KIMBERLY CLARK CORP
Form DEF 14A
February 27, 2017

Table of Contents

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ]	Preliminary Proxy Statement
[ ]	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
[X]	Definitive Proxy Statement
[ ]	Definitive Additional Materials
[ ]	Soliciting Material Pursuant to §240.14a-12

Kimberly-Clark Corporation
(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

[ ] Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Table of Contents

Proxy Statement
For 2017 Annual Meeting of Stockholders

Table of Contents

February 27, 2017

Thomas J. Falk
Chairman of the Board and
Chief Executive Officer

FELLOW STOCKHOLDERS:

It is my pleasure to invite you to the Annual Meeting of Stockholders of Kimberly-Clark Corporation. The meeting will be held on Thursday, April 20, 2017, at 9:30 a.m. at the Four Seasons Resort and Club, which is located at 4150 North MacArthur Boulevard, Irving, Texas.

At the Annual Meeting, stockholders will be asked to elect thirteen directors for a one-year term, ratify the selection of Kimberly-Clark s independent auditors, approve the compensation for our named executive officers, and approve the frequency of future stockholder votes on our named executive officers compensation. These matters are fully described in the accompanying Notice of Annual Meeting and proxy statement.

Your vote is important. Regardless of whether you plan to attend the meeting, I urge you to vote your shares as soon as possible. You may vote using the proxy form by completing, signing, and dating it, then returning it by mail. Also, most of our stockholders can submit their vote by telephone or through the Internet. If telephone or Internet voting is available to you, instructions will be included on your proxy form. Additional information about voting your shares is included in the proxy statement.

Sincerely,

Table of Contents

Notice of Annual Meeting of Stockholders

TO BE HELD
April 20, 2017

AT
Four Seasons Resort and Club
4150 North MacArthur Boulevard,
Irving,Texas

The Annual Meeting of Stockholders of Kimberly-Clark Corporation will be held at the Four Seasons Resort and Club, which is located at 4150 North MacArthur Boulevard, Irving, Texas, on Thursday, April 20, 2017, at 9:30 a.m. for the following purposes:

1. To elect as directors the thirteen nominees named in the accompanying proxy statement;

2. To ratify the selection of Deloitte & Touche LLP as our independent auditors for 2017;

3. To approve the compensation for our named executive officers in an advisory vote; and

4. To approve the frequency of future stockholder votes on our named executive officers compensation in an advisory vote.

Stockholders also will take action upon any other business that may properly come before the meeting.

Stockholders of record at the close of business on February 21, 2017 are entitled to notice of and to vote at the meeting or any adjournments.

It is important that your shares be represented at the meeting. I urge you to vote promptly by using the Internet or telephone or by signing, dating and returning your proxy form.

The accompanying proxy statement also is being used to solicit voting instructions for shares of Kimberly-Clark common stock that are held by the trustees of our employee benefit and stock purchase plans for the benefit of the participants in the plans. It is important that participants in the plans indicate their preferences by using the Internet or telephone or by signing, dating and returning the voting instruction card, which is enclosed with the proxy statement, in the business reply envelope provided.

To attend in person, please register by following the instructions on page 10.

February 27, 2017

By Order of the Board of Directors.

Jeffrey P. Melucci
Vice President
Senior Deputy General Counsel
and Corporate Secretary

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to be Held on April 20, 2017

The Proxy Statement and proxy card, as well as our Annual Report on Form 10-K for the year ended December 31, 2016, are available at http://www.kimberly-clark.com/investors.

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Proxy Summary

This section contains only selected information. Stockholders should review the entire Proxy Statement before casting their votes.

Matters for Stockholder Voting

Proposal		Description	Board voting recommendation
1	Election of directors	Election of 13 directors to serve for a one-year term	FOR all nominees
2	Ratification of auditors	Approval of the Audit Committee s selection of Deloitte & Touche LLP as Kimberly-Clark s independent auditor for 2017	FOR
3	Say-on-pay	Advisory approval of our named executive officers compensation	FOR
4	Frequency of say-on-pay votes	Advisory approval of the frequency of future stockholder votes on our named executive officers compensation	ONE YEAR

2016 Performance and Compensation Highlights

The Management Development and Compensation Committee of our Board concluded that Kimberly-Clark s management delivered financial performance in 2016 that was slightly above target from an overall perspective, as reflected in the financial metrics of our annual incentive program.

Performance Measures	2016 Results	2016 Target
Net sales	$18.20 billion	$18.20 billion
Adjusted EPS	$6.03	$6.05
Adjusted OPROS improvement	+110 bps	+70 bps

Adjusted EPS is adjusted earnings per share and Adjusted OPROS is adjusted operating profit return on sales. For details on how these measures are adjusted, see Compensation Discussion and Analysis - Executive Compensation for 2016, 2016 Performance Goals, Performance Assessments and Payouts.

Based on this performance, the Committee approved annual cash incentives for 2016 slightly above the target amount, including an annual incentive payout for our Chief Executive Officer of 109 percent.

The chart at left shows the Total Shareholder Return for Kimberly-Clark, our Executive Compensation Peer Group (taken as a whole) and the S&P 500 for the previous five years, which reflects the value returned to our stockholders.

Table of Contents

Proxy Summary

Corporate Governance

In 2016, we took the following new governance actions:

- added Christa S. Quarles, Chief Executive Officer of OpenTable, to our Board of Directors,
- elected Michael D. Hsu to the role of President and Chief Operating Officer as part of a long-term succession planning process, and appointed Mr. Hsu to our Board of Directors,
- adopted outside board service limits providing that our non-employee directors may not serve on more than five public company boards (including Kimberly-Clark s board) and members of our Audit Committee may not serve on the audit committees of more than three public companies (including Kimberly-Clark s), and
- adopted a board succession planning policy which formalizes the Board s commitment to reviewing the composition of the Board and refreshing the Board as appropriate.

The Corporate Governance section beginning on page 11 describes our governance framework, which includes the following:

Our Corporate Governance Profile

Independent Lead Director	Stockholders Have Right to Call Special Meetings
Independent Board Committees	Proxy Access Rights
Annual Board and Committee Evaluations	Stockholder Engagement Policy and Robust Outreach Program
Annually Elected Directors	Anti-Hedging and Pledging Policy
Independent Directors Meet Without Management Present	Stock Ownership Guidelines for Directors and Executive Officers
	Outside Director Restricted Stock Unit Awards Not Paid Out Until Retirement
Robust Succession Planning and Risk Oversight	
Majority Voting in Director Elections	Code of Conduct for Directors, Officers and Employees

Table of Contents

Proxy Summary

Our Board Nominees

Listed below are Kimberly-Clark s Board nominees. We believe they collectively possess the necessary experience and attributes to effectively guide our company and reflect the diversity of our global consumers.

Name Main Occupation	Committee Roles*	Independent	Experience Highlights
Thomas J. Falk Chairman of the Board and CEO Kimberly-Clark Corporation	EC		Meets NYSE financial literacy requirements; background in accounting Leadership experience as a CEO Industry knowledge International experience Marketing, compensation, governance, and public company board experience
John F. Bergstrom Chairman and CEO Bergstrom Corporation	AC		Audit Committee Financial Expert Leadership experience as a CEO Provides diversity of background/viewpoint Marketing, compensation, governance and public company board experience
Abelardo E. Bru Retired Vice Chairman PepsiCo, Inc.	MDCC (Chair) EC		Meets NYSE financial literacy requirements Leadership experience as a CEO Industry knowledge International experience Provides diversity of background/viewpoint Marketing, compensation, governance and public company board experience
Robert W. Decherd Retired Vice Chairman A.H. Belo Corporation	AC		Audit Committee Financial Expert Leadership experience as a CEO Provides diversity of background/viewpoint Marketing, compensation, governance and public company board experience
Fabian T. Garcia President and CEO Revlon, Inc.	MDCC NCGC		Meets NYSE financial literacy requirements Leadership experience as a CEO Industry knowledge International experience Provides diversity of background/viewpoint Marketing, compensation, governance and public company board experience
Michael D. Hsu President and COO Kimberly-Clark Corporation			Meets NYSE financial literacy requirements Operational leadership experience as a group president of a major business unit Industry knowledge Provides diversity of background/viewpoint Marketing experience
Mae C. Jemison, M.D. President The Jemison Group	MDCC NCGC		Meets NYSE financial literacy requirements Leadership experience with start-ups and non-profits International experience Provides diversity of background/viewpoint Compensation, governance and public company board experience
James M. Jenness Retired Chairman of the Board and CEO Kellogg Company	EC (Chair)	Independent Lead Director	Meets NYSE financial literacy requirements Leadership experience as a CEO Industry knowledge International experience Marketing, compensation, governance and public company board experience

Table of Contents

Proxy Summary

Name Main Occupation	Committee Roles*	Independent	Experience Highlights
Nancy J. Karch Retired Director McKinsey & Co.	NCGC (Chair) EC		Meets NYSE financial literacy requirements; background in finance Leadership experience as a Senior Executive Industry knowledge Provides diversity of background/viewpoint Compensation, governance and public company board experience
Christa S. Quarles CEO OpenTable, Inc.	AC		Audit Committee Financial Expert Leadership experience as a CEO Provides diversity of background/viewpoint Digital marketing and e-commerce experience
Ian C. Read Chairman of the Board and CEO Pfizer, Inc.	AC (Chair) EC		Audit Committee Financial Expert Leadership experience as a CEO International experience Provides diversity of background/viewpoint Marketing, compensation, governance and public company board experience
Marc J. Shapiro Retired Vice Chairman, JPMorgan Chase & Co.	MDCC NCGC		Meets NYSE financial literacy requirements; background in banking/finance Leadership experience as a CEO Provides diversity of background/viewpoint Compensation, governance and public company board experience
Michael D. White Former Chairman, President and CEO DIRECTV	AC		Audit Committee Financial Expert Leadership experience as a CEO Provides diversity of background/viewpoint Marketing, compensation, governance and public company board experience Digital marketing and e-commerce experience

** AC* *Audit Committee*
** EC* *Executive Committee*
** MDCC* *Management Development and Compensation Committee*
** NCGC* *Nominating and Corporate Governance Committee*

Table of Contents

Information About Our Annual Meeting

On behalf of the Board of Directors of Kimberly-Clark Corporation, we are soliciting your proxy for use at the 2017 Annual Meeting of Stockholders, to be held on April 20, 2017, at 9:30 a.m. at the Four Seasons Resort and Club, which is located at 4150 North MacArthur Boulevard, Irving, Texas.

How We Provide Proxy Materials

We began providing our proxy statement and form of proxy to stockholders on February 27, 2017.

As Securities and Exchange Commission (SEC) rules permit, we are making our proxy statement and our annual report available to many of our stockholders via the Internet rather than by mail. This reduces printing and delivery costs and supports our sustainability efforts. You may have received in the mail a Notice of Electronic Availability explaining how to access this proxy statement and our annual report on the Internet and how to vote online. If you received this Notice but would like to receive a paper copy of the proxy materials, you should follow the instructions contained in the notice for requesting these materials.

Who May Vote

If you were a stockholder of record at the close of business on the record date of February 21, 2017, you are eligible to vote at the meeting. Each share that you own entitles you to one vote.

As of the record date, 355,750,882 shares of our common stock were outstanding.

How To Vote

You may vote in person by attending the meeting, by using the Internet or telephone, or (if you received printed proxy materials) by completing and returning a proxy form by mail. If telephone or Internet voting is available to you, see the instructions on the notice of electronic availability or the proxy form and have the notice or proxy form available when you access the Internet website or place your telephone call. To vote your proxy by mail, mark your vote on the proxy form, then follow the instructions on the card.

Please note that if you received a notice of electronic availability as described above, you cannot vote your shares by filling out and returning the notice. Instead, you should follow the instructions contained in the notice on how to vote by using the Internet or telephone.

Table of Contents

The named proxies will vote your shares according to your directions. The voting results will be certified by independent Inspectors of Election.

If you sign and return your proxy form, or if you vote using the Internet or by telephone, but you do not specify how you want to vote your shares, the named proxies will vote your shares as follows:

- FOR the election of directors named in this proxy statement
- FOR ratification of the selection of our independent auditors
- FOR approval of the compensation of our named executive officers
- FOR the option of every one year as the frequency with which stockholders are provided future advisory votes on the compensation of our named executive officers

How To Revoke or Change Your Vote

There are several ways to revoke or change your vote:

- Mail a revised proxy form to the Corporate Secretary of Kimberly-Clark (the form must be received before the meeting starts). Use the following address: 351 Phelps Drive, Irving, TX 75038
- Use the Internet voting website
- Use the telephone voting procedures
- Attend the meeting and vote in person

Votes Required

There must be a quorum to conduct business at the Annual Meeting, which is established by having a majority of the shares of our common stock present in person or represented by proxy.

Election of Directors. A director nominee will be elected if he or she receives a majority of the votes cast at the meeting in person or by proxy. If any nominee does not receive a majority of the votes cast, then that nominee will be subject to the Board s policy regarding resignations by directors who do not receive a majority of for votes.

Say on Frequency. The option receiving the greatest number of votes will be considered the frequency recommended by the stockholders for future say-on-pay votes.

Other Proposals or Matters. Approval requires the affirmative vote of a majority of shares that are present at the Annual Meeting in person or by proxy and are entitled to vote on the proposal or matter.

How Abstentions will be Counted

Election of Directors. Abstentions will have no impact on the outcome of the vote. They will not be counted for the purpose of determining the number of votes cast or as votes for or against a nominee.

Other Proposals. Abstentions will be counted:

- as present in determining whether we have a quorum
- in determining the total number of shares entitled to vote on a proposal
- as votes against a proposal, except for abstentions on Proposal 4, which will have no impact on the outcome of the vote

Table of Contents

Effect of Not Instructing Your Broker

Routine Matters. If your shares are held through a broker and you do not instruct the broker on how to vote your shares, your broker may choose to leave your shares unvoted or to vote your shares on routine matters.   Proposal 2. Ratification of Auditors   is the only routine matter on the agenda at this year s Annual Meeting.

Non-Routine Matters. Without instructions, your broker cannot vote your shares on non-routine matters, resulting in what are known as   broker non-votes.   Broker non-votes will not be considered present or entitled to vote on non-routine matters and will also not be counted for the purpose of determining the number of votes cast on these proposals.

Direct Stock Purchase and Dividend Reinvestment Plan

If you participate in our Direct Stock Purchase and Dividend Reinvestment Plan, you will receive a proxy form that represents the number of full shares in your plan account plus any other shares registered in your name. There are no special instructions for voting shares held in the plan; simply use the normal voting methods described in this proxy statement.

Employee Benefit Plans

We are also sending or otherwise making this proxy statement and voting materials available to participants who hold Kimberly-Clark stock through any of our employee benefit and stock purchase plans. The trustee of each plan will vote whole shares of stock attributable to each participant s interest in the plans in accordance with the participant s directions. If a participant gives no directions, the plan committee will direct the voting of his or her shares.

Attending the Annual Meeting

If you are eligible to vote, you or a duly appointed representative may attend the Annual Meeting in person. If you do plan to attend, we ask that you inform us electronically, by telephone, or by checking the appropriate box on your proxy form. This will assist us with meeting preparations and help to expedite your admittance.

If your shares are not registered in your own name and you would like to attend the meeting, please ask the broker, trust, bank or other nominee that holds your shares to provide you with written proof of your share ownership as of the record date. This will enable you to gain admission to the meeting.

If you need directions to the meeting, please contact Stockholder Services by telephone at (972) 281-5317 or by e-mail at stockholders@kcc.com.

Costs of Solicitation

Kimberly-Clark will bear all costs of this proxy solicitation, including the cost of preparing, printing and delivering materials, the cost of the proxy solicitation and the expenses of brokers, fiduciaries and other nominees who forward proxy materials to stockholders. In addition to mail and electronic means, our employees may solicit proxies by telephone or otherwise. We have retained D. F. King & Co., Inc. to aid in the solicitation at a cost of approximately $20,000 plus reimbursement of out-of-pocket expenses.

Table of Contents

Corporate Governance

Our governance structure and processes are based on a number of important governance documents including our Code of Conduct, Certificate of Incorporation, Corporate By-Laws, Corporate Governance Policies and our Board Committee Charters. These documents, which are available in the Investors section of our website at www.kimberly-clark.com, guide the Board and our management in the execution of their responsibilities.

Kimberly-Clark believes that there is a direct connection between good corporate governance and long-term, sustained business success, and we believe it is important to uphold sound governance practices. As such, the Board reviews its governance practices and documents on an ongoing basis, considering changing regulatory requirements, governance trends, and issues raised by our stockholders. After careful evaluation, we may periodically make changes to maintain or enhance current governance practices and promote stockholder value.

Board Leadership Structure

The Board has established a leadership structure that allocates responsibilities between our Chairman of the Board and Chief Executive Officer (CEO) and our Lead Director. The Board believes that this allocation provides for dynamic Board leadership while maintaining strong independence and oversight.

Consistent with this leadership structure, at least once a quarter our Lead Director, who is an independent director, chairs executive sessions of our non-management directors. Members of the company s senior management team do not attend these sessions.

Chairman and Chief Executive Officer Positions

The Board s current view is that a combined Chairman and CEO position, coupled with a predominantly independent board and a proactive, independent Lead Director, promotes candid discourse and responsible corporate governance. Mr. Falk serves as Chairman of the Board and CEO. The Board believes Mr. Falk s thirty years of operational and management experience at Kimberly-Clark has demonstrated the leadership and vision necessary to lead the Board and Kimberly-Clark. Accordingly, Mr. Falk continues to serve in this combined role at the pleasure of the Board without an employment contract.

Lead Director

Mr. Jenness served as independent Lead Director in 2016. Our Corporate Governance Policies outline the significant role and responsibilities of the Lead Director, which include:

- Chairing the Executive Committee
- Chairing executive sessions at which non-management directors meet outside management s presence, and providing feedback from such sessions to the Chief Executive Officer
- Coordinating the activities of the Independent Directors

Table of Contents

- Providing input on and approving the agendas and schedules for Board meetings
- Leading (with the Chairman of the Nominating and Corporate Governance Committee) the annual Board evaluation
- Leading (with the Chairman of the Management Development and Compensation Committee) the Board s review and discussion of the Chief Executive Officer s performance
- Providing feedback to individual directors following their periodic evaluations
- Speaking on behalf of the Board and chairing Board meetings when the Chairman of the Board is unable to do so
- Acting as a direct conduit to the Board for stockholders, employees and others according to the Board s policies

Director Independence

Our By-Laws provide that a majority of our directors must be independent (Independent Directors). We believe our independent board helps ensure good corporate governance and strong internal controls.

Our Corporate Governance Policies, as adopted by the Board, provide independence standards consistent with the rules and regulations of the SEC and the listing standards of the New York Stock Exchange (NYSE). Our independence standards can be found in Section 7 of our Corporate Governance Policies.

The Board has determined that all directors and nominees, except for Thomas J. Falk and Michael D. Hsu, are Independent Directors and meet the independence standards in our Corporate Governance Policies. In making these determinations, the Board considered the following:

- Companies majority-owned by Mr. Bergstrom paid us approximately $57,000 in 2014, 2015 and 2016 to lease excess hangar space at an airport near Appleton, Wisconsin and approximately $200,000 in 2014, $205,000 in 2015 and $326,000 in 2016 for pilot services pursuant to a pilot sharing contract. In addition, these companies paid us approximately $197,000 in 2014, $201,000 in 2015 and $204,000 in 2016 for scheduling and aircraft services for their airplane.
- We paid approximately $78,600 in 2014, $8,000 in 2015 and $4,500 in 2016 for automobiles and related services to car dealerships in the Neenah, Wisconsin area that are majority-owned by Mr. Bergstrom.

The NYSE listing standards and our own Corporate Governance Policies establish certain levels at which transactions are considered to have the potential to affect a director s independence. The transactions listed above all fall below these levels. Under our Corporate Governance Policies, certain relationships were considered immaterial and therefore were not considered by the Board in determining independence.

Board Meetings

The Board of Directors met six times in 2016. All of the directors attended in excess of 75 percent of the total number of meetings of the Board and the committees on which they served.

All of our directors are encouraged to attend our annual meeting of stockholders. All of our directors attended the 2016 Annual Meeting.

Table of Contents

Board Committees

The standing committees of the Board include the Audit Committee, Management Development and Compensation Committee, Nominating and Corporate Governance Committee, and Executive Committee. In compliance with applicable NYSE corporate governance listing standards, the Board has adopted charters for all Committees except the Executive Committee.

Our Committee charters are available in the Investors section of our website at www.kimberly-clark.com.

As set forth in our Corporate Governance Policies, the Audit, Management Development and Compensation, and Nominating and Corporate Governance Committees all have the authority to retain independent advisors and consultants, with all costs paid by Kimberly-Clark.

Audit Committee

Chairman: Ian C. Read

Other members: John F. Bergstrom, Robert W. Decherd, Christa S. Quarles and Michael D. White
The Board has determined that each Audit Committee member is an audit committee financial expert under SEC rules and regulations. In addition, all Audit Committee members satisfy the NYSE s financial literacy requirements and qualify as Independent Directors under the rules of the SEC and the NYSE, as well as under our Corporate Governance Policies. See Corporate Governance - Director Independence for additional information on Independent Directors.

No member of the Audit Committee serves on the audit committees of more than three public companies and under our Audit Committee Charter no Committee member is permitted to do so.

During 2016 the Committee met eight times.

The Committee s principal functions, as specified in its charter, include:

Overseeing:

the quality and integrity of our financial statements

our compliance programs

our hedging strategies and policies

the independence, qualification and performance of our independent auditors

the performance of our internal auditors

Selecting and engaging our independent auditors, subject to stockholder ratification

Pre-approving all audit and non-audit services that our independent auditors provide

Reviewing the scope of audits and audit findings, including any comments or recommendations of our independent auditors

Establishing policies for our internal audit programs

Overseeing the company s risk management program (including risks related to data privacy and cybersecurity) and receiving periodic reports from management on risk assessments, the risk management process, and issues related to the risks of managing our business

Committee Report

For additional information about the Audit Committee s oversight activities in 2016, see Proposal 2. Ratification of Auditors - Audit Committee Report.

Table of Contents

Management Development and Compensation Committee

Chairman: Abelardo E. Bru

Other members: Fabian T. Garcia, Mae C. Jemison, M.D. and Marc J. Shapiro

Each member of this Committee is an Independent Director under the rules of the SEC and the NYSE, as well as under our Corporate Governance Policies. The Committee met four times in 2016.

The Committee s principal functions, as specified in its charter, include:

Establishing and administering the policies governing annual compensation and long-term compensation, including stock option awards, restricted stock awards and restricted share unit awards, such that the policies are designed to align compensation with our overall business strategy and performance

Setting, after an evaluation of his overall performance, the compensation level of the Chief Executive Officer

Approving, in consultation with the Chief Executive Officer, compensation levels and performance targets for the senior executive team

Overseeing:

leadership development for senior management and future senior management candidates

a periodic review of our long-term and emergency succession planning for the Chief Executive Officer and other key officer positions, in conjunction with our Board

key organizational effectiveness and engagement policies

Reviewing diversity and inclusion programs and related metrics

Annually reviewing our compensation policies and practices for the purpose of mitigating risks arising from these policies and practices that could reasonably have a material adverse effect

Roles of the Committee and the CEO and COO in Compensation Decisions

Each year, the Committee reviews and sets the compensation of the officers that are elected by the Board (our elected officers), including our Chief Executive Officer and our other executive officers. The Committee s charter does not permit the Committee to delegate to anyone the authority to establish any compensation policies or programs for elected officers, including our executive officers. With respect to officers that have been appointed to their position (our non-elected officers), our Chief Executive Officer has the authority to establish compensation programs and to approve equity grants. However, only the Committee may make grants to elected officers, including our executive officers.

Our Chief Executive Officer makes a recommendation to the Committee each year on the appropriate target annual compensation for each of the other executive officers. Beginning in 2017, our Chief Operating Officer makes the recommendation for the executive officers who are his direct reports. The Committee makes the final determination of the target annual compensation for each executive officer, including our Chief Executive Officer and Chief Operating Officer. While our Chief Executive Officer and Chief Human Resources Officer, and beginning in 2017, our Chief Operating Officer, typically attend Committee meetings, none of the other executive officers is present during the portion of the Committee s meetings when compensation for executive officers is set. In addition, neither our Chief Executive Officer nor our Chief Operating Officer is present during the portion of the Committee s meetings when his compensation is set.

Table of Contents

For additional information on the Committee s processes and procedures for determining executive compensation, and for a detailed discussion of our compensation policies, see Compensation Discussion and Analysis.

Use of Compensation Consultants

The Committee s charter authorizes it to retain advisors, including compensation consultants, to assist it in its work. The Committee believes that compensation consultants can provide important market information and perspectives that can help it determine compensation programs that best meet the objectives of our compensation policies. In selecting a consultant, the Committee evaluates the independence of the firm as a whole and of the individual advisors who will be working with the Committee.

Independent Committee Consultant. In 2016, the Committee retained Semler Brossy Consulting Group as its independent executive compensation consultant. According to the Committee s written policy, the independent Committee consultant provides services solely to the Committee and not to Kimberly-Clark. Semler Brossy has no other business relationship with Kimberly-Clark and receives no payments from us other than fees for services to the Committee. Semler Brossy reports directly to the Committee, and the Committee may replace it or hire additional consultants at any time. A representative of Semler Brossy attends Committee meetings and communicates with the Chairman of the Committee between meetings from time to time.

The scope of Semler Brossy s engagement in 2016 included:

- Conducting a review of the competitive market data (including base salary, annual incentive targets and long-term incentive targets) for our executive officers, including our Chief Executive Officer
- Reviewing and commenting, as requested by the Committee, on recommendations by management and Mercer Human Resource Consulting (Mercer) concerning executive compensation programs, including program changes and redesign, special awards, change-of-control provisions, our executive compensation peer group, any executive contract provisions, promotions, retirement and related items
- Reviewing and commenting on the Committee s report for the proxy statement
- Attending Committee meetings
- Periodically consulting with the Chairman of the Committee

During 2016, at the request of the Committee, a representative of Semler Brossy attended all Committee meetings.

Kimberly-Clark Consultant. To assist management and the Committee in assessing our compensation programs and determining appropriate, competitive compensation for our executive officers, Kimberly-Clark annually engages an outside compensation consultant. In 2016, it retained Mercer for this purpose. Mercer has provided consulting services to Kimberly-Clark on a wide variety of human resources and compensation matters, both at the officer and non-officer levels. During 2016, Mercer provided advice and counsel on various matters relating to executive and director remuneration, including the following services:

- Assessing our executive compensation peer group and recommending changes as necessary
- Assessing compensation levels within our peer group for executive officer positions and other selected positions
- Reviewing historic and projected performance for peer group companies under the metrics we use in our annual and long-term incentive plans
- Assisting in incentive plan design and modifications, as requested

Table of Contents

- Providing market research on various issues as requested by management
- Preparing for and participating in Committee meetings, as requested
- Reviewing the Compensation Discussion and Analysis section of the proxy statement and other disclosures, as requested
- Consulting with management on compensation matters

Committee Assessment of Consultant Conflicts of Interest. The Committee has reviewed whether the work provided by Semler Brossy and Mercer represents any conflict of interest. Factors considered by the Committee include: (1) other services provided to Kimberly-Clark by the consultant; (2) what percentage of the consultant s total revenue is made up of fees from Kimberly-Clark; (3) policies or procedures of the consultant that are designed to prevent a conflict of interest; (4) any business or personal relationships between individual consultants involved in the engagement and Committee members; (5) any shares of Kimberly-Clark stock owned by individual consultants involved in the engagement; and (6) any business or personal relationships between our executive officers and the consulting firm or the individual consultants involved in the engagement. Based on its review, the Committee does not believe that any of the compensation consultants that performed services in 2016 has a conflict of interest with respect to the work performed for Kimberly-Clark or the Committee.

Committee Report

The Committee has reviewed the Compensation Discussion and Analysis section of this proxy statement and has recommended that it be included in this proxy statement. The Committee s report is located at Compensation Discussion and Analysis Management Development and Compensation Committee Report.

Nominating and Corporate Governance Committee

Chairman: Nancy J. Karch

Other Members: Fabian T. Garcia, Mae C. Jemison, M.D. and Marc J. Shapiro

Each member of this Committee is an Independent Director under the rules of the SEC and the NYSE, as well as under our Corporate Governance Policies. The Committee met five times in 2016.

The Committee s principal functions, as specified in its charter, include the following:

- Maintaining and reviewing a Board succession plan
- Overseeing the process for Board nominations
- Advising the Board on:
  - Board organization, membership, function, performance and compensation
  - committee structure and membership
  - policies and positions regarding significant stockholder relations issues
- Overseeing corporate governance matters, including developing and recommending to the Board changes to our Corporate Governance Policies
- Reviewing director independence standards and making recommendations to the Board with respect to the determination of director independence
- Monitoring and recommending improvements to the Board s practices and procedures
- Reviewing stockholder proposals and considering how to respond to them

Overseeing matters relating to Kimberly-Clark s corporate social responsibility and sustainability activities and providing input to management on these programs and their effectiveness

Table of Contents

The Committee, in accordance with its charter and our Certificate of Incorporation, has established criteria and processes for director nominations, including those proposed by stockholders. Those criteria and processes are described in Proposal 1. Election of Directors - Process and Criteria for Nominating Directors, Other Information - Stockholder Director Nominees for Inclusion in Next Year s Proxy Statement and Other Information - Stockholder Director Nominees Not Included in Next Year s Proxy Statement.

Executive Committee
Chairman: James M. Jenness (Lead Independent Director)

Other Members: Abelardo E. Bru, Thomas J. Falk, Nancy J. Karch and Ian C. Read
The Committee did not meet in 2016.

The Committee s principal function is to exercise, when necessary between board meetings, the Board s powers to direct our business and affairs.

Compensation Committee Interlocks and Insider Participation

None of the members of the Management Development and Compensation Committee is a current or former officer or employee of Kimberly-Clark. No interlocking relationship exists between the members of our Board of Directors or the Management Development and Compensation Committee and the board of directors or compensation committee of any other company.

Stockholder Rights

Proxy Access By-Law. Eligible stockholders may nominate candidates for election to the Board under our proxy access By-Law. Proxy access candidates will be included in our proxy materials. The proxy access By-Law permits a stockholder, or a group of up to 20 stockholders, owning three percent or more of our outstanding common stock continuously for at least three years to nominate and include in our proxy materials directors constituting up to two individuals or 20 percent of the Board (whichever is greater).

Stockholders who wish to nominate directors under our proxy access By-Law should follow the instructions under Other Information - Stockholder Director Nominees for Inclusion in Next Year s Proxy Statement.

Special Stockholder Meetings. Our Certificate of Incorporation allows the holders of 25 percent or more of our issued and outstanding shares of capital stock to request that a special meeting of stockholders be called, subject to procedures and other requirements set forth in our By-Laws.

Board Policy on Stockholder Rights Plans. We do not have a poison pill or stockholder rights plan. If we were to adopt a stockholder rights plan, the Board would seek prior stockholder approval of the plan unless, due to timing constraints or other reasons, a majority of Independent Directors of the Board determines that it would be in the best interests of stockholders to adopt a plan before obtaining stockholder approval. If a stockholder rights plan is adopted without prior stockholder approval, the plan must either be ratified by stockholders or must expire, without being renewed or replaced, within one year. The Nominating and Corporate Governance Committee reviews this policy statement periodically and reports to the Board on any recommendations it may have concerning the policy.

