such charges to accrued expenses at March 31:

| (Millions of dollars) | 2008 | 2007 |
|--|----------------|----------------|
| Accrued expenses – beginning of the year | \$ 53.8 | \$ 111.2 |
| Charges for workforce reductions | 9.4 | 4.6 |
| Other cash charges | 4.8 | 8.4 |
| Cash payments | (27.1) | (36.0) |
| Currency | 1.3 | 2.6 |
| Accrued expenses at March 31 | \$ 42.2 | \$ 90.8 |

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"),

Note 3. (Continued)

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 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 March 31 | |
|--|-----------------------------|---------|
| | 2008 | 2007 |
| Cost of products sold | \$ 11.8 | \$ 41.8 |
| Marketing, research and general expenses | 11.3 | 8.1 |
| Other (income) and expense, net | .7 | (9.3) |
| Pretax charges | 23.8 | 40.6 |
| Provision for income taxes | (7.7) | (25.6) |
| Total after-tax charges | \$ 16.1 | \$ 15.0 |

See Note 10 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 March 31:

| (Millions of dollars) | 2008 | | | |
|---|---------------|--------|-------|---------|
| | North America | Europe | Other | Total |
| Incremental depreciation | \$ 1.6 | \$ 2.1 | \$ - | \$ 3.7 |
| Asset write-offs | 1.9 | - | - | 1.9 |
| Charges for workforce reductions and special pension and other benefits | 6.9 | 5.4 | .4 | 12.7 |
| Loss on asset disposal and other charges | 3.8 | 1.4 | .3 | 5.5 |
| Total charges | \$ 14.2 | \$ 8.9 | \$.7 | \$ 23.8 |

Note 3. (Continued)

| (Millions of dollars) | 2007 | | | |
|---|----------------|----------------|--------------|----------------|
| | North America | Europe | Other | Total |
| Incremental depreciation | \$ 15.9 | \$ 13.0 | \$ 1.5 | \$ 30.4 |
| Asset write-offs | 1.8 | 1.4 | .1 | 3.3 |
| Charges for workforce reductions and special pension and other benefits | 6.3 | 1.7 | .3 | 8.3 |
| Loss (gain) on asset disposal and other charges | 3.2 | (3.4) | (1.2) | (1.4) |
| Total charges | \$ 27.2 | \$ 12.7 | \$.7 | \$ 40.6 |

Note 4. Inventories

The following schedule presents inventories by major class as of March 31, 2008 and December 31, 2007:

| (Millions of dollars) | March 31, 2008 | December 31, 2007 |
|--|-------------------|----------------------|
| At lower of cost on the First-In, First-Out (FIFO) method or market: | | |
| Raw materials | \$ 500.7 | \$ 476.3 |
| Work in process | 377.5 | 357.3 |
| Finished goods | 1,685.2 | 1,564.1 |
| Supplies and other | 273.1 | 261.0 |
| | 2,836.5 | 2,658.7 |
| Excess of FIFO cost over Last-In, First-Out (LIFO) cost | (223.9) | (214.9) |
| Total | \$ 2,612.6 | \$ 2,443.8 |

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 \$1,289.5 million and \$1,203.0 million at March 31, 2008 and December 31, 2007, respectively.

Note 5. Synthetic Fuel Partnerships

The Corporation had minority interests in two synthetic fuel partnerships. The production of synthetic fuel resulted in pretax losses that were reported as nonoperating expense on the Corporation's Consolidated Income Statement. Synthetic fuel produced by the partnerships was eligible for synthetic fuel tax credits through the end of 2007 at which time the law giving rise to the tax benefit expired. The partnerships will be dissolved during 2008 at no cost to the Corporation. In addition, in 2007 there were

Note 5. (Continued)

tax deductions for the nonoperating losses, which reduced the Corporation's income tax expense. The effects of those losses and benefits for 2007 are shown in the following table:

| (Millions of dollars) | Three Months Ended March 31, 2007 | |
|-------------------------------------|--------------------------------------|--------|
| Nonoperating expense | \$ | (27.6) |
| Tax credits | \$ | 25.6 |
| Tax benefit of nonoperating expense | 9.1 | 34.7 |
| Net synthetic fuel benefit | \$ | 7.1 |
| Per share basis – diluted | \$ | .02 |

