PG 10-K 6/30/2013

Section 1: 10-K (FY 2013 10K ANNUAL REPORT)

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark one)

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 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 No. 1-434

THE PROCTER & GAMBLE COMPANY

One Procter & Gamble Plaza, Cincinnati, Ohio 45202

Telephone (513) 983-1100

IRS Employer Identification No. 31-0411980

State of Incorporation: Ohio

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, without Par Value	**New York Stock Exchange, NYSE Euronext-Paris**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☑ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑

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 website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).
Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ 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 ☑

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting of The Procter & Gamble Company (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

Strong internal controls is an objective that is reinforced through our *Worldwide Business Conduct Manual*, which sets forth our commitment to conduct business with integrity, and within both the letter and the spirit of the law. The Company's internal control over financial reporting includes a Control Self-Assessment Program that is conducted annually for critical financial reporting areas of the Company and is audited by the internal audit function. Management takes the appropriate action to correct any identified control deficiencies. Because of its inherent limitations, any system of internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements due to the possibility that a control can be circumvented or overridden or that misstatements due to error or fraud may occur that are not detected. Also, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the effectiveness of the Company's internal control over financial reporting as of June 30, 2013, using criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and concluded that the Company maintained effective internal control over financial reporting as of June 30, 2013, based on these criteria.

Deloitte & Touche LLP, an independent registered public accounting firm, has audited the effectiveness of the Company's internal control over financial reporting as of June 30, 2013, as stated in their report which is included herein.

/s/ A. G. Lafley

A. G. Lafley
Chairman of the Board, President and Chief Executive Officer

/s/ Jon R. Moeller

Jon R. Moeller
Chief Financial Officer

August 8, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
The Procter & Gamble Company

We have audited the accompanying Consolidated Balance Sheets of The Procter & Gamble Company and subsidiaries (the "Company") as of June 30, 2013 and 2012, and the related Consolidated Statements of Earnings, Comprehensive Income, Shareholders' Equity and Cash Flows for each of the three years in the period ended June 30, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company at June 30, 2013 and 2012, and the results of its operations and cash flows for each of the three years in the period ended June 30, 2013, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the Consolidated Financial Statements, the Company adopted the new accounting guidance in ASU 2011-05, *Comprehensive Income (Topic 220) - Presentation of Comprehensive Income*, and ASU 2013-02, *Comprehensive Income (Topic 220) - Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of June 30, 2013, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated August 8, 2013 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Cincinnati, Ohio
August 8, 2013

Net earnings attributable to Procter & Gamble and common shares used to calculate basic and diluted net earnings per share were as follows:

Years ended June 30	2013	2012	2011
NET EARNINGS FROM CONTINUING OPERATIONS	**$ 11,402**	$ 9,317	$ 11,698
Net earnings from discontinued operations	**—**	1,587	229
NET EARNINGS	**11,402**	10,904	11,927
Net earnings attributable to noncontrolling interests	**(90)**	(148)	(130)
NET EARNINGS ATTRIBUTABLE TO PROCTER & GAMBLE (Diluted)	**11,312**	10,756	11,797
Preferred dividends, net of tax benefit	**(244)**	(256)	(233)
NET EARNINGS ATTRIBUTABLE TO PROCTER & GAMBLE AVAILABLE TO COMMON SHAREHOLDERS (Basic)	**11,068**	10,500	11,564
NET EARNINGS FROM CONTINUING OPERATIONS ATTRIBUTABLE TO PROCTER & GAMBLE AVAILABLE TO COMMON SHAREHOLDERS (Basic)	**$ 11,068**	$ 8,913	$ 11,335
NET EARNINGS FROM CONTINUING OPERATIONS ATTRIBUTABLE TO PROCTER & GAMBLE (Diluted)	**$ 11,312**	$ 9,169	$ 11,568

Shares in millions; Years ended June 30	2013	2012	2011
Basic weighted average common shares outstanding	**2,742.9**	2,751.3	2,804.0
Effect of dilutive securities			
Conversion of preferred shares[(1)]	**116.8**	123.9	128.5
Exercise of stock options and other unvested equity awards[(2)]	**70.9**	66.0	69.4
DILUTED WEIGHTED AVERAGE COMMON SHARES OUTSTANDING	**2,930.6**	2,941.2	3,001.9

(1) Despite being included currently in diluted net earnings per common share, the actual conversion to common stock occurs when the preferred shares are sold. Shares may only be sold after being allocated to the ESOP participants pursuant to the repayment of the ESOP's obligations through 2035.