Simple Majority Voting Provisions. Our Certificate of Incorporation does not include supermajority voting provisions.

Communicating with Directors; Stockholder Engagement Policy

The Board has established a process by which stockholders and other interested parties may communicate with the Board, including the Lead Director. That process can be found in the Investors section of our website at www.kimberly-clark.com.

Under our stockholder engagement policy, set forth in our Corporate Governance Policies, stockholders who wish to meet directly with members of our Board may send a meeting request to our Lead Director who will consider the request in consultation with the Corporate Secretary. Requests should include information about the requesting party (including the number of shares held), the reason for requesting the meeting and the topics to be discussed.

Investor Outreach

We conduct extensive meetings with investors throughout the year on corporate governance matters. This ensures that management and the Board understand and consider the issues that matter most to our stockholders and enables the Corporation to address them effectively.

Sustainability

At Kimberly-Clark, everything we do - from helping people care for their families, to helping our communities and caring for our planet - is connected to our vision to lead the world in essentials for a better life. Our Board has established and approved the framework for our sustainability-related policies and procedures, including environmental stewardship, fiber sourcing, product safety, charitable contributions, human rights, labor, diversity and inclusion in employment. As part of their oversight roles, the Board and the Nominating and Corporate Governance Committee receive regular reports from management on these topics, our goals and our progress toward achieving them.

In 2015, we successfully concluded our five-year sustainability goals and introduced five priorities for the next seven years, reflecting the key social and environmental aspects of our business. These focus areas include social impact, forests and fiber, waste and recycling, energy and climate and responsible supply chain.

These priorities reflect our assessment of sustainability-related risks and opportunities and also inform our public disclosure of sustainability performance. Our management of these focus areas includes processes and systems to mitigate risks and enable compliance with legal requirements and Kimberly-Clark standards. In addition, we have established specific goals in each of the focus areas, including for example, greenhouse gas emissions reduction, diversion of pre- and post-consumer waste from landfills and the prevention of forced labor and deforestation in our supply chain.

Notable sustainability achievements in 2016 include:

- Named by CDP (formerly Carbon Disclosure Project) to the Leadership category of companies for Forests, Water, Climate Change, and Supply Chain disclosures

- Included in the FTSE4Good Index Series for the 12th consecutive year for excellence in environmental, social, and governance performance

- Earned an A ranking from MSCI for environmental, social, and governance performance

Named to Forbes The Just 100: America s Best Corporate Citizens

Won the US Environmental Protection Agency s SmartWay Excellence Award for the 4th consecutive year, recognizing demonstrated leadership in freight supply chain energy and environmental performance

Earned a perfect score on the Human Rights Campaign Foundation s Corporate Equality Index, covering corporate policies and practices pertinent to lesbian, gay, bisexual and transgender (LGBT) employees

Table of Contents

To learn more about our sustainability efforts, please view our 2015 Sustainability Report and our 2015 GRI Report in the Sustainability section of our website at www.kimberly-clark.com.

Other Corporate Governance Policies and Practices

Corporate Governance Policies. The Board of Directors has adopted Corporate Governance Policies which guide Kimberly-Clark and the Board on matters of corporate governance, including: director responsibilities, Board committees and their charters, director independence, director compensation, performance assessments of the Board and individual directors, Board succession planning, director orientation and education, director access to management, Board access to outside financial, business and legal advisors, management development and succession planning, and Board interaction with stockholders. The Board monitors emerging issues and amends these policies from time to time as rules and regulations change and governance practices develop. To see the policies, go to the Investors section of our website at www.kimberly-clark.com.

Board and Committee Evaluations. The Board conducts annual self-evaluations to determine whether it and its committees are functioning effectively and whether its governing documents continue to remain appropriate. Each Board member is periodically evaluated on an individual basis. The process is designed and overseen by our Lead Director and our Nominating and Corporate Governance Committee, and the results of the evaluations are discussed by the full Board.

Each committee annually reviews its own performance and assesses the adequacy of its charter, and reports the results and any recommendations to the Board. The Nominating and Corporate Governance Committee oversees and reports annually to the Board its assessment of each committee s performance evaluation process.

Board Succession Planning. Our Nominating and Corporate Governance Committee maintains and reviews a succession plan for the Board, as described in Proposal 1. Election of Directors - Process and Criteria for Nominating Directors. *Code of Conduct.* Kimberly-Clark has a Code of Conduct that applies to all of our directors, executive officers and employees, including our Chief Executive Officer, Chief Financial Officer and Vice President and Controller. It is available in the Investors section of our website at www.kimberly-clark.com. Any amendments to or waivers of our Code of Conduct applicable to our Chief Executive Officer, Chief Financial Officer or Vice President and Controller will also be posted at that location.

Board and Management Roles in Risk Oversight. The Board is responsible for providing risk oversight with respect to our operations. In connection with this oversight, the Board particularly focuses on our strategic and operational risks, as well as related risk mitigation. In addition, the Board reviews and oversees management s response to key risks facing Kimberly-Clark.

The Board s committees review particular risk areas to assist the Board in its overall risk oversight of Kimberly-Clark:

The Audit Committee oversees our risk management program, with a particular focus on our internal controls, compliance programs, financial statement integrity and fraud risks, data privacy and cybersecurity, and related risk mitigation. In connection with this oversight, the Audit Committee receives regular reports from management on risk assessments, the risk management process, and issues related to the risks of managing our business. The Audit Committee also receives an annual enterprise risk management update, which describes our key financial, strategic, operational and compliance risks.

The Management Development and Compensation Committee reviews the risk profile of our compensation policies and practices. This process includes a review of an assessment of our compensation programs, as described in Compensation Discussion and Analysis Analysis of Compensation-Related Risks.

The Nominating and Corporate Governance Committee monitors risks relating to governance matters and recommends appropriate actions in response to those risks. In addition, it provides oversight of our Corporate Social Responsibility programs and sustainability activities and receives regular updates on the effectiveness of these programs.

Complementing the Board s overall risk oversight, our senior executive team identifies and monitors key enterprise-wide and business unit risks, providing the basis for the Board s risk review and oversight process. We have a Global Risk Oversight Committee, consisting of management members from core business units and from our finance, treasury, global risk management, compliance and legal functions. This committee identifies significant risks for review and updates our policies for risk management in areas such as hedging, foreign currency and country risks, product liability, property and casualty risks, data privacy and cybersecurity risks, and supplier and customer risks. The Board believes the allocation of risk management responsibilities described above supplements the Board s leadership structure by allocating risk areas to an appropriate committee for oversight, allows for an orderly escalation of issues as necessary, and helps the Board satisfy its risk oversight responsibilities.

Whistleblower Procedures. The Audit Committee has established procedures for receiving, recording and addressing any complaints we receive regarding accounting, internal accounting controls or auditing matters, and for the confidential and anonymous submission, by our employees or others, of any concerns about our accounting or auditing practices. We also maintain a toll-free Code of Conduct telephone helpline and a website, each allowing our employees and others to voice their concerns anonymously.

Chief Compliance Officer. Our Vice President and Chief Compliance Officer oversees our compliance programs. His duties include: regularly updating the Audit Committee on the effectiveness of our compliance programs, providing periodic reports to the Board, and working closely with our various compliance functions to promote coordination and sharing of best practices across these functions. Our Vice President and Chief Compliance Officer is also a member of our Global Risk Oversight Committee.

Management Succession Planning. In conjunction with the Board, the Management Development and Compensation Committee is responsible for periodically reviewing the long-term management development plans and succession plans for the Chief Executive Officer and other key officers, as well as the emergency succession plan for the Chief Executive Officer and other key officers if any of these officers unexpectedly becomes unable to perform his or her duties.

Disclosure Committee. We have established a Disclosure Committee to assist in fulfilling our obligations to maintain disclosure controls and procedures and to coordinate and oversee the process of preparing our periodic securities filings with the SEC. This committee is composed of members of management and is chaired by our Vice President and Controller.

No Executive Loans. We do not extend loans to our executive officers or directors and therefore do not have any such loans outstanding.

Charitable Contributions. The Nominating and Corporate Governance Committee has adopted guidelines for the review and approval of charitable contributions by Kimberly-Clark (or any foundation under the common control of Kimberly-Clark) to organizations or entities with which a director or an executive officer may be affiliated. We will disclose in the Investors section of our website at www.kimberly-clark.com any contributions made by us to a tax-exempt organization under the following circumstances:

- An Independent Director serves as an executive officer of the tax-exempt organization; and

- If within the preceding three years, contributions in any single year from Kimberly-Clark to the organization exceeded the greater of $1 million or 2 percent of the tax-exempt organization s consolidated gross revenues.

Table of Contents

Proposal 1.

Election of Directors

As of the date of this proxy statement, the Board of Directors consists of thirteen members. Each director s term will expire at this year s Annual Meeting. All the nominees standing for election at the Annual Meeting are being nominated to serve until the 2018 Annual Meeting of Stockholders and until their successors have been duly elected and qualified. All nominees have advised us that they will serve if elected; however, should any nominee become unable to serve, proxies may be voted for another person designated by the Board.

Given the independent status of the nominees, if all nominees are elected at the Annual Meeting, eleven of the thirteen directors on our Board will be Independent Directors.

Process for Director Elections

Our Certificate of Incorporation provides that all of our directors must be elected annually. Our By-Laws provide that, in uncontested elections, directors must be elected by a majority of votes cast rather than by a plurality. If any incumbent director does not receive a majority of votes, he or she is required to tender his or her resignation for consideration by the Board.

Process and Criteria for Nominating Directors

The Board of Directors is responsible for approving candidates for Board membership. In 2016, the Board adopted a Board succession planning policy which formalizes its commitment to refreshing and maintaining a group of directors with diverse perspectives and capabilities. The Board believes that adding fresh perspectives is critical, but also values the institutional knowledge and experience of long-serving directors. The Board is committed to balancing these factors through our succession plan, retirement policy and director evaluation process.

Under our succession planning policy, the Nominating and Corporate Governance Committee maintains and reviews a Board succession plan, taking into account current composition and qualifications, Kimberly-Clark s current and expected needs, director tenure, the effectiveness of the Board and any planned or unplanned vacancies. In consultation with the Chairman of the Board and Chief Executive Officer and the Lead Director, the Committee screens and recruits director candidates and recommends to the Board any new appointments and nominees for election as directors at our annual meeting of stockholders. It also recommends nominees to fill any vacancies. As provided in our Certificate of Incorporation, the Board of Directors has the authority to determine the size of the Board and to fill any vacancies that occur between annual meetings of stockholders.

The Committee may receive recommendations for Board candidates from various sources, including our directors, management and stockholders. The Nominating and Corporate Governance Committee periodically retains a search firm to assist it in identifying and recruiting director candidates meeting the criteria specified by the Committee. The Committee utilized a search firm in connection with Ms. Quarles nomination. In addition, as described in Corporate Governance - Stockholder Rights, our By-Laws provide for proxy access stockholder nominations of director candidates. Stockholders who wish to nominate directors under our proxy access By-Law should follow the instructions under Other Information - Stockholder Director Nominees for Inclusion in Next Year s Proxy Statement. Stockholders who wish to nominate directors who are not intended to be included in the Corporation s proxy materials should follow the instructions under Other Information - Stockholder Director Nominees Not Included in Next Year s Proxy Statement.

Table of Contents

The Committee believes that the criteria for director nominees should foster effective corporate governance, support our strategies and businesses, take diversity into account and ensure that our directors, as a group, have an overall mix of the attributes needed for an effective Board. The criteria should also support the successful recruitment of qualified candidates.

Qualified candidates for director are those who, in the judgment of the Committee, possess all of the personal attributes and a sufficient mix of the experience attributes listed below to ensure effective service on the Board.

PERSONAL ATTRIBUTES

Leadership
Lead in personal and professional lives

Ethical Character
Possess high standards for ethical behavior

Collaborative
Actively participate in Board and committee matters

Independence
Independent of management and Kimberly-Clark (for non-management directors only)

Ability to communicate
Possess good interpersonal skills

Effectiveness
Bring a proactive and solution-oriented approach

EXPERIENCE ATTRIBUTES

ATTRIBUTE	FACTORS THAT MAY BE CONSIDERED
Financial acumen Has good knowledge of business finance and financial statements	Satisfies the financial literacy requirements of the NYSE Qualifies as an audit committee financial expert under the rules and regulations of the SEC Has an accounting, finance or banking background
General business experience Possesses experience that will aid in judgments concerning business issues	Has leadership experience as a chief or senior executive officer Has experience setting compensation Has marketing expertise, with digital marketing and e-commerce experience
Industry knowledge Possesses knowledge about our industries	Has governance/public company board experience
Diversity of background and viewpoint Brings to the Board an appropriate level of diversity	Brings a diverse viewpoint that is representative of our customer, consumer, employee and stockholder base Provides a different perspective (stemming, for example, from an academic background or experience from outside the consumer packaged goods industry)
Special business experience Possesses global management experience and experience with branded consumer packaged goods	Has international experience Has branded consumer packaged goods experience

Table of Contents

Committee Review of Attributes of Current Directors

The Nominating and Corporate Governance Committee has reviewed the background of each of our current directors and their service on the Board in light of the personal and experience attributes described above. The Committee has determined that each director possesses all of the personal attributes as well as a sufficient mix of the experience attributes.

For details about each nominee s specific experience attributes, see The Nominees below.

Diversity of Directors

As noted above, the Nominating and Corporate Governance Committee believes that diversity of backgrounds and viewpoints is a key attribute for directors. As a result, the Committee seeks to have a diverse Board that is representative of our customer, consumer, employee and stockholder base. While the Committee carefully considers this diversity when considering nominees for director, the Committee has not established a formal policy regarding diversity in identifying director nominees. Our Board currently includes individuals of differing ages, races and genders.

The Nominees

John F. Bergstrom

Chairman and Chief Executive Officer, Bergstrom Corporation

Mr. Bergstrom has served as Chairman and Chief Executive Officer of Bergstrom Corporation, Neenah, Wisconsin, for more than the past five years. Bergstrom Corporation owns and operates automobile sales and leasing businesses and a credit life insurance company based in Wisconsin.

Director since 1987
Age 70

Other public company boards served on since 2012: Advance Auto Parts, Inc., Associated Banc-Corp, WEC Energy Group, Inc. and Wisconsin Electric Power Company.

Experience attributes: Mr. Bergstrom has been determined by our Board to be an audit committee financial expert under the SEC s rules and regulations, has leadership experience as a chief executive officer, provides diversity of background and viewpoint, and has marketing, compensation, governance and public company board experience.

Abelardo E. Bru

Retired Vice Chairman, PepsiCo, Inc.

Director since 2005
Age 68

Mr. Bru retired as Vice Chairman of PepsiCo, a food and beverage company, in 2005. He joined PepsiCo in 1976. Mr. Bru served from 1999 to 2003 as President and Chief Executive Officer and in 2003 to 2004 as Chief Executive Officer and Chairman of Frito-Lay Inc., a division of PepsiCo. Prior to leading Frito-Lay, Mr. Bru led PepsiCo s largest international business, Sabritas Mexico, as President and General Manager from 1992 to 1999. Mr. Bru is a member of the board of directors of the Education is Freedom Foundation.

Other public company boards served on since 2012: DIRECTV (from May 2013 through July 2015) and Kraft Foods Group, Inc. (through July 2015).

Experience attributes: Mr. Bru satisfies the financial literacy requirements of the NYSE, has leadership experience as a chief executive officer, has knowledge about our industries, provides diversity of background and viewpoint, has international experience and experience with branded consumer packaged goods, and has marketing, compensation, governance and public company board experience.

Table of Contents

Robert W. Decherd

Retired Vice Chairman, A. H. Belo Corporation

Director since 1996
Age 66

Mr. Decherd retired as Vice Chairman of the Board of A. H. Belo Corporation, a newspaper publishing and Internet company, in December 2016. Before becoming Vice Chairman in September 2013, he served as Chairman of the Board, President and Chief Executive Officer of A. H. Belo Corporation since it was spun off from Belo Corp. in February 2008. Prior to February 2008, Mr. Decherd was Chief Executive Officer of Belo Corp., a broadcasting and newspaper publishing company, for 21 years. Mr. Decherd has served as a member of the Advisory Council for the Harvard University Center for Ethics and the Board of Visitors of the Columbia Graduate School of Journalism. He is presently Chairman of Parks for Downtown Dallas, a civic organization.

Other public company boards served on since 2012: A. H. Belo Corporation and Belo Corp. (through December 2013).

Experience attributes: Mr. Decherd has been determined by our Board to be an audit committee financial expert under the SEC s rules and regulations, has leadership experience as a chief executive officer, provides diversity of background and viewpoint, and has marketing, compensation, governance and public company board experience.

Thomas J. Falk

Chairman of the Board and Chief Executive Officer

Director since 1999
Age 58

Mr. Falk was elected Chairman of the Board and Chief Executive Officer in 2003 and President and Chief Executive Officer in 2002. Prior to that, he served as President and Chief Operating Officer since 1999. Mr. Falk previously had been elected Group President Global Tissue, Pulp and Paper in 1998, where he was responsible for Kimberly-Clark s global tissue businesses. Earlier in his career, Mr. Falk had responsibility for Kimberly-Clark s North American Infant Care, Child Care and Wet Wipes businesses. Mr. Falk joined Kimberly-Clark in 1983 and has held other senior management positions. He has been a director of Kimberly-Clark since 1999. He also serves on the board of directors of Catalyst Inc., the University of Wisconsin Foundation, and the Consumer Goods Forum, and serves as a governor of the Boys & Girls Clubs of America.

Other public company boards served on since 2012: Lockheed Martin Corporation.

Experience attributes: Mr. Falk satisfies the financial literacy requirements of the NYSE and has a background in accounting, has leadership experience as a chief executive officer, has knowledge about our industries, has international experience and experience with branded consumer packaged goods, and has marketing, compensation, governance and public company board experience.

Table of Contents

Fabian T. Garcia

Chief Executive Officer, Revlon, Inc.

Director since 2011
Age 57

Mr. Garcia has served as Chief Executive Officer of Revlon. Inc., a cosmetics and beauty care products company, since April 2016. Prior to joining Revlon, he served as Chief Operating Officer, Global Innovation and Growth, Europe and Hill s Pet Nutrition (added responsibility in 2012), of Colgate-Palmolive Company, a household, health care and personal products company, from 2010 to April 2016. From 2007 to 2010, he served as Executive Vice President and President, Colgate Latin America and Global Sustainability. He joined Colgate-Palmolive in 2003 as President, Colgate Greater Asia Pacific.

Other public company boards served on since 2012: Revlon, Inc. (since April 2016)

Experience attributes: Mr. Garcia satisfies the financial literacy requirements of the NYSE, has leadership experience as a chief executive officer, provides diversity of background and viewpoint, has knowledge about our industries, has international experience and experience with branded consumer packaged goods, and has marketing, compensation and governance experience.

Michael D. Hsu

President and Chief Operating Officer

Director since
January 2017
Age 52

Mr. Hsu was elected President and Chief Operating Officer in January 2017. He is responsible for the day-to-day operations of our business units, along with our global innovation, marketing and supply chain functions. He served as Group President - K-C North America from 2013 to 2016, where he was responsible for our consumer business in North America, as well as leading the development of new business strategies for global nonwovens. From 2012 to 2013, his title was Group President - North America Consumer Products. Prior to joining Kimberly-Clark, Mr. Hsu served as Executive Vice President and Chief Commercial Officer of Kraft Foods, Inc., a North American grocery manufacturing and processing conglomerate, from January 2012 to July 2012, as President of Sales, Customer Marketing and Logistics from 2010 to 2012 and as President of its grocery business unit from 2008 to 2010. Prior to that, Mr. Hsu served as President and Chief Operating Officer, Foodservice at H. J. Heinz Company, a manufacturer and marketer of food products. Mr. Hsu serves on the board of trustees of United Way U.S.A.

Other public company boards served on since 2012: None

Experience attributes: Mr. Hsu satisfies the financial literacy requirements of the NYSE, has operational leadership experience as a group president of a major business unit, provides diversity of background and viewpoint, has knowledge about our industries and experience with branded consumer packaged goods, and has marketing experience.

Mae C. Jemison, M.D.

President, The Jemison Group

Director since 2002
Age 60

Dr. Jemison is founder and President of The Jemison Group, Inc., a technology consulting company, and is also the Principal for the 100 Year Starship Project, a new initiative started by DARPA that focuses on human space travel to another star within the next 100 years. She was President and founder of BioSentient Corporation, a medical devices company from 2000 to 2012. Dr. Jemison founded the Dorothy Jemison Foundation for Excellence and developed The Earth We Share international science camp. Dr. Jemison served as a professor of Environmental Studies at Dartmouth College from 1995 to 2002. From 1987 to 1993, she served as a National Aeronautics and Space Administration (NASA) astronaut. Dr. Jemison is a member of the National Academy of Medicine and serves on the boards of the Texas Medical Center and the National Board of Professional Teaching Standards. She chaired the State of Texas Product Development and Small Business Incubator Board, and was a member of the National Advisory Council for Biomedical Imaging and Bioengineering.

Other public company boards served on since 2012: Scholastic Corporation (through September 2015) and Valspar Corporation.

Experience attributes: Dr. Jemison satisfies the financial literacy requirements of the NYSE, has international experience and leadership experience of entrepreneurial start-up enterprises and non-profit organizations, provides diversity of background and viewpoint, and has compensation, governance and public company board experience.

James M. Jenness

Retired Chairman of the Board and CEO, Kellogg Company

Director since 2007
Age 70

Mr. Jenness has served as a Director of Kellogg Company, a producer of cereal and convenience foods, since 2000. From 2005 to 2014 he was Executive Chairman of the Board of Kellogg and he served as Chief Executive Officer of Kellogg from February 2005 through 2006. Mr. Jenness was Chief Executive Officer of Integrated Merchandising Systems LLC, a market leader in outsource management for retail promotion and branded merchandising, from 1997 to 2004. He served in various positions of increasing responsibility at Leo Burnett Company, Kellogg s major advertising agency partner, from 1974 to 1997, including as Vice Chairman, Chief Operating Officer and Director. He serves as a Trustee of DePaul University and serves on DePaul s College of Commerce Advisory Council. He is a Regent for Mercy Home for Boys and Girls.

Other public company boards served on since 2012: Kellogg Company and Prestige Brands Holdings, Inc. (since May 2015).

Experience attributes: Mr. Jenness satisfies the financial literacy requirements of the NYSE, has leadership experience as a chief executive officer, has knowledge about our industries, has international experience and experience with branded consumer packaged goods, and has marketing, compensation, governance and public company board experience.

Table of Contents

Nancy J. Karch

Retired Director, McKinsey & Co.

Director since 2010
Age 69

Ms. Karch served as a Director (senior partner) of McKinsey & Co., an independent consulting firm, from 1988 until her retirement in 2000. She had served in various executive capacities at McKinsey since 1974. Ms. Karch is Director Emeritus of McKinsey s Stamford, Connecticut office, and serves on the boards of Northern Westchester Hospital and Northwell Health, both of which are not-for-profit entities.

Other public company boards served on since 2012: CEB Inc. (through January 2015), Genworth Financial, Inc. (through April 2016), Kate Spade & Company and Mastercard Incorporated.

Experience attributes: Ms. Karch satisfies the financial literacy requirements of the NYSE and has a background in finance, has leadership experience as a senior executive officer, provides diversity of background and viewpoint, has knowledge about our industries, has experience with branded consumer packaged goods, and has compensation, governance and public company board experience.

Christa S. Quarles

Chief Executive Officer, OpenTable, Inc.

Director since
June 2016
Age 43

Ms. Quarles serves as Chief Executive Officer of OpenTable, Inc., a provider of online restaurant reservations and part of The Priceline Group, Inc. Ms. Quarles served as the Chief Financial Officer of OpenTable from May 2015 to November 2015, when she was appointed CEO. Prior to joining OpenTable, Ms. Quarles served as Chief Business Officer of Nextdoor, Inc. from June 2014 to May 2015. From 2010 to June 2014, Ms. Quarles held positions of increasing responsibility with The Walt Disney Company, including Senior Vice President, General Manager Mobile and Social Games, General Manager, Disney Mobile Games, and Chief Financial Officer and Head of Business Operations, Mobile and Social Games. Prior to that, she was Chief Financial Officer of Playdom Inc., which was acquired by The Walt Disney Company in September 2010.

Other public company boards served on since 2012: None

Experience attributes: Ms. Quarles has been determined by our Board to be an audit committee financial expert under the SEC s rules and regulations and has a background in finance, has leadership experience as a chief executive officer, provides diversity of background and viewpoint, and has marketing, digital marketing and e-commerce experience.

Table of Contents

Ian C. Read

Chairman of the Board and Chief Executive Officer, Pfizer, Inc.

Director since 2007
Age 63

Mr. Read was elected Chairman of the Board and Chief Executive Officer in December 2011 and President and Chief Executive Officer in December 2010, of Pfizer, Inc., a drug manufacturer. Mr. Read joined Pfizer in 1978 in its financial organization. He worked in Latin America through 1995, holding positions of increasing responsibility, and was appointed President of the Pfizer International Pharmaceuticals Group, Latin America/Canada in 1996. In 2000, Mr. Read was named Executive Vice President of Europe/Canada and was named a corporate Vice President in 2001. In 2006, he was named Senior Vice President of Pfizer, as well as Group President of its Worldwide Biopharmaceutical Businesses.

Other public company boards served on since 2012: Pfizer, Inc.

Experience attributes: Mr. Read has been determined by our Board to be an audit committee financial expert under the SEC s rules and regulations and has a background in finance, has leadership experience as a chief executive officer, provides diversity of background and viewpoint, has international experience, and has marketing, compensation, governance and public company board experience.

Marc J. Shapiro

Retired Vice Chairman, JPMorgan Chase & Co.

Director since 2001
Age 69

Mr. Shapiro retired in 2003 as Vice Chairman of JPMorgan Chase & Co., a financial services company. Before becoming Vice Chairman of JPMorgan Chase & Co. in 1997, Mr. Shapiro was Chairman and Chief Executive Officer of Chase Bank of Texas, a wholly-owned subsidiary of JPMorgan Chase & Co., from 1989 until 1997. He now serves as a consultant to JPMorgan Chase & Co. and as non-executive Chairman of its Texas operations. Mr. Shapiro serves on the boards of the Baylor College of Medicine, the Baylor St. Luke s Medical Center Hospital, the M.D. Anderson Cancer Center, and the Baker Institute at Rice University.

Other public company boards served on since 2012: The Mexico Fund and Weingarten Realty Investors.

Experience attributes: Mr. Shapiro satisfies the financial literacy requirements of the NYSE and has a banking and finance background, has leadership experience as a chief executive officer, provides diversity of background and viewpoint, and has compensation, governance and public company board experience.

Michael D. White

Former Chairman of the Board, President and Chief Executive Officer of DIRECTV

Director since 2015
Age 65

Mr. White served as Chairman of the Board, President and Chief Executive Officer of DIRECTV, a leading provider of digital television entertainment services, from 2010 to July 2015. From 2003 until 2009, Mr. White was Chief Executive Officer of PepsiCo International and Vice Chairman, PepsiCo, Inc. after holding positions of increasing importance with PepsiCo since 1990. Mr. White is a member of the Boston College Board of Trustees and is Chairman of the Partnership for Drug-Free Kids.

Other public company boards served on since 2012: Bank of America Corporation (since June 2016), DIRECTV (through July 2015) and Whirlpool Corporation.

Experience attributes: Mr. White has been determined by our Board to be an audit committee financial expert under the SEC s rules and regulations, has leadership experience as a chief executive officer, provides diversity of background and viewpoint, and has marketing, digital marketing, e-commerce, compensation, governance and public company board experience.

The Board of Directors unanimously recommends a vote **FOR** the election of each of the thirteen nominees for director.

Table of Contents

Director Compensation

Directors who are not officers or employees of Kimberly-Clark or any of our subsidiaries, affiliates or equity companies are Outside Directors for compensation purposes and are compensated for their services under our 2011 Outside Directors Compensation Plan. All Independent Directors currently on our Board are Outside Directors and are compensated under this Plan.

Our objectives for Outside Director Compensation are:

- to remain competitive with the median compensation paid to outside directors of comparable companies
- to keep pace with changes in practices in director compensation
- to attract qualified candidates for Board service
- to reinforce our practice of encouraging stock ownership by our directors

In 2014, the Nominating and Corporate Governance Committee assessed our Outside Director compensation against the median non-management director compensation for our peers. Based on this review, the Committee recommended an increase in Outside Director compensation for 2015, and the Board agreed with the Committee s recommendation. For 2016 there was no change.

The table below shows how we structured Outside Director compensation in 2016:

Board Members	Cash retainer: $100,000 annually, paid in four quarterly payments at the beginning of each quarter. Restricted share units: Annual grant with a value of $165,000, awarded and valued on the first business day of the year
Committee Chairs	Additional annual grant of restricted share units with a value of $20,000, awarded and valued on the first business day of the year
Lead Director	Additional grant of restricted share units with a value of $30,000, awarded and valued on the first business day of the year
Stockholder Alignment	Restricted share units are not paid out until retirement or other termination of Board service

New Outside Directors receive the full quarterly amount of the annual retainer for the quarter in which they join the Board. Their annual grant of restricted share units is pro-rated based on the date when they joined.

We also reimburse Outside Directors for expenses incurred in attending Board or committee meetings.

Restricted share units are not shares of our common stock. Rather, restricted share units represent the right to receive a pre-determined number of shares of our common stock within 90 days following a restricted period that begins on the date of grant and expires on the date the Outside Director retires from or otherwise terminates service on the Board. In this way, they align the director s interests with the interests of our stockholders. Outside Directors may not dispose of the units or use them in a pledge or similar transaction. Outside Directors also receive additional restricted share units equivalent in value to the dividends that would have been paid to them if the restricted share units granted to them were shares of our common stock.

Table of Contents

2016 Outside Director Compensation

The following table shows the compensation paid to each Outside Director for his or her service in 2016.

Name[1]	Fees Earned or Paid in Cash($)	Stock Awards ($)[2][3][4]	All Other Compensation ($)[5]	Total($)[6]
John F. Bergstrom	100,000	165,000	10,000	275,000
Abelardo E. Bru	100,000	185,000	10,000	295,000
Robert W. Decherd	100,000	165,000		265,000
Fabian T. Garcia	100,000	165,000		265,000
Mae C. Jemison, M.D.	100,000	165,000		265,000
James M. Jenness	100,000	195,000		295,000
Nancy J. Karch	100,000	185,000	10,000	295,000
Christa S. Quarles	75,000	96,250		171,250
Ian C. Read	100,000	185,000	7,440	292,440
Marc J. Shapiro	100,000	165,000	10,000	275,000
Michael D. White	100,000	165,000		265,000

(1) Ms. Quarles joined the Board on June 15, 2016 and received a pro-rated stock award as well as fees for three quarters.