Note 6. Employee Postretirement Benefits

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

| (Millions of dollars) | Defined Benefit Plans | | Other Postretirement Benefit Plans | |
|--------------------------------|-----------------------------|---------|---------------------------------------|---------|
| | Three Months Ended March 31 | | | |
| | 2008 | 2007 | 2008 | 2007 |
| Service cost | \$ 19.7 | \$ 21.4 | \$ 3.3 | \$ 3.4 |
| Interest cost | 82.3 | 78.7 | 13.2 | 12.1 |
| Expected return on plan assets | (94.3) | (92.1) | - | - |
| Recognized net actuarial loss | 14.1 | 19.3 | .9 | .8 |
| Other | 4.2 | 5.0 | .8 | .8 |
| Net periodic benefit cost | \$ 26.0 | \$ 32.3 | \$ 18.2 | \$ 17.1 |

During the first quarter of 2008 and 2007, the Corporation made cash contributions of approximately \$36 million and \$42 million, respectively, to its pension trusts outside the U.S. The Corporation currently anticipates contributing about \$82 million for the full year in 2008 to its pension trusts outside the U.S.

While no 2008 contributions to the U.S. pension trust are currently anticipated, the funded status of the plan is reviewed regularly in light of regulatory requirements, pension asset returns, and interest rates.

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 computation as follows:

| (Millions of shares) | Average Common Shares Outstanding for the Three Months Ended March 31 | |
|--|---|-------|
| | 2008 | 2007 |
| Basic | 420.2 | 455.8 |
| Dilutive effect of stock options | 1.6 | 2.7 |
| Dilutive effect of restricted share and restricted share unit awards | 1.2 | 1.4 |
| Diluted | 423.0 | 459.9 |

Options outstanding during the three month periods ended March 31, 2008 and 2007 to purchase 7.8 million and 118,000 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 March 31, 2008 and 2007 was 419.1 million and 455.3 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:

| (Millions of dollars) | Three Months Ended March 31 | |
|--|--------------------------------|----------|
| | 2008 | 2007 |
| Net income | \$ 440.9 | \$ 452.0 |
| Unrealized currency translation adjustments | 300.8 | 68.3 |
| Employee postretirement benefits, net | (1.1) | 36.8 |
| Deferred (losses) gains on cash flow hedges, net of tax | (21.5) | 3.5 |
| Unrealized holding losses on available-for-sale securities | (.8) | - |
| Comprehensive income | \$ 718.3 | \$ 560.6 |

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

Note 8. (Continued)

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 three months ended March 31, 2008 are primarily due to a weakening of the U.S. dollar versus the Australian dollar, Colombian peso, Czech koruna, euro and Swiss franc.

Note 9. Accelerated Share Repurchase Program

On July 23, 2007, the Corporation entered into an Accelerated Share Repurchase ("ASR") Agreement through which it purchased \$2 billion of outstanding shares of its common stock. Under the ASR Agreement, the Corporation purchased approximately 29.6 million shares of its common stock from Bank of America, N.A. ("Bank of America") at an initial purchase price of \$67.48 per share. These repurchased shares were classified as treasury shares.

Bank of America was 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 included a provision that allowed Bank of America, at its discretion, to accelerate the program so that the Repurchase Period could end as early as March 10, 2008. The initial purchase price per share was 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.

On March 10, 2008, Bank of America notified the Corporation of its election to exercise the option for early settlement of the ASR Agreement. As a result of this settlement, Bank of America paid the Corporation approximately \$4.9 million, which reduced the overall cost to acquire the shares.

Note 10. 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.
- 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.

Note 10. (Continued)

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

| (Millions of dollars) | Three Months Ended March 31 | |
|--------------------------|--------------------------------|------------|
| | 2008 | 2007 |
| NET SALES: | | |
| Personal Care | \$ 2,046.1 | \$ 1,797.6 |
| Consumer Tissue | 1,707.0 | 1,593.1 |
| K-C Professional & Other | 761.0 | 697.4 |
| Health Care | 297.9 | 302.7 |
| Corporate & Other | 21.8 | 8.0 |
| Intersegment sales | (21.1) | (13.5) |
| Consolidated | \$ 4,812.7 | \$ 4,385.3 |

| (Millions of dollars) | Three Months Ended March 31 | |
|--|--------------------------------|----------|
| | 2008 | 2007 |
| OPERATING PROFIT (reconciled to income before income taxes): | | |
| Personal Care | \$ 428.2 | \$ 347.2 |
| Consumer Tissue | 155.5 | 207.1 |
| K-C Professional & Other | 96.7 | 108.7 |
| Health Care | 46.2 | 55.6 |
| Other income and (expense), net (a) | 6.8 | (3.6) |
| Corporate & Other (a) (b) | (69.3) | (98.9) |
| Total Operating Profit | 664.1 | 616.1 |
| Nonoperating expense | - | (27.6) |
| Interest income | 8.3 | 6.6 |
| Interest expense | (74.7) | (50.9) |
| Income Before Income Taxes | \$ 597.7 | \$ 544.2 |

Note 10. (Continued)

Notes:

Other income and (expense), net and Corporate & Other include the following amounts of pretax charges for the (a) strategic cost reductions:

| (Millions of dollars) | Three Months Ended March 31 | |
|---------------------------------|--------------------------------|--------|
| | 2008 | 2007 |
| Other income and (expense), net | \$ (.7) | \$ 9.3 |
| Corporate & Other | (23.1) | (49.9) |

In 2007, Corporate & Other also includes incremental implementation costs of \$12.2 million related to the transfer (b) of certain administrative processes to third-party providers.

