KIMBERLY CLARK CORP
Form 10-Q
November 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 **September 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 October 31, 2007, there were 423,112,733 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 September 30		Nine Months Ended September 30	
	2007	2006	**2007**	2006
Net Sales	**$ 4,620.6**	$ 4,210.4	**$ 13,507.9**	$ 12,439.7
Cost of products sold	**3,177.1**	2,934.9	**9,266.1**	8,723.5
Gross Profit	**1,443.5**	1,275.5	**4,241.8**	3,716.2
Marketing, research and general expenses	**783.7**	749.2	**2,313.9**	2,203.6
Other (income) and expense, net	**(22.9)**	(.1)	**(19.6)**	21.7
Operating Profit	**682.7**	526.4	**1,947.5**	1,490.9
Nonoperating expense	**(6.5)**	(17.2)	**(81.6)**	(40.6)
Interest income	**9.3**	6.8	**23.3**	19.8
Interest expense	**(78.6)**	(56.5)	**(181.4)**	(165.9)
Income Before Income Taxes and Equity Interests	**606.9**	459.5	**1,707.8**	1,304.2
Provision for income taxes	**(167.5)**	(114.6)	**(391.1)**	(344.9)
Income Before Equity Interests	**439.4**	344.9	**1,316.7**	959.3
Share of net income of equity companies	**39.1**	42.8	**126.9**	124.7
Minority owners' share of subsidiaries' net income	**(25.4)**	(23.5)	**(76.7)**	(67.1)
Net Income	**$ 453.1**	$ 364.2	**$ 1,366.9**	$ 1,016.9
Per Share Basis:				
Net Income				
Basic	**$ 1.05**	$ .80	**$ 3.05**	$ 2.22
Diluted	**$ 1.04**	$ .79	**$ 3.03**	$ 2.21
Cash Dividends Declared	**$ .53**	$ .49	**$ 1.59**	$ 1.47

See Notes to Consolidated Financial Statements.

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

(Millions of dollars)		**September 30, 2007**		December 31, 2006
ASSETS				
Current Assets				
Cash and cash equivalents	**$**	**539.6**	$	360.8
Accounts receivable, net		**2,516.9**		2,336.7
Inventories		**2,386.3**		2,004.5
Other current assets		**568.9**		567.7
Total Current Assets		**6,011.7**		5,269.7
Property		**16,074.3**		15,404.9
Less accumulated depreciation		**8,098.3**		7,720.1
Net Property		**7,976.0**		7,684.8
Investments in Equity Companies		**427.5**		392.9
Goodwill		**3,028.8**		2,860.5
Other Assets		**880.3**		859.1
	$	**18,324.3**	$	17,067.0
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Debt payable within one year	**$**	**1,395.9**	$	1,326.4
Accounts payable		**1,713.6**		1,530.8
Accrued expenses		**1,675.4**		1,603.8
Other current liabilities		**283.6**		554.8
Total Current Liabilities		**5,068.5**		5,015.8
Long-Term Debt		**4,379.3**		2,276.0
Noncurrent Employee Benefits		**1,863.4**		1,887.6
Deferred Income Taxes		**215.9**		391.1
Other Liabilities		**531.0**		183.1
Minority Owners' Interests in Subsidiaries		**447.8**		422.6
Preferred Securities of Subsidiary		**821.5**		793.4
Stockholders' Equity		**4,996.9**		6,097.4
	$	**18,324.3**	$	17,067.0

See Notes to Consolidated Financial Statements.

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

(Millions of dollars)	Nine Months Ended September 30 **2007**	2006
Operating Activities		
Net income	**$ 1,366.9**	$ 1,016.9
Depreciation and amortization	**626.4**	714.5
Asset impairment	**-**	3.4
Stock-based compensation	**48.6**	53.0
Changes in operating working capital	**(295.8)**	54.6
Deferred income taxes	**(67.0)**	(217.8)
Net losses on asset dispositions	**28.3**	81.4
Equity companies' earnings in excess of dividends paid	**(62.9)**	(62.0)
Minority owners' share of subsidiaries' net income	**76.7**	67.1
Postretirement benefits	**6.4**	62.8
Other	**16.0**	(7.4)
Cash Provided by Operations	**1,743.6**	1,766.5
Investing Activities		
Capital spending	**(776.8)**	(639.0)
Acquisition of businesses, net of cash acquired	**(15.7)**	-
Proceeds from sales of investments	**34.1**	29.4
Proceeds from dispositions of property	**70.9**	32.3
Net decrease (increase) in time deposits	**1.6**	(16.0)
Investments in marketable securities	**(4.0)**	(18.7)
Other	**(26.5)**	(5.1)
Cash Used for Investing	**(716.4)**	(617.1)
Financing Activities		
Cash dividends paid	**(707.7)**	(659.6)
Net increase (decrease) in short-term debt	**361.3**	(147.6)
Proceeds from issuance of long-term debt	**2,117.4**	52.8
Repayments of long-term debt	**(337.5)**	(95.9)
Proceeds from exercise of stock options	**284.9**	220.0
Acquisitions of common stock for the treasury	**(2,543.7)**	(479.4)
Other	**(29.4)**	(3.5)
Cash Used for Financing	**(854.7)**	(1,113.2)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**6.3**	(1.0)
Increase in Cash and Cash Equivalents	**178.8**	35.2
Cash and Cash Equivalents, beginning of year	**360.8**	364.0
Cash and Cash Equivalents, end of period	**$ 539.6**	$ 399.2

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, 2006.

