

PROCTER & GAMBLE CO  
Form 10-Q  
April 30, 2010

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 10-Q**

(Mark one)

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

**For the Quarterly Period Ended March 31, 2010**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, 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 2,879,904,226 shares of Common Stock outstanding as of March 31, 2010.

## 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 and nine months ended March 31, 2010 and 2009, the Consolidated Balance Sheets as of March 31, 2010 and June 30, 2009, and the Consolidated Statements of Cash Flows for the nine months ended March 31, 2010 and 2009 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<br>March 31 |           | Nine Months Ended<br>March 31 |           |
|----------------------------------------------------------------|--------------------------------|-----------|-------------------------------|-----------|
|                                                                | 2010                           | 2009      | 2010                          | 2009      |
| <b>Net Sales</b>                                               | \$ 19,178                      | \$ 17,864 | \$ 60,012                     | \$ 58,610 |
| Cost of products sold                                          | 9,225                          | 9,117     | 28,359                        | 29,474    |
| Selling, general and administrative expense                    | 5,985                          | 5,194     | 18,582                        | 17,142    |
| <b>Operating Income</b>                                        | 3,968                          | 3,553     | 13,071                        | 11,994    |
| Interest expense                                               | 223                            | 337       | 734                           | 1,030     |
| Other non-operating income, net                                | 17                             | 34        | 93                            | 381       |
| <b>Earnings from Continuing Operations Before Income Taxes</b> | 3,762                          | 3,250     | 12,430                        | 11,345    |
| Income taxes                                                   | 1,177                          | 821       | 3,669                         | 2,988     |
| <b>Net Earnings from Continuing Operations</b>                 | 2,585                          | 2,429     | 8,761                         | 8,357     |
| <b>Net Earnings from Discontinued Operations</b>               |                                | 184       | 1,790                         | 2,608     |
| <b>Net Earnings</b>                                            | \$ 2,585                       | \$ 2,613  | \$ 10,551                     | \$ 10,965 |
| <b>Per Common Share</b>                                        |                                |           |                               |           |
| Basic net earnings from continuing operations                  | \$ 0.88                        | \$ 0.82   | \$ 2.96                       | \$ 2.77   |
| Basic net earnings from discontinued operations                | \$                             | \$ 0.06   | \$ 0.61                       | \$ 0.88   |
| Basic net earnings                                             | \$ 0.88                        | \$ 0.88   | \$ 3.57                       | \$ 3.65   |
| Diluted net earnings from continuing operations                | \$ 0.83                        | \$ 0.78   | \$ 2.82                       | \$ 2.64   |
| Diluted net earnings from discontinued operations              | \$                             | \$ 0.06   | \$ 0.57                       | \$ 0.82   |
| Diluted net earnings                                           | \$ 0.83                        | \$ 0.84   | \$ 3.39                       | \$ 3.46   |
| Dividends                                                      | \$ 0.44                        | \$ 0.40   | \$ 1.32                       | \$ 1.20   |
| <b>Diluted Weighted Average Common Shares Outstanding</b>      | 3,103.9                        | 3,104.6   | 3,110.2                       | 3,172.9   |

See accompanying Notes to Consolidated Financial Statements

Certain amounts for prior periods were reclassified to conform with the fiscal 2010 presentation

## THE PROCTER &amp; GAMBLE COMPANY AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

| Amounts in millions                             | March 31<br>2010  | June 30<br>2009   |
|-------------------------------------------------|-------------------|-------------------|
| <b>ASSETS</b>                                   |                   |                   |
| <b>CURRENT ASSETS</b>                           |                   |                   |
| Cash and cash equivalents                       | \$ 4,899          | \$ 4,781          |
| Accounts receivable                             | 5,860             | 5,836             |
| Inventories                                     |                   |                   |
| Materials and supplies                          | 1,716             | 1,557             |
| Work in process                                 | 635               | 672               |
| Finished goods                                  | 4,399             | 4,651             |
| Total inventories                               | 6,750             | 6,880             |
| Deferred income taxes                           | 1,231             | 1,209             |
| Prepaid expenses and other current assets       | 2,750             | 3,199             |
| <b>TOTAL CURRENT ASSETS</b>                     | <b>21,490</b>     | <b>21,905</b>     |
| <b>PROPERTY, PLANT AND EQUIPMENT</b>            |                   |                   |
| Buildings                                       | 6,829             | 6,724             |
| Machinery and equipment                         | 29,780            | 29,042            |
| Land                                            | 849               | 885               |
| Total property, plant and equipment             | 37,458            | 36,651            |
| Accumulated depreciation                        | (18,031)          | (17,189)          |
| <b>NET PROPERTY, PLANT AND EQUIPMENT</b>        | <b>19,427</b>     | <b>19,462</b>     |
| <b>GOODWILL AND OTHER INTANGIBLE ASSETS</b>     |                   |                   |
| Goodwill                                        | 55,538            | 56,512            |
| Trademarks and other intangible assets, net     | 32,201            | 32,606            |
| <b>NET GOODWILL AND OTHER INTANGIBLE ASSETS</b> | <b>87,739</b>     | <b>89,118</b>     |
| <b>OTHER NON-CURRENT ASSETS</b>                 | <b>4,330</b>      | <b>4,348</b>      |
| <b>TOTAL ASSETS</b>                             | <b>\$ 132,986</b> | <b>\$ 134,833</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>     |                   |                   |
| <b>CURRENT LIABILITIES</b>                      |                   |                   |
| Accounts payable                                | \$ 5,785          | \$ 5,980          |
| Accrued and other liabilities                   | 10,449            | 8,601             |
| Debt due within one year                        | 7,038             | 16,320            |
| <b>TOTAL CURRENT LIABILITIES</b>                | <b>23,272</b>     | <b>30,901</b>     |
| <b>LONG-TERM DEBT</b>                           | <b>22,938</b>     | <b>20,652</b>     |
| <b>DEFERRED INCOME TAXES</b>                    | <b>11,407</b>     | <b>10,752</b>     |
| <b>OTHER NON-CURRENT LIABILITIES</b>            | <b>8,596</b>      | <b>9,146</b>      |
| <b>TOTAL LIABILITIES</b>                        | <b>66,213</b>     | <b>71,451</b>     |
| <b>SHAREHOLDERS' EQUITY</b>                     |                   |                   |
| Preferred stock                                 | 1,284             | 1,324             |
| Common stock - shares issued -                  | 31-Mar 4,007.5    | 4,007             |
|                                                 | 30-Jun 4,007.3    | 4,007             |
| Additional paid-in capital                      | 61,536            | 61,118            |

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|                                                |                |                |
|------------------------------------------------|----------------|----------------|
| Reserve for ESOP debt retirement               | (1,348)        | (1,340)        |
| Accumulated other comprehensive income (loss)  | (4,049)        | (3,358)        |
| Treasury stock                                 | (58,879)       | (55,961)       |
| Retained earnings                              | 63,879         | 57,309         |
| Noncontrolling interest                        | 343            | 283            |
| <br>TOTAL SHAREHOLDERS' EQUITY                 | <br>66,773     | <br>63,382     |
| <br>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <br>\$ 132,986 | <br>\$ 134,833 |

See accompanying Notes to Consolidated Financial Statements

- 2 -

## THE PROCTER &amp; GAMBLE COMPANY AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| Amounts in millions                                          | Nine Months Ended<br>March 31 |          |
|--------------------------------------------------------------|-------------------------------|----------|
|                                                              | 2010                          | 2009     |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD               | \$ 4,781                      | \$ 3,313 |
| OPERATING ACTIVITIES                                         |                               |          |
| Net earnings                                                 | 10,551                        | 10,965   |
| Depreciation and amortization                                | 2,328                         | 2,228    |
| Share-based compensation expense                             | 333                           | 368      |
| Deferred income taxes                                        | 187                           | 110      |
| Gain on sale of businesses                                   | (2,650)                       | (2,384)  |
| Changes in:                                                  |                               |          |
| Accounts receivable                                          | (338)                         | 249      |
| Inventories                                                  | (27)                          | (313)    |
| Accounts payable, accrued and other liabilities              | 2,198                         | (1,013)  |
| Other operating assets and liabilities                       | (43)                          | (257)    |
| Other                                                        | 220                           | (30)     |
| TOTAL OPERATING ACTIVITIES                                   | 12,759                        | 9,923    |
| INVESTING ACTIVITIES                                         |                               |          |
| Capital expenditures                                         | (1,980)                       | (2,158)  |
| Proceeds from asset sales                                    | 3,047                         | 1,096    |
| Acquisitions, net of cash acquired                           | (65)                          | (315)    |
| Change in investments                                        | (32)                          | 116      |
| TOTAL INVESTING ACTIVITIES                                   | 970                           | (1,261)  |
| FINANCING ACTIVITIES                                         |                               |          |
| Dividends to shareholders                                    | (4,001)                       | (3,708)  |
| Change in short-term debt                                    | (3,481)                       | (444)    |
| Additions to long-term debt                                  | 2,752                         | 4,926    |
| Reductions of long-term debt                                 | (5,922)                       | (2,190)  |
| Treasury stock purchases                                     | (3,417)                       | (6,365)  |
| Impact of stock options and other                            | 531                           | 583      |
| TOTAL FINANCING ACTIVITIES                                   | (13,538)                      | (7,198)  |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | (73)                          | (343)    |
| CHANGE IN CASH AND CASH EQUIVALENTS                          | 118                           | 1,121    |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                     | \$ 4,899                      | \$ 4,434 |

See accompanying Notes to Consolidated Financial Statements

## THE PROCTER &amp; 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, 2009, as updated by the Company's Form 8-K filed on January 29, 2010. The results of operations for the three-month and nine-month periods ended March 31, 2010 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, net unrealized gains and losses on investment securities and defined benefit and other retiree benefit plan activities. Total comprehensive income for the three months ended March 31, 2010 and 2009 was \$772 million and \$504 million, respectively. For the nine months ended March 31, 2010 and 2009, total comprehensive income was \$9,860 million and \$2,896 million, respectively.
- Segment Information** - Effective July 1, 2009, we implemented a number of changes to the organization structure of the Beauty GBU, which resulted in changes to the components of our reportable segment structure. Female blades and razors were formerly included in the Grooming reportable segment and are now included in the Beauty reportable segment. Certain male-focused brands and businesses, such as Old Spice and Gillette personal care, moved from the Beauty reportable segment to the Grooming reportable segment. In addition, the Beauty GBU was renamed the Beauty and Grooming GBU. These changes have been reflected in our segment reporting for all periods presented. As discussed in Note 10, certain divested businesses are presented as discontinued operations and are excluded from segment results for all periods presented.

Following is a summary of segment results.

|                                  |             | Three Months Ended March 31 |                                         |                                              | Nine Months Ended March 31 |                                         |                                              |
|----------------------------------|-------------|-----------------------------|-----------------------------------------|----------------------------------------------|----------------------------|-----------------------------------------|----------------------------------------------|
|                                  |             | Earnings<br>from            |                                         |                                              | Earnings<br>from           |                                         |                                              |
|                                  |             | Net                         | Continuing                              | Net                                          | Net                        | Continuing                              | Net                                          |
|                                  |             | Sales                       | Operations<br>Before<br>Income<br>Taxes | Earnings<br>from<br>Continuing<br>Operations | Sales                      | Operations<br>Before<br>Income<br>Taxes | Earnings<br>from<br>Continuing<br>Operations |
| <b>Amounts in millions</b>       |             |                             |                                         |                                              |                            |                                         |                                              |
| <b>Beauty and Grooming GBU</b>   |             |                             |                                         |                                              |                            |                                         |                                              |
| Beauty                           | <b>2010</b> | <b>\$ 4,623</b>             | <b>\$ 772</b>                           | <b>\$ 562</b>                                | <b>\$ 14,761</b>           | <b>\$ 2,936</b>                         | <b>\$ 2,215</b>                              |
|                                  | 2009        | 4,371                       | 772                                     | 551                                          | 14,450                     | 2,844                                   | 2,160                                        |
| Grooming                         | <b>2010</b> | <b>1,759</b>                | <b>462</b>                              | <b>377</b>                                   | <b>5,712</b>               | <b>1,564</b>                            | <b>1,161</b>                                 |
|                                  | 2009        | 1,591                       | 364                                     | 259                                          | 5,719                      | 1,524                                   | 1,096                                        |
| <b>Health and Well-Being GBU</b> |             |                             |                                         |                                              |                            |                                         |                                              |
| Health Care                      | <b>2010</b> | <b>2,805</b>                | <b>663</b>                              | <b>435</b>                                   | <b>8,855</b>               | <b>2,283</b>                            | <b>1,519</b>                                 |
|                                  | 2009        | 2,672                       | 653                                     | 415                                          | 8,703                      | 2,133                                   | 1,413                                        |
| Snacks and Pet Care              | <b>2010</b> | <b>747</b>                  | <b>124</b>                              | <b>77</b>                                    | <b>2,337</b>               | <b>380</b>                              | <b>249</b>                                   |
|                                  | 2009        | 764                         | 93                                      | 51                                           | 2,362                      | 286                                     | 169                                          |
| <b>Household Care GBU</b>        |             |                             |                                         |                                              |                            |                                         |                                              |
| Fabric Care and Home Care        | <b>2010</b> | <b>5,812</b>                | <b>1,168</b>                            | <b>752</b>                                   | <b>18,253</b>              | <b>4,111</b>                            | <b>2,726</b>                                 |
|                                  | 2009        | 5,381                       | 1,134                                   | 726                                          | 17,661                     | 3,419                                   | 2,210                                        |
| Baby Care and Family Care        | <b>2010</b> | <b>3,768</b>                | <b>889</b>                              | <b>558</b>                                   | <b>11,174</b>              | <b>2,699</b>                            | <b>1,694</b>                                 |
|                                  | 2009        | 3,456                       | 693                                     | 423                                          | 10,694                     | 2,165                                   | 1,355                                        |
| <b>Corporate</b>                 | <b>2010</b> | <b>(336)</b>                | <b>(316)</b>                            | <b>(176)</b>                                 | <b>(1,080)</b>             | <b>(1,543)</b>                          | <b>(803)</b>                                 |
|                                  | 2009        | (371)                       | (459)                                   | 4                                            | (979)                      | (1,026)                                 | (46)                                         |