(2) Amounts shown reflect the grant date fair value of those grants, determined in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 718 Stock Compensation (ASC Topic 718) for restricted share unit awards granted pursuant to our 2011 Outside Directors Compensation Plan. See Note 8 to our audited consolidated financial statements included in our Annual Report on Form 10-K for 2016 for the assumptions used in valuing these restricted share units.

(3) Restricted share unit awards were granted to the Outside Directors on January 4, 2016, except for Ms. Quarles, who joined the Board and received a grant on June 15, 2016. The number of restricted share units granted is set forth below:

Name	*Restricted Share Unit Grants in 2016(#)*
John F. Bergstrom	*1,305*
Abelardo E. Bru	*1,463*
Robert W. Decherd	*1,305*
Fabian T. Garcia	*1,305*
Mae C. Jemison, M.D.	*1,305*
James M. Jenness	*1,542*
Nancy J. Karch	*1,463*
Christa S. Quarles	*729*
Ian C. Read	*1,463*
Marc J. Shapiro	*1,305*
Michael D. White	*1,305*

(4) *As of December 31, 2016, Outside Directors had the following stock awards outstanding:*

Name	Restricted Stock(#)	Restricted Share Units(#)
John F. Bergstrom	3,000	34,792
Abelardo E. Bru		28,631
Robert W. Decherd	3,000	38,094
Fabian T. Garcia		9,784
Mae C. Jemison, M.D.		34,792
James M. Jenness		26,349
Nancy J. Karch		13,603
Christa S. Quarles		734
Ian C. Read		22,779
Marc J. Shapiro		39,049
Michael D. White		1,881

(5) *Reflects charitable matching gifts paid in 2016 under the Kimberly-Clark Foundation s Matching Gifts Program to a charity designated by the director. This program is available to all our employees and directors. Under the program, the Kimberly-Clark Foundation matches employees and directors financial contributions to qualified educational and charitable organizations in the United States on a dollar-for-dollar basis, up to $10,000 per person per calendar year. Amounts paid in 2016 in connection with matching gifts for Messrs. Bergstrom and Read and Ms. Karch reflect donations made in 2015.*

(6) *During 2016, Outside Directors received credit for cash dividends on restricted stock held by them. These dividends are credited to interest bearing accounts maintained by us on behalf of those Outside Directors with restricted stock. Earnings on those accounts are not included in the Outside Director Compensation Table because the earnings were not above market or preferential. Also in 2016, Outside Directors received additional restricted share units with a value equal to the cash dividends paid during the year on our common stock on the restricted share units held by them. Because we factor the value of the right to receive dividends into the grant date fair value of the restricted stock and restricted share units awards, the dividends and dividend equivalents received by Outside Directors are not included in the Outside Director Compensation table. The dividends and other amounts credited on restricted stock and additional restricted share units credited in 2016 were as follows:*

Name	Dividends Credited on Restricted Stock($)	Number of Restricted Share Units Credited in 2016(#)	Grant Date Fair Value of Restricted Share Units Credited($)
John F. Bergstrom	10,920	938.99	123,325
Abelardo E. Bru		770.07	101,145
Robert W. Decherd	10,920	1,028.95	135,137
Fabian T. Garcia		257.70	33,861
Mae C. Jemison, M.D.		938.99	123,325
James M. Jenness		707.39	92,912
Nancy J. Karch		360.67	47,386
Christa S. Quarles		5.45	671
Ian C. Read		610.66	80,212
Marc J. Shapiro		1,054.98	138,555
Michael D. White		42.40	5,588

Table of Contents

Other than the cash retainer, grants of restricted share units and the other compensation previously described, no Outside Director received any compensation or perquisites from Kimberly-Clark for services as a director in 2016.

A director who is not an Outside Director does not receive any compensation for services as a member of the Board or any committee, but is reimbursed for expenses incurred as a result of the services.

In 2016, the Nominating and Corporate Governance Committee, with the assistance of Mercer, revisited the Corporation s Outside Director compensation to assess whether it still met our objectives for Outside Director compensation as described above. In its assessment, the Committee compared aggregate Outside Director cash and equity compensation to the median compensation of the outside directors of our peer group, as well as the structure of our compensation programs of our peer group. For information regarding our peer group, see Compensation Discussion and Analysis below. Based on this review, the Committee determined that the aggregate compensation for our Outside Directors would be below the median of our peer group in 2017. The Committee then recommended to the Board, and the Board approved, changes to our Outside Directors aggregate compensation to more closely align with the median aggregate compensation of our peer group. Accordingly, beginning in 2017 the value of the annual grant of restricted share units is increased from $165,000 to $180,000. There was no change to the amount of the annual cash retainer or the additional annual grant of restricted share units paid to committee chairs or to the Lead Director.

Table of Contents

Proposal 2.
Ratification of Auditors

The Audit Committee of the Board of Directors is directly responsible for the appointment, compensation, retention and oversight of our independent auditors. The Audit Committee is also responsible for overseeing the negotiation of the audit fees associated with retaining our independent auditors. To assure continuing auditor independence, the Audit Committee periodically considers whether a different audit firm should perform our independent audit work. Also, in connection with the mandated rotation of the independent auditor s lead engagement partner, the Audit Committee and its chairman are directly involved in the selection of the new lead engagement partner.

For 2017, the Audit Committee has selected Deloitte & Touche LLP (along with its member firms and affiliates, Deloitte) as the independent registered public accounting firm to audit our financial statements. In engaging Deloitte for 2017, the Audit Committee utilized a review and selection process that included the following:

- a review of management s assessment of the services Deloitte provided in 2016 and a comparison of this assessment to prior years reviews
- discussions, in executive session, with the Chief Financial Officer and the Vice President and Controller regarding their viewpoints on the selection of the 2017 independent auditors and on Deloitte s performance
- discussions, in executive session, with representatives of Deloitte about their possible engagement
- Audit Committee discussions, in executive session, about the selection of the 2017 independent auditors
- a review and approval of Deloitte s proposed estimated fees for 2017
- a review and assessment of Deloitte s independence
- the Audit Committee s consideration of the fact that Deloitte has served as our independent auditors since 1928, and its conclusion that this service does not impact Deloitte s independence

The Audit Committee and the Board believe that the continued retention of Deloitte to serve as our independent auditor is in the best interests of Kimberly-Clark and its stockholders, and they recommend that stockholders ratify this selection. If the stockholders do not ratify the selection of Deloitte, the Audit Committee will consider the selection of other independent auditors.

Representatives of Deloitte are expected to be present at the Annual Meeting with the opportunity to make a statement if they desire to do so and will be available to respond to appropriate questions.

The Board of Directors unanimously recommends a vote **FOR** ratification of Deloitte s selection as Kimberly-Clark s auditor for 2017.

Principal Accounting Firm Fees

Our aggregate fees to Deloitte (excluding value added taxes) with respect to the fiscal years ended December 31, 2016 and 2015, were as follows:

	2016($)	2015($)
Audit Fees[1]	11,010,600	11,408,139
Audit-Related Fees[2]	791,200	913,840
Tax Fees[3]	3,087,000	2,208,000
All Other Fees		

(1) These amounts represent fees billed or expected to be billed for professional services rendered by Deloitte for the audit of Kimberly-Clark s annual financial statements for the fiscal years ended December 31, 2016 and December 31, 2015, reviews of the financial statements included in Kimberly-Clark s Forms 10-Q, and other services that are normally provided by the independent registered public accounting firm in connection with statutory or regulatory filings or engagements for each of those fiscal years, including: fees for consolidated financial audits, statutory audits, comfort letters, attest services, consents, assistance with and review of SEC filings and other related matters. These amounts also include fees for an audit of internal control over financial reporting pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

(2) These amounts represent aggregate fees billed or expected to be billed by Deloitte for assurance and related services reasonably related to the performance of the audit or review of our financial statements for the fiscal years ended December 31, 2016 and 2015, that are not included in the audit fees listed above. These services include engagements related to employee benefit plans, due diligence assistance and other matters.

(3) These amounts represent Deloitte s aggregate fees for tax compliance, tax advice and tax planning for 2016 and 2015. Approximately $220,000 and $310,000 was for tax compliance/preparation fees in 2016 and 2015, respectively.

Audit Committee Approval of Audit and Non-Audit Services

Using the following procedures, the Audit Committee pre-approves all audit and non-audit services provided by Deloitte to Kimberly-Clark:

- At the first face-to-face Audit Committee meeting each year, our Chief Financial Officer presents a proposal, including fees, to engage Deloitte for audit services;

- Before the first face-to-face Audit Committee meeting of the year, our Vice President and Controller oversees the preparation of a detailed memorandum regarding non-audit services to be provided by Deloitte during the year. This memorandum includes the services to be provided, the estimated cost of these services, reasons why it is appropriate to have Deloitte provide these services, and reasons why the requested service is not inconsistent with applicable auditor independence rules; and

- Before each subsequent meeting of the Audit Committee, our Vice President and Controller oversees the preparation of an additional memorandum that includes updated information regarding the approved services and highlights any new audit and non-audit services to be provided by Deloitte. All new non-audit services to be provided are described in individual requests for services.

The Audit Committee reviews the requests presented in these proposals and memoranda and approves all services it finds acceptable.

To ensure prompt handling of unexpected matters, the Audit Committee has delegated to the Chairman of the Audit Committee the authority to amend or modify the list of audit and non-audit services and fees between meetings, as long as the additional or amended services do not affect Deloitte s independence under applicable rules. Any actions taken under this authority are reported to the Audit Committee at its next face-to-face Committee meeting.

All Deloitte services and fees in 2016 and 2015 were pre-approved by the Audit Committee or the Audit Committee Chairman.

Table of Contents

Audit Committee Report

In accordance with its charter adopted by the Board, the Audit Committee assists the Board in overseeing the quality and integrity of Kimberly-Clark s accounting, auditing and financial reporting practices.

In discharging its oversight responsibility for the audit process, the Audit Committee obtained from the independent registered public accounting firm (the auditors) a formal written statement describing all relationships between the auditors and Kimberly-Clark that might bear on the auditors independence, as required by Public Company Accounting Oversight Board (PCAOB) Rule 3526, *Communication with Audit Committees Concerning Independence*, discussed with the auditors any relationships that may impact their objectivity and independence and satisfied itself as to the auditors independence. The Audit Committee also discussed with management, the internal auditors, and the auditors, the quality and adequacy of Kimberly-Clark s internal controls and the internal audit function s organization, responsibilities, budget and staffing. The Audit Committee reviewed with both the auditors and the internal auditors their audit plans, audit scope and identification of audit risks.

The Audit Committee discussed and reviewed with the auditors all communications required by the PCAOB s auditing standards, including those required by PCAOB AS 16, Communication with Audit Committees. Also, with and without management present, it discussed and reviewed the results of the auditors examination of our financial statements and our internal control over financial reporting. The Committee also discussed the results of internal audit examinations.

Management is responsible for preparing Kimberly-Clark s financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) and for establishing and maintaining Kimberly-Clark s internal control over financial reporting. The auditors have the responsibility for performing an independent audit of Kimberly-Clark s financial statements and internal control over financial reporting, and expressing opinions on the conformity of Kimberly-Clark s financial statements with GAAP and the effectiveness of internal control over financial reporting. The Audit Committee discussed and reviewed Kimberly-Clark s audited financial statements as of and for the fiscal year ended December 31, 2016, with management and the auditors. The Audit Committee also reviewed management s assessment of the effectiveness of internal controls as of December 31, 2016, and discussed the auditors examination of the effectiveness of Kimberly-Clark s internal control over financial reporting.

Based on the above-mentioned reviews and discussions with management and the auditors, the Audit Committee recommended to the Board that Kimberly-Clark s audited financial statements be included in Kimberly-Clark s Annual Report on Form 10-K for the fiscal year ended December 31, 2016, for filing with the SEC. The Audit Committee also has selected and recommended to stockholders for ratification the reappointment of Deloitte as the independent registered public accounting firm for 2017.

AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

Ian C. Read, Chairman
John F. Bergstrom
Robert W. Decherd
Christa S. Quarles
Michael D. White

Table of Contents

Proposal 3. Advisory Vote to Approve Named Executive Officer Compensation

In the Compensation Discussion and Analysis that follows, we describe in detail our executive compensation program, including its objectives, policies and components. As discussed in that section, our executive compensation program seeks to align the compensation of our executives with the objectives of our Global Business Plan. To this end, the Management Development and Compensation Committee (the Committee) has adopted executive compensation policies that are designed to achieve the following objectives:

Pay-for-Performance. Support a performance-oriented environment that rewards achievement of our financial and non-financial goals.

Focus on Long-Term Success. Reward executives for long-term strategic management and stockholder value enhancement.

Stockholder Alignment. Align the financial interests of our executives with those of our stockholders.

Quality of Talent. Attract and retain executives whose abilities are considered essential to our long-term success.

For a more detailed discussion of how our executive compensation program reflects these objectives and policies, including information about the fiscal year 2016 compensation of our named executive officers, see Compensation Discussion and Analysis, below.

We are asking our stockholders to support our executive compensation as described in this proxy statement. This proposal, commonly known as a say-on-pay proposal, gives our stockholders the opportunity to express their views on our executive compensation. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our executives and the objectives, policies and practices described in this proxy statement. Accordingly, we will ask our stockholders to vote on the following resolution at the Annual Meeting:

RESOLVED, that the compensation paid to the Corporation s named executive officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby approved by the Corporation s stockholders on an advisory basis.

The say-on-pay vote is advisory and is therefore not binding on Kimberly-Clark, the Committee or our Board. Nonetheless, the Committee and our Board value the opinions of our stockholders. Therefore, to the extent there is any significant vote against the executive compensation as disclosed in this proxy statement, the Committee and our Board will consider our stockholders concerns and will evaluate whether any actions are necessary to address those concerns.

The Board of Directors unanimously recommends a vote **FOR** the approval of named executive officer compensation, as disclosed in this proxy statement pursuant to the SEC s compensation disclosure rules.

Table of Contents

Compensation Discussion and Analysis

This Compensation Discussion and Analysis is intended to provide investors with an understanding of our compensation policies and decisions regarding 2016 compensation for our named executive officers.

For 2016, our named executive officers are:

Named Executive Officer	Title
Thomas J. Falk	Chairman of the Board and Chief Executive Officer
Maria G. Henry	Senior Vice President and Chief Financial Officer
Michael D. Hsu	President and Chief Operating Officer*
Anthony J. Palmer	President, Global Brands and Innovation
Elane B. Stock	Former Group President K-C International**

**Mr. Hsu served as Group President K-C North America during 2016. He was elected to President and Chief Operating Officer effective January 1, 2017.*

***Ms. Stock served as Group President K-C International during 2016. Effective January 1, 2017 she no longer serves in such capacity as a result of the elimination of the role from our organizational structure. She is currently serving in a non-executive role for a transition period.*

2016 Compensation Highlights

As measured under our annual incentive program, we delivered the results below in net sales, adjusted earnings per share (EPS) and adjusted operating profit return on sales (OPROS).

Performance Measure*	2016 Results	2016 Target
Net sales	$18.20 billion	$18.20 billion
Adjusted EPS	$6.03	$6.05
Adjusted OPROS Improvement	+110 bps	+70 bps

**See 2016 Performance Goals, Performance Assessments and Payouts for additional information on how we use these measures to promote our pay-for-performance culture.*

Table of Contents

Based on our 2016 performance, the Management Development and Compensation Committee of our Board (the Committee) concluded that:

management delivered a solid financial performance in 2016 with slightly below target adjusted earnings per share, target level net sales and above target adjusted OPROS growth, and

management continues to make good progress executing strategies for our long-term success, including:

focusing on targeted growth initiatives and product innovations,

improving market share in our priority markets,

generating cost savings to help fund brand investments and improve margins, and

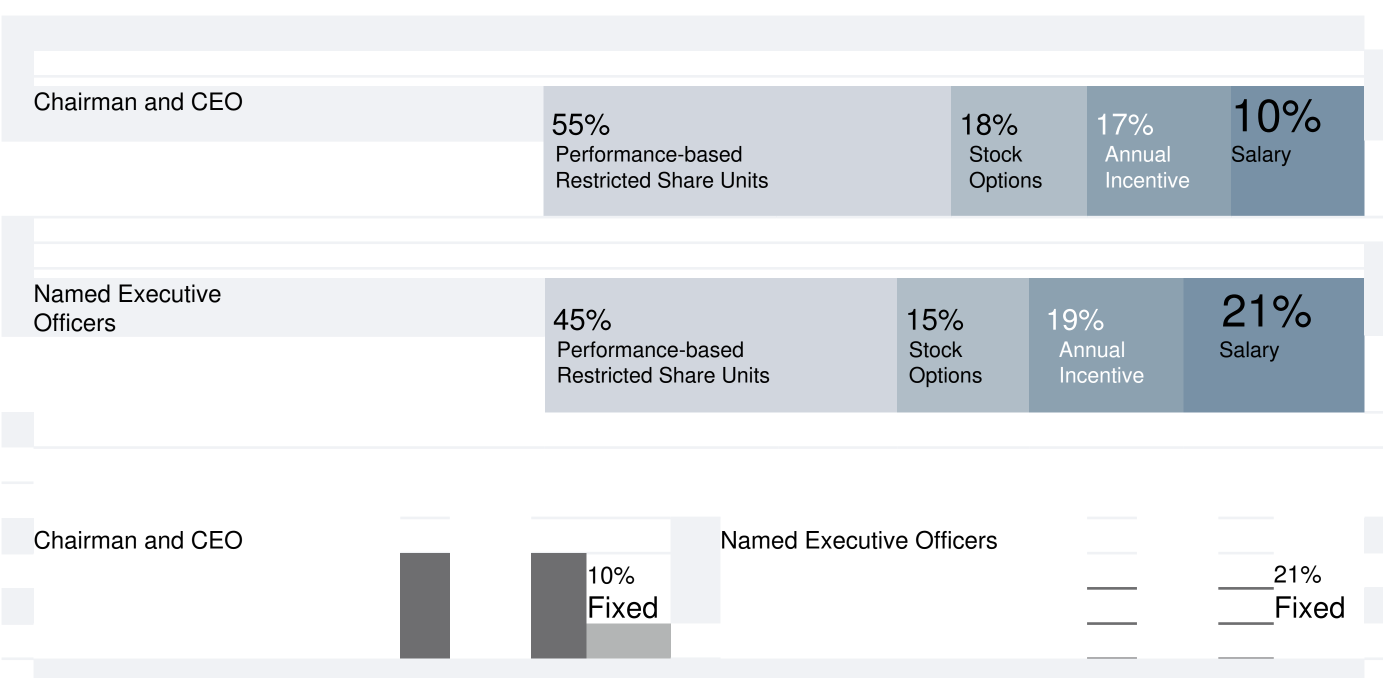
focusing on cash generation and allocating capital in stockholder-friendly ways.

Based on this performance, the Committee approved annual cash incentives for 2016 at slightly above the target amount, including an annual incentive payout for the Chief Executive Officer of 109 percent of his target payment amount.

Performance-Based Compensation

Pay-for-performance is a key objective of our compensation programs. Consistent with that objective, performance-based compensation constituted a significant portion of our named executive officers direct annual compensation targets for 2016. Also, to further align the financial interests of our executives with those of our stockholders, a majority of our executives target direct annual compensation for 2016 was equity-based.

COMPOSITION OF TARGET DIRECT COMPENSATION



27%
Cash

40%
Cash

Table of Contents

Committee Consideration of 2016 Stockholder Advisory Vote

At our 2016 Annual Meeting, our executive compensation program received the support of approximately 95 percent of shares represented at the meeting. The Committee has considered the results of this vote and views this outcome as evidence of stockholder support of its executive compensation decisions and policies. Accordingly, the Committee has not made any substantial changes to its executive compensation policies for 2017. The Committee will continue to review the annual stockholder votes on our executive compensation program and determine whether to make any changes in light of the results.

CEO Target Direct Compensation and Realizable Direct Compensation

The following chart compares the Chief Executive Officer s target direct annual compensation and realizable direct compensation over the last three years. Realizable direct compensation reflects the actual compensation received for base salary and annual cash incentive plus the value of the long-term equity incentives granted in that year, determined as follows:

For unexercised stock options, the amount by which our 2016 year-end stock price ($114.12) exceeds the exercise price, multiplied by the number of options granted and for exercised stock options, the actual value realized upon exercise, and

For performance-based restricted share units, intrinsic value is the number of units that were paid out based on actual performance (for the grant made in 2014) or are expected to be paid out based on projected performance (for the grants made in 2015 and 2016), multiplied by our 2016 year-end stock price.

Key factors causing realizable direct compensation to differ from target direct annual compensation over these three years are:

Improved performance that resulted in annual cash incentives to be paid out at 105 percent of target (2014), 105 percent of target (2015) and 109 percent of target (2016), and

A rising stock price over the last three years that significantly impacted the intrinsic value of stock options and the dollar value of performance-based restricted share units granted in each year. Our stock prices on the dates stock options were granted to our Chief Executive Officer were $107.51 (2014, as adjusted for the Halyard Health spin-off), $110.72 (2015) and $126.13 (2016).

The Committee believes that this chart demonstrates that our Chief Executive Officer s realizable direct compensation varies from his target direct annual compensation based on our performance and stock price consistent with our pay-for-performance philosophy.

Table of Contents

CEO TARGET DIRECT COMPENSATION AND REALIZABLE DIRECT COMPENSATION

Target Direct Compensation

Realizable Direct Compensation***

*All PRSUs granted in 2014 received a dividend equivalent for the Halyard Health spin-off on October 31, 2014.

**Where applicable, exercise prices and numbers of stock options adjusted for Halyard Health spin-off.

***Excludes changes in pension value, all other compensation and the value of dividends and dividend equivalents for PRSUs. Our stock price at the measurement date (December 31, 2016) was $114.12.

Executive Compensation Objectives and Policies

The Committee establishes and administers our policies governing the compensation of our elected officers, including our named executive officers. The Committee reviews our compensation philosophy annually and determines whether it supports our business objectives and is consistent with the Committee s charter.

The Committee has adopted executive compensation policies that are designed to achieve the following objectives:

Objective	Description	Related Policies
Pay-for-Performance	Support a performance-oriented environment that rewards achievement of our financial and non-financial goals.	The majority of our named executive officers pay varies with the levels at which annual and long-term performance goals are achieved. The Committee chooses performance goals that align with our strategies for sustained growth and profitability.
Focus on Long-Term Success	Reward executives for long-term strategic management and stockholder value enhancement.	The largest single component of our named executive officers annual target compensation is in the form of performance-based restricted share units. The number of shares actually received on payout of these units depends on our performance over a three-year period.

Table of Contents

Objective	Description	Related Policies
Stockholder Alignment	Align the financial interests of our executives with those of our stockholders.	Equity-based awards make up the largest part of our named executive officers annual target compensation. As part of this, our named executive officers receive stock options, which vest over time and have value only if our stock value rises after the option grants are made. We also have other policies that link our executives interests with those of our stockholders, including target stock ownership guidelines.
Quality of Talent	Attract and retain highly skilled executives whose abilities are considered essential to our long-term success as a global company operating our personal care, consumer tissue and K-C professional businesses.	The Committee reviews peer group data to ensure our executive compensation program remains competitive so we can continue to attract and retain this talent.

These compensation objectives and policies seek to align the compensation of our elected officers, including our named executive officers, with the objectives of our Global Business Plan. Our Global Business Plan, established by our senior management and the Board, is designed to make Kimberly-Clark a stronger and more competitive company and to increase our total return to stockholders by:

- managing our business portfolio to balance growth, margin and cash flow
- investing in brands, innovation and growth initiatives
- delivering sustainable cost reduction
- providing disciplined capital management to improve return on invested capital and return cash to stockholders

Table of Contents

Components of Our Executive Compensation Program

The table below gives an overview of the compensation components used in our program and matches each with one or more of the objectives described above.

Component	Objectives	Purpose	Target Competitive Position
Base salary	Quality of talent	Provide annual cash income based on: level of responsibility, experience and performance; comparison to market pay information	Compared to median of peer group. Actual base salary will vary based on the individual s level of responsibility, experience in the position and performance
Annual cash incentive	Pay-for-performance	Motivate and reward achievement of the following annual performance goals: corporate key financial goals; other corporate financial and strategic performance goals; performance of the business unit or staff function of the individual	Target compared to median of peer group. Actual payout will vary based on actual corporate and business unit or staff function performance
Long-term equity incentive	Stockholder alignment; Focus on long-term success; Pay-for-performance; Quality of talent	Provide an incentive to deliver stockholder value and to achieve our long-term objectives, through awards of:	Target compared to median of peer group. Actual payout of performance-based restricted share units will vary based on actual corporate performance. Actual payout will also vary based on actual stock price performance

		performance-based restricted share units stock options Time-vested restricted share units may be granted from time to time for recruiting, retention or other purposes	
Retirement benefits	Quality of talent	Provide competitive retirement plan benefits through 401(k) plan and other defined contribution plans	Benefits comparable to those of peer group
Perquisites	Quality of talent	Provide minimal market-based additional benefits	Benefits comparable to those of peer group
Post-termination compensation (severance and change of control)	Quality of talent	Encourage attraction and retention of executives critical to our long-term success and competitiveness: Severance Pay Plan, which provides eligible employees, including executives, payments and benefits in the event of certain involuntary terminations Executive Severance Plan, which provides eligible employees, including executives, payments in the event of a	Benefits comparable to those of peer group

qualified
separation of
service
following a
change of
control

Table of Contents

Setting Annual Compensation

This section describes how the Committee thinks about annual compensation and the processes that it followed in setting 2016 target annual compensation for our named executive officers.

Focus on Direct Annual Compensation

In setting 2016 compensation for our executive officers, including our Chief Executive Officer, the Committee focused on direct annual compensation, which consists of annual cash compensation (base salary and annual cash incentive) and long-term equity incentive compensation (performance-based restricted share units and stock options). The Committee considered annual cash and long-term equity incentive compensation both separately and as a package to help ensure that our executive compensation objectives are met.

Executive Compensation Peer Group

To ensure that our executive compensation programs are reasonable and competitive in the marketplace, the Committee compares our programs to those at other companies. In setting compensation in February 2016 for our named executive officers, the Committee used a peer group consisting of the following consumer goods and business to business companies:

2016 Executive Compensation Peer Group		
3M	DuPont	Kraft Heinz
Avon Products	General Mills	Mondelēz International
Campbell Soup	Hershey	Newell Brands
Clorox	Honeywell International	Nike
Coca-Cola	Johnson & Johnson	PepsiCo
Colgate-Palmolive	Kellogg	Procter & Gamble
ConAgra Brands		

The Committee generally seeks to select companies with whom Kimberly-Clark competes for talent. We believe that we generally compete for talent with consumer goods and business-to-business companies with annual revenues ranging from approximately one-half to two times our annual revenues. However, the Committee concluded that it was appropriate also to include certain companies outside of this annual revenue range because we directly compete with them for talent.

In developing the peer group, the Committee does not consider individual company compensation practices, and no company has been included or excluded because it is known to pay above-average or below-average compensation. The Committee (working with compensation consultants retained separately by the Committee and the company), reviews the peer group annually to ensure that it continues to serve as an appropriate comparison for our compensation program.

For purposes of setting executive compensation for 2017, the Committee made adjustments to select companies that more closely meet the criteria summarized above. The Committee removed Avon Products and added J.M. Smucker and V.F. Corp.

Table of Contents

Process for Setting Direct Annual Compensation Targets

In setting the direct annual compensation of our executive officers, the Committee evaluates both market data provided by the compensation consultants and information on the performance of each executive officer for prior years. To remain competitive in the marketplace for executive talent, the target levels for the executive officers compensation components, including our Chief Executive Officer, are compared to the median of the peer group.

To reinforce a pay-for-performance culture, targets for individual executive officers may be set above or below this median depending on the individual s performance in prior years and experience in the position. The Committee believes that comparing target levels to the median, setting targets as described above, and providing incentive compensation opportunities that will enable executives to earn above-target compensation if they deliver above-target performance on their performance goals, are consistent with the objectives of our compensation policies. In particular, the Committee believes that this approach enables us to attract and retain skilled and talented executives to guide and lead our businesses and supports a pay-for-performance culture. At times, the Committee may award long-term equity incentive compensation to key individuals to address retention concerns. When setting annual compensation for our executive officers, the Committee considers each compensation component (base salary, annual cash incentive and long-term equity incentive), but its decision regarding a particular component does not necessarily impact its decision about other components.

In setting compensation for executive officers that join us from other companies, the Committee evaluates both market data for the position to be filled and the candidate s compensation history. The Committee recognizes that in order to successfully recruit a candidate to leave his or her current position and to join Kimberly-Clark, the candidate s compensation package may have to exceed his or her current compensation, resulting in a package above the median of our peer group.

CEO Direct Annual Compensation

The Committee determines Mr. Falk s direct annual compensation in the same manner as the direct annual compensation of the other named executive officers. Mr. Falk s direct annual target compensation is at or near the median of direct annual compensation of chief executive officers of companies included in the peer group.

The difference between Mr. Falk s compensation and that of the other named executive officers reflects the significant difference in their relative responsibilities. Mr. Falk s responsibilities for management and oversight of a global enterprise are significantly greater than those of the other executive officers. As a result, the market pay level for Mr. Falk is appropriately higher than the market pay for our other executive officer positions.

Direct Annual Compensation Targets for 2016

Consistent with its focus on direct annual compensation, the Committee approved 2016 direct annual compensation targets for each of our named executive officers. The Committee believes that these target amounts, which formed the basis for the Committee s compensation decisions for 2016, were appropriate and consistent with our executive compensation objectives:

Name	2016 Direct Annual Compensation Target($)
Thomas J. Falk	13,577,500
Maria G. Henry	3,882,000
Michael D. Hsu	4,246,000
Anthony J. Palmer	2,679,000
Elane B. Stock	4,246,000

These 2016 direct annual compensation target amounts differ from the amounts set forth in the Summary Compensation Table in the following ways:

Base salaries are adjusted on April 1 of each year, while the Summary Compensation Table includes salaries for the calendar year. See Executive Compensation for 2016 Base Salary.

Annual cash incentive compensation is included at the target level, while the Summary Compensation Table reflects the actual amount earned for 2016.

As described below under Long-Term Equity Incentive Compensation 2016 Stock Option Awards, for compensation purposes the Committee values stock options differently than the way they are required to be reflected in the Summary Compensation Table.

In setting direct annual compensation targets, the Committee does not include increases in pension or deferred compensation earnings or other compensation, while those amounts are required to be included in the Summary Compensation Table.

Executive Compensation for 2016

To help achieve the objectives discussed above, our executive compensation program for 2016 consists of fixed and performance-based components, as well as short-term and long-term components.

Base Salary

To attract and retain high caliber executives, we pay our executives an annual fixed salary that the Committee considers competitive in the marketplace.

Salary ranges and individual salaries for executive officers are reviewed annually, and salary adjustments generally are effective on April 1 of each year. In determining individual salaries, the Committee considers the salary levels for similar positions at our peer group companies, as well as the executive s performance and experience in his or her position. This performance evaluation is based on how the executive performs during the year against results-based objectives established at the beginning of the year. In general, an experienced executive who is performing at a satisfactory level will receive a base salary at or around the median of our peer group companies. However, executives may be paid above or below the median depending on their experience and performance. From time to time, if warranted, executives and other employees may receive additional salary increases because of promotions, changes in duties and responsibilities, retention concerns or market conditions.