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 March 31 | |
|--------------------------|--------------------------------|---------|
| | 2008 | 2007 |
| Personal Care | \$ 10.9 | \$ 20.4 |
| Consumer Tissue | 5.2 | 15.9 |
| K-C Professional & Other | 1.4 | 2.6 |
| Health Care | 6.3 | 1.7 |
| Total | \$ 23.8 | \$ 40.6 |

Cumulative pretax charges expected to be incurred for the strategic cost reductions of \$880 to \$910 million by business segment are: Personal Care - \$485 to \$500 million; Consumer Tissue - \$195 to \$200 million; K-C Professional & Other - \$70 to \$75 million; and Health Care - \$130 to \$135 million.

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 2008 Results
- Results of Operations and Related Information
- Liquidity and Capital Resources
- New Accounting Standards
- Environmental Matters
- Business Outlook

Overview of First Quarter 2008 Results

- Net sales increased 9.7 percent.
- Operating profit increased 7.8 percent, however, net income decreased by 2.5 percent.
- Cash provided by operations was \$444.1 million.

Results of Operations and Related Information

This section presents a discussion and analysis of the Corporation's first quarter of 2008 net sales, operating profit and other information relevant to an understanding of the results of operations.

First Quarter of 2008 Compared With First Quarter of 2007

Analysis of Net Sales

By Business Segment
(Millions of dollars)

| Net Sales | 2008 | 2007 |
|--------------------------|-------------------|-------------------|
| Personal Care | \$ 2,046.1 | \$ 1,797.6 |
| Consumer Tissue | 1,707.0 | 1,593.1 |
| K-C Professional & Other | 761.0 | 697.4 |
| Health Care | 297.9 | 302.7 |
| Corporate & Other | 21.8 | 8.0 |
| Intersegment sales | (21.1) | (13.5) |
| Consolidated | \$ 4,812.7 | \$ 4,385.3 |

Commentary:

Percent Change in Net Sales Versus Prior Year

| | Total Change | Volume Growth | Change Due To | | |
|--------------------------|-----------------|------------------|---------------|----------|----------|
| | | | Net Price | Currency | Other |
| Consolidated | 9.7 | 3 | 2 | 4 | 1 |
| Personal Care | 13.8 | 7 | 1 | 5 | 1 |
| Consumer Tissue | 7.1 | (1) | 3 | 4 | 1 |
| K-C Professional & Other | 9.1 | 2 | 2 | 5 | - |
| Health Care | (1.6) | (1) | (2) | 2 | (1) |

Consolidated net sales increased 9.7 percent from the first quarter of 2007 on the strength of nearly 3 percent higher sales volumes and higher net selling prices of about 2 percent, while favorable product mix added approximately 1 percent. Stronger foreign currencies also added more than 4 percent to net sales.

- Net sales of personal care products climbed 13.8 percent in the first quarter. Sales volumes rose 7 percent, while net selling prices and product mix both improved about 1 percent and currency effects added approximately 5 percent to net sales.

Personal care net sales in North America were up about 6 percent compared with the first quarter of 2007, driven by increased sales volumes and net selling prices, up approximately 4 percent and 2 percent, respectively. Sales volumes improved across most categories, paced by double-digit growth for the Corporation's Depend and Poise incontinence care brands and mid-single digit growth for Huggies baby wipes. In diapers and child care, sales volumes rose about 2 percent in comparison to strong increases in the year-ago quarter. Child care volumes benefited from continued growth in higher-margin, super premium GoodNites Sleep Boxers and Sleep Shorts. Selling prices were higher primarily as a result of price increases for diaper and child care products implemented during the first quarter in the U.S.