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|              |             |               |              |              |               |               |              |
|--------------|-------------|---------------|--------------|--------------|---------------|---------------|--------------|
| <b>Total</b> | <b>2010</b> | <b>19,178</b> | <b>3,762</b> | <b>2,585</b> | <b>60,012</b> | <b>12,430</b> | <b>8,761</b> |
|              | 2009        | 17,864        | 3,250        | 2,429        | 58,610        | 11,345        | 8,357        |

- 4 -



4. Goodwill and Other Intangible Assets - Goodwill as of March 31, 2010 is allocated by reportable segment and global business unit as follows (amounts in millions):

|                                                     | Nine Months Ended<br>March 31, 2010 |
|-----------------------------------------------------|-------------------------------------|
| <b>BEAUTY &amp; GROOMING GBU</b>                    |                                     |
| Beauty, beginning of year                           | \$ 18,668                           |
| Acquisitions and divestitures                       | 20                                  |
| Translation and other                               | (448)                               |
| <b>Goodwill, March 31, 2010</b>                     | <b>18,240</b>                       |
| <b>Grooming, beginning of year</b>                  |                                     |
| Grooming, beginning of year                         | 21,391                              |
| Acquisitions and divestitures                       | (24)                                |
| Translation and other                               | (376)                               |
| <b>Goodwill, March 31, 2010</b>                     | <b>20,991</b>                       |
| <b>HEALTH &amp; WELL-BEING GBU</b>                  |                                     |
| Health Care, beginning of year                      | 8,404                               |
| Acquisitions and divestitures                       | (249)                               |
| Translation and other                               | (98)                                |
| <b>Goodwill, March 31, 2010</b>                     | <b>8,057</b>                        |
| <b>Snacks and Pet Care, beginning of year</b>       |                                     |
| Snacks and Pet Care, beginning of year              | 2,055                               |
| Acquisitions and divestitures                       |                                     |
| Translation and other                               | (6)                                 |
| <b>Goodwill, March 31, 2010</b>                     | <b>2,049</b>                        |
| <b>HOUSEHOLD CARE GBU</b>                           |                                     |
| Fabric Care and Home Care, beginning of year        | 4,408                               |
| Acquisitions and divestitures                       | (4)                                 |
| Translation and other                               | (67)                                |
| <b>Goodwill, March 31, 2010</b>                     | <b>4,337</b>                        |
| <b>Baby Care and Family Care, beginning of year</b> |                                     |
| Baby Care and Family Care, beginning of year        | 1,586                               |
| Acquisitions and divestitures                       | (1)                                 |
| Translation and other                               | (19)                                |
| <b>Goodwill, March 31, 2010</b>                     | <b>1,566</b>                        |
| <b>CORPORATE</b>                                    |                                     |
| Corporate, beginning of year                        |                                     |
| Acquisitions and divestitures                       | 298                                 |
| Translation and other                               |                                     |
| <b>Goodwill, March 31, 2010</b>                     | <b>298</b>                          |
| <b>GOODWILL, beginning of year</b>                  |                                     |
| GOODWILL, beginning of year                         | 56,512                              |
| Acquisitions and divestitures                       | 40                                  |
| Translation and other                               | (1,014)                             |
| <b>Goodwill, March 31, 2010</b>                     | <b>\$ 55,538</b>                    |

The decrease in goodwill from June 30, 2009 is primarily due to the divestiture of the Pharmaceuticals business and currency translation, partially offset by the acquisition of MDVIP, a physicians' network focused on preventative medicine.

Identifiable intangible assets as of March 31, 2010 are comprised of (amounts in millions):

|                                                       | Gross<br>Carrying<br>Amount | Accumulated<br>Amortization |
|-------------------------------------------------------|-----------------------------|-----------------------------|
| Amortizable intangible assets with determinable lives | \$ 8,651                    | \$ 3,468                    |
| Intangible assets with indefinite lives               | 27,018                      |                             |
| <b>Total identifiable intangible assets</b>           | <b>\$ 35,669</b>            | <b>\$ 3,468</b>             |

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

The amortization of intangible assets for the three months ended March 31, 2010, and 2009 was \$147 million and \$149 million, respectively. For the nine months ended March 31, 2010 and 2009 the amortization of intangible assets was \$435 million and \$459 million, respectively.

5. The Company provides awards of equity instruments in exchange for employee services provided. Total share-based compensation for the three months and nine months ended March 31, 2010 and 2009 are summarized in the following table (amounts in millions):

|                                       | Three Months Ended<br>March 31 |               | Nine Months Ended<br>March 31 |               |
|---------------------------------------|--------------------------------|---------------|-------------------------------|---------------|
|                                       | 2010                           | 2009          | 2010                          | 2009          |
| Share-Based Compensation              |                                |               |                               |               |
| Stock options                         | \$ 116                         | \$ 131        | \$ 307                        | \$ 328        |
| Other share-based awards              | 12                             | 14            | 26                            | 40            |
| <b>Total share-based compensation</b> | <b>\$ 128</b>                  | <b>\$ 145</b> | <b>\$ 333</b>                 | <b>\$ 368</b> |

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

6. 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   |              | Other Retiree Benefits |                |
|-------------------------------------------|--------------------|--------------|------------------------|----------------|
|                                           | Three Months Ended |              | Three Months Ended     |                |
|                                           | March 31           |              | March 31               |                |
|                                           | 2010               | 2009         | 2010                   | 2009           |
| Service cost                              | \$ 54              | \$ 51        | \$ 26                  | \$ 22          |
| Interest cost                             | 144                | 130          | 63                     | 60             |
| Expected return on plan assets            | (109)              | (111)        | (108)                  | (111)          |
| Amortization of deferred amounts          | 3                  | 3            | (5)                    | (5)            |
| Recognized net actuarial loss             | 23                 | 7            | 6                      |                |
| Settlement loss                           | 3                  |              |                        |                |
| <b>Gross benefit cost (credit)</b>        | <b>118</b>         | <b>80</b>    | <b>(18)</b>            | <b>(34)</b>    |
| Dividends on ESOP preferred stock         |                    |              | (27)                   | (25)           |
| <b>Net periodic benefit cost (credit)</b> | <b>\$ 118</b>      | <b>\$ 80</b> | <b>\$ (45)</b>         | <b>\$ (59)</b> |

| Amounts in millions                       | Pension Benefits  |               | Other Retiree Benefits |                 |
|-------------------------------------------|-------------------|---------------|------------------------|-----------------|
|                                           | Nine Months Ended |               | Nine Months Ended      |                 |
|                                           | March 31          |               | March 31               |                 |
|                                           | 2010              | 2009          | 2010                   | 2009            |
| Service cost                              | \$ 166            | \$ 163        | \$ 78                  | \$ 68           |
| Interest cost                             | 441               | 418           | 190                    | 183             |
| Expected return on plan assets            | (333)             | (360)         | (322)                  | (333)           |
| Amortization of deferred amounts          | 11                | 11            | (16)                   | (17)            |
| Recognized net actuarial loss             | 69                | 21            | 15                     | 2               |
| Settlement loss                           | 3                 |               |                        |                 |
| <b>Gross benefit cost (credit)</b>        | <b>357</b>        | <b>253</b>    | <b>(55)</b>            | <b>(97)</b>     |
| Dividends on ESOP preferred stock         |                   |               | (83)                   | (77)            |
| <b>Net periodic benefit cost (credit)</b> | <b>\$ 357</b>     | <b>\$ 253</b> | <b>\$ (138)</b>        | <b>\$ (174)</b> |

For the year ending June 30, 2010, the expected return on plan assets is 7.1% and 9.3% for pension and other retiree benefit plans, respectively.

#### 7. Risk Management Activities and Fair Value Measurements

As a multinational company with diverse product offerings, we are exposed to market risks, such as changes in interest rates, currency exchange rates and commodity prices. We evaluate exposures on a centralized basis to take advantage of natural exposure netting and correlation. To the extent we choose to manage volatility associated with the net exposures, we enter into various financial transactions which we account for using the applicable accounting guidance for derivative instruments and hedging activities. These financial transactions are governed by our policies covering acceptable counterparty exposure, instrument types and other hedging practices.

At inception, we formally designate and document qualifying instruments as hedges of underlying exposures. We formally assess, both at inception and at least quarterly, whether the financial instruments used in hedging transactions are effective at offsetting changes in either the fair value or cash flows of the related underlying exposure. Fluctuations in the value of these instruments generally are offset by changes in the fair value or cash flows of the underlying exposures being hedged. This offset is driven by the high degree of effectiveness between the exposure being hedged and the hedging instrument. The ineffective portion of a change in the fair value of a qualifying instrument is immediately recognized in earnings. The amount of ineffectiveness recognized is immaterial for all periods presented.



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For additional details on the Company's risk management activities, refer to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009, as updated by the Company's Form 8-K filed on January 29, 2010.

### Fair Value Hierarchy

Accounting guidance on fair value measurement for certain financial assets and liabilities 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.

In valuing assets and liabilities, we are required to maximize the use of quoted market prices and minimize the use of unobservable inputs. We calculate the fair value of our Level 1 and Level 2 instruments based on the exchange traded price of similar or identical instruments where available or based on other observable instruments. The fair value of our Level 3 instruments is calculated as the net present value of expected cash flows based on externally provided inputs. These calculations take into consideration the credit risk of both the Company and our counterparties. The Company has not changed its valuation techniques in measuring the fair value of any financial assets and liabilities during the period.

The following table sets forth the Company's financial assets and liabilities as of March 31, 2010 and June 30, 2009 that are measured at fair value on a recurring basis during the period, segregated by level within the fair value hierarchy:

|                                                       | Level 1           |                  | Level 2           |                  | Level 3           |                  | Total             |                  |
|-------------------------------------------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|------------------|
|                                                       | March 31,<br>2010 | June 30,<br>2009 | March 31,<br>2010 | June 30,<br>2009 | March 31,<br>2010 | June 30,<br>2009 | March 31,<br>2010 | June 30,<br>2009 |
| <b>Amounts in millions</b>                            |                   |                  |                   |                  |                   |                  |                   |                  |
| <b>Assets at fair value:</b>                          |                   |                  |                   |                  |                   |                  |                   |                  |
| Investment securities                                 | \$ 12             | \$               | \$ 205            | \$ 174           | \$ 44             | \$ 38            | \$ 261            | \$ 212           |
| <b>Derivatives relating to:</b>                       |                   |                  |                   |                  |                   |                  |                   |                  |
| Other foreign currency instruments <sup>(1)</sup>     |                   |                  | 49                | 300              |                   |                  | 49                | 300              |
| Interest rate                                         |                   |                  | 126               |                  |                   |                  | 126               |                  |
| Net investment hedges                                 |                   |                  | 41                | 83               |                   |                  | 41                | 83               |
| Commodities                                           |                   | 3                | 24                | 25               |                   |                  | 24                | 28               |
| <b>Total assets at fair value <sup>(2)</sup></b>      | <b>\$ 12</b>      | <b>\$ 3</b>      | <b>\$ 445</b>     | <b>\$ 582</b>    | <b>\$ 44</b>      | <b>\$ 38</b>     | <b>\$ 501</b>     | <b>\$ 623</b>    |
| <b>Liabilities at fair value:</b>                     |                   |                  |                   |                  |                   |                  |                   |                  |
| <b>Derivatives relating to:</b>                       |                   |                  |                   |                  |                   |                  |                   |                  |
| Foreign currency hedges                               | \$                | \$               | \$ 128            | \$ 103           | \$                | \$               | \$ 128            | \$ 103           |
| Other foreign currency instruments <sup>(1)</sup>     |                   |                  | 184               | 39               |                   |                  | 184               | 39               |
| Interest rate                                         |                   |                  | 5                 | 13               |                   |                  | 5                 | 13               |
| Net investment hedges                                 |                   |                  | 65                | 85               |                   |                  | 65                | 85               |
| Commodities                                           |                   | 2                | 2                 | 96               |                   | 3                | 2                 | 101              |
| <b>Total liabilities at fair value <sup>(3)</sup></b> | <b>\$</b>         | <b>\$ 2</b>      | <b>\$ 384</b>     | <b>\$ 336</b>    | <b>\$</b>         | <b>\$ 3</b>      | <b>\$ 384</b>     | <b>\$ 341</b>    |

(1) The other foreign currency instruments are comprised of foreign currency financial instruments that do not qualify as hedges.

