



NEWS RELEASE

# Clorox Reports Q4 and Full-Year 2006 Results; Confirms Fiscal 2007 Outlook

8/2/2006

OAKLAND, Calif., Aug. 2, 2006 – The Clorox Company (NYSE: CLX) announced today that strong sales growth and cost savings contributed to solid operating results for the company's fiscal fourth quarter, which ended June 30, 2006.

"I'm pleased with our strong fourth-quarter sales growth and, overall, the company's performance for the year," said Interim Chairman and CEO Bob Matschullat. "We executed price increases on more than half of our U.S. portfolio and, excluding divestitures, delivered our fifth year in a row of sales growth of 5 percent or better. And despite unprecedented high commodity costs, we delivered our fifth consecutive year of cost savings over \$100 million."

In accordance with generally accepted accounting principles in the United States (GAAP), Clorox reported fourth-quarter net earnings of \$142 million or 92 cents per diluted share. This compares with net earnings in the year-ago period of \$156 million or \$1.00 per diluted share, for a decrease of 8 cents per diluted share. Excluding the earnings impact of \$16 million in after-tax charges or 11 cents diluted EPS for noncash historical stock option compensation expense related to a voluntary, 10-year review undertaken by the audit committee of the company's board of directors (see related discussion below), the company delivered fourth-quarter diluted EPS of \$1.03.

Earnings results for the fourth quarter and fiscal year also included after-tax charges of \$7 million or 5 cents diluted EPS related to Jerry Johnston's health-related retirement from his positions as chairman and CEO. These after-tax charges include about \$4 million related to expected accelerated vesting of certain noncash stock compensation and \$3 million in connection with expected salary continuation in accordance with the terms of the company's stock

compensation and long-term disability plans.

For the fiscal year, on a GAAP basis, Clorox reported net earnings of \$444 million or \$2.90 diluted EPS based on weighted average shares outstanding of 153 million. This compares with net earnings in the year-ago period of \$1.10 billion or \$6.11 diluted EPS based on weighted average shares outstanding of 179 million, for a decrease of \$3.21 diluted EPS. Year-ago net earnings included \$3.23 diluted EPS from discontinued operations and gain related to the Henkel share exchange. Excluding the aforementioned earnings impact of noncash charges for historical stock option grants, the company delivered fiscal 2006 diluted EPS of \$3.01.

"I'm disappointed that we're taking a charge related to historical stock option practices, but I'm pleased and reassured that our voluntary review of stock option practices revealed only unintentional errors and no misconduct," Matschullat said. "I continue to feel good about the direction of the company. We remain focused on driving growth through consumer insights and building brands that make consumers' lives easier, healthier and better. Importantly, we are committed over the long term to achieving top-tier financial performance and generating total shareholder return in the top third of our peer group."

## Fourth-quarter highlights

Fourth-quarter sales grew 5 percent to \$1.32 billion, compared with \$1.25 billion in the year-ago quarter. Volume declined less than 1 percent, as price increases earlier in the year continued to reduce shipments of affected products in line with expectations. Sales growth outpaced the change in volume primarily due to both price increases and trade-promotion spending efficiencies.

Gross margin in the fourth quarter declined 40 basis points versus the year-ago quarter to 43.7 percent, primarily due to higher energy-related commodity, manufacturing and transportation costs, substantially offset by the benefit of price increases and cost savings.

Net cash provided by operations in the fourth quarter was \$301 million, or 23 percent of sales, compared with \$302 million in the year-ago quarter.

## Fourth-quarter results by business segment

Following is a summary of key fourth-quarter results by business segment. All comparisons are with the fourth quarter of fiscal 2005.

### Household Group – North America

Compared with the year-ago quarter, the segment reported 6 percent sales growth, 3 percent volume decline and 21 percent increase in pretax earnings. All-time-record shipments of Clorox® disinfecting wipes and increased shipments of Armor All® and STP® auto-care products were more than offset by lower shipments of Clorox® BathWand™ versus the year-ago quarter, when the product was launched. Also contributing to the year-over-year volume decline were reduced shipments of Clorox 2® color-safe bleach, Clorox® bathroom cleaners and Clorox® Bleach Pen® gel, primarily due to price increases and higher competitive activity. Sales growth outpaced the change in volume primarily due to the impact of price increases and more efficient trade-promotion spending. Pretax earnings reflected the benefit of higher sales and cost savings, partially offset by higher commodity costs.

## Specialty Group

Compared with the year-ago quarter, the segment reported 5 percent sales growth, flat volume and 3 percent increase in pretax earnings. All-time-record shipments of Fresh Step® cat litter behind a significant product improvement were offset primarily by decreased shipments of Glad® products due to price increases. The segment also delivered all-time-record shipments of Kingsford® products. Sales growth outpaced the change in volume primarily due to the impact of price increases and more efficient trade-promotion spending. Pretax earnings reflected the benefit of higher sales and cost savings, substantially offset by higher commodity costs.