(2) Approximately 12 million in 2013, 67 million in 2012 and 93 million in 2011 of the Company's outstanding stock options were not included in the diluted net earnings per share calculation because the options were out of the money or to do so would have been antidilutive (i.e., the total proceeds upon exercise would have exceeded the market value of the underlying common shares).

NOTE 8

STOCK-BASED COMPENSATION

We have stock-based compensation plans under which we annually grant stock option, restricted stock, restricted stock unit (RSU) and performance stock unit (PSU) 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. Since September 2002, the key manager stock option awards granted vest 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 100% of the value of their option award in RSUs. Key manager RSUs vest and are 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 than those described in the preceding paragraph. In 2011, we implemented a performance stock program (PSP) and granted PSUs to senior level executives. Under this program, the number of PSUs that will vest three years after the respective grant date is based on the Company's performance relative to pre-established performance goals during that three year period.

A total of 180 million shares of common stock were authorized for issuance under stock-based compensation plans approved by shareholders in 2003 and 2009. A total of 56 million shares remain available for grant under the 2003 and 2009 plans.

Total stock-based compensation expense for stock option grants was $249, $317 and $358 for 2013, 2012 and 2011, respectively. Total compensation expense for restricted stock, RSUs and PSUs was $97, $60 and $56 in 2013, 2012 and 2011, respectively. The total income tax benefit recognized in the income statement for stock options, restricted stock, RSUs and PSUs was $96, $102 and $117 in 2013, 2012 and 2011, 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	2013	2012	2011
Interest rate	**0.2-2.0%**	0.2-2.1%	0.3-3.7%
Weighted average interest rate	**1.8%**	1.9%	3.4%
Dividend yield	**2.9%**	2.6%	2.4%
Expected volatility	**14-15%**	12-18%	14-18%
Weighted average volatility	**15%**	15%	16%
Expected life in years	**8.9**	8.5	8.8

Lattice-based option valuation models incorporate ranges of assumptions for inputs and 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, RSUs and PSUs outstanding under the plans as of June 30, 2013, and activity during the year then ended is presented below:

Options in thousands	Options	Weighted Avg. Exercise Price	Weighted Avg. Remaining Contract-ual Life in Years	Aggregate Intrinsic Value (in millions)
Outstanding, beginning of year	**353,093**	**$ 53.83**		
Granted	**24,818**	**75.41**		
Exercised	**(69,933)**	**47.09**		
Canceled	**(1,739)**	**60.97**		
OUTSTANDING, END OF YEAR	**306,239**	**57.07**	**4.9**	**$ 6,100**
EXERCISABLE	**223,154**	**52.97**	**3.6**	**5,367**

The weighted average grant-date fair value of options granted was $8.19, $8.05 and $11.09 per share in 2013, 2012 and 2011, respectively. The total intrinsic value of options exercised was $1,759, $820 and $628 in 2013, 2012 and 2011, respectively. The total grant-date fair value of options that vested during 2013, 2012 and 2011 was $352, $435 and $445, respectively. At June 30, 2013, there was $233 of compensation cost that has not yet been recognized related to stock option grants. That cost is expected to be recognized over a remaining weighted average period of 1.8 years. Cash received from options exercised was $3,294, $1,735 and $1,237 in 2013, 2012 and 2011, respectively.

The actual tax benefit realized for the tax deductions from option exercises totaled $575, $239 and $188 in 2013, 2012 and 2011, respectively.

	RSUs		PSUs	
Other Stock-Based Awards in thousands	Units	Weighted-Average Grant-Date Fair Value	Units	Weighted-Average Grant-Date Fair Value
Non-vested at July 1, 2012	3,670	$ 55.53	1,261	$ 58.79
Granted	1,951	62.69	626	67.70
Vested	(952)	59.50	—	—
Forfeited	(79)	55.31	—	—
Non-vested at June 30, 2013	4,590	56.88	1,887	61.75

At June 30, 2013, there was $195 of compensation cost that has not yet been recognized related to restricted stock, RSUs and PSUs. That cost is expected to be recognized over a remaining weighted average period of 3.1 years. The total fair value of shares vested was $51, $38 and $30 in 2013, 2012 and 2011, respectively.

