PROCTER & GAMBLE CO
Form 10-Q
May 01, 2009

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 31, 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 x No ¨

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

There were 2,914,701,790 shares of Common Stock outstanding as of March 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 nine months ended March 31, 2009 and 2008, the Consolidated Balance Sheets as of March 31, 2009 and June 30, 2008, and the Consolidated Statements of Cash Flows for the nine months ended March 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 March 31		Nine Months Ended March 31	
	2009	2008	2009	2008
Net Sales	$ 18,417	$ 20,026	$ 60,367	$ 60,863
Cost of products sold	9,161	9,679	29,631	28,964
Selling, general and administrative expense	5,526	6,334	18,186	18,998
Operating Income	3,730	4,013	12,550	12,901
Interest expense	336	364	1,029	1,112
Other non-operating income, net	93	10	520	396
Earnings from Continuing Operations Before Income taxes	3,487	3,659	12,041	12,185
Income taxes	902	1,009	3,219	3,337
Net Earnings from Continuing Operations	2,585	2,650	8,822	8,848
Net Earnings from Discontinued Operations	28	60	2,143	211
Net Earnings	$ 2,613	$ 2,710	$ 10,965	$ 9,059
Per Common Share				
Basic net earnings from continuing operations	$ 0.87	$ 0.85	$ 2.93	$ 2.82
Basic net earnings from discontinued operations	$ 0.01	$ 0.02	$ 0.72	$ 0.07
Basic net earnings	$ 0.88	$ 0.87	$ 3.65	$ 2.89
Diluted net earnings from continuing operations	$ 0.83	$ 0.80	$ 2.78	$ 2.66
Diluted net earnings from discontinued operations	$ 0.01	$ 0.02	$ 0.68	$ 0.06
Diluted net earnings	$ 0.84	$ 0.82	$ 3.46	$ 2.72
Dividends	$ 0.40	$ 0.35	$ 1.20	$ 1.05
Diluted Weighted Average Common Shares Outstanding	3,104.6	3,301.2	3,172.9	3,332.5

See accompanying Notes to Consolidated Financial Statements

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Amounts in Millions	**March 31 2009**	**June 30 2008**
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 4,434	$ 3,313
Accounts receivable	5,744	6,761
Inventories		
Materials and supplies	1,839	2,262
Work in process	700	765
Finished goods	5,076	5,389
Total inventories	7,615	8,416
Deferred income taxes	1,497	2,012
Prepaid expenses and other current assets	2,718	4,013
TOTAL CURRENT ASSETS	22,008	24,515
PROPERTY, PLANT AND EQUIPMENT		
Buildings	6,354	7,052
Machinery and equipment	27,772	30,145
Land	849	889
	34,975	38,086
Accumulated depreciation	(16,444)	(17,446)
NET PROPERTY, PLANT AND EQUIPMENT	18,531	20,640
GOODWILL AND OTHER INTANGIBLE ASSETS		
Goodwill	55,286	59,767
Trademarks and other intangible assets, net	32,159	34,233
NET GOODWILL AND OTHER INTANGIBLE ASSETS	87,445	94,000
OTHER NON-CURRENT ASSETS	4,411	4,837
TOTAL ASSETS	$ 132,395	$ 143,992
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 5,138	$ 6,775
Accrued and other liabilities	7,996	10,154
Taxes payable	1,329	945
Debt due within one year	18,366	13,084
TOTAL CURRENT LIABILITIES	32,829	30,958
LONG-TERM DEBT	20,452	23,581
DEFERRED INCOME TAXES	11,428	11,805
OTHER NON-CURRENT LIABILITIES	6,911	8,154

TOTAL LIABILITIES			71,620	74,498
SHAREHOLDERS EQUITY				
Preferred stock			1,329	1,366
Common stock - shares issued -	31-Mar	4,007.3	4,007	
	30-Jun	4,001.8		4,002
Additional paid-in capital			60,959	60,307
Reserve for ESOP debt retirement			(1,339)	(1,325)
Accumulated other comprehensive income			(4,323)	3,746
Treasury stock			(56,025)	(47,588)
Retained earnings			56,167	48,986
TOTAL SHAREHOLDERS EQUITY			60,775	69,494
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY			$ 132,395	$ 143,992

