

PROCTER & GAMBLE CO
Form 10-Q
October 30, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the Quarterly Period Ended September 30, 2008

OR

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

For the transition period from _____ to _____

Commission file number 1-434

THE PROCTER & GAMBLE COMPANY

(Exact name of registrant as specified in its charter)

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Ohio
(State of Incorporation)

31-0411980
(I.R.S. Employer Identification Number)

One Procter & Gamble Plaza, Cincinnati, Ohio
(Address of principal executive offices)

45202
(Zip Code)

(513) 983-1100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer Accelerated filer Non-accelerated filer

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

There were 2,985,705,141 shares of Common Stock outstanding as of September 30, 2008.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

The Consolidated Statements of Earnings of The Procter & Gamble Company and subsidiaries (the Company, we or our) for the three months ended September 30, 2008 and 2007, the Consolidated Balance Sheets as of September 30, 2008 and June 30, 2008, and the Consolidated Statements of Cash Flows for the three months ended September 30, 2008 and 2007 follow. In the opinion of management, these unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods reported. However, such financial statements may not necessarily be indicative of annual results.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

Amounts in millions except per share amounts

| | Three Months Ended September 30 | |
|--|------------------------------------|-----------|
| | 2008 | 2007 |
| NET SALES | \$ 22,026 | \$ 20,199 |
| Cost of products sold | 10,905 | 9,519 |
| Selling, general and administrative expense | 6,436 | 6,262 |
| OPERATING INCOME | 4,685 | 4,418 |
| Interest expense | 339 | 359 |
| Other non-operating income, net | 337 | 193 |
| EARNINGS BEFORE INCOME TAXES | 4,683 | 4,252 |
| Income taxes | 1,335 | 1,173 |
| NET EARNINGS | \$ 3,348 | \$ 3,079 |
| PER COMMON SHARE: | | |
| Basic net earnings | \$ 1.10 | \$ 0.97 |
| Diluted net earnings | \$ 1.03 | \$ 0.92 |
| Dividends | \$ 0.40 | \$ 0.35 |
| DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING | 3,239.5 | 3,354.2 |

See accompanying Notes to Consolidated Financial Statements

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

| Amounts in Millions | September 30 2008 | June 30 2008 |
|---|----------------------|-------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 4,502 | \$ 3,313 |
| Accounts receivable | 7,111 | 6,761 |
| Inventories | | |
| Materials and supplies | 2,218 | 2,262 |
| Work in process | 787 | 765 |
| Finished goods | 5,842 | 5,389 |
| Total inventories | 8,847 | 8,416 |
| Deferred income taxes | 1,547 | 2,012 |
| Prepaid expenses and other current assets | 3,062 | 4,013 |
| TOTAL CURRENT ASSETS | 25,069 | 24,515 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Buildings | 6,776 | 7,052 |
| Machinery and equipment | 29,305 | 30,145 |
| Land | 864 | 889 |
| | 36,945 | 38,086 |
| Accumulated depreciation | (17,221) | (17,446) |
| NET PROPERTY, PLANT AND EQUIPMENT | 19,724 | 20,640 |
| GOODWILL AND OTHER INTANGIBLE ASSETS | | |
| Goodwill | 57,773 | 59,767 |
| Trademarks and other intangible assets, net | 33,465 | 34,233 |
| NET GOODWILL AND OTHER INTANGIBLE ASSETS | 91,238 | 94,000 |
| OTHER NON-CURRENT ASSETS | 4,648 | 4,837 |
| TOTAL ASSETS | \$ 140,679 | \$ 143,992 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 6,006 | \$ 6,775 |
| Accrued and other liabilities | 9,653 | 10,154 |
| Taxes payable | 1,442 | 945 |
| Debt due within one year | 21,140 | 13,084 |
| TOTAL CURRENT LIABILITIES | 38,241 | 30,958 |
| LONG-TERM DEBT | 18,307 | 23,581 |
| DEFERRED INCOME TAXES | 11,736 | 11,805 |
| OTHER NON-CURRENT LIABILITIES | 7,833 | 8,154 |
| TOTAL LIABILITIES | 76,117 | 74,498 |
| SHAREHOLDERS' EQUITY | | |

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| | | | | |
|--|--------|---------|-------------------|-------------------|
| Preferred stock | | | 1,352 | 1,366 |
| Common stock - shares issued - | 30-Sep | 4,006.4 | 4,006 | |
| | 30-Jun | 4,001.9 | | 4,002 |
| Additional paid-in capital | | | 60,652 | 60,307 |
| Reserve for ESOP debt retirement | | | (1,331) | (1,325) |
| Accumulated other comprehensive income | | | 146 | 3,746 |
| Treasury stock | | | (51,263) | (47,588) |
| Retained earnings | | | 51,000 | 48,986 |
| TOTAL SHAREHOLDERS EQUITY | | | 64,562 | 69,494 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | | | \$ 140,679 | \$ 143,992 |

See accompanying Notes to Consolidated Financial Statements

Certain amounts for prior periods were reclassified to conform with the fiscal 2009 presentation

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

| Amounts in millions | Three Months Ended September 30 | |
|--|------------------------------------|-----------------|
| | 2008 | 2007 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | \$ 3,313 | \$ 5,354 |
| OPERATING ACTIVITIES | | |
| Net earnings | 3,348 | 3,079 |
| Depreciation and amortization | 810 | 752 |
| Share-based compensation expense | 126 | 106 |
| Deferred income taxes | 247 | 213 |
| Gain on sale of businesses and fixed assets | (317) | (121) |
| Changes in: | | |
| Accounts receivable | (725) | (595) |
| Inventories | (833) | (665) |
| Accounts payable, accrued and other liabilities | 398 | 74 |
| Other operating assets and liabilities | 265 | 193 |
| Other | (68) | 194 |
| TOTAL OPERATING ACTIVITIES | 3,251 | 3,230 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (699) | (540) |
| Proceeds from asset sales | 545 | 274 |
| Acquisitions, net of cash acquired | (292) | 12 |
| Change in investments | 34 | (165) |
| TOTAL INVESTING ACTIVITIES | (412) | (419) |
| FINANCING ACTIVITIES | | |
| Dividends to shareholders | (1,254) | (1,138) |
| Change in short-term debt | 3,629 | 1,295 |
| Additions to long-term debt | 878 | 2,012 |
| Reductions of long-term debt | (1,287) | (3,692) |
| Treasury purchases | (3,911) | (2,598) |
| Impact of stock options and other | 405 | 477 |
| TOTAL FINANCING ACTIVITIES | (1,540) | (3,644) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (110) | 105 |
| CHANGE IN CASH AND CASH EQUIVALENTS | 1,189 | (728) |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 4,502 | \$ 4,626 |

See accompanying Notes to Consolidated Financial Statements

Certain amounts for prior periods were reclassified to conform with the fiscal 2009 presentation

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- These statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2008. The results of operations for the three-month period ended September 30, 2008 are not necessarily indicative of annual results.
- Comprehensive Income - Total comprehensive income is comprised primarily of net earnings, net currency translation gains and losses, impacts of net investment and cash flow hedges and net unrealized gains and losses on investment securities. Total comprehensive income for the three months ended September 30, 2008 and 2007 was -\$252 million and \$4,113 million, respectively.
- Segment Information - Following is a summary of segment results.

