CLOROX CO /DE/
Form 10-Q
February 07, 2011
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2010.

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	31-0595760
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1221 Broadway Oakland, California	94612-1888
(Address of principal executive offices)	(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 þ No o

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 þ No o

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 (Check One):

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of December 31, 2010, there were 137,610,515 shares outstanding of the registrant's common stock ($1.00 – par value).

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The Clorox Company

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The Clorox Company
PART I – FINANCIAL INFORMATION (Unaudited)
Item 1. Financial Statements
The Clorox Company
Condensed Consolidated Statements of Earnings
(Dollars in millions, except per share amounts)

	Three Months Ended		Six Months Ended	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Net sales	$ 1,179	$ 1,215	$ 2,445	$ 2,518
Cost of products sold	687	686	1,392	1,406
Gross profit	492	529	1,053	1,112
Selling and administrative expenses	180	185	361	357
Advertising costs	117	123	235	245
Research and development costs	28	29	57	55
Goodwill impairment	258	-	258	-
Interest expense	33	37	65	73
Other (income) expense, net	(12)	18	(13)	28
Earnings (losses) from continuing operations before income taxes	(112)	137	90	354
Income taxes on continuing operations	51	44	113	121
Earnings (losses) from continuing operations	(163)	93	(23)	233
Discontinued operations:				
Earnings from Auto businesses, net of tax	7	17	23	34
Gain on sale of Auto businesses, net of tax	177	-	237	-
Earnings from discontinued operations	184	17	260	34
Net earnings	$ 21	$ 110	$ 237	$ 267
Earnings (losses) per share				
Basic				
Continuing operations	$ (1.17)	$ 0.66	$ (0.17)	$ 1.65
Discontinued operations	1.32	0.12	1.87	0.24
Basic net earnings per share	$ 0.15	$ 0.78	$ 1.70	$ 1.89
Diluted				
Continuing operations	$ (1.17)	$ 0.66	$ (0.17)	$ 1.64
Discontinued operations	1.32	0.11	1.87	0.24
Diluted net earnings per share	$ 0.15	$ 0.77	$ 1.70	$ 1.88
Weighted average shares outstanding (in thousands)				
Basic	138,678	140,303	139,077	140,023
Diluted	138,678	141,528	139,077	141,211
Dividend declared per share	$ 0.55	$ 0.50	$ 1.10	$ 1.00

See Notes to Condensed Consolidated Financial Statements

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Condensed Consolidated Balance Sheets
(Dollars in millions, except per share amounts)

	12/31/2010	6/30/2010
ASSETS		
Current assets		
Cash and cash equivalents	$ 379	$ 87
Receivables, net	440	540
Inventories, net	412	332
Assets held for sale	-	405
Other current assets	113	125
Total current assets	1,344	1,489
Property, plant and equipment, net	973	966
Goodwill	1,063	1,303
Trademarks, net	551	550
Other intangible assets, net	90	96
Other assets	137	144
Total assets	$ 4,158	$ 4,548
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities		
Notes and loans payable	$ 3	$ 371
Current maturities of long-term debt	300	300
Accounts payable	326	409
Accrued liabilities	443	491
Income taxes payable	104	74
Total current liabilities	1,176	1,645
Long-term debt	2,125	2,124
Other liabilities	704	677
Deferred income taxes	29	19
Total liabilities	4,034	4,465
Contingencies		
Stockholders' equity		
Common stock: $1.00 par value; 750,000,000 shares authorized; 158,741,461 shares issued at December 31, 2010 and June 30, 2010; and 137,610,515 and 138,764,511 shares outstanding at December 31, 2010 and June 30, 2010, respectively	159	159
Additional paid-in capital	610	617
Retained earnings	994	920
Treasury shares, at cost: 21,130,946 and 19,976,950 shares at December 31, 2010 and June 30, 2010, respectively	(1,321)	(1,242)
Accumulated other comprehensive net losses	(318)	(371)
Stockholders' equity	124	83
Total liabilities and stockholders' equity	$ 4,158	$ 4,548

See Notes to Condensed Consolidated Financial Statements

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Condensed Consolidated Statements of Cash Flows
(Dollars in millions)

	Six Months Ended	
	12/31/2010	12/31/2009
Operating activities:		
Net earnings	$ 237	$ 267
Deduct: Earnings from discontinued operations	260	34
Earnings (loss) from continuing operations	(23)	233
Adjustments to reconcile earnings (loss) from continuing operations:		
Depreciation and amortization	88	94
Share-based compensation	14	25
Deferred income taxes	7	5
Goodwill impairment	258	-
Other	-	(15)
Changes in:		
Receivables, net	54	58
Inventories, net	(68)	(41)
Other current assets	17	-
Accounts payable and accrued liabilities	(129)	(109)
Income taxes payable	(48)	(39)
Net cash provided by continuing operations	170	211
Net cash provided by discontinued operations	55	35
Net cash provided by operations	225	246
Investing activities:		
Capital expenditures	(89)	(76)
Proceeds from sale of businesses, net of transaction costs	747	-
Other	25	1
Net cash provided by (used for) investing activities	683	(75)
Financing activities:		
Notes and loans payable, net	(369)	(397)
Long-term debt borrowings	-	297
Long-term debt repayments	-	(15)
Treasury stock purchased	(134)	-
Cash dividends paid	(154)	(141)
Issuance of common stock for employee stock plans and other	35	31
Net cash used for financing activities	(622)	(225)
Effect of exchange rate changes on cash and cash equivalents	6	2
Net increase (decrease) in cash and cash equivalents	292	(52)
Cash and cash equivalents:		
Beginning of period	87	206
End of period	$ 379	$ 154