See accompanying Notes to Consolidated Financial Statements

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

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

Amounts in millions	**Nine Months Ended March 31**	
	2009	**2008**
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 3,313	$ 5,354
OPERATING ACTIVITIES		
Net earnings	10,965	9,059
Depreciation and amortization	2,228	2,270
Share-based compensation expense	368	396
Deferred income taxes	110	1,065
Gain on sale of businesses	(2,384)	(218)
Changes in:		
Accounts receivable	249	253
Inventories	(313)	(1,077)
Accounts payable, accrued and other liabilities	(1,013)	(268)
Other operating assets and liabilities	(257)	(121)
Other	(30)	(164)
TOTAL OPERATING ACTIVITIES	9,923	11,195
INVESTING ACTIVITIES		
Capital expenditures	(2,158)	(1,852)
Proceeds from asset sales	1,096	759
Acquisitions, net of cash acquired	(315)	36
Change in investments	116	(188)
TOTAL INVESTING ACTIVITIES	(1,261)	(1,245)
FINANCING ACTIVITIES		
Dividends to shareholders	(3,708)	(3,385)
Change in short-term debt	(444)	1,739
Additions to long-term debt	4,926	6,534
Reductions of long-term debt	(2,190)	(10,227)
Treasury stock purchases	(6,365)	(8,035)
Impact of stock options and other	583	1,436
TOTAL FINANCING ACTIVITIES	(7,198)	(11,938)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(343)	371
CHANGE IN CASH AND CASH EQUIVALENTS	1,121	(1,617)
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 4,434	$ 3,737

See accompanying Notes to Consolidated Financial Statements

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

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2008, as updated by the Company s Form 8-K filed on February 10, 2009. The results of operations for the three-month and nine-month period ended March 31, 2009 are not necessarily indicative of annual results.

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 and net unrealized gains and losses on investment securities. Total comprehensive income for the three months ended March 31, 2009 and 2008 was $504 million and $4,389 million, respectively. For the nine months ended March 31, 2009 and 2008, total comprehensive income was $2,896 million and $12,588 million, respectively.

3. Segment Information Following is a summary of segment results.

SEGMENT INFORMATION

Amounts in millions		Three Months Ended March 31 Net Sales	Three Months Ended March 31 Earnings from Continuing Operations Before Income Taxes	Three Months Ended March 31 Net Earnings from Continuing Operations	Nine Months Ended March 31 Net Sales	Nine Months Ended March 31 Earnings from Continuing Operations Before Income Taxes	Nine Months Ended March 31 Net Earnings from Continuing Operations
Beauty GBU							
Beauty	**2009**	**$ 4,310**	**$ 702**	**$ 504**	**$ 14,367**	**$ 2,705**	**$ 2,056**
	2008	4,743	784	589	14,479	2,788	2,161
Grooming	**2009**	**1,652**	**434**	**306**	**5,802**	**1,663**	**1,200**
	2008	1,977	551	403	6,153	1,761	1,283
Health & Well-Being GBU							
Health Care	**2009**	**3,226**	**878**	**564**	**10,461**	**2,818**	**1,868**
	2008	3,651	943	617	10,982	2,979	1,980
Snacks and Pet Care	**2009**	**764**	**93**	**51**	**2,362**	**286**	**169**
	2008	797	97	59	2,339	283	177
Household Care GBU							
Fabric Care and Home Care	**2009**	**5,381**	**1,134**	**726**	**17,661**	**3,419**	**2,210**
	2008	5,730	1,159	779	17,648	3,814	2,573
Baby Care and Family Care	**2009**	**3,456**	**693**	**423**	**10,694**	**2,165**	**1,355**
	2008	3,531	739	471	10,325	2,069	1,319
Corporate	**2009**	**(372)**	**(447)**	**11**	**(980)**	**(1,015)**	**(36)**
	2008	(403)	(614)	(268)	(1,063)	(1,509)	(645)
Total	**2009**	**18,417**	**3,487**	**2,585**	**60,367**	**12,041**	**8,822**
	2008	20,026	3,659	2,650	60,863	12,185	8,848