New Accounting Standards

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements; however, it will apply under other accounting pronouncements that require or permit fair value measurements. SFAS 157 is effective for fiscal years beginning after December 15, 2007 and interim periods within such years. The Corporation will adopt SFAS 157 as of January 1, 2008, as required. Adoption of SFAS 157 is not expected to have a material effect on the Corporation's financial statements.

In February 2007, the FASB issued 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

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Note 2. (Continued)

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.

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 4,500 has occurred. Approximately 24 manufacturing facilities are expected to be sold, closed or streamlined. As of September 30, 2007, charges have been recorded related to strategic cost reduction initiatives for 23 facilities. To date, 13 facilities have been disposed of. One additional facility has been closed and is 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 September 30 **2007**	2006	Nine Months Ended September 30 **2007**	2006
Noncash charges	**$ 9.0**	$ 45.0	**$ 53.6**	$ 228.4
Charges (credits) for workforce reductions	**4.6**	61.4	**(1.4)**	156.4
Other cash charges	**6.9**	14.3	**22.2**	32.4
Charges for special pension and other benefits	**2.3**	2.9	**6.8**	4.4
Total pretax charges	**$ 22.8**	$ 123.6	**$ 81.2**	$ 421.6

The following table summarizes the noncash charges:

(Millions of dollars)	Three Months Ended September 30 **2007**	2006	Nine Months Ended September 30 **2007**	2006
Incremental depreciation and amortization	**$ 11.8**	$ 35.1	**$ 61.5**	$ 169.5
Asset impairments	**-**	3.4	**-**	3.4
Asset write-offs	**1.4**	9.4	**6.1**	47.1
(Gain) loss on asset dispositions	**(4.2)**	(2.9)	**(14.0)**	8.4
Noncash charges	**$ 9.0**	$ 45.0	**$ 53.6**	$ 228.4

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

(Millions of dollars)	**2007**	2006
Accrued expenses – beginning of the year	**$ 111.2**	$ 28.2
(Credits) charges for workforce reductions	**(1.4)**	156.4
Other cash charges	**22.2**	32.4
Cash payments	**(85.3)**	(120.3)
Currency	**1.9**	(.3)
Accrued expenses at September 30	**$ 48.6**	$ 96.4

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 September 30 **2007**	2006	Nine Months Ended September 30 **2007**	2006
Cost of products sold	**$ 18.9**	$ 80.2	**$ 71.4**	$ 302.3
Marketing, research and general expenses	**7.8**	46.7	**23.0**	111.7
Other (income) and expense, net	**(3.9)**	(3.3)	**(13.2)**	7.6
Pretax charges	**22.8**	123.6	**81.2**	421.6
Provision for income taxes	**(2.5)**	(32.4)	**(36.0)**	(115.1)
Minority owners' share of subsidiaries' net income	**-**	(.2)	**(.1)**	(1.6)
Total charges	**$ 20.3**	$ 91.0	**$ 45.1**	$ 304.9

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 September 30:

	2007			
(Millions of dollars)	**North America**	**Europe**	**Other**	**Total**
Incremental depreciation	**$ 8.4**	**$ 3.4**	**$ -**	**$ 11.8**
Asset write-offs	**1.3**	**-**	**.1**	**1.4**
Charges for workforce reductions and special pension and other benefits	**1.9**	**3.8**	**1.2**	**6.9**
Loss (gain) on asset disposals and other charges	**5.4**	**(2.6)**	**(.1)**	**2.7**
Total charges	**$ 17.0**	**$ 4.6**	**$ 1.2**	**$ 22.8**

Note 3. (Continued)

(Millions of dollars)	2006 North America	Europe	Other	Total
Incremental depreciation and amortization	$ 23.5	$ 8.1	$ 3.5	$ 35.1
Asset impairments	-	3.4	-	3.4
Asset write-offs	.5	7.4	1.5	9.4
Charges for workforce reductions and special pension and other benefits	13.4	48.0	2.9	64.3
Loss on asset disposals and other charges	5.0	4.9	1.5	11.4
Total charges	$ 42.4	$ 71.8	$ 9.4	$ 123.6

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

(Millions of dollars)	**2007 North America**	**Europe**	**Other**	**Total**
Incremental depreciation	**$ 37.8**	**$ 23.1**	**$ .6**	**$ 61.5**
Asset write-offs	**4.3**	**1.2**	**.6**	**6.1**
Charges (credits) for workforce reductions and special pension and other benefits	**13.5**	**(13.2)**	**5.1**	**5.4**
Loss (gain) on asset disposals and other charges	**13.3**	**(4.8)**	**(.3)**	**8.2**
Total charges	**$ 68.9**	**$ 6.3**	**$ 6.0**	**$ 81.2**

(Millions of dollars)	2006 North America	Europe	Other	Total
Incremental depreciation and amortization	$ 101.1	$ 46.5	$ 21.9	$ 169.5
Asset impairments	-	3.4	-	3.4
Asset write-offs	24.0	21.4	1.7	47.1
Charges for workforce reductions and special pension and other benefits	38.8	113.4	8.6	160.8
Loss on asset disposals and other charges	23.0	16.1	1.7	40.8
Total charges	$ 186.9	$ 200.8	$ 33.9	$ 421.6