See Notes to Condensed Consolidated Financial Statements

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Notes to Condensed Consolidated Financial Statements
(Dollars in millions, except 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, 2010 and 2009, 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. Certain prior period amounts have been reclassified in the condensed consolidated financial statements to conform to the current period presentation. The results for the interim period ended December 31, 2010, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2011, 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 (the 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, 2010, 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. DISCONTINUED OPERATIONS

In September 2010, the Company entered into a definitive agreement to sell its global auto care businesses (Auto Businesses) to an affiliate of Avista Capital Partners in an all-cash transaction. In November 2010, the Company completed the sale pursuant to the terms of a Purchase and Sale Agreement (Purchase Agreement) and received cash consideration of $755. The Company will also receive cash flows of approximately $30 related to working capital that was retained by the Company. Included in earnings from discontinued operations for the three and six months ended December 31, 2010 is an after-tax gain on the transaction of $177 and $237, respectively. The final amount of proceeds is subject to closing adjustments related to the portion of the working capital transferred and are not expected to be material.

Included in the transaction were substantially all of the Company’s global auto care businesses, the majority of which are in the U.S., Australia, Canada and Europe, including the worldwide rights to the market-leading Armor All® and STP® brands. As part of the transaction, the buyer acquired two auto-care manufacturing facilities, one in the U.S. and one in the United Kingdom. Employees at these facilities, the Auto Businesses management team and other employees affiliated with the Auto Businesses transferred to the buyer. The results of the Auto Businesses have historically been part of the Company’s Cleaning and International reportable segments.

As part of the Purchase Agreement, certain transitional services are being provided to the buyer for a period of up to eighteen months. The purpose of these services is to provide short-term assistance to the buyer in assuming the operations of the Auto Businesses. These services do not confer to the Company the ability to influence the operating or financial policies of the Auto Businesses under its new ownership. The Company’s cash inflows and outflows from these services are not expected to be significant during the transition period. Income from these transition services is being reported in other (income) expense in continuing operations with the costs associated with the services reflected in continuing operations in the condensed consolidated statements of earnings. Aside from the transition services, the Company has included the financial results of the Auto Businesses in discontinued operations for all periods presented. Assets related to the Auto Businesses are presented as assets held for sale on the accompanying condensed consolidated balance sheet at June 30, 2010.

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NOTE 2. DISCONTINUED OPERATIONS (Continued)

The following table presents the earnings attributable to the Auto Businesses which includes the financial results up to November 5, 2010, the date of the sale.

	Three Months Ended		Three Months Ended		Six Months Ended	
	9/30/2010	9/30/2009	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Net sales	$ 68	$ 68	$ 27	$ 64	$ 95	$ 132
Earnings before income taxes	24	27	10	26	34	53
Income tax expense on earnings	(8)	(10)	(3)	(9)	(11)	(19)
Gain on sale	-	-	326	-	326	-
Income tax benefit (expense) on sale	60	-	(149)	-	(89)	-
Earnings from discontinued operations	$ 76	$ 17	$ 184	$ 17	$ 260	$ 34

As a result of the Auto Businesses being reported as discontinued operations in the fiscal quarter ended September 30, 2010, the Company reversed $5 in previously existing deferred tax liabilities and established a net $55 deferred tax asset for the excess of tax basis over book basis in the stock investments of the businesses being sold. A tax benefit had not been previously recorded for this temporary difference because the Company had not entered into a definitive agreement to sell the Auto Businesses until the fiscal quarter ended September 30, 2010. Upon the sale of the Auto Businesses in the fiscal quarter ended December 31, 2010, the deferred tax asset established in the fiscal quarter ended September 30, 2010, was realized. In addition, current income taxes were recorded on the gain on sale.

The major classes of assets and liabilities of the Auto Businesses reflected as held for sale at June 30, 2010 were as follows:

Receivables, net	$ 4
Inventories, net	35
Other current assets	1
Property, plant and equipment, net	13
Goodwill	347
Trademarks and other intangible assets	12
Accounts payable and other liabilities	(7)
Assets held for sale	$ 405

NOTE 3. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS

The Company is exposed to certain commodity, interest rate and foreign currency risks relating to its ongoing business operations. The Company may use commodity futures and swap contracts to fix the price of a portion of its forecasted raw material requirements. Contract maturities, which are generally no longer than 18 months, are matched to the length of the raw material purchase contracts. The Company may enter into interest rate forward contracts to fix a portion of the benchmark interest rate prior to the anticipated issuance of fixed rate debt. These interest rate forward contracts have durations of less than six months. The Company may also enter into certain foreign currency related derivative contracts to manage a portion of the Company's foreign exchange risk associated with the purchase of inventory. These foreign currency contracts generally have durations no longer than twelve months.

The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as a hedge, and on the type of the hedging relationship. For those derivative instruments designated and qualifying as hedging instruments, the Company must designate the hedging instrument as a fair value hedge or a cash flow hedge. The Company designates its commodity forward and future contracts of forecasted purchases for raw materials, interest rate forward contracts of forecasted interest payments, and its foreign currency forward contracts of forecasted purchases of inventory as cash flow hedges. During the three and six months ended December 31, 2010 and 2009, the Company had no hedging instruments designated as fair value hedges.

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NOTE 3. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

For derivative instruments designated and qualifying as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The estimated amount of the existing net gain at December 31, 2010, expected to be reclassified into earnings within the next twelve months is $7. Gains and losses on the derivative instruments representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. During the three and six months ended December 31, 2010 and 2009, the hedge ineffectiveness was not material. The Company dedesignates these cash flow hedge relationships whenever it determines that the hedge relationships are no longer highly effective or that the forecasted transaction is no longer probable. The portion of gains or losses on the derivative instrument previously accumulated in other comprehensive income for dedesignated hedges remains in accumulated other comprehensive income until the forecasted transaction is recognized in earnings, or is recognized in earnings immediately if the forecasted transaction is no longer probable. Changes in the value of derivative instruments after dedesignation are recorded in other (income) expense and amounted to $2 and $3 for the three and six months ended December 31, 2010, and $0 for the three and six months ended December 31, 2009, respectively.

