PROCTER & GAMBLE CO
Form 10-Q
January 28, 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 December 31, 2009**

**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)***

| **Ohio** | **31-0411980** |
|---|---|
| ***(State of Incorporation)*** | ***(I.R.S. Employer Identification Number)*** |
| **One Procter & Gamble Plaza, Cincinnati, Ohio** | **45202** |
| ***(Address of principal executive offices)*** | ***(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 þ 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 þ 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 þ 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 þ

There were 2,904,592,954 shares of Common Stock outstanding as of December 31, 2009.

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 six months ended December 31, 2009 and 2008, the Consolidated Balance Sheets as of December 31, 2009 and June 30, 2009, and the Consolidated Statements of Cash Flows for the six months ended December 31, 2009 and 2008 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 December 31 | | Six Months Ended December 31 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| **Net Sales** | $ 21,027 | $ 19,763 | $ 40,834 | $ 40,746 |
| Cost of products sold | 9,736 | 9,799 | 19,134 | 20,357 |
| Selling, general and administrative expense | 6,636 | 5,909 | 12,597 | 11,948 |
| **Operating Income** | 4,655 | 4,055 | 9,103 | 8,441 |
| Interest expense | 224 | 354 | 511 | 693 |
| Other non-operating income, net | 53 | 67 | 76 | 347 |
| **Earnings from Continuing Operations Before Income Taxes** | 4,484 | 3,768 | 8,668 | 8,095 |
| Income taxes | 1,335 | 955 | 2,492 | 2,167 |
| **Net Earnings from Continuing Operations** | 3,149 | 2,813 | 6,176 | 5,928 |
| **Net Earnings from Discontinued Operations** | 1,510 | 2,191 | 1,790 | 2,424 |
| **Net Earnings** | $ 4,659 | $ 5,004 | $ 7,966 | $ 8,352 |
| **Per Common Share** | | | | |
| Basic net earnings from continuing operations | $ 1.06 | $ 0.94 | $ 2.08 | $ 1.96 |
| Basic net earnings from discontinued operations | $ 0.52 | $ 0.74 | $ 0.61 | $ 0.81 |
| Basic net earnings | $ 1.58 | $ 1.68 | $ 2.69 | $ 2.77 |
| Diluted net earnings from continuing operations | $ 1.01 | $ 0.89 | $ 1.98 | $ 1.85 |
| Diluted net earnings from discontinued operations | $ 0.48 | $ 0.69 | $ 0.58 | $ 0.76 |
| Diluted net earnings | $ 1.49 | $ 1.58 | $ 2.56 | $ 2.61 |
| Dividends | $ 0.44 | $ 0.40 | $ 0.88 | $ 0.80 |
| **Diluted Weighted Average Common Shares Outstanding** | 3,118.5 | 3,170.8 | 3,114.5 | 3,205.1 |

See accompanying Notes to Consolidated Financial Statements

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

**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEETS**

| Amounts in millions | December 31 2009 | June 30 2009 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 4,130 | $ 4,781 |
| Accounts receivable | 6,544 | 5,836 |
| Inventories | | |
| Materials and supplies | 1,788 | 1,557 |
| Work in process | 640 | 672 |
| Finished goods | 4,436 | 4,651 |
| Total inventories | 6,864 | 6,880 |
| Deferred income taxes | 1,217 | 1,209 |
| Prepaid expenses and other current assets | 3,006 | 3,199 |
| TOTAL CURRENT ASSETS | 21,761 | 21,905 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Buildings | 6,945 | 6,724 |
| Machinery and equipment | 29,859 | 29,042 |
| Land | 883 | 885 |
| Total property, plant and equipment | 37,687 | 36,651 |
| Accumulated depreciation | (18,041) | (17,189) |
| NET PROPERTY, PLANT AND EQUIPMENT | 19,646 | 19,462 |
| GOODWILL AND OTHER INTANGIBLE ASSETS | | |
| Goodwill | 56,979 | 56,512 |
| Trademarks and other intangible assets, net | 32,624 | 32,606 |
| NET GOODWILL AND OTHER INTANGIBLE ASSETS | 89,603 | 89,118 |
| OTHER NON-CURRENT ASSETS | 4,283 | 4,348 |
| TOTAL ASSETS | $ 135,293 | $ 134,833 |
| **LIABILITIES AND SHAREHOLDERS EQUITY** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 5,433 | $ 5,980 |
| Accrued and other liabilities | 10,463 | 8,601 |
| Debt due within one year | 7,780 | 16,320 |
| TOTAL CURRENT LIABILITIES | 23,676 | 30,901 |
| LONG-TERM DEBT | 22,309 | 20,652 |
| DEFERRED INCOME TAXES | 11,045 | 10,752 |
| OTHER NON-CURRENT LIABILITIES | 9,316 | 9,146 |
| TOTAL LIABILITIES | 66,346 | 71,451 |
| SHAREHOLDERS EQUITY | | |
| Preferred stock | 1,301 | 1,324 |
| Common stock - shares issued - 31-Dec 4,007.4 | 4,007 | |
| 30-Jun 4,007.3 | | 4,007 |
| Additional paid-in capital | 61,370 | 61,118 |

| | | |
|---|---|---|
| Reserve for ESOP debt retirement | (1,347) | (1,340) |
| Accumulated other comprehensive income (loss) | (2,236) | (3,358) |
| Treasury stock | (57,074) | (55,961) |
| Retained earnings | 62,616 | 57,309 |
| Noncontrolling interest | 310 | 283 |
| TOTAL SHAREHOLDERS EQUITY | 68,947 | 63,382 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | $ 135,293 | $ 134,833 |

See accompanying Notes to Consolidated Financial Statements

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

**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| Amounts in millions | Six Months Ended December 31 2009 | 2008 |
|---|---|---|
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | $ 4,781 | $ 3,313 |
| OPERATING ACTIVITIES | | |
| Net earnings | 7,966 | 8,352 |
| Depreciation and amortization | 1,529 | 1,503 |
| Share-based compensation expense | 205 | 223 |
| Deferred income taxes | (7) | 192 |
| Gain on sale of businesses | (2,637) | (2,304) |
| Changes in: | | |
| Accounts receivable | (826) | (775) |
| Inventories | 48 | (825) |
| Accounts payable, accrued and other liabilities | 1,313 | (668) |
| Other operating assets and liabilities | 312 | (150) |
| Other | (54) | 92 |
| TOTAL OPERATING ACTIVITIES | 7,849 | 5,640 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (1,274) | (1,421) |
| Proceeds from asset sales | 3,039 | 1,017 |
| Acquisitions, net of cash acquired | (70) | (323) |
| Change in investments | (49) | 52 |
| TOTAL INVESTING ACTIVITIES | 1,646 | (675) |
| FINANCING ACTIVITIES | | |
| Dividends to shareholders | (2,672) | (2,493) |
| Change in short-term debt | (2,902) | 4,096 |
| Additions to long-term debt | 1,495 | 2,912 |
| Reductions of long-term debt | (5,169) | (2,183) |
| Treasury stock purchases | (1,414) | (5,243) |
| Impact of stock options and other | 318 | 551 |
| TOTAL FINANCING ACTIVITIES | (10,344) | (2,360) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS | 198 | (265) |
| CHANGE IN CASH AND CASH EQUIVALENTS | (651) | 2,340 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 4,130 | $ 5,653 |

See accompanying Notes to Consolidated Financial Statements

**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. 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. The results of operations for the three-month and six-month periods ended December 31, 2009 are not necessarily indicative of annual results.

For the quarter ended December 31, 2009, the Company has evaluated subsequent events for potential recognition and disclosure through January 28, 2010, the date of financial statement issuance.

2. 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 December 31, 2009 and 2008 was $4,386 million and $2,644 million, respectively. For the six months ended December 31, 2009 and 2008, total comprehensive income was $9,088 million and $2,392 million, respectively.