## International

Compared with the year-ago quarter, the segment reported 3 percent sales growth, 6 percent volume growth on top of 13 percent volume growth in the year-ago quarter, and a 3 percent decrease in pretax earnings. Increased shipments of home-care products in Argentina and dilutable cleaners in Mexico were slightly offset by lower shipments of home-care products in Puerto Rico. Sales growth trailed volume growth primarily due to unfavorable foreign exchange rates. Pretax earnings reflected higher commodity costs and unfavorable product mix, partially offset by the benefit of increased sales and cost savings.

## Fiscal 2006 results

Fiscal-year sales grew 6 percent to \$4.6 billion behind price increases on more than 50 percent of the company's U.S. portfolio to help offset commodity cost pressure. Volume grew 1 percent, with price increases reducing shipments of affected products, as anticipated. During the year, the company introduced many new products or product improvements including Kingsford® charcoal with SureFire Grooves,™ Clorox® AnyWhere Hard Surface™ daily sanitizing spray, Fresh Step® cat litter with odor-eliminating carbon, Liquid-Plumr® Power Jet™ instant clog remover and GladWare® containers with interlocking lids.

For the fiscal year, gross margin declined 100 basis points to 42.2 percent, primarily due to higher raw-material

costs and other inflationary impacts, partially offset by the benefit of price increases and strong cost savings.

Net cash provided by operations in fiscal 2006 was \$522 million, compared with \$765 million in fiscal 2005. The year-over-year decrease was primarily due to lower cash provided by discontinued operations; increased working capital from receivables behind higher sales, lower accounts payable and accrued liabilities; and the settlement of income tax matters. These results were partially offset by lower inventories due to effective inventory management. Capital expenditures were 3.9 percent of sales, in line with the company's long-term target of 4 percent of sales.

During the year, Clorox repurchased 2.4 million shares of the company's common stock at a cost of about \$135 million under its ongoing program to offset stock option dilution.

### Noncash charges for historical stock option grants

Results for the fourth quarter and fiscal year include a pretax cumulative charge of approximately \$25 million, or approximately \$16 million on an after-tax basis, resulting from noncash charges associated with historical stock option compensation expense relating to prior periods dating back to the third quarter of fiscal 1996. The after-tax charge reduced reported fourth-quarter and full-year diluted EPS by 11 cents. The amount of the stock option compensation expense attributable to each of the previous reporting periods was not material to any of such periods. Consequently, the cumulative charge was recorded in the Corporate segment in the fourth quarter of fiscal 2006. The company generated \$4.4 billion in aggregate net earnings from the fiscal year ended June 30, 1996 through the fiscal year ended June 30, 2005.

The company identified the additional stock option compensation expense in a comprehensive review of its stock-option practices. The company's voluntary review, which began in June 2006 and was overseen by the audit committee of Clorox's board of directors with the assistance of outside counsel, was recently completed. The review identified no evidence of fraud, falsification of records, concealment of actions or documentation, or intentional deviation from generally accepted accounting principles. No material liabilities were identified as a result of the review.

"We are confident that the charge reflects unintentional errors in accounting for stock option grants made prior to October 2004," said Gary G. Michael, chairman of the company's audit committee. "We are pleased that our current executive management team has been diligent in addressing this topic."

The pretax charge for noncash compensation expense includes \$15 million in equity compensation expense related to the determination of the appropriate measurement date for certain stock option grants, of which \$2 million relates to certain stock options granted to officers prior to December 2001 and \$13 million relates to certain stock options granted to non-officer employees prior to October 2004. The remaining \$10 million in pretax charges

results primarily from the requirement to use variable (i.e., mark to market) accounting with respect to certain options granted to officers due to existence of documented approval of the options within six months of the repurchase in 2001 of stock options from the same officers.

Beginning in fiscal 2006, Clorox adopted the fair-value method of accounting for stock options pursuant to Statement of Financial Accounting Standards (SFAS) No. 123-R. The company has determined that the matters resulting in this charge did not significantly affect its accounting under SFAS No. 123-R.

## Q4 and Fiscal 2006 diluted EPS – non-GAAP(1)

### Fiscal 2007 outlook

For fiscal 2007, Clorox continues to anticipate sales growth within its previously communicated long-term target of 3-5 percent. Sales growth is expected to outpace volume growth, particularly in the first two quarters, due to the carryover benefit of fiscal 2006 price increases. The company's outlook for fiscal 2007 diluted EPS continues to be in the range of \$3.20-\$3.30. This outlook reflects an estimated \$12-\$15 million on a pretax basis, or 5-6 cents diluted EPS, for possible charges primarily related to restructuring the company's information technology activities. No specific decisions have been made on restructuring activities, and any such actions require board review and approval. Fiscal 2007 outlook also reflects a higher tax rate versus fiscal 2006 and an estimated incremental impact of about 5 cents diluted EPS from the normal expensing of equity compensation following the adoption of SFAS No. 123-R. The company's tax rate for the fiscal year is expected to be in the range of 34-35 percent, versus 32 percent in fiscal 2006, with some anticipated variability among quarters.