In Europe, personal care net sales were up 8 percent in the quarter, as favorable currency effects boosted sales by about 11 percent. Increased sales volumes of 1 percent were more than offset by a 3 percent decline in net selling prices and slightly lower product mix. The volume gain reflects higher sales of Huggies diapers and baby wipes, Pull-Ups training pants and DryNites youth pants across the region. However, competitive promotional activity in diapers affected net selling prices and also contributed to a 2 percent decline in sales volumes of Huggies diapers in the Corporation's four core markets – U.K., France, Italy and Spain. In developing and emerging markets, personal care net sales increased nearly 26 percent, representing the fourteenth consecutive quarter of double-digit growth, as the Corporation is benefiting from strong product and customer programs in rapidly-growing markets. Sales volumes increased more than 13 percent and the mix of products sold improved about 3 percent, while net selling prices went up 2 percent. Stronger foreign currencies benefited net sales by approximately 8 percent. The growth in sales volumes was broad-based, with particular strength throughout most of Latin America and in South Korea, China, Russia, Turkey and Vietnam.

- Net sales of consumer tissue products were 7.1 percent above the first quarter of 2007. Although overall sales volumes declined 1 percent versus the prior year, net selling prices and product mix improved by 3 percent and 1 percent, respectively, and favorable currency exchange rates benefited net sales by 4 percent.

In North America, net sales of consumer tissue products rose slightly in the first quarter, as an increase in net selling prices of more than 2 percent and favorable product mix of 1 percent were mostly offset by a 3 percent decline in sales volumes. The decrease in sales volumes was driven primarily by the Corporation's decision to shed certain low-margin business as a part of the Corporation's overall focus on improving revenue realization and to support continued growth of Scott bathroom tissue and other higher-margin offerings. Sales volumes of Kleenex facial tissue were essentially even with the year-ago quarter, as the cold and flu season recovered from the weakness experienced in the fourth quarter of last year. The increase in net selling prices includes the benefit from price increases for bathroom tissue and paper towels in the U.S. that were successfully implemented mid-quarter.

In Europe, consumer tissue net sales rose about 13 percent. Currency exchange rates strengthened by an average of almost 9 percent, accounting for a majority of the increase. Sales volumes were up approximately 6 percent, on higher sales of Kleenex facial tissue and Andrex bathroom tissue, partially offset by declines of 1 percent each in net selling prices and product mix. Consumer tissue net sales in developing and emerging markets rose approximately 16 percent. Net selling prices and product mix improved 8 percent and 1 percent, respectively, while sales volumes were down more than 2 percent. This reflects the Corporation's strategy to raise prices in response to higher raw materials costs and to shift mix to more differentiated, higher-margin products. Favorable currency effects added about 9 percent to net sales.

- Net sales of K-C Professional (KCP) & Other products advanced 9.1 percent compared with the year-ago quarter. Sales volumes and net selling prices both were approximately 2 percent better than the prior year, while changes in foreign currency rates benefited net sales by about 5 percent. KCP continued to post strong sales volume gains in Latin America and volumes were up 2 percent in North America and 4 percent in Europe, reflecting continued growth of the Kleenex, Scott and Cottonelle washroom brands and Kimtech and WypAll wiper products. Net selling prices were higher in every region around the world as a result of increases implemented over the past year.

- Net sales of health care products decreased 1.6 percent in the first quarter. Net selling prices declined by approximately 2 percent and sales volumes and product mix were both lower by about 1 percent, partially offset by currency benefits of 2 percent. The volume and price declines were mainly attributable to competitive conditions affecting surgical supplies in North America, along with lower demand for face masks globally due to avian flu preparedness in 2007. Meanwhile, sales of higher-margin medical devices, particularly Ballard respiratory catheters, continued to generate improvement in net sales.

By Geography
(Millions of dollars)

| Net Sales | 2008 | 2007 |
|-----------------------|------------|------------|
| North America | \$ 2,550.5 | \$ 2,472.7 |
| Outside North America | 2,432.2 | 2,058.0 |
| Intergeographic sales | (170.0) | (145.4) |
| Consolidated | \$ 4,812.7 | \$ 4,385.3 |

Commentary:

- Net sales in North America increased 3.1 percent primarily due to the higher personal care sales volumes and the higher net selling prices for both personal care and consumer tissue. These gains were partially offset by the lower consumer tissue sales volumes.
- Net sales outside of North America increased 18.2 percent because of the previously mentioned strength in the developing and emerging markets, and favorable currency effects in Europe, Australia and Brazil.

Analysis of Operating Profit

By Business Segment
(Millions of dollars)

| Operating Profit | 2008 | 2007 |
|-------------------------------------|----------|----------|
| Personal Care | \$ 428.2 | \$ 347.2 |
| Consumer Tissue | 155.5 | 207.1 |
| K-C Professional & Other | 96.7 | 108.7 |
| Health Care | 46.2 | 55.6 |
| Other income and (expense), net (a) | 6.8 | (3.6) |
| Corporate & Other (a) (b) | (69.3) | (98.9) |
| Consolidated | \$ 664.1 | \$ 616.1 |

Notes:

Other income and (expense), net and Corporate & Other include the following pretax amounts for the (a) strategic cost reductions:

| (Millions of dollars) | 2008 | 2007 |
|---------------------------------|---------|--------|
| Other income and (expense), net | \$ (.7) | \$ 9.3 |
| Corporate & Other | (23.1) | (49.9) |

In 2007, Corporate & Other also includes incremental implementation costs of \$12.2 million related to the transfer (b) of certain administrative processes to third-party providers.