Note 4. Inventories

The following schedule presents inventories by major class:

(Millions of dollars)	**September 30, 2007**	December 31, 2006
At lower of cost on the First-In, First-Out (FIFO) method or market:		
Raw materials	**$ 434.2**	$ 398.3
Work in process	**359.9**	298.6
Finished goods	**1,545.9**	1,263.4
Supplies and other	**265.7**	242.6
	2,605.7	2,202.9
Excess of FIFO cost over Last-In, First-Out (LIFO) cost	**(219.4)**	(198.4)
Total	**$ 2,386.3**	$ 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 $1,145.9 million and $936.0 million at September 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 September 30	
(Millions of dollars)	**2007**	2006
Nonoperating expense	**$ (6.5)**	$ (17.2)
Tax credits	**$ 6.1**	$ 15.5
Tax benefit of nonoperating expense	**1.6**	**7.7**	6.2	21.7
Net synthetic fuel benefit	**$ 1.2**	$ 4.5
Per share basis – diluted	**$ -**	$ .01

Note 5. (Continued)

(Millions of dollars)	Nine Months Ended September 30 **2007**	2006
Nonoperating expense	**$ (81.6)**	$ (40.6)
Tax credits	**$ 75.6**	$ 35.9
Tax benefit of nonoperating expense	**26.3**	**101.9**	14.5	50.4
Net synthetic fuel benefit	**$ 20.3**	$ 9.8
Per share basis – diluted	**$ .04**	$ .02

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:*

(Millions of dollars)	Defined Benefit Plans Three Months Ended September 30 **2007**	2006	Other Postretirement Benefit Plans **2007**	2006
Service cost	**$ 20.9**	$ 22.1	**$ 3.4**	$ 3.7
Interest cost	**78.9**	74.9	**13.0**	11.8
Expected return on plan assets	**(93.5)**	(84.7)	**-**	-
Recognized net actuarial loss	**19.2**	25.0	**1.3**	1.0
Other	**4.2**	3.7	**.7**	.8
Net periodic benefit cost	**$ 29.7**	$ 41.0	**$ 18.4**	$ 17.3

(Millions of dollars)	Defined Benefit Plans Nine Months Ended September 30 **2007**	2006	Other Postretirement Benefit Plans **2007**	2006
Service cost	**$ 62.5**	$ 65.8	**$ 10.0**	$ 11.2
Interest cost	**235.5**	223.1	**38.0**	35.3
Expected return on plan assets	**(278.4)**	(252.5)	**-**	-
Recognized net actuarial loss	**57.1**	75.2	**3.9**	3.0
Other	**12.0**	9.0	**2.3**	2.5
Net periodic benefit cost	**$ 88.7**	$ 120.6	**$ 54.2**	$ 52.0

Note 6. (Continued)

The Corporation made cash contributions to its pension trusts outside the U.S. as follows:

(Millions of dollars)	**2007**	2006
Quarter ended March 31	**$ 42**	$ 39
Quarter ended June 30	**17**	10
Quarter ended September 30	**21**	9

The Corporation made a cash contribution of $5 million to its pension trust in the U.S. in the third quarter of 2007. The Corporation currently anticipates contributing about $95 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 September 30		Nine Months Ended September 30	
(Millions of shares)	**2007**	2006	**2007**	2006
Basic	**432.2**	457.6	**447.8**	459.0
Dilutive effect of stock options	**2.3**	.9	**2.5**	.8
Dilutive effect of restricted share and restricted share unit awards	**1.3**	1.3	**1.3**	1.1
Dilutive effect of accelerated share repurchase	**.2**	-	**.1**	-
Diluted	**436.0**	459.8	**451.7**	460.9

Options outstanding during the three- and nine-month periods ended September 30, 2007 to purchase 8.3 million and 2.5 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 nine-month periods ended September 30, 2006 to purchase 8.6 million and 13.3 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 September 30, 2007 and 2006 was 423.7 million and 457.7 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)	Nine Months Ended September 30 **2007**	2006
Net income	**$ 1,366.9**	$ 1,016.9
Unrealized currency translation adjustments	**418.4**	222.5
Employee postretirement benefits, net	**49.5**	-
Deferred losses on cash flow hedges, net of tax	**(3.8)**	(11.0)
Unrealized holding gains on available-for-sale securities	**-**	.1
Comprehensive income	**$ 1,831.0**	$ 1,228.5

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 nine months ended September 30, 2007 are primarily due to a weakening of the U.S. dollar versus the Australian dollar, the Brazilian real, the Euro, the Thai baht, the British pound and the Colombian peso.

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. Share Repurchase Plan

On July 23, 2007, the Corporation entered into an accelerated share repurchase agreement (the "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 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 had authorization remaining to repurchase 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 a short-term Revolving Credit Agreement under which the Corporation borrowed $2 billion on July 27, 2007 to fund the settlement of the ASR Agreement. 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.

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.

Note 10. (Continued)

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.