For the first quarter of 2007, Clorox continues to anticipate sales growth of 3-5 percent and diluted EPS in the range of 67-73 cents. Included in the first-quarter outlook is the company's anticipation that commodity costs, while lower than the extreme post-hurricane levels, will be significantly higher than prior-year levels. The first-quarter outlook also reflects increased advertising to support new products, weighted average shares outstanding consistent with current levels and a higher tax rate than in the prior-year quarter.

The company's initial outlook for the second quarter is for sales growth at the lower end of the 3-5 percent range, compared with 6 percent sales growth in the prior-year quarter, and diluted EPS in the range of 48-54 cents. Included in the second-quarter outlook is the company's anticipation that commodity costs will be higher than in the prior year, but that gross margin will increase behind cost savings and the ongoing benefit of price increases. The outlook assumes that more than half of the aforementioned possible restructuring charges will occur in the second quarter.

### For more information

For supplemental financial information, including definitions of financial terms used in this earnings release and on today's conference call with the investment community (details below), visit the Financial Results area within the Investors section of the company's Web site at [www.TheCloroxCompany.com](http://www.TheCloroxCompany.com).

Note: Percentage and basis-point changes noted in this news release are calculated based on rounded numbers.

## Today's webcast

Today at 10:30 a.m. Pacific time (1:30 p.m. Eastern time), Clorox will host a live audio webcast of a discussion with the investment community regarding the company's fourth-quarter results. The webcast can be accessed at [www.TheCloroxCompany.com/investors/index.html](http://www.TheCloroxCompany.com/investors/index.html). Following a live discussion, a replay of the webcast will be archived for one week on the company's Web site.

## The Clorox Company

The Clorox Company is a leading manufacturer and marketer of consumer products with fiscal year 2006 revenues of \$4.6 billion. Clorox markets some of consumers' most trusted and recognized brand names, including its namesake bleach and cleaning products, Armor All® and STP® auto-care products, Fresh Step® and Scoop Away® cat litter, Kingsford® charcoal, Hidden Valley® and K C Masterpiece® dressings and sauces, Brita® water-filtration systems, and Glad® bags, wraps and containers. With 7,600 employees worldwide, the company manufactures products in 25 countries and markets them in more than 100 countries. Clorox is committed to making a positive difference in the communities where its employees work and live. Founded in 1980, The Clorox Company Foundation has awarded cash grants totaling more than \$66.3 million to nonprofit organizations, schools and colleges; and in fiscal 2006 alone made product donations valued at \$6 million. For more information about Clorox, visit [www.TheCloroxCompany.com](http://www.TheCloroxCompany.com).

## Forward-looking statements

Except for historical information, matters discussed above, including statements about future volume, sales, costs, cost savings, earnings, cash outflows, plans, objectives, expectations, growth, or profitability, are forward-looking statements based on management's estimates, assumptions and projections. Words such as "expects," "anticipates," "targets," "goals," "projects," "intends," "plans," "believes," "seeks," "estimates," and variations on such words, and similar expressions are intended to identify such forward-looking statements. These forward-looking statements are only predictions, subject to risks and uncertainties, and actual results could differ materially from those discussed above. Important factors that could affect performance and cause results to differ materially from management's expectations are described in the sections entitled "Risk Factors" and "Management's Discussion

and Analysis of Financial Condition and Results of Operations" in the company's Annual Report on Form 10-K for the fiscal year ended June 30, 2005, as updated from time to time in the company's SEC filings. These factors include, but are not limited to, general economic and marketplace conditions and events; competitors' actions; the company's costs, including changes in exposure to commodity costs such as resin, diesel and chlor-alkali; increases in energy costs; consumer and customer reaction to price increases; customer-specific ordering patterns and trends; the company's actual cost performance; any future supply constraints which may affect key commodities; risks inherent in sole-supplier relationships; risks related to customer concentration; risks arising out of natural disasters; risks inherent in litigation and international operations; uncertainties and costs regarding a change in the company's chief executive officer; the ability to manage and realize the benefits of joint ventures and other cooperative relationships, including the company's joint venture with The Procter & Gamble Company ("P&G") regarding the company's Glad® plastic bags, wraps and containers business; the success of new products; the integration of acquisitions and mergers; the divestiture of non-strategic businesses; the implementation of the company's strategy; and the ability of the company to successfully manage tax, regulatory, product liability, intellectual property, environmental and other legal matters, including the risk resulting from joint and several liability for environmental contingencies and from the cumulative charge resulting from additional stock option compensation expense relating to prior periods. In addition, the company's future performance is subject to risks particular to the share exchange transaction with Henkel KGaA ("Henkel"), including the sustainability of cash flows and the actual level of debt costs. Declines in cash flow, whether resulting from tax payments, debt payments, share repurchases, interest cost increases greater than management expects, or otherwise, could adversely affect the company's earnings.

The company's forward-looking statements in this document are and will be based on management's then current views and assumptions regarding future events and speak only as of their dates. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by the federal securities laws.

## **Consolidated Earnings, Segment Information and Consolidated Balance Sheets**

### **Supplemental Volume Growth Information**

### **Supplemental Sales Growth Information**

### **Adjusted Operating Profit Reconciliation**

### **Supplemental Balance Sheet and Cash Flow Information**

### **Supplemental Price-Increase Information**

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