SEGMENT INFORMATION

Amounts in millions

| | | Three Months Ended September 30 | | |
|------------------------------------|-------------|---------------------------------|---------------------------------|---------------|
| | | Net Sales | Earnings Before Income Taxes | Net Earnings |
| Beauty GBU | | | | |
| Beauty | 2008 | \$ 5,128 | \$ 983 | \$ 754 |
| | 2007 | 4,599 | 884 | 689 |
| Grooming | 2008 | 2,142 | 645 | 478 |
| | 2007 | 2,015 | 614 | 451 |
| Health & Well-Being GBU | | | | |
| Health Care | 2008 | 3,700 | 990 | 658 |
| | 2007 | 3,559 | 980 | 648 |
| Snacks, Coffee and Pet Care | 2008 | 1,229 | 194 | 120 |
| | 2007 | 1,123 | 184 | 113 |
| Household Care GBU | | | | |
| Fabric Care and Home Care | 2008 | 6,510 | 1,268 | 831 |
| | 2007 | 5,904 | 1,356 | 916 |
| Baby Care and Family Care | 2008 | 3,772 | 807 | 514 |
| | 2007 | 3,420 | 678 | 430 |
| Corporate | 2008 | (455) | (204) | (7) |
| | 2007 | (421) | (444) | (168) |
| Total | 2008 | 22,026 | 4,683 | 3,348 |
| | 2007 | 20,199 | 4,252 | 3,079 |

4. Goodwill and Other Intangible Assets Goodwill as of September 30, 2008 is allocated by reportable segment and global business unit as follows (amounts in millions):

| | Three Months Ended September 30, 2008 |
|---|--|
| BEAUTY GBU | |
| Beauty, beginning of year | \$ 16,903 |
| Acquisitions and divestitures | 150 |
| Translation and other | (793) |
| Goodwill, September 30, 2008 | 16,260 |
| Grooming, beginning of year | |
| | 25,312 |
| Acquisitions and divestitures | (17) |
| Translation and other | (853) |
| Goodwill, September 30, 2008 | 24,442 |
| HEALTH & WELL-BEING GBU | |
| Health Care, beginning of year | 8,750 |
| Acquisitions and divestitures | (29) |
| Translation and other | (206) |
| Goodwill, September 30, 2008 | 8,515 |
| Snacks, Coffee and Pet Care, beginning of year | |
| | 2,434 |
| Acquisitions and divestitures | |
| Translation and other | (19) |
| Goodwill, September 30, 2008 | 2,415 |
| HOUSEHOLD CARE GBU | |
| Fabric Care and Home Care, beginning of year | 4,655 |
| Acquisitions and divestitures | (3) |
| Translation and other | (151) |
| Goodwill, September 30, 2008 | 4,501 |
| Baby Care and Family Care, beginning of year | |
| | 1,713 |
| Acquisitions and divestitures | (1) |
| Translation and other | (72) |
| Goodwill, September 30, 2008 | 1,640 |
| GOODWILL, NET, beginning of year | 59,767 |
| Acquisitions and divestitures | 100 |
| Translation and other | (2,094) |
| Goodwill, September 30, 2008 | \$ 57,773 |

The decrease in goodwill from June 30, 2008 is primarily due to currency translation.

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Identifiable intangible assets as of September 30, 2008 are comprised of (amounts in millions):

| | Gross Carrying Amount | Accumulated Amortization |
|---|--------------------------|-----------------------------|
| Amortizable intangible assets with determinable lives | \$ 8,938 | \$ 2,762 |
| Intangible assets with indefinite lives | 27,289 | |
| Total identifiable intangible assets | \$ 36,227 | \$ 2,762 |

Amortizable intangible assets consist principally of brands, patents, technology, and customer relationships. The non-amortizable intangible assets consist primarily of brands.

The amortization expense of intangible assets for the three months ended September 30, 2008, and 2007 was \$160 million and \$157 million, respectively.

6. Pursuant to SFAS 123(R) Share-Based Payment, companies must recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (the fair-value based method).

Total share-based compensation for the three months ended September 30, 2008 and 2007 are summarized in the following table (amounts in millions):

| | Three Months Ended September 30 | |
|---------------------------------------|------------------------------------|---------------|
| | 2008 | 2007 |
| Share-Based Compensation | | |
| SFAS 123(R) Stock Options | \$ 107 | \$ 98 |
| Other Share-Based Awards | 19 | 8 |
| Total Share-Based Compensation | \$ 126 | \$ 106 |

Assumptions utilized in the model are evaluated and revised, as necessary, to reflect market conditions and experience.

7. Postretirement Benefits - The Company offers various postretirement benefits to its employees. The components of net periodic benefit cost are as follows:

Amounts in millions

| | Pension Benefits Three Months Ended September 30 | | Other Retiree Benefits Three Months Ended September 30 | |
|---|--|--------------|--|----------------|
| | 2008 | 2007 | 2008 | 2007 |
| Service Cost | \$ 59 | \$ 66 | \$ 23 | \$ 23 |
| Interest Cost | 152 | 130 | 62 | 56 |
| Expected Return on Plan Assets | (132) | (134) | (111) | (107) |
| Amortization of Deferred Amounts | 4 | 3 | (6) | |
| Recognized Net Actuarial Loss/(Gain) | 8 | 7 | 1 | (4) |
| Gross Benefit Cost (Credit) | 91 | 72 | (31) | (32) |
| Dividends on ESOP Preferred Stock | | | (26) | (23) |
| Net Periodic Benefit Cost (Credit) | \$ 91 | \$ 72 | \$ (57) | \$ (55) |

For the year ending June 30, 2009, the expected return on plan assets is 7.4% and 9.3% for defined benefit and other retiree benefit plans, respectively.

8. Fair Value Measurements

On July 1, 2008, the Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157) for certain financial assets and liabilities. This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories.

Level 1: Quoted market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs reflecting the reporting entity's own assumptions or external inputs from inactive markets.

Fair Value Hierarchy

Under the SFAS 157 hierarchy, an entity is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The following table sets forth the Company's financial assets and liabilities as of September 30, 2008 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

| In millions | Level 1 | Level 2 | Level 3 | Total |
|-----------------------------------|---------|---------|---------|--------|
| Assets at fair value: | | | | |
| Investment securities (1) | \$ 236 | \$ | \$ 46 | \$ 282 |
| Derivatives (2) | | 304 | 11 | 315 |
| Total assets at fair value | 236 | 304 | 57 | 597 |
| Liabilities at fair value: | | | | |
| Derivatives (2) | 10 | 981 | | 991 |
| Total Liabilities at fair value | \$ 10 | \$ 981 | \$ | \$ 991 |

- (1) Investment securities consist primarily of non-qualified retirement plan assets. These securities are generally valued using observable market prices in active markets, with some securities valued using unobservable market prices in inactive markets. These investment securities are included within Other non-current assets in our Consolidated Balance Sheets for each period presented.
- (2) Derivatives consist of foreign currency, interest rate and commodity derivative instruments. Foreign currency derivatives consist primarily of forward contracts with maturities of less than 18 months and currency swaps with maturities up to 5 years. The Company can use such instruments to offset the effect of exchange rate fluctuations on forecasted sales, inventory purchases, intercompany royalties, intercompany and external loans and its investment in certain foreign subsidiaries. These contracts are generally valued using observable forward rates in commonly quoted intervals for the full term of the contracts.

Interest rate derivatives consist of interest rate swaps. Our policy is to manage interest cost using a mixture of fixed-rate and variable-rate debt. To manage this risk in a cost efficient manner, we enter into interest rate swaps in which we agree to exchange with the counterparty, at specified intervals, the difference between fixed and variable interest amounts calculated by reference to an agreed-upon notional principal amount. These interest rate derivatives are valued using observable benchmark rates at commonly quoted intervals for the full term of the swaps.

