

# PROCTER & GAMBLE CO

## FORM 10-K (Annual Report)

Filed 08/14/09 for the Period Ending 06/30/09

Address	ONE PROCTER & GAMBLE PLAZA CINCINNATI, OH 45202
Telephone	5139831100
CIK	0000080424
Symbol	PG
SIC Code	2840 - Soap, Detergents, And Cleaning Preparations;
Industry	Personal & Household Prods.
Sector	Consumer/Non-Cyclical
Fiscal Year	06/30

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## STOCK-BASED COMPENSATION

We have stock-based compensation plans under which we annually grant stock option and restricted stock awards to key managers and directors. Exercise prices on options granted have been and continue to be set equal to the market price of the underlying shares on the date of the grant. The key manager stock option awards granted since September 2002 are vested after three years and have a 10-year life. The key manager stock option awards granted from July 1998 through August 2002 vested after three years and have a 15-year life. Key managers can elect to receive up to 50% of the value of their option award in restricted stock units (RSUs). Key manager RSUs are vested and settled in shares of common stock five years from the grant date. The awards provided to the Company's directors are in the form of restricted stock and RSUs. In addition to our key manager and director grants, we make other minor stock option and RSU grants to employees for which the terms are not substantially different.

A total of 229 million shares of common stock were authorized for issuance under stock-based compensation plans approved by shareholders in 2001 and 2003, of which 12 million remain available for grant. An additional 20 million shares of common stock available for issuance under a plan approved by Gillette shareholders in 2004 were assumed by the Company in conjunction with the acquisition of Gillette. A total of 10 million of these shares remain available for grant under this plan.

Total stock-based compensation expense for stock option grants was \$460, \$522 and \$612 for 2009, 2008 and 2007, respectively. The total income tax benefit recognized in the income statement for these stock-based compensation arrangements was \$126, \$141 and \$163 for 2009, 2008 and 2007, respectively. Total compensation cost for restricted stock, RSUs and other stock-based grants, was \$56, \$33 and \$56 in 2009, 2008 and 2007, respectively.

In calculating the compensation expense for stock options granted, we utilize a binomial lattice-based valuation model. Assumptions utilized in the model, which are evaluated and revised, as necessary, to reflect market conditions and experience, were as follows:

Years ended June 30	2009	2008	2007
Interest rate	0.7–3.8%	1.3–3.8%	4.3–4.8%
Weighted average interest rate	3.6%	3.4%	4.5%
Dividend yield	2.0%	1.9%	1.9%
Expected volatility	18–34%	19–25%	16–20%
Weighted average volatility	21%	20%	19%
Expected life in years	8.7	8.3	8.7

Amounts in millions of dollars except per share amounts or as otherwise specified.

Because lattice-based option valuation models incorporate ranges of assumptions for inputs, those ranges are disclosed in the preceding table. Expected volatilities are based on a combination of historical volatility of our stock and implied volatilities of call options on our stock. We use historical data to estimate option exercise and employee termination patterns within the valuation model. The expected life of options granted is derived from the output of the option valuation model and represents the average period of time that options granted are expected to be outstanding. The interest rate for periods within the contractual life of the options is based on the U.S. Treasury yield curve in effect at the time of grant.

A summary of options outstanding under the plans as of June 30, 2009, and activity during the year then ended is presented below:

Options in thousands	Options	Weighted Avg.		Aggregate Intrinsic Value (in millions)
		Exercise Price	Remaining Contractual Life in Years	
Outstanding, beginning of year	337,177	\$ 48.25		
Granted	37,623	50.30		
Exercised	(16,199)	39.45		
Canceled	(1,284)	57.62		
<b>OUTSTANDING, END OF YEAR</b>	<b>357,317</b>	<b>48.83</b>	<b>6.3</b>	<b>\$ 2,084</b>
<b>EXERCISABLE</b>	<b>259,362</b>	<b>44.93</b>	<b>5.4</b>	<b>1,984</b>

The weighted average grant-date fair value of options granted was \$11.67, \$15.91 and \$17.29 per share in 2009, 2008 and 2007, respectively. The total intrinsic value of options exercised was \$434, \$1,129 and \$894 in 2009, 2008 and 2007, respectively. The total grant-date fair value of options that vested during 2009, 2008 and 2007 was \$537, \$532 and \$552, respectively. We have no specific policy to repurchase common shares to mitigate the dilutive impact of options; however, we have historically made adequate discretionary purchases, based on cash availability, market trends and other factors, to satisfy stock option exercise activity.

At June 30, 2009, there was \$524 of compensation cost that has not yet been recognized related to stock awards. That cost is expected to be recognized over a remaining weighted average period of 2.0 years.

Cash received from options exercised was \$639, \$1,837 and \$1,422 in 2009, 2008 and 2007, respectively. The actual tax benefit realized for the tax deductions from option exercises totaled \$146, \$318 and \$265 in 2009, 2008 and 2007, respectively.

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**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in the following documents of our reports dated August 14, 2009, relating to the consolidated financial statements of The Procter & Gamble Company and subsidiaries (which report expresses an unqualified opinion and includes an explanatory paragraph regarding the Company's adoption of new accounting guidance on the accounting for uncertainty in income taxes, effective July 1, 2007), and the effectiveness of The Procter & Gamble Company and subsidiaries' internal control over financial reporting, incorporated by reference in the Annual Report on Form 10-K of The Procter & Gamble Company and subsidiaries for the year ended June 30, 2009.