The Company's derivative financial instruments designated as hedging instruments are recorded at fair value in the condensed consolidated balance sheet as follows:

		Fair value	
	Balance Sheet classification	12/31/2010	6/30/2010
Assets			
Foreign exchange contracts	Other current assets	$ -	$ 1
Interest rate contracts	Other current assets	6	-
Commodity purchase contracts	Other current assets	8	-
		$ 14	$ 1
Liabilities			
Foreign exchange contracts	Accrued liabilities	$ (2)	$ -
Commodity purchase contracts	Accrued liabilities	-	(2)
		$ (2)	$ (2)

The effects of derivative instruments designated as hedging instruments on OCI and on the statement of earnings for the three and six months ended December 31, 2010, were as follows:

	Three months ended 12/31/2010		Six months ended 12/31/2010	
Cash flow hedges	Gain (Loss) recognized in OCI	Gain reclassified from OCI and recognized in earnings	Gain (Loss) recognized in OCI	Gain reclassified from OCI and recognized in earnings
Commodity purchase contracts	$ 6	$ 1	$ 11	$ 1
Interest rate contracts	10	-	6	-
Foreign exchange contracts	(2)	-	(3)	-
Total	$ 14	$ 1	$ 14	$ 1

The gains reclassified from OCI and recognized in earnings for commodity purchase contracts and foreign exchange contracts are included in cost of products sold.

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The Company's derivative financial instruments not designated as hedging instruments are recorded at fair value in the condensed consolidated balance sheet as follows:

		Fair value	
	Balance Sheet classification	12/31/2010	6/30/2010
Commodity purchase contracts	Other current assets	$ 2	$ -
Commodity purchase contracts	Accrued liabilities	-	(1)
		$ 2	$ (1)

As of December 31, 2010, the net notional value of commodity derivatives was $62, of which $23 related to diesel fuel, $17 related to jet fuel, $19 related to soybean oil and $3 related to crude oil.

As of December 31, 2010, the net notional value of interest rate forward contracts was $150 related to interest payments associated with the anticipated refinancing of the $300 debt maturing in February 2011.

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NOTE 3. FINANCIAL INSTRUMENTS AND FAIR VALUE MEASUREMENTS (Continued)

As of December 31, 2010, the Company had outstanding foreign currency forward contracts related to its subsidiaries in Canada and Australia of $24 and $12, respectively, used to hedge forecasted purchases of inventory.

Certain terms of the agreements governing the Company's over-the-counter derivative instruments require the Company or the counterparty to post collateral when the fair value of the derivative instruments exceeds contractually defined counterparty liability position limits. There was no collateral posted at December 31, 2010.

Certain terms of the agreements governing the over-the-counter derivative instruments contain provisions that require the credit ratings, as assigned by Standard and Poor's and Moody's to the Company and its counterparties, to remain at a level equal to or better than the minimum of an investment grade credit rating. As of December 31, 2010 the Company and each of its counterparties maintained investment grade ratings with both Standard and Poor's and Moody's.

U.S. GAAP prioritizes the inputs used in measuring fair value into the following hierarchy:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market-based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs reflecting the reporting entity's own assumptions.

At December 31, 2010, the Company's financial assets and liabilities that were measured at fair value on a recurring basis during the year comprised of derivative financial instruments and were all level 2.

Commodity purchase contracts are fair valued using market quotations obtained from commodity derivative dealers. The interest rate contracts are fair valued using information quoted by U.S. government bond dealers. The foreign exchange contracts are fair valued using information quoted by foreign exchange dealers.

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and notes and loans payable approximate their fair values at December 31, 2010 and June 30, 2010, due to the short maturity and nature of those balances. The estimated fair value of long-term debt, included current maturities was $2,605 and $2,635 at December 31, 2010 and June 30, 2010, respectively. The Company accounts for its long-term debt at face value, net of any unamortized discounts or premiums. The fair value of long-term debt was determined using secondary market prices quoted by corporate bond dealers.

NOTE 4. INVENTORIES, NET

Inventories, net, consisted of the following as of:

	12/31/2010	6/30/2010
Finished goods	$ 335	$ 272
Raw materials and packaging	112	94
Work in process	4	4
LIFO allowances	(29)	(28)
Allowances for obsolescence	(10)	(10)
Total	$ 412	$ 332

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NOTE 5. GOODWILL, TRADEMARKS AND OTHER INTANGIBLE ASSETS

During the fiscal 2011 second quarter, the Company identified challenges in increasing sales in new international markets in accordance with projections, particularly in the European Union and Asia. Additionally, in the fiscal 2011 second quarter, the Company initiated its process for updating the three year long-range financial and operating plan for the Burt’s Bees business. In addition to slower than projected growth of international sales and challenges in the timing of certain international expansion plans, the domestic natural personal care category had not recovered in accordance with the Company’s projections. Following the comprehensive reevaluation, the Company concluded to recognize an impairment charge in the fiscal 2011 second quarter.

The impairment charge is a result of changes in the assumptions used to determine the fair value of the Burt’s Bees business based on slower than forecasted category growth as well as recent challenges in international expansion plans, which have adversely affected the assumptions for international growth and the estimates of expenses necessary to achieve that growth. The revised assumptions reflect somewhat higher cost levels than previously projected. As a result of this assessment, the Company concluded that the book value of the Burt’s Bees reporting unit exceeded its fair value, resulting in an impairment charge of $258 recognized in the fiscal second quarter ended December 31, 2010. The goodwill impairment charge is based on the Company’s current estimates regarding the future financial performance of the Burt’s Bees business and macroeconomic factors. There was no substantial tax benefit associated with this noncash charge.