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

	Nine Months Ended March 31, 2009
BEAUTY GBU	
Beauty, beginning of year	**$ 16,903**
Acquisitions and divestitures	135
Translation and other	(1,447)
Goodwill, March 31, 2009	**15,591**
Grooming, beginning of year	**25,312**
Acquisitions and divestitures	(161)
Translation and other	(1,642)
Goodwill, March 31, 2009	**23,509**
HEALTH & WELL-BEING GBU	
Health Care, beginning of year	**8,750**
Acquisitions and divestitures	(58)
Translation and other	(405)
Goodwill, March 31, 2009	**8,287**
Snacks and Pet Care, beginning of year	**2,434**
Acquisitions and divestitures	(355)
Translation and other	(33)
Goodwill, March 31, 2009	**2,046**
HOUSEHOLD CARE GBU	
Fabric Care and Home Care, beginning of year	**4,655**
Acquisitions and divestitures	(29)
Translation and other	(309)
Goodwill, March 31, 2009	**4,317**
Baby Care and Family Care, beginning of year	**1,713**
Acquisitions and divestitures	(4)
Translation and other	(173)
Goodwill, March 31, 2009	**1,536**
GOODWILL, Net, beginning of year	**59,767**
Acquisitions and divestitures	(472)
Translation and other	(4,009)
Goodwill, March 31, 2009	**$ 55,286**

$357 million of the decrease in goodwill from June 30, 2008 in Snacks and Pet Care is due to the divestiture of the Coffee business. The remaining decrease in goodwill from June 30, 2008 is primarily due to currency translation.

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

	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets with determinable lives	$ 8,716	$ 2,972
Intangible assets with indefinite lives	26,415	
Total identifiable intangible assets	$ 35,131	$ 2,972

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

The amortization expense of intangible assets for the three months ended March 31, 2009 and 2008 was $149 million and $156 million, respectively. For the nine months ended March 31, 2009 and 2008 the amortization expense of intangible assets was $459 million and $468 million, respectively.

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

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

	Three Months Ended March 31		Nine Months Ended March 31	
	2009	**2008**	**2009**	**2008**
Share-Based Compensation				
SFAS 123(R) Stock Options	**$ 131**	$ 144	**$ 328**	$ 373
Other Share-Based Awards	**14**	10	**40**	23
Total Share-Based Compensation	**$ 145**	$ 154	**$ 368**	$ 396

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

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

Amounts in millions	**Pension Benefits**		**Other Retiree Benefits**	
	Three Months Ended March 31		**Three Months Ended March 31**	
	2009	**2008**	**2009**	**2008**
Service Cost	$ 51	$ 63	$ 22	$ 24
Interest Cost	130	134	60	57
Expected Return on Plan Assets	(111)	(146)	(111)	(108)
Amortization of Deferred Amounts	3	3	(5)	
Recognized Net Actuarial Loss/ (Gain)	7	(3)		(4)
Gross Benefit Cost (Credit)	**80**	**51**	**(34)**	**(31)**
Dividends on ESOP Preferred Stock			(25)	(23)
Net Periodic Benefit Cost (Credit)	**$ 80**	**$ 51**	**$ (59)**	**$ (54)**

Amounts in millions	**Pension Benefits**		**Other Retiree Benefits**	
	Nine Months Ended March 31		**Nine Months Ended March 31**	
	2009	**2008**	**2009**	**2008**
Service Cost	$ 163	$ 198	$ 68	$ 71
Interest Cost	418	400	183	169
Expected Return on Plan Assets	(360)	(419)	(333)	(322)
Amortization of Deferred Amounts	11	10	(17)	
Recognized Net Actuarial Loss/ (Gain)	21	9	2	(11)
Gross Benefit Cost (Credit)	**253**	**198**	**(97)**	**(93)**
Dividends on ESOP Preferred Stock			(77)	(69)
Net Periodic Benefit Cost (Credit)	**$ 253**	**$ 198**	**$ (174)**	**$ (162)**

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

7. Fair Value Measurements
On July 1, 2008 the Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157) for certain financial assets and liabilities. This standard defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements.