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

(Millions of dollars)	Three Months Ended September 30 **2007**	2006	Nine Months Ended September 30 **2007**	2006
NET SALES:				
Personal Care	**$ 1,920.8**	$ 1,714.7	**$ 5,599.9**	$ 5,054.8
Consumer Tissue	**1,629.8**	1,475.2	**4,791.5**	4,406.8
K-C Professional & Other	**780.5**	717.5	**2,240.9**	2,074.3
Health Care	**292.1**	308.2	**891.5**	926.5
Corporate & Other	**10.5**	6.8	**27.5**	23.5
Intersegment sales	**(13.1)**	(12.0)	**(43.4)**	(46.2)
Consolidated	**$ 4,620.6**	$ 4,210.4	**$ 13,507.9**	$ 12,439.7

Note 10. (Continued)

(Millions of dollars)	Three Months Ended September 30 **2007**	2006	Nine Months Ended September 30 **2007**	2006
OPERATING PROFIT (reconciled to income before income taxes):				
Personal Care	**$ 396.3**	$ 331.6	**$ 1,136.7**	$ 960.2
Consumer Tissue	**166.1**	180.2	**542.1**	566.8
K-C Professional & Other	**125.1**	127.2	**353.7**	345.6
Health Care	**43.4**	51.4	**151.0**	161.0
Other income and (expense), net	**22.9**	.1	**19.6**	(21.7)
Corporate & Other	**(71.1)**	(164.1)	**(255.6)**	(521.0)
Total Operating Profit	**682.7**	526.4	**1,947.5**	1,490.9
Nonoperating expense	**(6.5)**	(17.2)	**(81.6)**	(40.6)
Interest income	**9.3**	6.8	**23.3**	19.8
Interest expense	**(78.6)**	(56.5)	**(181.4)**	(165.9)
Income Before Income Taxes	**$ 606.9**	$ 459.5	**$ 1,707.8**	$ 1,304.2

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

(Millions of dollars)	Three Months Ended September 30 **2007**	2006	Nine Months Ended September 30 **2007**	2006
Other income and (expense), net	**$ 3.9**	$ 3.3	**$ 13.2**	$ (7.6)
Corporate & Other	**(26.7)**	(126.9)	**(94.4)**	(414.0)

In 2007, Corporate & Other also includes the related implementation costs of $2.0 million and $25.2 million for the three and nine months ended September 30, respectively.

Note 10. (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 September 30		Nine Months Ended September 30	
	2007	2006	**2007**	2006
Personal Care	**$ 16.1**	$ 48.5	**$ 66.3**	$ 220.4
Consumer Tissue	**5.5**	52.0	**8.5**	131.8
K-C Professional & Other	**1.7**	12.2	**8.3**	22.9
Health Care	**3.4**	14.2	**11.3**	38.9
Total	**$ 26.7**	$ 126.9	**$ 94.4**	$ 414.0

Cumulative pretax charges expected to be incurred for the strategic cost reductions of $875 to $925 million 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.

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

Overview of Third Quarter 2007 Results

- Net sales increased 9.7 percent compared with last year.
- Operating profit and net income increased by 29.7 percent and 24.4 percent, respectively, compared with last year.
- Cash provided by operations was $567.6 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 third quarter of 2007 net sales, operating profit and other information relevant to an understanding of the results of operations.

Third Quarter of 2007 Compared With Third Quarter of 2006

Analysis of Net Sales

By Business Segment
(Millions of dollars)

Net Sales	**2007**	2006
Personal Care	**$ 1,920.8**	$ 1,714.7
Consumer Tissue	**1,629.8**	1,475.2
K-C Professional & Other	**780.5**	717.5
Health Care	**292.1**	308.2
Corporate & Other	**10.5**	6.8
Intersegment sales	**(13.1)**	(12.0)
Consolidated	**$ 4,620.6**	$ 4,210.4

Commentary:

	Percent Change in Net Sales Versus Prior Year				
		Changes Due To			
	Total Change	Volume Growth	Net Price	Currency	Other
Consolidated	9.7	5	1	3	1
Personal Care	12.0	8	-	3	1
Consumer Tissue	10.5	4	3	3	-
K-C Professional & Other	8.8	4	1	3	1
Health Care	(5.2)	(9)	-	1	3

Consolidated net sales increased 9.7 percent from the third quarter of 2006 driven by a 5 percent increase in sales volumes, along with improved net selling prices and product mix, each approximately 1 percent better than the prior year. Stronger foreign currencies also added about 3 percent to net sales.

- Net sales of personal care products advanced 12.0 percent in the third quarter, highlighted by sales volume growth of approximately 8 percent. Product mix improved 1 percent, while currency effects added more than 3 percent to sales.

Personal care net sales in North America increased about 8 percent compared with the third quarter of 2006, with higher sales volumes accounting for almost all of the increase. Net selling prices rose 1 percent, offset by a 1 percent decline in product mix. Product innovations spurred broad-based volume growth, with a double-digit gain for Huggies baby wipes, high single-digit growth for Huggies diapers and mid-single digit increases for the Corporation's child care and incontinence care brands. Child care volumes benefited from the late-quarter introduction of GoodNites Sleep Boxers and Sleep Shorts, a unique, new offering in the youth pants category. Meanwhile, sales volumes of Kotex feminine care products were even with the year-ago quarter. In Europe, personal care net sales also

were up 8 percent in the quarter, due primarily to favorable currency effects of 8 percent. Sales volumes and product mix both improved 1 percent, offset by a 2 percent decline in net selling prices. The volume gain reflects higher sales of Huggies diapers and baby wipes across the region, even though timing of promotional activities resulted in a 3 percent decline in sales volumes of Huggies diapers in the four core markets – U.K., France, Italy and Spain. In developing and emerging markets, personal care net sales expanded more than 20 percent for the second straight quarter, boosted by a 12 percent increase in sales volumes, favorable product mix of 3 percent and currency benefits of about 6 percent. All four developing and emerging market regions posted double-digit volume gains, with particular strength throughout most of Latin America and in South Korea, China and Russia.