To determine the fair value of the Burt’s Bees reporting unit, which is in the Lifestyle segment, the Company used a discounted cash flow (DCF) approach, as it believes that this approach is the most reliable indicator of fair value of the business. Under this approach, the Company estimated the future cash flows of the Burt’s Bees reporting unit and discounted these cash flows at a rate of return that reflects its relative risk.

The Company’s trademarks and definite-lived intangible assets for the Burt’s Bees reporting unit were included in the impairment testing. The impairment testing concluded that these assets were not impaired.

The Company expects to finalize its goodwill impairment analysis for the Burt’s Bees reporting unit during the fiscal quarter ended March 31, 2011, and there could be adjustments to the goodwill impairment charge when the analysis is finalized. Any potential adjustments to the Company’s preliminary estimates as a result of completing this evaluation would be recorded in the Company’s condensed consolidated financial statements when finalized.

The Company may need to make future changes in its assumptions relating to the value of Burt’s Bees, which may result in additional impairment charges if the Company’s sales growth and margin expansion expectations are not realized or macroeconomic factors such as economic and category growth rates, commodity prices and foreign currency rates change in unexpected ways. The Company expects that any such impairment charge will not result in future cash expenditures.

Changes in the carrying amount of Goodwill, Trademarks and Other intangible assets as of December 31, 2010, were as follows:

	Goodwill				
	Cleaning	Lifestyle	Household	International	Total
Balance June 30, 2010	$ 275	$ 623	$ 85	$ 320	1,303
Translation adjustments and other	-	-	-	14	14
Balance September 30, 2010	275	623	85	334	1,317
Goodwill impairment	-	(258)	-	-	(258)
Translation adjustments and other	-	-	-	4	4
Balance December 31, 2010	$ 275	$ 365	$ 85	$ 338	$ 1,063

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NOTE 5. GOODWILL, TRADEMARKS AND OTHER INTANGIBLE ASSETS (Continued)

	Trademarks			Other intangible assets subject to amortization		
	Subject to amortization	Not subject to amortization	Total	Technology and Product formulae	Other	Total
Balance June 30, 2010	$ 24	$ 526	$ 550	$ 37	$ 59	$ 96
Amortization	(1)	-	(1)	(2)	(1)	(3)
Translation adjustments and other	2	1	3	2	(2)	-
Balance September 30, 2010	25	527	552	37	56	93
Amortization	(1)	-	(1)	(2)	(1)	(3)
Translation adjustments and other	-	-	-	-	-	-
Balance December 31, 2010	$ 24	$ 527	$ 551	$ 35	$ 55	$ 90

Trademarks and Other intangible assets subject to amortization are net of accumulated amortization of $243 and $235 at December 31, 2010 and June 30, 2010, respectively. Estimated amortization expense for these intangible assets is $17, $17, $16, $15 and $11 for fiscal years 2011, 2012, 2013, 2014 and 2015, respectively. The weighted-average amortization period for trademarks and other intangible assets subject to amortization is 22 years and 15 years, respectively.

NOTE 6. OTHER LIABILITIES

Other liabilities consisted of the following as of:

	12/31/2010	6/30/2010
Employee benefit obligations	$ 304	$ 306
Venture agreement net terminal obligation	276	274
Taxes	93	64
Other	31	33
Total	$ 704	$ 677

NOTE 7. NET EARNINGS PER SHARE

The following are reconciliations of net earnings (loss) to net earnings (loss) applicable to common stock, and the number of common shares outstanding (in thousands) used to calculate basic EPS to those used to calculate diluted EPS:

	Three Months Ended		Six Months Ended	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Earnings (losses) from continuing operations	$ (163)	$ 93	$ (23)	$ 233
Earnings from discontinued operations	184	17	260	34
Net earnings	$ 21	$ 110	$ 237	$ 267
Less: Earnings allocated to participating securities	-	(1)	(1)	(2)
Net earnings applicable to common stock	$ 21	$ 109	$ 236	$ 265

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NOTE 7. NET EARNINGS PER SHARE (Continued)

	Weighted Average Number of Shares Outstanding for the Three Months Ended		Weighted Average Number of Shares Outstanding for the Six Months Ended	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Basic	138,678	140,303	139,077	140,023
Dilutive effect of stock options and other				
(excludes participating securities)	-	1,225	-	1,188
Diluted	138,678	141,528	139,077	141,211

During the three and six months ended December 31, 2010, the Company did not include stock options to purchase 3,456 thousand shares and 3,504 thousand shares, respectively, of the Company's common stock in the calculations of diluted EPS because their inclusion would be anti-dilutive. Since the Company experienced losses from continuing operations for both the three and six month periods ended December 31, 2010, no dilution was applied to the Company's basic weighted average shares outstanding for those periods as to do so would have reduced the Company's reported losses from continuing operations.

During the three and six months ended December 31, 2009, the Company did not include stock options to purchase 4,126 thousand and 4,150 thousand shares, respectively, of the Company's common stock, in the calculations of diluted EPS because their inclusion would be anti-dilutive.

During the three and six months ended December 31, 2010, the Company repurchased 2,063 and 2,121 thousand shares for an aggregate of $130 and $134, respectively. The Company did not repurchase any shares during the three and six months ended December 31, 2009.