3. 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 December 31 | | | Six Months Ended December 31 | | |
|---|---|---|---|---|---|---|---|
| **Amounts in millions** | | **Net Sales** | **Earnings from Continuing Operations Before Income Taxes** | **Net Earnings from Continuing Operations** | **Net Sales** | **Earnings from Continuing Operations Before Income Taxes** | **Net Earnings from Continuing Operations** |
| **Beauty and Grooming GBU** | | | | | | | |
| Beauty | **2009** | **$ 5,217** | **$ 1,137** | **$ 876** | **$ 10,138** | **$ 2,164** | **$ 1,653** |
| | 2008 | 4,898 | 1,054 | 821 | 10,079 | 2,072 | 1,609 |
| Grooming | **2009** | **2,095** | **613** | **433** | **3,953** | **1,102** | **784** |
| | 2008 | 2,038 | 550 | 394 | 4,128 | 1,160 | 837 |
| **Health and Well-Being GBU** | | | | | | | |
| Health Care | **2009** | **3,071** | **790** | **534** | **6,050** | **1,620** | **1,084** |
| | 2008 | 2,930 | 723 | 495 | 6,031 | 1,480 | 998 |
| Snacks and Pet Care | **2009** | **835** | **143** | **98** | **1,590** | **256** | **172** |
| | 2008 | 791 | 103 | 63 | 1,598 | 193 | 118 |
| **Household Care GBU** | | | | | | | |
| Fabric Care and Home Care | **2009** | **6,311** | **1,433** | **965** | **12,441** | **2,943** | **1,974** |
| | 2008 | 5,797 | 1,024 | 658 | 12,280 | 2,285 | 1,484 |
| Baby Care and Family Care | **2009** | **3,817** | **925** | **579** | **7,406** | **1,810** | **1,136** |
| | 2008 | 3,466 | 665 | 418 | 7,238 | 1,472 | 932 |
| **Corporate** | **2009** | **(319)** | **(557)** | **(336)** | **(744)** | **(1,227)** | **(627)** |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2008 | (157) | (351) | (36) | (608) | (567) | (50) |
| **Total** | **2009** | **21,027** | **4,484** | **3,149** | **40,834** | **8,668** | **6,176** |
| | 2008 | 19,763 | 3,768 | 2,813 | 40,746 | 8,095 | 5,928 |

4. Goodwill and Other Intangible Assets - Goodwill as of December 31, 2009 is allocated by reportable segment and global business unit as follows (amounts in millions):

| | Six Months Ended December 31, 2009 |
|---|---|
| **BEAUTY & GROOMING GBU** | |
| **Beauty, beginning of year** | **$ 18,668** |
| Acquisitions and divestitures | 21 |
| Translation and other | 178 |
| **Goodwill, December 31, 2009** | **18,867** |
| **Grooming, beginning of year** | **21,391** |
| Acquisitions and divestitures | (19) |
| Translation and other | 143 |
| **Goodwill, December 31, 2009** | **21,515** |
| **HEALTH & WELL-BEING GBU** | |
| **Health Care, beginning of year** | **8,404** |
| Acquisitions and divestitures | (249) |
| Translation and other | 41 |
| **Goodwill, December 31, 2009** | **8,196** |
| **Snacks and Pet Care, beginning of year** | **2,055** |
| Acquisitions and divestitures | |
| Translation and other | 4 |
| **Goodwill, December 31, 2009** | **2,059** |
| **HOUSEHOLD CARE GBU** | |
| **Fabric Care and Home Care, beginning of year** | **4,408** |
| Acquisitions and divestitures | (3) |
| Translation and other | 31 |
| **Goodwill, December 31, 2009** | **4,436** |
| **Baby Care and Family Care, beginning of year** | **1,586** |
| Acquisitions and divestitures | (1) |
| Translation and other | 24 |
| **Goodwill, December 31, 2009** | **1,609** |
| **CORPORATE** | |
| **Corporate, beginning of year** | |
| Acquisitions and divestitures | **297** |
| Translation and other | |
| **Goodwill, December 31, 2009** | **297** |
| **GOODWILL, beginning of year** | **56,512** |
| Acquisitions and divestitures | 46 |
| Translation and other | 421 |
| **Goodwill, December 31, 2009** | **$ 56,979** |

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

Identifiable intangible assets as of December 31, 2009 are comprised of (amounts in millions):

| | Gross Carrying Amount | Accumulated Amortization |
|---|---|---|
| Amortizable intangible assets with determinable lives | $ 8,738 | $ 3,367 |
| Intangible assets with indefinite lives | 27,253 | |
| Total identifiable intangible assets | $ 35,991 | $ 3,367 |

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 December 31, 2009 and 2008 was $143 million and $150 million, respectively. For the six months ended December 31, 2009 and 2008, the amortization of intangible assets was $288 million and $310 million, respectively.

5. Pursuant to applicable accounting guidance for share-based payments, companies must recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards.

Total share-based compensation for the three months and six months ended December 31, 2009 and 2008 are summarized in the following table (amounts in millions):

| | Three Months Ended December 31 | | Six Months Ended December 31 | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Share-Based Compensation | | | | |
| Stock options | **$ 98** | $ 90 | **$ 191** | $ 197 |
| Other share-based awards | **8** | 7 | **14** | 26 |
| **Total share-based compensation** | **$ 106** | $ 97 | **$ 205** | $ 223 |

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 Three Months Ended December 31 2009 | 2008 | Other Retiree Benefits Three Months Ended December 31 2009 | 2008 |
|---|---|---|---|---|
| Service cost | **$ 57** | $ 53 | **$ 26** | $ 23 |
| Interest cost | **150** | 136 | **64** | 61 |
| Expected return on plan assets | **(113)** | (117) | **(107)** | (111) |
| Amortization of deferred amounts | **4** | 4 | **(6)** | (6) |
| Recognized net actuarial loss | **23** | 6 | **5** | 1 |
| **Gross benefit cost (credit)** | **121** | 82 | **(18)** | (32) |
| Dividends on ESOP preferred stock | | | **(28)** | (26) |
| **Net periodic benefit cost (credit)** | **$ 121** | $ 82 | **$ (46)** | $ (58) |

| Amounts in millions | Pension Benefits Six Months Ended December 31 2009 | 2008 | Other Retiree Benefits Six Months Ended December 31 2009 | 2008 |
|---|---|---|---|---|
| Service cost | **$ 112** | $ 112 | **$ 52** | $ 46 |
| Interest cost | **297** | 288 | **127** | 123 |
| Expected return on plan assets | **(224)** | (249) | **(214)** | (222) |
| Amortization of deferred amounts | **8** | 8 | **(11)** | (12) |
| Recognized net actuarial loss | **46** | 14 | **9** | 2 |
| **Gross benefit cost (credit)** | **239** | 173 | **(37)** | (63) |
| Dividends on ESOP preferred stock | | | **(56)** | (52) |
| **Net periodic benefit cost (credit)** | **$ 239** | $ 173 | **$ (93)** | $ (115) |

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.

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.

