PROCTER & GAMBLE CO
Form 10-Q
May 01, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark one)

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

For the Quarterly Period Ended March 31, 2008

OR

o **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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

There were 3,052,985,133 shares of Common Stock outstanding as of March 31, 2008.

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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, 2008 and 2007, the Consolidated Balance Sheets as of March 31, 2008 and June 30, 2007, and the Consolidated Statements of Cash Flows for the nine months ended March 31, 2008 and 2007 follow. In the opinion of management, these unaudited consolidated financial statements contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods reported. However, such financial statements may not necessarily be indicative of annual results.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

Amounts in millions except per share amounts

	Three Months Ended March 31		Nine Months Ended March 31	
	2008	2007	2008	2007
NET SALES	$ 20,463	$ 18,694	$ 62,237	$ 57,204
Cost of products sold	9,974	9,057	29,887	27,210
Selling, general and administrative expense	6,378	5,991	19,107	17,945
OPERATING INCOME	4,111	3,646	13,243	12,049
Interest expense	364	279	1,112	976
Other non-operating income, net	10	169	395	429
EARNINGS BEFORE INCOME TAXES	3,757	3,536	12,526	11,502
Income taxes	1,047	1,024	3,467	3,430
NET EARNINGS	$ 2,710	$ 2,512	$ 9,059	$ 8,072
PER COMMON SHARE:				
Basic net earnings	$ 0.87	$ 0.78	$ 2.89	$ 2.51
Diluted net earnings	$ 0.82	$ 0.74	$ 2.72	$ 2.37
Dividends	$ 0.35	$ 0.31	$ 1.05	$ 0.93
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	3,301.2	3,397.3	3,332.5	3,405.7

See accompanying Notes to Consolidated Financial Statements

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THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Amounts in Millions	March 31 2008	June 30 2007
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 3,737	$ 5,354
Investment securities	341	202
Accounts receivable	6,934	6,629
Inventories		
Materials and supplies	2,272	1,590
Work in process	675	444
Finished goods	5,480	4,785
Total inventories	8,427	6,819
Deferred income taxes	2,044	1,727
Prepaid expenses and other current assets	4,259	3,300
TOTAL CURRENT ASSETS	25,742	24,031
PROPERTY, PLANT AND EQUIPMENT		
Buildings	6,955	6,380
Machinery and equipment	29,311	27,492
Land	901	849
	37,167	34,721
Accumulated depreciation	(16,833)	(15,181)
NET PROPERTY, PLANT AND EQUIPMENT	20,334	19,540
GOODWILL AND OTHER INTANGIBLE ASSETS		
Goodwill	59,645	56,552
Trademarks and other intangible assets, net	34,305	33,626
NET GOODWILL AND OTHER INTANGIBLE ASSETS	93,950	90,178
OTHER NON-CURRENT ASSETS	5,379	4,265
TOTAL ASSETS	$ 145,405	$ 138,014
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 5,535	$ 5,710
Accrued and other liabilities	11,757	9,586
Taxes payable	684	3,382

Debt due within one year			13,287	12,039
TOTAL CURRENT LIABILITIES			31,263	30,717
LONG-TERM DEBT			23,673	23,375
DEFERRED INCOME TAXES			11,629	12,015
OTHER NON-CURRENT LIABILITIES			9,251	5,147
TOTAL LIABILITIES			75,816	71,254
SHAREHOLDERS EQUITY				
Preferred stock			1,371	1,406
Common stock shares issued	Mar 31	3,999.3	3,999	
	June 30	3,989.7		3,990
Additional paid-in capital			59,974	59,030
Reserve for ESOP debt retirement			(1,324)	(1,308)
Accumulated other comprehensive income			4,146	617
Treasury stock			(45,816)	(38,772)
Retained earnings			47,239	41,797
TOTAL SHAREHOLDERS EQUITY			69,589	66,760
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY			$ 145,405	$ 138,014