(2) All derivative assets are presented in prepaid expenses and other current assets or other non-current assets, and investment securities are presented in other non-current assets.

(3) All liabilities are presented in accrued and other liabilities or other non-current liabilities.

- 8 -

The Company recognizes transfers between levels within the fair value hierarchy, if any, at the end of each quarter.

The table below sets forth a reconciliation of the Company's beginning and ending Level 3 financial assets and liabilities balances for the period June 30, 2009 to March 31, 2010.

| Amounts in millions                                                                           | Derivatives   | Investment Securities |
|-----------------------------------------------------------------------------------------------|---------------|-----------------------|
| <b>June 30, 2009</b>                                                                          | <b>\$ (3)</b> | <b>\$ 38</b>          |
| Total gains or (losses) (realized/unrealized) included in earnings (or changes in net assets) |               |                       |
| Total gains or (losses) (realized/unrealized) included in OCI                                 | <b>1</b>      | <b>6</b>              |
| Net purchases, issuances and settlements                                                      | <b>2</b>      |                       |
| Transfers in/(out) of Level 3                                                                 |               |                       |
| <b>March 31, 2010</b>                                                                         | <b>\$</b>     | <b>\$ 44</b>          |

Certain of the Company's financial instruments used in hedging transactions are governed by industry standard netting agreements with counterparties. If the Company's credit rating were to fall below the levels stipulated in the agreements, the counterparties could demand either collateralization or termination of the arrangements. The aggregate fair value of the instruments covered by these contractual features that are in a net liability position as of March 31, 2010 was \$270 million. The Company has never been required to post any collateral as a result of these contractual features.

On July 1, 2009, we adopted the provisions of the fair value measurement accounting and disclosure guidance related to non-financial assets and liabilities recognized or disclosed at fair value on a nonrecurring basis. Assets and liabilities subject to this new guidance primarily include goodwill and indefinite-lived intangible assets measured at fair value for impairment assessments, long-lived assets measured at fair value for impairment assessments and non-financial assets and liabilities measured at fair value in business combinations. The adoption of this new guidance did not have a material effect on our financial position, results of operations or cash flows for the periods presented. There were no significant assets or liabilities that were measured at fair value on a non-recurring basis during the nine months ended March 31, 2010.

#### Fair Values of Other Financial Instruments

Other financial instruments, including cash equivalents, other investments and short-term debt, are recorded at cost, which approximates fair value. The fair value of the long-term debt was \$24,309 million and \$21,514 million at March 31, 2010 and June 30, 2009, respectively.

**Disclosures about Derivative Instruments**

The fair values and amounts of gains and losses on qualifying and non-qualifying financial instruments used in hedging transactions as of, and for the three and nine-month periods ended, March 31, 2010 are as follows:

|                                                            | Notional Amount |               | Fair Value Asset (Liability) |               |
|------------------------------------------------------------|-----------------|---------------|------------------------------|---------------|
|                                                            | March 31, 2010  | June 30, 2009 | March 31, 2010               | June 30, 2009 |
| <b>Derivatives in Cash Flow Hedging Relationships</b>      |                 |               |                              |               |
| Interest rate contracts                                    | \$              | \$ 4,000      | \$                           | \$ (13)       |
| Foreign currency contracts                                 | 690             | 690           | (128)                        | (103)         |
| Commodity contracts                                        | 92              | 503           | 22                           | (73)          |
| Total                                                      | 782             | 5,193         | (106)                        | (189)         |
| <b>Derivatives in Fair Value Hedging Relationships</b>     |                 |               |                              |               |
| Interest rate contracts                                    | 10,283          |               | 121                          |               |
| <b>Derivatives in Net Investment Hedging Relationships</b> |                 |               |                              |               |
| Net investment hedges                                      | 1,882           | 2,271         | (24)                         | (2)           |
| <b>Derivatives Not Designated as Hedging Instruments</b>   |                 |               |                              |               |
| Foreign currency contracts                                 | 12,337          | 12,348        | (135)                        | 261           |

|                                                            | Amount of Gain (Loss) Recognized<br>in<br>OCI on Derivatives (Effective Portion) |                  |
|------------------------------------------------------------|----------------------------------------------------------------------------------|------------------|
|                                                            | March 31,<br>2010                                                                | June 30,<br>2009 |
| <b>Derivatives in Cash Flow Hedging Relationships</b>      |                                                                                  |                  |
| Interest rate contracts                                    | \$ 21                                                                            | \$ 18            |
| Foreign currency contracts                                 | 25                                                                               | 26               |
| Commodity contracts                                        | 16                                                                               | (62)             |
| Total                                                      | 62                                                                               | (18)             |
| <b>Derivatives in Net Investment Hedging Relationships</b> |                                                                                  |                  |
| Net investment hedges                                      | (17)                                                                             | (2)              |

|                                                        | Amount of<br>Gain (Loss) Recognized in<br>Debt on Derivatives (Effective<br>Portion) |                  |
|--------------------------------------------------------|--------------------------------------------------------------------------------------|------------------|
|                                                        | March 31,<br>2010                                                                    | June 30,<br>2009 |
| <b>Derivatives in Fair Value Hedging Relationships</b> |                                                                                      |                  |
| Interest rate contracts                                | \$ 46                                                                                | \$               |

|                                                       | Amount of Gain (Loss) Reclassified from Accumulated OCI into<br>Income <sup>(1)</sup> |         |                               |         |
|-------------------------------------------------------|---------------------------------------------------------------------------------------|---------|-------------------------------|---------|
|                                                       | Three Months Ended<br>March 31                                                        |         | Nine Months Ended<br>March 31 |         |
|                                                       | 2010                                                                                  | 2009    | 2010                          | 2009    |
| <b>Derivatives in Cash Flow Hedging Relationships</b> |                                                                                       |         |                               |         |
| Interest rate contracts                               | \$ (1)                                                                                | \$ (37) | \$ (10)                       | \$ (38) |
| Foreign currency contracts                            | 15                                                                                    | 70      | (7)                           | (66)    |
| Commodity contracts                                   | (1)                                                                                   | (55)    | (86)                          | (4)     |
| Total                                                 | 13                                                                                    | (22)    | (103)                         | (108)   |



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|                                                            | Amount of Gain (Loss) Recognized in Income |       |                   |         |
|------------------------------------------------------------|--------------------------------------------|-------|-------------------|---------|
|                                                            | Three Months Ended                         |       | Nine Months Ended |         |
|                                                            | March 31                                   |       | March 31          |         |
|                                                            | 2010                                       | 2009  | 2010              | 2009    |
| <b>Derivatives in Fair Value Hedging Relationships</b>     |                                            |       |                   |         |
| Interest rate contracts <sup>(2)</sup>                     | (3)                                        |       | (6)               |         |
| <b>Derivatives in Net Investment Hedging Relationships</b> |                                            |       |                   |         |
| Net investment hedges <sup>(2)</sup>                       | (1)                                        | (7)   | 3                 | (4)     |
| <b>Derivatives Not Designated as Hedging Instruments</b>   |                                            |       |                   |         |
| Foreign currency contracts <sup>(3)</sup>                  | (595)                                      | (571) | (481)             | (1,775) |
| Commodity contracts <sup>(3)</sup>                         |                                            |       |                   | (4)     |
| Total                                                      | (595)                                      | (571) | (481)             | (1,779) |

- 10 -

- (1) The gain or loss on the effective portion of cash flow hedging relationships that is reclassified from accumulated OCI into income is included in the Consolidated Statements of Earnings as follows: interest rate contracts in interest expense, foreign currency contracts in selling, general and administrative expense and interest expense and commodity contracts in cost of products sold.
- (2) The gain or loss on the ineffective portion of interest rate contracts and net investment hedges, if any, is included in the Consolidated Statements of Earnings in interest expense.
- (3) The gain or loss on foreign currency contracts not designated as hedging instruments is included in the Consolidated Statements of Earnings in selling, general and administrative expense.

During the next 12 months, the amount of the March 31, 2010 OCI balance that will be reclassified to earnings is expected to be immaterial. In addition, the total notional amount of contracts outstanding at the end of the period is indicative of the level of the Company's derivative activity during the period.

#### 8. New Accounting Pronouncements and Policies

In December 2007, the Financial Accounting Standards Board (FASB) issued new accounting guidance on business combinations. The new guidance revises the method of accounting for a number of aspects of business combinations including acquisition costs, contingencies (including contingent assets, contingent liabilities and contingent purchase price) and post-acquisition exit activities of acquired businesses. The Company adopted the new guidance beginning July 1, 2009, and the adoption of the new guidance did not have a material effect on our financial position, results of operations or cash flows.

In December 2007, the FASB also issued new accounting guidance on noncontrolling interests in consolidated financial statements. The new accounting guidance requires that a noncontrolling interest in the equity of a subsidiary be accounted for and reported as equity, provides revised guidance on the treatment of net income and losses attributable to the noncontrolling interest and changes in ownership interests in a subsidiary and requires additional disclosures that identify and distinguish between the interests of the controlling and noncontrolling owners. The Company retrospectively adopted the presentation and disclosure requirements of the new guidance on July 1, 2009. The adoption of the new guidance did not have a material effect on our financial position, results of operations or cash flows. Noncontrolling interests of \$283 million at June 30, 2009 were reclassified from non-current liabilities to shareholders' equity in the Consolidated Balance Sheet. Net expense for income attributable to the noncontrolling interest totaling \$32 million and \$29 million for the three months ended March 31, 2010 and 2009, respectively, and \$93 million and \$61 million for the nine months ended March 31, 2010 and 2009, respectively, are not presented separately in the Consolidated Statements of Earnings due to immateriality, but are reflected within other non-operating income, net. Net earnings represent net income attributable to the Company's common shareholders.

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.

#### 9. Commitments and Contingencies

##### **Litigation**

We are subject to various legal proceedings and claims arising out of our business which cover a wide range of matters such as governmental regulations, antitrust and trade regulations, product liability, patent and trademark matters, income taxes and other actions.

As previously disclosed, the Company is subject to a variety of investigations into potential competition law violations in Europe, as detailed in Part 2, Item 1, Legal Proceedings of this 10-Q. 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 response to the actions of the European Commission and national authorities, the Company launched its own internal investigations into potential violations of competition laws. The Company has identified violations in certain European countries and appropriate actions were taken.

Three countries in Europe have issued separate complaints pursuant to their investigations alleging that the Company, along with several other companies, engaged in violations of competition laws in those countries. The Company will have the opportunity to respond to these complaints. As a result of our initial and on-going analyses of these complaints, the Company has taken appropriate reserves totaling \$279 million fiscal year to date for potential fines for competition law violations.

The remaining matters are in various stages of the investigatory process. It is still too early for us to reasonably estimate the total amount of fines to which the Company will be subject as a result of these various competition law issues. However, the ultimate resolution of these matters will likely result in fines or other costs in excess of amounts accrued to date that could materially impact our income statement and cash flows in the period in which they are accrued and paid, respectively. In other industries, these fines have amounted to hundreds of millions of dollars. We will continue to monitor developments for all of these investigations, and will record additional charges as appropriate.

With respect to other litigation and claims, while considerable uncertainty exists, in the opinion of management and our counsel, the ultimate resolution of the various lawsuits and claims will not materially affect our financial position, results of operations or cash flows.

We are also subject to contingencies pursuant to environmental laws and regulations that in the future may require us to take action to correct the effects on the environment of prior manufacturing and waste disposal practices. Based on currently available information, we do not believe the ultimate resolution of environmental remediation will have a material adverse effect on our financial position, results of operations or cash flows.

#### **Income Tax Uncertainties**

P&G is present in over 150 taxable jurisdictions, and at any point in time has 50 - 60 audits underway at various stages of completion. We have tax years open ranging from 1997 and forward. We are generally not able to reliably estimate the ultimate settlement amounts or timing until the close of the audit. However, we evaluate our tax positions and establish liabilities for uncertain tax positions that may be challenged by local authorities and may not be fully sustained, despite our belief that the underlying tax positions are fully supportable. Uncertain tax positions are reviewed on an ongoing basis and related reserves are adjusted in light of changing facts and circumstances, including progress of tax audits, developments in case law, and closing of statute of limitations. Based on information currently available, we anticipate that over the next 12 month period, audit activity could be completed related to uncertain tax positions for which we have accrued existing liabilities of approximately \$500 million.

Additional information on the Commitments and Contingencies of the Company can be found in Note 10, Commitments and Contingencies, which appears in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2009.

10. Discontinued Operations

In October 2009, the Company completed the divestiture of our global pharmaceuticals business to Warner Chilcott plc (Warner Chilcott) for \$2.8 billion of cash, net of assumed and transferred liabilities. Under the terms of the agreement, Warner Chilcott acquired our portfolio of branded pharmaceutical products, our prescription drug product pipeline and manufacturing facilities in Puerto Rico and Germany. In addition, the majority of the employees working on the pharmaceuticals business were transferred to Warner Chilcott. The Company recorded an after-tax gain on the transaction of \$1,464 million in the quarter ended December 31, 2009, which is included in net earnings from discontinued operations in the Consolidated Statements of Earnings for the nine-month period ended March 31, 2010.