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 December 31 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 | |
|---|---|---|---|---|---|---|---|---|
| **Amounts in millions** | **December 31, 2009** | **June 30, 2009** | **December 31, 2009** | **June 30, 2009** | **December 31, 2009** | **June 30, 2009** | **December 31, 2009** | **June 30, 2009** |
| Assets at fair value: | | | | | | | | |
| Investment securities | $ 19 | $ | $ 195 | $ 174 | $ 40 | $ 38 | $ 254 | $ 212 |
| Derivatives relating to: | | | | | | | | |
| Other foreign currency instruments [1] | | | 71 | 300 | | | 71 | 300 |
| Interest rate | | | 18 | | | | 18 | |
| Net investment hedges | | | 57 | 83 | | | 57 | 83 |
| Commodities | | 3 | 32 | 25 | | | 32 | 28 |
| Total assets at fair value [2] | $ 19 | $ 3 | $ 373 | $ 582 | $ 40 | $ 38 | $ 432 | $ 623 |
| Liabilities at fair value: | | | | | | | | |
| Derivatives relating to: | | | | | | | | |
| Foreign currency hedges | $ | $ | $ 139 | $ 103 | $ | $ | $ 139 | $ 103 |
| Other foreign currency instruments [1] | | | 257 | 39 | | | 257 | 39 |
| Interest rate | | | 22 | 13 | | | 22 | 13 |
| Net investment hedges | | | 54 | 85 | | | 54 | 85 |
| Commodities | | 2 | 13 | 96 | | 3 | 13 | 101 |
| Total liabilities at fair value [3] | $ | $ 2 | $ 485 | $ 336 | $ | $ 3 | $ 485 | $ 341 |

(1) The other foreign currency instruments are comprised of foreign currency financial instruments that do not qualify as hedges.
(2) All assets are presented in prepaid expenses and other current assets or other noncurrent assets with the exception of investment securities which are only presented in other noncurrent assets.
(3) All liabilities are presented in accrued and other liabilities or other noncurrent liabilities.

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 to December 31, 2009.

| Amounts in millions | Derivatives | Investment Securities |
|---|---|---|
| **June 30, 2009** | **$ (3)** | **$ 38** |
| Total gains or (losses) (realized/unrealized) included in earnings (or changes in net assets) | | |
| Total gains or (losses) (realized/unrealized) included in OCI | **1** | **2** |
| Net purchases, issuances and settlements | **2** | |
| Transfers in/(out) of Level 3 | | |
| **December 31, 2009** | **$** | **$ 40** |

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 arrangement. The aggregate fair value of the instruments covered by these contractual features that are in a net liability position as of December 31, 2009 was $315 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 six months ended December 31, 2009.

**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 $23,619 million and $21,514 million at December 31 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 six months ended, December 31, 2009 are as follows:

| Amounts in millions | Notional Amount (Ending Balance) | Fair Value Asset (Liability) | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) | Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion) [1] | |
|---|---|---|---|---|---|
| **Derivatives in Cash Flow Hedging Relationships** | **December 31** | **December 31** | **December 31** | **Three Months Ended December 31** | **Six Months Ended December 31** |
| Interest rate contracts | $ 750 | $ (4) | $ 20 | $ (2) | $ (9) |
| Foreign currency contracts | 690 | (139) | 25 | 29 | (22) |
| Commodity contracts | 197 | 19 | 10 | (24) | (85) |
| Total | $ 1,637 | $ (124) | $ 55 | $ 3 | $ (116) |

| | Notional Amount (Ending Balance) | Fair Value Asset (Liability) | Amount of Gain or (Loss) Recognized in Debt on Derivative (Effective Portion) | Amount of Gain or (Loss) Recognized in Income (Ineffective Portion) [2] | |
|---|---|---|---|---|---|
| **Derivatives in Fair Value Hedging Relationships** | **December 31** | **December 31** | **December 31** | **Three Months Ended December 31** | **Six Months Ended December 31** |
| Interest rate contracts | $ 8,568 | $ | $ 43 | $ 2 | $ (3) |
| Total | $ 8,568 | $ | $ 43 | $ 2 | $ (3) |

| | Notional Amount (Ending Balance) | Fair Value Asset (Liability) | Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion) | Amount of Gain or (Loss) Recognized in Income (Ineffective Portion) [2] | |
|---|---|---|---|---|---|
| **Derivatives in Net Investment Hedging Relationships** | **December 31** | **December 31** | **December 31** | **Three Months Ended December 31** | **Six Months Ended December 31** |
| Net investment hedges | $ 2,431 | $ 3 | $ | $ 4 | $ 4 |
| Total | $ 2,431 | $ 3 | $ | $ 4 | $ 4 |

**Derivatives Not**

| Designated as Hedging Instruments | Notional Amount (Ending Balance) December 31 | Fair Value Asset (Liability) December 31 | Amount of Gain or (Loss) Recognized in Income [3] | |
|---|---|---|---|---|
| | | | Three Months Ended September 30 | Six Months Ended December 31 |
| Foreign currency contracts | $ 12,676 | $ (186) | $ (146) | $ 114 |
| Total | $ 12,676 | $ (186) | $ (146) | $ 114 |

(1) The gain or loss 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 December 31, 2009 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 liabilities to shareholders equity in the Consolidated Balance Sheet. Net expense for income attributable to the noncontrolling interest totaling $33 million and $11 million for the three months ended December 31, 2009 and 2008, respectively, and $61 million and $32 million for the six months ended December 31, 2009 and 2008, 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.

In December 2009, the authorities in France and Italy issued separate complaints pursuant to their investigations alleging that the Company, along with several other companies, engaged in violations of competition laws in France and Italy, respectively. The Company will have the opportunity to respond to these complaints. As a result of our initial analysis of these complaints, the Company recorded charges totaling $267 million during the current quarter 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 2,300 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, which is included in net earnings from discontinued operations in the Consolidated Statements of Earnings for the three-month and six-month periods ended December 31, 2009.

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, which is included in net earnings from discontinued operations in the Consolidated Statements of Earnings for the three-month and six-month periods ended December 31, 2008.

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:

| | Three months ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| **Amounts in millions** | **Pharma** | **Coffee** | **Total** | **Pharma** | **Coffee** | **Total** |
| Net sales | **$ 196** | **$** | **$ 196** | $ 605 | $ 223 | $ 828 |
| Earnings from discontinued operations | **70** | | **70** | 219 | 51 | 270 |
| Income tax expense | **(24)** | | **(24)** | (70) | (20) | (90) |
| Gain on sale of discontinued operations | **2,438** | | **2,438** | | 1,896 | 1,896 |
| Income tax benefit (expense) on sale | **(974)** | | **(974)** | | 115 | 115 |
| Net earnings from discontinued operations | **1,510** | | **1,510** | 149 | 2,042 | 2,191 |

| | Six months ended December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2009 | | | 2008 | | |
| **Amounts in millions** | **Pharma** | **Coffee** | **Total** | **Pharma** | **Coffee** | **Total** |
| Net sales | **$ 751** | **$** | **$ 751** | $ 1,204 | $ 668 | $ 1,872 |
| Earnings from discontinued operations | **306** | | **306** | 459 | 167 | 626 |
| Income tax expense | **(101)** | | **(101)** | (150) | (63) | (213) |
| Gains on sales 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** | 309 | 2,115 | 2,424 |

The net gain on the sale of the pharmaceuticals business for the six-month period ended December 31, 2009 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 December 31, 2009

Results of Operations Six Months Ended December 31, 2009

Business Segment Discussion Three and Six Months Ended December 31, 2009

Financial Condition

Reconciliation of Non-GAAP Measures

Throughout MD&A, we refer to measures used by management to evaluate performance, including unit volume growth, net outside sales and after-tax profit. We also refer to organic sales growth, free cash flow and free cash flow productivity. These financial measures are not defined under accounting principles generally accepted in the United States of America (U.S. GAAP). The explanation 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.