See accompanying Notes to Consolidated Financial Statements

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THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended March 31	
Amounts in millions	2008	2007
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 5,354	$ 6,693
OPERATING ACTIVITIES		
Net earnings	9,059	8,072
Depreciation and amortization	2,270	2,367
Share-based compensation expense	396	482
Deferred income taxes	1,065	306
Changes in:		
Accounts receivable	253	(866)
Inventories	(1,077)	(636)
Accounts payable, accrued and other liabilities	(410)	(233)
Other operating assets and liabilities	(385)	38
Other	547	323
TOTAL OPERATING ACTIVITIES	11,718	9,853
INVESTING ACTIVITIES		
Capital expenditures	(1,852)	(1,996)
Proceeds from asset sales	759	257
Acquisitions	36	(167)
Change in investment securities	(188)	725
TOTAL INVESTING ACTIVITIES	(1,245)	(1,181)
FINANCING ACTIVITIES		
Dividends to shareholders	(3,385)	(3,069)
Change in short-term debt	1,216	9,074
Additions to long-term debt	6,534	1,403
Reductions of long-term debt	(10,227)	(16,088)
Impact of stock options and other	1,436	1,213
Treasury purchases	(8,035)	(4,061)
TOTAL FINANCING ACTIVITIES	(12,461)	(11,528)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	371	157

CHANGE IN CASH AND CASH EQUIVALENTS	(1,617)	(2,699)
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,737	$ 3,994

See accompanying Notes to Consolidated Financial Statements

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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, 2007. The results of operations for the three-month and nine-month period ended March 31, 2008 are not necessarily indicative of annual results.

2. Comprehensive Income Total comprehensive income is composed 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, 2008 and 2007 was $4,389 million and $2,800 million, respectively. For the nine months ended March 31, 2008 and 2007, total comprehensive income was $12,588 million and $8,976 million, respectively.

3. Segment Information Following is a summary of segment results. In May 2007, we announced a number of changes to our organization structure and certain of our key leadership positions. The changes became effective on July 1, 2007 and resulted in changes to our GBU and reporting segment structure. The businesses that previously comprised the Gillette GBU are now included within the Beauty and Household Care GBUs. The Braun business has been combined with the Blades and Razors business to form the Grooming reportable segment within the Beauty GBU. The Grooming reportable segment also includes all face and shave prep products which were previously reported within the Beauty reportable segment. Duracell was moved to our Household Care GBU and will be reported as part of our Fabric Care and Home Care reportable segment. Finally, our feminine care business, which previously was part of our Beauty GBU and reportable segment, is now part of our Health and Well-Being GBU and will be reported as part of the Health Care reportable segment. The following segment information reflects the new segment reporting structure.

SEGMENT INFORMATION

Amounts in millions

		Three Months Ended March 31			Nine Months Ended March 31		
		Net Sales	Earnings Before Income Taxes	Net Earnings	Net Sales	Earnings Before Income Taxes	Net Earnings
Beauty GBU							
Beauty	**2008**	**$ 4,743**	**$ 784**	**$ 589**	**$14,479**	**$ 2,788**	**$2,161**
	2007	4,365	792	603	13,345	2,654	2,041
Grooming	**2008**	**1,977**	**551**	**403**	**6,153**	**1,761**	**1,283**
	2007	1,744	429	310	5,565	1,486	1,081
Health & Well-Being GBU							
Health Care	**2008**	**3,651**	**943**	**617**	**10,982**	**2,979**	**1,980**
	2007	3,291	827	536	10,034	2,665	1,777
Snacks, Coffee and Pet Care	**2008**	**1,207**	**171**	**105**	**3,632**	**556**	**345**
	2007	1,090	191	116	3,406	567	353

Household Care GBU							
Fabric Care and Home Care	**2008**	**5,759**	**1,165**	**781**	**17,737**	**3,827**	**2,579**
	2007	5,220	1,058	700	16,083	3,517	2,365
Baby Care and Family Care	**2008**	**3,531**	**739**	**471**	**10,325**	**2,069**	**1,319**
	2007	3,268	606	382	9,486	1,754	1,106
Corporate	**2008**	**(405)**	**(596)**	**(256)**	**(1,071)**	**(1,454)**	**(608)**
	2007	(284)	(367)	(135)	(715)	(1,141)	(651)
Total	**2008**	**20,463**	**3,757**	**2,710**	**62,237**	**12,526**	**9,059**
	2007	18,694	3,536	2,512	57,204	11,502	8,072