The pharmaceuticals business had historically been part of the Company's Health Care reportable segment. In accordance with the applicable accounting guidance for the disposal of long-lived assets, the results of the pharmaceuticals business are presented as discontinued operations and, as such, have been excluded from both continuing operations and segment results for all periods presented.

In November 2008, the Company completed the divestiture of our coffee business through the merger of its Folgers coffee subsidiary into The J.M. Smucker Company (Smucker) in an all-stock reverse Morris Trust transaction. In connection with the merger, 38.7 million shares of common stock of the Company were tendered by shareholders and exchanged for all shares of Folgers common stock, resulting in an increase of treasury stock of \$2,466 million. Pursuant to the merger, a Smucker subsidiary merged with and into Folgers and Folgers became a wholly owned subsidiary of Smucker. The Company recorded an after-tax gain on the transaction of \$2,011 million in the quarter ended December 31, 2008, which is included in net earnings from discontinued operations in the Consolidated Statements of Earnings for the nine-month period ended March 31, 2009.

The coffee business had historically been part of the Company's Snacks, Coffee and Pet Care reportable segment, as well as the coffee portion of our away-from-home business, which was included in the Fabric Care and Home Care reportable segment. In accordance with the applicable accounting guidance for the disposal of long-lived assets, the results of Folgers are presented as discontinued operations and, as such, have been excluded from both continuing operations and segment results for all periods presented.

Following is selected financial information included in net earnings from discontinued operations for the pharmaceuticals and coffee businesses:

| Amounts in millions                       | Pharma | Three months ended March 31 |      |        | Pharma | Coffee | Total |
|-------------------------------------------|--------|-----------------------------|------|--------|--------|--------|-------|
|                                           |        | 2010                        | 2009 |        |        |        |       |
| Net sales                                 | \$     | \$                          | \$   | \$ 553 | \$     | \$ 553 |       |
| Earnings from discontinued operations     |        |                             |      | 236    | 45     | 281    |       |
| Income tax expense                        |        |                             |      | (80)   | (17)   | (97)   |       |
| Net earnings from discontinued operations |        |                             |      | 156    | 28     | 184    |       |

| Amounts in millions                       | Pharma  | Nine months ended March 31 |        |          | Pharma | Coffee   | Total |
|-------------------------------------------|---------|----------------------------|--------|----------|--------|----------|-------|
|                                           |         | 2010                       | 2009   |          |        |          |       |
| Net sales                                 | \$ 751  | \$                         | \$ 751 | \$ 1,757 | \$ 668 | \$ 2,425 |       |
| Earnings from discontinued operations     | 306     | 306                        | 695    | 212      | 907    |          |       |
| Income tax expense                        | (101)   | (101)                      | (230)  | (80)     | (310)  |          |       |
| Gain on sale of discontinued operations   | 2,632   | 2,632                      | 1,896  | 1,896    |        |          |       |
| Income tax benefit (expense) on sale      | (1,047) | (1,047)                    | 115    | 115      |        |          |       |
| Net earnings from discontinued operations | 1,790   | 1,790                      | 465    | 2,143    | 2,608  |          |       |

The net gain on the sale of the pharmaceuticals business for the nine-month period ended March 31, 2010 includes an after-tax gain of \$121 million on the sale of the Actonel brand in Japan.

## 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 March 31, 2010

Results of Operations Nine Months Ended March 31, 2010

Business Segment Discussion Three and Nine Months Ended March 31, 2010

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, core EPS (earnings per share), 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 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 such 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.

- 14 -

## OVERVIEW

P&G's business is focused on providing branded consumer goods products. Our purpose is to provide products and services of superior quality and value that improve the lives of the world's consumers, now and for generations to come. 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, drug stores and high frequency stores, the neighborhood stores which serve many consumers in developing markets. We continue to expand our presence in other channels including department stores, perfumeries, pharmacies, salons and e-commerce.

We compete in multiple product categories and have three global business units (GBUs): Beauty and Grooming; Health and Well-Being; and Household Care. Under U.S. GAAP, the business units comprising the GBUs are aggregated into six reportable segments: Beauty; Grooming; Health Care; Snacks 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 five geographic units: North America, Western Europe, Central & Eastern Europe/Middle East/Africa (CEEMEA), Latin America and Asia, which is comprised of Japan, Greater China and ASEAN/Australia/India/Korea (AAIK). Throughout MD&A, we reference business results in developing markets, which we define as the aggregate of CEEMEA, Latin America, AAIK and Greater China, and developed markets, which are comprised of North America, Western Europe and Japan.

Effective July 1, 2009, we implemented a number of changes to the organization structure of the Beauty GBU, which resulted in changes to the components of our reportable segment structure. Female blades and razors were formerly included in the Grooming reportable segment and are now included in the Beauty reportable segment. Certain male-focused brands and businesses, such as Old Spice and Gillette personal care, moved from the Beauty reportable segment to the Grooming reportable segment. In addition, the Beauty GBU was renamed the Beauty and Grooming GBU. These changes have been reflected in our segment reporting for all periods presented.

On October 30, 2009, we sold our global pharmaceuticals business to Warner Chilcott plc (Warner Chilcott) for \$2.8 billion. Under the terms of the agreement, Warner Chilcott acquired our portfolio of branded pharmaceuticals products, prescription drug product pipeline and manufacturing facilities in Puerto Rico and Germany. The pharmaceuticals business had historically been part of the Health Care reportable segment. In accordance with applicable accounting guidance for the disposal of long-lived assets, the results of the pharmaceuticals business are presented as discontinued operations and, as such, are excluded from continuing operations and from segment results.

The table below provides more information about the components of our GBU structure.

| GBU                   | Reportable Segment  | Key Product Categories     | Key Products                                                                                                              | Billion Dollar Brands     |
|-----------------------|---------------------|----------------------------|---------------------------------------------------------------------------------------------------------------------------|---------------------------|
| Beauty and Grooming   | Beauty              | Hair Care                  | Hair Colorants, Shampoos and Conditioners                                                                                 | Head & Shoulders, Pantene |
|                       |                     | Salon                      | Hair Colorants, Shampoos and Conditioners                                                                                 | Wella                     |
|                       |                     | Professional Female Beauty | Cosmetics, Deodorants, Female Blades and Razors, Personal Cleansing and Skin Care                                         | Olay                      |
|                       | Grooming            | Prestige                   | Fine Fragrances and Prestige Skin Care (SK II)                                                                            |                           |
|                       |                     | Male Grooming              | Male Blades & Razors and Male Personal Care Products (Deodorants, Face and Shave Products, Hair Care, Personal Cleansing) | Fusion, Gillette, Mach3   |
| Health and Well-Being | Health Care         | Appliances (Braun)         | Electric Hair Removal Devices and Home Appliances                                                                         | Braun                     |
|                       |                     | Feminine Care              | Feminine Pads and Tampons                                                                                                 | Always                    |
|                       |                     | Personal Health Care       | Personal Diagnostics, Digestive and Respiratory Health Products                                                           |                           |
|                       | Snacks and Pet Care | Oral Care                  | Oral Rinses, Toothbrushes and Toothpastes                                                                                 | Crest, Oral-B             |
|                       |                     | Pet Care                   | Wet and Dry Pet Food                                                                                                      | Iams                      |
|                       |                     | Snacks                     | Potato Crisps                                                                                                             | Pringles                  |

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|                |                           |             |                                                                          |                          |
|----------------|---------------------------|-------------|--------------------------------------------------------------------------|--------------------------|
| Household Care | Fabric Care and Home Care | Fabric Care | Laundry Detergents and Fabric Softeners                                  | Ariel, Downy, Gain, Tide |
|                |                           | Home Care   | Air and Fabric Fresheners, Dishwashing Detergents, Hard Surface Cleaners | Dawn                     |
|                | Baby Care and Family Care | Batteries   | Batteries and Personal Power Devices                                     | Duracell                 |
|                |                           | Baby Care   | Baby Wipes and Diapers                                                   | Pampers                  |
|                |                           | Family Care | Bath Tissue, Facial Tissue and Paper Towels                              | Bounty, Charmin          |

- 15 -



The following table provides the percentage of net sales and net earnings from continuing operations by reportable business segment for the three months ended March 31, 2010 (excludes net sales and net earnings in Corporate):

|                                  | Net Sales   | Net Earnings |
|----------------------------------|-------------|--------------|
| <b>Beauty and Grooming GBU</b>   |             |              |
| Beauty                           | 24%         | 20%          |
| Grooming                         | 9%          | 14%          |
| <b>Health and Well-Being GBU</b> |             |              |
| Health Care                      | 14%         | 16%          |
| Snacks and Pet Care              | 4%          | 3%           |
| <b>Household Care GBU</b>        |             |              |
| Fabric Care and Home Care        | 30%         | 27%          |
| Baby Care and Family Care        | 19%         | 20%          |
| <b>Total</b>                     | <b>100%</b> | <b>100%</b>  |

The following table provides the percentage of net sales and net earnings from continuing operations by reportable business segment for the nine months ended March 31, 2010 (excludes net sales and net earnings in Corporate):

|                                  | Net Sales   | Net Earnings |
|----------------------------------|-------------|--------------|
| <b>Beauty and Grooming GBU</b>   |             |              |
| Beauty                           | 24%         | 23%          |
| Grooming                         | 9%          | 12%          |
| <b>Health and Well-Being GBU</b> |             |              |
| Health Care                      | 15%         | 16%          |
| Snacks and Pet Care              | 4%          | 3%           |
| <b>Household Care GBU</b>        |             |              |
| Fabric Care and Home Care        | 30%         | 28%          |
| Baby Care and Family Care        | 18%         | 18%          |
| <b>Total</b>                     | <b>100%</b> | <b>100%</b>  |

## **SUMMARY OF RESULTS**

Following are highlights of results for the nine months ended March 31, 2010:

Net sales increased 2% versus the comparable prior year period to \$60.0 billion. Organic sales, which exclude the impacts of acquisitions, divestitures and foreign exchange, grew 3%.

Unit volume was up 3% versus the prior year period primarily behind growth in the Household Care GBU.

Net earnings from continuing operations were \$8.8 billion, an increase of 5% versus the prior year period due to net sales growth and operating margin expansion, partially offset by a higher effective tax rate. Net earnings were \$10.6 billion, a decrease of 4% compared to the prior year period due to lower current period gains on the sale of discontinued operations.

Diluted net earnings per share declined 2% versus the prior year period to \$3.39, while diluted net earnings per share from continuing operations increased 7% to \$2.82. Growth rates on a per share basis differ from those of net earnings due to share repurchase activity. Core EPS, which excludes certain tax, legal and restructuring charges, was \$2.96, up 10%.

Operating cash flow increased \$2.8 billion versus the prior year period to \$12.8 billion. Free cash flow, which is operating cash flow less capital expenditures, was \$10.8 billion fiscal year to date. Free cash flow productivity, which is the ratio of free cash flow to net earnings, was 102%.

## **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. For more information on risks that could impact our results, refer to Item 1A Risk Factors in our most recent 10-Q, 10-K and 8-K filings.

**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. As a company that manages a portfolio of consumer brands, our ongoing business model involves a certain level of ongoing acquisition and divestiture activities. We must be able to successfully manage the impacts of these activities, while at the same time delivering against base business objectives. Our success will also depend on our ability to maintain key information technology systems.

**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 certain countries, such as Venezuela, China and India. 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 optimization. Successfully managing these changes, including identifying, developing and retaining key employees, is critical to our success.

Global Economic Conditions: 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 geographic markets, as well as any political or economic disruption due to 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, competitive 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, competition law matters and tax policy) and to resolve pending legal matters within current estimates may impact our results.

#### **RESULTS OF OPERATIONS    Three Months Ended March 31, 2010**

The following discussion provides a review of results for the three months ended March 31, 2010 versus the three months ended March 31, 2009.