**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 Professional | Hair Colorants, Shampoos and Conditioners | Wella |
| | | Female Beauty | Cosmetics, Deodorants, Female Blades and Razors, Personal Cleansing and Skin Care | Olay |
| | | Prestige | Fine Fragrances and Prestige Skin Care (SK II) | |
| | Grooming | Male Grooming | Male Blades & Razors and Male Personal Care Products (Deodorants, Face and Shave Products, Hair Care, Personal Cleansing) | Fusion, Gillette, Mach3 |
| | | Appliances (Braun) | Electric Hair Removal Devices and Home Appliances | Braun |
| Health and Well-Being | Health Care | Feminine Care | Feminine Pads and Tampons | Always |
| | | Personal Health Care | Personal Diagnostics, Digestive and Respiratory Health Products | |
| | | Oral Care | Oral Rinses, Toothbrushes and Toothpastes | Crest, Oral-B |
| | Snacks and Pet Care | Pet Care | Wet and Dry Pet Food | Iams |
| | | Snacks | Potato Crisps | Pringles |
| 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 |
| | | Batteries | Batteries and Personal Power Devices | Duracell |
| | Baby Care and Family Care | Baby Care | Baby Wipes and Diapers | Pampers |
| | | Family Care | Bath Tissue, Facial Tissue and Paper Towels | Bounty, Charmin |

The following table provides the percentage of net sales and net earnings from continuing operations by reportable business segment for the three months ended December 31, 2009 (excludes net sales and net earnings in Corporate):

| | Net Sales | Net Earnings |
|---|---|---|
| **Beauty and Grooming GBU** | | |
| Beauty | 24% | 25% |
| Grooming | 10% | 12% |
| **Health and Well-Being GBU** | | |
| Health Care | 14% | 15% |
| Snacks and Pet Care | 4% | 3% |
| **Household Care GBU** | | |
| Fabric Care and Home Care | 30% | 28% |
| Baby Care and Family Care | 18% | 17% |

| | | |
|---|---|---|
| **Total** | **100%** | **100%** |

The following table provides the percentage of net sales and net earnings from continuing operations by reportable business segment for the six months ended December 31, 2009 (excludes net sales and net earnings in Corporate):

| | Net Sales | Net Earnings |
|---|---|---|
| **Beauty and Grooming GBU** | | |
| Beauty | 24% | 24% |
| Grooming | 9% | 11% |
| **Health and Well-Being GBU** | | |
| Health Care | 15% | 16% |
| Snacks and Pet Care | 4% | 3% |
| **Household Care GBU** | | |
| Fabric Care and Home Care | 30% | 29% |
| Baby Care and Family Care | 18% | 17% |
| **Total** | **100%** | **100%** |

**SUMMARY OF RESULTS**

Following are highlights of results for the six months ended December 31, 2009:

Net sales were in line with the prior year period at $40.8 billion. Organic sales, which exclude the impacts of acquisitions, divestitures and foreign exchange, grew 3%.

Unit volume increased 1% versus the comparable prior year period behind growth in the Household Care GBU.

Net earnings from continuing operations were $6.2 billion, an increase of 4% versus the prior year period due to higher operating margin. Net earnings declined 5% compared to the prior year period to $8.0 billion mainly due to lower current period gains on the sale of discontinued operations.

Diluted net earnings per share were $2.56, down 2% versus the prior year period. Diluted net earnings per share declined less than net earnings due to share repurchase activity. On a continuing operations basis, diluted net earnings per share increased 7% to $1.98.

Operating cash flow increased $2.2 billion versus the prior year period to $7.8 billion. Free cash flow, which is operating cash flow less capital expenditures, was $6.6 billion. Free cash flow productivity, which is the ratio of free cash flow to net earnings, was 83%.

**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 December 31, 2009**

The following discussion provides a review of results for the three months ended December 31, 2009 versus the three months ended December 31, 2008.

**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**

**(Amounts in Millions Except Per Share Amounts)**

Consolidated Earnings Information

| | Three Months Ended December 31 | | |
|---|---|---|---|
| | **2009** | **2008** | **% CHG** |
| **Net Sales** | $ 21,027 | $ 19,763 | 6% |
| Cost of Products Sold | 9,736 | 9,799 | -1% |
| **Gross Margin** | 11,291 | 9,964 | 13% |
| Selling, General & Administrative Expense | 6,636 | 5,909 | 12% |
| **Operating Income** | 4,655 | 4,055 | 15% |
| Total Interest Expense | 224 | 354 | |
| Other Non-operating Income, Net | 53 | 67 | |
| **Earnings From Continuing Operations Before Income Taxes** | 4,484 | 3,768 | 19% |
| Income Taxes | 1,335 | 955 | |
| **Net Earnings From Continuing Operations** | 3,149 | 2,813 | 12% |
| **Net Earnings From Discontinued Operations** | 1,510 | 2,191 | |
| **Net Earnings** | 4,659 | 5,004 | -7% |
| Effective Tax Rate Continuing Operations | 29.8% | 25.3% | |
| **Per Common Share:** | | | |
| Basic Net Earnings Continuing Operations | $ 1.06 | $ 0.94 | |
| Basic Net Earnings Discontinued Operations | $ 0.52 | $ 0.74 | |
| Basic Net Earnings | $ 1.58 | $ 1.68 | |
| Diluted Net Earnings Continuing Operations | $ 1.01 | $ 0.89 | 13% |
| Diluted Net Earnings Discontinued Operations | $ 0.48 | $ 0.69 | |
| Diluted Net Earnings | $ 1.49 | $ 1.58 | -6% |
| Dividends | $ 0.44 | $ 0.40 | 10% |
| Average Diluted Shares Outstanding | 3,118.5 | 3,170.8 | |

| **Comparisons as a % of Net Sales** | | | **Basis Point Change** |
|---|---|---|---|
| Cost of Products Sold | 46.3% | 49.6% | (330) |
| Gross Margin | 53.7% | 50.4% | 330 |
| Selling, General & Administrative Expense | 31.6% | 29.9% | 170 |
| Operating Margin | 22.1% | 20.5% | 160 |
| Earnings From Continuing Operations Before Income Taxes | 21.3% | 19.1% | 220 |
| Net Earnings From Continuing Operations | 15.0% | 14.2% | 80 |

Net sales increased 6% during the October - December quarter to $21.0 billion on a 5% increase in unit volume. Positive pricing impacts contributed 1% to net sales growth primarily due to price increases taken in Venezuela to offset higher costs. Favorable foreign exchange added

2% to net sales growth as key foreign currencies strengthened versus the U.S. dollar. Negative mix reduced net sales by 2% mainly due to unfavorable geographic mix. Organic sales growth was 5% with all segments delivering flat or better organic sales growth. Volume growth was broad based with growth in all geographic regions, led by mid-single-digits or higher growth in the North America, Asia and Central & Eastern Europe/Middle East/Africa (CEEMEA) regions. All reportable segments except Grooming grew volume, led by double-digit growth in Baby Care and Family Care

and high single-digit growth in Fabric Care and Home Care. Volume growth was driven by initiative activity, increased marketing and promotional support, market growth in some businesses and a base period that was impacted by trade inventory reductions and consumption declines.

| | Net Sales Change Drivers 2009 vs. 2008 (Three Months Ended Dec. 31) | | | | | |
|---|---|---|---|---|---|---|
| | **Volume with Acquisitions & Divestitures** | **Volume excluding Acquisitions & Divestitures** | **Foreign Exchange** | **Price** | **Mix/ Other** | **Net Sales Growth** |
| Beauty and Grooming GBU | | | | | | |
| Beauty | 2% | 3% | 3% | 2% | 0% | 7% |
| Grooming | -2% | -2% | 3% | 4% | -2% | 3% |
| Health and Well-Being GBU | | | | | | |
| Health Care | 3% | 3% | 3% | 1% | -2% | 5% |
| Snacks and Pet Care | 1% | 1% | 2% | 5% | -2% | 6% |
| Household Care GBU | | | | | | |
| Fabric Care and Home Care | 8% | 8% | 2% | -1% | 0% | 9% |
| Baby Care and Family Care | 10% | 10% | 2% | 0% | -2% | 10% |
| **Total Company** | **5%** | **5%** | **2%** | **1%** | **-2%** | **6%** |

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

Gross margin expanded to 53.7% of net sales, an increase of 330 basis points for the quarter. Lower commodity and energy costs increased gross margin by approximately 160 basis points. Gross margin also benefited from manufacturing cost savings, price increases and volume scale leverage, partially offset by negative product mix and unfavorable foreign exchange impacts driven by the disparity in exchange impacts between sales and input costs in countries where input costs are not denominated in local currency.