We have no specific policy to repurchase common shares to mitigate the dilutive impact of options, RSUs and PSUs. However, we have historically made adequate discretionary purchases, based on cash availability, market trends and other factors, to offset the impacts of such activity.

NOTE 9

POSTRETIREMENT BENEFITS AND EMPLOYEE STOCK OWNERSHIP PLAN

We offer various postretirement benefits to our employees.

Defined Contribution Retirement Plans

We have defined contribution plans which cover the majority of our U.S. employees, as well as employees in certain other countries. These plans are fully funded. We generally make contributions to participants' accounts based on individual base salaries and years of service. Total global defined contribution expense was $314, $353 and $347 in 2013, 2012 and 2011, respectively.

The primary U.S. defined contribution plan (the U.S. DC plan) comprises the majority of the expense for the Company's defined contribution plans. For the U.S. DC plan, the contribution rate is set annually. Total contributions for this plan approximated 15% of total participants' annual wages and salaries in 2013, 2012 and 2011.

We maintain The Procter & Gamble Profit Sharing Trust (Trust) and Employee Stock Ownership Plan (ESOP) to provide a portion of the funding for the U.S. DC plan and other retiree benefits (described below). Operating details of the ESOP are provided at the end of this Note. The fair value of the ESOP Series A shares allocated to participants

Section 1: DEF 14A (DEFINITIVE PROXY STATEMENT)

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934
(Amendment No. __)

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement
☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
☒ Definitive Proxy Statement
☐ Definitive Additional Materials
☐ Soliciting Material Pursuant to §240.14a-12

The Procter & Gamble Company

(Name of Registrant as Specified In Its Charter)

Payment of Filing Fee (Check the appropriate box):

☒ No fee required.
☐ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which the transaction applies:

(2) Aggregate number of securities to which the transaction applies:

(3) Per unit price or other underlying value of the transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of the transaction:

(5) Total fee paid:

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Director Compensation

The following table and footnotes provide information regarding the compensation paid to the Company's non-employee Directors in FY 2012-13. Directors who are employees of the Company receive no compensation for their service as Directors.

Director Compensation Table

Name	Fees: Annual Retainer ($)	Fees: Committee Chair & Presiding Director Fees ($)	Fees: Total Fees Earned or Paid in Cash ($)	Stock Awards [1] ($)	All Other Compensation[2] ($)	Total ($)
Angela F. Braly	110,000	0	110,000[3]	160,000	100	270,100
Kenneth I. Chenault	110,000	0	110,000	160,000	100	270,100
Scott D. Cook	110,000	15,000	125,000[4]	160,000	100	285,100
Susan Desmond-Hellmann	110,000	0	110,000	160,000	100	270,100
Terry J. Lundgren	55,000	0	55,000[5]	0	100	55,100
W. James McNerney Jr.	110,000	47,500	157,500[6]	160,000	100	317,600
Johnathan A. Rodgers	110,000	0	110,000[7]	160,000	100	270,100
Margaret C. Whitman	110,000	0	110,000	160,000	100	270,100
Mary Agnes Wilderotter	110,000	0	110,000	160,000	100	270,100
Patricia A. Woertz	110,000	23,750	133,750	160,000	100	293,850
Ernesto Zedillo	110,000	15,000	125,000	160,000	100	285,100

[1] Annually, upon election at the Company's annual meeting of shareholders, each Director is awarded a grant of RSUs with a grant date fair value of $160,000. Since Mr. Lundgren did not join the Board until January 8, 2013, he was not entitled to the 2011-12 award. As of the end of FY 2012-13:

a. Ms. Braly has 12,816 unvested stock awards outstanding.
b. Mr. Chenault has 16,974 unvested stock awards outstanding.
c. Mr. Cook has 33,898 unvested stock awards outstanding and 7,790 option awards outstanding.
d. Dr. Desmond-Hellmann has 5,006 unvested stock awards outstanding.
e. Mr. McNerney has 28,697 unvested stock awards outstanding.
f. Mr. Rodgers has 36,457 unvested stock awards outstanding and 3,760 option awards outstanding.
g. Ms. Whitman has 5,006 unvested stock awards outstanding.
h. Mrs. Wilderotter has 10,279 unvested stock awards outstanding.
i. Ms. Woertz has 12,544 unvested stock awards outstanding.
j. Dr. Zedillo has 28,608 unvested stock awards outstanding and 3,760 option awards outstanding.