## THE PROCTER &amp; GAMBLE COMPANY AND SUBSIDIARIES

(Amounts in Millions Except Per Share Amounts)

## Consolidated Earnings Information

|                                                                |  | Three Months Ended March 31 |           |       |
|----------------------------------------------------------------|--|-----------------------------|-----------|-------|
|                                                                |  | 2010                        | 2009      | % CHG |
| <b>Net Sales</b>                                               |  | \$ 19,178                   | \$ 17,864 | 7%    |
| Cost of Products Sold                                          |  | 9,225                       | 9,117     | 1%    |
| <b>Gross Margin</b>                                            |  | 9,953                       | 8,747     | 14%   |
| Selling, General & Administrative Expense                      |  | 5,985                       | 5,194     | 15%   |
| <b>Operating Income</b>                                        |  | 3,968                       | 3,553     | 12%   |
| Interest Expense                                               |  | 223                         | 337       |       |
| Other Non-operating Income, Net                                |  | 17                          | 34        |       |
| <b>Earnings From Continuing Operations Before Income Taxes</b> |  | 3,762                       | 3,250     | 16%   |
| Income Taxes                                                   |  | 1,177                       | 821       |       |
| <b>Net Earnings From Continuing Operations</b>                 |  | 2,585                       | 2,429     | 6%    |
| <b>Net Earnings From Discontinued Operations</b>               |  |                             | 184       |       |
| <b>Net Earnings</b>                                            |  | 2,585                       | 2,613     | -1%   |
| Effective Tax Rate Continuing Operations                       |  | 31.3%                       | 25.3%     |       |
| <b>Per Common Share:</b>                                       |  |                             |           |       |
| Basic Net Earnings Continuing Operations                       |  | \$ 0.88                     | \$ 0.82   |       |
| Basic Net Earnings Discontinued Operations                     |  | \$ 0.00                     | \$ 0.06   |       |
| Basic Net Earnings                                             |  | \$ 0.88                     | \$ 0.88   |       |
| Diluted Net Earnings Continuing Operations                     |  | \$ 0.83                     | \$ 0.78   | 6%    |
| Diluted Net Earnings Discontinued Operations                   |  | \$ 0.00                     | \$ 0.06   |       |
| Diluted Net Earnings                                           |  | \$ 0.83                     | \$ 0.84   | -1%   |
| Dividends                                                      |  | \$ 0.44                     | \$ 0.40   | 10%   |
| Average Diluted Shares Outstanding                             |  | 3,103.9                     | 3,104.6   |       |

| Comparisons as a % of Net Sales                         |  |       |       | Basis Point Change |
|---------------------------------------------------------|--|-------|-------|--------------------|
| Gross Margin                                            |  | 51.9% | 49.0% | 290                |
| Selling, General & Administrative Expense               |  | 31.2% | 29.1% | 210                |
| Operating Margin                                        |  | 20.7% | 19.9% | 80                 |
| Earnings From Continuing Operations Before Income Taxes |  | 19.6% | 18.2% | 140                |
| Net Earnings From Continuing Operations                 |  | 13.5% | 13.6% | (10)               |

Net sales increased 7% to \$19.2 billion for the January - March quarter on a 7% increase in unit volume. Volume growth was broad-based with growth in all geographic regions, led by double-digit growth in developing regions. Five of the six business segments contributed to volume growth, led by double-digit growth in the Fabric Care and Home Care and the Baby Care and Family Care segments. Volume in the Beauty, Grooming and Health Care segments was up mid-single digits, while volume in the Snacks and Pet Care segment declined mid-single digits. Price decreases lowered net sales by 1% behind current period pricing investments to improve consumer value, partially offset by the impact of prior period increases taken in developing regions to offset currency devaluations. Negative mix reduced net sales by 2% due mainly to disproportionate growth in developing regions and mid-tier value products, both of which have lower than



Company average selling prices. Favorable foreign exchange added 3% to net sales growth as key foreign currencies strengthened versus the U.S. dollar. Organic sales growth was 4% driven by a unit volume growth, partially offset by the impact of price decreases and negative mix.

| Net Sales Change Drivers 2010 vs. 2009 (Three Months Ended Mar. 31) |                                               |                                                    |                     |            |               |                     |
|---------------------------------------------------------------------|-----------------------------------------------|----------------------------------------------------|---------------------|------------|---------------|---------------------|
|                                                                     | Volume with<br>Acquisitions &<br>Divestitures | Volume excluding<br>Acquisitions &<br>Divestitures | Foreign<br>Exchange | Price      | Mix/<br>Other | Net Sales<br>Growth |
| Beauty and Grooming GBU                                             |                                               |                                                    |                     |            |               |                     |
| Beauty                                                              | 4%                                            | 4%                                                 | 4%                  | -1%        | -1%           | 6%                  |
| Grooming                                                            | 6%                                            | 5%                                                 | 6%                  | 2%         | -3%           | 11%                 |
| Health and Well-Being GBU                                           |                                               |                                                    |                     |            |               |                     |
| Health Care                                                         | 5%                                            | 5%                                                 | 4%                  | -1%        | -3%           | 5%                  |
| Snacks and Pet Care                                                 | -6%                                           | -6%                                                | 4%                  | 0%         | 0%            | -2%                 |
| Household Care GBU                                                  |                                               |                                                    |                     |            |               |                     |
| Fabric Care and Home Care                                           | 10%                                           | 10%                                                | 3%                  | -3%        | -2%           | 8%                  |
| Baby Care and Family Care                                           | 10%                                           | 10%                                                | 2%                  | -1%        | -2%           | 9%                  |
| <b>Total Company</b>                                                | <b>7%</b>                                     | <b>7%</b>                                          | <b>3%</b>           | <b>-1%</b> | <b>-2%</b>    | <b>7%</b>           |

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

Gross margin increased 290 basis points to 51.9% of net sales for the quarter. Manufacturing cost savings increased gross margin by approximately 190 basis points. Gross margin was also positively impacted by lower commodity and energy costs which contributed approximately 90 basis points of improvement. The benefit of volume scale leverage was offset by unfavorable product mix and lower pricing.

Total selling, general and administrative expenses (SG&A) were \$6.0 billion, up 15% versus the prior year period due to higher marketing and overhead spending. SG&A as a percentage of net sales increased 210 basis points due primarily to higher marketing spending as a percentage of net sales. Marketing spending as a percentage of net sales increased across all reportable segments behind additional investments to support business growth, partially offset by media rate savings.

Interest expense was \$223 million for the quarter, down \$114 million versus the prior year period primarily due to a reduction in debt outstanding and lower interest rates on floating rate debt. Other non-operating income declined \$17 million mainly due to gains on the sale of minor brands in the prior year period. The effective tax rate on continuing operations increased 600 basis points to 31.3% primarily due to a \$152 million charge for recently enacted legislation which changed the taxation of certain future retiree prescription drug subsidy payments in the United States.

Net earnings from continuing operations increased 6% for the quarter to \$2.6 billion driven by margin expansion and net sales growth, partially offset by a higher tax rate. Operating margin expanded primarily due to an increase in gross margin, partially offset by an increase in SG&A as a percentage of net sales driven by increased marketing spending. Diluted net earnings per share from continuing operations were \$0.83, up 6% versus the comparable prior year period.

Net earnings from discontinued operations declined \$184 million for the quarter primarily due to the loss of contribution from the global pharmaceuticals business which was divested at the end of October 2009.

Net earnings decreased 1% for the quarter to \$2.6 billion behind a decrease in net earnings from discontinued operations, partially offset by an increase in net earnings from continuing operations. Diluted net earnings per share were down 1% to \$0.83.

Core EPS, which is diluted net earnings per share from continuing operations excluding current period charges for pending European legal matters and recently enacted legislation which changed the taxation of certain future retiree prescription drug subsidy payments in the United States and incremental restructuring charges incurred in the prior period to offset the dilutive impact of the Folgers divestiture, was up 10% to \$0.89 for the quarter.

## **RESULTS OF OPERATIONS    Nine Months Ended March 31, 2010**

The following discussion provides a review of results for the nine months ended March 31, 2010 versus the nine months ended March 31, 2009.

### **THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**

(Amounts in Millions Except Per Share Amounts)

#### Consolidated Earnings Information

| Nine Months Ended March 31                                     |           |           |                           |
|----------------------------------------------------------------|-----------|-----------|---------------------------|
|                                                                | 2010      | 2009      | % CHG                     |
| <b>Net Sales</b>                                               | \$ 60,012 | \$ 58,610 | 2%                        |
| Cost of Products Sold                                          | 28,359    | 29,474    | -4%                       |
| <b>Gross Margin</b>                                            | 31,653    | 29,136    | 9%                        |
| Selling, General & Administrative Expense                      | 18,582    | 17,142    | 8%                        |
| <b>Operating Income</b>                                        | 13,071    | 11,994    | 9%                        |
| Interest Expense                                               | 734       | 1,030     |                           |
| Other Non-operating Income, Net                                | 93        | 381       |                           |
| <b>Earnings From Continuing Operations Before Income Taxes</b> | 12,430    | 11,345    | 10%                       |
| Income Taxes                                                   | 3,669     | 2,988     |                           |
| <b>Net Earnings From Continuing Operations</b>                 | 8,761     | 8,357     | 5%                        |
| <b>Net Earnings From Discontinued Operations</b>               | 1,790     | 2,608     |                           |
| <b>Net Earnings</b>                                            | 10,551    | 10,965    | -4%                       |
| Effective Tax Rate    Continuing Operations                    | 29.5%     | 26.3%     |                           |
| <b>Per Common Share:</b>                                       |           |           |                           |
| Basic Net Earnings    Continuing Operations                    | \$ 2.96   | \$ 2.77   |                           |
| Basic Net Earnings    Discontinued Operations                  | \$ 0.61   | \$ 0.88   |                           |
| Basic Net Earnings                                             | \$ 3.57   | \$ 3.65   |                           |
| Diluted Net Earnings    Continuing Operations                  | \$ 2.82   | \$ 2.64   | 7%                        |
| Diluted Net Earnings    Discontinued Operations                | \$ 0.57   | \$ 0.82   |                           |
| Diluted Net Earnings                                           | \$ 3.39   | \$ 3.46   | -2%                       |
| Dividends                                                      | \$ 1.32   | \$ 1.20   | 10%                       |
| Average Diluted Shares Outstanding                             | 3,110.2   | 3,172.9   |                           |
| <b>Comparisons as a % of Net Sales</b>                         |           |           |                           |
|                                                                |           |           | <b>Basis Point Change</b> |
| Gross Margin                                                   | 52.8%     | 49.7%     | 310                       |
| Selling, General & Administrative Expense                      | 31.0%     | 29.2%     | 180                       |
| Operating Margin                                               | 21.8%     | 20.5%     | 130                       |
| Earnings From Continuing Operations Before Income Taxes        | 20.7%     | 19.4%     | 130                       |
| Net Earnings From Continuing Operations                        | 14.6%     | 14.3%     | 30                        |

- 21 -



Net sales increased 2% versus the prior year period to \$60.0 billion on a 3% increase in unit volume. Volume increased low single digits in developed regions and mid-single digits in developing regions. All geographic regions contributed to volume growth, led by mid-single digits growth in Asia. Volume growth for the reportable segments was mixed, with low to mid-single-digit increases in the Fabric Care and Home Care, Baby Care and Family Care, Beauty and Health Care segments, partially offset by a mid-single-digit decline in the Snacks and Pet Care segment and a low single-digit decline in the Grooming segment. Price increases added 1% to net sales as increases taken primarily in developing regions to offset local currency devaluations were partially offset by more recent price reductions to improve consumer value. Unfavorable foreign exchange reduced net sales by 1% as many foreign currencies weakened versus the U.S. dollar, primarily in the first fiscal quarter. Mix reduced net sales by 1% behind disproportionate growth in developing regions, which have lower than Company average selling prices, and relatively weaker shipments of Professional Salon, Prestige, Personal Health Care and Pet Care, which have higher than Company average selling prices. Organic sales were up 3% led by mid-single-digits growth across the Household Care GBU.

#### Net Sales Change Drivers 2010 vs. 2009 (Nine Months Ended Mar. 31)

|                           | Volume with<br>Acquisitions<br>&<br>Divestitures | Volume excluding<br>Acquisitions &<br>Divestitures | Foreign<br>Exchange | Price     | Mix/<br>Other | Net Sales<br>Growth |
|---------------------------|--------------------------------------------------|----------------------------------------------------|---------------------|-----------|---------------|---------------------|
| Beauty and Grooming GBU   |                                                  |                                                    |                     |           |               |                     |
| Beauty                    | 1%                                               | 2%                                                 | 0%                  | 1%        | 0%            | 2%                  |
| Grooming                  | -2%                                              | -2%                                                | 0%                  | 4%        | -2%           | 0%                  |
| Health and Well-Being GBU |                                                  |                                                    |                     |           |               |                     |
| Health Care               | 2%                                               | 2%                                                 | 0%                  | 1%        | -1%           | 2%                  |
| Snacks and Pet Care       | -5%                                              | -5%                                                | 1%                  | 4%        | -1%           | -1%                 |
| Household Care GBU        |                                                  |                                                    |                     |           |               |                     |
| Fabric Care and Home Care | 5%                                               | 5%                                                 | -1%                 | 0%        | -1%           | 3%                  |
| Baby Care and Family Care | 6%                                               | 6%                                                 | -1%                 | 0%        | -1%           | 4%                  |
| <b>Total Company</b>      | <b>3%</b>                                        | <b>3%</b>                                          | <b>-1%</b>          | <b>1%</b> | <b>-1%</b>    | <b>2%</b>           |

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

Gross margin increased 310 basis points versus the comparable prior year period to 52.8% of net sales. The combination of manufacturing cost savings and lower commodity and energy costs delivered approximately 300 basis points of the gross margin expansion. Gross margin also benefited from price increases and volume scale leverage, partially offset by unfavorable foreign exchange impacts and negative product and geographic mix.

Total SG&A increased 8% to \$18.6 billion due primarily to higher marketing and other operating expenses. SG&A as a percentage of net sales increased 180 basis points to 31.0% behind a 120 basis point increase in other operating expenses as a percentage of net sales and higher marketing spending as a percentage of net sales. Other operating expenses increased mainly due to Venezuela-related foreign currency exchange costs of \$541 million (see further discussion in the following paragraph) and charges for potential competition law fines of \$279 million. Marketing spending as a percentage of net sales was up as additional marketing investments were partially offset by media rate savings.

Because of currency restrictions in Venezuela, payments for certain imported goods and services are satisfied by exchanging Bolivares fuertes for U.S. dollars through securities transactions in the parallel market rather than at the more favorable official exchange rate. At the discretion of management, these securities transactions can be utilized to manage exposure to currency movements on local cash balances. A reduction in the availability of foreign currency at the official exchange rate resulted in increased costs for exchange transactions executed using securities transactions in the parallel market during the current year.