Total selling, general and administrative expenses (SG&A) were up 12% to $6.6 billion. SG&A as a percentage of net sales increased 170 basis points due to an increase in other operating expenses and higher marketing spending as a percentage of net sales, partially offset by a decline in overhead spending as a percentage of net sales. Other operating expenses as a percentage of net sales increased behind a charge of $267 million for potential competition law fines (see note 9 to the consolidated financial statements) and higher foreign currency exchange costs of $226 million resulting from our operations in Venezuela (see Foreign Currency Translation  Venezuela Impacts, below). Marketing spending as a percentage of net sales increased behind additional investments to support business growth, partially offset by media rate savings. Overhead spending as a percentage of net sales decreased primarily due to the positive scale leveraging impact of higher sales.

Interest expense was down $130 million for the quarter to $224 million due mainly to lower interest rates on floating rate debt and a reduction in debt outstanding. Other non-operating income was down $14 million to $53 million mainly due to gains on the sale of minor brands in the prior year period. The effective tax rate on continuing operations increased 450 basis points to 29.8% primarily due to lower audit settlements and foreign tax credits and the non-deductibility of the charge for potential competition law fines.

Net earnings from continuing operations were $3.1 billion, an increase of 12% for the quarter behind net sales growth, operating margin expansion and lower interest expense, 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. Diluted net earnings per share from continuing operations increased 13% versus the prior year to $1.01.

Net earnings from discontinued operations declined $681 million for the quarter to $1.5 billion primarily due to lower gains on the sale of discontinued operations. In the current period, we had a gain of $1.5 billion from the sale of the global pharmaceuticals business versus the $2.0 billion prior period gain on the sale of the Folgers coffee business. In addition, earnings were negatively impacted by the loss of contribution from the global pharmaceuticals business which was divested at the end of October 2009.

Net earnings decreased 7% to $4.7 billion for the quarter 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 6% to $1.49. Earnings per share growth rates differ from net earnings growth rates due to a reduction in the number of shares outstanding resulting from share repurchases.

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 will be the functional currency for our subsidiaries in Venezuela. Going forward, 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, will change from 2.15 to 2.6, while payments for other non-essential goods will move to an exchange rate of 4.3. Some of our imported products are expected to fall into the essential classification and qualify for the 2.6 rate. However, our overall results in Venezuela will be reflected at the 4.3 rate expected to be applicable to dividend repatriations.

We will need to remeasure our local balance sheets during the January-March 2010 quarter to reflect the impact of the devaluation. However, we expect this impact to be nominal due to our net balance sheet position. There will also be an ongoing impact related to measuring our income statement at the new exchange rates. Our earnings from Venezuela will be reflected in our consolidated financial statements at the 4.3 official rate, as this is the rate at which we expect to be able to repatriate dividends. Moving from the 2.15 rate to 4.3 will reduce future total company reported sales by less than 2% on a going basis. This will not impact our organic sales growth rate, which excludes the impact of foreign currency changes. Versus our existing business plans, the exchange rate change will also reduce our reported earnings by $150 million to $300 million for the balance of fiscal 2010. 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, and the availability of raw materials, utilities and energy.

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, as discussed elsewhere in this management discussion and analysis. 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. However, at this time, we are not able to reasonably estimate the future state of exchange controls in Venezuela and the availability of official foreign exchange rate U.S. dollars.

**RESULTS OF OPERATIONS Six Months Ended December 31, 2009**

The following discussion provides a review of results for the six months ended December 31, 2009 versus the six months ended December 31, 2008.

**THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES**

**(Amounts in Millions Except Per Share Amounts)**

Consolidated Earnings Information

| | Six Months Ended December 31 | | |
|---|---|---|---|
| | **2009** | **2008** | **% CHG** |
| **Net Sales** | $ 40,834 | $ 40,746 | 0% |
| Cost of Products Sold | 19,134 | 20,357 | -6% |
| **Gross Margin** | 21,700 | 20,389 | 6% |
| Selling, General & Administrative Expense | 12,597 | 11,948 | 5% |
| **Operating Income** | 9,103 | 8,441 | 8% |
| Total Interest Expense | 511 | 693 | |
| Other Non-operating Income, Net | 76 | 347 | |
| **Earnings From Continuing Operations Before Income Taxes** | 8,668 | 8,095 | 7% |
| Income Taxes | 2,492 | 2,167 | |
| **Net Earnings From Continuing Operations** | 6,176 | 5,928 | 4% |
| **Net Earnings From Discontinued Operations** | 1,790 | 2,424 | |
| **Net Earnings** | 7,966 | 8,352 | -5% |
| Effective Tax Rate Continuing Operations | 28.7% | 26.8% | |
| **Per Common Share:** | | | |
| Basic Net Earnings Continuing Operations | $ 2.08 | $ 1.96 | |
| Basic Net Earnings Discontinued Operations | $ 0.61 | $ 0.81 | |
| Basic Net Earnings | $ 2.69 | $ 2.77 | |
| Diluted Net Earnings Continuing Operations | $ 1.98 | $ 1.85 | 7% |
| Diluted Net Earnings Discontinued Operations | $ 0.58 | $ 0.76 | |
| Diluted Net Earnings | $ 2.56 | $ 2.61 | -2% |
| Dividends | $ 0.88 | $ 0.80 | 10% |
| Average Diluted Shares Outstanding | 3,114.5 | 3,205.1 | |

| **Comparisons as a % of Net Sales** | | | **Basis Point Change** |
|---|---|---|---|
| Cost of Products Sold | 46.9% | 50.0% | (310) |
| Gross Margin | 53.1% | 50.0% | 310 |
| Selling, General & Administrative Expense | 30.8% | 29.3% | 150 |
| Operating Margin | 22.3% | 20.7% | 160 |
| Earnings From Continuing Operations Before Income Taxes | 21.2% | 19.9% | 130 |
| Net Earnings From Continuing Operations | 15.1% | 14.5% | 60 |

Net sales were in line with the prior year period at $40.8 billion on a 1% increase in unit volume. Price increases, taken primarily in developing regions to offset local currency devaluations, added 2% to net sales. Unfavorable foreign exchange reduced net sales by 3% as many foreign currencies weakened versus the U.S. dollar, primarily in the first fiscal quarter. Volume was up low single digits in both developed and developing regions, 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 and Health Care segments, partially offset by mid-single-digit declines in the Grooming and Snacks and Pet Care segments. Organic sales increased 3% led by mid-single-digits growth in the Household Care GBU.

| | Net Sales Change Drivers 2009 vs. 2008 (Six Months Ended Dec. 31) | | | | | |
|---|---|---|---|---|---|---|
| | **Volume with Acquisitions & Divestitures** | **Volume excluding Acquisitions & Divestitures** | **Foreign Exchange** | **Price** | **Mix/ Other** | **Net Sales Growth** |
| Beauty and Grooming GBU | | | | | | |
| Beauty | 0% | 1% | -2% | 3% | 0% | 1% |
| Grooming | -5% | -5% | -3% | 5% | -1% | -4% |
| Health and Well-Being GBU | | | | | | |
| Health Care | 1% | 1% | -3% | 2% | 0% | 0% |
| Snacks and Pet Care | -5% | -5% | -1% | 5% | 0% | -1% |
| Household Care GBU | | | | | | |
| Fabric Care and Home Care | 3% | 3% | -3% | 1% | 0% | 1% |
| Baby Care and Family Care | 4% | 4% | -2% | 1% | -1% | 2% |
| **Total Company** | **1%** | **1%** | **-3%** | **2%** | **0%** | **0%** |

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 53.1% of net sales. Lower commodity and energy costs increased gross margin by approximately 170 basis points. Gross margin also benefited from manufacturing cost savings and price increases, partially offset by unfavorable foreign exchange impacts and negative product and geographic mix.

Total SG&A increased 5% to $12.6 billion due to higher other operating expenses, partially offset by lower overhead spending. Other operating expenses increased mainly due to Venezuela-related foreign currency exchange costs of $546 million and a charge for potential competition law fines of $267 million. SG&A as a percentage of net sales increased 150 basis points to 30.8% behind a 180 basis point increase in other operating expenses as a percentage of sales, driven by the aforementioned currency exchange costs and charges for competition law fines, partially offset by a decrease in overhead spending as a percentage of net sales, driven by productivity improvements and lower restructuring spending. Marketing spending as a percentage of net sales was consistent with the prior year period as additional marketing investments were offset by media rate savings.