Commodity derivatives consist of futures, swaps and options with maturities up to 5 years. We use these derivatives to manage a portion of the volatility in the cost of raw materials utilized in our products or production processes resulting from weather, supply conditions, political and economic variables and other unpredictable factors. These market instruments generally are designated as cash flow hedges under SFAS 133. They are generally measured using quoted commodity exchange prices in active markets and quoted commodity exchange prices for identical commodities. A small portion of these instruments are also valued using unobservable market prices in inactive markets.

There were no gains, losses or settlements of Level 3 investment securities for the three months ended September 30, 2008. For Level 3 derivative securities we had \$3 million of gains recorded in other non-operating income, net, \$14 million of losses recorded in OCI and total settlements of \$4 million for the three months ended September 30, 2008. No transfers in and/or out of Level 3 occurred during the three months ended September 30, 2008.

In February 2008, the FASB issued Staff Position No. 157-2, which delays the effective date of SFAS 157 for one year for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. Based on this guidance, the Company will adopt the provisions of SFAS 157 as they relate to long-lived assets effective July 1, 2009, which it is not expected to have a material impact on the Company's financial statements.

9. New Accounting Pronouncements and Policies

In December 2007, the FASB issued SFAS 141 (Revised), Business Combinations (SFAS 141R) and SFAS 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS 160). SFAS 141(R) and SFAS 160 revise the method of accounting for a number of aspects of business combinations and non-controlling interests, including acquisition costs, contingencies (including contingent assets, contingent liabilities and contingent purchase price), the impacts of partial and step-acquisitions (including the valuation of net assets attributable to non-acquired minority interests), and post acquisition exit activities of acquired businesses. SFAS 141(R) and SFAS 160 will be effective for the company during our fiscal year beginning July 1, 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of 1) how and why an entity uses derivative instruments; 2) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and 3) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS 161 is effective for the Company beginning January 1, 2009. The Company is currently evaluating the provisions of SFAS 161 to determine the impact on its consolidated financial statements.

No other new accounting pronouncement issued or effective during the fiscal year had or is expected to have a material impact on the consolidated financial statements.

10. Commitments and Contingencies Litigation

As previously disclosed, the Company recently became subject to a variety of investigations into potential competition law violations in the European Union, including investigations initiated in the fourth quarter of fiscal 2008 by the European Commission with the assistance of the national authorities from a variety of countries. We believe these matters involve a number of other consumer products companies and/or retail customers. The Company's policy is to comply with all laws and regulations, including all antitrust and competition laws, and to cooperate with investigations by relevant regulatory authorities, which the Company is doing. Competition and antitrust law inquiries often continue for several years and, if violations are found, can result in substantial fines. In other industries, fines have amounted to hundreds of millions of dollars. At this point, no significant formal claims have been made against the Company or any of our subsidiaries in connection with any of the above inquiries.

In response to the actions of the Commission and national authorities, the Company has launched its own internal investigations into potential violations of competition laws, which are ongoing. The Company has identified some violations in certain European countries and appropriate actions are being taken. It is still too early for us to reasonably estimate the fines to which the Company will be subject as a result of these competition law issues. However, the ultimate resolution of these matters will likely result in fines or other costs that could materially impact our income statement and cash flows in the period in which they are accrued and paid, respectively. As these matters evolve the Company will, if necessary, recognize the appropriate reserves.

Additional information on the Commitments and Contingencies of the Company can be found in Note 11, Commitments and Contingencies, which appears on pages 73-74 of the Annual Report to Shareholders for the fiscal year ended June 30, 2008, which can be found by reference to Exhibit 13 of the Company's Form 10-K/A Amendment No. 1 for the fiscal year ended June 30, 2008 which was filed on October 3, 2008.

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

The purpose of this discussion is to provide an understanding of P&G's financial results and condition by focusing on changes in certain key measures from year to year. Management's Discussion and Analysis (MD&A) is organized in the following sections:

Overview

Summary of Results

Forward-Looking Statements

Results of Operations - Three Months Ended September 30, 2008

Business Segment Discussion - Three Months Ended September 30, 2008

Financial Condition

Reconciliation of Non-GAAP Measures

Throughout MD&A, we refer to measures used by management to evaluate performance, including unit volume growth, net outside sales and after-tax profit. We also refer to organic sales growth, free cash flow and free cash flow productivity. These financial measures are not defined under accounting principles generally accepted in the United States of America (U.S. GAAP). The explanation of these measures at the end of MD&A provides more details on the use and the derivation of these measures. Management also uses certain market share and market consumption estimates to evaluate performance relative to competition despite some limitations on the availability and comparability of share information. References to market share and market consumption in MD&A are based on a combination of vendor-reported consumption and market size data, as well as internal estimates.

OVERVIEW

P&G's business is focused on providing branded consumer goods products. Our goal is to provide products of superior quality and value to improve the lives of the world's consumers. We believe this will result in leadership sales, profits and value creation, allowing employees, shareholders and the communities in which we operate to prosper.

Our products are sold in more than 180 countries primarily through mass merchandisers, grocery stores, membership club stores and drug stores. We have also expanded our presence in high frequency stores, the neighborhood stores which serve many consumers in developing markets. We compete in multiple product categories and have three global business units (GBUs): Beauty; Health and Well-Being; and Household Care. Under U.S. Generally Accepted Accounting Principles, the business units comprising the GBUs are aggregated into six reportable segments: Beauty; Grooming; Health Care; Snacks, Coffee and Pet Care; Fabric Care and Home Care; and Baby Care and Family Care. We have on-the-ground operations in approximately 80 countries through our Market Development Organization, which leads country business teams to build our brands in local markets and is organized along seven geographic areas comprised of three developed regions (North America, Western Europe and Japan) and four developing regions (Latin America, Central and Eastern Europe/Middle East/Africa, Greater China and ASEAN/Australasia/India/Korea).

The following table provides the percentage of net sales and net earnings by reportable business segment for the three months ended September 30, 2008 (excludes net sales and net earnings in Corporate):

| | Net Sales | Net Earnings |
|------------|-----------|--------------|
| Beauty GBU | 33% | 36% |

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| | | |
|----------|-----|-----|
| Beauty | 23% | 22% |
| Grooming | 10% | 14% |

- 10 -

| | | |
|----------------------------------|-------------|-------------|
| Health and Well-Being GBU | 21% | 24% |
| Health Care | 16% | 20% |
| Snacks, Coffee and Pet Care | 5% | 4% |
| Household Care GBU | 46% | 40% |
| Fabric Care and Home Care | 29% | 25% |
| Baby Care and Family Care | 17% | 15% |
| Total | 100% | 100% |

SUMMARY OF RESULTS

Following are highlights of results for the three months ended September 30, 2008:

Net sales grew 9% to \$22.0 billion. Organic sales, which exclude the impacts of acquisitions, divestitures and foreign exchange, increased 5%.

Unit volume increased 2% and organic volume increased 3% led by growth in the Beauty segment.

Net earnings increased 9% to \$3.3 billion. Net earnings increased due to sales growth and higher divestiture gains partially offset by lower operating margin.

Diluted net earnings per share were \$1.03, an increase of 12% versus the comparable prior year period.

Operating cash flow was \$3.3 billion, an increase of 1% versus the prior year period. Free cash flow productivity was 76% for the quarter. Free cash flow productivity is defined as the ratio of operating cash flow less capital expenditures to net earnings.