NOTE 8. COMPREHENSIVE INCOME

Comprehensive income includes net earnings and certain adjustments that are excluded from net earnings, but included as a separate component of stockholders' equity, net of tax. Comprehensive income was as follows:

	Three Months Ended		Six Months Ended	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Net earnings	$ 21	$ 110	$ 237	$ 267
Other comprehensive gains (losses), net of tax:				
Foreign currency translation	8	(5)	42	17
Net derivative adjustments	8	8	6	11
Pension and postretirement benefit adjustments	3	1	5	2
Total comprehensive income	$ 40	$ 114	$ 290	$ 297

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NOTE 9. INCOME TAXES

In determining its quarterly provision for income taxes, the Company uses an estimated annual effective tax rate, which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates. Certain significant or unusual items are separately recognized in the quarter in which they occur and can be a source of variability in the effective tax rates from quarter to quarter. The effective tax rate on income from continuing operations was (45.0)% and 125.9% for the three and six months ended December 31, 2010, respectively, and 32.1% and 34.2% for the three and six months ended December 31, 2009, respectively. The substantially different tax rates in the current periods resulted from the non-deductible goodwill impairment charge of $258 related to the Burt's Bees reporting unit as there was no substantial tax benefit associated with this noncash charge. The effective tax rate on continuing operations, excluding the noncash goodwill impairment charge, was 35.6% and 32.9% for the current periods. The lower rate for the three months ended December 31, 2009, was primarily due to lower foreign tax expense. The lower rate for the six months ended December 31, 2010, was primarily due to favorable tax settlements and the statutory phase-in of increased rates for the domestic manufacturing deduction, partially offset by lower foreign tax expense for the six months ended December 31, 2009.

Included in the balance of unrecognized tax benefits at December 31, 2010 and June 30, 2010, are potential benefits of $60 and $57, respectively, that if recognized, would affect the effective tax rate on earnings.

The Company recognizes interest and penalties related to uncertain tax positions as a component of income tax expense. As of December 31, 2010 and June 30, 2010, the total balance of accrued interest and penalties related to uncertain tax positions was $13 and $22, respectively. Interest and penalties included in income tax expense were a benefit of $1 and $3 for the three and six months ended December 31, 2010, and expense of $2 and $5 for the three and six months ended December 31, 2009, respectively.

The Company files income tax returns in the U.S. federal and various state, local and foreign jurisdictions. Certain issues relating to 2003, 2004 and 2006 were effectively settled by the Company and the IRS Appeals Division during the first quarter of fiscal year 2011. Tax and interest payments of $18 were made with respect to these issues in the current period. Various income tax returns in state and foreign jurisdictions are currently in the process of examination.

In the twelve months succeeding December 31, 2010, audit resolutions could potentially reduce total unrecognized tax benefits by up to $6, primarily as a result of cash settlement payments. Audit outcomes and the timing of audit settlements are subject to significant uncertainty.

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NOTE 10. RETIREMENT INCOME AND HEALTH CARE BENEFIT PLANS

The following table summarizes the components of net periodic benefit cost for the Company's retirement income and health care plans:

	Three Months Ended		Six Months Ended	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Components of net periodic benefit cost (income):				
Service cost	$ 4	$ 2	$ 7	$ 5
Interest cost	7	7	14	15
Expected return on plan assets	(8)	(7)	(16)	(15)
Amortization of unrecognized items	4	2	8	4
Total net periodic benefit cost	$ 7	$ 4	$ 13	$ 9

The net periodic benefit cost for the Company's retirement health care plans was $1 and $2, respectively for each of the three month and six month periods ended December 31, 2010 and 2009, respectively.

During the three months ended September 30, 2010, the Company made discretionary contributions of $15 to the domestic qualified retirement income plan.

NOTE 11. CONTINGENCIES

The Company is involved in certain environmental matters, including Superfund and other response actions at various locations. The Company has a recorded liability of $16 at both December 31, 2010 and June 30, 2010 for its share of aggregate future remediation costs related to these matters. One matter in Dickinson County, Michigan, for which the Company is jointly and severally liable, accounts for a substantial majority of the recorded liability at both December 31, 2010 and June 30, 2010. The Company has agreed to be liable for 24.3% of the aggregate remediation and associated costs for this matter pursuant to a cost-sharing arrangement with a third party. With the assistance of environmental consultants, the Company maintains an undiscounted liability representing its current best estimate of its share of the capital expenditures, maintenance and other costs that may be incurred over an estimated 30-year remediation period. Currently, the Company cannot accurately predict the timing of future payments that may be made under this obligation. In addition, the Company's estimated loss exposure is sensitive to a variety of uncertain factors, including the efficacy of remediation efforts, changes in remediation requirements and the timing, varying costs and alternative clean-up technologies that may become available in the future. Although it is possible that the Company's exposure may exceed the amount recorded, any amount of such additional exposures, or range of exposures, is not estimable at this time.

The Company is subject to various other lawsuits and claims relating to issues such as contract disputes, product liability, patents and trademarks, advertising, employee and other matters. Although the results of claims and litigation cannot be predicted with certainty, it is the opinion of management that the ultimate disposition of these matters, including the environmental matter described above, to the extent not previously provided for, will not have a material adverse effect, individually or in the aggregate, on the Company's consolidated financial statements taken as a whole.

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NOTE 12. SEGMENT RESULTS

The Company operates through strategic business units, which are aggregated into four reportable segments: Cleaning, Household, Lifestyle and International. As a result of the recognition of the Auto Businesses as discontinued operations, the results of the Auto Businesses are no longer included in the Cleaning and International reportable segments for any period presented. The four reportable segments consist of the following:

- Cleaning consists of laundry, home-care and professional products marketed and sold in the United States. Products within this segment include laundry additives, including bleaches under the Clorox® brand and Clorox 2® stain fighter and color booster; home-care products, primarily under the Clorox®, Formula 409®, Liquid-Plumr®, Pine-Sol®, S.O.S® and Tilex® brands; and natural cleaning and laundry products under the Green Works® brand.