Commentary:

| | Percentage Change in Operating Profit Versus Prior Year | | | | | | |
|--------------------------|---|--------|-----------|---------------------------------|----------|---|-----------|
| | Total Change | Volume | Net Price | Change Due To | | | Other (a) |
| Raw Materials Cost | | | | Energy and Distribution Expense | Currency | | |
| Consolidated | 7.8 | 9 | 13 | (21) | (6) | 9 | 4(b) |
| Personal Care | 23.3 | 16 | 8 | (14) | (3) | 5 | 11 |
| Consumer Tissue | (24.9) | 1 | 21 | (28) | (11) | 1 | (9) |
| K-C Professional & Other | (11.0) | 3 | 14 | (21) | (5) | 5 | (7) |
| Health Care | (16.9) | (4) | (8) | (1) | (1) | 7 | (10) |

(a) Includes cost savings.

(b) Charges for the strategic cost reductions were \$17 million lower in 2008 than in 2007.

Consolidated operating profit for the first quarter of 2008 increased \$48.0 million or 7.8 percent from the prior year. Lower charges for the strategic cost reductions increased operating profit by about \$17 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. Increased net selling prices of about \$80 million, higher sales volumes of nearly \$60 million and cost savings of about \$51 million were tempered by cost inflation of approximately \$160 million. The inflationary increases were driven primarily by higher fiber costs, up \$70 million versus the first quarter of 2007, and more than \$55 million for raw materials other than fiber, including nonwovens and other oil-based materials, along with about \$20 million of higher energy costs and approximately \$15 million in distribution costs. Marketing, research and general expenses in the first quarter of 2008 reflect an increase of about \$22 million for strategic marketing spending, as well as increased expenses of nearly \$27 million to support growth in developing and emerging markets and to further build capabilities in key areas such as customer development. The increase in operating profit also reflects more than \$50 million of favorable currency effects compared with the prior year, including gains and losses from currency transactions reported in other income and (expense), net. Also included in first quarter 2007 earnings were incremental charges of about \$12 million related to the transfer of certain administrative processes to third-party providers.

- Personal care segment operating profit increased 23.3 percent as the benefits of the increased net sales, cost savings and favorable currency effects more than offset the increased materials cost inflation. Similarly, in North America, operating profit increased due to higher sales volumes, increased net selling prices and cost savings, tempered by cost inflation. In Europe, operating profit rose primarily because of cost savings. Operating profit in the developing and emerging markets increased due to the higher sales volumes and increased net selling prices, tempered by higher marketing and general expenses.
- Consumer tissue segment operating profit declined 24.9 percent as higher net selling prices and cost savings were more than offset by higher raw materials, energy and distribution costs. In both North America and Europe, operating profit decreased due to the same factors that affected the overall segment. In the developing and emerging markets, operating profit decreased as higher net selling prices were more than offset by cost inflation and increased marketing and general expenses.
- Operating profit for K-C Professional & Other products decreased 11.0 percent because higher net selling prices were more than offset by cost inflation, primarily for waste paper, and increased mill maintenance expense.
- Health care segment operating profit declined 16.9 percent principally due to the lower sales volumes and net selling prices, and less favorable product mix. In addition, marketing, research and general expenses increased in support of capability building.
- Other income and (expense), net for 2008 includes foreign currency transaction gains of approximately \$12 million versus losses of about \$10 million in 2007. Gains of more than \$9 million on properties disposed of as part of the strategic cost reduction plan are also included in 2007.

By Geography
(Millions of dollars)

| Operating Profit | 2008 | 2007 |
|-------------------------------------|-----------------|-----------------|
| North America | \$ 468.6 | \$ 490.9 |
| Outside North America | 258.0 | 227.7 |
| Other income and (expense), net (a) | 6.8 | (3.6) |
| Corporate & Other (a) (b) | (69.3) | (98.9) |
| Consolidated | \$ 664.1 | \$ 616.1 |

Notes:

Other income and (expense), net and Corporate & Other include the following pretax amounts for the (a) strategic cost reductions:

| (Millions of dollars) | 2008 | 2007 |
|---------------------------------|---------|--------|
| Other income and (expense), net | \$ (.7) | \$ 9.3 |
| Corporate & Other | (23.1) | (49.9) |

(b) In 2007, Corporate & Other also includes incremental implementation costs of \$12.2 million related to the transfer of certain administrative processes to third-party providers.