FORWARD-LOOKING STATEMENTS

We discuss expectations regarding future performance, events and outcomes, such as our business outlook and objectives, in annual and quarterly reports, press releases and other written and oral communications. All such statements, except for historical and present factual information, are forward-looking statements, and are based on financial data and our business plans available only as of the time the statements are made, which may become out-of-date or incomplete. We assume no obligation to update any forward-looking statements as a result of new information, future events or other factors. Forward-looking statements are inherently uncertain and investors must recognize that events could be significantly different from our expectations. The following details a number of circumstances which could impact our ability to successfully achieve our business objectives. For additional information concerning factors that could cause actual results to differ from those projected herein, please refer to Part II, Item 1A of this for 10-Q and our recent 10-K and 8-K reports.

Ability to Achieve Business Plans: We are a consumer products company and rely on continued demand for our brands and products. To achieve business goals, we must develop and sell products that appeal to consumers and retail trade customers. Our continued success is dependent on leading-edge innovation with respect to both products and operations and on the continued positive reputations of our brands. This means we must be able to obtain patents and respond to technological advances and patents granted to competition. Our success is also dependent on effective sales, advertising and marketing programs in an increasingly fragmented media environment. Our ability to innovate and execute in these areas will determine the extent to which we are able to grow existing sales and volume profitably, especially with respect to the product categories and geographic markets (including developing markets) in which we have chosen to focus. There are high levels of competitive activity in the environments in which we operate. To address these challenges, we must respond to competitive factors, including pricing, promotional incentives, trade terms and product initiatives. We must manage each of these factors, as well as maintain mutually beneficial relationships with our key customers, in order to effectively compete and achieve our business plans. Since our goals include a growth component tied to acquisitions, we must manage and integrate key acquisitions including achieving the cost and growth synergies in accordance with stated goals.

Cost Pressures: Our costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, cost of labor, foreign exchange and interest rates. Therefore, our success is dependent, in part, on our continued ability to manage these fluctuations through pricing actions, cost savings projects, sourcing decisions and certain hedging transactions. We also must manage our debt and currency exposure, especially in volatile countries. We need to maintain key manufacturing and supply arrangements, including sole supplier and sole manufacturing plant arrangements. We must implement, achieve and sustain cost improvement plans, including our outsourcing projects and those related to general overhead and workforce rationalization.

Global Economic Conditions: Economic changes, terrorist activity and political unrest may result in business interruption, significant credit or liquidity issues, inflation, deflation or decreased demand for our products. Our success will depend, in part, on our ability to manage continued global political and/or economic uncertainty, especially in our significant geographic markets, as well as any political or economic disruption due to a global or regional credit crisis or terrorist and other hostile activities.

Regulatory Environment: Changes in laws, regulations and the related interpretations may alter the environment in which we do business. This includes changes in environmental, competition and product-related laws, as well as changes in accounting standards and taxation requirements. Our ability to manage regulatory, tax and legal matters (including product liability, patent, intellectual property and competition law matters) and to resolve pending legal matters within current estimates may impact our results.

RESULTS OF OPERATIONS Three Months Ended September 30, 2008

The following discussion provides a review of results for the three months ended September 30, 2008 versus the three months ended September 30, 2007.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

(Amounts in Millions Except Per Share Amounts)

Consolidated Earnings Information

| | Three Months Ended September 30 | | % CHG |
|--|--|-------------|------------------|
| | 2008 | 2007 | |
| NET SALES | 22,026 | 20,199 | 9% |
| COST OF PRODUCTS SOLD | 10,905 | 9,519 | 15% |
| GROSS MARGIN | 11,121 | 10,680 | 4% |
| SELLING, GENERAL & ADMINISTRATIVE EXPENSE | 6,436 | 6,262 | 3% |
| OPERATING INCOME | 4,685 | 4,418 | 6% |
| TOTAL INTEREST EXPENSE | 339 | 359 | |
| OTHER NON-OPERATING INCOME, NET | 337 | 193 | |
| EARNINGS BEFORE INCOME TAXES | 4,683 | 4,252 | 10% |
| INCOME TAXES | 1,335 | 1,173 | |
| NET EARNINGS | 3,348 | 3,079 | 9% |
| EFFECTIVE TAX RATE | 28.5% | 27.6% | |
| PER COMMON SHARE: | | | |
| BASIC NET EARNINGS | \$ 1.10 | \$ 0.97 | 13% |
| DILUTED NET EARNINGS | \$ 1.03 | \$ 0.92 | 12% |
| DIVIDENDS | \$ 0.40 | \$ 0.35 | 14% |
| AVERAGE DILUTED SHARES OUTSTANDING | 3,239.5 | 3,354.2 | |

| COMPARISONS AS A % OF NET SALES | Basis Pt Chg | | |
|---|-----------------|-------|-------|
| COST OF PRODUCTS SOLD | 49.5% | 47.1% | 240 |
| GROSS MARGIN | 50.5% | 52.9% | (240) |
| SELLING, GENERAL & ADMINISTRATIVE EXPENSE | 29.2% | 31.0% | (180) |
| OPERATING MARGIN | 21.3% | 21.9% | (60) |
| EARNINGS BEFORE INCOME TAXES | 21.3% | 21.1% | 20 |
| NET EARNINGS | 15.2% | 15.2% | 0 |

Net sales for the quarter were up 9% to \$22.0 billion. Sales growth was led by double-digit growth in the Beauty, the Fabric Care and Home Care and the Family Care and Baby Care segments. Unit volume increased 2% for the quarter led by mid-single digit growth in Beauty and in developing regions. Volume in developed regions declined low-single digits but grew low-single digits on an organic basis due to the net impact of acquisitions and divestitures. Volume growth was led by Head & Shoulders, Gain, Gillette Fusion, Cover Girl, Rejoice and SK-II, all of which posted double-digit volume growth to offset double-digit declines in Braun, Eukanuba, Febreze, Hugo Boss and Prilosec OTC. Foreign exchange had a positive 5% impact on sales growth. Price increases implemented to offset commodity-driven cost increases contributed 3% to net sales. These were partially offset by a negative 1% mix impact due to disproportionate growth in developing regions and a shift toward mid-tier brands, where average unit selling prices are below the Company average. Organic sales, which exclude the impacts of acquisitions, divestitures and foreign exchange, increased 5% for the quarter.

| | Net Sales Change Drivers 2008 vs. 2007 (Three Months Ended Sept. 30) | | | | | Net Sales Growth |
|----------------------------------|--|--|---------------------|-----------|------------|---------------------|
| | Volume with Acquisitions & Divestitures | Volume excluding Acquisitions & Divestitures | Foreign Exchange | Price | Mix/Other | |
| Beauty GBU | | | | | | |
| Beauty | 4% | 4% | 6% | 2% | 0% | 12% |
| Grooming | -1% | -1% | 6% | 3% | -2% | 6% |
| Health and Well-Being GBU | | | | | | |
| Health Care | 0% | 1% | 5% | 2% | -3% | 4% |
| Snacks, Coffee and Pet Care | 2% | 2% | 2% | 7% | -2% | 9% |
| Household Care GBU | | | | | | |
| Fabric Care and Home Care | 2% | 2% | 4% | 4% | 0% | 10% |
| Baby Care and Family Care | 1% | 7% | 4% | 5% | 0% | 10% |
| Total Company | 2% | 3% | 5% | 3% | -1% | 9% |

Sales percentage changes are approximations based on quantitative formulas that are consistently applied.

Gross margin was down 240 basis points for the quarter to 50.5% of net sales. Commodity-driven cost impacts reduced gross margin by approximately 400 basis points. This was partially offset by the impact of price increases and manufacturing cost savings projects.