Interest expense was down $182 million versus the comparable prior year period, a decrease of 26% due primarily to lower interest rates on floating rate debt and a reduction in debt outstanding. Other non-operating income declined $271 million to $76 million mainly due to gains on the sale of minor brands in the prior year period. The effective tax rate on continuing operations increased 190 basis points to 28.7% primarily due to lower audit settlements and foreign tax credits and the non-deductibility of the charge for potential competition law fines.

Net earnings from continuing operations increased 4% to $6.2 billion mainly due to an increase in operating margin, partially offset by an increase in the effective 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. Diluted net earnings per share from continuing operations increased 7% versus the prior year period to $1.98.

Net earnings from discontinued operations decreased $634 million to $1.8 billion primarily due to lower gains on the sale of discontinued operations. 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. In addition, earnings were negatively impacted by the loss of contribution from the global pharmaceuticals business which was divested at the end of October 2009.

Net earnings declined 5% versus the prior year period to $8.0 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 2% to $2.56. 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.

**BUSINESS SEGMENT DISCUSSION Three and Six Months Ended December 31, 2009**

The following discussion provides a review of results by business segment. Analyses of the results for the three and six months ended December 31, 2009 are provided compared to the same three and six month period ended December 31, 2008. 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 six months ended December 31, 2009 versus the comparable prior year periods (amounts in millions):

| | Three Months Ended December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 5,217 | 7% | $ 1,137 | 8% | $ 876 | 7% |
| Grooming | 2,095 | 3% | 613 | 11% | 433 | 10% |
| Health and Well-Being GBU | | | | | | |
| Health Care | 3,071 | 5% | 790 | 9% | 534 | 8% |
| Snacks and Pet Care | 835 | 6% | 143 | 39% | 98 | 56% |
| Household Care GBU | | | | | | |
| Fabric Care and Home Care | 6,311 | 9% | 1,433 | 40% | 965 | 47% |
| Baby Care and Family Care | 3,817 | 10% | 925 | 39% | 579 | 39% |
| Total Business Segments | 21,346 | 7% | 5,041 | 22% | 3,485 | 22% |
| Corporate | (319) | N/A | (557) | N/A | (336) | N/A |
| Total Company | $ 21,027 | 6% | $ 4,484 | 19% | $ 3,149 | 12% |

| | Six Months Ended December 31, 2009 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | $ 10,138 | 1% | $ 2,164 | 4% | $ 1,653 | 3% |
| Grooming | 3,953 | -4% | 1,102 | -5% | 784 | -6% |
| Health and Well-Being GBU | | | | | | |
| Health Care | 6,050 | 0% | 1,620 | 9% | 1,084 | 9% |
| Snacks and Pet Care | 1,590 | -1% | 256 | 33% | 172 | 46% |
| Household Care GBU | | | | | | |
| Fabric Care and Home Care | 12,441 | 1% | 2,943 | 29% | 1,974 | 33% |
| Baby Care and Family Care | 7,406 | 2% | 1,810 | 23% | 1,136 | 22% |
| Total Business Segments | 41,578 | 1% | 9,895 | 14% | 6,803 | 14% |
| Corporate | (744) | N/A | (1,227) | N/A | (627) | N/A |
| Total Company | $ 40,834 | 0% | $ 8,668 | 7% | $ 6,176 | 4% |

BEAUTY AND GROOMING GBU

Beauty

Beauty net sales increased 7% in the second fiscal quarter to $5.2 billion on a 2% increase in unit volume. Organic sales increased 4% versus the prior year period. Price increases, primarily in developing regions to offset currency impacts, and favorable foreign exchange added 2% and 3%, respectively, to net sales growth. Organic volume, which excludes acquisitions and divestitures, was up 3% behind mid-single-digit growth in developing regions, partially offset by a low single-digit decline in developed regions. Volume in Hair Care increased low single digits mainly due to double-digit growth in Asia driven by both market and share growth. Volume in Female Beauty increased low single digits primarily due to higher shipments of female skin care and personal cleansing products in developing regions. Volume in Salon Professional was down double digits due to the exit of non-strategic businesses and continued market contractions. Volume in Prestige decreased low single digits as continued contraction of the fragrance market was mostly offset by trade inventory reductions in the prior year period. Net earnings were up 7% versus the prior year period to $876 million on higher net sales and operating margin expansion, partially offset by a higher tax rate. Gross margin expansion, primarily due to price increases and manufacturing cost savings, was partially offset by higher SG&A as a percentage of sales behind increased marketing spending and higher foreign currency exchange costs.

Beauty net sales increased 1% fiscal year to date to $10.1 billion. Organic sales increased 3%. Unit volume was consistent with the prior year period, while organic volume, which excludes acquisitions and divestitures, increased 1% driven by growth in Hair Care. Pricing increases, primarily taken in developing regions to offset currency devaluations, added 3% to net sales growth. Unfavorable foreign exchange reduced net sales by 2%. Hair Care volume grew low single digits behind growth of Pantene, Head & Shoulders and Rejoice primarily in Asia and Latin America. Female Beauty volume was down low single digits due to lower shipments of cosmetics behind the discontinuation of Max Factor in North America and lower merchandising and initiative activity, the fiscal 2009 divestiture of Noxzema and market share losses on non-strategic personal cleansing brands. Salon Professional volume declined double digits mainly due to the exit of non-strategic businesses and continued market contractions. Prestige volume declined mid-single digits due to continued contraction of the fragrance market. Net earnings grew 3% fiscal year to date to $1.7 billion behind operating margin expansion and net sales growth, partially offset by a higher tax rate. Operating margin increased due to higher gross margin driven 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 higher foreign currency exchange costs and increased marketing spending.

Grooming

Grooming net sales grew 3% to $2.1 billion for the quarter on a 2% decline in unit volume. Organic sales were consistent with the prior year period. Favorable foreign exchange contributed 3% to net sales. Price increases, taken mainly in developing regions to offset currency impacts, added 4% to net sales for the quarter. Negative mix impacts reduced net sales by 2% as volume declines disproportionately affected developed regions and premium shaving systems, both of which have higher than segment average selling prices. Male Blades and Razors volume was down low single digits as market contractions and market share losses in developed regions were partially offset by initiative-driven growth in developing regions. Volume declines in premium shaving systems were mostly offset by growth in lower priced systems and disposables. Global market share of the blades and razors category was down nearly 2 points to about 70%. Male Personal Care volume declined high single digits behind increased competitive promotional activity on shave preparation products and distribution declines on Tag deodorants. Braun volume decreased low single digits behind a double-digit decline in developing regions mainly due to market contractions. Global market share of the dry shaving category was up about half a point to 33%. Net earnings increased 10% to $433 million for the quarter due to net sales growth and operating margin expansion, partially offset by a higher tax rate. Gross margin increased mainly due to price increases and lower commodity costs. SG&A as a percentage of net sales was up mainly due to higher foreign currency exchange costs, mostly offset by overhead spending reductions and marketing spending efficiencies.