Commentary:

- Operating profit in North America decreased 4.5 percent as the higher personal care sales volumes, increased net selling prices and overall cost savings were more than offset by cost inflation.
- Operating profit outside North America increased 13.3 percent primarily due to the higher earnings in the developing and emerging markets.

Strategic Cost Reduction Plan

The Corporation is in the final stages of implementing the strategic cost reduction plan that supports the targeted growth initiatives announced in 2005.

During the first quarter, the Corporation continued to successfully execute planned cost reduction activities, the most significant of which involved consolidating infant and child care operations in North America, improving the cost structure in Health Care and streamlining administrative operations in North America and Europe. Savings for the first quarter totaled approximately \$28 million, consistent with the Corporation's plan to reduce costs by \$75 to \$100 million for the full year.

To date, employees have been notified about workforce reductions and other actions at all 23 facilities slated for sale, closure or streamlining as part of the cost reduction plan. In addition, pretax charges of \$844 million (about \$590 million after tax), or approximately 95 percent of the plan's expected cost, have now been incurred. The Corporation estimates cumulative charges for implementing the plan, through its completion in 2008, will total \$880 to \$910 million (\$610 to \$630 million after tax), of which approximately 35 percent is expected to be paid in cash.

The strategic cost reductions are corporate decisions and are not included in the business segments' operating profit performance. See Note 10 to the Consolidated Financial Statements for the 2008 costs of the strategic cost reductions related to the activities in the Corporation's business segments. First quarter 2008 charges have been recorded in cost of products sold (\$11.8 million) and marketing, research and general expenses (\$11.3 million); and a loss on the disposal of assets totaling (\$.7) million has been included in other income and (expense), net. See Note 3 to the Consolidated Financial Statements for detail on the costs incurred during the first quarter of 2008.

Additional Income Statement Commentary

- Nonoperating expense of \$27.6 million for the first quarter of 2007 was the Corporation's pretax loss associated with its ownership interest in the synthetic fuel partnerships described in Note 5 to the Consolidated Financial Statements. No expense is reflected for 2008 since the law giving rise to the related tax benefits for these investments expired at the end of 2007.
- Interest expense for the first quarter of 2008 increased approximately \$24 million from the prior year, primarily as a result of long-term debt issued to fund the Corporation's \$2.0 billion accelerated share repurchase ("ASR") program in July, 2007, partially offset by lower interest rates.

- The Corporation's effective income tax rate was 27.5 percent in 2008 compared with 20.6 percent in 2007. The increase in 2008 was primarily due to the benefit of synthetic fuel credits and favorable settlements of tax issues in 2007.
- The Corporation's share of net income of equity companies in the first quarter of 2008 decreased to about \$43 million from \$45 million in 2007, due mainly to lower net income at Kimberly-Clark de Mexico, S.A.B. de C.V., where sales growth of about 9 percent was more than offset by significantly higher raw materials costs and an increase in the effective tax rate.
- Minority owners' share of subsidiaries' net income was almost \$36 million in the first quarter of 2008 compared with approximately \$25 million in the prior year. The increase was attributable to minority owners' share of increased earnings at majority-owned subsidiaries in Latin America, Asia and the Middle East, and higher returns on the redeemable preferred securities of the Corporation's consolidated foreign financing subsidiary.
- As a result of the Corporation's ongoing share repurchase program, including the ASR program, the average number of common shares outstanding declined, which benefited first quarter 2008 net income by \$.08 per share. This benefit was mostly offset by the higher interest expense associated with the July 2007 debt issuances. See Note 9 to the Consolidated Financial Statements for detail on the ASR program.

Liquidity and Capital Resources

- Cash provided by operations in the first quarter decreased to \$444 million from \$525 million in 2007, primarily because of an increased investment in working capital, principally in inventory.
- Capital spending for the first quarter was \$221 million in 2008 compared with \$282 million in the prior year. The Corporation still expects capital spending in 2008 will be in a range of \$850 to \$950 million.
- At March 31, 2008, total debt and redeemable preferred securities was \$6.7 billion compared with \$6.5 billion at the end of 2007.
- During the first quarter of 2008, the Corporation repurchased approximately 3.1 million shares of its common stock at a cost of about \$200 million, in line with the Corporation's target to repurchase \$800 million to \$1 billion worth of its shares in 2008.
- 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 working capital, capital spending, payment of dividends, repurchases of common stock 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.