Interest expense was down \$296 million versus the comparable prior year period, a decrease of 29% due primarily to lower interest rates on floating rate debt and a reduction in debt outstanding. Other non-operating income declined \$288 million to \$93 million mainly due to the impact of prior year gains on the sale of minor brands. The effective tax rate on continuing operations increased 320 basis points to 29.5% primarily due to a charge for recently enacted legislation which changed the taxation of certain future retiree prescription drug subsidy payments in the United States, lower current period audit settlements and foreign tax credits and the non-deductibility of the aforementioned charge for potential competition law fines.

Net earnings from continuing operations were \$8.8 billion, an increase of 5% versus the prior year period due mainly to operating margin expansion and net sales growth, partially offset by a tax rate increase. Operating margin was up due to an increase in gross margin, partially offset by an increase in SG&A as a percentage of net sales. Diluted net earnings per share from continuing operations increased 7% to \$2.82.

Net earnings from discontinued operations decreased \$818 million to \$1.8 billion due to lower gains on the sale of discontinued operations and a loss of contribution from the global pharmaceuticals business divested in October 2009. In the current year, we had a gain of \$1.5 billion from the sale of the global pharmaceuticals business, as compared to the \$2.0 billion prior year gain on the sale of the Folgers coffee business.

Net earnings were down 4% versus the prior year period to \$10.6 billion due to the decline in net earnings from discontinued operations, partially offset by an increase in net earnings from continuing operations. Diluted net earnings per share were down 2% to \$3.39. Earnings per share growth rates differed from net earnings growth rates due to a reduction in the number of shares outstanding resulting from share repurchases.

Core EPS, which is diluted net earnings per share from continuing operations excluding current period charges for pending European legal matters and recently enacted legislation which changed the taxation of certain future retiree prescription drug subsidy payments in the United States and the impact of incremental restructuring charges incurred in the prior period to offset the dilutive impact of the Folgers divestiture, was up 10% to \$2.96 fiscal year to date.

#### Foreign Currency Translation – Venezuela Impacts

As of January 1, 2010, Venezuela has been designated as a highly inflationary economy under U.S. GAAP. As a result, beginning January 1, 2010, the U.S. dollar is the functional currency for our subsidiaries in Venezuela. Beginning in our third fiscal quarter, currency remeasurement adjustments for these subsidiaries' financial statements and other transactional foreign exchange gains and losses will be reflected in earnings. Through December 31, 2009 (prior to being designated as highly inflationary), translation adjustments were reflected in Shareholders Equity as part of other comprehensive income.

On January 8, 2010, the Venezuelan government announced its intention to devalue its currency (Bolivar fuerte) relative to the U.S. dollar. The official exchange rate for imported goods classified as essential, such as food and medicine, changed from 2.15 to 2.6, while payments for other non-essential goods moved to an exchange rate of 4.3. Some of our imported products fall into the essential classification and qualify for the 2.6 rate. However, our overall results in Venezuela are reflected in our consolidated financial statements at the 4.3 rate expected to be applicable to dividend repatriations.

The remeasurement of our local balance sheets in the third fiscal quarter to reflect the impact of the devaluation did not materially impact our results. There will also be an ongoing impact related to measuring our income statement at the new exchange rates. Moving from the 2.15 rate to 4.3 will reduce future total company reported sales by less than 2% on a going basis. For the quarter ended March 31, 2010, the impact was approximately 1%. This does not impact our organic sales growth rate, which excludes the impact of foreign

currency changes. Versus our existing business plans, the exchange rate change reduced our reported earnings per share by approximately \$0.05 in the third fiscal quarter and is expected to reduce fourth quarter results by about \$0.03 per share. This impact is net of the impact of devaluation on Venezuela-related foreign currency exchange costs. Going forward, the devaluation of the official rate has reduced the differential between the official and parallel exchange rate and is therefore expected to reduce the incremental cost of exchanging currencies through securities transactions in the parallel market. Over time, we intend to restore the sales and profit levels achieved prior to the devaluation. However, our ability to do so will be impacted by several factors, including the company's ability to take actions to mitigate the effect of the devaluation, further actions of the Venezuelan government, economic conditions in Venezuela such as inflation and consumer spending, the availability of raw materials, utilities and energy and the future state of exchange controls in Venezuela including the availability of U.S. dollars at the official foreign exchange rate.

### **BUSINESS SEGMENT DISCUSSION Three and Nine Months Ended March 31, 2010**

The following discussion provides a review of results by business segment. Analyses of the results for the three and nine months ended March 31, 2010 are provided compared to the same three and nine month period ended March 31, 2009. The primary financial measures used to evaluate segment performance are net sales and net earnings from continuing operations. The table below provides supplemental information on net sales and net earnings from continuing operations by business segment for the three and nine months ended March 31, 2010 versus the comparable prior year periods (amounts in millions):

|                           | Three Months Ended March 31, 2010 |                          |                                                         |                          |                                         |                          |
|---------------------------|-----------------------------------|--------------------------|---------------------------------------------------------|--------------------------|-----------------------------------------|--------------------------|
|                           | Net Sales                         | % Change Versus Year Ago | Earnings From Continuing Operations Before Income Taxes | % Change Versus Year Ago | Net Earnings From Continuing Operations | % Change Versus Year Ago |
| Beauty and Grooming GBU   |                                   |                          |                                                         |                          |                                         |                          |
| Beauty                    | \$ 4,623                          | 6%                       | \$ 772                                                  | 0%                       | \$ 562                                  | 2%                       |
| Grooming                  | 1,759                             | 11%                      | 462                                                     | 27%                      | 377                                     | 46%                      |
| Health and Well-Being GBU |                                   |                          |                                                         |                          |                                         |                          |
| Health Care               | 2,805                             | 5%                       | 663                                                     | 2%                       | 435                                     | 5%                       |
| Snacks and Pet Care       | 747                               | -2%                      | 124                                                     | 33%                      | 77                                      | 51%                      |
| Household Care GBU        |                                   |                          |                                                         |                          |                                         |                          |
| Fabric Care and Home Care | 5,812                             | 8%                       | 1,168                                                   | 3%                       | 752                                     | 4%                       |
| Baby Care and Family Care | 3,768                             | 9%                       | 889                                                     | 28%                      | 558                                     | 32%                      |
| Corporate                 | (336)                             | N/A                      | (316)                                                   | N/A                      | (176)                                   | N/A                      |
| Total Company             | \$ 19,178                         | 7%                       | \$ 3,762                                                | 16%                      | \$ 2,585                                | 6%                       |

|                           | Nine Months Ended March 31, 2010 |                          |                                                         |                          |                                         |                          |
|---------------------------|----------------------------------|--------------------------|---------------------------------------------------------|--------------------------|-----------------------------------------|--------------------------|
|                           | Net Sales                        | % Change Versus Year Ago | Earnings From Continuing Operations Before Income Taxes | % Change Versus Year Ago | Net Earnings From Continuing Operations | % Change Versus Year Ago |
| Beauty and Grooming GBU   |                                  |                          |                                                         |                          |                                         |                          |
| Beauty                    | \$ 14,761                        | 2%                       | \$ 2,936                                                | 3%                       | \$ 2,215                                | 3%                       |
| Grooming                  | 5,712                            | 0%                       | 1,564                                                   | 3%                       | 1,161                                   | 6%                       |
| Health and Well-Being GBU |                                  |                          |                                                         |                          |                                         |                          |
| Health Care               | 8,855                            | 2%                       | 2,283                                                   | 7%                       | 1,519                                   | 8%                       |
| Snacks and Pet Care       | 2,337                            | -1%                      | 380                                                     | 33%                      | 249                                     | 47%                      |
| Household Care GBU        |                                  |                          |                                                         |                          |                                         |                          |
| Fabric Care and Home Care | 18,253                           | 3%                       | 4,111                                                   | 20%                      | 2,726                                   | 23%                      |
| Baby Care and Family Care | 11,174                           | 4%                       | 2,699                                                   | 25%                      | 1,694                                   | 25%                      |
| Corporate                 | (1,080)                          | N/A                      | (1,543)                                                 | N/A                      | (803)                                   | N/A                      |
| Total Company             | \$ 60,012                        | 2%                       | \$ 12,430                                               | 10%                      | \$ 8,761                                | 5%                       |

### BEAUTY AND GROOMING GBU

#### Beauty

Beauty net sales increased 6% to \$4.6 billion for the quarter on unit volume growth of 4%. Organic sales increased 2%. Price reductions, due mainly to strengthened trade programs in the CEEMEA region and in North American Hair Care to support innovation and maintain competitive consumer value, lowered net sales growth by 1%. Negative geographic mix reduced net sales by 1% due mainly to the disproportionate growth in developing regions where selling prices are below the segment average. Favorable foreign exchange contributed 4% to net sales growth. Volume growth was driven by double-digit growth in developing regions. Developed region volume was down low single digits. Hair Care volume was up mid-single digits driven by double-digit growth in developing regions, partially offset by low- single digit decline in developed regions. Overall hair care growth was driven by initiative activity and market size expansion with all major Hair Care brands contributing to volume growth. Market share of the global hair care category declined about half a point. Female Beauty volume grew mid-single digits primarily due to a double-digit increase in shipments of female skin care products driven by the Olay Natural White initiative in Asia. Salon Professional volume declined high single digits mainly due to the exit of non-strategic businesses, while organic volume declined mid-single digits primarily due to continued market contractions. Prestige volume increased mid-single digits as the impact of trade inventory reductions in the prior year period were partially offset by continued contraction of the fragrance market in the current year. Net earnings were \$562 million, up 2% behind higher net sales and a lower tax rate, partially offset by lower operating margin and a minor brand divestiture gain in the prior year period. Operating margin contracted as a higher gross margin behind lower commodity costs and manufacturing cost savings was more than offset by an increase in SG&A as a percentage of net sales due to increased marketing investments.

Beauty net sales increased 2% fiscal year to date to \$14.8 billion on unit volume growth of 1%. Organic sales were up 3% on a 2% increase in organic volume. Pricing increases added 1% to net sales growth as price increases taken early in the fiscal year in developing regions to offset currency devaluations more than offset the more recent price reductions in Hair Care. Hair Care volume grew low single digits, while organic volume grew mid-single digits behind growth of Pantene, Head & Shoulders and Rejoice primarily in Asia and Latin America. Global share of the hair care market was down less than half a point to 22%. Female Beauty volume was in line with the prior year period as higher shipments of female skin care and personal cleansing products in developing regions were offset by the discontinuation of Max Factor in North America, the fiscal 2009 divestiture of Noxzema and market share losses on non-strategic personal cleansing brands in developed regions. Salon Professional volume was down double digits mainly due to the exit of non-strategic businesses

and continued market contractions. Prestige volume declined low single digits due to continued contraction of the fragrance market. Net earnings grew 3% fiscal year to date to \$2.2 billion driven by net sales growth and operating margin expansion, partially offset by divestiture gains in the prior period and a higher tax rate. Operating margin increased due to higher gross margin driven primarily by price increases and manufacturing costs savings. Gross margin expansion was partially offset by higher SG&A as a percentage of net sales due to increased marketing spending and higher foreign currency exchange costs.

#### Grooming

Grooming net sales grew 11% for the quarter to \$1.8 billion on a 6% increase in unit volume. Organic sales were up 4%. Price increases contributed 2% to net sales growth mainly due to price increases taken in Latin America to offset currency devaluations. Negative product mix reduced net sales by 3% due mainly to disproportionate growth of disposable razors in developing regions and entry level shaving systems, both of which have lower than segment average selling prices. Favorable foreign exchange added 6% to net sales growth for the quarter. Segment volume grew mid single digits in developed regions and high single digits in developing regions. Volume in Male Blades and Razors increased high single digits due to market growth mainly in developing regions and the impact of trade inventory reductions in the prior year period. Gillette Fusion continued to lead volume gains delivering double-digit growth for the quarter. Global market share of the blades and razors category was up less than half a point to 72%. Volume in Male Personal Care grew low single digits due to the Zih acquisition, while organic volume was down low single digits behind market contractions and share losses in Western Europe. Volume in Braun was up mid-single digits behind market growth, particularly in CEEMEA, which was disproportionately impacted by the economic crisis in the prior year period. Global share of the dry shaving market was up about two and a half points to about 33%. Net earnings increased 46% to \$377 million for the quarter due to higher net sales, increased operating margin and a lower tax rate. The expansion of operating margin was due to higher gross margin driven by price increases, manufacturing cost savings and volume scale leverage, partially offset by an increase in SG&A as a percentage on net sales driven by marketing investments.

Grooming net sales were in line with the prior year period at \$5.7 billion fiscal year to date on a 2% decline in unit volume. Organic sales were in line with the comparable prior year period. Price increases, taken primarily in developing regions to offset currency devaluations and across Blades and Razors, added 4% to net sales. Product mix had a negative 2% impact on net sales due mainly to disproportionate growth in developing regions and of disposable razors, both of which have lower than segment average selling prices. Volume in Blades and Razors was in line with the prior year period as low single-digit growth in developing regions was offset by a low-single-digit decline in developed regions. Mach3 shipments declined double digits, while Gillette Fusion shipments increased high single digits. Global market share of the blades and razors category was down less than 1 point. Volume in Male Personal Care declined mid-single digits primarily due to share losses resulting from increased competitive promotional activity on shave preparation products in Western Europe and distribution declines on Tag deodorants. Volume in Braun was down mid-single digits due mostly to market contractions, particularly in home and hair care appliances. Net earnings fiscal year to date were up 6% versus the comparable prior year period to \$1.2 billion behind a lower tax rate and operating margin expansion. Operating margin increased behind improved gross margin from price increases and lower commodity costs, partially offset by higher SG&A as a percentage of net sales driven by higher foreign currency exchange costs.