Table of Contents

For purposes of setting 2016 base salaries, each executive s leadership performance was measured against the following set of behaviors viewed as characteristic of executives who are adept at leading the strategic, operational and organizational aspects of our global business:

- building trust
- making decisions
- winning consistently
- thinking customer
- continuously improving
- building talent

The Committee approved the following base salaries for our named executive officers, effective April 2016:

Name	2016 Base Salary($)
Thomas J. Falk	1,325,000
Maria G. Henry	780,000
Michael D. Hsu	840,000
Anthony J. Palmer	660,000
Elane B. Stock	840,000

Annual Cash Incentive Program

Consistent with our pay-for-performance compensation objective, our executive compensation program includes an annual cash incentive program to motivate and reward executives in achieving annual performance objectives.

2016 Targets

The target payment amount for annual cash incentives is a percentage of the executive s base salary. The Committee determines this target payment amount as described above under Setting Annual Compensation Process for Setting Direct Annual Compensation Targets. The range of possible payouts is expressed as a percentage of the target payment amount. The Committee sets this range based on competitive factors.

TARGET PAYMENT AMOUNTS AND RANGE OF POSSIBLE PAYOUTS FOR 2016 ANNUAL CASH INCENTIVE PROGRAM

	Target Payment Amount	Potential Payout
Chief Executive Officer	170% of base salary	0% - 200% of target payment amount
Other Named Executive Officers	90% of base salary	0% - 200% of target payment amount

Table of Contents

2016 Performance Goals, Performance Assessments and Payouts

Payment amounts under the annual cash incentive program are dependent on performance measured against corporate goals and business unit or staff function goals established by the Committee at the beginning of each year. These performance goals, which are communicated to our executives at the beginning of each year, are derived from our financial and strategic goals.

As shown in the table below, the Committee established goals for three different performance elements for 2016. It then weighted the three elements for each executive (note that the business unit or staff function performance goals did not apply to our CEO because his responsibilities are company-wide). As it does each year, the Committee chose weightings that are intended to strike an appropriate balance between aligning each executive s individual objectives with our overall corporate objectives and holding the executive accountable for performance in the executive s particular area of responsibility.

ANNUAL CASH INCENTIVE PROGRAM 2016 PERFORMANCE GOALS AND WEIGHTS

** The positions shown for Mr. Hsu and Ms. Stock are the positions held during 2016.*

Table of Contents

Below we describe the three elements of performance, explain how performance was assessed for each element, and show the payouts that were determined in each case.

ELEMENT 1: CORPORATE KEY FINANCIAL GOALS

For 2016, the Committee chose the following as corporate key financial goals for the annual cash incentive program:

2016 Goal	Explanation	Reason for Use as a Performance Measure
Net sales	Net sales for 2016	A key indicator of our overall growth
Adjusted EPS	Consists of diluted net income per share that is then adjusted to eliminate the effect of items or events that the Committee determines in its discretion should be excluded for compensation purposes[(1)]	A key indicator of our overall performance
Adjusted OPROS	After net sales and adjusted EPS are determined as described above, a multiplier based on adjusted OPROS is applied to the calculation result to determine the final payout percentage[(2)]	A measure of margin efficiency and a helpful method of tracking our cost structure performance

[(1)] *In 2016 the following adjustments were made to diluted net income per share to determine adjusted EPS:*

Diluted Net Income Per Share	*$5.99*
Adjustment for:	
Subtract Adjustments related to Venezuelan operations	*$(0.03)*
Add Charges related to 2014 organization restructuring	*$0.07*
Adjusted EPS	*$6.03*

For more information regarding these adjustments, see Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2016 Annual Report on Form 10-K.

[(2)] *For purposes of determining annual cash incentive amounts, we calculate adjusted OPROS using our reported financial results, adjusted for the same items described above in determining adjusted EPS.*

Because Element 1 represents key company-wide goals, it produces the same payout percentage for each named executive officer. To determine this percentage, the Committee follows the following process.

First, it determines an initial payout percentage based on how Kimberly-Clark performed against the net sales and adjusted EPS goals established in February of each year. For 2016, the Committee set these goals and the corresponding initial payout percentages at the following levels:

Measure (each weighted 50%)	Range of Performance Levels		
	Threshold	Target	Maximum
Net sales (billions)	$16.75	$18.20	$19.66
Adjusted EPS	$5.55	$6.05	$6.55
Initial Payout Percentage	**0%**	**100%**	**200%**

Second, it applies a multiplier to this initial payout percentage. The multiplier is based on how Kimberly-Clark performed against the adjusted OPROS goals also established in February. Depending on the level of basis point improvement, the multiplier may either decrease or increase the initial payout percentage (but the amount of the final payout percentage cannot exceed a 200 percent cap).

Table of Contents

For 2016, the Committee set the following ranges for this adjusted OPROS multiplier:

	Range of Performance Levels		
	Threshold	Target	Maximum
Adjusted OPROS (bps improvement)	+0 bps	+70 bps	+140 bps
Adjusted OPROS Multiplier Applied to Initial Payout Percentage	**0.8 x**	**1.0 x**	**1.2 x**

Actual results. For 2016, our net sales result was $18.20 billion and our adjusted EPS result was $6.03. Based on these results, the initial payout percentage was determined to be 98 percent. To this percentage, we then applied an adjusted OPROS multiplier of 1.11, which was based on the actual 2016 improvement of 110 bps.

The resulting 2016 payout percentage for achieving the corporate key financial goals was 109 percent of each named executive officer s target payment amount.

ELEMENT 2: ADDITIONAL CORPORATE FINANCIAL AND STRATEGIC PERFORMANCE GOALS

At the beginning of 2016, the Committee also established additional corporate financial and non-financial strategic performance goals that are intended to challenge our executives to exceed our long-term objectives. At the end of the year, it determined a payout percentage based on its assessment of the degree to which these goals are achieved.

The Committee does not use a formula to assess the performance of these goals but instead takes a holistic approach and considers performance of all the goals collectively. Although it does review each goal separately, the key consideration for the Committee is how it views Kimberly-Clark s performance for the year in all of these categories, taken as a whole.

The chart below shows the 2016 goals and how the Committee assessed Kimberly-Clark s performance against each one:

Additional Corporate Financial and Strategic Performance Goals for 2016		Final Result		
		Below Goal	At Goal	Above Goal
Quality of earnings	Gross profit growth percentage exceeding the net sales growth rate.		X	
	Advertising spending growth percentage exceeding the net sales growth rate.	X		
	Attaining cost savings goals.			X
	Operating profit growth percentage exceeding the net sales growth rate.			X
Brand equity and market performance	Increasing market share in select markets.			X
Innovation	Attaining net sales from innovation goals (based on a rolling three-year review) in new products and line extensions in 2016.		X	
	Attaining net sales from innovation goals (based on launches in 2016).			X
Diversity and inclusion	Making progress on goals for women in senior roles globally and ethnic minorities in senior roles in the United States.			X

Table of Contents

Actual payout percentage. After taking into account performance on all of these goals, the Committee determined that the payout percentage for achieving these other financial and strategic goals should be 110 percent of target.

ELEMENT 3: BUSINESS UNIT OR STAFF FUNCTION PERFORMANCE GOALS

In addition to the performance goals established by the Committee, our CEO establishes individual business unit or staff function performance goals that are intended to challenge the executives to exceed the objectives for that unit or function. These objectives include strategic performance goals for the business units and staff functions, as well as financial goals for the business units.

Following the end of the year, the executives performance is analyzed to determine whether performance for the goals was above target, on target or below target. Our CEO then provides the Committee with an assessment of each individual business unit s or staff function s performance against the objectives for that unit or function.

Actual payout percentages. Based on the assessed performance of the relevant business unit or staff function against its pre-established performance goals, and taking into account the CEO s recommendations, the Committee determined the following payout percentages for business unit or staff function performance for our named executive officers:

Name	2016 Business Unit/Staff Function Payout Percentage
Thomas J. Falk	N/A
Maria G. Henry	109%
Michael D. Hsu	124%
Anthony J. Palmer	105%
Elane B. Stock	87%

Annual Cash Incentive Payouts for 2016

The following table shows the payout opportunities and the actual payouts of annual cash incentives for 2016 for each of our named executive officers. Payouts were based on the payout percentages for each element, weighted for each executive as shown on page 48.

	Annual IncentiveTarget		Annual Incentive Maximum		2016 Annual Incentive Payout	
Name	% of Base Salary	Amount($)	% of Target	Amount($)	% of Target	Amount($)
Thomas J. Falk	170%	2,252,500	200%	4,505,000	109%	2,466,388
Maria G. Henry	90%	702,000	200%	1,404,000	109%	766,904
Michael D. Hsu	90%	756,000	200%	1,512,000	117%	883,540
Anthony J. Palmer	90%	594,000	200%	1,188,000	109%	644,464
Elane B. Stock	90%	756,000	200%	1,512,000	98%	741,019

Summary of Annual Cash Incentive Payouts: 2010 through 2016

Generally, the Committee seeks to set the minimum, target and maximum levels such that the relative difficulty of achieving the target level is consistent from year to year. From 2010 through 2016, the total payout percentage (including business unit or staff function performance) for the executives that were designated as named executive officers in those years ranged from

58 percent to 132 percent of each executive s target award opportunity. The Committee believes that these payouts are consistent with how Kimberly-Clark performed during these years and reflect the pay-for-performance objectives of our executive compensation.

PAYOUTS FOR CORPORATE GOALS AND AVERAGE TOTAL PAYOUT PERCENTAGES FOR DESIGNATED NAMED EXECUTIVE OFFICERS

	2016	2015	2014	2013	2012	2011	2010	Average
Payout for Corporate Goals Combination of corporate key financial goals and additional corporate financial and strategic performance goals	109%	105%	105%	132%	129%	75%	67%	103%
Average Total Payout Percentages (including business unit or staff function performance) for executives designated as named executive officers for year shown	108%	108%	105%	128%	123%	79%	77%	104%

Long-Term Equity Incentive Compensation

The Committee awards long-term equity incentive grants to executive officers as part of their overall compensation package. These awards are consistent with the Committee s objectives of aligning our senior leaders interests with the financial interests of our stockholders, focusing on our long-term success, supporting our performance-oriented environment and offering competitive compensation packages.

Information regarding long-term equity incentive awards granted to our named executive officers can be found under Summary Compensation, Grants of Plan-Based Awards, and Discussion of Summary Compensation and Plan-Based Awards Tables.

2016 Grants

In determining the 2016 long-term equity incentive award amounts for our named executive officers, the Committee considered the following factors, among others: the specific responsibilities and performance of the executive, our business performance, retention needs, our stock price performance and other market factors. Because these awards are part of our annual compensation program that compares direct annual compensation to the median of our peer group comparison, grants from prior years were not considered when setting 2016 targets or granting awards.

To determine target values, it first compared each executive s direct annual compensation to the median of our peer group, and then considered individual performance and the other factors listed above, as applicable. Target grant values were approved in February 2016 and were divided into two types:

Performance-based restricted share units (75 percent of the target grant value). For valuation purposes, each unit is assigned the same value as one share of our common stock on the date of grant.

Stock options (25 percent of the target grant value). For valuation purposes, one option has the same value as 10 percent of the price of one share of our common stock on the date of grant of the stock option.

The Committee believes this allocation between performance-based restricted share units and stock options supports the pay-for-performance and stockholder alignment objectives of its executive compensation program.

Table of Contents

In addition to his annual long-term incentive award, the Committee granted a time-vested restricted share award to Mr. Palmer for retention purposes.

Performance Goals and Potential Payouts for 2016 - 2018 Performance-Based Restricted Share Units

For the performance-based restricted share unit awards granted in 2016, the actual number of shares to be received by our named executive officers can range from zero to 200 percent of the target levels established by the Committee for each executive, depending on the degree to which the performance objectives for these awards are met over a three-year period.

The performance objectives for the 2016 awards are based on average annual net sales growth and the average adjusted return on invested capital (ROIC) for the period January 1, 2016 through December 31, 2018. Adjusted ROIC is a measure of the return we earn on the capital invested in our businesses. It is calculated using our reported financial results, adjusted for the same items that we use in determining adjusted EPS. The formula we use to calculate adjusted ROIC can be found under the Investors section of our website at www.kimberly-clark.com. The performance objectives for the awards reflect assumed annual organic sales growth of 3 to 5 percent for 2016 through 2018, with significantly unfavorable foreign exchange rate effects in 2016.

2016 - 2018 PERFORMANCE-BASED RESTRICTED SHARE UNITS: POTENTIAL PAYOUTS AT VARYING PERFORMANCE LEVELS

Goals (Each weighted 50%)	Performance Levels		
Annual net sales growth	(0.90)%	1.60%	4.10%
Adjusted ROIC	22.20%	23.20%	24.20%
Potential Payout (as a percentage of target)	0%	100%	200%

Payout of 2013 - 2015 Performance-Based Restricted Share Units

In February 2016, the Committee evaluated the results of the three-year performance period for the performance-based restricted share units that were granted in 2013. The performance objectives for these 2013 awards were based on average annual adjusted net sales growth and average adjusted ROIC for the period January 1, 2013 through December 31, 2015, each weighted equally.

Goals (Each weighted 50%)	Performance Levels			
Annual adjusted net sales growth*	0.50%	3.00%	5.50%	(0.68)%
Adjusted ROIC**	15.50%	16.50%	17.50%	18.42%
Potential Payout (as a percentage of target)	0%	100%	200%	Actual

* *For purposes of calculating annual adjusted net sales growth, the Committee added $1.59 billion to 2014 net sales to neutralize the impact of the Halyard Health spin-off on October 31, 2014. The adjustment represents the estimated net sales that our health care business would have contributed in 2014 had the spin-off not occurred. The adjustment represents, (1) for January through October, the actual results for our health care business (which are reported as discontinued operations in our 2014 Annual Report on Form 10-K) and (2) for November and December, pro-forma results determined by multiplying our health care business actual year-to-date performance for January through October, expressed as a percentage of target, by the target performance level attributable to November and December.*

** *For purposes of calculating average adjusted ROIC, the Committee (1) added $29.8 million of lost earnings to 2014 operating profit to neutralize the impact of the Halyard Health spin-off and (2) excluded from the calculation of operating profit and invested capital the impacts of charges related to (a) the Halyard Health spinoff, (b) an exchange rate change in Venezuela, (c) our 2014 organization restructuring, (d) a regulatory dispute in the Middle East, (e) our European restructuring, (f) pension settlements, (g) our Turkey restructuring and (h) the deconsolidation of our Venezuelan operations.*

Based on this review, the Committee determined that we exceeded our performance goal for adjusted ROIC but did not achieve our performance goal for adjusted net sales growth. As a result, the payout percentage for the share units was 100 percent of target. The following table includes information about the opportunities and payouts (including reinvested dividends) regarding these grants to our named executive officers:

Name	Share Amount			2013 - 2015 Performance-Based Restricted Share Unit Award (Paid in February 2016)	
	Target	Maximum	% of Target	Amount of Shares(#)	Value of Shares on Date Received($)
Thomas J. Falk	74,936	149,872	100%	74,936	9,773,902
Maria G. Henry*					
Michael D. Hsu	15,455	30,910	100%	15,455	2,015,796
Anthony J. Palmer	11,240	22,480	100%	11,240	1,466,033
Elane B. Stock	9,367	18,734	100%	9,367	1,221,738

** Ms. Henry joined Kimberly-Clark after these grants were made.*

The Committee believes that these payouts further highlight the link between pay and performance established by our compensation program, which seeks to align actual compensation paid to our named executive officers with our long-term performance.

The shares underlying these performance-based restricted share unit awards were distributed to our named executive officers in February 2016 and are included in the table below entitled Option Exercises and Stock Vested in 2016.

Vesting Levels of Outstanding Performance-Based Restricted Share Unit Awards

As of February 7, 2017, the performance-based restricted share units granted in 2016 and 2015 were on pace to vest at the following levels: 117 percent for the 2016 award and 100 percent for the 2015 award.

The Committee has determined that the 2014 award vested at 100 percent. Payouts under these awards will be reflected in 2017 compensation.

2016 Stock Option Awards

As noted above, 25 percent of the annual long-term equity incentive grants to executive officers in 2016 consisted of stock options. Stock option grants vest in three annual installments of 30 percent, 30 percent and 40 percent, beginning on the first anniversary of the grant date. The Committee believes that stock options help further align our executives interest with those of our stockholders and encourage executives to remain with the company through the multi-year vesting schedule.

For purposes of determining the number of options to be granted, stock options are valued on the basis that one option has the same value as 10 percent of the price of one share of our common stock on the date of grant. The value we use for this purpose differs from, and in May 2016 was higher than, the value of approximately 8.7 percent that we use for financial statement purposes (resulting in fewer options being granted than if the financial statement value had been used). The Committee believes that this value is an appropriate way to determine the number of options to be granted because it provides more consistent application and is not subject to the volatility inherent in the valuation method (Black-Scholes-Merton) used for financial statement purposes. Information regarding stock options granted to our named executive officers can be found under Summary Compensation, Grants of Plan-Based Awards, and Discussion of Summary Compensation and Plan-Based Awards Tables.

Benefits and Other Compensation

Retirement Benefits

Our named executive officers receive contributions from us under the Kimberly-Clark Corporation 401(k) and Profit Sharing Plan (the 401(k) Profit Sharing Plan) and the Kimberly-Clark Supplemental Retirement 401(k) and Profit Sharing Plan (the Supplemental 401(k) Plan) and some executive officers participate in our frozen defined benefit pension plans depending on their hire date. These plans are consistent with those maintained by our peer group companies and are therefore necessary to remain competitive with them for recruiting and retaining executive talent. The Committee believes that these retirement benefits are important parts of our compensation program. For more information, see Nonqualified Deferred Compensation 401(k) Profit Sharing Plan and Supplemental 401(k) Plan and Pension Benefits.

Other Compensation

A review conducted in 2016 indicated that perquisites provided to our executive officers are below the median of those provided by our peer group, consistent with our focus on more direct, performance-sensitive compensation. Also, the Committee has eliminated tax reimbursement and related gross-ups for perquisites (including personal use of corporate aircraft), except for certain relocation benefits, further underscoring our focus on direct compensation.

Perquisites include personal financial planning services under our Executive Financial Counseling Program, an executive health screening program where executives may receive comprehensive physical examinations from an independent health care provider, and permitted personal use of corporate aircraft consistent with our policy. The personal financial planning program is designed to provide executives with access to knowledgeable financial advisors that understand our compensation and benefit plans and can assist our executives in efficiently and effectively managing their financial and tax planning issues. Our Chief Executive Officer does not receive personal financial planning services pursuant to this program. The executive health screening program provides executives with additional services that help maintain their overall health.

Under an executive security program for our Chief Executive Officer, approved by the Board of Directors, our Chief Executive Officer is expected to use our corporate aircraft for all business and personal travel, consistent with our policy, and security services are provided for him at all times, including at his office, other company locations and his residences. Periodically, an independent security consultant conducts a security assessment, and the Board reviews the program, to ensure that security measures provided by us are appropriate. The Board considers these security arrangements to be appropriate and reasonable in light of the security risks identified in the independent security assessment. In addition, if a corporate aircraft is already scheduled for business purposes and can accommodate additional passengers, executive officers and their guests may, under certain circumstances, join flights for personal travel. The incremental cost to us of providing security services at Mr. Falk s residences and personal travel for Mr. Falk and his guests on our corporate aircraft is included in All Other Compensation in the Summary Compensation Table.

Post-Termination Benefits

We maintain two severance plans that cover our executive officers: the Severance Pay Plan and the Executive Severance Plan. An executive officer may not receive severance payments under more than one severance plan. Benefits under these plans are payable only if the executive s employment terminates under the conditions specified in the applicable plan. We believe that our severance plans are consistent with those maintained by our peer group companies and that they are therefore important for attracting and retaining executives who are critical to our long-term success and competitiveness. For more information about these severance plans and their terms, see Potential Payments on Termination or Change of Control Severance Benefits.

Table of Contents

Severance Pay Plan
Our Severance Pay Plan provides severance benefits to most of our U.S. hourly and salaried employees, including our named executive officers, who are involuntarily terminated under the circumstances described in the plan. The objective of this plan is to facilitate the employee s transition to his or her next position, and it is not intended to serve as a reward for the employee s past service.

Executive Severance Plan
Our Executive Severance Plan provides severance benefits to eligible employees, including our named executive officers, in the event of a qualified termination of employment (as defined in the plan) in connection with a change of control. For an eligible employee to receive a payment under this plan, two things must occur: there must be a change of control of Kimberly-Clark, and the employee must have been involuntarily terminated without cause or have resigned for good reason (as defined in the plan) within two years of the change of control (often referred to as a double trigger). Each of our named executive officers has entered into an agreement under the plan that expires on December 31, 2017.

Executive Compensation for 2017

2017 Base Salary

In February 2017, the Committee approved the following base salaries for our named executive officers, effective April 1, 2017:

Name*	2017 Base Salary($)
Thomas J. Falk	1,420,000
Maria G. Henry	800,000
Michael D. Hsu	925,000
Anthony J. Palmer	675,000

* *Ms. Stock began serving in a non-executive role effective January 1, 2017.*

The Committee determined Mr. Hsu s base salary and annual cash incentive target (see below) upon his promotion to President and Chief Operating Officer effective January 1, 2017, taking into account market data for officers performing similar functions at our peer companies.

2017 Annual Cash Incentive Targets

In February 2017, the Committee also established objectives for 2017 annual cash incentives, which will be payable in 2018. The target payment amounts and range of possible payouts for 2017 were as follows:

	Target Payment Amount	Possible Payout
Thomas J. Falk	170% of base salary	0% - 200% of target payment amount
Maria G. Henry	100% of base salary	0% - 200% of target payment amount
Michael D. Hsu	125% of base salary	0% - 200% of target payment amount
Anthony J. Palmer	90% of base salary	0% - 200% of target payment amount

The Committee increased Ms. Henry s target payment amount from 90 percent to 100 percent taking into account market data for the Chief Financial Officer role.

Table of Contents

As discussed in 2016 Performance Goals, Performance Assessments and Payouts above, the Committee sets the appropriate split among the different elements of performance that make up our performance goals. The following are the 2017 performance goals and relative weights for our named executive officers:

ANNUAL CASH INCENTIVE PROGRAM 2017 PERFORMANCE GOALS AND WEIGHTS

The corporate key financial goals for 2017 are designed to encourage a continued focus on executing our long-term Global Business Plan objectives and include achieving net sales, adjusted EPS and adjusted OPROS goals.

The Committee also established other corporate financial and non-financial goals for 2017. These goals, intended to further align compensation with achieving our Global Business Plan, include:

- Focusing on gross profit growth, advertising spending growth, cost savings and operating profit growth
- Focusing on market share improvement in global markets
- Driving innovation
- Diversity and inclusion

In addition, goals have been established for each named executive officer, other than our Chief Executive Officer and Chief Operating Officer, relating to his or her business unit or specific staff function.

Table of Contents

2017 Long-Term Equity Compensation Incentive Awards

In February 2017, the Committee approved long-term incentive compensation awards for the named executive officers consisting of awards of performance-based restricted share units with a value equal to 75 percent of the target grant value for long-term equity incentive compensation, with the balance of the value to be granted in stock options. The performance objectives for the performance-based restricted share unit awards granted in 2017 are based on average annual net sales growth and average adjusted ROIC improvement for the period January 1, 2017 through December 31, 2019. The target number of performance-based restricted share units our named executive officers will receive will be based on the fair market value of our stock on the date of grant, which is scheduled for February 28, 2017. The actual number of shares they will receive will range from zero to 200 percent of the target levels established by the Committee for each executive, depending on the degree to which the performance objectives are met.

PERFORMANCE-BASED RESTRICTED SHARE UNITS TO BE GRANTED IN 2017

Name	Target Value($)	Maximum Value($)
Thomas J. Falk	7,500,000	15,000,000
Maria G. Henry	2,137,500	4,275,000
Michael D. Hsu	2,700,000	5,400,000
Anthony J. Palmer	1,162,500	2,325,000

In February 2017, the Committee also approved the dollar amount of stock options to be granted to our named executive officers in April 2017, along with our annual stock option grants to other employees. The number of options they will receive will be based on the fair market value of our stock on the date of grant.

Name	Value of Stock Options to be Granted($)
Thomas J. Falk	2,500,000
Maria G. Henry	712,500
Michael D. Hsu	900,000
Anthony J. Palmer	387,500

Table of Contents

Additional Information about Our Compensation Practices

As a matter of sound governance, we follow certain practices with respect to our compensation program. We regularly review and evaluate our compensation practices in light of regulatory developments, market standards and other considerations.

Use of Independent Compensation Consultant

As previously discussed, the Committee engaged Semler Brossy Consulting Group as its independent consultant to assist it in determining the appropriate executive officer compensation in 2016 under our compensation policies described above. Consistent with the Committee s policy in which its independent consultant may provide services only to the Committee, Semler Brossy had no other business relationship with Kimberly-Clark and received no payments from us other than fees and expenses for services to the Committee. See Corporate Governance - Management Development and Compensation Committee for information about the use of compensation consultants.

Adjustment of Financial Measures for Annual and Long-Term Equity Incentives

Financial measures for the annual and long-term equity incentive programs are developed based on expectations about our planned activities and reasonable assumptions about the performance of our key business drivers for the applicable period. From time to time, however, discrete items or events may arise that were not contemplated by these plans or assumptions. These could include accounting and tax law changes, tax credits or charges from items not within the ordinary course of our business operations, charges relating to currency exchange rate changes, restructuring and write-off charges, significant acquisitions or dispositions, and significant gains or losses from litigation settlements.

Under the Committee s exception guidelines regarding our annual and long-term equity incentive program measures, the Committee has adjusted in the past, and may adjust in the future, the calculation of financial measures for these incentive programs to eliminate the effect of the types of items or events described above. In making these adjustments, the Committee s policy is to seek to neutralize the impact of the unexpected or unplanned items or events, whether positive or negative, in order to provide consistent and equitable incentive payments that the Committee believes are reflective of our performance. In considering whether to make a particular adjustment under its guidelines, the Committee will review whether the item or event was one for which management was responsible and accountable, treatment of similar items in prior periods, the extent of the item s or event s impact on the financial measure, and the item s or event s characteristics relative to normal and customary business practices. Generally, the Committee will apply an adjustment to all compensation that is subject to that financial measure.

Pricing and Timing of Stock Option Grants and Timing of Performance-Based Equity Grants

Our policies and our 2011 Equity Participation Plan (the 2011 Plan) require stock options to be granted at no less than the closing price of our common stock on the date of grant. Stock option grants to our elected officers, including our executive officers, are generally made annually at a meeting of the Committee that is scheduled at least one year in advance, and the grants are effective on the date of this meeting. However, if the meeting occurs during the period beginning on the first day of the final month of a calendar quarter and ending on the date of our earnings release, the stock option grants will not be effective until the first business day following the earnings release. Our executives are not permitted to choose the grant date for their individual stock option grants.

Table of Contents

The Chairman of the Board and Chief Executive Officer has been delegated the authority to approve equity grants, including stock options, to employees who are not elected officers of Kimberly-Clark. These grants include scheduled annual grants, which are subject to an annual limit set by the Committee, and recruiting and special employee recognition and retention grants, which may not exceed 200,000 shares in any calendar year. The Chairman of the Board and Chief Executive Officer is not permitted to make any grants to any of our elected officers, including our executive officers.

Annual stock option grants to non-elected officers are effective on the same date as the annual stock option grants to our elected officers. Recruiting, special recognition and retention stock-based awards are made on pre-determined dates following our quarterly earnings releases. In May 2016, our Chief Executive Officer authorized an aggregate of 1.56 million options, performance-based restricted share units and time-vested restricted share units to employees who are not elected officers. In 2016, our Chief Executive Officer also authorized an aggregate of 56,091 shares underlying recruiting and retention grants, consisting of options, performance-based restricted share units and time-vested restricted share units.

With respect to grants of performance-based restricted share units to executive officers, the Committee s current practice is to approve the dollar value of the grants at its February meeting and the grants are effective on the last business day of February. (Prior to 2016, grants were effective on the date of the Committee s February meeting.) We believe this practice is consistent with award practices at other large public companies. Our executives are not permitted to choose the grant date for their individual restricted stock or restricted share unit awards.

Policy on Incentive Compensation Clawback

As described in detail above, a significant percentage of our executive officer compensation is incentive-based. The determination of the extent to which the incentive objectives are achieved is based in part on the Committee s discretion and in part on our published financial results. The Committee has the right to reassess its determination of the performance awards if the financial statements on which it relied are restated. The Committee has the right to direct Kimberly-Clark to seek to recover from any executive officer any amounts determined to have been inappropriately received by the individual executive officer. In addition, under the 2011 Plan, the Committee may require awards with performance goals under the 2011 Plan to be subject to any policy we may adopt relating to the recovery of that award to the extent it is determined that performance goals relating to the awards were not actually achieved. Further, the Sarbanes-Oxley Act of 2002 mandates that the chief executive officer and the chief financial officer reimburse us for any bonus or other incentive-based or equity-based compensation paid to them in a year following the issuance of financial statements that are later required to be restated as a result of misconduct. The Committee intends to review and revise the incentive compensation clawback policy once the SEC issues final regulations on clawbacks under the Dodd-Frank legislation enacted in 2010.

Stock Ownership Guidelines

We strongly believe that the financial interests of our executives should be aligned with those of our stockholders. Accordingly, the Committee has established stock ownership guidelines for our elected officers, including our named executive officers.

TARGET STOCK OWNERSHIP AMOUNTS

Position	Ownership Level
Chief Executive Officer	Six times annual base salary
Other named executive officers	Three times annual base salary

Table of Contents

Failure to attain these targeted stock ownership levels within five years from date of hire for, or appointment to, an eligible position can result in the reduction of part or all of the executive s annual cash incentive (with a corresponding grant of time-vested restricted share units or restricted stock in that amount), or a reduction in future long-term equity incentive awards, either of which may continue until the ownership guideline is achieved. In determining whether our stock ownership guidelines have been met, any time-vested restricted share units held are counted as owned, but performance-based restricted share units are excluded until they vest. Executive officer stock ownership levels were reviewed in 2016 for compliance with these guidelines. Based on our stock price as of the compliance date for this review, the stock ownership levels specified by the guidelines have been met or exceeded by each of our named executive officers.

Insider Trading Policy; Anti-Hedging and Pledging Policy

We require all executive officers to pre-clear transactions involving our common stock (and other securities related to our common stock) with our Legal Department.

Our insider trading policy prohibits any director, executive officer or any other officer or employee subject to its terms (approximately 300 people) from entering into short sales or derivative transactions to hedge their economic exposure to our common stock. In addition, these directors, officers and employees are prohibited from pledging our stock, including through holding our stock in margin accounts.

Committee Exercise of Discretion to Reduce Annual Cash Incentive Payment

In establishing performance goals and target levels under the annual cash incentive program, the Committee is exercising its discretion to limit the amount of the incentive payments, consistent with our pay-for-performance objective. In the absence of this exercise of discretion, each of the executive officers would be entitled to an award equal to 0.3 percent of our earnings before unusual items; however, the Committee has exercised its discretion to limit the amount of the incentive payments each year of the program, and this potential maximum award has never been paid to any of the executive officers.