SFAS 157 also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The statement requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

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

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

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

Fair Value Hierarchy

Under the SFAS 157 hierarchy, an entity is required to maximize the use of quoted market prices and minimize the use of unobservable inputs. The following table sets forth the Company s financial assets and liabilities as of March 31, 2009 that are measured on a recurring basis during the period, segregated by level within the fair value hierarchy:

In millions	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value:				
Investment securities (1)	$ 197	$	$ 44	$ 241
Derivatives (2)		418		418
Total assets at fair value	197	418	44	659
Liabilities at fair value:				
Derivatives (2)	2	824	8	834
Total liabilities at fair value	$ 2	$ 824	$ 8	$ 834

(1) Investment securities consist primarily of non-qualified retirement plan assets. These securities are generally valued using observable market prices in active markets, with some securities valued using unobservable market prices in inactive markets. These investment securities are included within Other non-current assets in our Consolidated Balance Sheets for each period presented.

(2) Derivatives consist of foreign currency, interest rate and commodity financial instruments. See Note 8 for additional details on our risk management activities.

The table below sets forth a reconciliation of the Company s beginning and ending Level 3 financial assets and liabilities balances for the nine months ended March 31, 2009.

	Derivatives	**Investment Securities**
June 30, 2008 Balance:	**$ 17**	**$ 46**
Total gains or (losses) (realized/unrealized) included in earnings (or changes in net assets)	11	(2)
Total gains or (losses) (realized/unrealized) included in OCI	(40)	
Net purchases, issuances and settlements	4	
Transfers in and/or (out) of Level 3		
March 31, 2009 Balance:	**$ (8)**	**$ 44**

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

8. Risk Management Activities

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 consolidated basis to take advantage of logical exposure netting and correlation. To the extent we choose to manage volatility associated with the remaining net exposures, we enter into various financial transactions, which we account for under SFAS 133, Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted. 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. Any ineffective portion of a change in the fair value of a qualifying instrument, which is immaterial for all periods presented, is immediately recognized in earnings.

For additional details on the Company s risk management activities, refer to the Company s annual financial statements and footnotes in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2008, as updated by the Company s Form 8-K filed on February 10, 2009.

The location, fair value and fair value hierarchy level of the Company s financial instruments used in hedging transactions at March 31, 2009 are as follows:

In millions	**Balance Sheet Location**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at fair value:					
Derivatives relating to:					
Foreign currency	Prepaid expenses	$	$ 247	$	$ 247
Net investment hedges	Prepaid expenses & Other noncurrent assets		155		155
Commodities	Prepaid expenses		16		16
Total assets at fair value			418		418
Liabilities at fair value:					
Derivatives relating to:					
Foreign currency	Accrued liabilities		523		523
Net investment hedges	Accrued liabilities		57		57
Interest rate	Accrued liabilities & Other noncurrent liabilities		31		31
Commodities	Accrued liabilities	2	213	8	223
Total liabilities at fair value		$ 2	$ 824	$ 8	$ 834

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 deal. The aggregate fair value of the instruments covered by these contractual features that are in a net liability position as of March 31, 2009 was $712 million. The Company has never been required to post any collateral as a result of these contractual features.