#### HEALTH AND WELL-BEING GBU

##### Health Care

Health Care net sales were up 5% to \$2.8 billion during the third fiscal quarter on a 5% increase in unit volume. Organic sales grew 1%. Mix impacts reduced net sales by 3% mainly as a result of the disproportionate growth of developing regions, which have lower than segment average selling prices. Price decreases to improve consumer value lowered net sales by 1%. Favorable foreign exchange added 4% to net sales growth. Volume

was strongest in developing regions, up double digits, while volume in developed regions was up low single digits. Oral Care volume increased high single digits driven mainly by increased initiative activity, including Crest 3D White in North America, Oral-B toothpaste expansion in Latin America, Oral-B Pro Health whitespace expansion in Western Europe and Dare to Try commercial innovation in Greater China. Personal Health Care volume declined mid-single digits primarily due to increased competitive activity on Prilosec OTC in North America and the impact of a mild cold and flu season on Vicks shipments. Feminine Care volume grew mid-single digits behind reduced pricing to improve consumer value in CEEMEA, the launch of Naturella in Greater China and the impact of trade inventory reductions in the prior year period. Global market share of the feminine care category was down about half a point. Net earnings increased 5% to \$435 million during the quarter mainly due to net sales growth, partially offset by operating margin contraction. Operating margin declined due to higher SG&A as a percentage of net sales, partially offset by higher gross margin. SG&A as a percentage of net sales increased primarily due to higher marketing, overhead and foreign currency exchange costs. Gross margin improved behind manufacturing cost savings and improved volume scale leverage.

Health Care net sales increased 2% fiscal year to date to \$8.9 billion on unit volume growth of 2%. Organic sales also increased 2%. Price increases, taken mainly in developing regions to offset currency devaluations, added 1% to net sales. Negative product mix reduced net sales by 1% due to disproportionate growth of developing regions, which have lower than segment average selling prices. Oral Care volume grew mid-single digits behind initiative activity in Western Europe, Latin America and Asia. Personal Health Care volume was in line with the prior year period as growth of diagnostic products and higher shipments of Vicks in developing regions was offset by a continued decline of Prilosec OTC in North America due to increased competitive activity and the prior period divestiture of Thermacare. Feminine Care volume increased low single digits behind initiative-driven growth of Always and Naturella, partially offset by lower shipments of Tampax. Global market share of the feminine care category was down about 1 point. Net earnings were \$1.5 billion fiscal year to date, an increase of 8% versus the prior year period behind operating margin expansion and net sales growth. Operating margin increased due to higher gross margin, partially offset by higher SG&A as a percentage of net sales. Gross margin grew behind price increases, lower commodity costs and manufacturing cost savings. SG&A as a percentage of net sales increased due mainly to higher foreign currency exchange costs and overhead spending, partially offset by lower marketing spending.

#### Snacks and Pet Care

Snacks and Pet Care net sales were \$747 million, down 2% for the quarter driven by a unit volume decline of 6%. Organic sales decreased 6%. Favorable foreign exchange added 4% to net sales. Volume in Snacks decreased high single digits primarily due to lower levels of merchandising activity in North America and the discontinuation of some premium snack products. Global market share of the snacks category was in line with the prior year period. Volume in Pet Care was down low single digits mainly due to market contractions in the premium nutrition category. Net earnings increased 51% versus the prior year period to \$77 million driven by higher operating margin and a lower tax rate. Operating margin was up behind higher gross margin, partially offset by higher SG&A as a percentage of net sales. Gross margin expanded behind mix from more profitable initiative launches, such as Pringles Super Stack and Iams Prebiotics, as well as lower commodity costs. SG&A as a percentage of net sales increased due to higher marketing and overhead spending.

Snacks and Pet Care net sales decreased 1% fiscal year to date to \$2.3 billion on a 5% decline in unit volume. Organic sales declined 2%. Price increases, taken primarily to offset high commodity costs, added 4% to net sales. Favorable foreign exchange added 1% to net sales. Mix reduced net sales by 1% due to the discontinuation of certain premium snack product, which have higher than segment average selling prices. Volume in Snacks was down double-digits behind share losses and market contractions. Global market share of the snacks category was down 1 point. Share losses were driven primarily by lower merchandising activity in North America following the Super Stacks initiative and the discontinuation of some premium snack products. Volume in Pet Care was in line with the prior year period as the continued success of product initiatives was offset by market contraction in the premium nutrition category. Net earnings increased 47% to \$249 million

fiscal year to date behind higher operating margins and a lower tax rate. Operating margin expanded due to higher gross margin driven by price increases, commodity cost declines and manufacturing cost savings, partially offset by higher SG&A as a percentage of net sales due to increased marketing and overhead spending.

#### HOUSEHOLD CARE GBU

##### Fabric Care and Home Care

Fabric Care and Home Care net sales increased 8% to \$5.8 billion for the quarter on a 10% increase in unit volume. Organic sales grew 5%. Mix reduced net sales by 2% due to unfavorable geographic mix and disproportionate growth of laundry powder and mid-tier brands, both of which have lower than segment average selling prices. Pricing investments to improve consumer value lowered net sales by 3%. Favorable foreign exchange contributed 3% to net sales growth. Each billion dollar brand delivered high single digits or better volume growth for the segment. Fabric Care volume increased high single digits behind targeted price reductions to improve consumer value, higher media weights and trade inventory increases to support merchandising activity in North America. Global market share of the fabric care category was down 1 point to about 29%. Home Care volume was up double digits due to market size expansion, the continued success of new products launched in prior quarters, increased merchandising activity and higher media weights. Batteries volume increased double digits mainly due to reduced pricing to improve consumer value in North America and higher demand from business customers. Net earnings were up 4% for the quarter to \$752 million due primarily to net sales growth, partially offset by operating margin contraction. Operating margin declined due to higher SG&A as a percentage of net sales, partially offset by higher gross margin. Gross margin improved behind manufacturing cost savings and volume scale leverage, partially offset by lower pricing. SG&A as a percentage of net sales was up due to higher marketing spending to support business growth, partially offset by lower overhead spending as a percentage of net sales.

Fabric Care and Home Care net sales increased 3% to \$18.3 billion fiscal year to date on a 5% increase in unit volume. Organic sales grew 5%. Pricing was in line with the prior year period as the impact of prior period price increases taken primarily in developing regions to offset currency devaluations was offset by more recent price reductions to improve consumer value. Mix lowered net sales by 1% due mainly to unfavorable geographic mix. Unfavorable foreign exchange reduced net sales by 1%. Fabric Care volume grew low single digits behind new product launches and growth in Western Europe from incremental merchandising activity, partially offset by market share loss. Global market share of the fabric care category was down about 1 point to about 29%. Home Care volume was up high single digits mainly due to market size expansion and share growth behind new product launches. Global market share of the home care category was up less than half a point to 17%. Batteries volume increased mid-single digits primarily due to growth in Greater China, price reductions to improve consumer value in North America, and higher demand from business customers. Net earnings increased 23% to \$2.7 billion due to higher net sales, increased operating margin and a lower tax rate. Operating margin expanded due to higher gross margin, partially offset by an increase in SG&A as a percentage of net sales. Gross margin increased mainly due to lower commodity costs and manufacturing cost savings, while SG&A as a percentage of net sales increased due to higher marketing spending.

##### Baby Care and Family Care

Baby Care and Family Care net sales increased 9% to \$3.8 billion for the quarter on 10% volume growth. Organic sales grew 7%. Mix lowered net sales growth by 2% due to disproportionate growth of mid-tier products, larger pack counts and developing regions, all of which have lower than segment average selling prices. Price decreases to improve consumer value reduced net sales by 1%. Favorable foreign exchange added 2% to net sales growth. Volume growth was broad-based with all major geographic regions contributing mid-single digits or higher to volume growth, led by double-digit growth in developing regions. Volume in Baby Care grew double digits primarily due to share growth, market size expansion and trade inventory increases to support the launch of Dry Max in North America. Global market share of the baby care category increased over half a point to over 34% driven by price reductions to improve consumer value, increased

marketing spending and the continued success of initiatives launched in prior periods. Volume in Family Care was up double digits behind incremental merchandising activity, price reductions to improve consumer value, primarily executed in prior periods, and double-digit growth of Basic product lines. Net earnings grew 32% to \$558 million for the quarter driven by net sales growth and operating margin expansion. Operating margin grew behind higher gross margin, partially offset by an increase in SG&A as a percentage of net sales. Gross margin improved primarily due to lower commodity costs and manufacturing cost savings, while SG&A as a percentage of net sales increased due to higher marketing investments.

Baby Care and Family Care net sales grew 4% to \$11.2 billion fiscal year to date on 6% volume growth. Organic sales increased 5%. Pricing was in line with the prior year period as the impact of price increases taken primarily in developing regions to offset currency devaluations was offset by more recent price reductions to improve consumer value. Negative product mix reduced net sales by 1% driven mainly by disproportionate growth of mid-tier product lines and large count packs, both of which have lower than segment average selling prices. Unfavorable foreign exchange reduced net sales by 1%. Volume in Baby Care increased mid-single digits behind market size expansion and share growth due to incremental initiative activity and price reductions to improve consumer value. Global share of the baby care market was up about half a point. Volume in Family Care grew mid-single digits due to market growth and volume share gains driven by increased merchandising and initiative activity and price reductions to improve consumer value. Net earnings increased 25% to \$1.7 billion behind net sales growth and operating margin expansion. Operating margin expansion was driven by higher gross margin, partially offset by higher SG&A as a percentage of net sales. Gross margin increased mainly due to lower commodity costs and manufacturing cost savings. SG&A as a percentage of net sales increased behind higher foreign currency exchange costs, incremental marketing investments and additional overhead spending.

## 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 noncontrolling 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 and noncontrolling interests 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 noncontrolling interest.

For the Corporate segment, net expenses from continuing operations increased \$180 million to \$176 million for the quarter. The increase in net expenses was driven primarily by a \$152 million charge for a change in legislation which changed the taxation of certain future retiree prescription drug subsidy payments and tax adjustments required to reconcile the statutory rates reflected in the business segments to the overall Company effective tax rate. These impacts were partially offset by lower interest expense, restructuring charges and foreign currency exchange costs. Fiscal year to date, net expenses from continuing operations increased \$757 million. The increase was primarily due to current period charges for potential competition law fines and for recently enacted legislation impacting the taxation of certain future retiree prescription drug subsidy payments and the impact of prior period divestiture gains and tax audit settlements, partially offset by lower interest expense and restructuring charges.



## **FINANCIAL CONDITION**

### **Operating Activities**

We generated \$12.8 billion of cash from operating activities for the fiscal year to date period, an increase of 29% versus the comparable prior year period mainly due to changes in working capital, partially offset by lower net earnings. On a year-to-date basis, working capital reductions contributed \$1.8 billion to operating cash flow primarily due to an increase in accounts payable, accrued and other liabilities, partially offset by increased accounts receivable. Accounts payable, accrued and other liabilities increased primarily due to increased taxes payable, due to the timing of tax payments, and increased expenditures to support business growth, primarily related to the increased marketing investments. Accounts receivable levels increased primarily due to disproportionately higher sales growth in the last month of the quarter. Cash flow from discontinued operations contributed \$285 million to operating cash flow.

### **Investing Activities**

Our investing activities generated cash of \$970 million fiscal year to date, an increase of \$2.2 billion versus the prior year period mainly due to higher proceeds from divestitures. Current year proceeds from asset sales were \$3.0 billion due to receipts from the sales of the global pharmaceuticals business, including Actonel in Japan. Prior year period proceeds related to the Folgers, Thermacare and other minor brand divestitures. Capital expenditures were \$2.0 billion fiscal year to date or 3.3% of net sales. Acquisitions consumed \$65 million of cash primarily to purchase the remaining shares of MDVIP, a physicians' network focused on preventative medicine.

### **Financing Activities**

We used \$13.5 billion fiscal year to date to fund financing activities. This represents an increase of \$6.3 billion versus the prior year period due to increased levels of debt retirement, partially offset by a reduction in treasury stock purchases. Current year net repayments of debt used \$6.7 billion, while dividends to shareholders increased to \$4.0 billion. Fiscal year to date, we have made \$3.4 billion of treasury stock purchases through our share repurchase program and expect to repurchase about \$6 billion during fiscal 2010.

As of March 31, 2010, our current liabilities exceeded current assets by \$1.8 billion. We have short- and long-term debt to fund discretionary items such as acquisitions and share repurchase 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 have enabled and should continue to enable us 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.