Corporate Tax Deduction for Executive Compensation

The United States income tax laws generally limit the deductibility of compensation paid to the chief executive officer and each of the three highest-paid executive officers (not including the chief financial officer) to $1,000,000 per annum. However, an exception exists for performance-based compensation that meets certain regulatory requirements. Several classes of our executive compensation, including option awards and portions of our long-term equity grants to executive officers, are designed to meet the requirements for deductibility. Other classes of our executive compensation, including portions of the long-term equity grants described above, may be subject to the $1,000,000 deductibility limit.

Although deductibility of compensation is preferred, tax deductibility is not a primary objective of our compensation programs. In the Committee s view, meeting the compensation objectives set forth above is more important than the benefit of being able to deduct the compensation for tax purposes.

Management Development and Compensation Committee Report

In accordance with its written charter adopted by the Board, the Management Development and Compensation Committee has oversight of compensation policies designed to align elected officers compensation with our overall business strategy, values and management initiatives. In discharging its oversight responsibility, the Committee has retained an independent compensation consultant to advise the Committee regarding market and general compensation trends.

The Committee has reviewed and discussed the Compensation Discussion and Analysis with our management, which has the responsibility for preparing the Compensation Discussion and Analysis. Based upon this review and discussion, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference in our Annual Report on Form 10-K filed with the SEC for the fiscal year ended December 31, 2016.

MANAGEMENT DEVELOPMENT AND COMPENSATION
COMMITTEE OF THE BOARD OF DIRECTORS

Abelardo E. Bru, Chairman
Fabian T. Garcia
Mae C. Jemison, M.D.
Marc J. Shapiro

Table of Contents

Analysis of Compensation-Related Risks

The Committee, with the assistance of its independent consultant and Kimberly-Clark s compensation consultant, has reviewed an assessment of our compensation programs for our employees, including our executive officers, to analyze the risks arising from our compensation systems.

Based on this assessment, the Committee believes that the design of our compensation programs, including our executive compensation program, does not encourage our executives or employees to take excessive risks and that the risks arising from these programs are not reasonably likely to have a material adverse effect on Kimberly-Clark.

Several factors contributed to the Committee s conclusion, including:

The Committee believes Kimberly-Clark maintains a values-driven, ethics-based culture supported by a strong tone at the top.

The performance targets for annual cash incentive programs are selected to ensure that they are reasonably attainable in a manner consistent with our Global Business Plan without encouraging executives or employees to take inappropriate risks.

An analysis by Kimberly-Clark s consultant indicated that our compensation programs are consistent with those of our peer group. In addition, the analysis noted that target levels for direct annual compensation are comparable to the median of our peer group.

The Committee believes the allocation among the components of direct annual compensation provides an appropriate balance between annual and long-term incentives and between fixed and performance-based compensation.

Annual cash incentives and long-term performance-based restricted share unit awards under our executive compensation program are capped at 200 percent of the target award, and all other material non-executive cash incentive programs are capped at reasonable levels, which the Committee believes protects against disproportionately large incentives.

The Committee believes the performance measures and the multi-year vesting features of the long-term equity incentive compensation component encourage participants to seek sustainable growth and value creation.

The Committee believes inclusion of share-based compensation through the long-term equity incentive compensation component encourages appropriate decision-making that is aligned with the long-term interests of stockholders.

Our stock ownership guidelines further align the interests of management and stockholders.

Table of Contents

Compensation Tables

Summary Compensation

The following table contains information concerning compensation awarded to, earned by, or paid to our named executive officers in the last three years. Additional information regarding the items reflected in each column appears below the table and on page 69.

SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary($)	Stock Awards($)	Option Awards($)	Non-Equity Incentive Plan Compensation($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings($)[1]	All Other Compensation($)	Total ($)
Thomas J. Falk	2016	1,318,750	7,499,938	2,172,360	2,466,388	1,921,772	302,898	15,682,106
Chairman of the Board	2015	1,300,000	6,749,972	1,501,759	2,310,615		298,147	12,160,493
and Chief Executive Officer	2014	1,300,000	6,749,976	1,601,556	2,328,677	3,057,191	357,781	15,395,181
Maria G. Henry[2]	2016	772,500	1,799,964	521,367	766,904		129,726	3,990,461
Senior Vice President and Chief Financial Officer	2015	511,364	1,649,949	367,098	712,483		205,333	3,446,227
Michael D. Hsu[3]	2016	833,750	1,987,466	575,674	883,540		145,955	4,426,385
President and Chief	2015	805,000	1,800,015	400,471	890,683		112,835	4,009,004
Operating Officer	2014	746,250	1,500,044	355,899	671,545		113,808	3,387,546
Anthony J. Palmer	2016	655,000	1,818,727	309,565	644,464		108,578	3,536,334
President Global	2015	636,250	1,050,055	233,605	596,465		94,106	2,610,481
Brands and Innovation	2014	622,500	1,049,965	249,128	587,070		99,397	2,608,060
Elane B. Stock[4]	2016	833,750	1,987,466	575,674	741,019		139,452	4,277,361
Former Group	2015	805,000	1,800,015	400,471	771,904		118,593	3,895,983
President K-C International	2014	718,750	1,500,044	355,899	752,650		89,434	3,416,777

(1) For 2015, the aggregate value of pension benefits for Mr. Falk decreased by $614,183. Because this amount decreased, it has been excluded from the table above under the SEC s regulations. No other named executive officer participates in our pension plans.

(2) Ms. Henry was not a named executive officer in 2014. Therefore, no compensation information for this year appears in this table for this officer.

(3) Mr. Hsu served as Group President K-C North America during 2016. He was promoted to President and Chief Operating Officer effective January 1, 2017.

(4) Ms. Stock served as Group President K-C International during 2016. Effective January 1, 2017, she no longer serves in such capacity as a result of the elimination of the role from our organizational structure. She is currently serving in a non-executive role for a transition period.

Table of Contents

Compensation Tables

Salary. The amounts in this column represent base salary earned during the year.

Stock Awards and Option Awards. The amounts in these columns reflect the dollar value of restricted share unit awards and stock options, respectively, granted under our stockholder-approved 2011 Plan.

The restricted share unit awards either vest over time or are based on the achievement of performance-based standards.

The amounts for each year represent the grant date fair value of the awards, computed in accordance with ASC Topic 718. See Notes 8, 8, and 10 to our audited consolidated financial statements included in our Annual Reports on Form 10-K for 2016, 2015 and 2014, respectively, for the assumptions we used in valuing and expensing these restricted share units and stock option awards in accordance with ASC Topic 718.

For awards that are subject to performance conditions, the value is based on the probable outcome of the conditions at grant date. This value, as well as the value of the awards at the grant date assuming the highest level of performance conditions will be achieved and using the grant date stock price, is set forth below:

Name	Year	Stock Awards at Grant Date Value($)	Stock Awards at Highest Level of Performance Conditions($)
Thomas J. Falk	2016	7,499,938	14,999,876
	2015	6,749,972	13,499,944
	2014	6,749,976	13,499,952
Maria G. Henry	2016	1,799,964	3,599,928
	2015	1,649,949	3,299,898
Michael D. Hsu	2016	1,987,466	3,974,932
	2015	1,800,015	3,600,030
	2014	1,500,044	3,000,088
Anthony J. Palmer	2016	1,068,721	2,137,442
	2015	1,050,055	2,100,110
	2014	1,049,965	2,099,930
Elane B. Stock	2016	1,987,466	3,974,932
	2015	1,800,015	3,600,030
	2014	1,500,044	3,000,088

Non-Equity Incentive Plan Compensation. The amounts in this column are the annual cash incentive payments described in Compensation Discussion and Analysis. These amounts were earned during the years indicated and were paid to our named executive officers in February of the following year.

Table of Contents

Compensation Tables

Change In Pension Value and Nonqualified Deferred Compensation Earnings. The amounts in this column reflect the aggregate change during the year in actuarial present value of accumulated benefits under all defined benefit and actuarial plans (including supplemental pension plans). With respect to the supplemental pension plans, amounts have been calculated to reflect an approximate 30-year Treasury bond rate to determine the amount of the earlier retirement age lump sum benefit in a manner consistent with our financial statements. We describe the assumptions we used in determining the amounts and provide additional information about these plans in Pension Benefits.

Mr. Falk has compensation from before 2005 that he elected to defer pursuant to a Deferred Compensation Plan then in effect. Beginning in 2010, each of our named executive officers participates in the Supplemental 401(k) Plan, a non-qualified defined contribution plan. Earnings on each of these plans are not included in the Summary Compensation Table because the earnings were not above-market or preferential. See Nonqualified Deferred Compensation for a discussion of these plans and each named executive officer s earnings under these plans in 2016.

All Other Compensation. All other compensation consists of the following:

Name	Year	Perquisites ($)(1)	Defined Contribution Plan Amounts ($)(2)	Tax Gross-Ups(3)	Total ($)(4)
Thomas J. Falk	2016	12,549	290,349		302,898
	2015	40,511	257,636		298,147
	2014	63,196	294,585		357,781
Maria G. Henry	2016	10,927	118,799		129,726
	2015	148,326	36,207	20,800	205,333
Michael D. Hsu	2016	8,000	137,955		145,955
	2015	8,000	104,835		112,835
	2014	13,128	100,680		113,808
Anthony J. Palmer	2016	8,000	100,578		108,578
	2015	7,250	86,856		94,106
	2014	7,300	92,097		99,397
Elane B. Stock	2016	11,000	128,452		139,452
	2015	8,000	110,593		118,593
	2014	8,000	81,434		89,434

Table of Contents

Compensation Tables

(1) Perquisites. *For a description of the perquisites we provide executive officers, and the reasons why, see Compensation Discussion and Analysis Benefits and Other Compensation Other Compensation. Perquisites for our named executive officers in 2016 included the following:*

Name	*Executive Financial Counseling Program($)[(a)]*	*Personal Use of Corporate Aircraft($)*	*Security Services($)*	*Executive Health Screening Program($)*	*Total($)*
Thomas J. Falk		*8,336*	*3,613*	*600*	*12,549*
Maria G. Henry	*10,927*				*10,927*
Michael D. Hsu	*8,000*				*8,000*
Anthony J. Palmer	*8,000*				*8,000*
Elane B. Stock	*8,000*			*3,000*	*11,000*

(a) Our Chief Executive Officer does not receive personal financial counseling under this program.

(2) Defined Contribution Plan Amounts. *Matching contributions were made under the 401(k) Profit Sharing Plan and accrued under the Supplemental 401(k) Plan in 2016, 2015 and 2014 for all named executive officers, as applicable. A profit-sharing contribution was also made under the 401(k) Profit Sharing Plan and the Supplemental 401(k) Plan in early 2017, 2016 and 2015 with respect to our performance in 2016, 2015 and 2014, respectively, for the named executive officers as follows:*

Name	*Performance Year*	*Profit Sharing Contribution($)*
Thomas J. Falk	*2016*	*145,175*
	2015	*112,489*
	2014	*126,251*
Maria G. Henry	*2016*	*59,399*
	2015	*15,852*
Michael D. Hsu	*2016*	*68,977*
	2015	*45,773*
	2014	*43,148*
Anthony J. Palmer	*2016*	*50,289*
	2015	*37,923*
	2014	*39,470*
Elane B. Stock	*2016*	*64,226*
	2015	*48,287*
	2014	*34,900*

See Nonqualified Deferred Compensation for a discussion of these plans. The profit sharing contribution varies depending on our performance for the applicable year, contributing to fluctuations from year to year in the amounts in the All Other Compensation column.

(3) Tax Gross Ups. *The amount shown for Ms. Henry reflects tax reimbursement for moving and related expenses incurred for a relocation in connection with joining the company.*

(4) Certain Dividends. *Dividend equivalents on unvested performance-based and time-vested restricted share units are accumulated and will be paid in additional shares after the restricted share units vest, based on the actual number of shares that vest. See Outstanding Equity Awards for information on these reinvested dividend equivalents. In connection with the Halyard Health spin-off on October 31, 2014, performance-based restricted share units and time-vested restricted share units (and the dividend equivalents credited to these restricted share units equal to cash dividends on our Common Stock as described above) were credited with reinvested dividend equivalents equal to the value of the Halyard Health stock dividend distributed on our common stock to maintain the value of the awards before and after the spin-off.*

Table of Contents

Compensation Tables

Grants of Plan-Based Awards

The following table sets forth plan-based awards granted to our named executive officers during 2016 on a grant-by-grant basis.

GRANTS OF PLAN-BASED AWARDS IN 2016

			Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1]			Estimated Future Payouts Under Equity Incentive Plan Awards[2]						
Name	Grant Type	Grant Date	Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)	All Other Stock Awards: Number of Shares of Stock or Units (#)[3]	All Other Option Awards: Number of Securities Underlying Options (#)[4]	Exercise or Base Price of Option Awards ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)[5]
Thomas J. Falk	Annual cash incentive award			2,252,500	4,505,000							
	Performance-based RSU	2/29/2016					57,559	115,118				7,499,938
	Time-vested stock option	5/3/2016								198,208	126.13	2,172,360
Maria G. Henry	Annual cash incentive award			702,000	1,404,000							
	Performance-based RSU	2/29/2016					13,814	27,628				1,799,964
	Time-vested stock option	5/3/2016								47,570	126.13	521,367
Michael D. Hsu	Annual cash incentive award			756,000	1,512,000							
	Performance-based RSU	2/29/2016					15,253	30,506				1,987,466
	Time-vested stock option	5/3/2016								52,525	126.13	575,674
Anthony J. Palmer	Annual cash incentive award			594,000	1,188,000							
	Performance-based RSU	2/29/2016					8,202	16,404				1,068,721
	Time-vested stock option	5/3/2016								28,245	126.13	309,565
	Time-vested RSU	2/29/2016							5,756			750,006
Elane B. Stock	Annual cash incentive award			756,000	1,512,000							
	Performance-based RSU	2/29/2016					15,253	30,506				1,987,466
	Time-vested stock option	5/3/2016								52,525	126.13	575,674

(1) *Represents the potential annual performance-based incentive cash payments each named executive officer could earn in 2016. These awards were granted under our Executive Officer Achievement Award Program, which is our annual cash incentive program for executive officers, which was approved by stockholders in 2002. Actual amounts earned in 2016 were based on the 2016 objectives established by the Management Development and Compensation Committee at its February 10, 2016 meeting. See Compensation Discussion and Analysis Executive Compensation for 2016 Annual Cash Incentive Program. At the time of the grant, the incentive payment could range from the threshold amount to the maximum amount depending on the extent to which the 2016 objectives were met. The actual amounts paid in 2017 based on the 2016 objectives are set forth in the Summary Compensation Table under the column entitled Non-Equity Incentive Plan Compensation.*

(2) *Performance-based restricted share units granted under the 2011 Plan to our named executive officers on February 29, 2016. The number of performance-based restricted share units granted in 2016 that will ultimately vest on the third anniversary of the grant date could range from the*

threshold number to the maximum number depending on the extent to which the average annual net sales growth and average adjusted ROIC performance objectives for those awards are met. See Compensation Discussion and Analysis Long-Term Equity Incentive Compensation 2016 Grants.

Table of Contents

Compensation Tables

(3) *Time-vested restricted stock units granted under the 2011 Plan to Mr. Palmer on February 29, 2016.*
(4) *Time-vested stock options granted under the 2011 Plan to our named executive officers on May 3, 2016.*
(5) *Grant date fair value is determined in accordance with ASC Topic 718 and, for performance-based restricted share units, is the value at grant date based on the probable outcome of the performance condition and is consistent with the estimate of aggregate compensation cost to be recognized over the service period determined as of the grant date, excluding the effect of estimated forfeitures. See Notes 8, 8 and 10 to our audited consolidated financial statements included in our Annual Reports on Form 10-K for 2016, 2015 and 2014, respectively, for the assumptions used in valuing and expensing these restricted share units and stock option awards in accordance with ASC Topic 718.*

Discussion of Summary Compensation and Plan-Based Awards Tables

Our executive compensation policies and practices, pursuant to which the compensation set forth in the Summary Compensation Table and the Grants of Plan-Based Awards in 2016 table was paid or awarded, are described under Compensation Discussion and Analysis.

Other than the executive severance plans described below, none of our named executive officers has an employment agreement with us. See Potential Payments on Termination or Change of Control.

Executive officers may receive long-term equity incentive awards of stock options, restricted stock or restricted share units, or a combination of stock options, restricted stock and restricted share units under the 2011 Plan, which was approved by stockholders in 2011. The 2011 Plan provides the Committee with discretion to require performance-based standards to be met before awards vest. The Committee awarded time-vested restricted share units to Mr. Palmer in 2016 for retention purposes which vest on the third anniversary of the date of grant. In 2016, each named executive officer received grants of stock options and performance-based restricted share units under the 2011 Plan.

For grants of stock options, the 2011 Plan provides that the option price per share shall be no less than the closing price per share of our common stock at the grant date. The term of any option is no more than ten years from the grant date. Options granted in 2016 become exercisable in three annual installments of 30 percent, 30 percent and 40 percent, beginning on the first anniversary of the grant date; however, all of the options become exercisable for the earlier of three years or the remaining term of the options upon death or total and permanent disability, and for the earlier of five years or the remaining term of the options, upon retirement of the officer. In addition, options generally become exercisable upon a termination of employment following a change of control, and certain options granted to our named executive officers are subject to our Executive Severance Plan. See Potential Payments on Termination or Change of Control. The officers may transfer the options to family members or certain entities in which family members have interests.

Performance-based restricted share unit awards granted in 2016 vest three years following the grant date in a range from zero to 200 percent of the target levels. Awards that vest, if any, are based on our average annual net sales growth and average adjusted ROIC performance during the three years. As of February 7, 2017, the performance-based restricted share units granted in 2016 and 2015 were on pace to vest at the following levels: 117 percent for the 2016 award and 100 percent for the 2015 award. The Committee has determined that the 2014 award vested at 100 percent.

Dividend equivalents on unvested performance-based restricted share units equal to cash dividends on our common stock are accumulated and will be paid in additional shares after the performance-based restricted share units vest, based on the actual number of shares that vest, if any. Dividend equivalents on the time-vested restricted share units granted to Mr. Palmer in 2016 will be accumulated and paid in additional shares when the time-vested restricted share units vest.

Table of Contents

Compensation Tables

Outstanding Equity Awards

The following table sets forth information concerning outstanding equity awards for our named executive officers as of December 31, 2016. Option awards were granted for ten-year terms, ending on the option expiration date set forth in the table. Stock awards were granted as indicated in the footnotes to the table. Where applicable, the numbers of shares subject to option awards and option exercise prices in this table and throughout this proxy statement reflect adjustments for the Halyard Health spin-off on October 31, 2014.

OUTSTANDING EQUITY AWARDS AS OF DECEMBER 31, 2016[(1)]

		Option Awards[(2)]				Stock Awards			
Name	Grant Date	Number of Securities Underlying Unexercised Options(#) Exercisable	Number of Securities Underlying Unexercised Options(#) Unexercisable	Option Exercise Price($)[(3)]	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested(#)[(4)(5)]	Market Value of Shares or Units of Stock That Have Not Vested($)[(6)]	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested(#)[(4)(7)]	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested($)[(6)]
Thomas J. Falk									
	5/3/2016		198,208	126.13	5/3/2026				
	2/29/2016							117,541	13,413,779
	4/29/2015	60,964	142,251	110.72	4/29/2025				
	2/17/2015							63,900	7,292,268
	4/30/2014		83,717	107.51	4/30/2024				
	2/25/2014							69,486	7,929,742
Maria G. Henry									
	5/3/2016		47,570	126.13	5/3/2026				
	2/29/2016							28,209	3,219,211
	4/29/2015	14,902	34,773	110.72	4/29/2025				
	4/29/2015							15,569	1,776,734
Michael D. Hsu									
	5/3/2016		52,525	126.13	5/3/2026				
	2/29/2016							31,148	3,554,610
	4/29/2015	16,257	37,934	110.72	4/29/2025				
	2/17/2015							17,040	1,944,605
	4/30/2014	27,903	18,605	107.51	4/30/2024				
	2/25/2014							15,442	1,762,241
	5/1/2013	41,698		98.92	5/1/2023				
Anthony J. Palmer									
	5/3/2016		28,245	126.13	5/3/2026				
	2/29/2016							16,749	1,911,396
	2/29/2016					5,877	670,683		
	4/29/2015	9,483	22,128	110.72	4/29/2025				
	2/17/2015							9,941	1,134,467
	4/30/2014	19,533	13,023	107.51	4/30/2024				
	2/25/2014							10,809	1,233,523
	5/1/2013	30,325		98.92	5/1/2023				
Elane B. Stock									
	5/3/2016		52,525	126.13	5/3/2026				
	2/29/2016							31,148	3,554,610
	4/29/2015	16,257	37,934	110.72	4/29/2025				
	2/17/2015							17,040	1,944,605
	4/30/2014	27,903	18,605	107.51	4/30/2024				
	2/25/2014							15,442	1,762,241

5/1/2013	25,272	98.92	5/1/2023
5/2/2012	11,168	75.22	5/2/2022
4/26/2011	6,767	62.07	4/26/2021

Table of Contents

Compensation Tables

(1) *The amounts shown reflect outstanding equity awards granted under the 2011 Plan. Under the 2011 Plan, an executive officer may receive awards of stock options, restricted stock or restricted share units, or a combination of stock options, restricted stock and restricted share units.*

(2) *Stock options granted under the 2011 Plan become exercisable in three annual installments of 30 percent, 30 percent and 40 percent, beginning on the first anniversary of the grant date; however, all of the options become exercisable for three years upon death or total and permanent disability and for the earlier of five years or the remaining term of the options, upon retirement of the officer. In addition, options generally become exercisable upon a termination of employment following a change of control, and certain options granted to our named executive officers are subject to our Executive Severance Plan. See Potential Payments on Termination or Change of Control. The officers may transfer the options to family members or certain entities in which family members have interests. In connection with the Halyard Health spin-off on October 31, 2014 the numbers of stock options were increased and the exercise prices were decreased to maintain the fair value of outstanding options immediately before and after the spin-off. Specifically, for each stock option held by a Kimberly-Clark employee, officer, or director, the exercise price was divided by 1.044134 (the Adjustment Ratio) and the number of shares subject to the outstanding stock option was multiplied by the Adjustment Ratio, with fractional shares rounded down to the nearest whole share. No incremental fair value was generated as a result of the adjustments.*

(3) *The 2011 Plan provides that the option price per share shall be no less than the closing price per share of our common stock at grant date.*

(4) *In connection with the Halyard Health spin-off on October 31, 2014, performance-based restricted share units and time-vested restricted share units (and the dividend equivalents credited to these restricted share units equal to cash dividends on our Common Stock as described in footnotes 5 and 6 below) were credited with reinvested dividend equivalents equal to the value of the Halyard Health stock dividend distributed on our common stock (approximately $4.69 per share) to maintain the value of the awards before and after the spin-off.*

(5) *The amount shown represents an award of time-vested restricted share units to Mr. Palmer on February 29, 2016. Subject to accelerated vesting as described in Potential Payments on Termination or Change of Control, the time-vested restricted share unit award vests on the third anniversary of the grant date. Dividend equivalents on these time-vested restricted share units equal to cash dividends on our Common Stock will be accumulated and paid in additional shares when the time-vested restricted share units vest. The units listed include 121 dividend equivalents.*

(6) *The values shown in this column are based on the closing price of our common stock on December 31, 2016 of $114.12 per share.*

(7) *The amounts shown represent awards of performance-based restricted share units granted to our named executive officers in February 2014, 2015 and 2016. Subject to accelerated vesting as described in Potential Payments on Termination or Change of Control, performance-based restricted share unit awards granted in 2014, 2015 and 2016 vest on February 25, 2017, February 17, 2018 and February 28, 2019, respectively, in a range from zero to 200 percent of the target levels indicated based on the achievement of specific performance goals. Based on the current vesting pace of these awards, the amounts shown represent the target level for the 2014 and 2015 grants and the maximum level for the 2016 grant. See Discussion of Summary Compensation and Plan-Based Awards Tables. The units listed include the following amounts of dividend equivalents on performance-based restricted share units granted to our named executive officers (a) equal to cash dividends on our Common Stock based on the target level for the 2014 and 2015 awards and on the maximum level for the 2016 award and (b) with respect to the 2014 award, equal to the value of the stock dividend in connection with the Halyard Health spin-off based on the target level.*

Name	*Year*	*Dividend Equivalents*
Thomas J. Falk	*2016*	*1,211*
	2015	*3,237*
	2014	*8,117*
Maria G. Henry	*2016*	*291*
	2015	*667*
Michael D. Hsu	*2016*	*321*
	2015	*863*
	2014	*1,804*
Anthony J. Palmer	*2016*	*173*
	2015	*504*
	2014	*1,263*
Elane B. Stock	*2016*	*321*
	2015	*863*
	2014	*1,804*

Table of Contents

Compensation Tables

Option Exercises and Stock Vested

The following table sets forth information concerning stock options exercised and stock awards vested during 2016 for our named executive officers.

OPTION EXERCISES AND STOCK VESTED IN 2016

Name	Option Awards Number of Shares Acquired on Exercise(#)	Value Realized on Exercise($)[(1)]	Stock Awards Number of Shares Acquired on Vesting(#)	Value Realized on Vesting($)[(2)]
Thomas J. Falk	206,445	6,039,066	74,936	9,773,902
Maria G. Henry				
Michael D. Hsu			15,455	2,015,796
Anthony J. Palmer	22,600	1,201,839	11,240	1,466,033
Elane B. Stock			12,489	1,628,971

(1) *The dollar amount reflects the total pre-tax value realized by our named executive officers (number of shares exercised times the difference between the fair market value on the exercise date and the exercise price). It is not the grant date fair value disclosed in other locations in this proxy statement. Value from these option exercises was only realized to the extent our stock price increased relative to the stock price at grant (the exercise price).*

(2) *The dollar amount reflects the total pre-tax value received by our named executive officers upon the vesting of time-vested restricted share units or performance-based restricted share units (number of shares vested times the closing price of our common stock on the vesting date), including cash paid in lieu of fractional shares. It is not the grant date fair value disclosed in other locations in this proxy statement.*

Pension Benefits

The following table sets forth information as of December 31, 2016 concerning potential payments to our named executive officers under our pension plan and supplemental pension plans. Information about these plans follows the table.

2016 PENSION BENEFITS

Name[(1)]	Plan Name	Number of Years Credited Service(#)[(3)]	Present Value of Accumulated Benefit($)
Thomas J. Falk[(2)]	Pension Plan	26.5	1,160,989
	Supplemental Pension Plans	26.5	19,594,969

(1) *Each named executive officer other than Mr. Falk joined Kimberly-Clark after January 1, 1997 and therefore is not eligible to participate in our defined benefit pension plans.*

(2) *Mr. Falk is currently eligible for early retirement under the plans and would be eligible to receive the early retirement benefit described in the table below.*

(3) *Mr. Falk has 33.4 years of actual service. Beginning in 2010, the number of years of credited service was frozen at the amounts set forth in the table, as a result of our ceasing to accrue compensation and benefit service under the plans.*

Employees who joined Kimberly-Clark prior to January 1, 1997 are eligible to participate in our pension plans, which provide benefits based on years of service as of December 31, 2009 and pay (annual cash compensation), integrated with social security benefits. Our pension plans are comprised of the Kimberly-Clark Pension Plan and the Supplemental Benefit Plans. We stopped accruing compensation and benefit service for participants under our pension plans for most of our U.S. employees, including our named executive officers, for plan years after 2009. These changes do not affect benefits earned by participants prior to January 1, 2010.

Table of Contents

Compensation Tables

The following is an overview of these plans.

	Pension Plan	Supplemental Pension Plans
Reason for Plan	Provide eligible participants with a competitive level of retirement benefits based on pay and years of service.	Provide eligible participants with benefits as are necessary to fulfill the intent of the pension plan without regard to limitations imposed by the Internal Revenue Code.
Eligible Participants	Salaried employees who joined Kimberly-Clark prior to January 1, 1997.	Salaried employees impacted by limitations imposed by the Internal Revenue Code on payments under the pension plan.
Payment Form	Normal benefit: Single-life annuity payable monthly Other optional forms of benefit are available, including a joint and survivor and a lump sum benefit.	Accrued benefits prior to 2005: Monthly payments or a lump sum after age 55 Accrued benefits for 2005 and after: Lump sum six months after termination of employment
Retirement Eligibility	Full unreduced benefit: Normal retirement age of 65 Age 62 with 10 years of service Age 60 with 30 years of service Disability retirement Early retirement benefit: Age 55 with five years of service. The amount of the benefit is reduced according to the number of years the participant retires before the age the participant is eligible for a full, unreduced benefit. The amount of the reduction is based on age and years of vesting service.	Same
Benefits Payable	Service and earnings frozen as of December 31, 2009. Benefit depends on the participant s years of service under our plan and monthly average earnings over the last 60 months of service or, if higher, the monthly average earnings for the five calendar years in his or her last fifteen years of service for which earnings were the highest.	Same
Benefit Formula for Salaried Employees (As of December 31, 2009) (Payable in the form of a single life annuity)	Unreduced monthly benefit = 1/12 of ((1.125% x final average annual earnings (up to 2/3 of the Social Security Taxable Wage Base)) + (1.425% x final average annual earnings (in excess of 2/3 of the Social Security Taxable Wage Base up to Taxable Wage Base)) + (1.5% x final average annual earnings (over the Social Security Taxable Wage Base))) multiplied by the years of credited service	Same

Table of Contents

Compensation Tables

	Pension Plan	Supplemental Pension Plans
Pensionable Earnings	Annual cash compensation. Long-term equity compensation is not included.	Same
Change of control or reduction in our long-term credit rating (below investment grade)	Not applicable	Participants have the option of receiving the present value of their accrued benefits prior to 2005 in the supplemental pension plans in a lump sum, reduced by 10 percent and 5 percent for active and former employees, respectively.

The estimated actuarial present value of the retirement benefits accrued through December 31, 2016 appears in the 2016 Pension Benefits table. For purposes of determining the present value of accumulated benefits, we have used the potential earlier retirement ages as described above rather than the normal retirement age under the plans, which is 65. For a discussion of how we value these obligations and the assumptions we use in that valuation, see Note 9 to our audited consolidated financial statements included in our 2016 Annual Report on Form 10-K. The calculation of actuarial present value generally is consistent with the methodology and assumptions outlined in our audited consolidated financial statements, except that benefits are reflected as payable as of the date the executive is first entitled to full unreduced benefits (as opposed to the assumed retirement date) and without consideration of pre-retirement mortality. Present values for the qualified plan are based on the RP-2014 annuitant table, as adjusted for company experience and generational improvements, and for the supplemental plans were calculated using the 2017 417(e) mortality table adjusted for mortality improvement to the assumed retirement age. With respect to the supplemental pension plans, the amount of the earlier retirement age lump sum benefit was determined using an approximate 30-year Treasury Bond rate of 2.77%, consistent with the methodology used for purposes of our consolidated financial statements; any actual lump sum benefit would be calculated using the 30-year Treasury Bond rate in effect as of the beginning of the month prior to termination. Present value amounts were determined as of December 31, 2016 based on the financial accounting discount rates for United States pension plans of 4.25% and 4.17% for the qualified plan and the supplemental plans, respectively.