- Net sales of consumer tissue products increased 10.5 percent versus the third quarter of 2006, benefiting from higher sales volumes, up 4 percent, along with improved net selling prices and foreign currency effects, each approximately 3 percent better than the prior year.

In North America, net sales of consumer tissue products climbed nearly 11 percent in the third quarter, driven primarily by sales volume growth of more than 7 percent and an increase in net selling prices of about 3 percent. Product improvements for Kleenex facial tissue, Scott bathroom tissue and Viva paper towels, backed by a stepped-up level of advertising, helped all three brands achieve double-digit volume gains in the quarter. Meanwhile, sales volumes for Cottonelle bathroom tissue and Scott towels were similar to last year. In Europe, consumer tissue net sales rose about 8 percent. Favorable currencies accounted for most of the increase, as the Euro and the U.K. pound strengthened by an average of 7 percent. Sales volumes were up 2 percent, on higher sales of Andrex bathroom tissue and Kleenex facial tissue, partially offset by a 1 percent decrease in net selling prices. Consumer tissue net sales in developing and emerging markets increased more than 11 percent, mainly attributable to higher net selling prices and currency effects, both of which benefited net sales by approximately 6 percent. Over the past year, prices have been raised in most developing and emerging markets in response to higher raw materials costs.

- Net sales of K-C Professional & Other products improved 8.8 percent compared with the year-ago quarter. Sales volumes increased more than 4 percent, net selling prices and product mix were both about 1 percent better and currency effects added 3 percent to sales. The higher volumes reflect mid-single digit gains in North America, led by the Kleenex, Scott and Cottonelle washroom brands and Kimtech and WypAll wiper products, as well as continued double-digit growth in Latin America.

- Net sales of health care products were down 5.2 percent in the third quarter. Sales volumes were approximately 9 percent lower, partially offset by improved product mix of about 3 percent and 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 a higher level of sales of face masks in the year-ago quarter primarily due to avian flu preparedness. In the exam glove category, the Corporation has transitioned many customers and users from latex to its higher-margin, clinically-preferred nitrile gloves. Sales growth of these products, although strong, has not yet compensated for the drop-off in sales of latex gloves, due in part to supply constraints earlier in the year and competitive market conditions. As a result, overall sales of exam gloves declined more than 20 percent in the third quarter. In other areas of the business, third quarter sales of medical devices, particularly Ballard respiratory catheters, generated solid improvement.

The Corporation believes health care sales comparisons will show some sequential improvement in the fourth quarter, given projected growth in demand for nitrile exam gloves and a sharp decline in sales of latex gloves in the year-ago period.

By Geography
(Millions of dollars)

Net Sales	**2007**	2006
North America	**$ 2,590.1**	$ 2,429.2
Outside North America	**2,191.6**	1,938.8
Intergeographic sales	**(161.1)**	(157.6)
Consolidated	**$ 4,620.6**	$ 4,210.4

Commentary:

- Net sales in North America increased 6.6 percent due to higher sales volumes for personal care, consumer tissue and K-C Professional & Other products.

- Net sales outside North America increased 13.0 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	**$ 396.3**	$ 331.6
Consumer Tissue	**166.1**	180.2
K-C Professional & Other	**125.1**	127.2
Health Care	**43.4**	51.4
Other income and (expense), net	**22.9**	.1
Corporate & Other	**(71.1)**	(164.1)
Consolidated	**$ 682.7**	$ 526.4

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

(Millions of dollars)	Three Months Ended September 30 **2007**	2006
Other income and (expense), net	**$ 3.9**	$ 3.3
Corporate & Other	**(26.7)**	(126.9)

In 2007, Corporate & Other also includes incremental implementation costs of $2.0 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	29.7	18	9	(14)	(2)	4	15[b]
Personal Care	19.5	15	-	(8)	(1)	3	11
Consumer Tissue	(7.8)	19	23	(14)	(5)	-	(31)
K-C Professional & Other	(1.7)	8	5	(16)	1	2	(2)
Health Care	(15.6)	(1)	-	(7)	1	4	(13)

(a) Includes cost savings.

(b) Charges for the strategic cost reductions were about $100 million lower in 2007 than in 2006.

Consolidated operating profit for the third quarter of 2007 increased $156.3 million or 29.7 percent from the prior year. Lower charges for strategic cost reductions increased operating profit about $100 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 more than $90 million, increased net selling prices of nearly $50 million and cost savings of about $67 million were tempered by cost inflation of approximately $70 million. The inflationary increases were driven primarily by higher fiber costs, which were up nearly $50 million versus the third quarter of 2006 and about $25 million for other raw materials including nonwovens and other oil-based materials, partially offset by about $4 million of lower energy costs. The Corporation also incurred about $18 million in additional distribution expense related to the transition to new distribution centers and to maintain customer service levels. As planned, strategic marketing expense increased $10 million, principally to support new and improved products and other targeted growth initiatives. General and administrative expenses increased by almost $35 million primarily to support growth in developing and emerging markets.

Also included in third quarter 2007 earnings were incremental charges of $2 million related to the transfer of certain administrative processes to third-party providers. These charges were sequentially lower than in the second quarter of 2007.