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

Based on its first quarter performance, the Corporation expects solid growth in organic sales over the balance of the year. In addition, favorable currency effects, at current rates of exchange, are expected to benefit sales comparisons. However, the Corporation anticipates inflation will continue to put pressure on its margins, particularly in light of recent increases in fiber and oil costs. Nonetheless, the Corporation expects to generate good bottom-line improvement for the full year, as it focuses on improving revenue realization and reducing costs. Meanwhile, the Corporation plans to continue to support its growth and further strengthen its competitive position with higher levels of spending for strategic marketing and customer development.

Information Concerning Forward-Looking Statements

Certain matters discussed in this report concerning, among other things, the business outlook, including new product introductions, cost savings, anticipated costs and benefits related to the competitive improvement initiatives, anticipated financial and operating results, strategies, contingencies and contemplated 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 events will occur or that the Corporation's results will be as estimated.

The assumptions used as a basis for the forward-looking statements include many estimates that, among other things, depend on the achievement of future cost savings and projected volume increases. In addition, many factors outside the control of the Corporation, including the prices of the Corporation's raw materials, potential competitive pressures on selling prices or advertising and promotion expenses for the Corporation's products, and fluctuations in foreign currency exchange rates, as well as general economic conditions in the markets in which the Corporation does business, could impact the realization of such estimates.

For a description of these and other factors that could cause the Corporation's future results to differ materially from those expressed in any such forward-looking statements, see Part I, Item 1A of the Corporation's Annual Report on Form 10-K for the year ended December 31, 2007 entitled "Risk Factors."

Item 4. Controls and Procedures.

As of March 31, 2008, 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, 2008. 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.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

In May 2007, a wholly-owned subsidiary of the Corporation was served a summons in Pennsylvania state court by the Delaware County Regional Water Quality Authority ("Delcora"). Also in May 2007, Delcora initiated an administrative action against the Corporation. Delcora is a public agency that operates a sewerage system and a wastewater treatment facility serving industrial and municipal customers, including Kimberly-Clark's Chester Mill. Delcora also regulates the discharge of wastewater from the Chester Mill. Delcora has alleged in the summons and the administrative action that the Corporation underreported the quantity of effluent discharged to Delcora from the Chester Mill for several years due to an inaccurate effluent metering device and owes additional amounts. The Corporation's action for declaratory judgment in the Federal District Court for the Eastern District of Pennsylvania was dismissed in December 2007 on grounds of abstention. The Corporation has appealed this dismissal to the Third Circuit Court of Appeals. The Corporation continues to believe that Delcora's allegations lack merit and is vigorously defending against Delcora's actions. In management's opinion, this matter is not expected to have a material adverse effect on the Corporation's business, financial condition, results of operations or liquidity.

The Corporation received a notice of violation from the Washington State Department of Ecology ("DOE") in October 2007 alleging a violation of certain Washington State environmental regulations related to smoke and odor emanating from a wood waste pile at the Corporation's Riverside property approximately three miles from its mill in Everett, Washington. In December 2007, the DOE notified the Corporation of its intention to seek a penalty of \$235,000, based on the alleged violation. The Corporation entered into a Settlement Agreement with the DOE in March 2008 under which the Corporation agreed to pay a \$40,000 penalty to the DOE plus \$125,000 to the Puget Sound Clean Air Agency of which \$20,000 will be available to expand a wood-stove replacement program to Everett and \$105,000 will be available to install pollution-reduction equipment on city-owned diesel vehicles. In the Settlement Agreement, the DOE acknowledged that the Corporation has restored compliance to the Riverside wood waste pile.

Item 2. Stock Repurchases.

The Corporation regularly repurchases shares of Kimberly-Clark common stock pursuant to publicly announced share repurchase programs. All share repurchases by the Corporation were made through brokers in the open market. During 2008, the Corporation anticipates purchasing about \$800 million to \$1 billion of its common stock. The following table contains information for shares repurchased during the first quarter of 2008. None of the shares in this table were repurchased directly from any officer or director of the Corporation.

| Period (2008) | 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 | 776,000 | \$ 66.27 | 8,790,411 | 41,209,589 |
| February 1 to 29 | 1,141,000 | 65.11 | 9,931,411 | 40,068,589 |
| March 1 to 31 | 1,157,000 | 64.26 | 11,088,411 | 38,911,589 |
| Total | 3,074,000 | | | |

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

In addition, during January, February and March 2008, 7,098 shares at a cost of \$446,941, 93,352 shares at a cost of \$6,014,616 and 2,345 shares at a cost of \$151,159, respectively, were purchased from current or former employees in connection with the exercise of employee stock options and other awards.

Item 4. Submission of Matters to a Vote of Security Holders.