The locations and amounts of gains and losses on qualifying and non-qualifying financial instruments used in hedging transactions for the three and nine months ended March 31, 2009 are as follows:

In millions

Derivatives in Cash Flow Hedging Relationships	Notional Amount (Ending Balance)	Fair Value Asset (Liability)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	
		March 31	March 31		Three Months Ended March 31	Nine Months Ended March 31
Interest rate contracts	4,000	$ (31)	$ 2	Interest expense	$ (37)	$ (38)
Foreign currency contracts (1)	690	(70)	37	Selling, general and administrative expense	70	(66)
Commodity contracts (2)	720	(207)	(160)	Cost of sales	(55)	(4)
Total	5,410	$ (308)	$ (121)		$ (22)	$ (108)

Derivatives in Net Investment Hedging Relationships	Notional Amount (Ending Balance)	Fair Value Asset (Liability)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
		March 31	March 31		Three Months Ended March 31	Nine Months Ended March 31
Net investment hedges (3)	2,548	$ 98	$ 97	Interest expense	$ (7)	$ (4)
		$ 98	$ 97		$ (7)	$ (4)

Derivatives Not Designated as Hedging Instruments	Notional Amount (Ending Balance)	Fair Value Asset (Liability)	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		March 31		Three Months Ended March 31	Nine Months Ended March 31
Foreign currency contracts (4) (5)	13,275	$ (206)	Selling, general and administrative expense	$ (571)	$ (1,775)
Commodity contracts (2)			Cost of sales		(4)
Total	13,275	$ (206)		$ (571)	$ (1,779)

(1) Foreign currency cash flow hedges consist of currency swaps with maturities of up to 5 years. The fair value of these instruments offsets the effect of exchange rate fluctuations on intercompany loans denominated in foreign currencies.
(2) Commodity hedges consist of futures and options with maturities generally less than 1 year and swap contracts with maturities up to 5 years. We use these instruments to manage a portion of the volatility in the cost of raw materials used in our products or production processes resulting from weather, supply conditions, political and economic variables and other unpredictable factors. The change in fair value of these instruments offsets the effect of fluctuations in costs for forecasted purchases of commodities used in the manufacturing process.
(3) Net investment hedges consist of both direct borrowings in foreign currencies and foreign currency swaps which are designated as hedges of our net investments in certain foreign subsidiaries. Changes to the fair value of these instruments are immediately recognized in OCI to offset the change in the value of the net investment being hedged.
(4) Certain of our foreign currency instruments used to manage foreign exchange exposure of intercompany financing transactions and other balance sheet items are not designated as hedges. In these cases, the change in the fair value of the instruments is designed to substantially offset the foreign currency mark-to-market impact of the related exposure.
(5) Total fair value of derivatives not designated as hedging instruments included $367 million of foreign currency contracts in a liability position and $161 million of foreign currency contracts in an asset position.

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.

9. New Accounting Pronouncements and Policies

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

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of 1) how and why an entity uses derivative instruments; 2) how derivative instruments and related hedged items are accounted for under Statement 133 and its related interpretations; and 3) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS 161 was adopted by the Company on January 1, 2009. The adoption of SFAS 161 did not have any impact on our consolidated net earnings, cash flows or financial position.

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

10. Commitments and Contingencies Litigation

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

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

Additional information on the Commitments and Contingencies of the Company can be found in Note 11, Commitments and Contingencies, which appears in Exhibit 99.2 to the Company s Form 8-K filed February 10, 2009.

11. Discontinued Operations

In November 2008, the Company completed the divestiture of its 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, or $0.63 per share, which is included in Net Earnings from Discontinued Operations in the Consolidated Statement of Earnings for the nine-month period ended March 31, 2009.

The Coffee business had historically been part of the Company s Snacks, Coffee and Pet Care reportable segment, as well as the coffee portion of the P&G Professional (PGP) business which is included in the Fabric and Home Care reportable segment. In accordance with the provisions of SFAS No. 144, Accounting for the Impairment or 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 Coffee business:

	Three Months Ended March 31		**Nine Months Ended March 31**	
	2009	**2008**	**2009**	**2008**
Net Sales	$	$ 437	$ 668	$ 1,374
Earnings from discontinued operations	45	99	212	342
Income tax expense	(17)	(39)	(80)	(131)
Gain on sale of discontinued operations			1,896	
Deferred tax benefit on gain			115	
Net earnings from discontinued operations	$ 28	$ 60	$ 2,143	$ 211

The $28 million of Net Earnings from Discontinued Operations for the three-month period ended March 31, 2009 consist primarily of a gain on the settlement of a patent infringement lawsuit.