The actuarial increase in 2016 of the projected retirement benefits can be found in footnote 1 to the Summary Compensation Table under the heading Change in Pension Value and Nonqualified Deferred Compensation Earnings. No payments were made to our named executive officers under our pension plans during 2016.

While the supplemental pension plans remain unfunded, in 1994 the Board approved the establishment of a trust and authorized us to make contributions to this trust in order to provide a source of funds to assist us in meeting our liabilities under our supplemental defined benefit plans. For additional information regarding these plans, see Compensation Discussion and Analysis Benefits and Other Compensation Retirement Benefits.

Table of Contents

Compensation Tables

Nonqualified Deferred Compensation

The following table sets forth information concerning nonqualified defined contribution and deferred compensation plans for our named executive officers during 2016.

2016 NONQUALIFIED DEFERRED COMPENSATION

Name	Plan	Company Contributions in 2016($)[1]	Aggregate Earnings in 2016($)[2]	Aggregate WIthdrawals/ DIstributions($)	Aggregate Balance at December 31, 2016($)[3]
Thomas J. Falk	Supplemental 401(k) Plan	269,149	177,445		2,134,120
	Deferred Compensation Plan		140,614		2,510,954
Maria G. Henry	Supplemental 401(k) Plan	97,599	4,676		119,716
	Deferred Compensation Plan				
Michael D. Hsu	Supplemental 401(k) Plan	116,755	22,344		346,378
	Deferred Compensation Plan				
Anthony J. Palmer	Supplemental 401(k) Plan	79,378	(44,444)		845,878
	Deferred Compensation Plan				
Elane B. Stock	Supplemental 401(k) Plan	107,252	19,916		399,099
	Deferred Compensation Plan				

(1) *Contributions consist solely of amounts accrued by Kimberly-Clark under the Supplemental 401(k) Plan, including the profit-sharing contribution in February 2017 with respect to our performance in 2016. These amounts are included in the Summary Compensation Table and represent a portion of the Defined Contribution Plan Payments included in All Other Compensation.*

(2) *The amounts in this column show the changes in the aggregate account balance for our named executive officers during 2016 that are not attributable to company contributions. Aggregate earnings are not included in the Summary Compensation Table because the earnings are not above-market or preferential.*

Table of Contents

Compensation Tables

(3) Balance for the Supplemental 401(k) Plan includes the profit-sharing contribution made in early 2017 with respect to our performance in 2016, as well as the following contributions by Kimberly-Clark under the Supplemental 401(k) Plan in 2015 and 2014 that are reported in the Summary Compensation Table as a portion of All Other Compensation for those years:

Name	Year	Accrued Amount($)
Thomas J. Falk	2015	238,821
	2014	276,385
Maria G. Henry	2015	17,492
Michael D. Hsu	2015	86,020
	2014	82,480
Anthony J. Palmer	2015	68,041
	2014	73,897
Elane B. Stock	2015	91,778
	2014	63,234

In addition to amounts shown in the table that reflect participation in the Supplemental 401(k) Plan, amounts shown for Mr. Falk represent compensation deferred in prior years under our Deferred Compensation Plan and accumulated earnings. Effective in 2005, no further amounts may be deferred under this plan. Participants in the Deferred Compensation Plan may elect to have deferrals credited with yields equal to those earned on any of a subset of funds available in the 401(k) Profit Sharing Plan. Generally, benefits are payable under the Deferred Compensation Plan in accordance with the participant s election in a lump sum or in quarterly installments over a period between two and 20 years. If a participant ceases employment (other than as a result of a total and permanent disability or death or on or after age 55 with five or more years of service), the account balance is paid in a lump sum. In the event of a change of control or a reduction in our long-term credit rating (below investment grade), currently-employed participants have the option to elect an immediate lump-sum payment of their account balance, less a 10 percent penalty.

Table of Contents

Compensation Tables

Overview of 401(k) Profit Sharing Plan and Supplemental 401(k) Plan.

	401(k) Profit Sharing Plan	Supplemental 401(k) Plan
Purpose	To assist employees in saving for retirement, as well as to provide a discretionary profit sharing contribution in which contributions will be based on our profit performance.	To provide benefits to the extent necessary to fulfill the intent of the 401(k) Profit Sharing Plan without regard to the limitations imposed by the Internal Revenue Code on qualified defined contribution plans.
Eligible participants	Most U.S. employees.	Salaried employees impacted by limitations imposed by the Internal Revenue Code on the 401(k) Profit Sharing Plan.
Is the plan qualified under the Internal Revenue Code?	Yes.	No.
Can employees make contributions?	Yes.	No.
Do we make contributions or match employee contributions?	We match 100% of employee contributions, to a yearly maximum of 4% of eligible compensation. In addition, we may make a discretionary profit sharing contribution of 0% to 8% of eligible compensation based on our profit performance.	We provide credit to the extent our contributions to the 401(k) Profit Sharing Plan are limited by the Internal Revenue Code.
When do account balances vest?	Account balances under these plans generally vest once the participant completes at least two years of service.	Same.
How are account balances invested?	Account balances are invested in certain designated investment options selected by the participant.	Account balances are credited with earnings and losses as if these account balances were invested in certain designated investment options selected by the participant.
When are account balances distributed?	Distributions of the participant s vested account balance are only available after termination of employment. Loans, hardship and certain other withdrawals are allowed prior to termination of employment for certain vested amounts under the 401(k) Profit Sharing Plan.	Distributions of the participant s vested account balance are payable after termination of employment.

Table of Contents

Compensation Tables

While the Supplemental 401(k) Plan remains unfunded, in 1996 the Board amended a previously established trust and authorized us to make contributions to this trust in order to provide a source of funds to assist us in meeting our liabilities under our supplemental defined contribution plans.

Potential Payments on Termination or Change of Control

Our named executive officers are eligible to receive certain benefits in the event of termination of employment, including following a change of control. This section describes various termination scenarios as well as the payments and benefits payable under those scenarios.

Severance Benefits
We maintain two severance plans that cover our executive officers, depending on the circumstances that result in their termination. Those plans include the Executive Severance Plan, which is applicable when an executive officer is terminated following a change of control, and the Severance Pay Plan, which is applicable in the event of certain other involuntary terminations. An executive officer may not receive severance payments under more than one of the plans described below.

Executive Severance Plan. We have agreements under our Executive Severance Plan with each named executive officer. The agreements provide that, in the event of a Qualified Termination of Employment (as described below), the participant will receive a cash payment in an amount equal to the sum of:

Two times the sum of annual base salary and the average annual incentive award for the three prior fiscal years,

The value of any forfeited awards, based on the closing price of our common stock at the date of the participant s separation from service, of restricted stock and time-vested restricted share units,

The number of performance-based restricted share units that are forfeited multiplied by the average performance-based restricted share unit payment for the prior three years,

The value of any forfeited benefits under the 401(k) Profit Sharing Plan and Supplemental 401(k) Plan,

The value of the employer match and an assumed 3 percent profit sharing contribution the named executive officer would have received if he or she had remained employed an additional two years under the 401(k) Profit Sharing Plan and Supplemental 401(k) Plan, and

the cost of two years of COBRA premiums for medical and dental coverage.

In addition, nonqualified stock options will vest and be exercisable within the earlier of five years from the participant s termination or the remaining term of the option.

A Qualified Termination of Employment is a separation of service within two years following a change of control of Kimberly-Clark (as defined in the plan) either involuntarily without cause or by the participant with good reason. In addition, any involuntary separation of service without cause within one year before a change of control will also be determined to be a Qualified Termination of Employment if it is in connection with, or in anticipation of, a change of control.

The current agreements with our named executive officers expire on December 31, 2017, unless extended by the Committee.

These agreements reflect that the named executive officer is not entitled to a tax gross-up if the named executive officer incurs an excise tax due to the application of Section 280G of the Internal Revenue Code. Instead, payments and benefits payable to the named executive officer will be reduced to the extent doing so would result in the executive retaining a larger after-tax amount, taking into account the income, excise and other taxes imposed on the payments and benefits.

Table of Contents

Compensation Tables

The Board has determined the eligibility criteria for participation in the plan. Each named executive officer s agreement under the Executive Severance Plan provides that the executive will retain in confidence any confidential information known to the executive concerning Kimberly-Clark and Kimberly-Clark s business so long as such information is not publicly disclosed.

Severance Pay Plan. Our Severance Pay Plan generally provides eligible employees (including our named executive officers) severance payments and benefits in the event of certain involuntary terminations. Under the Severance Pay Plan, a named executive officer (employed for at least one year) whose employment is involuntarily terminated would receive:

Two times the sum of annual base salary and the average annual incentive award for the three prior fiscal years,

If the termination occurs after March 31, the pro-rated current year annual incentive award based on actual performance,

An amount equal to the cost of six months of COBRA premiums for medical coverage, and

An amount equal to the cost of six months of outplacement services and three months of participation in our employee assistance program.

If the named executive officer s employment is involuntarily terminated within the first 12 months of employment, the Severance Pay Plan provides that the named executive officer would receive three months base salary.

Severance pay under the Severance Pay Plan will not be paid to any participant who is terminated for cause (as defined under the plan), is terminated during a period in which the participant is not actively at work for more than 25 weeks (except to the extent otherwise required by law), voluntarily quits or retires, dies or is offered a comparable position (as defined under the plan).

A named executive officer must execute a full and final release of claims against us within a specified period of time following termination to receive severance benefits under our severance pay plans. Under the Severance Pay Plan, if the release has been timely executed, severance benefits are payable as a lump sum cash payment no later than 60 days following the participant s termination date. Any current year annual incentive award that is payable under the Severance Pay Plan will be paid at the same time as it was payable under the Executive Officer Achievement Award Program, but no later than 60 days following the calendar year of the separation from service.

2011 Plan. In the event of a Qualified Termination of Employment (as described below) of a participant in the 2011 Plan in connection with a change of control, all of the participant s awards not subject to performance goals would become fully vested. Any awards subject to performance goals will vest at the average performance-based restricted share unit payout for awards for the three prior fiscal years. Unless otherwise governed by another applicable plan or agreement, such as the terms of the Executive Severance Plan, options in this event would be exercisable for the lesser of three months or the remaining term of the option. If any amounts payable under the 2011 Plan result in excise tax due to the application of Section 280G of the Internal Revenue Code, the 2011 Plan provides that payments and benefits payable to the named executive officer will be reduced to the extent necessary so that no excise tax will be imposed if doing so would result in the executive retaining a larger after-tax amount, taking into account the income, excise and other taxes imposed on the payments and benefits. A Qualified Termination of Employment is a termination of the participant s employment within two years following a change of control of Kimberly-Clark (as defined in the 2011 Plan), unless the termination is by reason of death or disability or unless the termination is by Kimberly-Clark for cause or by the participant without good reason.

Table of Contents

Compensation Tables

The 2011 Plan provides that, if pending a change of control, the Committee determines that Kimberly-Clark common stock will cease to exist without an adequate replacement security that preserves the economic rights and positions of the participants in the 2011 Plan (for example, as a result of the failure of the acquiring company to assume outstanding grants), then all options and stock appreciation rights will become exercisable, in a manner deemed fair and equitable by the Committee, immediately prior to the consummation of the change of control. In addition, the restrictions on all restricted stock will lapse and all restricted share units, performance awards and other stock-based awards will vest immediately prior to the consummation of the change of control and will be settled upon the change of control in cash equal to the fair market value of the restricted share units, performance awards and other stock-based awards at the time of the change of control.

In the event of a termination of employment of a participant in the 2011 Plan, other than a Qualified Termination of Employment, death, total and permanent disability or retirement of the participant, the participant will forfeit all unvested restricted stock and restricted share units, and any vested stock options held by the participant will be exercisable for the lesser of three months or the remaining term of the option.

Retirement, Death and Disability

Retirement. In the event of retirement (separation from service on or after age 55), our named executive officers are entitled to receive:

Benefits payable under our pension plans for eligible participants (if the participant has at least five years of vesting service) (see Pension Benefits for additional information),

Their account balance, if any, under the Deferred Compensation Plan,

Their account balance under the Supplemental 401(k) Plan (if the participant has at least two years of vesting service),

Their account balance under the 401(k) Profit Sharing Plan, including any unvested employer contributions,

Accelerated vesting of unvested stock options, and the options will be exercisable until the earlier of five years or the remaining term of the options,

For units outstanding more than six months after the date of grant, performance-based restricted share units will be payable based on attainment of the performance goal at the end of the restricted period,

Annual incentive award payment under the Executive Officer Achievement Award Program as determined by the Committee in its discretion,

For participants with at least fifteen years of vesting service and who joined Kimberly-Clark before January 1, 2004, retiree medical credits based on number of years of vesting service (up to a maximum of $104,500 in credits), and

For participants with at least fifteen years of vesting service, continuing coverage under Kimberly-Clark s group life insurance plan.

Death. In the event of death while an active employee, the following benefits are payable:

50 percent of the benefits under our pension plans for eligible participants, not reduced for early payment (if the participant has at least five years of vesting service) (see Pension Benefits), payable under the terms of the plans to

the participant s spouse or minor children,

Their account balance, if any, under the Deferred Compensation Plan,

Their account balance under the Supplemental 401(k) Plan,

Their account balance under the 401(k) Profit Sharing Plan, including any unvested employer contributions,

Table of Contents

Compensation Tables

Accelerated vesting of unvested stock options, and the options will be exercisable until the earlier of three years or the remaining term of the options,

Time-vested restricted share units will be vested pro rata, based on the number of full months of employment during the restricted period prior to the participant s termination of employment, payable within 70 days following the end of the restricted period,

For units outstanding more than six months after the date of grant, performance-based restricted share units will be vested pro rata, based on attainment of the performance goal at the end of the restricted period, payable within 70 days following the end of the restricted period,

Annual incentive award payment under the Executive Officer Achievement Award Program as determined by the Committee in its discretion,

For participants who were at least age 55, had at least fifteen years of vesting service and joined Kimberly-Clark before January 1, 2004, medical credits payable to their spouse or dependent based on number of years of vesting service (up to a maximum of $104,500 in credits), and

Payment of benefits under Kimberly-Clark s group life insurance plan (which is available to all salaried employees in the U.S.) equal to two times the participant s annual pay, up to $2 million (plus any additional coverage of three, four, five or six times the participant s annual pay, in increments of up to $1 million each, purchased by the participant at group rates). Benefits provided by Kimberly-Clark and employee-purchased benefits cannot exceed $6 million.

Disability. In the event of a separation of service due to a total and permanent disability, as defined in the applicable plan, our named executive officers are entitled to receive:

Benefits payable under our pension plans for eligible participants, not reduced for early payment, if the participant has at least five years of vesting service (see Pension Benefits for additional information),

Their account balance, if any, under the Deferred Compensation Plan,

Accelerated vesting of unvested stock options, and the options will be exercisable until the earlier of three years or the remaining term of the options,

Time-vested restricted share units will be vested pro rata, based on the number of full months of employment during the restricted period prior to the participant s termination of employment, payable within 70 days following the end of the restricted period,

For units outstanding more than six months after the date of grant, performance-based restricted share units will be vested pro rata, based on attainment of the performance goal at the end of the restricted period, payable within 70 days following the end of the restricted period,

Annual incentive award payment under the Executive Officer Achievement Award Program as determined by the Committee in its discretion,

For participants of at least age 55 with at least fifteen years of vesting service and who joined Kimberly-Clark before January 1, 2004, medical credits based on number of years of vesting service (up to a maximum of $104,500 in credits),

Continuing coverage under Kimberly-Clark s group life insurance plan (available to all U.S. salaried employees), with no requirement to make monthly contributions toward coverage during disability, and

Payment of benefits under Kimberly-Clark s Long-Term Disability Plan (available to all U.S. salaried employees). Long-term disability under the plan would provide income protection of monthly base pay, ranging from a minimum monthly benefit of $50 to a maximum monthly benefit of $20,000. Benefits are reduced by the amount of any other Kimberly-Clark or government-provided income benefits received (but will not be lower than the minimum monthly benefit).

Table of Contents

Compensation Tables

Potential Payments on Termination or Change of Control Table

The following table presents the approximate value of (i) the severance benefits for our named executive officers under the Executive Severance Plan had a Qualified Termination of Employment under that plan occurred on December 31, 2016; (ii) the severance benefits for our named executive officers under the Severance Pay Plan if an involuntary termination had occurred on December 31, 2016; (iii) the benefits that would have been payable on the death of our named executive officers on December 31, 2016; (iv) the benefits that would have been payable on the total and permanent disability of our named executive officers on December 31, 2016; and (v) the potential payments to Messrs. Falk and Palmer if they had retired on December 31, 2016. If applicable, amounts in the table were calculated using the closing price of our common stock on December 31, 2016 of $114.12 per share.

The termination benefits provided to our executive officers upon their voluntary termination of employment do not discriminate in scope, terms or operation in favor of our executive officers compared to the benefits offered to all salaried employees, so those benefits are not included in the table below. Because none of our named executive officers, other than Mr. Falk, was eligible to retire as of December 31, 2016, potential payments assuming retirement on that date are not included for the other named executive officers.

The amounts presented in the table are in addition to amounts each named executive officer earned or accrued prior to termination, such as the officer s balances under our Deferred Compensation Plan, accrued retirement benefits (including accrued pension plan benefits), previously vested benefits under our qualified and non-qualified plans, previously vested options, restricted stock and restricted share units and accrued salary and vacation. For information about these previously earned and accrued amounts, see Summary Compensation, Outstanding Equity Awards, Option Exercises and Stock Vested, Pension Benefits, and Nonqualified Deferred Compensation.

Table of Contents

Compensation Tables

POTENTIAL PAYMENTS ON TERMINATION OR CHANGE OF CONTROL TABLE

Name	Cash Payment($)	Equity with Accelerated Vesting($)	Additional Retirement Benefits($)	Continued Benefits and Other Amounts($)	Total($)
Thomas J. Falk					
Qualified Termination of Employment	10,148,156(1)	30,062,134(2)	537,724(3)	23,990(4)	40,772,004
Involuntary Termination(5)	10,148,156			11,545(6)	10,159,701
Death	4,466,388(7)	16,709,045(8)	(9)	104,500	21,279,933
Disability	2,466,388(7)	16,709,045(8)	1,020,333(10)	104,500(11)	20,300,266
Retirement	2,466,388(1)	29,673,197	367,951	104,500(12)	32,612,036
Maria G. Henry					
Qualified Termination of Employment	3,751,870(1)	5,208,734(2)	304,554(3)	30,037(4)	9,295,195
Involuntary Termination(5)	3,751,870			13,056(6)	3,764,926
Death	2,266,904(7)	1,999,528(8)	95,606		4,362,038
Disability	766,904(7)	1,999,528(8)		(11)	2,766,432
Michael D. Hsu					
Qualified Termination of Employment	4,066,379(1)	8,551,301(2)	222,799(3)	23,990(4)	12,864,469
Involuntary Termination(5)	4,066,379			11,545(6)	4,077,924
Death	2,513,540(7)	4,092,140(8)			6,605,680
Disability	883,540(7)	4,092,140(8)		(11)	4,975,680
Anthony J. Palmer					
Qualified Termination of Employment	3,219,439(1)	5,215,318(2)	180,248(3)	40,538(4)	8,655,543
Involuntary Termination(5)	3,219,439			15,461(6)	3,234,900
Death	1,924,464(7)	2,742,224(8)			4,666,688
Disability	644,464(7)	2,742,224(8)		(11)	3,386,688
Retirement	644,464(1)	4,440,763			5,085,227
Elane B. Stock					
Qualified Termination of Employment	3,733,784(1)	7,694,842(2)	209,494(3)	37,063(4)	11,675,183
Involuntary Termination(5)	3,733,784			14,592(6)	3,748,376
Death	2,371,019(7)	4,092,140(8)			6,463,159
Disability	741,019(7)	4,092,140(8)		(11)	4,833,159

(1) *Assumes the Committee would approve full payment under the Executive Officer Achievement Award Program for 2016; actual amount that would be paid is determined by the Committee in its discretion.*

(2) *Assumes vesting of unvested performance-based restricted share units at the target level for the 2014 and 2015 grants and at the maximum level for the 2016 grant. See Outstanding Equity Awards. In addition, under the terms of the 2011 Plan, if the Committee were to determine that, pending a change of control, our common stock would cease to exist without an adequate replacement security, the payment of this amount would not be contingent upon the Qualified Termination of Employment of the named executive officer. This provision also applies to grants under the 2011 Plan to employees other than our named executive officers.*

(3) *Includes the value of two additional years of employer contributions under the 401(k) Profit Sharing Plan and the Supplemental 401(k) Plan, pursuant to the terms of the Executive Severance Plan.*

(4) *Includes an amount equal to 24 months of COBRA medical and dental coverage.*

(5) *Benefits payable under the Severance Pay Plan. For Messrs. Falk and Palmer, does not include accelerated equity vesting that occurred when they became retirement eligible at age 55. See the benefits payable for Messrs. Falk and Palmer for retirement for the amount of this accelerated equity vesting.*

(6) *Includes an amount equal to six months of COBRA medical coverage under each executive s specific health insurance plan, as well as outplacement services valued at $6,000.*

(7) *For death, includes the payment of benefits under Kimberly-Clark s group life insurance plan (which is available to all U.S. salaried employees). For death and disability, assumes the Committee would approve full payment under the Executive Officer Achievement Award Program for 2016; actual amount that would be paid is determined by the Committee in its discretion. For disability, does not include benefits payable under Kimberly-Clark s Long-Term Disability Plan (which is available to all U.S. salaried employees), the value of which would be dependent on the life span of the named executive officer and the value of any Kimberly-Clark or government-provided income benefits received.*

(8) *Assumes pro rata vesting of unvested performance-based restricted share units at the target level for the 2014 and 2015 grants and at the maximum level for the 2016 grant. See Outstanding Equity Awards.*

Table of Contents

Compensation Tables

(9) For Mr. Falk, the estimated actuarial present value of the pension benefits payable on death is less than the present value of the aggregate accumulated benefit set forth in the Pension Benefits table; as a result, no incremental benefit as a result of his death is included in the amount.

(10) Includes the excess, if any, of the estimated actuarial present value of the retirement benefits payable on disability for the named executive officer through December 31, 2016 (assuming the named executive officer elects to receive a continuing benefit for his surviving spouse) over the present value of the aggregate accumulated benefit set forth in the Pension Benefits table.

(11) For Mr. Falk, includes the value of retiree medical credits assuming total and permanent disability on December 31, 2016. Our named executive officers would also be eligible for continuing coverage under Kimberly-Clark s group life insurance plan assuming total and permanent disability on December 31, 2016, which benefit does not discriminate in scope, terms or operation in favor of our named executive officers compared to the benefits offered to all U.S. salaried employees and is therefore not included in the table.

(12) Includes the value of retiree medical credits assuming Mr. Falk s retirement on December 31, 2016. Mr. Falk would also be eligible for continuing coverage under Kimberly-Clark s group life insurance plan assuming retirement on December 31, 2016, which benefit does not discriminate in scope, terms or operation in favor of our executive officers compared to the benefits offered to all U.S. salaried employees and is therefore not included in the table.

Equity Compensation Plan Information

The following table gives information about Kimberly-Clark s common stock that may be issued upon the exercise of options, warrants, and rights under all of Kimberly-Clark s equity compensation plans as of December 31, 2016.

	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (in millions) (a)	Weighted average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (in millions) (c)
Equity compensation plans approved by stockholders[1]	8.9[2]	101.16	18

(1) Includes (a) the stockholder-approved 2011 Plan, which effective April 21, 2011 amended and restated the stockholder-approved 2001 Equity Participation Plan and (b) the stockholder-approved 2011 Outside Directors Compensation Plan, which effective April 21, 2011 amended and restated the Outside Directors Compensation Plan.

(2) Includes 1.9 million restricted share units granted under the 2011 Plan (including shares that may be issued pursuant to outstanding performance-based restricted share units, assuming the target award is met; actual shares issued may vary, depending on actual performance). Upon vesting, a share of Kimberly-Clark common stock is issued for each restricted share unit. Column (b) does not take these awards into account because they do not have an exercise price. Also includes 0.2 million restricted share units granted under the 2011 Outside Directors Compensation Plan. Upon retirement from or any other termination of service from the Board, a share of Kimberly-Clark common stock is issued for each restricted share unit. Column (b) does not take these awards into account because they do not have an exercise price.

2011 Outside Directors Compensation Plan

In 2011, our Board and our stockholders approved the 2011 Outside Directors Compensation Plan (as amended in 2016). A maximum of 1,044,134 shares of Kimberly-Clark common stock was available for grant under this plan (as adjusted for the Halyard Health spin-off). The Board may grant awards in the form of stock options, SARs, restricted stock, restricted share units, or any combination of cash, stock options, SARs, restricted shares or restricted share units under this plan.

Table of Contents

Proposal 4. Advisory Vote on the Frequency of Future Advisory Votes on Executive Compensation

This proposal gives stockholders the opportunity to indicate how frequently we should seek an advisory vote on our executive compensation, such as Proposal 3 above. By voting on this Proposal 4, stockholders can indicate whether they would prefer an advisory vote on executive compensation every one, two, or three years.

In 2011, stockholders voted to adopt the recommendation of our Board to vote on the say-on-pay proposal every year at our annual meeting. As a result, we have submitted our say-on-pay proposal to our stockholders at each annual meeting since 2011. As required by SEC rule, this year we are resubmitting a proposal on the frequency.

After careful consideration, our Board of Directors has determined that an advisory vote on executive compensation that occurs every year is the most appropriate alternative for Kimberly-Clark, and therefore our Board of Directors recommends that you vote for a one-year interval for the advisory vote on executive compensation.

In formulating its recommendation, our Board considered that an annual advisory vote on executive compensation will allow our stockholders to provide us with their direct input on our compensation objectives, policies and practices as disclosed in the proxy statement every year.

The option that receives the highest number of votes cast will be considered the frequency recommended by stockholders. However, because this vote is advisory and not binding on our Board or Kimberly-Clark, our Board may decide that it is in the best interests of our stockholders and Kimberly-Clark to hold an advisory vote on executive compensation more or less frequently than the option approved by our stockholders.

The Board of Directors unanimously recommends a vote for the option of every ONE YEAR as the frequency with which stockholders are provided an advisory vote on the compensation of our named executive officers.

Table of Contents

Other Information

Security Ownership Information

The following table shows the number of shares of our common stock beneficially owned as of December 31, 2016, by each director and nominee, by each named executive officer, and by all directors, nominees and executive officers as a group.

Name	Number of Shares[(1)(2)(3)(4)]	Percent of Class
John F. Bergstrom	45,792	*
Abelardo E. Bru	28,631	*
Robert W. Decherd	80,038(5)	*
Thomas J. Falk	926,272(6)(7)	*
Fabian T. Garcia	9,784	*
Maria G. Henry	44,576(6)	*
Michael D. Hsu	145,766(6)	*
Mae C. Jemison, M.D.	34,792	*
James M. Jenness	26,349	*
Nancy J. Karch	14,603	*
Anthony J. Palmer	105,906(6)	*
Christa S. Quarles	734	*
Ian C. Read	23,479	*
Marc J. Shapiro	59,150(8)	*
Elane B. Stock	156,122(6)	*
Michael D. White	3,981	*
All directors, nominees and executive officers as a group (20 persons)	1,998,543(6)(9)	*

* *Each director, nominee, named executive officer and the directors, nominees and executive officers as a group, owns less than one percent of the outstanding shares of our common stock.*

(1) *Except as otherwise noted, the directors, nominees and named executive officers, and the directors, nominees and executive officers as a group, have sole voting and investment power with respect to the shares listed.*

(2) *As of the date of this proxy statement, none of the executive officers or directors has pledged any shares of our common stock.*

(3) *Share amounts include unvested restricted share units granted to the following named executive officers under the 2011 Plan as indicated below. Amounts representing performance-based restricted share units in the table below represent target levels for these awards. See Compensation Tables Outstanding Equity Awards for additional information regarding these grants.*

Table of Contents

Name	*Time-Vested Restricted Share Units(#)*	*Performance-Based Restricted Share Units(#)*
Thomas J. Falk		*192,156*
Maria G. Henry		*29,674*
Michael D. Hsu		*48,056*
Anthony J. Palmer	*5,877*	*29,125*
Elane B. Stock		*48,056*

(4) For each director who is not an officer or employee of Kimberly-Clark, share amounts include restricted share units and shares of restricted stock granted under our Outside Directors Compensation Plan. These awards are restricted and may not be transferred or sold until the Outside Director retires from or otherwise terminates service on the Board. See footnote 4 to the 2016 Outside Director Compensation table for the number of shares of restricted stock and restricted share units that the Outside Directors had outstanding as of December 31, 2016.

(5) Voting and investment power with respect to 41,944 of the shares is shared with Mr. Decherd s spouse.

(6) Includes shares of common stock held by the trustee of the 401(k) Profit Sharing Plan for the benefit of, and that are attributable to, the accounts in the plans of, the named executive officers. Also includes the following shares which could be acquired within 60 days of December 31, 2016 by:

Name	*Number of Shares That Could be Acquired Within 60 Days of December 31, 2016*
Thomas J. Falk	*60,964*
Maria G. Henry	*14,902*
Michael D. Hsu	*85,858*
Anthony J. Palmer	*59,341*
Elane B. Stock	*87,367*
All directors, nominees and executive officers as a group (20 persons)	*441,885*

(7) Includes 99,411 shares held by TKM, Ltd. and 559,298 shares held by TKM II, Ltd. TKM, Ltd. is a family limited partnership, which is owned by (i) an entity owned by a trust, controlled by Mr. Falk and his spouse as general partner and (ii) two family trusts previously established for the benefit of Mr. Falk s child as limited partners. TKM II, Ltd. is a family limited partnership which is owned by (i) an entity owned by a trust, controlled by Mr. Falk and his spouse as general partner, and (ii) a trust controlled by Mr. Falk and his spouse as limited partners. Mr. Falk shares voting control over the shares held by TKM, Ltd. and TKM II, Ltd.

(8) Includes 8,000 shares held by a trust for the benefit of Mr. Shapiro s children and for which Mr. Shapiro shares voting and investment power.

(9) Voting and investment power with respect to 726,798 of the shares is shared.

Our Corporate Governance Policies provide that, within three years of joining the Board, all Outside Directors should own an amount of our common stock or share units at least equal in value to three times the annual Board cash compensation. For the purpose of these stock ownership guidelines, a director is deemed to own beneficially-owned shares, as well as restricted stock and restricted share units (whether or not any applicable restrictions have lapsed), but not stock options (whether vested or unvested). As of December 31, 2016, these guidelines had been met or exceeded by each of the Outside Directors.

Table of Contents

The following table sets forth the information, as of December 31, 2016, regarding persons or groups known to us to be beneficial owners of more than five percent of our common stock.