Total selling, general and administrative expenses (SG&A) increased 3% to \$6.4 billion. SG&A as a percentage of net sales was down 180 basis points. Both overhead and marketing spending were down as a percentage of net sales primarily due to scale leverage, overhead productivity improvements, marketing spending efficiencies and the impact of foreign currency transaction gains on working capital balances caused by strengthening of the U.S. dollar late in the quarter.

Interest expense declined 6% for the quarter to \$339 million driven mainly by a reduction in U.S. interest rates. Other non-operating income increased \$144 million to \$337 million primarily due to divestiture gains. The base period included a gain on the sale of our adult incontinence business in Japan, while the current period included gains on the sale of ThermaCare, Dantrium and Dryel.

Net earnings increased 9% to \$3.3 billion as sales growth, increased divestiture gains and favorable foreign exchange were partially offset by a lower operating margin resulting from a commodity-driven decline in gross margin. Our tax rate was up from 27.6% to 28.5% primarily due to the impact of a reduction in the German statutory tax rate in the year-ago period. Diluted net earnings per share were \$1.03, up 12% versus the prior year. Earnings per share growth exceeded net earnings growth due to the impact of our share repurchase program.

BUSINESS SEGMENT DISCUSSION Three Months Ended September 30, 2008

The following discussion provides a review of results by business segment. Analyses of the results for the three months ended September 30, 2008 are provided compared to the same three month period ended September 30, 2007. The primary financial measures used to evaluate segment performance are net sales and net earnings. The table below provides supplemental information on net sales and net earnings by business segment for the three months ended September 30, 2008 versus the comparable prior year period (amounts in millions):

| | Three Months Ended September 30, 2008 | | | | | |
|----------------------------------|---------------------------------------|--------------------------|------------------------------|--------------------------|--------------|--------------------------|
| | Net Sales | % Change Versus Year Ago | Earnings Before Income Taxes | % Change Versus Year Ago | Net Earnings | % Change Versus Year Ago |
| Beauty GBU | | | | | | |
| Beauty | \$ 5,128 | 12% | \$ 983 | 11% | \$ 754 | 9% |
| Grooming | 2,142 | 6% | 645 | 5% | 478 | 6% |
| Health and Well-Being GBU | | | | | | |
| Health Care | 3,700 | 4% | 990 | 1% | 658 | 2% |
| Snacks, Coffee and Pet Care | 1,229 | 9% | 194 | 5% | 120 | 6% |
| Household Care GBU | | | | | | |
| Fabric Care and Home Care | 6,510 | 10% | 1,268 | -6% | 831 | -9% |
| Baby Care and Family Care | 3,772 | 10% | 807 | 19% | 514 | 20% |
| Total Business Segments | 22,481 | 9% | 4,887 | 4% | 3,355 | 3% |
| Corporate | (455) | N/A | (204) | N/A | (7) | N/A |
| Total Company | 22,026 | 9% | 4,683 | 10% | 3,348 | 9% |

BEAUTY GBU

Beauty

Beauty net sales increased 12% during the quarter to \$5.1 billion. Net sales were up due to a 4% increase in volume, a 2% pricing impact and a 6% favorable foreign exchange impact. Hair Care volume grew mid-single digits behind growth in developing regions. Globally, all major hair care brands contributed to volume growth led by mid-single digit growth of Pantene and double-digit growth of Head & Shoulders and Rejoice. This was partially offset by a low-single digit volume decline in Professional Hair Care. Cosmetics volume grew double digits behind continued growth of Cover Girl. Skin Care volume grew low-single digits due to double-digit growth of SK-II following a base period that was impacted by business disruptions in Asia. Global market share of facial skin care declined slightly on a decline in U.S. market share caused by higher

promotional activity by competitors. Prestige Fragrances volume declined low-single digits as double-digit increases of Dolce & Gabbana and Gucci were more than offset by lower shipments of Lacoste and Hugo Boss. Initiative launches in Prestige Fragrances are skewed toward the second half of fiscal 2009 and will continue to impact year-on-year results through the second quarter. Earnings grew 9% during the quarter to \$754 million as higher net sales and lower overhead and marketing spending as a percentage of net sales were partially offset by reduced gross margin from higher commodity costs.

Grooming

Grooming net sales were up 6% to \$2.1 billion for the quarter. Volume declined 1% due to a double-digit decline of Braun. Blades & Razors volume grew low-single digits behind growth in developing regions. Double-digit growth of Gillette Fusion and high-single digit growth of Venus were mostly offset by declines in legacy shaving systems. Volume of Blades & Razors declined mid-single digits in developed regions primarily due to trade inventory reductions in North America and market softness in Western Europe. Global market share of the blades and razors category increased slightly for the quarter. Braun volume was down due to a double-digit decline of male hair removers, the exits of the U.S. home appliance and Tassimo coffee appliance businesses and the continued impact of supply constraints in Western Europe. Global market share of the dry shaving category increased 1 point for the quarter due to a 4 point increase in share of leg epilators. Favorable foreign exchange contributed 6% to net sales growth. Price increases taken across premium shaving systems added 3% to net sales. Product mix had a negative 2% impact on net sales as favorable product mix from growth on Gillette Fusion was more than offset by disproportionate growth in developing regions, which have lower than segment average selling prices. Net earnings increased 6% to \$478 million for the quarter on sales growth. Net earnings margin declined slightly as lower gross margin was largely offset by lower SG&A expenses as a percentage of net sales.

HEALTH AND WELL-BEING GBU

Health Care

Health Care net sales were up 4% during the quarter to \$3.7 billion. Sales growth was driven by 5% favorable foreign exchange and a 2% increase in pricing. This was partially offset by a negative 3% product mix impact driven primarily by lower volume on Prilosec OTC and growth in developing regions. Segment volume was flat for the quarter including a negative 1% impact from divestitures. High-single digit growth in developing regions was offset by a mid-single digit decline in developed regions. Oral Care volume increased mid-single digits primarily behind double-digit growth of Crest in developing regions. Globally, Crest grew mid-single digits. Feminine Care volume was up low-single digits as high-single digit growth of Always in developing regions was partially offset by a high-single digit decline of Tampax globally and the divestiture of the Adult Incontinence business in Japan. Pharmaceuticals and Personal Health volume declined high-single digits due to a double-digit decline of Prilosec OTC from the loss of marketplace exclusivity and the divestitures of ThermaCare, Eneas and Dantrium. U.S. market share of the personal health category declined nearly 4 points for the quarter. Net earnings increased 2% for the quarter to \$658 million as sales growth was partially offset by reduced operating margin. Reduced gross margin from higher commodity costs and unfavorable product mix were partially offset by lower overhead spending as a percentage of net sales.

Snacks, Coffee and Pet Care

Snacks, Coffee and Pet Care net sales increased 9% to \$1.2 billion for the quarter on a 2% volume increase. Snacks volume increased mid-single digits due to double-digit growth in North America behind base business growth of Pringles and continued growth from Pringles Extreme Flavors and Stix initiatives. Coffee volume grew low-single digits behind the Folgers Roast & Ground restage and continued expansion of the Dunkin Donuts® line. Pet Care volume declined low-single digits as initiative driven growth of Iams was more than offset by a double-digit decline of Eukanuba. Pricing contributed 7% to net sales due to multiple price increases in Coffee and Pet Care which helped grow sales double digits and high-single digits, respectively.

Favorable foreign exchange added 2% to net sales. Product mix had a negative 2% impact on sales due to the disproportionate growth of Snacks, which has lower selling prices than the segment average. Net earnings increased 6% to \$120 million for the quarter as sales growth was partially offset by lower operating margin. Lower corporate overhead allocations to Coffee in advance of separating from the Company and lower marketing spending as a percentage of net sales were more than offset by higher commodity costs in the current period and Katrina insurance claim receipts in the base period.