The 2008 Annual Meeting of Stockholders of the Corporation was held on Thursday, April 17, 2008, at the Four Seasons Resort and Club, 4150 North MacArthur Boulevard, Irving, Texas. Represented at the meeting in person or by proxy were 380,719,755 shares of common stock, or 90.57 percent of all shares of common stock outstanding.

Election of Directors

Following is a list of directors elected to one-year terms expiring at the 2009 Annual Meeting of Stockholders and the corresponding vote tabulation for the shares represented at the meeting. Of the shares represented at the meeting, at least 92.78 percent voted for each nominee. There were no broker non-votes with respect to this matter.

| Nominee | Votes For | Votes Against | Abstain |
|-------------------|-------------|------------------|-----------|
| John R. Alm | 374,887,943 | 2,558,756 | 3,273,056 |
| John F. Bergstrom | 353,235,762 | 24,234,312 | 3,249,681 |
| Robert W. Decherd | 374,291,085 | 3,154,431 | 3,274,239 |
| Ian C. Read | 374,827,129 | 2,618,630 | 3,273,996 |
| G. Craig Sullivan | 375,070,247 | 2,388,200 | 3,261,308 |

The Corporation's other directors are: Dennis R. Beresford, Abelardo E. Bru, Thomas J. Falk, Mae C. Jemison, M. D., James M. Jenness, Linda Johnson Rice and Marc J. Shapiro.

Other Matters Voted on at Annual Meeting

The stockholders also voted on seven proposals at the meeting. The following table shows the vote tabulation for the shares represented at the meeting:

| Proposal | Votes For | Votes Against | Abstain | Broker Non-votes |
|---|-------------|------------------|------------|---------------------|
| Ratification of Auditors | 371,311,483 | 5,933,054 | 3,475,218 | 0 |
| Approval of Amended and Restated Certificate of Incorporation to Eliminate Supermajority Voting Provisions | 372,770,134 | 3,863,257 | 4,086,364 | 0 |
| Stockholder Proposal Regarding Qualifications for Director Nominees | 7,481,744 | 324,110,004 | 5,155,142 | 43,972,865 |
| Stockholder Proposal Regarding Adoption of Global Human Rights Standards Based on International Labor Conventions | 28,059,325 | 264,392,294 | 44,294,571 | 43,973,565 |
| Stockholder Proposal Regarding Special Shareholder Meetings | 202,836,030 | 129,463,753 | 4,447,107 | 43,972,865 |
| Stockholder Proposal Regarding Cumulative Voting | 138,727,323 | 193,649,680 | 4,369,887 | 43,972,865 |
| Stockholder Proposal Regarding Amendment of Bylaws to Establish a Board Committee on Sustainability | 14,375,210 | 282,012,166 | 40,359,513 | 43,972,865 |

Item 6. Exhibits.

- (a) Exhibits
- (3)a Amended and Restated Certificate of Incorporation, dated April 17, 2008, filed herewith.
 - (3)b By-Laws, as amended September 14, 2006, incorporated by reference to Exhibit No. (3)b of the Corporation's Current Report on Form 8-K dated September 18, 2006.
 - (4) Copies of instruments defining the rights of holders of long-term debt will be furnished to the Securities and Exchange Commission on request.
 - (10)c Seventh Amended and Restated Deferred Compensation Plan for Directors, effective January 1, 2008, filed herewith.
 - (10)m 2001 Equity Participation Plan, as amended, dated April 16, 2008, filed herewith.
 - (10)n Form of Award Agreements under 2001 Equity Participation Plan, filed herewith.
 - (10)r Letter Agreement between Kimberly-Clark Corporation and Tony Palmer, filed herewith.
 - (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.

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/ Randy J. Vest
Randy J. Vest
Vice President and Controller
(principal accounting officer)

May 9, 2008

EXHIBIT INDEX

ExhibitDescription
No.

- (3)a Amended and Restated Certificate of Incorporation, dated April 17, 2008, filed herewith.
- (3)b By-Laws, as amended September 14, 2006, incorporated by reference to Exhibit No. (3)b of the Corporation's Current Report on Form 8-K dated September 18, 2006.
- (4) Copies of instruments defining the rights of holders of long-term debt will be furnished to the Securities and Exchange Commission on request.
- (10)c Seventh Amended and Restated Deferred Compensation Plan for Directors, effective January 1, 2008, filed herewith.
- (10)m 2001 Equity Participation Plan, as amended, dated April 16, 2008, filed herewith.
- (10)n Form of Award Agreements under 2001 Equity Participation Plan, filed herewith.
- (10)r Letter Agreement between Kimberly-Clark Corporation and Tony Palmer, filed herewith.
- (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.
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