Name and Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned	Percentage of Common Stock Outstanding
BlackRock, Inc.[(1)] 55 East 52nd Street New York, NY 10055	26,345,573	7.4%
The Vanguard Group Inc.[(2)] 100 Vanguard Boulevard Malvern, PA 19355	26,331,918	7.4%

(1) *The address, number and percentage of shares of our common stock beneficially owned by BlackRock, Inc. (BlackRock) are based on the Schedule 13G/A filed by BlackRock with the SEC on January 25, 2017. According to the filing, BlackRock had sole voting power with respect to 22,884,957 shares, sole dispositive power with respect to 26,345,573 shares, and did not have shared voting or dispositive power as to any shares.*

(2) *The address, number and percentage of shares of our common stock beneficially owned by The Vanguard Group Inc. (Vanguard) are based on the Schedule 13G/A filed by Vanguard with the SEC on February 10, 2017. According to the filing, Vanguard had sole voting power with respect to 561,589 shares, sole dispositive power with respect to 25,700,986 shares, shared dispositive power with respect to 630,932 shares and shared voting power with respect to 74,235 shares.*

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors, executive officers and any person owning more than 10 percent of a class of our common stock to file reports with the SEC regarding their ownership of our stock and any changes in ownership. We maintain a compliance program to assist our directors and executive officers in making these filings. We believe that our executive officers and directors timely complied with their filing requirements for 2016.

Transactions With Related Persons

Policies and Procedures for Review, Approval or Ratification of Related Person Transactions. The Board has adopted procedures for reviewing any transactions between the company and certain   related persons   that involve amounts above certain thresholds. The SEC requires that our proxy statement disclose these   related person transactions.   A related person is defined under the SEC s rules and includes our directors, executive officers and five percent stockholders.

The Board s procedures provide that:

The Nominating and Corporate Governance Committee is best suited to review, approve and ratify related person transactions involving any director, nominee for director, any five percent stockholder, or any of their immediate family members or related firms, and

The Audit Committee is best suited to review, approve and ratify related person transactions involving executive officers (or their immediate family members or related firms), other than any executive officer that is also a Board member.

Either Committee may, in its sole discretion, refer its consideration of related person transactions to the full Board.

Each director, director nominee and executive officer is required to promptly provide written notification of any material interest that he or she (or an immediate family member) has or will have in a transaction with Kimberly-Clark. Based on a review of the transaction, a determination will be made as to whether the transaction constitutes a related person transaction under the SEC s rules. As appropriate, the Nominating and Corporate Governance Committee or the Audit Committee will then review the terms and substance of the transaction to determine whether to ratify or approve the related person transaction.

Table of Contents

In determining whether the transaction is consistent with Kimberly-Clark s best interest, the Nominating and Corporate Governance Committee or the Audit Committee may consider any factors deemed relevant or appropriate, including:

Whether the transaction is on terms comparable to those that could be obtained in arm s-length dealings with an unrelated third party;

Whether the transaction constitutes a conflict of interest under our Code of Conduct, the nature, size or degree of any conflict, and whether mitigation of the conflict is feasible;

The impact of the transaction on a director s independence; and

Whether steps have been taken to ensure fairness to Kimberly-Clark.

2016 Related Person Transactions. We share aircraft hangar space, pilots and related services with Bergstrom Corporation, an entity that is majority-owned by Mr. Bergstrom. During 2016, Bergstrom Corporation paid us $587,000 for its share of the costs associated with these services. We believe this arrangement is fair and reasonable, advantageous to Kimberly-Clark, and consistent with national benchmarking. Based on an analysis of the arrangement, we also believe its terms to be comparable to those that could be obtained in arm s-length dealings with an unrelated third party.

Stockholders Sharing the Same Household

Stockholders who have the same address and last name as of the record date and have not previously requested electronic delivery of proxy materials may receive their voting materials in one of two ways. They may receive a single proxy package containing one annual report, one proxy statement and multiple proxy cards for each stockholder. Or they may receive one envelope containing a Notice of Internet Availability of Proxy Materials for each stockholder. This householding procedure helps us reduce printing and postage costs associated with providing our proxy materials and is consistent with our sustainability efforts.

If you reside in the same household with another stockholder with the same last name and would like us to mail proxy-related materials to you separately in the future, or are receiving multiple copies of materials and wish to receive only one set of proxy-related materials, please contact Stockholder Services by mail at P.O. Box 619100, Dallas, Texas 75261-9100, by telephone at (972) 281-5317 or by e-mail at stockholders@kcc.com.

Beneficial stockholders can request information about householding from their banks, brokers or other such holders of record.

Stockholder Proposals for Inclusion in Next Year s Proxy Statement

Stockholders who, in accordance with SEC Rule 14a-8, wish to present proposals for inclusion in our proxy statement and form of proxy for the 2018 Annual Meeting of Stockholders must submit their proposals to the Corporate Secretary, Kimberly-Clark Corporation, P.O. Box 619100, Dallas, Texas 75261-9100, so that they are received at this address no later than October 30, 2017.

Upon receipt of a proposal, we will determine whether or not to include the proposal in the proxy statement and form of proxy in accordance with applicable law. We suggest that proposals be forwarded by certified mail, return receipt requested.

Stockholder Director Nominees for Inclusion in Next Year s Proxy Statement

Stockholders who wish to nominate one or more director candidates to be included in our proxy statement and form of proxy pursuant to By-Law 11A of our By-Laws (a proxy access nomination) must submit written notice of the nomination to the Corporate Secretary so that it is received at least 75 days, but not more than 100 days, before the 2018 Annual Meeting of Stockholders (unless we give less than 75 days notice of the annual meeting date, in which case the notice must be received within 10 days after the meeting date is announced). Any notice of a proxy access nomination must comply with the requirements of our By-Laws, which may be found in the Investors section of our website at www.kimberly-clark.com, and any applicable law.

Stockholder Director Nominees Not Included in Next Year s Proxy Statement

Under our Certificate of Incorporation and By-Laws, a stockholder who wishes to nominate a candidate for election to the Board who is not intended to be included in our proxy statement for the 2018 Annual Meeting of Stockholders is required to give written notice to our Corporate Secretary. We must receive this notice at least 75 days, but not more than 100 days, before the 2018 Annual Meeting of Stockholders (unless we give less than 75 days notice of the annual meeting date, in which case the notice must be received within 10 days after the meeting date is announced). Any notice of a director nomination must comply with the requirements of our By-Laws and any applicable law. A nomination that does not comply with the requirements set forth in our Certificate of Incorporation and By-Laws will not be considered for presentation at the annual meeting, but will be considered by the Nominating and Corporate Governance Committee for any vacancies arising on the Board between annual meetings in accordance with the process described in Proposal 1. Election of Directors - Process and Criteria for Nominating Directors.

Other Stockholder Proposals Not Included in Next Year s Proxy Statement

Under our Certificate of Incorporation and By-Laws, a stockholder who wishes to present a proposal at the 2018 Annual Meeting of Stockholders, other than a matter brought under SEC Rule 14a-8 or a director nomination, must submit written notice of the proposal to the Corporate Secretary. This notice must be received between January 10, 2018 and February 4, 2018, unless the 2018 Annual Meeting is held earlier than March 21, 2018 or later than June 19, 2018, in which case the notice must be received at least 75 days, but not more than 100 days, before the 2018 Annual Meeting of Stockholders (unless we give less than 75 days notice of the annual meeting date, in which case the notice must be received within 10 days after the meeting date is announced). Any notice of a proposal must comply with the requirements of our By-Laws and any applicable law.

Table of Contents

Other Matters to Be Presented at the Annual Meeting

Our management does not know of any other matters to be presented at the Annual Meeting. Should any other matter requiring a vote of the stockholders arise at the meeting, the persons named in the proxy will vote the proxies in accordance with their best judgment.

Kimberly-Clark Corporation	By Order of the Board of Directors.
P.O. Box 619100	
Dallas, Texas 75261-9100	Jeffrey P. Melucci
Telephone (972) 281-1200	Vice President Senior Deputy General
February 27, 2017	Counsel and Corporate Secretary

Table of Contents

Kimberly-Clark Corporation
Invitation to Stockholders
Notice of 2017 Annual Meeting
Proxy Statement

Table of Contents

Electronic Voting Instructions

Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by 1:00 a.m., Central Time, on April 20, 2017.

Vote by Internet

Go to **www.envisionreports.com/kmb**
Or scan the QR code with your smartphone
Follow the steps outlined on the secure website

Vote by telephone

Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada on a touch tone telephone

Follow the instructions provided by the recorded message

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

Annual Stockholder Meeting Proxy Card

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

A **Election of Directors** The Board of Directors recommends a vote **FOR** the listed nominees (terms to expire at 2018 Annual Stockholder Meeting).

1. Nominees:	For	Against	Abstain		For	Against	Abstain		For	Against	Abstain
01 - John F. Bergstrom				02 - Abelardo E. Bru				03 - Robert W. Decherd			
04 - Thomas J. Falk				05 - Fabian T. Garcia				06 - Michael D. Hsu			
07 - Mae C. Jemison, M.D.				08 - James M. Jenness				09 - Nancy J. Karch			

10 - Christa S. Quarles

11 - Ian C. Read

12 - Marc J. Shapiro

13 - Michael D. White

Proposals The Board of Directors recommends a vote **FOR** Proposals 2 and 3 and a vote for **1 YEAR** on Proposal 4.

For **Against** **Abstain**

As part of the Company's on-going monitoring of credit quality of the loan portfolio, management tracks certain credit quality indicators including trends related to (i) the risk grading of loans, (ii) the level of classified loans, (iii) net charge-offs, (iv) non-performing loans and (v) the general economic conditions in the Company's market.

The Company utilizes a risk grading matrix to assign a risk grade to its real estate and commercial business loans. Loans are graded on a scale of 1 to 10, with loans in risk grades 1 to 6 considered "Pass" and loans in risk grades 7 to 10 are reported as classified loans in the Company's allowance for loan loss analysis.

A description of the 10 risk grades is as follows:

- Grades 1 and 2 – These grades include loans to very high quality borrowers with excellent or desirable business credit.
- Grade 3 – This grade includes loans to borrowers of good business credit with moderate risk.
- Grades 4 and 5 – These grades include "Pass" grade loans to borrowers of average credit quality and risk.
- Grade 6 – This grade includes loans on management's "Watch" list and is intended to be utilized on a temporary basis for "Pass" grade borrowers where frequent and thorough monitoring is required due to credit weaknesses and where significant risk-modifying action is anticipated in the near term.
- Grade 7 – This grade is for "Other Assets Especially Mentioned (OAEM)" in accordance with regulatory guidelines and includes borrowers where performance is poor or significantly less than expected.
- Grade 8 – This grade includes "Substandard" loans in accordance with regulatory guidelines which represent an unacceptable business credit where a loss is possible if loan weakness is not corrected.
- Grade 9 – This grade includes "Doubtful" loans in accordance with regulatory guidelines where a loss is highly probable.
- Grade 10 – This grade includes "Loss" loans in accordance with regulatory guidelines for which total loss is expected and when identified are charged-off.

Consumer, Home Equity and One-to-Four-Family Real Estate Loans

Homogeneous loans are risk rated based upon the Uniform Retail Credit Classification Policy. Loans classified under this policy at the Company are consumer loans which include indirect home improvement, recreational, automobile, direct home improvement and other, and one-to-four-family first and second liens. Under the Uniform Retail Credit Classification Policy, loans that are current or less than 90 days past due are graded “Pass” and risk graded "4" internally. Loans that are past due more than 90 days are classified “Substandard” risk graded "8" internally. At 120 days past due, homogeneous loans are charged off based on the value of the collateral less cost to sell.

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

The following tables summarize risk rated loan balances by category:

	March 31, 2013					
	Pass (1 - 5)	Watch (6)	Special Mention (7)	Substandard (8)	Doubtful (9)	Total
REAL ESTATE LOANS						
Commercial	$32,189	$3,310	$—	$783	$—	$36,282
Construction and development	37,545	—	—	1,529	—	39,074
Home equity	15,424	—	—	203	—	15,627
One-to-four-family	12,344	—	—	1,121	—	13,465
Multi-family	2,247	—	—	—	—	2,247
Total real estate loans	99,749	3,310	—	3,636	—	106,695
CONSUMER						
Indirect home improvement	91,093	—	—	276	—	91,369
Recreational	18,750	—	—	—	—	18,750
Automobile	1,909	—	—	1	—	1,910
Home improvement	554	—	—	31	—	585
Other	1,333	—	—	5	—	1,338
Total consumer loans	113,639	—	—	313	—	113,952
COMMERCIAL BUSINESS LOANS	60,114	49	671	227	—	61,061
Total	$273,502	$3,359	$671	$4,176	$—	$281,708

	December 31, 2012					
	Pass (1 - 5)	Watch (6)	Special Mention (7)	Substandard (8)	Doubtful (9)	Total
REAL ESTATE LOANS						
Commercial	$29,145	$3,322	$—	$783	$—	$33,250
Construction and development	30,306	—	—	1,587	—	31,893
Home equity	15,226	—	—	248	—	15,474
One-to-four-family	12,851	—	—	1,125	—	13,976

Multi-family	3,202	—	—	—	—	3,202
Total real estate loans	90,730	3,322	—	3,743	—	97,795
CONSUMER						
Indirect home improvement	85,954	—	—	295	—	86,249
Recreational	17,968	—	—	—	—	17,968
Automobile	2,406	—	—	10	—	2,416
Home improvement	619	—	—	32	—	651
Other	1,386	—	—	—	—	1,386
Total consumer loans	108,333	—	—	337	—	108,670
COMMERCIAL BUSINESS LOANS	72,596	—	675	194	—	73,465
Total	$271,659	$3,322	$675	$4,274	$—	$279,930

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - LOANS RECEIVABLE AND ALLOWANCE FOR LOAN LOSSES (Continued)

Troubled Debt Restructured Loans

The Company had six and three troubled debt restructured ("TDR") loans still on accrual and included in impaired loans at March 31, 2013 and at December 31, 2012, respectively. In addition, at March 31, 2013 and December 31, 2012 the Company had two and three loans on non-accrual of $827,000 and $892,000, respectively. The two non-accrual loans at March 31, 2013 consist of one commercial real estate loan and one home equity loan. The Company had no commitments to lend additional funds on these restructured loans.

A summary of TDR loans at dates indicated is as follows:

	March 31, 2013	December 31, 2012
Troubled debt restructured loans still on accrual	$2,404	$2,368
Troubled debt restructured loans on non-accural	827	892
Total troubled debt restructured loans	$3,231	$3,260

The following table presents loans that became TDRs during the three months ended March 31, 2013:

	At or For the Three Months Ended March 31, 2013			
	Number of Contracts	Recorded Investment	Increase in the Allowance	Charge-offs to the Allowance
Commercial Business Loans	1	$ 35	$ —	$ —
Total	1	$ 35	$ —	$ —

During the three month period ended March 31, 2012, the Company did not restructure any loans considered to be troubled debt restructuring.

The recorded investments in the table above are period end balances that are inclusive of all partial pay-downs and charge-offs since the modification date. Loans modified in a TDR that were fully paid down, charged-off, or foreclosed upon by the period end are not included.

TDRs in the tables above were the result of interest rate modifications and extended payment terms. The Company has not forgiven any principal on the above loans. For the three months ended March 31, 2013 and March 31, 2012 there were no reported TDRs that were modified in the previous 12 months that subsequently defaulted in the reporting period.

NOTE 4 – MORTGAGE SERVICING RIGHTS

Mortgage loans serviced for others are not included on the consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were $159.6 million and $130.5 million at March 31, 2013 and December 31, 2012, respectively. The fair market value of the mortgage servicing rights' asset at March 31, 2013 and December 31,

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – MORTGAGE SERVICING RIGHTS (Continued)

2012 was $1.5 million and $1.1 million, respectively. Fair value adjustments to the mortgage servicing rights were mainly due to market based assumptions associated with mortgage prepayment speeds.

The following table summarizes mortgage servicing rights activity for the three months ended March 31, 2013 and 2012:

	At or For the Three Months Ended March 31,	
	2013	2012
Beginning balance	$1,064	$200
Additions	296	66
Mortgage servicing rights amortized	(78)	(21)
Recovery of loss on mortgage servicing rights	122	1
Ending balance	$1,404	$246

NOTE 5 - DERIVATIVES AND HEDGING

The Company regularly enters into commitments to originate and sell loans held for sale. Such commitments are considered derivatives but have not been designated as hedging instruments. Rather, they are accounted for as free-standing derivatives, or economic hedges, with changes in the fair value of the derivatives reported in income. The Company recognizes all derivative instruments as either assets or liabilities in the consolidated balance sheet and measures those instruments at fair value. As of March 31, 2013, the Company had fallout adjusted interest rate lock commitments with customers of $18.0 million with a fair value of $416,000. The Company also had mandatory and best effort forward commitments with investors with notional balances of $25.6 million and $14.0 million, respectively. The fair value of mandatory and best effort commitments with investors are aggregated in the fair value of customer interest rate locks disclosed above and the fair value of loans held for sale of $413,000 at March 31, 2013.

The Company has established a hedging strategy to protect itself against the risk of loss associated with interest rate movements on loan commitments. The Company enters into contracts to sell forward To-Be-Announced ("TBA") mortgage backed securities.

These contracts are considered derivatives but have not been designated as hedging instruments. Rather, they are accounted for as free-standing derivatives, or economic hedges, with changes in the fair value of the derivatives reported in income. These instruments are measured at fair value and are recognized as either an asset or liability on the consolidated balance sheet and changes in fair value are reported in current period income. The Company had forward TBA mortgage backed-securities of $15.5 million at March 31, 2013, with a fair value of ($59,000) for the three months ended March 31, 2013.

Hedging activity was considered to be immaterial for the year ended December 31, 2012.

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – OTHER REAL ESTATE OWNED

The following table presents the activity related to OREO for the three months ended March 31, 2013 and 2012:

	For the Three Months Ended March 31,	
	2013	2012
Beginning balance	$2,127	$4,589
Additions	—	—
Fair value write-downs	(78)	(379)
Disposition of assets	(93)	(1,421)
Ending balance	$1,956	$2,789

At March 31, 2013, OREO consisted of three properties located in Washington, with balances ranging from $270,000 to $1.0 million. For the three months ended March 31, 2013 and 2012, the Company recorded none and $51,000 net loss, respectively, on disposals of OREO and holding costs associated with OREO in the amount of $22,000 and $34,000, respectively.

NOTE 7 – DEPOSITS

Deposits are summarized as follows as of March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Interest-bearing checking	$22,579	$24,348
Noninterest-bearing checking	36,500	34,165
Savings	12,254	11,812
Money market	117,482	114,246
Certificates of deposits of less than $100,000	39,358	40,119
Certificates of deposits of $100,000 through $250,000	43,683	43,810
Certificates of deposits of more than $250,000	21,925	20,449
Total	$293,781	$288,949

Scheduled maturities of time deposits for future periods ending were as follows:

	As of March 31, 2013
2013	$27,445
2014	31,866
2015	33,280
2016	7,443
2017	4,848
Thereafter	84
Total	$104,966

22

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – DEPOSITS (Continued)

The Bank pledged two securities held at the Federal Home Loan Bank ("FHLB") of Seattle with a fair value of $1.3 million to secure Washington State public deposits of $1.9 million of which $1.2 million was uninsured, at March 31, 2013.

Federal Reserve regulations require that the Bank maintain reserves in the form of cash on hand and deposit balances with the FRB, based on a percentage of deposits. The amounts of such balances at March 31, 2013 and December 31, 2012 were $1.2 million and $1.3 million, respectively and were in compliance with FRB regulations.

Interest expense by deposit category for the three months ended March 31, 2013 and 2012 was as follows:

	For Three Months Ended March 31,	
	2013	2012
Interest-bearing checking	$9	$17
Savings and money market	134	165
Certificates of deposit	329	421
Total	$472	$603

NOTE 8 – INCOME TAXES

The Company recorded a provision for income taxes of $625,000 during the quarter ended March 31, 2013. There was no provision for federal income tax expense during the quarter ended March 31, 2012 as the Company had concluded at that time that a full valuation allowance against its deferred tax asset of $3.0 million was required. A valuation allowance must be used to reduce deferred tax assets if it is “more likely than not” that some portion of, or all of the deferred tax assets will not be realized.
At March 31, 2013, the Company had net operating loss carryforwards of approximately $4.5 million, which begins to expire in 2024. The Company files a U.S. Federal income tax return, which is subject to examinations by tax authorities for years 2009 and later. At March 31, 2013, the Company had no uncertain tax positions. The Company recognizes interest and penalties in tax expense and at March 31, 2013, the Company had recognized no

interest and penalties.

The Company may also be subject to certain limitations under Section 382 of the Internal Revenue Code that relates to the utilization of the net operating losses and other tax benefits following an ownership change.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Commitments – The Company is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized on the balance sheet.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

A summary of the Company's commitments at March 31, 2013 and December 31, 2012 were as follows:

	March 31, 2013	December 31, 2012
COMMITMENTS TO EXTEND CREDIT		
REAL ESTATE LOANS		
Construction and development	$28,161	$27,347
One-to-four-family	35,276	19,313
Home equity	11,690	11,928
Commercial/Multi-family	4,797	3,241
Total real estate loans	79,924	61,829
CONSUMER LOANS		
Indirect home improvement	490	568
Other	6,283	6,225
Total consumer loans	6,773	6,793
COMMERCIAL BUSINESS LOANS	48,390	41,025
Total commitments to extend credit	$135,087	$109,647

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the party. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are uncollateralized and usually do not contain a specified maturity date and ultimately may not be drawn upon to the total extent to which the Company is committed. The Company has established reserves for estimated losses of $54,000 and $49,000 as of March 31, 2013 and December 31, 2012, respectively.

The Company has entered into a severance agreement (the "Agreement") with its Chief Executive Officer. The Agreement, subject to certain requirements, generally includes a lump sum payment to the Chief Executive Officer equal to 24 months of base compensation in the event his employment is involuntarily terminated, other than for cause or the executive terminates his employment with good reason, as defined in the Agreement.

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – COMMITMENTS AND CONTINGENCIES (Continued)

The Company has entered into change of control agreements (the "Agreements") with its Chief Financial Officer, Chief Credit Officer and the Chief Operating Officer. The Agreements, subject to certain requirements, generally remain in effect until canceled by either party upon at least 24 months prior written notice. Under the Agreements the executive generally will be entitled to a change of control payment from the Company if they are involuntarily terminated within six months preceding or 12 months after a change in control (as defined in the Agreements). In such an event, the executives would each be entitled to receive a cash payment in an amount equal to 12 months of their then current salary, subject to certain requirements in the Agreements.

Because of the nature of our activities, the Company is subject to various pending and threatened legal actions, which arise in the ordinary course of business. From time to time, subordination liens may create litigation which requires us to defend our lien rights. In the opinion of management, liabilities arising from these claims, if any, will not have a material effect on our financial position.
In the ordinary course of business, the Company sells loans without recourse that may have to subsequently be repurchased due to defects that occurred during the origination of the loan. The defects are categorized as documentation errors, underwriting errors, early payment defaults, breach of representation or warranty, and fraud. When a loan sold to an investor without recourse fails to perform according to its contractual terms, the investor will typically review the loan file to determine whether defects in the origination process occurred. If a defect is identified, the Company may be required to either repurchase the loan or indemnify the investor for losses sustained. If there are no such defects, the Company has no commitment to repurchase the loan. The Company has recorded $83,000 reserve to cover loss exposure related to these guarantees.
In December 2012, the Company sold a portion of the consumer loan portfolio with an unpaid principal balance of approximately $12.6 million and recognized a gain of $182,000. Under the terms of this sale, the Company has recourse for loans that default before June 12, 2013 and has recorded a reserve of $67,000 for potential defaults. As of March 31, 2013, the full reserve remains available.

NOTE 10 – SIGNIFICANT CONCENTRATION OF CREDIT RISK

Most of the Company’s business activity is primarily with customers located in the greater Puget Sound area. The Company originates real estate and consumer loans and has concentrations in these areas. As part of the business plan adopted at the initial public offering, the Company is closing a limited number of consumer loans in California. As of March 31, 2013, there were $6.4 million loans originated in the State of California. Generally loans are secured by deposit accounts, personal property, or real estate. Rights to collateral vary and are legally documented to the extent practicable. Local economic conditions may affect borrowers’ ability to meet the stated repayment terms.

NOTE 11 – REGULATORY CAPITAL

FS Bancorp, Inc. and its subsidiary bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines of the regulatory framework for prompt corrective action, the Company must meet specific capital adequacy guidelines that involve quantitative measures of the Company’s assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company’s capital classification is also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – REGULATORY CAPITAL (Continued)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Tier 1 Capital (as defined in the regulations) to total average assets (as defined), and minimum ratios of Tier 1 and total capital (as defined) to risk-weighted assets (as defined).

As of March 31, 2013 and December 31, 2012, the Bank was categorized as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total Risk-Based, Tier 1 Risk-Based, and Tier 1 Leverage ratios as set forth in the table below. There are no conditions or events since that notification that management believes have changed the Bank's category. At March 31, 2013, the Bank exceeded all regulatory capital requirements with Tier 1 Leverage-Based Capital, Tier 1 Risk- Based Capital and Total Risk-Based Capital ratios of 13.2%, 14.8%, and 16.0%, respectively.

The Bank's actual capital amounts and ratios at March 31, 2013 and December 31, 2012 are also presented in the table.

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2013						
Total Risk-Based Capital (to Risk-weighted Assets)	$52,431	16.04%	$26,147	8.00%	$32,683	10.00%
Tier 1 Risk-Based Capital						

(to Risk-weighted Assets)	$48,331	14.79%	$13,073	4.00%	$19,610	6.00 %
Tier 1 Leverage Capital (to Average Assets)	$48,331	13.19%	$14,662	4.00%	$18,327	5.00 %
As of December 31, 2012						
Total Risk-Based Capital (to Risk-weighted Assets)	$50,591	16.00%	$25,294	8.00%	$31,617	10.00%
Tier 1 Risk-Based Capital (to Risk-weighted Assets)	$46,627	14.75%	$12,647	4.00%	$18,970	6.00 %
Tier 1 Leverage Capital (to Average Assets)	$46,627	13.26%	$14,066	4.00%	$17,583	5.00 %

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 - REGULATORY CAPITAL (Continued)

Regulatory capital levels reported above differ from the Company's total equity, computed in accordance with U.S. GAAP.

	Company		Bank	
	March 31, 2013	December 31, 2012	March 31, 2013	December 31, 2012
Equity	$60,941	$59,897	$48,782	$47,836
Unrealized gain on securities available-for-sale	(311)	(597)	(311)	(597)
Disallowed deferred tax assets	—	(506)	—	(506)
Disallowed servicing assets	(140)	(106)	(140)	(106)
Total Tier 1 capital	60,490	58,688	48,331	46,627
Allowance for loan and lease losses for regulatory capital purposes	4,100	3,964	4,100	3,964
Total risk-based capital	$64,590	$62,652	$52,431	$50,591

The Company exceeded all regulatory capital requirements as of March 31, 2013. The regulatory capital ratios calculated for the Company as of March 31, 2013 were 16.5% for Tier 1 Leverage-Based Capital, 18.5% for Tier 1 Risk- Based Capital and 19.8% for Total Risk-Based Capital.

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Accounting guidance regarding fair value measurements defines fair value and establishes a framework for measuring fair value in accordance with U.S. GAAP. Fair value is the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. The following definitions describe the levels of inputs that may be used to measure fair value:

Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Determination of Fair Market Values:

Securities - Securities available-for-sale are recorded at fair value on a recurring basis. The fair value of investments and mortgage-backed securities are provided by a third-party pricing service. These valuations are based on market data using pricing models that vary by asset class and incorporate available current trade, bid and other market information, and for structured securities, cash flow and loan performance data. The pricing processes utilize benchmark curves, benchmarking of similar securities, sector groupings, and matrix pricing. Option adjusted spread models are also used to assess the impact of changes in interest rates and to develop prepayment scenarios. All models and processes used take into account market convention (Level 2).

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Impaired Loans – Fair value adjustments to impaired collateral dependent loans are recorded to reflect partial write-downs based on the current appraised value of the collateral or internally developed models, which contain management's assumptions (Level 3).

Other Real Estate Owned – Fair value adjustments to OREO are recorded at the lower of carrying amount of the loan or fair value less selling costs. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell (Level 3).

Derivative Instruments - The fair value of the interest rate lock commitments and forward sales commitments are estimated using quoted or published market prices for similar instruments, adjusted for factors such as pull-through rate assumptions based on historical information, where appropriate (Level 3).

The following tables present securities available-for-sale measured at fair value on a recurring basis:

	Securities Available-for-Sale			
	Level 1	Level 2	Level 3	Total
March 31, 2013				
Federal agency securities	$—	$11,351	$—	$11,351
Municipal bonds	—	9,558	—	9,558
Corporate securities	—	2,494	—	2,494
Mortgage-backed securities	—	19,755	—	19,755
Total	$—	$43,158	$—	$43,158

	Securities Available-for-Sale			
	Level 1	Level 2	Level 3	Total
December 31, 2012				
Federal agency securities	$—	$12,552	$—	$12,552
Municipal bonds	—	9,060	—	9,060
Corporate securities	—	2,488	—	2,488

Mortgage-backed securities	—	19,213	—	19,213
Total	$—	$43,313	$—	$43,313

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table presents interest rate lock commitments with customers measured at fair value on a recurring basis at March 31, 2013 and December 31, 2012, and the total losses on these assets, which represents fair value adjustments and other losses for the three months ended March 31, 2013 and the year ended December 31, 2012.

	Interest Rate Lock Commitments with Customers				
	Level 1	Level 2	Level 3	Total	Total Impairment
March 31, 2013	$—	$—	$391	$391	$ —
December 31, 2012	$—	$—	$93	$93	$ —

The following table presents the impaired loans measured at fair value on a nonrecurring basis and the total valuation allowance or charge-offs on these loans, which represents fair value adjustments for the three months ended March 31, 2013 and the year ended December 31, 2012.

	Impaired Loans				
	Level 1	Level 2	Level 3	Total	Total Impairment
March 31, 2013	$—	$—	$3,817	$3,817	$ (122)
December 31, 2012	$—	$—	$3,800	$3,800	$ (125)

The following table presents OREO measured at fair value on a nonrecurring basis at March 31, 2013 and December 31, 2012, and the total losses on these assets, which represents fair value adjustments and other losses for the three months ended March 31, 2013 and the year ended December 31, 2012.

OREO				
Level 1	Level 2	Level 3	Total	Total Impairment
$—	$—	$1,956	$1,956	$ (78)

March 31, 2013					
December 31, 2012	$—	$—	$2,127	$2,127	$ (812)

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following table presents mortgage servicing rights measured at fair value on a nonrecurring basis at March 31, 2013 and December 31, 2012, and the total losses on these assets, which represents fair value adjustments and other losses for the three months ended March 31, 2013 and the year ended December 31, 2012.

	Mortgage Servicing Rights				
	Level 1	Level 2	Level 3	Total	Total Impairment/ (Recovery)
March 31, 2013	$—	$—	$1,404	$1,404	$ (122)
December 31, 2012	$—	$—	$1,064	$1,064	$ 112

Quantitative Information about Level 3 Fair Value Measurements – The fair value of financial instruments measured under a Level 3 unobservable input on a recurring and nonrecurring basis at March 31, 2013 is shown in the following table.