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4. The Company acquired the Gillette Company in October 2005. At that time, we recognized an assumed liability for Gillette exit costs of $1.23 billion, including $854 million in separations related to approximately 5,500 people, $55 million in employee relocation costs and $320 million in other exit costs. These costs are primarily related to the elimination of selling, general and administrative overlap between the two companies in areas like Global Business Services, corporate staff and go-to-market support, as well as redundant manufacturing capacity. As of March 31, 2008, the remaining liability was $322 million. Total integration plan charges against the assumed liability were $94 million for the three months ended March 31, 2008 and $243 million for the nine months ended March 31, 2008. A total of $109 million of the liability was reversed to goodwill during the three months ended March 31, 2008 related to underspending on a number of projects that were concluded during the period. We expect such activities to be substantially complete by June 30, 2008.

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5. Goodwill and Other Intangible Assets Goodwill as of March 31, 2008 is allocated by reportable segment and global business unit as follows (amounts in millions):

	Nine Months Ended March 31, 2008
BEAUTY GBU	
Beauty, beginning of year	**$ 15,359**
Acquisitions and divestitures	(81)
Translation and other	1,406
Goodwill, March 31, 2008	**16,684**
Grooming, beginning of year	**24,211**
Acquisitions and divestitures	(242)
Translation and other	1,408
Goodwill, March 31, 2008	**25,377**
HEALTH & WELL-BEING GBU	
Health Care, beginning of year	**8,482**
Acquisitions and divestitures	(51)
Translation and other	336
Goodwill, March 31, 2008	**8,767**
Snacks, Coffee and Pet Care, beginning of year	**2,407**
Acquisitions and divestitures	(5)
Translation and other	36
Goodwill, March 31, 2008	**2,438**
HOUSEHOLD CARE GBU	
Fabric Care and Home Care, beginning of year	**4,470**
Acquisitions and divestitures	(39)
Translation and other	237
Goodwill, March 31, 2008	**4,668**
Baby Care and Family Care, beginning of year	**1,623**
Acquisitions and divestitures	(34)
Translation and other	122
Goodwill, March 31, 2008	**1,711**
GOODWILL, Net, beginning of year	**56,552**
Acquisitions and divestitures	(452)
Translation and other	3,545

Goodwill, March 31, 2008	**$**	**59,645**

The increase in goodwill from June 30, 2007 is primarily due to currency translation.

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Identifiable intangible assets as of March 31, 2008 are comprised of (amounts in millions):

	Gross Carrying Amount	Accumulated Amortization
Amortizable intangible assets with determinable lives	$ 8,918	$ 2,492
Intangible assets with indefinite lives	27,879	
Total identifiable intangible assets	$ 36,797	$ 2,492

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, 2008 and 2007 was $156 million and $153 million, respectively. For the nine months ended March 31, 2008 and 2007, the amortization expense of intangible assets was $468 million and $484 million respectively.

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

   Total share-based compensation for the three months and nine months ended March 31, 2008 and 2007 are summarized in the following table (amounts in millions):

	Three Months Ended March 31		Nine Months Ended March 31	
	2008	2007	**2008**	2007
Share-Based Compensation				
SFAS 123(R) Stock Options	**$ 144**	$ 180	**$ 373**	$ 439
Other Share-Based Awards	**10**	13	**23**	43
Total Share-Based Compensation	**$ 154**	$ 193	**$ 396**	$ 482

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

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7. Postretirement Benefits The Company offers various postretirement benefits to its employees.

The components of net periodic benefit cost are as follows:
Amounts in millions

	Pension Benefits Three Months Ended March 31	Other Retiree Benefits Three Months Ended March 31