Unvested stock awards include RSUs that have not delivered in shares and restricted stock for which the restrictions have not lapsed. RSUs earn dividend equivalents which are accrued in the form of additional RSUs each quarter and credited to each Director's holdings. These RSUs have the same vesting restrictions as the underlying RSUs and are ultimately deliverable in shares. Restricted stock earns cash dividends that are paid quarterly with the option of reinvesting in Company stock.

[2] For one of the Board meetings during FY 2012-13, the Company incurred cost associated with providing a minor commemorative item valued at $100. For the December 2012 Board meeting, each Director was encouraged to bring a guest. For all Board meetings throughout the fiscal year, Directors were entitled to bring a guest so long as the Director used the Company aircraft to attend the meeting and the guest's attendance did not result in any incremental aircraft costs. Directors and their guests are also covered under the same insurance policy as all Company employees for accidental death while traveling on Company business (coverage is $750,000 for each Director and $300,000 for a guest). The incremental cost to the Company for this benefit is $1,982. In addition, the Company maintains a Charitable Awards Program for current and retired Directors who were participants prior to July 1, 2003. Under this program, at their death, the Company donates $1,000,000 per Director to up to five qualifying charitable organizations selected by each Director. Directors derive no financial benefit from the program because the charitable deductions accrue solely to the Company. The Company funds this contribution from general corporate assets. Upon the death of a former Director, the Company donated $1,000,000 during FY 2012-13 to charities previously designated by that Director. This program was discontinued for any new Director effective July 1, 2003. In FY 2012-13, the Company made a $500 donation on behalf of each Director to the Children's Safe Drinking Water Program or to a different charity of their choice. Similar to the Charitable Awards Program described above, these donations were funded from general corporate assets, and the Directors derive no financial benefit from these donations because the charitable deductions accrue solely to the Company. As employee Directors, neither Mr. McDonald nor Mr. Lafley received a retainer, fees, or a stock award. Mr. McDonald attended Board meetings and activities as described above, and, in conjunction with those meetings, received the minor commemorative item.

[3] Ms. Braly took $105,000 of her fees for FY 2012-13 in stock. For the first half of FY 2012-13, she received retirement restricted stock, which had a grant date fair value of $55,066. For the second half of FY 2012-13, she took her fees in unrestricted stock, which had a grant date fair value of $50,110.

[4] Mr. Cook took $120,000 of his fees for FY 2012-13 in retirement restricted stock, which had a grant date fair value of $120,207.

[5] Mr. Lundgren took his fees for the second half of FY 2012-13 in unrestricted stock, which had a grant date fair value of $55,126.

[6] Mr. McNerney took his fees for FY 2012-13 in unrestricted stock, which had a grant date fair value of $157,734.

[7] Mr. Rodgers took 50% of his fees for the first half of FY 2012-13 in retirement restricted stock, which had a grant date fair value of $27,567, and the remaining 50% in cash. During the second half of FY 2012-13, he took his fees in cash.

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C&LD Committee Report

Report of the Compensation & Leadership Development Committee

The Compensation & Leadership Development Committee of the Board of Directors has reviewed and discussed the following section of this proxy statement entitled “Compensation Discussion and Analysis” with management. Based on this review and discussion, the Committee has recommended to the Board that the section entitled “Compensation Discussion and Analysis,” as it appears on the following pages, be included in this proxy statement and incorporated by reference into the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

W. James McNerney, Jr., Chair
Kenneth I. Chenault
Scott D. Cook
Margaret C. Whitman
Mary Agnes Wilderotter

August 13, 2013