

CLOROX CO /DE/
Form 10-Q
February 05, 2013

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

FORM 10-Q

(Mark One)

X

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

For the quarterly period ended December 31, 2012.

OR

O

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: **1-07151**

THE CLOROX COMPANY

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

31-0595760
(I.R.S. Employer Identification No.)

1221 Broadway
Oakland, California
(Address of principal executive offices)

94612-1888
(Zip code)

(510) 271-7000
(Registrant's telephone number, including area code)

(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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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Large accelerated filer Accelerated filer Non-accelerated filer 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 January 31, 2013, there were 130,962,056 shares outstanding of the registrant's common stock (\$1.00 par value).

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

The Clorox Company
Condensed Consolidated Statements of Earnings and Comprehensive Income (Unaudited)
(In millions, except share and per share amounts)

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------|------------------|------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Net sales | \$ 1,325 | \$ 1,221 | \$ 2,663 | \$ 2,526 |
| Cost of products sold | 762 | 714 | 1,526 | 1,473 |
| Gross profit | 563 | 507 | 1,137 | 1,053 |
| Selling and administrative expenses | 204 | 184 | 399 | 374 |
| Advertising costs | 116 | 115 | 238 | 233 |
| Research and development costs | 31 | 29 | 61 | 57 |
| Interest expense | 33 | 30 | 66 | 59 |
| Other income, net | (9) | (6) | (9) | (12) |
| Earnings before income taxes | 188 | 155 | 382 | 342 |
| Income taxes | 65 | 50 | 126 | 107 |
| Net earnings | \$ 123 | \$ 105 | \$ 256 | \$ 235 |
| Net earnings per share | | | | |
| Basic | \$ 0.94 | \$ 0.79 | \$ 1.96 | \$ 1.78 |
| Diluted | \$ 0.93 | \$ 0.79 | \$ 1.94 | \$ 1.76 |
| Weighted average shares outstanding (in thousands) | | | | |
| Basic | 130,991 | 131,112 | 130,630 | 131,540 |
| Diluted | 132,444 | 132,358 | 132,120 | 133,022 |
| Dividend declared per share | \$ 0.64 | \$ 0.60 | \$ 1.28 | \$ 1.20 |
| Comprehensive income | \$ 116 | \$ 96 | \$ 276 | \$ 162 |

See Notes to Condensed Consolidated Financial Statements

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The Clorox Company
Condensed Consolidated Balance Sheets
(In millions, except share and per share amounts)

| | 12/31/2012 (Unaudited) | 6/30/2012 |
|---|---------------------------|-----------|
| ASSETS | | |
| Current assets | | |
| Cash and cash equivalents | \$ 445 | \$ 267 |
| Receivables, net | 511 | 576 |
| Inventories, net | 444 | 384 |
| Other current assets | 152 | 149 |
| Total current assets | 1,552 | 1,376 |
| Property, plant and equipment, net of accumulated depreciation of \$1,779 and \$1,804, respectively | 1,051 | 1,081 |
| Goodwill | 1,119 | 1,112 |
| Trademarks, net | 556 | 556 |
| Other intangible assets, net | 79 | 86 |
| Other assets | 145 | 144 |
| Total assets | \$ 4,502 | \$ 4,355 |
| LIABILITIES AND STOCKHOLDERS EQUITY (DEFICIT) | | |
| Current liabilities | | |
| Notes and loans payable | \$ 5 | \$ 300 |
| Current maturities of long-term debt | 500 | 850 |
| Accounts payable | 365 | 412 |
| Accrued liabilities | 493 | 494 |
| Income taxes payable | 10 | 5 |
| Total current liabilities | 1,373 | 2,061 |
| Long-term debt | 2,169 | 1,571 |
| Other liabilities | 788 | 739 |
| Deferred income taxes | 116 | 119 |
| Total liabilities | 4,446 | 4,490 |
| Contingencies | | |
| Stockholders equity (deficit) | | |
| Preferred stock: \$0.001 par value; 5,000,000 shares authorized; none issued or outstanding | - | - |
| Common stock: \$1.00 par value; 750,000,000 shares authorized; 158,741,461 shares issued at both December 31, 2012 and June 30, 2012; and 130,862,243 and 129,562,082 shares outstanding at December 31, 2012 and June 30, 2012, respectively | 159 | 159 |
| Additional paid-in capital | 644 | 633 |
| Retained earnings | 1,430 | 1,350 |
| Treasury shares, at cost: 27,879,218 and 29,179,379 shares at December 31, 2012 and June 30, 2012, respectively | (1,801) | (1,881) |
| Accumulated other comprehensive net losses | (376) | (396) |
| Stockholders equity (deficit) | 56 | (135) |
| Total liabilities and stockholders equity (deficit) | \$ 4,502 | \$ 4,355 |