HOUSEHOLD CARE GBU

Fabric Care and Home Care

Fabric Care and Home Care net sales increased 10% during the quarter to \$6.5 billion. Volume grew 2% behind mid-single digit growth of Fabric Care from the launch of Tide and Downy Total Care, trade inventory increases prior to announced price increases in North America and innovation in developing regions. Market share of the global fabric care category was down slightly to about 32%. Volume in Home Care declined low-single digits due to Febreze Candles and Mr. Clean Wipes initiatives in the base period and a decrease in trade inventory following price increases on Dawn and Swiffer in North America. Volume in Batteries was flat. Global market share of general purpose batteries declined about 1 point in the quarter. Foreign exchange contributed 4% to net sales and price increases added 4% to sales growth. Net earnings decreased 9% to \$831 million as sales growth and lower marketing spending as a percentage of net sales were more than offset by lower gross margin from significantly higher commodity costs.

Baby Care and Family Care

Baby Care and Family Care net sales increased 10% during the quarter to \$3.8 billion. Volume grew 1%, including a negative 6% impact from the Western European Tissue divestiture. Baby Care volume grew high-single digits due to growth of Pampers in developing regions and double-digit growth of Luvs partially offset by a mid-single digit decline of Pampers in North America. Global market share of the baby care category was up slightly to approximately 35%. Family Care volume declined mid-single digits due to the Western European Tissue divestiture. Organic volume for Family Care was up high-single digits behind growth of Charmin Basic and Bounty Basic. Family Care U.S. market share was up over 1 point to about 33%. Favorable foreign exchange added 4% to net sales. Price increases contributed 5% to sales growth. Mix was flat as the negative impacts of disproportionate growth in developing regions and growth of mid-tier brands were offset by the positive impact from the Western European Tissue divestiture. Organic sales were up 10% behind a 7% increase in organic volume. Net earnings increased 20% for the quarter to \$514 million. Earnings increased due to sales growth, higher gross margin from a combination of manufacturing cost savings projects and positive mix impact due to the Western Europe Tissue divestiture and lower marketing spending as a percentage of net sales.

CORPORATE

Corporate includes certain operating and non-operating activities not allocated to specific business units. These include: the incidental businesses managed at the corporate level; financing and investing activities; other general corporate items; the historical results of certain divested brands and categories; and certain restructuring-type activities to maintain a competitive cost structure, including manufacturing and workforce rationalization. Corporate also includes reconciling items to adjust the accounting policies used in the segments to U.S. GAAP. The most significant reconciling items include income taxes (to adjust from statutory rates that are reflected in the segments to the overall Company effective tax rate), adjustments for unconsolidated entities (to eliminate sales, cost of products sold and SG&A for entities that are consolidated in the segments but accounted for using the equity method for U.S. GAAP) and minority interest adjustments for subsidiaries where we do not have 100% ownership. Since both unconsolidated entities and less than 100% owned subsidiaries are managed as integral parts of the Company, they are accounted for similar to a wholly owned subsidiary for management and segment purposes. This means our segment

results recognize 100% of each income statement component through before-tax earnings, with eliminations for unconsolidated entities in Corporate. In determining segment after-tax net earnings, we apply the statutory tax rates (with adjustments to arrive at the Company's effective tax rate in Corporate) and eliminate the share of earnings applicable to other ownership interests, in a manner similar to minority interest.

Net earnings in Corporate increased \$161 million versus the year-ago period. The increase was driven primarily by corporate hedging impacts and higher current period divestiture gains primarily from the sale of ThermaCare, partially offset by higher restructuring spending.

FINANCIAL CONDITION

Operating Activities

Cash generated from operating activities was \$3.3 billion, an increase of 1% versus the comparable prior year period. Net earnings, adjusted for non-cash items (primarily depreciation, amortization, share based compensation, deferred income taxes and gains on the sale of businesses) provided \$4.2 billion of operating cash. This was partially offset by an increase in working capital due to higher levels of accounts receivable and inventory to support business growth.

Investing Activities

Investing activities in the current year used \$412 million, compared to the prior year period cash use of \$419 million. Capital expenditures were \$699 million or 3.2% of net sales for the quarter. Proceeds from asset sales generated \$545 million in cash primarily from the sale of ThermaCare and the Western European Tissue business. Acquisitions, net of cash acquired, consumed \$292 million of cash.

Financing Activities

Total cash used by financing activities was \$1.5 billion versus \$3.6 billion in the comparable prior year period. We repurchased \$3.9 billion of treasury shares under a previously announced share buyback program that started in July 2007. We increased our debt position by \$3.2 billion during the quarter primarily to fund share repurchases. In the prior year period, we repurchased \$2.6 billion of treasury shares and reduced our debt position by \$385 million.

As of September 30, 2008, our current liabilities exceeded current assets by \$13.2 billion, driven by our short-term debt position. We have short- and long-term debt to fund discretionary items such as acquisitions and share buyback programs. We anticipate being able to support our short-term liquidity and operating needs largely through cash generated from operations. We have strong short- and long-term debt ratings which despite the current credit crisis have and should enable us to continue to refinance our debt as it becomes due at favorable rates in commercial paper and bond markets. In addition, we have agreements with a diverse group of financial institutions that, if needed, should provide sufficient credit funding to meet short-term financing requirements. However, if the current credit crisis were to continue to worsen such that we were unable to access the credit market, it could impair our ability to fund discretionary spending such as the previously announced share buyback program.

RECONCILIATION OF NON-GAAP MEASURES

Our discussion of financial results includes several measures not defined by U.S. GAAP. We believe these measures provide our investors with additional information about the underlying results and trends of the Company, as well as insight to some of the metrics used to evaluate management. When used in MD&A, we have provided the comparable GAAP measure in the discussion.

Organic Sales Growth: Organic sales growth is a non-GAAP measure of sales growth excluding the impacts of acquisitions, divestitures and foreign exchange from year-over-year comparisons. We believe this provides investors with a more complete understanding of underlying sales trends by providing sales growth on a consistent basis. The reconciliation of reported sales growth to organic sales for the July-September quarter:

| | Total Company | Baby Care & Family Care |
|--------------------------------------|--------------------------|--|
| Total Sales Growth | 9% | 10% |
| Less: Foreign Exchange Impact | 5% | 4% |
| Less: Acquisition/Divestiture Impact | -1% | -4% |
| Organic Sales Growth | 5% | 10% |

Free Cash Flow: Free cash flow is defined as operating cash flow less capital spending. We view free cash flow as an important measure because it is one factor in determining the amount of cash available for dividends and discretionary investment. Free cash flow is also one of the measures used to evaluate senior management and is a factor in determining their at-risk compensation.

Free Cash Flow Productivity: Free cash flow productivity is defined as the ratio of free cash flow to net earnings. The Company's long-term target is to generate free cash at or above 90 percent of net earnings. Free cash flow is also one of the measures used to evaluate senior management. The reconciliation of free cash flow and free cash flow productivity is provided below (amounts in millions):

| | Operating Cash Flow | Capital Spending | Free Cash Flow | Net Earnings | Free Cash Flow Productivity |
|-------------|--------------------------------|-----------------------------|---------------------------|-------------------------|--|
| Jul Sept 08 | \$ 3,251 | \$ (699) | \$ 2,552 | \$ 3,348 | 76% |

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no material changes in the Company's exposure to market risk since June 30, 2008. Additional information can be found in the section entitled Other Information, which appears on page 54, and Note 6, Risk Management Activities, which appears on pages 65-66 of the Annual Report to Shareholders for the fiscal year ended June 30, 2008 which can be found by reference to Exhibit 13 of the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2008.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures.