- Household consists of charcoal, cat litter and plastic bags, wraps and container products marketed and sold in the United States. Products within this segment include plastic bags, wraps and containers, under the Glad® brand; cat litter products, under the Fresh Step®, Scoop Away® and Ever Clean® brands; and charcoal products under the Kingsford® and Match Light® brands.

- Lifestyle consists of food products, water-filtration systems and filters marketed and sold in the United States and all natural personal care products. Products within this segment include dressings and sauces, primarily under the Hidden Valley® and K C Masterpiece® brands, water-filtration systems and filters under the Brita® brand; and all natural personal care products under the Burt's Bees® brand.

- International consists of products sold outside the United States, excluding natural personal care products. These products include home-care, laundry, water filtration, charcoal and cat litter products, dressings and sauces, plastic bags, wraps and containers, and insecticides, primarily under the Clorox®, Javex®, Glad®, PinoLuz®, Ayudin®, Limpido®, Clorinda®, Poett®, Mistolin®, Lestoil®, Bon Bril®, Nevex®, Brita®, Green Works®, Pine-Sol®, Agua Jane®, Ever Clean®, Chux®, Kingsford®, Fresh Step®, Scoop Away® , Ever Clean®, K C Masterpiece® and Hidden Valley® brands.

Corporate includes certain nonallocated administrative costs, interest income, interest expense and certain other nonoperating income and expenses. Corporate assets include cash and cash equivalents, the Company's headquarters and research and development facilities, information systems hardware and software, pension balances, and other investments.

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NOTE 12. SEGMENT RESULTS (Continued)

The table below presents reportable segment information and a reconciliation of the segment information to the Company's net sales and earnings (losses) from continuing operations before income taxes, with amounts that are not allocated to the operating segments shown as Corporate.

	Net Sales			
	Three Months Ended		Six Months Ended	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Cleaning	$ 354	$ 378	$ 803	$ 832
Household	320	334	674	715
Lifestyle	218	212	419	412
International	287	291	549	559
Total Company	$ 1,179	$ 1,215	$ 2,445	$ 2,518

	Earnings (Losses) from Continuing Operations Before Income Taxes			
	Three Months Ended		Six Months Ended	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Cleaning	$ 64	$ 70	$ 185	$ 189
Household	25	27	78	82
Lifestyle	(192)	78	(134)	144
International	41	32	81	75
Corporate	(50)	(70)	(120)	(136)
Total Company	$ (112)	$ 137	$ 90	$ 354

All intersegment sales are eliminated and are not included in the Company's reportable segments' net sales.

The earnings (losses) from continuing operations before income taxes for the Lifestyle segment include a $258 noncash goodwill impairment charge for the Burt's Bees business for the three and six months ended December 31, 2010.

Net sales to the Company's largest customer, Wal-Mart Stores, Inc. and its affiliates, were 25% and 26% of consolidated net sales for the three and six months ended December 31, 2010, and 26% and 27% of consolidated net sales for the three and six months ended December 31, 2009, respectively.

NOTE 13. GUARANTEES

In conjunction with divestitures and other transactions, the Company may provide indemnifications relating to the enforceability of trademarks; pre-existing legal, tax, environmental and employee liabilities; as well as provisions for product returns and other items. The Company has various indemnification agreements in effect that specify a maximum possible indemnification exposure. As of December 31, 2010, the Company's aggregate maximum exposure from these agreements is $66. This amount consists primarily of an indemnity of up to $38 made to an affiliate of Avista Capital Partners in connection with the sale of the Auto Businesses, a substantial portion of which expires six months from November 5, 2010. The Company had not made, nor does it anticipate making, any payments relating to the indemnities.

At December 31, 2010, The Company is a party to letters of credit of $18, primarily related to one of its insurance carriers.

The Company has not recorded any liabilities on any of the aforementioned guarantees at December 31, 2010.

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Item 2. Management's Discussion and Analysis of
Financial Condition and Results of Operations
(Dollars in millions, except per share amounts)

Overview

The Clorox Company (the Company or Clorox) is a leading manufacturer and marketer of consumer and institutional products. The Company sells its products primarily through mass merchandisers, grocery stores and other retail outlets. Clorox markets some of consumers' most trusted and recognized brand names, including its namesake bleach and cleaning products, Green Works® natural cleaners and laundry products, Poett® and Mistolín® cleaning products, Fresh Step® and Scoop Away® cat litter, Kingsford® charcoal, Hidden Valley® and K C Masterpiece® dressings and sauces, Brita® water-filtration systems, Glad® bags, wraps and containers, and Burt's Bees® natural personal care products. With approximately 8,300 employees worldwide, the Company manufactures products in more than two dozen countries and markets them in more than 100 countries.

The Company operates through strategic business units which are aggregated into four reportable segments: Cleaning, Household, Lifestyle and International. As a result of the recognition of the Auto Businesses as discontinued operations, the results of the Auto Businesses are no longer included in the Cleaning and International reportable segments. The four reportable segments consist of the following:

- Cleaning consists of laundry, home-care and professional products marketed and sold in the United States. Products within this segment include laundry additives, including bleaches under the Clorox® brand and Clorox 2® stain fighter and color booster; home-care products, primarily under the Clorox®, Formula 409®, Liquid-Plumr®, Pine-Sol®, S.O.S® and Tilex® brands; and natural cleaning and laundry products under the Green Works® brand.

- Household consists of charcoal, cat litter and plastic bags, wraps and container products marketed and sold in the United States. Products within this segment include plastic bags, wraps and containers, under the Glad® brand; cat litter products, under the Fresh Step®, Scoop Away® and Ever Clean® brands; and charcoal products under the Kingsford® and Match Light® brands.