See Notes to Condensed Consolidated Financial Statements

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The Clorox Company
Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in millions)

| | Six Months Ended | |
|--|------------------|------------|
| | 12/31/2012 | 12/31/2011 |
| Operating activities: | | |
| Net earnings | \$ 256 | \$ 235 |
| Adjustments to reconcile earnings from operations: | | |
| Depreciation and amortization | 90 | 89 |
| Share-based compensation | 18 | 11 |
| Deferred income taxes | (2) | 3 |
| Other | 13 | (29) |
| Changes in: | | |
| Receivables, net | 71 | 35 |
| Inventories, net | (57) | (65) |
| Other current assets | 3 | - |
| Accounts payable and accrued liabilities | (59) | (100) |
| Income taxes payable | (8) | (11) |
| Net cash provided by operations | 325 | 168 |
| Investing activities: | | |
| Capital expenditures | (102) | (82) |
| Proceeds from sale-leaseback, net of transaction costs | 108 | - |
| Businesses acquired, net of cash acquired | - | (93) |
| Other | - | 12 |
| Net cash provided by (used for) investing activities | 6 | (163) |
| Financing activities: | | |
| Notes and loans payable, net | (295) | 14 |
| Long-term debt borrowings, net of issuance costs | 593 | 297 |
| Long-term debt repayments | (350) | - |
| Treasury stock purchased | - | (158) |
| Cash dividends paid | (167) | (159) |
| Issuance of common stock for employee stock plans and other | 64 | 44 |
| Net cash (used for) provided by financing activities | (155) | 38 |
| Effect of exchange rate changes on cash and cash equivalents | 2 | (5) |
| Net increase in cash and cash equivalents | 178 | 38 |
| Cash and cash equivalents: | | |
| Beginning of period | 267 | 259 |
| End of period | \$ 445 | \$ 297 |

See Notes to Condensed Consolidated Financial Statements

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The Clorox Company
Notes to Condensed Consolidated Financial Statements
(In millions, except share and per share amounts)

NOTE 1. INTERIM FINANCIAL STATEMENTS**Basis of Presentation**

The unaudited interim condensed consolidated financial statements for the three and six months ended December 31, 2012 and 2011, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the consolidated results of operations, financial position and cash flows of The Clorox Company and its subsidiaries (the Company) for the periods presented. The results for the interim period ended December 31, 2012, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2013, or for any future period.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) have been omitted or condensed pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The information in this report should be read in conjunction with the Company's Annual Report on Form 10-K filed with the SEC for the fiscal year ended June 30, 2012, which includes a complete set of footnote disclosures, including the Company's significant accounting policies.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect reported amounts and related disclosures. Actual results could differ materially from estimates and assumptions made.

NOTE 2. INVENTORIES, NET

Inventories, net, consisted of the following as of:

| | 12/31/2012 | 6/30/2012 |
|-----------------------------|------------|-----------|
| Finished goods | \$ 334 | \$ 307 |
| Raw materials and packaging | 157 | 120 |
| Work in process | 5 | 4 |
| LIFO allowances | (42) | (37) |
| Allowances for obsolescence | (10) | (10) |
| Total | \$ 444 | \$ 384 |

Table of Contents**NOTE 3. OTHER LIABILITIES**

Other liabilities consisted of the following as of:

| | 12/31/2012 | 6/30/2012 |
|---|---------------|---------------|
| Employee benefit obligations | \$ 325 | \$ 312 |
| Venture agreement net terminal obligation | 283 | 281 |
| Taxes | 68 | 82 |
| Other | 112 | 64 |
| Total | \$ 788 | \$ 739 |

In December 2012, the Company completed a sale-leaseback transaction under which it sold its general office building in Oakland, Calif. to an unrelated party for net proceeds of \$108 and entered into a 15-year operating lease agreement with the buyer for a portion of the building. The Company recorded a liability of \$52 (\$3 of which is included in accrued liabilities) for the portion of the total gain on the sale that is equivalent to the present value of the lease payments and will amortize such amount to earnings ratably over the lease term. The Company recorded a gain upon sale of \$6, which is included in other income, net, in the condensed consolidated statements of earnings and comprehensive income.

NOTE 4. DEBT

In October 2012, \$350 in senior notes with an annual fixed interest rate of 5.45% became due and was paid. The repayment was funded with a portion of the proceeds from the issuance of \$600 in senior notes in September 2012 with an annual fixed interest rate of 3.05%. The notes were issued under the Company's existing shelf registration statement, with interest payable semi-annually in March and September and a maturity date of September 15, 2022. The remaining net proceeds were used to repay commercial paper. The notes rank equally with all of the Company's existing and future senior indebtedness.

Table of Contents**NOTE 5. NET EARNINGS PER SHARE**

The following is the reconciliation of the weighted average number of shares outstanding (in thousands) used to calculate basic net earnings per share (EPS) to those used to calculate diluted net EPS:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------|------------------|------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Basic | 130,991 | 131,112 | 130,630 | 131,540 |
| Dilutive effect of stock options and other | 1,453 | 1,246 | 1,490 | 1,482 |
| Diluted | 132,444 | 132,358 | 132,120 | 133,022 |

During the three and six months ended December 31, 2012, the Company included all stock options to purchase shares of the Company's common stock in the calculations of diluted net EPS because the average market price of all outstanding grants was greater than the exercise price.

During the three and six months ended December 31, 2011, the Company did not include stock options to purchase approximately 3.8 million shares and 1.9 million shares, respectively, of the Company's common stock in the calculations of diluted net EPS because their exercise price was greater than the average market price, making them anti-dilutive.

NOTE 6. COMPREHENSIVE INCOME

Comprehensive income is defined as net earnings and other changes in stockholders' equity (deficit) from transactions and other events from sources other than stockholders. Comprehensive income was as follows:

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------|------------------|------------|
| | 12/31/2012 | 12/31/2011 | 12/31/2012 | 12/31/2011 |
| Net earnings | \$ 123 | 105 | \$ 256 | 235 |
| Other comprehensive income (losses), net of tax: | | | | |
| Foreign currency translation adjustments | (9) | 2 | 18 | (37) |
| Net d | | | | |