The Company's Chairman of the Board and Chief Executive Officer, A. G. Lafley, and the Company's Chief Financial Officer, Clayton C. Daley, Jr., performed an evaluation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (Exchange Act)) as of the end of the period covered by this report. Messrs. Lafley and Daley have concluded that the Company's disclosure controls and procedures were effective to ensure that information required to be disclosed in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including Messrs. Lafley and Daley, to allow their timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting.

There were no changes in our internal control over financial reporting that occurred during the Company's fiscal quarter ended September 30, 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

- 19 -

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

The Company is subject, from time to time, to certain legal proceedings and claims arising out of our business, which cover a wide range of matters, including antitrust and trade regulation, product liability, advertising, contracts, environmental issues, patent and trademark matters, and taxes.

Recently, the Company has become subject to a variety of investigations into potential competition law violations in the European Union. In July 2006, French authorities, in connection with an inquiry into potential competition law violations in France, entered the premises of two of the Company's French subsidiaries and seized a variety of documents. In April 2008, UK authorities initiated an investigation concerning potential antitrust violations in the UK involving one of the Company's subsidiaries. In June 2008, European Commission officials, with the assistance of the national authorities from a variety of countries, started an investigation into potential competition law violations in a variety of countries across the European Union. Around the same time, the national authorities in Spain, Italy and the Czech Republic initiated additional investigations into potential antitrust concerns within those countries. In connection with these investigations, a number of the Company's subsidiaries were visited and documents seized. The Company or its subsidiaries are also involved in other competition law investigations in Belgium, Romania and Greece. We believe that all of the above matters involve a number of other consumer products companies and/or retail customers.

The Company's policy is to comply with all laws and regulations, including all antitrust and competition laws, and to cooperate with investigations by relevant regulatory authorities, which the Company is doing. Competition and antitrust law investigations often continue for several years and, if violations are found, can result in substantial fines. In other industries, fines have amounted to hundreds of millions of dollars. At this point, no formal claims have been made against the Company or any of our subsidiaries in connection with any of the above inquiries.

During the fiscal year ended June 30, 2008, certain of the Company's subsidiaries in Germany received a formal complaint alleging violations of the antitrust laws. We are now discussing the situation with the German authorities.

In response to the actions of the Commission and national authorities, the Company has launched its own internal investigations into potential violations of competition laws, which are ongoing. The Company has identified some violations in certain European countries and appropriate actions are being taken. It is still too early for us to reasonably estimate the fines to which the Company will be subject as a result of these competition law issues. However, we have taken and will take reserves as appropriate. Please refer to the Company's Risk Factors in Item 1A below for additional information.

Item 1A. Risk Factors.

We discuss our expectations regarding future performance, events and outcomes, such as our business outlook and objectives in this Form 10-Q, the Annual Report to Shareholders, quarterly reports, press releases and other written and oral communications. All statements, except for historical and present factual information, are forward-looking statements and are based on financial data and business plans available only as of the time the statements are made, which may become out of date or incomplete. We assume no obligation to update any forward-looking statements as a result of new information, future events, or other factors. Forward-looking statements are inherently uncertain, and investors must recognize that events could significantly differ from our expectations.

The following discussion of risk factors identifies the most significant factors that may adversely affect our business, operations, financial position or future financial performance. This information should be read in conjunction with Management's Discussion and Analysis (MD&A) and the consolidated financial statements and related notes incorporated by reference into this report. The following discussion of risks is not all inclusive but is designed to highlight what we believe are important factors to consider when evaluating our expectations. These factors could cause our future results to differ from those in the forward-looking statements and from historical trends.

A material change in consumer demand for our products could have a significant impact on our business.

We are a consumer products company and rely on continued global demand for our brands and products. To achieve business goals, we must develop and sell products that appeal to consumers. This is dependent on a number of factors including our ability to develop effective sales, advertising and marketing programs in an increasingly fragmented media environment. We expect to achieve our financial targets, in part, by shifting our portfolio towards faster growing, higher margin businesses. If demand and growth rates fall substantially below expected levels or our market share declines significantly in these businesses, our results could be negatively impacted. This could occur due to unforeseen negative economic or political events or to changes in consumer trends and habits. In addition, our continued success is dependent on leading-edge innovation, with respect to both products and operations. This means we must be able to obtain patents that lead to the development of products that appeal to our consumers across the world.

The ability to achieve our business objectives is dependent on how well we can respond to our local and global competitors.

Across all of our categories, we compete against a wide variety of global and local competitors. As a result, there are ongoing competitive product and pricing pressures in the environments in which we operate, as well as challenges in maintaining profit margins. To address these challenges, we must be able to successfully respond to competitive factors, including pricing, promotional incentives and trade terms, as well as technological advances and patents granted to competition.

Our ability to successfully integrate key acquisitions, such as Gillette, could impact our business results.

Since our goals include a growth component tied to acquisitions, we must be able to successfully manage and integrate key acquisitions, such as the acquisition of The Gillette Company. Specifically, we must be able to integrate acquisitions without any significant disruption to our ability to manage and execute business plans on our base businesses. In addition, our financial results could be adversely impacted if we are not able to deliver the expected cost and growth synergies associated with our acquisitions.

Our businesses face cost pressures which could affect our business results.

Our costs are subject to fluctuations, particularly due to changes in commodity prices, raw materials, cost of labor, foreign exchange and interest rates. Our costs in 2008 were impacted by higher commodity costs. Therefore, our success is dependent, in part, on our continued ability to manage these fluctuations through pricing actions, cost savings projects (including outsourcing projects), sourcing decisions and certain hedging transactions. In the manufacturing and general overhead areas, we need to maintain key manufacturing and supply arrangements, including any key sole supplier and sole manufacturing plant arrangements.

We face risks associated with significant international operations.

We conduct business across the globe with a significant portion of our sales outside the United States. We expect to achieve our financial targets, in part, by achieving disproportionate growth in developing regions. Should growth rates or our market share fall substantially below expected levels in these regions, our results

could be negatively impacted. In addition, economic changes, terrorist activity and political unrest may result in business interruption, inflation, deflation or decreased demand for our products. Our success will depend, in part, on our ability to manage continued global political and/or economic uncertainty, especially in our significant geographical markets, as well as any political or economic disruption due to terrorist and other hostile activities.

Our business is subject to regulation in the U.S. and abroad.

Changes in laws, regulations and the related interpretations may alter the environment in which we do business. This includes changes in environmental, competitive and product-related laws, as well as changes in accounting standards and taxation requirements. Accordingly, our ability to manage regulatory, tax and legal matters (including product liability, patent, and intellectual property matters), and to resolve pending legal matters without significant liability, including the competition law and antitrust investigations described in Part II, Item 1 of this Form 10-Q, which could require the Company to take significant reserves or pay significant fines during a reporting period, may materially impact our results.

If the reputation of one or more of our leading brands erodes significantly, it could have a material impact on our financial results.

Our Company's financial success is directly dependent on the success of our brands, particularly our billion-dollar brands. The success of these brands can suffer if our marketing plans or product initiatives do not have the desired impact on a brand's image or its ability to attract consumers. Further, our Company's results could be negatively impacted if one of our leading brands suffers a substantial impediment to its reputation due to real or perceived quality issues.