Grooming net sales were down 4% to $4.0 billion fiscal year to date on a 5% decline in unit volume. Organic sales declined 1%. Price increases, taken primarily in developing regions to offset currency devaluations and across premium shaving systems, added 5% to net sales. Product mix had a negative 1% impact on net sales due to disproportionate volume decline of premium shaving systems, which have higher than segment average selling prices. Unfavorable foreign exchange reduced net sales by 3%. Volume in Blades and Razors was down mid-single digits mainly due to market contractions and market share losses in developed regions. A mid-single-digits increase of Gillette Fusion volume was more than offset by the continued double-digit decline of Mach3 volume. Global market share of the blades and razors category was down nearly 2 points to 70%. Volume in Male Personal Care declined high single digits primarily behind increased competitive promotional activity on shave preparation products and distribution declines on Tag deodorants. Volume in Braun was down high single digits due mostly to market contractions, particularly in home and hair care appliances. Global market share of the dry shaving category was down about half a point to approximately 34%. Net earnings were $784 million fiscal year to date, a decrease of 6% versus the comparable prior year period behind operating margin contraction and net sales decline. Operating margin decreased due to higher SG&A as a percentage of net sales, partially offset by an increase in gross margin due to price increases and lower commodity costs. The increase in SG&A as a percentage of net sales was driven by higher foreign currency exchange costs, partially offset by lower marketing and overhead spending as a percentage of net sales.

HEALTH AND WELL-BEING GBU

Health Care

Health Care net sales were up 5% for the quarter to $3.1 billion on a 3% increase in unit volume. Organic sales grew 2%. Favorable foreign exchange and positive pricing impacts added 3% and 1%, respectively to net sales growth. These impacts were partially offset by a 2% negative mix impact resulting from disproportionate growth in developing regions and unfavorable product mix. Volume in developing regions grew high single digits, while developed regions grew low single digits. Personal Health Care volume increased mid-single digits behind double-digit growth of Vicks due to higher cold and flu levels and double-digit growth of diagnostics products, partially offset by a double-digit decline of Prilosec OTC in North America due to increased competitive activity. Feminine Care volume was up low single digits due mainly to growth in the

CEEMEA and Asia regions, partially offset by market share losses in Latin America following price increases. Global market share of the feminine care category was down about 1 point to 35%. Oral Care volume grew mid-single digits behind initiative-driven growth in Western Europe, Latin America and Asia and trade inventory reductions in the base period, partially offset by a decline in North America. Net earnings grew 8% in the quarter to $534 million on higher net sales and operating margin expansion. Gross margin increased mainly due to price increases, lower commodity costs and manufacturing cost savings. SG&A as a percentage of net sales increased primarily due to higher foreign currency exchange costs and higher overhead and marketing spending to fund investments in business growth.

Health Care net sales fiscal year to date were consistent with the prior year period at $6.1 billion. Organic sales increased 3%. Unit volume increased 1% driven by growth of Personal Health Care and Oral Care. Price increases, taken mainly in developing regions to offset currency devaluations, added 2% to net sales. Unfavorable foreign exchange reduced net sales by 3%. Personal Health Care volume was up low singles digits driven by mid-single-digit growth of Vicks due to higher cold and flu levels and double-digit growth of diagnostic products, partially offset by a high-single-digit decline of Prilosec OTC in North America due to increased competitive activity. Oral Care volume increased low single digits behind initiative activity in Western Europe, Latin America and Asia. Feminine Care volume was in line with the prior year period as growth of Always and Naturella was offset by lower shipments of Tampax. Global market share of the feminine care category was down about 1 point to 35%. Net earnings were $1.1 billion fiscal year to date, an increase of 9% versus the prior year period behind operating margin expansion. Operating margin was up due to higher gross margin and lower SG&A as a percentage of net sales. Gross margin expanded behind price increases, lower commodity costs and manufacturing cost savings. SG&A as a percentage of net sales declined mainly due to lower marketing spending, partially offset by higher foreign currency exchange costs and overhead spending.

Snacks and Pet Care

Snacks and Pet Care net sales increased 6% to $835 million for the quarter on a 1% increase in unit volume. Organic sales increased 3%. The carryover impact of pricing to recover higher commodity costs added 5% to net sales. This was partially offset by negative mix impacts of 2% driven by the discontinuation of premium snack products which had higher than segment average selling prices. Favorable foreign exchange contributed 2% to net sales growth. Volume in Snacks declined low single digits driven by lower merchandising activity in North America and the discontinuation of some premium snack products. Volume in Pet Care increased mid-single digits behind continued success of product initiatives and increased promotional activity. Net earnings increased 56% versus the prior year period to $98 million behind gross margin expansion, net sales growth and a lower tax rate due to geographic mix of earnings, partially offset by higher SG&A as a percentage of net sales. Gross margin increased due to price increases, lower commodity costs and manufacturing cost savings. SG&A as a percentage of net sales increased mainly due to higher marketing spending.

Snacks and Pet Care net sales decreased 1% fiscal year to date to $1.6 billion on a 5% decline in unit volume. Organic sales were consistent with the prior year period. Price increases, taken primarily to offset high commodity costs, added 5% to net sales. Unfavorable foreign exchange reduced net sales by 1%. Volume in Snacks was down double-digits behind share losses and market contractions. Global market share of the snacks category was down about 1 point to approximately 9%. 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 increased low single digits due to continued success of product initiatives and increased promotional activity. Net earnings increased 46% to $172 million fiscal year to date behind higher operating margins and a lower tax rate. Operating margin expanded mainly 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 grew 9% in the second fiscal quarter to $6.3 billion on an 8% increase in unit volume. Organic sales increased 7%. Price declines to improve consumer value reduced net sales by 1%. Favorable foreign exchange added 2% to net sales growth. All major brands contributed to volume growth for the segment. Fabric Care volume increased high single digits mainly due to a low base period, which included trade inventory reductions, and initiative-driven growth in the current period. Volume growth was broad-based in Fabric Care with growth in all regions. Home Care volume grew double digits due to initiative activity in all regions, market growth in North America and CEEMEA and trade inventory reductions in the prior year period. Batteries volume increased low single digits due to market growth in developing regions and trade inventory reductions in the prior year period. Net earnings grew 47% to $965 million primarily due to operating margin expansion, net sales growth and lower tax rate. Operating margin expanded behind improved gross margins, partially offset by higher SG&A as a percentage of net sales. Gross margin increased behind manufacturing cost savings and lower commodity costs. SG&A as a percentage of net sales was up due to an increase in marketing spending, partially offset by lower overhead spending as a percentage of net sales driven by scale leverage.

Fabric Care and Home Care net sales increased 1% to $12.4 billion fiscal year to date on a 3% increase in unit volume. Organic sales grew 4%. Price increases added 1% to net sales growth as the carry over impact of prior period price increases taken primarily in developing regions to offset currency devaluations was partially offset by more recent price reductions to improve consumer value. Unfavorable foreign exchange reduced net sales by 3%. Fabric Care volume increased 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. Home Care volume increased high single digits mainly due to new product launches and market growth. Global market share of the home care category was up half a point to 17%. Batteries volume was down low single digits primarily due to market share losses in North America and Western Europe. Global market share of the general purpose batteries category was down over half a point to about 27%. Net earnings increased 33% to $2.0 billion due to increased operating margin, a lower tax rate and higher net sales. Operating margin expanded due to higher gross margin, partially offset by higher SG&A as a percentage of net sales. Gross margin increased due to lower commodity costs, price increases and manufacturing cost savings. SG&A as a percentage of net sales increased due to higher marketing spending and increased foreign currency exchange costs, partially offset by lower overhead spending.

Baby Care and Family Care

Baby Care and Family Care net sales increased 10% to $3.8 billion for the quarter on 10% volume growth. Organic sales grew 8%. Negative mix impacts due to a shift toward larger count packages, which have lower than segment average selling prices, reduced net sales by 2%. Favorable foreign exchange added 2% to net sales growth. Baby Care volume was up high single digits behind incremental initiative activity and merchandising support, as well as market growth. Family Care volume grew double digits due to initiatives launched in the previous quarter and incremental merchandising activity. U.S. all-outlet value share of the family care category increased over 1%. Net earnings were up 39% for the quarter to $579 million on gross margin expansion and net sales growth, partially offset by higher SG&A as a percentage of net sales. Gross margin increased behind lower commodity costs and manufacturing cost savings. SG&A as a percentage of net sales were up due to higher foreign currency exchange costs and higher marketing spending as a percentage of net sales.