- Personal care segment operating profit increased 19.5 percent as higher sales volumes, favorable product mix and cost savings more than offset higher raw materials costs. In North America, higher sales volumes and cost savings were tempered by cost inflation and higher marketing and general expenses related to organizational design changes. In Europe, operating profit increased primarily due to cost savings.

- Consumer tissue segment operating profit decreased 7.8 percent as increased net selling prices and higher sales volumes were more than offset by cost inflation, higher manufacturing costs 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, higher manufacturing costs and increased marketing expenses. Operating profit in Europe increased due to cost savings, favorable currency effects and lower distribution costs which combined exceeded 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 decreased 1.7 percent as higher sales volumes and increased net selling prices were more than offset by raw materials cost inflation, primarily waste paper costs, and increased distribution expenses.

- Health care segment operating profit decreased 15.6 percent as higher raw materials cost inflation, primarily for nonwovens, unfavorable currency effects related to the Thai baht, the lower sales volumes, increased manufacturing costs and higher distribution and general expenses more than offset cost savings.

- Other income and (expense), net for 2007 includes a gain of $16.4 million for the settlement of litigation related to prior years' operations in Latin America, as well as, foreign currency transaction gains versus losses in 2006.

By Geography
(Millions of dollars)

Operating Profit	**2007**	2006
North America	**$ 491.1**	$ 496.1
Outside North America	**239.8**	194.3
Other income and (expense), net	**22.9**	.1
Corporate & Other	**(71.1)**	(164.1)
Consolidated	**$ 682.7**	$ 526.4

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

(Millions of dollars)	Three Months Ended September 30 **2007**	2006
Other income and (expense), net	**$ 3.9**	$ 3.3
Corporate & Other	**(26.7)**	(126.9)

In 2007, Corporate & Other also includes the related implementation costs of $2.0 million.

Commentary:

- Operating profit in North America decreased 1.0 percent as raw materials cost inflation, primarily pulp cost, and product improvement costs exceeded the benefit of higher sales volumes.

- Operating profit outside North America increased 23.4 percent primarily due to higher earnings for personal care in the developing and emerging markets.

Strategic Cost Reduction Plan

During the third quarter of 2007, the Corporation continued to make progress implementing the strategic cost reduction plan that supports 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 $22.8 million ($20.3 million after tax) related to these cost reduction initiatives were recorded in the third quarter of 2007. The pretax charges included about $12 million 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.

To date, employees have been notified about workforce reductions and other actions at 23 of the approximately 24 facilities slated for sale, closure or streamlining as part of the cost reduction initiatives, and pretax charges of $794.2 million (about $558 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. 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 third quarter of 2007.

Year-over-year savings of approximately $27 million were realized in the third 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 10 to the Consolidated Financial Statements for the 2007 costs of the strategic cost reductions related to the activities in the Corporation's business segments. Third quarter 2007 charges have been recorded in cost of products sold ($18.9 million) and marketing, research and general expenses ($7.8 million); and gains on disposals of properties of $3.9 million were recorded as other income (expense), net.

Additional Income Statement Commentary

- Nonoperating expense of $6.5 million for the third 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 increased 39.1 percent compared with 2006 principally due to a higher average level of debt. See Note 9 to the Consolidated Financial Statements for additional detail on debt issued in the third quarter of 2007.

- The Corporation's effective income tax rate was 27.6 percent in 2007 compared with 24.9 percent in 2006 primarily due to lower synthetic fuel credits.

- The Corporation's share of net income of equity companies in the third quarter was about $39 million compared with nearly $43 million in 2006, primarily reflecting a decline in net income at Kimberly-Clark de Mexico, S.A.B. de C.V. due to the absence of earnings from pulp and paper operations that were sold late last year.

- As a result of the Corporation's ongoing share repurchase program, including the accelerated share repurchase program ("ASR") announced in July 2007, the average number of common shares outstanding declined, benefiting third quarter 2007 results by $.05 per share compared with last year. This benefit was mostly offset by the higher interest expense associated with the new debt issuances. See Note 9 to the Consolidated Financial Statements for additional detail on the ASR.

First Nine Months of 2007 Compared With First Nine Months of 2006

Analysis of Net Sales

By Business Segment
(Millions of dollars)

Net Sales	**2007**	2006
Personal Care	**$ 5,599.9**	$ 5,054.8
Consumer Tissue	**4,791.5**	4,406.8
K-C Professional & Other	**2,240.9**	2,074.3
Health Care	**891.5**	926.5
Corporate & Other	**27.5**	23.5
Intersegment sales	**(43.4)**	(46.2)
Consolidated	**$ 13,507.9**	$ 12,439.7

Commentary:

	Percent Change in Net Sales Versus Prior Year				
		Changes Due To			
	Total Change	Volume Growth	Net Price	Currency	Other
Consolidated	8.6	4	1	3	1
Personal Care	10.8	7	-	3	1
Consumer Tissue	8.7	2	3	3	1
K-C Professional & Other	8.0	4	1	3	-
Health Care	(3.8)	(6)	-	1	1

Consolidated net sales for the first nine months of 2007 increased 8.6 percent.

- Personal care net sales increased 10.8 percent. The increase was due to higher sales volumes in each geographic region and favorable currency effects primarily in Europe, Australia and Brazil.

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- Consumer tissue net sales increased 8.7 percent due to higher net selling prices in North America and the developing and emerging markets, and favorable currency effects, primarily in Europe, Australia and Brazil.

