

PROCTER & GAMBLE Co
Form 10-Q
October 25, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark one)

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

For the Quarterly Period Ended September 30, 2013

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
(State of Incorporation)

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

One Procter & Gamble Plaza, Cincinnati, Ohio
(Address of principal executive offices)
(513) 983-1100
(Registrant's telephone number, including area code)

45202
(Zip Code)

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

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

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

There were 2,718,230,729 shares of Common Stock outstanding as of September 30, 2013.

PART I. FINANCIAL INFORMATION

Item I. Financial Statements.

In the opinion of management, these unaudited Consolidated Financial Statements of The Procter & Gamble Company and subsidiaries (the "Company," "Procter & Gamble," "we" or "our") contain all adjustments necessary to present fairly the financial position, results of operations and cash flows for the interim periods reported. However, such financial statements may not necessarily be indicative of annual results.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

Amounts in millions except per share amounts	Three Months Ended September 30	
	2013	2012
NET SALES	\$21,205	\$20,739
Cost of products sold	10,810	10,350
Selling, general and administrative expense	6,244	6,438
OPERATING INCOME	4,151	3,951
Interest expense	165	172
Interest income	21	19
Other non-operating income	5	28
EARNINGS BEFORE INCOME TAXES	4,012	3,826
Income taxes	955	973
NET EARNINGS	3,057	2,853
Less: Net earnings attributable to noncontrolling interests	30	39
NET EARNINGS ATTRIBUTABLE TO PROCTER & GAMBLE	\$3,027	\$2,814
BASIC NET EARNINGS PER COMMON SHARE ⁽¹⁾		
Basic net earnings per common share	\$1.09	\$1.00
Diluted net earnings per common share	1.04	0.96
Dividends per common share	0.602	0.562
Diluted Weighted Average Common Shares Outstanding	2,924.3	2,931.7

(1)Basic net earnings per share and diluted net earnings per share are calculated on net earnings attributable to Procter & Gamble.

See accompanying Notes to Consolidated Financial Statements.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Amounts in millions	Three Months Ended September	
	2013	2012
NET EARNINGS	\$3,057	\$2,853
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX		
Financial statement translation	1,049	1,411
Unrealized gains/(losses) on cash flow hedges	(239	) (230
Unrealized gains/(losses) on investment securities	14	—
Defined benefit retirement plans	(56	) (27
TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX	768	1,154
TOTAL COMPREHENSIVE INCOME	3,825	4,007
Less: Total comprehensive income attributable to noncontrolling interests	35	48
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO PROCTER & GAMBLE	\$3,790	\$3,959

See accompanying Notes to Consolidated Financial Statements.

THE PROCTER & GAMBLE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

Amounts in millions	September 30, 2013	June 30, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$6,122	\$5,947
Available-for-sale investment securities	1,580	—
Accounts receivable	6,555	6,508
Inventories		
Materials and supplies	1,844	1,704
Work in process	698	722
Finished goods	4,852	4,483
Total inventories	7,394	6,909
Deferred income taxes	1,095	948
Prepaid expenses and other current assets	3,576	3,678
TOTAL CURRENT ASSETS	26,322	23,990
PROPERTY, PLANT AND EQUIPMENT, NET	21,876	21,666
GOODWILL	55,874	55,188
TRADEMARKS AND OTHER INTANGIBLE ASSETS, NET	31,715	31,572
OTHER NONCURRENT ASSETS	5,338	6,847
TOTAL ASSETS	\$141,125	\$139,263
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$7,489	\$8,777
Accrued and other liabilities	9,428	8,828
Debt due within one year	16,300	12,432
TOTAL CURRENT LIABILITIES	33,217	30,037
LONG-TERM DEBT	18,480	19,111
DEFERRED INCOME TAXES	10,853	10,827
OTHER NONCURRENT LIABILITIES	9,759	10,579
TOTAL LIABILITIES	72,309	70,554
SHAREHOLDERS' EQUITY		
Preferred stock	1,128	1,137
Common stock – shares issued –	September 2013 4,009.2 June 2013 4,009.2	4,009 4,009
Additional paid-in capital	63,638	63,538
Reserve for ESOP debt retirement	(1,346)	(1,352)
Accumulated other comprehensive income/(loss)	(6,731)	(7,499)
Treasury stock	(74,145)	(71,966)
Retained earnings	81,534	80,197
Noncontrolling interest	729	645
TOTAL SHAREHOLDERS' EQUITY	68,816	68,709
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$141,125	\$139,263

See accompanying Notes to Consolidated Financial Statements.

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

Amounts in millions	Three Months Ended	
	September 30	
	2013	2012
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	\$5,947	\$4,436
OPERATING ACTIVITIES		
Net earnings	3,057	2,853
Depreciation and amortization	771	710
Share-based compensation expense	84	79
Deferred income taxes	(11	) (18
Gain on purchase/sale of businesses	(2	) (17
Changes in:		
Accounts receivable	(3	) (795
Inventories	(452	) (502
Accounts payable, accrued and other liabilities	(809	) 64
Other operating assets and liabilities	(731	) 397
Other	140	(1
TOTAL OPERATING ACTIVITIES	2,044	2,770
INVESTING ACTIVITIES		
Capital expenditures	(725	) (805
Proceeds from asset sales	2	66
Acquisitions, net of cash acquired	1	12
Change in other investments	(124	) (12
TOTAL INVESTING ACTIVITIES	(846	) (739
FINANCING ACTIVITIES		
Dividends to shareholders	(1,708	) (1,605
Change in short-term debt	1,862	1,033
Additions to long-term debt	1,073	2,225
Reductions of long-term debt	—	(1,251
Treasury stock purchases	(2,502	) (2,584
Impact of stock options and other	304	951
TOTAL FINANCING ACTIVITIES	(971	) (1,231
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(52	) 66
CHANGE IN CASH AND CASH EQUIVALENTS	175	866
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$6,122	\$5,302
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, 2013. The results of operations for the three-month period ended September 30, 2013 are not necessarily indicative of annual results.