- Lifestyle consists of food products, water-filtration systems and filters marketed and sold in the United States and all natural personal care products. Products within this segment include dressings and sauces, primarily under the Hidden Valley® and K C Masterpiece® brands; water-filtration systems and filters under the Brita® brand; and all natural personal care products under the Burt's Bees® brand.

- International consists of products sold outside the United States, excluding natural personal care products. These products include home-care, laundry, water filtration, charcoal and cat litter products, dressings and sauces, plastic bags, wraps and containers, and insecticides, primarily under the Clorox®, Javex®, Glad®, PinoLuz®, Ayudin®, Limpido®, Clorinda®, Poett®, Mistolin®, Lestoil®, Bon Bril®, Nevex®, Brita®, Green Works®, Pine-Sol®, Agua Jane®, Ever Clean®, Chux®, Kingsford®, Fresh Step®, Scoop Away®, Ever Clean®, K C Masterpiece® and Hidden Valley® brands.

Corporate includes certain nonallocated administrative costs, interest income, interest expense and certain other nonoperating income and expenses. Corporate assets include cash and cash equivalents, the Company's headquarters and research and development facilities, information systems hardware and software, pension balances and other investments.

The Company primarily markets its leading brands in midsized categories considered to have attractive economic profit potential. Most of the Company's products compete with other nationally-advertised brands within each category and with "private-label" brands.

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The following discussion of the Company's financial condition and results of operations should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended June 30, 2010, which was filed with the Securities and Exchange Commission (SEC) on August 25, 2010, and the unaudited Condensed Consolidated Financial Statements and related notes contained in this quarterly report on Form 10-Q.

Results of Operations

Management's Discussion and Analysis of the Results of Operations, unless otherwise noted, compares the three and six months ended December 31, 2010 (the current periods), to the three and six months ended December 31, 2009 (the prior periods), using percentages calculated on a rounded basis, except as noted. In addition, the discussion of results of operations of the Company as well as the Lifestyle segment includes certain financial measures that are not defined by accounting principles generally accepted in the United States of America (non-GAAP measures). These measures are diluted net earnings per share from continuing operations before the goodwill impairment charge and earnings from continuing operations before income taxes and the goodwill impairment charge. Management believes these measures provide investors with additional information about the underlying results of the Company. Information about these non-GAAP measure is set forth in the paragraph below and in the applicable segment discussion.

CONTINUING OPERATIONS

	Diluted Per Share Basis			
	Three Months Ended		Six Months Ended	
	12/31/2010	12/31/2009	12/31/2010	12/31/2009
Net earnings from continuing operations	$ (1.17)	$ 0.66	$ (0.17)	$ 1.64
Add: Goodwill impairment	(1.85)	-	(1.85)	-
Net earnings from continuing operations before goodwill impairment	$ 0.68	$ 0.66	$ 1.68	$ 1.64

Diluted net earnings per share from continuing operations before goodwill impairment is a non-GAAP measure used by the Company's management to evaluate the business performance of the Company excluding the goodwill impairment charge. Excluding the noncash goodwill impairment, the Company's diluted net earnings per share from continuing operations increased $0.02 and $0.04 in the current periods compared to the prior periods. These increases were primarily due to the benefit of cost savings and the impact of pricing, partially offset by a decrease in net sales, unfavorable commodity costs and higher trade promotion spending.

	Three Months Ended			% of Net Sales	
	12/31/2010	12/31/2009	% Change	12/31/2010	12/31/2009
Net sales	$ 1,179	$ 1,215	(3) %	100.0 %	100.0 %
Gross profit	492	529	(7)	41.7	43.5
Selling and administrative expenses	180	185	(3)	15.3	15.2
Advertising costs	117	123	(5)	9.9	10.1
Research and development costs	28	29	(3)	2.4	2.4

	Six Months Ended			% of Net Sales	
	12/31/2010	12/31/2009	% Change	12/31/2010	12/31/2009
Net sales	$ 2,445	$ 2,518	(3) %	100.0 %	100.0 %
Gross profit	1,053	1,112	(5)	43.1	44.2
Selling and administrative expenses	361	357	1	14.8	14.2
Advertising costs	235	245	(4)	9.6	9.7
Research and development costs	57	55	4	2.3	2.2

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Net sales and volume decreased in current periods as compared to prior periods. Volume decline of 2% in the three months ended December 31, 2010, was primarily driven by higher shipments of Clorox® disinfecting wipes and other disinfecting products due to the H1N1 flu pandemic that was prevalent in the three months ended December 31, 2009. These decreases were partially offset by increased shipments in Latin America driven by new home care products, higher shipments of Burt's Bees® natural personal care products and higher shipments of Pine-Sol® cleaners and Glad® trash bags behind product innovation. The variance between changes in volume and sales was primarily due to the negative impact of foreign currency exchange rates (approximately 220 basis points) and higher trade promotion spending (approximately 80 basis points), partially offset by the impact of pricing (approximately 190 basis points).

Volume decline of 2% during the six months ended December 31, 2010, was primarily driven by lower shipments of Glad® food storage products, Scoop Away® cat litter and Clorox® disinfecting wipes. These decreases were partially offset by increased shipments of Burt's Bees® natural personal care products, primarily due to lip balm, and increased shipments of Pine-Sol® cleaners due to strong retailer merchandising and increased distribution; and Glad® trash bags due to product innovation. The variance between changes in volume and sales was primarily due to the negative impact of foreign exchange rates (approximately 180 basis points) and higher trade promotion spending (approximately 60 basis points), partially offset by the benefits of pricing (approximately 160 basis points).

Gross margin, defined as gross profit as a percentage of net sales, decreased in the current periods as compared to prior periods. Gross margin decline in the three months ended December 31, 2010, was primarily driven by 100 basis points from unfavorable business and channel mix, 80 basis points from higher manufacturing and logistics costs, 60 basis points from unfavorable foreign exchange rates and 30 basis points from higher trade promotion spending, partially offset by 100 basis points from the impact of price increases. The impact of approximately 180 basis points from cost savings more than offset the unfavorable impact from higher commodity costs of 150 basis points.