- Net sales of K-C Professional & Other products increased 8.0 percent because of higher sales volumes in each of the major geographic regions and favorable currency effects, principally in Europe.

- Health care net sales decreased 3.8 percent primarily due to lower sales volumes partially offset by favorable currency effects.

By Geography
(Millions of dollars)

Net Sales	**2007**	2006
North America	**$ 7,596.0**	$ 7,224.9
Outside North America	**6,388.1**	5,649.5
Intergeographic sales	**(476.2)**	(434.7)
Consolidated	**$ 13,507.9**	$ 12,439.7

Commentary:

- Net sales in North America increased 5.1 percent primarily due to the higher sales volumes.

- Net sales outside North America increased 13.1 percent because of the higher personal care sales volumes, increased consumer tissue net selling prices and favorable currency effects, primarily in Europe.

Analysis of Operating Profit

By Business Segment
(Millions of dollars)

Operating Profit	**2007**	2006
Personal Care	**$ 1,136.7**	$ 960.2
Consumer Tissue	**542.1**	566.8
K-C Professional & Other	**353.7**	345.6
Health Care	**151.0**	161.0
Other income and (expense), net	**19.6**	(21.7)
Corporate & Other	**(255.6)**	(521.0)
Consolidated	**$ 1,947.5**	$ 1,490.9

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

(Millions of dollars)	Nine Months Ended September 30 **2007**	2006
Other income and (expense), net	**$ 13.2**	$ (7.6)
Corporate & Other	**(94.4)**	(414.0)

In 2007, Corporate & Other also includes incremental implementation costs of $25.2 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	30.6	16	9	(15)	(4)	4	21[b]
Personal Care	18.4	16	-	(6)	(1)	2	7
Consumer Tissue	(4.4)	9	21	(17)	(6)	2	(13)
K-C Professional & Other	2.3	8	5	(16)	(1)	2	4
Health Care	(6.2)	4	-	(7)	(5)	5	(3)

(a) Includes cost savings.

(b) Charges for the strategic cost reductions were $340 million lower in 2007 than in 2006.

Consolidated operating profit increased $456.6 million or 30.6 percent from the prior year. The increase was primarily due to $340.4 million in lower charges for the strategic cost reductions. As previously stated, these charges are not included in the business segments**.** Through the first nine months of 2007, higher sales volumes and increased net selling prices, along with cost savings of about $205 million, more than offset raw materials cost inflation of approximately $235 million and higher product improvement, general and marketing costs. The higher general and marketing expenses were due to increases to support growth in developing and emerging markets and to further build capabilities in key areas such as customer development. Also, during the first nine months of 2007, the Corporation incurred incremental charges of about $25 million related to the transfer of administrative activities to third-party providers.

- Personal care operating profit increased 18.4 percent due to the higher sales volumes in each of the geographic regions and cost savings, tempered by increased marketing and general expenses.

- Consumer tissue segment operating profit decreased 4.4 percent as increased net selling prices and cost savings were more than offset by raw materials cost inflation and higher distribution and marketing and general expenses.

- Operating profit for K-C Professional & Other increased 2.3 percent because higher sales volumes, increased net selling prices and cost savings more than offset raw materials cost inflation.

- Health care segment operating profit declined 6.2 percent as cost savings and favorable product mix were more than offset by raw materials cost inflation, unfavorable currency effects related to the Thai baht, increased distribution costs and higher marketing expenses.

- Other income and (expense), net for 2007 includes gains of $13.2 million on properties disposed of as part of the strategic cost reduction plan compared with a loss on disposition of $7.6 million in 2006. Also, included in 2007 is the previously mentioned litigation settlement gain of $16.4 million. Foreign currency transaction losses were approximately $10 million lower in 2007 versus 2006.

By Geography
(Millions of dollars)

Operating Profit	**2007**	2006
North America	**$ 1,478.5**	$ 1,478.7
Outside North America	**705.0**	554.9
Other income and (expense), net	**19.6**	(21.7)
Corporate & Other	**(255.6)**	(521.0)
Consolidated	**$ 1,947.5**	$ 1,490.9

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

(Millions of dollars)	Nine Months Ended September 30 **2007**	2006
Other income and (expense), net	**$ 13.2**	$ (7.6)
Corporate & Other	**(94.4)**	(414.0)

In 2007, Corporate & Other also includes incremental implementation costs of $25.2 million related to the transfer of certain administrative processes to third-party providers.

Commentary:

- Operating profit in North America was the same as last year.

- Operating profit outside North America increased 27.0 percent with higher earnings in each of the major geographic regions.

Additional Income Statement Commentary

- Nonoperating expense of $81.6 million for the first nine months 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 increased 9.3 percent compared with 2006 principally due to a higher average level of debt. See Note 9 to the Consolidated Financial Statements for additional detail on debt issued in the third quarter of 2007.

- The Corporation's effective income tax rate was 22.9 percent in 2007 compared with 26.4 percent in 2006. The decrease in 2007 was primarily due to higher synthetic fuel credits and favorable settlements of tax issues related to prior years.

- The Corporation's share of net income of equity companies was essentially the same as last year.

- As a result of the Corporation's ongoing share repurchase program, including the ASR, the average number of common shares outstanding declined, benefiting nine months 2007 results by $.06 per share compared with last year. This benefit was mostly offset by the higher interest expense associated with the new debt issuances. See Note 9 to the Consolidated Financial Statements for additional detail on the ASR.