A material change in customer relationships or in customer demand for our products could have a significant impact on our business.

Our success is dependent on our ability to successfully manage relationships with our retail trade customers. This includes our ability to offer trade terms that are acceptable to our customers and are aligned with our pricing and profitability targets. Our business could suffer if we cannot reach agreement with a key customer based on our trade terms and principles. Further, there is a continuing trend towards retail trade consolidation and this leads to more complex work across broader geographic boundaries for both us and key retailers. This can be particularly difficult when major customers are addressing local trade pressures or local law and regulation changes. Further, our business would be negatively impacted if a key customer were to significantly reduce the range or inventory level of our products.

We face risks related to the current credit crisis.

The company currently generates significant operating cash flows, which combined with access to the credit markets provides us with significant discretionary funding capacity. However, current uncertainty in the global economic conditions resulting from the recent disruption in credit markets pose a risk to the overall economy that could impact consumer and customer demand for our products, as well as our ability to manage normal commercial relationships with our customers, suppliers and creditors. If the current situation deteriorates significantly, our business could be negatively impacted, including such areas as reduced demand for our products from a slow-down in the general economy, or supplier or customer disruptions resulting from tighter credit markets.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | Total Number of Shares Purchased ⁽¹⁾ | Average Price Paid per Share ⁽²⁾ | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽³⁾ | Approximate dollar value of shares that may yet be purchased under our share repurchase program ^{(3) (4)} (\$ in Billions) |
|------------------|---|---|---|---|
| 7/1/08 - 7/31/08 | 4,136,759 | \$ 63.49 | 0 | 20 |
| 8/1/08 - 8/31/08 | 47,717,783 | \$ 65.00 | 47,694,696 | 16.9 |
| 9/1/08 - 9/30/08 | 11,170,010 | \$ 71.62 | 11,170,010 | 16.1 |

- (1) The total number of shares purchased was 63,024,552 for the quarter. All transactions were made in the open market or pursuant to prepaid forward agreements with large financial institutions. Under these agreements, the Company prepaid large financial institutions to deliver shares at future dates in exchange for a discount. The number of shares purchased other than through a publicly announced repurchase plan was 4,159,846 for the quarter. This includes 34,006 shares acquired by the Company under various compensation and benefit plans and 4,125,840 shares acquired by the Profit Sharing Trust. This table excludes shares withheld from employees to satisfy minimum tax withholding requirements on option exercises and other equity-based transactions. The Company administers cashless exercises through an independent, third party broker and does not repurchase stock in connection with cashless exercise.
- (2) Average price paid per share is calculated on a settlement basis and excludes commission.
- (3) On August 3, 2007, the Company announced a share repurchase plan. Pursuant to the share repurchase plan, the Board of Directors authorized the Company and its subsidiaries to acquire in open market and/or private transactions \$24 to \$30 billion of shares of Company common stock over the subsequent three years to be financed by issuing a combination of long-term and short-term debt. Certain purchases were made prior to announcement of the program but are considered purchases against the program.
- (4) The dollar values listed in this column include commissions to be paid to brokers to execute the transactions.

Item 4. Submission of Matters to a Vote of Security Holders.

At the Company's 2008 Annual Meeting of Shareholders held on October 14, 2008, the following actions were taken:

The following Directors were elected for terms of office expiring in 2009:

| | Votes For | Votes Withheld | Abstentions* | Broker Non-Votes* |
|------------------------|---------------|----------------|--------------|-------------------|
| Kenneth I. Chenault | 2,376,638,702 | 92,305,243 | N/A | N/A |
| Scott D. Cook | 2,392,469,138 | 76,474,807 | N/A | N/A |
| Rajat K. Gupta | 2,419,036,990 | 49,906,966 | N/A | N/A |
| A.G. Lafley | 2,389,744,047 | 79,199,898 | N/A | N/A |
| Charles R. Lee | 2,379,453,826 | 89,490,119 | N/A | N/A |
| Lynn M. Martin | 2,387,530,169 | 81,413,776 | N/A | N/A |
| W. James McNerney, Jr. | 2,404,874,357 | 64,069,588 | N/A | N/A |
| Johnathan A. Rodgers | 2,416,664,847 | 52,279,098 | N/A | N/A |
| Ralph Snyderman, M.D. | 2,413,069,714 | 55,874,231 | N/A | N/A |
| Margaret C. Whitman | 2,403,532,905 | 65,411,040 | N/A | N/A |
| Patricia A. Woertz | 2,426,048,876 | 42,895,069 | N/A | N/A |
| Ernesto Zedillo | 2,424,142,824 | 44,801,121 | N/A | N/A |

- * Pursuant to the terms of the Notice of Annual Meeting and Proxy Statements, proxies received were voted, unless authority was withheld, in favor of the election of the twelve nominees named.

A proposal by the Board of Directors to ratify the appointment of Deloitte & Touche LLP as the Company's independent registered public accounting firm to conduct the annual audit of the financial statements of the Company and its subsidiaries for the fiscal year ending June 30, 2009, was approved by the shareholders. The shareholders cast 2,405,033,875 votes in favor of this proposal and 30,504,273 votes against. There were 33,405,797 abstentions.

A proposal by the Board of Directors to amend the Amended Articles of Incorporation to adopt majority voting was approved by the shareholders. 76.35% of the issued and outstanding shares were voted in favor of the resolution. The shareholders cast 2,398,583,979 in favor of the resolution and 34,149,764 votes against.

A shareholder resolution proposed by Mrs. Evelyn Y. Davis was defeated by the shareholders. The proposal requested that the Board of Directors rotate the site of the annual meeting to other major cities. The Board opposed the resolution. The shareholders cast 36,210,019 votes in favor of the resolution and 1,827,400,036 against. There were 54,283,693 abstentions and 551,050,197 broker non-votes.

A shareholder resolution proposed by Mr. Peter Flaherty of the National Legal and Policy Center was defeated by the shareholders. The proposal requested shareholders be given an advisory vote on executive compensation. The Board opposed the resolution. The shareholders cast 751,316,440 votes in favor of the resolution and 1,050,432,793 against. There were 116,144,515 abstentions and 551,050,197 broker non-votes.

Although these actions occurred following the first quarter, the Company is voluntarily including this information here.

Item 6. Exhibits

Exhibit

- 3-1 Amended Articles of Incorporation.
- 3-2 Regulations (as amended by shareholders at the annual meeting on October 10, 2006) (Incorporated by reference to Exhibit (3-2) of the Company's Form 10-Q for the quarter ended September 30, 2006).
- 10-1 Summary of the Company's Short Term Achievement Reward Program, and related correspondence and terms and conditions (Incorporated by reference to Exhibit 99 of the Company's Form 8-K filed on August 14, 2008).*
- 10-2 Summary of the Company's Business Growth Program and related correspondence and terms and conditions (Incorporated by reference to Exhibit 99 of the Company's Form 8-K filed on September 22, 2008).*
- 10-3 Summary of personal benefits available to certain officers and non-employee directors.*
- 11 Computation of Earnings per Share.
- 12 Computation of Ratio of Earnings to Fixed Charges.
- 31.1 Rule 13a-14(a)/15d-14(a) Certification Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-15(a) Certification Chief Financial Officer
- 32.1 Section 1350 Certifications Chief Executive Officer
- 32.2 Section 1350 Certifications Chief Financial Officer

* Compensatory plan or arrangement

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.

THE PROCTER & GAMBLE COMPANY

October 30, 2008
Date

/s/ VALARIE L. SHEPPARD
(Valarie L. Sheppard)
Vice President and Comptroller

- 26 -

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