## **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 January - March quarter:

| Jan Mar 2010              | Net Sales Growth | Foreign Exchange Impact | Acquisition/ Divestiture Impact* | Organic Sales Growth |
|---------------------------|------------------|-------------------------|----------------------------------|----------------------|
| Beauty                    | 6%               | -4%                     | 0%                               | 2%                   |
| Grooming                  | 11%              | -6%                     | -1%                              | 4%                   |
| Health Care               | 5%               | -4%                     | 0%                               | 1%                   |
| Snacks and Pet Care       | -2%              | -4%                     | 0%                               | -6%                  |
| Fabric Care and Home Care | 8%               | -3%                     | 0%                               | 5%                   |
| Baby Care and Family Care | 9%               | -2%                     | 0%                               | 7%                   |
| <b>Total P&amp;G</b>      | <b>7%</b>        | <b>-3%</b>              | <b>0%</b>                        | <b>4%</b>            |

The reconciliation of reported sales growth to organic sales for the fiscal year to date period:

| Jul 2009 Mar 2010         | Net Sales Growth | Foreign Exchange Impact | Acquisition/ Divestiture Impact* | Organic Sales Growth |
|---------------------------|------------------|-------------------------|----------------------------------|----------------------|
| Beauty                    | 2%               | 0%                      | 1%                               | 3%                   |
| Grooming                  | 0%               | 0%                      | 0%                               | 0%                   |
| Health Care               | 2%               | 0%                      | 0%                               | 2%                   |
| Snacks and Pet Care       | -1%              | -1%                     | 0%                               | -2%                  |
| Fabric Care and Home Care | 3%               | 1%                      | 1%                               | 5%                   |
| Baby Care and Family Care | 4%               | 1%                      | 0%                               | 5%                   |
| <b>Total P&amp;G</b>      | <b>2%</b>        | <b>1%</b>               | <b>0%</b>                        | <b>3%</b>            |

\* Acquisition/Divestiture Impacts includes rounding impacts necessary to reconcile net sales to organic sales.

**Core EPS:** Core EPS is a measure of the Company's diluted net earnings per share growth from continuing operations excluding charges for pending European legal matters, a charge related to recently enacted legislation which changed the taxation of certain future retiree prescription drug subsidy payments in the United States and the impact of incremental Corporate restructuring charges incurred in fiscal 2009 versus 2008 to offset the dilutive impact of the Folgers divestiture in the prior period. We do not view these items to be part of our sustainable results. We believe the core EPS measure provides an important perspective of underlying business trends and results and provides a more comparable measure of year-on-year earnings per share growth. Core EPS is also one of the measures used to evaluate senior management and is a factor in determining their at-risk compensation. The tables below provide reconciliations of reported diluted net earnings per share from continuing operations to core earnings per share:

|                                                        | JFM 2010 | JFM 2009 | FYTD 2010 | FYTD 2009 |
|--------------------------------------------------------|----------|----------|-----------|-----------|
| Diluted Net Earnings Per Share - Continuing Operations | \$ 0.83  | \$ 0.78  | \$ 2.82   | \$ 2.64   |
| Incremental Folgers-related Restructuring Charges      |          | \$ 0.03  |           | \$ 0.05   |
| Charge for Taxation of Retiree Healthcare Subsidy      | \$ 0.05  |          | \$ 0.05   |           |
| Charges for Pending European Legal Matters             | \$ 0.00  |          | \$ 0.09   |           |
| Rounding Impacts                                       | \$ 0.01  |          |           |           |

|                 |         |         |         |         |
|-----------------|---------|---------|---------|---------|
| Core EPS        | \$ 0.89 | \$ 0.81 | \$ 2.96 | \$ 2.69 |
| Core EPS Growth | 10%     |         | 10%     |         |

Note All reconciling items are presented net of tax. Tax effects are calculated consistent with the nature of the underlying transaction. The tax impacts on the incremental Folgers-related restructuring charges are (\$0.00) for JFM 2009 and (\$0.01) for FYTD 2009. The entire amount of the

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charge for taxation of retiree healthcare subsidy is tax expense. There is no tax impact on the charges for pending European legal matters.

- 31 -

**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<br>Cash Flow | Capital<br>Spending | Free Cash Flow | Net Earnings | Free Cash Flow<br>Productivity |
|--------|--------|------------------------|---------------------|----------------|--------------|--------------------------------|
| Jul 09 | Mar 10 | \$ 12,759              | \$ (1,980)          | \$ 10,779      | \$ 10,551    | 102%                           |

**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, 2009. Additional information can be found in the section entitled Other Information, which appears on pages 47-48, and Note 5, Risk Management Activities and Fair Value Measurements, which appears on pages 58-61 of the Annual Report to Shareholders for the fiscal year ended June 30, 2009 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, 2009, as updated by the Company's Form 8-K filed on January 29, 2010.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures.**

The Company's Chairman of the Board, President and Chief Executive Officer, Robert A. McDonald, and the Company's Chief Financial Officer, Jon R. Moeller, 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. McDonald and Moeller 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. McDonald and Moeller, 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 March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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.

The Company is subject to a variety of investigations into potential competition law violations in Europe. 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.

The Company is subject to a number of antitrust investigations in Europe. In 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 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. Also in 2008, authorities in the United Kingdom (UK) initiated an investigation concerning potential antitrust violations in the UK involving one of the Company's subsidiaries. The Company or its subsidiaries are also involved in other competition law investigations in Germany, Belgium, Romania, Switzerland, France and Greece, as well as some other countries. We believe that all of the above matters involve a number of other consumer products companies and/or retail customers. 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.

In response to the actions of the European Commission and national authorities, the Company launched its own internal investigations into potential violations of competition laws. The Company identified violations in certain European countries and appropriate actions were taken.

In addition to the complaints issued by France and Italy in a prior quarter, the authorities in Spain have issued a complaint alleging that the Company, along with several other companies, engaged in violations of competition laws in Spain. The Company will have the opportunity to respond to these complaints. The remaining matters discussed above are in various stages of the investigatory process.

It is still too early for us to reasonably estimate the total amount of fines to which the Company will be subject as a result of these various competition law issues. However, we have taken and will take reserves as appropriate. Please refer to the Company's Risk Factors in Item 1A of this Form 10-Q for additional information.

In December 2008, the Company became aware of an investigation by Italian authorities into an environmental accident at the site of a contractor which provides services to one or more of the Company's European affiliates. The accident involved the explosion of certain pressurized cans and resulted in the death of one worker and serious injuries to another. Italian authorities have commenced a formal criminal proceeding regarding whether the Company's local affiliate and certain of its employees complied with Italian laws related to the proper classification and disposal of their products. Should they find that these entities violated the law, the Italian authorities could levy fines in excess of \$100 thousand against the Company's European affiliate(s).

**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 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 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. 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. As a result, we are subject to a number of risks, including, but not limited to, changes in exchange rates for foreign currencies, which may reduce the U.S. dollar value of revenues and earnings received and/or

balances held by or invested in our foreign subsidiaries, as well as exchange controls and other limits on our ability to repatriate earnings from outside the U.S. that can increase our exposure. We have sizable businesses and maintain local currency cash balances in a number of foreign countries with exchange controls, including, but not limited to, Venezuela, China and India. Our results of operations and/or financial condition could be adversely impacted if we are unable to successfully manage these risks. Further, 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.

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

Our 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 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.

**Our ability to successfully adapt to ongoing organizational change could impact our business results.**

We have executed a number of significant business and organizational changes including acquisitions, divestitures and workforce optimization projects to support our growth strategies. We expect these types of changes to continue for the foreseeable future. Successfully managing these changes, including retention of key employees, is critical to our business success. In addition, we are generally a build-from-within company, and our success is dependent on identifying, developing and retaining key employees to provide uninterrupted leadership and direction for our business. Further, our financial targets assume a consistent level of productivity improvement. If we are unable to deliver expected productivity improvements, while continuing to invest in business growth, our financial results could be adversely impacted.

**Our ability to successfully manage ongoing acquisition and divestiture activities could impact our business results.**

As a company that manages a portfolio of consumer brands, our ongoing business model involves a certain level of acquisition and divestiture activities. We must be able to successfully manage the impacts of these activities, while at the same time delivering against base business objectives. Specifically, our financial results could be adversely impacted if: 1) we are not able to deliver the expected cost and growth synergies associated with our acquisitions, 2) changes in the cash flows or other market-based assumptions cause the value of acquired assets to fall below book value or 3) we are unable to offset the dilutive impacts from the loss of revenue streams associated with divested brands.

**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 competitive, product-related and environmental laws, including actions in response to global climate change concerns, 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 us to take significant reserves in excess of amounts accrued to date or pay significant fines during a reporting period, may materially impact our results. In addition, as a U.S. based multinational company we are also subject to tax regulations in the U.S. and multiple foreign jurisdictions,

some of which are interdependent. For example, certain income that is earned and taxed in countries outside the U.S. is not taxed in the U.S., provided those earnings are indefinitely reinvested outside the U.S. If these or other tax regulations should change, our financial results could be impacted.

**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, which can create significant cost and margin pressure and could lead 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. In addition, 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 changes in the global economic environment.**

Our business is impacted by global economic conditions. If the global economy experiences significant disruptions, our business could be negatively impacted, including such areas as reduced demand for our products from a slow-down in the general economy, supplier or customer disruptions resulting from tighter credit markets and/or temporary interruptions in our ability to conduct day-to-day transactions through our financial intermediaries involving the payment to or collection of funds from our customers, vendors and suppliers.

**A failure of a key information technology system, process or site could have a material adverse impact on our ability to conduct business.**

We rely extensively on information technology systems, some of which are managed by third-party service providers, to interact with internal and external stakeholders. These interactions include, but are not limited to, ordering and managing materials from suppliers, converting materials to finished products, shipping product to customers, processing transactions, summarizing and reporting results of operations, complying with regulatory, legal or tax requirements, and other processes necessary to manage the business. If our systems are damaged or cease to function properly due to any number of causes, ranging from catastrophic events to power outages to security breaches, and our business continuity plans do not effectively compensate on a timely basis, we may suffer interruptions in our ability to manage operations which may adversely impact our results of operations and/or financial condition.



**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****ISSUER PURCHASES OF EQUITY SECURITIES**

| <b>Period</b>  | <b>Total Number of<br/>Shares Purchased<br/>(1)</b> | <b>Average Price Paid<br/>per Share (2)</b> | <b>Total Number of<br/>Shares Purchased as<br/>Part of Publicly<br/>Announced Plans or<br/>Programs (3)</b> | <b>Approximate Dollar<br/>Value of Shares That<br/>May Yet Be Purchased<br/>Under our Share<br/>Repurchase Program<br/>(\$ in billions) (3) (4)</b> |
|----------------|-----------------------------------------------------|---------------------------------------------|-------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------|
| 1/1/10-1/31/10 | 29,346                                              | \$ 61.16                                    | 0                                                                                                           | 12.3                                                                                                                                                |
| 2/1/10-2/28/10 | 14,647,861                                          | \$ 61.86                                    | 14,647,709                                                                                                  | 11.4                                                                                                                                                |
| 3/1/10-3/31/10 | 17,288,319                                          | \$ 63.27                                    | 17,287,576                                                                                                  | 10.3                                                                                                                                                |

- (1) The total number of shares purchased was 31,965,526 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 prepay 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 30,241 for the quarter. The 30,241 shares were acquired by the Company under various compensation and benefit plans. 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 (through June 30, 2010) 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. We expect to repurchase about \$6 billion during fiscal 2010.
- (4) The dollar values listed in this column include commissions to be paid to brokers to execute the transactions.

**Item 6. Exhibits**

**Exhibit**

|                        |                                                                                                                                                                                                                           |
|------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3-1                    | Amended Articles of Incorporation (as amended by shareholders at the annual meeting on October 14, 2008) (Incorporated by reference to Exhibit (3-1) of the Company's Form 10-Q for the quarter ended December 31, 2008). |
| 3-2                    | Regulations (as amended by shareholders at the annual meeting on October 13, 2009). (Incorporated by reference to Exhibit (3-2) of the Company's Form 10-Q for the quarter ended September 30, 2009).                     |
| 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-14(a) Certification Chief Financial Officer                                                                                                                                                            |
| 32.1                   | Section 1350 Certifications Chief Executive Officer                                                                                                                                                                       |
| 32.2                   | Section 1350 Certifications Chief Financial Officer                                                                                                                                                                       |
| 101.INS <sup>(1)</sup> | XBRL Instance Document                                                                                                                                                                                                    |
| 101.SCH <sup>(1)</sup> | XBRL Taxonomy Extension Schema Document                                                                                                                                                                                   |
| 101.CAL <sup>(1)</sup> | XBRL Taxonomy Extension Calculation Linkbase Document                                                                                                                                                                     |
| 101.DEF <sup>(1)</sup> | XBRL Taxonomy Definition Linkbase Document                                                                                                                                                                                |
| 101.LAB <sup>(1)</sup> | XBRL Taxonomy Extension Label Linkbase Document                                                                                                                                                                           |
| 101.PRE <sup>(1)</sup> | XBRL Taxonomy Extension Presentation Linkbase Document                                                                                                                                                                    |

<sup>(1)</sup> XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

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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.

April 30, 2010  
Date

THE PROCTER & GAMBLE COMPANY

/s/ VALARIE L. SHEPPARD  
(Valarie L. Sheppard)  
Senior Vice President & Comptroller and Global  
Household Care Finance and Accounting

- 39 -

EXHIBIT INDEX

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