Gross margin decline for the six months ended December 31, 2010, reflects approximately 100 basis points from higher other manufacturing related costs, 50 basis points from unfavorable foreign exchange rates, 40 basis points from higher trade promotion spending, partially offset by 90 basis points from the impact of price increases. The impact of approximately 190 basis points from the benefit of costs savings more than offset the unfavorable impact from higher commodity costs of 165 basis points.

Selling and administrative expenses decreased in the current quarter primarily due to lower legal settlement costs and lower employee incentive compensation costs partially offset by inflationary pressure in Latin America countries and infrastructure investments in facilities and information systems.

The slight increase in selling and administrative expenses in the six months ended December 31, 2010, was primarily due to inflationary pressure in Latin America countries partially offset by lower legal settlement costs and lower employee incentive costs.

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Advertising costs remained flat as a percentage of net sales as the Company continues to support its new products and established brands.

Research and development costs remained flat as a percentage of net sales as the Company continues to support its new products and established brands with an emphasis on innovation.

Goodwill impairment

During the fiscal 2011 second quarter, the Company identified challenges in increasing sales in new international markets in accordance with projections, particularly in the European Union and Asia. Additionally, in the fiscal 2011 second quarter, the Company initiated its process for updating the three year long-range financial and operating plan for the Burt's Bees business. In addition to slower than projected growth of international sales and challenges in the timing of certain international expansion plans, the domestic natural personal care category had not recovered in accordance with the Company's projections. Following the comprehensive reevaluation, the Company concluded to recognize an impairment charge in the fiscal 2011 second quarter.

The impairment charge is a result of changes in the assumptions used to determine the fair value of the Burt's Bees business based on slower than forecasted category growth as well as recent challenges in international expansion plans, which have adversely affected the assumptions for international growth and the estimates of expenses necessary to achieve that growth. The revised assumptions reflect somewhat higher cost levels than previously projected. As a result of this assessment, the Company concluded that the book value of the Burt's Bees reporting unit exceeded its fair value, resulting in an impairment charge of $258 recognized in the fiscal second quarter ended December 31, 2010. The goodwill impairment charge is based on the Company's current estimates regarding the future financial performance of the Burt's Bees business and macroeconomic factors. There was no substantial tax benefit associated with this noncash charge.

To determine the fair value of the Burt's Bees reporting unit, which is in the Lifestyle segment, the Company used a discounted cash flow (DCF) approach, as it believes that this approach is the most reliable indicator of fair value of the business. Under this approach, the Company estimated the future cash flows of the Burt's Bees reporting unit and discounted these cash flows at a rate of return that reflects its relative risk.

The Company's trademarks and definite-lived intangible assets for the Burt's Bees reporting unit were included in the impairment testing. The impairment testing concluded that these assets were not impaired.

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The Company expects to finalize its goodwill impairment analysis for the Burt's Bees reporting unit during the fiscal quarter ended March 31, 2011, and there could be adjustments to the goodwill impairment charge when the analysis is finalized. Any potential adjustments to the Company's preliminary estimates as a result of completing this evaluation would be recorded in the Company's condensed consolidated financial statements when finalized.

The Company may need to make future changes in its assumptions relating to the value of Burt's Bees, which may result in additional impairment charges if the Company's sales growth and margin expansion expectations are not realized or macroeconomic factors such as economic and category growth rates, commodity prices and foreign currency rates change in unexpected ways. The Company expects that any such impairment charge will not result in future cash expenditures.

Interest expense decreased by $4 and $8, respectively, in the current periods. The decrease is primarily due to lower interest rates on aggregate borrowings and a decline in average debt balances.

Other (income) expense, net was $(12) and $(13) in the current periods and $18 and $28 in the prior periods. The change in other (income) expense, net for the current periods was primarily due to the decline in foreign exchange transaction losses in Venezuela of $18 and $27, respectively, from translating the Venezuelan subsidiary's financial statements using the parallel exchange rate instead of the official rate in the prior periods and low income housing partnership gains.

The effective tax rate on continuing operations was (45)% and 125.9% for the current periods, respectively, as compared to 32.1% and 34.2% for the prior periods, respectively. The tax rates in the current periods resulted from the non-deductible goodwill impairment charge of $258 related to the Burt's Bees reporting unit, as there was no substantial tax benefits associated with the charge. The effective tax rate on continuing operations, excluding the noncash goodwill impairment charge, was 35.6% and 32.9% for the current periods. The lower rate for the three months ended December 31, 2009, was primarily due to lower foreign tax expense. The lower rate for the six months ended December 31, 2010, was primarily due to favorable tax settlements and the statutory phase-in of increased rates for the domestic manufacturing deduction for the six months ended December 31, 2010, partially offset by lower foreign tax expense.

DISCONTINUED OPERATIONS

In September 2010, the Company entered into a definitive agreement to sell its global auto care businesses (Auto Businesses) to an affiliate of Avista Capital Partners in an all-cash transaction. In November 2010, the Company completed the sale pursuant to the terms of a Purchase and Sale Agreement (Purchase Agreement) and received cash consideration of $755. The Company will also receive cash flows of approximately $30 related to working capital that was retained by the Company. Included in earnings from discontinued operations for the three and six months ended December 31, 2010 is an after-tax gain on the transaction of $177 and $237, respectively. The final amount of proceeds is subject to closing adjustments related to the portion of the working capital transferred and are not expected to be material.

Included in the transaction are substantially all of the Company's global auto care businesses, the majority of which are in the U.S., Australia, Canada and Europe, including the worldwide rights to the market-