12. Reclassification

The Company has reclassified certain amounts in the prior period Statements of Cash Flows to be consistent with the current period presentation. Realized gains and losses from non-qualifying derivative instruments used to hedge currency exposures resulting from intercompany financing transactions were reclassified from operating activities to financing activities, which is consistent with the use of the instruments and their related cash flows.

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

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

- Overview
- Summary of Results
- Forward-Looking Statements
- Results of Operations Three Months Ended March 31, 2009
- Results of Operations Nine Months Ended March 31, 2009
- Business Segment Discussion Three and Nine Months Ended March 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 goal is to provide products of superior quality and value to improve the lives of the world s consumers. We believe this will result in leadership sales, profits and value creation, allowing employees, shareholders and the communities in which we operate to prosper.

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

In November 2008, the Company completed the divestiture of its 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 the common shares of Folgers, which became a wholly owned subsidiary of Smucker. The Company recorded an after tax gain on the transaction of $2.0 billion, or $0.63 per share, which is included in Net Earnings from Discontinued Operations in the Consolidated Statement of Earnings for the nine month period ended March 31, 2009.

The Coffee business had historically been part of the Company s Snacks, Coffee and Pet Care reportable segment, as well as the coffee portion of the P&G Professional (PGP) business which is included in the Fabric Care and Home Care reportable segment. In accordance with the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, the results of Folgers are presented as discontinued operations and, as such, have been excluded from continuing operations and from segment results for all periods presented.

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

	Net Sales	Net Earnings
Beauty GBU		
Beauty	23%	20%
Grooming	9%	12%
Health and Well-Being GBU		
Health Care	17%	22%
Snacks and Pet Care	4%	2%
Household Care GBU		
Fabric Care and Home Care	29%	28%
Baby Care and Family Care	18%	16%
Total	**100%**	**100%**

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

	Net Sales	Net Earnings
Beauty GBU		
Beauty	23%	23%
Grooming	10%	14%
Health and Well-Being GBU		
Health Care	17%	21%
Snacks and Pet Care	4%	2%
Household Care GBU		
Fabric Care and Home Care	29%	25%
Baby Care and Family Care	17%	15%
Total	**100%**	**100%**

<u>SUMMARY OF RESULTS</u>

Following are highlights of results for the nine months ended March 31, 2009:

Net sales declined 1% to $60.4 billion. Organic sales, which exclude the impacts of acquisitions, divestitures and foreign exchange, grew 3%.

Unit and organic volume, which excludes the impact of acquisitions and divestitures, both decreased 2% versus the prior-year period.

Net earnings increased 21% to $11.0 billion. Net earnings increased due to the gain on the Folgers transaction. Net earnings from continuing operations were flat versus the prior year period as lower net sales and a decline in operating margin were offset by lower interest expense, higher gains from divestitures and a lower tax rate.

Diluted net earnings per share were $3.46, an increase of 27% versus the comparable prior-year period.

Operating cash flow was $9.9 billion, a decrease of 11% versus the prior year period. Free cash flow productivity, defined as the ratio of operating cash flow less capital expenditures to net earnings, was 71%.

FORWARD-LOOKING STATEMENTS

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

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

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

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

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

RESULTS OF OPERATIONS Three Months Ended March 31, 2009

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

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

(Amounts in Millions Except Per Share Amounts)

Consolidated Earnings Information

	Three Months Ended March 31		
	2009	**2008**	**% CHG**
Net Sales	$ 18,417	$ 20,026	-8%
Cost of Products Sold	9,161	9,679	-5%
Gross Margin	9,256	10,347	-11%
Selling, General & Administrative Expense	5,526	6,334	-13%
Operating Income	3,730	4,013	-7%
Total Interest Expense	336	364	
Other Non-operating Income, Net	93	10	
Earnings From Continuing Operations Before Income Taxes	3,487	3,659	-5%
Income Taxes	902	1,009	
Net Earnings From Continuing Operations	2,585	2,650	-2%
Net Earnings From Discontinued Operations	28	60	
Net Earnings	2,613	2,710	