Liquidity and Capital Resources

- Cash provided by operations for the first nine months of 2007, $1,743.6 million, was essentially the same as the prior year because higher cash earnings were offset by increased investment in working capital.

- Capital spending for the first nine months of 2007 was $777 million compared with $639 million in the prior year. Capital spending in 2007 is expected to be toward the high end of the Corporation's targeted spending range of $900 million to $1 billion.

- At September 30, 2007, total debt and preferred securities was $6.6 billion, an increase of about $2.2 billion from the end of 2006. The increase is principally due to the debt issued in July 2007 related to the ASR. See Note 9 to the Consolidated Financial Statements for a description of the financing and investing activities that occurred in July 2007.

- At December 31, 2006, the Corporation had a $1.5 billion unused revolving credit facility that was scheduled to expire in June 2010. In September 2007, the Corporation renegotiated this facility, maintaining availability at $1.5 billion with a feature that would allow for increasing this facility to $2.0 billion. The previous lender participation structure was substantially unchanged and the cost of the facility was reduced. This facility, which expires in September 2012, remained unused at September 30, 2007.

- As discussed in Note 2 to the Consolidated Financial Statements, the Corporation adopted FIN 48 as of January 1, 2007 and recorded an increase in income tax liabilities for uncertain tax benefits and a decrease in retained earnings of $34.2 million. As of January 1, 2007, the Corporation had approximately $490 million of unrecognized tax benefits that it is unable to reasonably determine when such benefits will be settled.

- During the third quarter, the Corporation repurchased approximately 33.0 million shares of its common stock at a cost of more than $2.2 billion, including the purchase of 29.6 million shares under the ASR. See Note 9 to the Consolidated Financial Statements. Year-to-date, the Corporation has spent more than $2.5 billion to repurchase about 37.3 million shares of its common stock. The Corporation has reaffirmed its commitment to repurchase $2.8 billion of its common stock in 2007.

- 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.

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 Corporation will correctly present the SFAS 158 transition adjustment in its 2007 Annual Report on Form 10-K.

On June 14, 2007, the Corporation filed a Form 8-K that recast the presentation of its reportable segments for all periods reported in its financial statements for the year ended December 31, 2006 to conform to the new reporting structure initially presented in its quarterly report on Form 10-Q for the quarter ended March 31, 2007. In addition, in those financial statements, the above referenced transition adjustment was removed from the presentation of comprehensive income. On July 24, 2007, the Corporation filed a registration statement on Form S-3. Exhibit 99.1 to that registration statement included, in Note 1 to the Consolidated Financial Statements, explanatory language regarding the presentation of the transition adjustment, which was not contained in the Form 8-K filed June 14, 2007.

The effect of removing the SFAS 158 transition adjustment changed reported comprehensive income from $1,736.7 million to $2,131.9 million.

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 the strength of its business results through the first nine months, the Corporation believes that it will continue to execute its Global Business Plan well over the balance of the year. Top-line momentum is expected to remain positive, paced by continued strong performance in the developing and emerging markets and success of other targeted growth initiatives, particularly in Personal Care and K-C Professional. The Corporation also expects to continue to drive costs out of the system through its FORCE (Focused on Reducing Costs Everywhere) and strategic cost reduction efforts. These factors, combined with benefits from the accelerated share repurchase,

should enable the Corporation to overcome significant inflationary pressures. Meanwhile, the Corporation's plans incorporate further increases in spending for strategic marketing to support volume growth and improve brand equity, as it remains committed to spending above the rate of sales growth this year.

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 benefits of the accelerated share repurchase program, 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, 2006 entitled "Risk Factors."

Item 4. Controls and Procedures.

As of September 30, 2007, 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 September 30, 2007. There have been no 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 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 during the third quarter of 2007 were made through brokers in the open market or pursuant to an accelerated share repurchase agreement as described in Note 9 to the Consolidated Financial Statements. During 2007, the Corporation anticipates purchasing about $2.8 billion of its common stock, see Note 9 to the Consolidated Financial Statements. The following table contains information for shares repurchased during the third quarter of 2007. None of the shares in this table were repurchased directly from any officer or director of the Corporation.

Period (2007)	Shares Purchased (1)	Average Cost Per Share	Cumulative Number Of Shares Purchased Pursuant To The Plan	Remaining Shares That May Be Repurchased
July 1 to 31	30,450,411	$ 67.48	1,589,411	48,410,589
August 1 to 31	1,401,000	68.98	2,990,411	47,009,589
September 1 to 30	1,152,000	69.37	4,142,411	45,857,589
Total	33,003,411			

(1) Share repurchases were made pursuant to share repurchase programs authorized by the Corporation's Board of Directors on
September 15, 2005 and July 23, 2007, which allowed for the repurchase of 100 million shares in an amount not to exceed
$10.0 billion.

In addition, during July, August and September 2007, 1,775 shares at a cost of $118,594; 3,584 shares at a cost of $249,697; and 28,219 shares at a cost of $1,961,874, respectively, were purchased from current or former employees in connection with the exercise of employee stock options and other awards.

Item 6. Exhibits.

(a) Exhibits

(3)a Amended and Restated Certificate of Incorporation, dated April 26, 2007, incorporated by reference to Exhibit No. (3)a of the Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007.

(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.

(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)

November 8, 2007

EXHIBIT INDEX

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