Baby Care and Family Care net sales grew 2% to $7.4 billion fiscal year to date on 4% volume growth. Organic sales increased 5%. Price increases added 1% to net sales growth as the carryover impact of price increases taken primarily in developing regions to offset currency devaluations was partially offset by more recent price reductions to improve consumer value. Negative product mix reduced net sales by 1%. Unfavorable foreign exchange reduced net sales by 2%. Volume in Baby Care increased mid-single digits

behind incremental initiative activity and merchandising support, as well as market growth. Volume in Family Care grew mid-single digits due to market growth and volume share gains driven by increased merchandising and initiative activity. Family Care U.S. value share was up nearly half a point to about 33%. Net earnings increased 22% to $1.1 billion behind operating margin expansion and net sales growth. Operating margin expansion was driven by higher gross margin, partially offset by higher SG&A as a percentage of net sales. Gross margin increased behind lower commodity costs, price increases and manufacturing cost savings. SG&A as a percentage of net sales was up due to higher foreign currency exchange costs, increased overhead spending and incremental marketing investments.

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 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 $300 million to $336 million for the quarter. The increase in net expenses was driven primarily by the $267 million charge for potential competition law fines, higher foreign currency exchange costs and higher net tax costs due to the impacts of tax adjustments required to reconcile the statutory rates reflected in the business segments to the overall Company effective tax rate, partially offset by lower interest expense. Fiscal year to date, net expenses from continuing operations increased $577 million. The increase was primarily due to the charge for potential competition law fines, higher foreign currency exchange costs, higher net tax costs due to the impact of tax adjustments required to reconcile the statutory rates reflected in the business segments to the overall Company effective tax rate and higher prior period divestiture gains, partially offset by lower interest expense.

**FINANCIAL CONDITION**

Operating Activities

We generated $7.8 billion of cash from operating activities for the fiscal year to date period, an increase of 39% versus the comparable prior year period mainly due to changes in working capital required to support the business, partially offset by lower net earnings. Working capital reductions versus June contributed $847 million to operating cash flow primarily due to an increase in accounts payable, accrued and other liabilities behind higher current period accruals and an increase in taxes payable, partially offset by increased accounts receivable. Accounts receivable levels increased primarily due to higher net sales versus the June quarter. Cash flow from discontinued operations contributed $285 million to operating cash flow.

Investing Activities

Our investing activities generated cash of $1.6 billion fiscal year to date, an increase of $2.3 billion versus the prior year period mainly due to higher proceeds from divestitures. Proceeds from asset sales increased $2.0 billion due to receipts from the sales of the global pharmaceuticals business, including Actonel in Japan, partially offset by receipts in the prior year period related to the Folgers, Thermacare and other minor brand divestitures. Capital expenditures were $1.3 billion fiscal year to date or 3.1% of net sales. Acquisitions consumed $70 million of cash primarily to fund the purchase of MDVIP, a physicians network focused on preventative medicine.

Financing Activities

We used $10.3 billion fiscal year to date to fund financing activities. This represents an increase of $8.0 billion versus the prior year period driven mainly by the retirement of debt, partially offset by a reduction in treasury stock purchases. Current year net repayments of debt used $6.6 billion, while dividends to shareholders increased to $2.7 billion. We resumed our share repurchase program during the second fiscal quarter and expect to repurchase about $5 billion during fiscal 2010.

As of December 31, 2009, our current liabilities exceeded current assets by $1.9 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 October - December quarter:

| Oct Dec 09 | Net Sales Growth | Foreign Exchange Impact | Acquisition/ Divestiture Impact* | Organic Sales Growth |
|---|---|---|---|---|
| Beauty | 7% | -3% | 0% | 4% |
| Grooming | 3% | -3% | 0% | 0% |
| Health Care | 5% | -3% | 0% | 2% |
| Snacks and Pet Care | 6% | -2% | -1% | 3% |
| Fabric Care and Home Care | 9% | -2% | 0% | 7% |
| Baby Care and Family Care | 10% | -2% | 0% | 8% |
| **Total P&G** | **6%** | **-2%** | **1%** | **5%** |

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

| Jul Dec 09 | Net Sales Growth | Foreign Exchange Impact | Acquisition/ Divestiture Impact* | Organic Sales Growth |
|---|---|---|---|---|
| Beauty | 1% | 2% | 0% | 3% |
| Grooming | -4% | 3% | 0% | -1% |
| Health Care | 0% | 3% | 0% | 3% |
| Snacks and Pet Care | -1% | 1% | 0% | 0% |
| Fabric Care and Home Care | 1% | 3% | 0% | 4% |
| Baby Care and Family Care | 2% | 2% | 1% | 5% |
| **Total P&G** | **0%** | **3%** | **0%** | **3%** |

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

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

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

| | Operating Cash Flow | Capital Spending | Free Cash Flow | Net Earnings | Free Cash Flow Productivity |
|---|---|---|---|---|---|
| Jul 09 Dec 09 | $ 7,849 | $ 1,274 | $ 6,575 | $ 7,966 | 83% |

**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.

**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 December 31, 2009 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.

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 December 2009, the authorities in France and Italy issued separate complaints pursuant to their investigations alleging that the Company, along with several other companies, engaged in violations of competition laws in France and Italy, respectively. 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 are formally investigating whether the Company s affiliates 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 environmental, competitive and product-related laws, as well as changes in accounting standards and taxation requirements. Accordingly, our ability to manage regulatory, tax and legal matters (including product liability, patent, and intellectual property matters), and to resolve pending legal matters without significant liability, including the competition law and antitrust investigations described in Part II, Item 1 of this Form 10-Q, which could require 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 the current credit crisis.**

We currently generate significant operating cash flows, which combined with access to the credit markets provides us with significant discretionary funding capacity. However, current uncertainty in global economic conditions, resulting from disruptions in credit markets, poses a risk to the overall economy that could impact consumer and customer demand for our products, as well as our ability to manage normal commercial relationships with our customers, suppliers and creditors, including financial institutions. If the current situation deteriorates significantly, our business could be negatively impacted, including such areas as reduced demand for our products from a slow-down in the general economy, 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. If the current credit crisis were to continue to worsen such that we were unable to access the credit market, it could impair our ability to fund discretionary spending.

**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**

| Period | Total Number of Shares Purchased [1] | Average Price Paid per Share [2] | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [3] | Approximate Dollar Value of Shares That May Yet Be Purchased Under our Share Repurchase Program ($ in billions) [3] [4] |
|---|---|---|---|---|
| 10/1/09 - 10/31/09 | 956 | $ 57.77 | 0 | 13.7 |
| 11/1/09 - 11/30/09 | 12,668,756 | $ 60.95 | 12,668,595 | 12.9 |
| 12/1/09 - 12/31/09 | 10,110,532 | $ 62.52 | 10,109,831 | 12.3 |

(1) The total number of shares purchased was 22,780,244 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 prepays 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 1,818 for the quarter. The 1,818 shares were accquired 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.

(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). |
| 10-1 | The Procter & Gamble 2009 Stock and Incentive Compensation Plan which was adopted by shareholders at the annual meeting on October 13, 2009, and related correspondence and terms and conditions.* |
| 11 | Computation of Earnings per Share. |
| 12 | Computation of Ratio of Earnings to Fixed Charges. |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification Chief Executive Officer |
| 31.2 | Rule 13a-14(a)/15d-15(a) Certification Chief Financial Officer |
| 32.1 | Section 1350 Certifications Chief Executive Officer |
| 32.2 | Section 1350 Certifications Chief Financial Officer |
| 101.INS[1] | XBRL Instance Document |
| 101.SCH[1] | XBRL Taxonomy Extension Schema Document |
| 101.CAL[1] | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.LAB[1] | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE[1] | XBRL Taxonomy Extension Presentation Linkbase Document |

* Compensatory plan or arrangement

[1] 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.

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned thereunto duly authorized.

THE PROCTER & GAMBLE COMPANY

January 28, 2010
Date

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

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