Level 3 Fair Value Instrument	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Recurring			
Interest rate lock commitments	Quoted market prices	Pull-through expectations	80% - 99% (91.09%)
Nonrecurring			
Impaired loans	Fair value of underlying collateral	Discount applied to the obtained appraisal	0% - 10% (3.19%)
OREO	Fair value of collateral	Discount applied to the obtained appraisal	9% - 19% (11.55%)
Mortgage servicing rights	Discounted cash flow	Weighted average prepayment speed	7.5% - 10.5% (7.50%)

Fair Values of Financial Instruments – The following methods and assumptions were used by the Bank in estimating the fair values of financial instruments disclosed in these financial statements:

Cash and Due from Banks and Interest-Bearing Deposits at Other Financial Institutions – The carrying amounts of cash and short-term instruments approximate their fair value (Level 1).

Securities Available-for-Sale – Fair values for securities available-for-sale are based on quoted market prices (Level 2).

Federal Home Loan Bank Stock – The carrying value of Federal Home Loan Bank stock approximates its fair value (Level 2).

Loans Held for Sale - The fair value of loans held for sale reflects the value of commitments with investors (Level 2).

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Loans Receivable, Net – For variable rate loans that re-price frequently and have no significant change in credit risk, fair values are based on carrying values. Fair values for fixed rate loans are estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms to borrowers or similar credit quality.

Fair values for impaired loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable (Level 3).

Mortgage Servicing Rights – The fair value is determined by calculating the net present value of expected cash flows using a model that incorporates assumptions used in the industry to value such rights (Level 3).

Deposits – The fair value of deposits with no stated maturity date is included at the amount payable on demand. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flow calculation on interest rates currently offered on similar certificates (Level 2).

Borrowings – The carrying amounts of advances maturing within 90 days approximate their fair values. The fair values of long-term advances are estimated using discounted cash flow analyses based on the Bank’s current incremental borrowing rates for similar types of borrowing arrangements (Level 2).

Accrued Interest – The carrying amounts of accrued interest approximate their fair value (Level 2).

Off-Balance Sheet Instruments – The fair value of commitments to extend credit are estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the present creditworthiness of the customers. The majority of the Company’s off-balance sheet instruments consist of non-fee producing, variable-rate commitments, the Company has determined they do not have a distinguishable fair value. The fair value of loan lock commitments with customers and investors reflect an estimate of value based upon the interest rate lock date, the expected pull through percentage for the commitment, and the interest rate at year end (Level 3).

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The estimated fair values of the Company’s financial instruments were as follows:

	March 31, 2013		December 31, 2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Level 1 inputs:				
Cash, due from banks, and interest-bearing deposits at other financial institutions	$8,906	$8,906	$9,413	$9,413
Level 2 inputs:				
Securities available-for-sale	43,158	43,158	43,313	43,313
Loans held for sale	20,160	20,160	8,870	8,870
Federal Home Loan Bank stock	1,749	1,749	1,765	1,765
Accrued interest receivable	1,328	1,328	1,223	1,223
Level 3 inputs:				
Loans receivable, net	276,501	319,743	274,949	306,695
Mortgage servicing rights	1,404	1,457	1,064	1,064
Fair value hedge of loan commitments	439	439	133	133
Financial Liabilities				
Level 2 inputs:				
Deposits	293,781	309,180	288,949	304,257
Borrowings	13,659	13,695	6,840	7,059
Accrued interest payable	14	14	12	12
Level 3 inputs:				
Fair value hedge of loan commitments	48	48	40	40

NOTE 13 - EMPLOYEE BENEFITS

Employee Stock Ownership Plan

On January 1, 2012, the Company established an ESOP for eligible employees of the Company and the Bank. Employees of the Company and the Bank who have been credited with at least 1,000 hours of service during a 12-month period are eligible to participate in the ESOP.

The ESOP borrowed $2.6 million from FS Bancorp, Inc. and used those funds to acquire 259,210 shares of FS Bancorp, Inc. common stock in the open market at an average price of $10.17 per share. It is anticipated that the Bank will make contributions to the ESOP in amounts necessary to amortize the ESOP loan payable to FS Bancorp, Inc. over a period of 10 years, bearing interest at 2.30%. Intercompany expenses associated with the ESOP are eliminated in consolidation.

Shares purchased by the ESOP with the loan proceeds are held in a suspense account and allocated to ESOP participants on a pro rata basis as principal and interest payments are made by the ESOP to FS Bancorp, Inc. The loan is secured by shares purchased with the loan proceeds and will be repaid by the ESOP with funds from the Bank's discretionary

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 - EMPLOYEE BENEFITS (Continued)

contributions to the ESOP and earnings on the ESOP assets. Payments of principal and interest are due annually on December 31, the Company's fiscal year end. On December 31, 2012, the ESOP paid the first annual installment of principal in the amount of $267,000, plus accrued interest of $28,000 pursuant to the ESOP loan. No payment of principal or interest was made during the quarter ended March 31, 2013.

As shares are committed to be released from collateral, the Company reports compensation expense equal to the average daily market prices of the shares and the shares become outstanding for EPS computations. The compensation expense is accrued monthly throughout the year. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings; dividends on unallocated ESOP shares are recorded as a reduction of debt and accrued interest.

Compensation expense related to the ESOP for the three months ended March 31, 2013 and March 31, 2012 was $95,000 and none, respectively.

Shares held by the ESOP as of March 31, 2013 were as follows:

	Balances
Allocated shares	32,401
Unallocated shares	226,809
Total ESOP shares	259,210
Fair value of unallocated shares (in thousands)	$3,333

NOTE 14 - EARNINGS PER SHARE
Basic earnings per share are computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflect the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Table of Contents

FS BANCORP, INC. AND SUBSIDIARY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 - EARNINGS PER SHARE (Continued)
The following table presents a reconciliation of the components used to compute basic and diluted earnings per share for the three months ended March 31, 2013 and 2012.

	At or For the Three Months Ended March 31,	
	2013	2012
Numerator:		
Net Income (in thousands)	$1,235	$277
Denominator:		
Denominator for basic earnings per share- weighted average common shares outstanding	3,013,316	n/a(1)
Denominator for diluted earnings per share- weighted average common shares outstanding	3,013,316	n/a(1)
Basic earnings per share	$0.41	n/a(1)
Diluted earnings per share	$0.41	n/a(1)

(1) Earnings per share and share calculations are not available (n/a) as the Company completed its stock conversion and became a public company on July 9, 2012.

The Company purchased 259,210 shares in the open market during the year ended December 31, 2012, for the ESOP. For earnings per share calculations, the ESOP shares, committed to be released shares are included as outstanding shares. There were 226,809 shares in the ESOP that were not committed to be released as of March 31, 2013.

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This report may contain forward-looking statements, which can be identified by the use of words such as “believes,” “expects,” “anticipates,” “estimates” or similar expressions. Forward-looking statements include, but are not limited to:

- statements of our goals, intentions and expectations;
- statements regarding our business plans, prospects, growth and operating strategies;
- statements regarding the quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks and uncertainties. Actual results may differ materially from those contemplated by the forward-looking statements due to, among others, the following factors:

- general economic conditions, either nationally or in our market area, that are worse than expected;
- the credit risks of lending activities, including changes in the level and trend of loan delinquencies and write offs and changes in our allowance for loan losses and provision for loan losses that may be impacted by deterioration in the housing and commercial real estate markets;
- fluctuations in the demand for loans, the number of unsold homes, land and other properties and fluctuations in real estate values in our market area;
- increases in premiums for deposit insurance;
- the use of estimates in determining fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation;
- changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- increased competitive pressures among financial services companies;
- our ability to execute our plans to grow our residential construction lending, our mortgage banking operations and our warehouse lending and the geographic expansion of our indirect home improvement lending;
- our ability to attract and retain deposits;
- our ability to control operating costs and expenses;
- changes in consumer spending, borrowing and savings habits;
- our ability to successfully manage our growth;
- legislative or regulatory changes that adversely affect our business, or increase capital requirements, including the effect of the

Dodd-Frank Wall Street Reform and Consumer Protection Act, changes in regulation policies and principles, or the interpretation of regulatory capital or other rules, including as a result of Basel III;

- adverse changes in the securities markets;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Public Company Accounting Oversight Board or the Financial Accounting Standards Board;
- costs and effects of litigation, including settlements and judgments;
- our ability to implement our branch expansion strategy;
- inability of key third-party vendors to perform their obligations to us; and

35

Table of Contents

- other economic, competitive, governmental, regulatory and technical factors affecting our operations, pricing, products and services and other risks described elsewhere in this Form 10-Q and our other reports filed with the U.S. Securities and Exchange Commission, including our Annual Report on Form 10-K for the year ended December 31, 2012.

Any of the forward looking statements that we make in this Form 10-Q and in other public statements we make may turn out to be wrong because of inaccurate assumptions we might make, because of the factors illustrated above or because of other factors that we cannot foresee. Forward looking statements are based upon management's beliefs and assumptions at the time they are made. The Company undertakes no obligation to update or revise any forward-looking statement included in this report or to update the reasons why actual results could differ from those contained in such statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the foread-looking statements discussed in this report might not occur and you should not put undue reliance on any forward looking statements.

Overview

FS Bancorp, Inc. and its subsidiary bank, 1st Security Bank of Washington have been serving the Puget Sound area since 1936. Originally chartered as a credit union, previously known as Washington's Credit Union, the credit union served various select employment groups. On April 1, 2004, the credit union converted to a Washington state-chartered mutual savings bank. On July 9, 2012, the Bank converted from mutual to stock form and became the wholly owned subsidiary of FS Bancorp, Inc.

The Company is a relationship-driven community bank. The Bank delivers banking and financial services to local families, local and regional businesses and industry niches within distinct Puget Sound area communities. The Company emphasizes long-term relationships with families and businesses within the communities served, working with them to meet their financial needs. The Bank is also actively involved in community activities and events within these market areas, which further strengthens our relationships within these markets.

The Company is a diversified lender with a focus on the origination of indirect home improvement loans, also referred to as fixture secured loans, commercial real estate mortgage loans, home loans, commercial business loans and second mortgage/home equity loan products. Consumer loans, in particular indirect home improvement loans to finance window replacement, gutter replacement, siding replacement, and other improvement renovations, represent the largest portion of the loan portfolio and have traditionally been the mainstay of our lending strategy. As of March 31, 2013, consumer loans represented 40.5% of the Bank's total portfolio, up from 38.8% at December 31, 2012 due to growth in the indirect home improvement channel, with indirect home improvement loans representing 80.2% of the total consumer loan portfolio.

Indirect home improvement lending is reliant on the Bank’s relationships with home improvement contractors and dealers. The Bank has funded 906 loans during the quarter ended March 31, 2013 using the indirect home improvement contractor/dealer network located throughout Washington, Oregon and California with four contractors/dealers responsible for a majority or 61.3% of this loan volume. The Company recently began originating consumer indirect loans in the State of California with $4.0 million in these loans originated during the three months ended March 31, 2013 and $6.4 million in California, consumer lending since inception. Management has established a limit of no more than 20% of the total consumer loan portfolio for loans in California. As of March 31, 2013, the limit would be $22.8 million.

Going forward, the Company will focus on diversifying our lending products by expanding commercial real estate, home lending, commercial business and residential construction lending, while maintaining the current size of the Bank's consumer loan portfolio. The Company's lending strategies are intended to take advantage of: (1) the Bank's historical strength in indirect consumer lending, (2) recent market dislocation that has created new lending opportunities and the availability of experienced bankers, and (3) strength in relationship lending. Retail deposits will continue to serve as a primary funding source.

Table of Contents

The Company is significantly affected by prevailing economic conditions, as well as government policies and regulations concerning, among other things, monetary and fiscal affairs. Deposit flows are influenced by a number of factors, including interest rates paid on time deposits, other investments, account maturities, and the overall level of personal income and savings. Lending activities are influenced by the demand for funds, the number and quality of lenders, and regional economic cycles. Sources of funds for lending activities include primarily deposits, including brokered deposits, borrowings, payments on loans and income provided from operations.

Earnings are primarily dependent upon the Company's net interest income, the difference between interest income and interest expense. Interest income is a function of the balances of loans and investments outstanding during a given period and the yield earned on these loans and investments. Interest expense is a function of the amount of deposits and borrowings outstanding during the same period and interest rates paid on these deposits and borrowings. The Company's earnings are also affected by the provision for loan losses, service charges and fees, gains from sales of assets, operating expenses and income taxes.

On April 5, 2012, President Obama signed into law the Jumpstart Our Business Startups Act ("JOBS" Act), which establishes a new category of issuer called an emerging growth company. The Company is an "emerging growth company" as defined under the JOBS Act. The Company will remain an emerging growth company for up to five years, or until the earliest of (i) the last day of the first fiscal year in which our total annual gross revenues exceed $1 billion, (ii) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended (the "Exchange Act") which would occur if the market value of the Company's common stock that is held by non-affiliates exceeds $700 million as of the last business day of the most recently completed second fiscal quarter or (iii) the date on which the Company has issued more than $1 billion in non-convertible debt during the preceding three year period.

As an emerging growth company, the Company may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies" including, but not limited to:

- not being required to comply with the auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act of 2002 (the Company also will not be subject to the auditor attestation requirements of Section 404(b) as long as the Company is a "smaller reporting company," which includes issuers that had a public float of less than $75 million as of the last business day of their most recently completed second fiscal quarter);

- reduced disclosure obligations regarding executive compensation in periodic reports and proxy statements; and
- exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and shareholder approval of any golden parachute payments not previously approved.

In addition, Section 107 of the JOBS Act provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act of 1933, as amended (the "Securities Act") for complying with new or revised accounting standards. Under this provision, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, the Company has elected to "opt out" of such extended transition period, and as a result, the Company will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Management's decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Critical Accounting Policies and Estimates

Certain of the Company's accounting policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain. Estimates associated with these policies are susceptible to material changes as a result of changes in facts and circumstances. Facts and circumstances which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy and changes in the financial condition of borrowers. Management believes that its critical accounting policies include determining the allowance for loan losses, the fair value of other real estate owned and the need for a valuation allowance related to the deferred tax asset.

Allowance for Loan Loss. The allowance for loan losses is the amount estimated by management as necessary to cover probable losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses, which is charged to income. Determining the amount of the allowance for loan losses necessarily involves a high degree of judgment. Among the material estimates required to establish the allowance are: loss exposure at default; the amount and timing of future cash flows on impacted loans; value of collateral; and determination of loss factors to be applied to the various elements of the portfolio. All of these estimates are susceptible to significant change. Management reviews the level of the allowance at least quarterly and establishes the provision for loan losses based upon an evaluation of the portfolio, past loss experience, current economic conditions and other factors related to the collectability of the loan portfolio. Although the Company believes it uses the best information available to establish the allowance for loan losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the evaluation. As the Company adds new products, increases the complexity of the loan portfolio, and expands the Company's market area, management intends to enhance and adapt our methodology to keep pace with the size and complexity of the loan portfolio. Changes in any of the above factors could have a significant effect on the calculation of the allowance for loan losses in any given period. Management believes that its systematic methodology continues to be appropriate given our size and level of complexity.

Other Real Estate Owned. Property acquired by foreclosure or deed in lieu of foreclosure is recorded at fair value, less cost to sell. Development and improvement costs relating to the property are capitalized. The carrying value of the property is periodically evaluated by management and, if necessary, allowances are established to reduce the carrying value to net realizable value. Gains or losses at the time the property is sold are charged or credited to operations in the period in which they are realized. The amounts that will be ultimately realize from the sale of other real estate owned may differ substantially from the carrying value of the assets because of market factors beyond our control or because of changes in management's strategies for recovering the investment.

Income Taxes. Income taxes are reflected in the Company's consolidated financial statements to show the tax effects of the operations and transactions reported in the financial statements and consist of taxes currently payable plus deferred taxes. Accounting Standards Codification, ASC 740, “Accounting for Income Taxes,” requires the asset and liability approach for financial accounting and reporting for deferred income taxes. Deferred tax assets and liabilities result from differences between the financial statement carrying amounts and the tax bases of assets and liabilities. They are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled and are determined using the assets and liability method of accounting. The deferred income provision represents the difference between net deferred tax asset/liability at the beginning and end of the reported period. In formulating the deferred tax asset, the Company is required to estimate the income and taxes in the jurisdiction in which the Bank operates. This process involves estimating actual current tax exposure for the reported period together with assessing temporary differences resulting from differing treatment of items, such as depreciation and the provision for loan losses, for tax and financial reporting purposes.

Deferred tax assets are attributable to deductible temporary differences and carryforwards. After the deferred tax asset has been measured using the applicable enacted tax rate and provisions of the enacted tax law, it is then necessary to assess the need for a valuation allowance. A valuation allowance is needed when, based on the weight of the available evidence, it is more likely than not that some portion of the deferred tax asset will not be realized. As of March 31, 2013, and December 31, 2012, the Company had net deferred tax assets of $1.5 million and $1.9 million, respectively and determined that no valuation allowance was required.

Comparison of Financial Condition at March 31, 2013 and December 31, 2012

Assets. Total assets increased $12.6 million, or 3.5%, to $371.6 million at March 31, 2013 from $359.0 million at December 31, 2012, primarily as a result of a $11.3 million, or 127.3% increase in loans held for sale, and a $1.6 million or 0.6% increase in net loans receivable. Cash and interest bearing deposits at other financial institutions decreased $507,000, or 5.4% to $8.9 million at March 31, 2013 from $9.4 million at December 31, 2012.

Table of Contents

Net loans receivable increased $1.6 million, or 0.6%, to $276.5 million at March 31, 2013 from $274.9 million at December 31, 2012. Real estate secured loans increased $8.9 million, or 9.1% to $106.7 million at March 31, 2013 from $97.8 million at December 31, 2012, primarily as a result of a $7.2 million, or 22.5%, increase in residential construction lending, and a $3.0 million, or 9.1% increase in commercial real estate loans. Consumer loans increased $5.3 million, or 4.9%, to $114.0 million at March 31, 2013 from $108.7 million at December 31, 2012, as a result of a $5.1 million, or 5.9%, increase in indirect home improvement loans, and a $782,000, or 4.4% increase in recreational loans partially offset by a $506,000, or 20.9%, decrease in automobile loans. Commercial business loans decreased $12.4 million, or 16.9%, to $61.1 million at March 31, 2013 from $73.5 million at December 31, 2012. The quarter over quarter decrease in commercial business loans reflects the lower usage of warehouse lending lines for many of the Company's warehouse lending customers.

The allowance for loan losses at March 31, 2013 was $5.0 million, or 1.8% of gross loans receivable, compared to $4.7 million, or 1.7% of gross loans receivable, at December 31, 2012. Non-performing loans, consisting of non-accruing loans, decreased to $1.8 million at March 31, 2013 from $1.9 million at December 31, 2012. At March 31, 2013, non-performing loans consisted of $783,000 of commercial real estate loans, $344,000 of one-to-four-family loans, $203,000 of home equity loans, $313,000 of consumer loans, and $130,000 of commercial business loans. Non-performing loans to total gross loans decreased to 0.6% at March 31, 2013 from 0.7% at December 31, 2012. Other real estate owned totaled $2.0 million at March 31, 2013, compared to $2.1 million at December 31, 2012. The $171,000 or 8.0% reduction in other real estate owned reflects the sale of $93,000 in other real estate owned and write-downs to fair value of $78,000 during the three months ended March 31, 2013. At March 31, 2013, the Company also had $3.2 million in TDRs of which $2.4 million were performing in accordance with their modified payment terms and $827,000 were on non-accrual.

A summary of non-performing assets as of March 31, 2013 and December 31, 2012:

	March 31, 2013	December 31, 2012
Non-performing assets-		
Non-accrual loans	$ 1,773	$ 1,906
Other real estate owned	1,956	2,127
	60	31

Repossessed consumer property		
Total non-performing assets	$3,789	$4,064

Liabilities. Total liabilities increased $11.5 million, or 3.8%, to $310.6 million at March 31, 2013, from $299.1 million at December 31, 2012. Deposits increased $4.8 million, or 1.7%, to $293.8 million at March 31, 2013 from $288.9 million at December 31, 2012. The increase in deposits was due to a $2.3 million, or 6.8%, increase in noninterest bearing checking accounts partially offset by a $1.8 million, or 7.3% decrease in interest-bearing checking accounts. The Company experienced a $3.7 million, or 2.9%, increase in money market and savings accounts, and a $588,000, or 0.6%, increase in time deposits during the same time period with a focus on relationship deposit growth.

Total borrowings, which consisted of FHLB advances, increased $6.8 million, or 99.7%, to $13.6 million at March 31, 2013 from $6.8 million at December 31, 2012 with the majority of this increase in short-term (less than one year) borrowings. The increase in short-term borrowings was tied to the growth in home lending activities at the end of the quarter which increased the balance of loans held for sale.

Stockholders' Equity. Total stockholders' equity increased $1.0 million, or 1.7%, to $60.9 million at March 31, 2013 from $59.9 million at December 31, 2012. The increase in stockholders' equity was predominantly a result of net income of $1.2 million partially offset by a decline in accumulated other comprehensive income, which includes the unrealized gain on securities available-for-sale, net of tax. Book value per common share was $20.22 at March 31, 2013 compared to $19.92 at December 31, 2012.

Table of Contents

Comparison of Results of Operations for the Three Months Ended March 31, 2013 and 2012

General. Net income for the three months ended March 31, 2013 was $1.2 million compared to net income of $277,000 for the three months ended March 31, 2012. The increase in net income was primarily attributable to a $1.5 million, or 213.0%, increase in noninterest income and a $1.0 million, or 27.8%, increase in net interest income partially offset by a $887,000, or 24.8% increase in noninterest expense and a $625,000, or 100.0% increase in the provision for income taxes. The increase in noninterest income was primarily the result of $1.6 million in gains on sale of loans from the Bank's residential home lending operations. The increase in noninterest expense was related to expenses associated with new lending channels.

Net Interest Income. Net interest income increased $1.0 million, or 27.8%, to $4.7 million for the three months ended March 31, 2013, from $3.7 million for the three months ended March 31, 2012. The increase in net interest income was attributable to a $876,000 increase in interest income resulting from an increase in the average balance of the loan portfolio as well as a shift of funds throughout the period from lower yielding cash and cash equivalents to higher yielding investment securities and loans, and a $139,000 decrease in interest expense, primarily due to a reduction of the overall cost of funds.

The net interest margin increased 10 basis points to 5.45% for the three months ended March 31, 2013, from 5.35% for the same period of the prior year, primarily due to a shift in funds during the period from lower yielding cash and cash equivalents into higher yielding investment securities and loans and a lower level of non-performing loans, coupled with a 31 basis point decline in the cost of funds.

Interest Income. Interest income for the three months ended March 31, 2013 increased $876,000, or 20.4%, to $5.2 million, from $4.3 million for the three months ended March 31, 2012. The increase during the period was primarily attributable to the increase in the average balance of the loan portfolio as well as a shift of funds during the period from lower yielding cash and cash equivalents to higher yielding investment securities/loans during the three months ended March 31, 2013 compared to the same period last year.

Interest Expense. Interest expense decreased $139,000, or 21.4%, to $510,000 for the three months ended March 31, 2013, from

$649,000 for the same period of the prior year. As a result of general decline in market rates, the average cost of funds for total interest-bearing liabilities decreased 31 basis points to 0.77% for the three months ended March 31, 2013, compared to 1.08% for the three months ended March 31, 2012. The decrease was due to a decline in rates paid on certificates of deposit, and a higher average balance in money market accounts which carry a lower cost of funds. The average balance of total interest-bearing liabilities increased $28.0 million, or 11.7%, to $268.3 million for the quarter ended March 31, 2013, from $240.3 million for the quarter ended March 31, 2012.

Provision for Loan Losses. The provision for loan losses was $600,000 for the three months ended March 31, 2013, compared to $515,000 for the three months ended March 31, 2012. The $85,000 increase in the provision during the current quarter over the comparable quarter last year primarily relates to higher loan balances and a shift in the loan categories being originated, in particular construction and development loans and consumer loans during the three months ended March 31, 2013.

Noninterest Income. Noninterest income increased $1.5 million, or 213.0%, to $2.3 million for the three months ended March 31, 2013, from $723,000 for the three months ended March 31, 2012. The increase during the period was primarily due to $1.6 million in gains associated with the sale of mortgage loans in the secondary market as part of the home lending initiative.

Noninterest Expense. Noninterest expense increased $887,000 or 24.8% to $4.5 million for the three months ended March 31, 2013, from $3.6 million for the three months ended March 31, 2012. Changes in noninterest expense included a $780,000, or 46.0%, increase in salaries and benefit costs associated with the addition of staff in the expanded lending platforms, a $251,000 or 49.5% increase in costs of operations, and a $161,000, or 115.8% increase in loan costs associated with increased lending activities, partially offset by a $352,000 decrease in write-downs of other real estate

Table of Contents

owned to fair value, and by a $121,000 decrease due to the recovery of prior losses on mortgage servicing rights primarily due to a longer expected life of the servicing portfolio.

The efficiency ratio, which is our noninterest expense as a percentage of net interest income and noninterest income, improved to 64.5% for the three months ended March 31, 2013 compared to 81.9% for the three months ended March 31, 2012 primarily as a result of the increase in noninterest income.

Provision for Income Tax. For the three months ended March 31, 2013, the Company recorded a provision for income tax expense of $625,000 on pre-tax income as compared to none for the three months ended March 31, 2012. The effective tax rates for the quarters ended March 31, 2013 and 2012 were 33.6% and 0.0%, respectively.

Liquidity

Management maintains a liquidity position that it believes will adequately provide funding for loan demand and deposit run-off that may occur in the normal course of business. The Bank relies on a number of different sources in order to meet our potential liquidity demands. The primary sources are increases in deposit accounts, FHLB advances, sale of securities available-for-sale, cash flows from loan payments and maturing securities.

As of March 31, 2013, the Company's total borrowing capacity was $36.3 million with the FHLB of Seattle, with unused borrowing capacity of $22.7 million at that date. The FHLB borrowing limit is based on certain categories of loans, primarily real estate loans that qualify as collateral for FHLB advances. As of March 31, 2013, the Bank held approximately $48.8 million in loans that qualify as collateral for FHLB advances. In addition to the availability of liquidity from the FHLB of Seattle, the Bank maintained a short-term borrowing line with the Federal Reserve Bank of San Francisco ("Federal Reserve Bank"), with a current limit of $70.3 million at March 31, 2013, and a $6.0 million unsecured, variable rate, overnight short-term borrowing line with Pacific Coast Bankers' Bank. The Federal Reserve Bank borrowing limit is based on certain categories of loans, primarily consumer loans that qualify as collateral for Federal Reserve Bank line of credit. As of March 31, 2013, the Bank held approximately $106.8 million in loans that qualify as collateral for the Federal Reserve Bank line of credit.

As of March 31, 2013, $13.6 million in FHLB advances were outstanding and no advances were outstanding against the Federal Reserve Bank line of credit or Pacific Coast Bankers' Bank line of credit. The Bank's Asset Liability Management Policy permits management to utilize brokered deposits up to 20% of deposits or $61.2 million as of March 31, 2013. Total brokered deposits as of March 31, 2013 were $13.9 million.

Liquidity management is both a daily and long-term function of Bank management. Excess liquidity is generally invested in short-term investments, such as overnight deposits and federal funds. On a longer-term basis, a strategy is maintained of investing in various lending products and investment securities, including U.S. Government obligations and federal agency securities. The Bank uses sources of funds primarily to meet ongoing commitments, pay maturing deposits and fund withdrawals, and to fund loan commitments. At March 31, 2013, the approved outstanding loan commitments, including unused lines of credit, amounted to $135.1 million. Certificates of deposit scheduled to mature in nine months or less at March 31, 2013, totaled $27.4 million. It is management's policy to offer deposit rates that are competitive with other local financial institutions. Based on this management strategy, the Bank believes that a majority of maturing deposits will remain with the Bank. For additional information see the Consolidated Statements of Cash Flows in Part I. Item 1 of this report.

Table of Contents

Commitments and Off-Balance Sheet Arrangements

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business in order to meet the financing needs of our customers. For information regarding our commitments and off-balance sheet arrangements, see Note 9 of the Notes to Consolidated Financial Statements included in Part I. Item 1 of this report.

Capital Resources

The Bank is subject to minimum capital requirements imposed by the FDIC. Based on its capital levels at March 31, 2013, the Bank exceeded these requirements as of that date. Consistent with our goals to operate a sound and profitable organization, our policy is for the Bank to maintain a "well-capitalized" status under the capital categories of the FDIC. Based on capital levels at March 31, 2013, the Bank was considered to be well-capitalized. At March 31, 2013, the Bank exceeded all regulatory capital requirements with Tier 1 Leverage-Based Capital, Tier 1 Risk-Based Capital and Total Risk-Based Capital ratios of 13.2%, 14.8%, and 16.0%, respectively. For additional information regarding the Bank's regulatory capital compliance, see the discussion included in Note 11 to the Notes to Consolidated Financial Statements included in Part I. Item 1 of this report.

The Company exceeded all regulatory capital requirements as of March 31, 2013. The estimated regulatory capital ratios calculated for the Company as of March 31, 2013 were 16.5% for Tier 1 Leverage-Based Capital, 18.5% for Tier 1 Risk- Based Capital and 19.8% for Total Risk-Based Capital.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures.

An evaluation of the disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934 (the "Act")) as of March 31, 2013, was carried out under the supervision and with the participation of the Company's Chief Executive Officer, Chief Financial Officer and several other members of the Company's senior management. The Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures in effect as of March 31, 2013, were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is: (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Changes in Internal Controls.

There have been no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) of the Act) that occurred during the three months ended March 31, 2013, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The Company does not expect that its disclosure controls and procedures and internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls may be circumvented by the individual acts of some persons, by collusion of two or more people, or by override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals

Table of Contents

under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the normal course of business, the Company occasionally becomes involved in various legal proceedings. In the opinion of management, any liability from such proceedings would not have a material adverse effect on the business or financial condition of the Company. For additional information, see Note 9 of the Notes to Consolidated Financial Statements under Part I. Item 1 of this report.

Item 1A. Risk Factors

There have been no material changes to the risk factors set forth in Part I. Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

3.1 Articles of Incorporation of FS Bancorp, Inc. (1)

3.2 Bylaws of FS Bancorp, Inc. (1)

4.0 Form of Common Stock Certificate of FS Bancorp, Inc. (1)

10.1 Severance Agreement between 1st Security Bank of Washington and Joseph C. Adams (1)

10.2 Form of Change of Control Agreement between 1st Security Bank of Washington and each of Matthew D. Mullet, Steven L. Haynes and Drew B. Ness (1)

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

43

Table of Contents

32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101	The following materials from the Company’s Annual Report on Form 10-Q for the quarter ended March 31, 2013, formatted in Extensible Business Reporting Language (XBRL): (1) Consolidated Balance Sheets; (2) Consolidated Statements of Income; (3) Consolidated Statements of Comprehensive Income; (4) Consolidated Statements of Stockholders’ Equity; (5) Consolidated Statements of Cash Flows; and (6) Notes to Consolidated Financial Statements. *

(1) Filed as an exhibit to the Registrant's Registration Statement on Form S-1 (333-35817) and incorporated by reference.

(*)	Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

Table of Contents

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.

	FS BANCORP, INC.
Date: May 13, 2013	By: /s/Joseph C. Adams Joseph C. Adams, Chief Executive Officer (Duly Authorized Officer)
Date: May 13, 2013	By: /s/Matthew D. Mullet Matthew D. Mullet Secretary, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)