2. New Accounting Pronouncements and Policies

No new accounting pronouncement issued or effective during the fiscal year had or is expected to have a material impact on the Consolidated Financial Statements.

3. Segment Information

Effective July 1, 2013, the Company implemented a number of changes to our GBU structure, which resulted in changes to our reportable segments. We organized our Global Business Units (GBUs) into four industry-based sectors comprised of 1) Global Beauty, 2) Global Health and Grooming, 3) Global Fabric and Home Care, and 4) Global Baby, Feminine and Family Care. Under U.S. GAAP, the GBUs underlying these sectors will be aggregated into five reportable segments: 1) Beauty, 2) Grooming, 3) Health Care, 4) Fabric Care and Home Care, and 5) Baby, Feminine and Family Care. As a result of the organizational changes, Feminine Care transitioned from Health Care to Baby, Feminine and Family Care, and Pet Care transitioned from Fabric Care and Home Care to Health Care.

Following is a summary of segment results.

		Three Months Ended September 30		
		Net Sales	Earnings Before Income Taxes	Net Earnings
Beauty	2013	\$4,903	\$909	\$690
	2012	4,940	852	658
Grooming	2013	1,956	601	453
	2012	2,007	634	466
Health Care	2013	2,306	398	267
	2012	2,322	486	321
Fabric Care and Home Care	2013	6,700	1,298	857
	2012	6,503	1,327	877
Baby, Feminine and Family Care	2013	5,503	1,121	725
	2012	5,248	1,123	724
Corporate	2013	(163)	(315)	65
	2012	(281)	(596)	(193)
Total	2013	\$21,205	\$4,012	\$3,057
	2012	20,739	3,826	2,853

4. Goodwill and Other Intangible Assets

Goodwill as of September 30, 2013 is allocated by reportable segment as follows. Current and prior year balances reflect the change in segment reporting. As a result, Feminine Care goodwill moved from Health Care to Baby, Feminine and Family Care and Pet Care goodwill moved from Fabric Care and Home Care to Health Care.

specified.

	Beauty	Grooming	Health Care	Fabric Care and Home Care	Baby, Feminine and Family Care	Corporate	Total Company
GOODWILL at June 30, 2013	\$16,663	\$20,617	\$8,318	\$4,453	\$4,828	\$309	\$55,188
Translation and other	263	245	76	43	59	—	686
GOODWILL at September 30, 2013	\$16,926	\$20,862	\$8,394	\$4,496	\$4,887	\$309	\$55,874

Goodwill increased from June 30, 2013, due to currency translation across all reportable segments.

Identifiable intangible assets as of September 30, 2013 are comprised of:

	Gross Carrying Amount	Accumulated Amortization
Intangible assets with determinable lives	\$9,819	\$5,096
Intangible assets with indefinite lives	26,992	—
Total identifiable intangible assets	\$36,811	\$5,096

Intangible assets with determinable lives consist principally of brands, patents, technology and customer relationships. The intangible assets with indefinite lives consist primarily of brands.

The amortization of intangible assets for the three months ended September 30, 2013 and 2012 was \$134 million and \$127 million, respectively.

5. Share-Based Compensation

Total share-based compensation for the three months ended September 30, 2013 and 2012 were as follows:

	Three Months Ended September 30	
	2013	2012
Share-Based Compensation		
Stock options	\$59	\$54
Other share-based awards	25	25
Total share-based compensation	\$84	\$79

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 for defined benefit plans are as follows:

Amounts in millions of dollars unless otherwise specified.

	Pension Benefits		Other Retiree Benefits	
	Three Months Ended		Three Months Ended	
	September 30		September 30	
	2013	2012	2013	2012
Service cost	\$73	\$74	\$37	\$47
Interest cost	143	140	64	64
Expected return on plan assets	(170	) (148	(96	) (95
Prior service cost / (credit) amortization	6	3	(5	) (5
Net actuarial loss amortization	52	53	29	50
Gross benefit cost	104	122	29	61
Dividends on ESOP preferred stock	—	—	(16	) (17
Net periodic benefit cost	\$104	\$122	\$13	\$44

For the year ending June 30, 2014, the expected return on plan assets is 7.2% and 8.3% for pensions 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. For details on the Company's risk management activities and fair value measurement policies under the fair value hierarchy, refer to the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

Fair Value Hierarchy

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 September 30, 2013 and June 30, 2013 that are measured at fair value on a recurring basis during the period, segregated by level within the fair value hierarchy:

Amounts in millions of dollars unless otherwise specified.

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	Level 1		Level 2		Level 3		Total	
	September 30, 2013	June 30, 2013	September 30, 2013	June 30, 2013	September 30, 2013	June 30, 2013	September 30, 2013	June 30, 2013
Assets recorded at fair value:								
Investments:								
U.S. government securities	\$—	\$—	\$1,580	\$1,571	\$—	\$—	\$1,580	\$1,571
Other investments	31	23	—	—	24	24	55	47
Derivatives relating to:								
Foreign currency hedges	—	—	164	168	—	—	164	168
Other foreign currency instruments ⁽¹⁾	—	—	35	19	—	—	35	19
Interest rates	—	—	167	191	—	—	167	191
Net investment hedges	—	—	224	233	—	—	224	233
Total assets recorded at fair value ⁽²⁾	31	23	2,170	2,182	24	24	2,225	2,229
Liabilities recorded at fair value:								
Derivatives relating to:								