1. Amendment No. 1 on Form S-8 Registration Statement No. 33-31855 on Form S-4 (now S-8) for the 1982 Noxell Employees' Stock Option Plan and the 1984 Noxell Employees' Stock Option Plan;
2. Post-Effective Amendment No. 1 to Registration Statement No. 33-49289 on Form S-8 for The Procter & Gamble 1992 Stock Plan;
3. Registration Statement No. 33-47656 on Form S-8 for The Procter & Gamble International Stock Ownership Plan;
4. Registration Statement No. 33-50273 on Form S-8 for The Procter & Gamble Commercial Company Employees' Savings Plan;
5. Registration Statement No. 33-51469 on Form S-8 for The Procter & Gamble 1993 Non-Employee Directors' Stock Plan;
6. Registration Statement No. 333-05715 on Form S-8 for The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan;
7. Post-Effective Amendment No. 2 to Registration Statement No. 33-59257 on Form S-3 for The Procter & Gamble Shareholder Investment Program;
8. Registration Statement No. 333-14381 on Form S-8 for Profit Sharing Retirement Plan of The Procter & Gamble Commercial Company;
9. Registration Statement No. 333-14397 on Form S-8 for Procter & Gamble Subsidiaries Savings Plan;
10. Registration Statement No. 333-21783 on Form S-8 for The Procter & Gamble 1992 Stock Plan (Belgian Version);
11. Registration Statement No. 333-37905 on Form S-8 for The Procter & Gamble Future Shares Plan;
12. Registration Statement No. 333-51213 on Form S-8 for Group Profit Sharing, Incentive, and Employer Contribution Plan (France);
13. Registration Statement No. 333-51219 on Form S-8 for Procter & Gamble Ireland Employees Share Ownership Plan;
14. Registration Statement No. 333-51221 on Form S-8 for Employee Stock Purchase Plan (Japan);
15. Registration Statement No. 333-51223 on Form S-8 for Savings and Thrift Plan (Saudi Arabia);
16. Registration Statement No. 333-34606 on Form S-8 for The Procter & Gamble Future Shares Plan;

17. Registration Statement No. 333-40264 on Form S-8 for Savings and Thrift Plan Saudi Arabia;
18. Registration Statement No. 333-44034 on Form S-8 for The Procter & Gamble International Stock Ownership Plan;
19. Registration Statement No. 333-47132 on Form S-8 for Employee Stock Purchase Plan (Japan);
20. Registration Statement No. 333-49764 on Form S-3 for The Procter & Gamble U.K. Share Investment Scheme;
21. Registration Statement No. 333-75030 on Form S-8 for The Procter & Gamble 2001 Stock and Incentive Compensation Plan;
22. Registration Statement No. 333-100561 on Form S-8 for The Procter & Gamble (U.K.) 1-4-1 Plan;
23. Registration Statement No. 333-108753 on Form S-8 for The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan;
24. Registration Statement No. 333-108991 on Form S-8 for The Procter & Gamble 1992 Stock Plan (Belgian Version);
25. Registration Statement No. 333-108992 on Form S-8 for Savings and Thrift Plan (Saudi Arabia);
26. Registration Statement No. 333-108993 on Form S-8 for Employee Stock Purchase Plan (Japan);
27. Registration Statement No. 333-108994 on Form S-8 for Procter & Gamble Ireland Employees Share Plan;
28. Registration Statement No. 333-108995 on Form S-8 for Group Profit Sharing, Incentive, and Employer Contribution Plan (France);
29. Registration Statement No. 333-108997 on Form S-8 for The Procter & Gamble International Stock Ownership Plan;
30. Registration Statement No. 333-108998 on Form S-8 for The Procter & Gamble 1993 Non-Employee Directors' Stock Plan;
31. Registration Statement No. 333-108999 on Form S-8 for The Procter & Gamble 1992 Stock Plan;
32. Registration Statement No. 333-111304 on Form S-8 for The Procter & Gamble 2003 Non-Employee Directors' Stock Plan;
33. Registration Statement No. 333-111305 on Form S-8 for The Procter & Gamble U.K. Share Investment Scheme;
34. Amendment No. 1 to Registration Statement No. 333-113515 on Form S-3 for The Procter & Gamble Company Debt Securities and Warrants;
35. Amendment No. 3 to Registration Statement No. 333-123309 on Form S-4 for The Procter & Gamble Company;
36. Registration Statement No. 333-128859 on Form S-8 for certain employee benefit plans of The Gillette Company (2004 Long-Term Incentive Plan of The Gillette Company; 1971 Stock Option Plan of The Gillette Company; James M. Kilts Non-Statutory Stock Option Plan; The Gillette Company Employees' Savings Plan; The Gillette Company Supplemental Savings Plan; The Gillette Company Global Employee Stock Ownership Plan (GESOP));
  
37. Registration Statement No. 333-143801 on Form S-8 for The Procter & Gamble Savings Plan;
38. Registration Statement No. 333-145938 on Form S-3 for The Procter & Gamble Company and Procter & Gamble International Funding SCA;
39. Registration Statement No. 333-146904 on Form S-8 for The Gillette Company Employees' Savings Plan;
40. Registration Statement No. 333-155046 on Form S-8 for Employee Stock Purchase Plan (Japan);
41. Registration Statement No. 333-156032 on Form S-3 for The Procter & Gamble U.K. Share Investment Scheme; and
42. Registration Statement No. 333-156033 on Form S-3 for The Procter & Gamble Shareholder Investment Program.

/s/ DELOITTE & TOUCHE LLP

Deloitte & Touche LLP

Cincinnati, Ohio

August 14, 2009