

PROCTER & GAMBLE CO  
Form DEF 14A  
August 29, 2008  
Table of Contents

**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

**Procter & Gamble Company**

Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

(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:

---

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:

---

Table of Contents

**THE PROCTER & GAMBLE COMPANY**

**Notice of Annual Meeting**

**and**

**Proxy Statement**

**Procter & Gamble Hall**

**at the Aronoff Center for the Arts**

**Annual Meeting of Shareholders**

**October 14, 2008**

Table of Contents

**THE PROCTER & GAMBLE COMPANY**

**P.O. Box 599**

**Cincinnati, Ohio 45201-0599**

August 29, 2008

Fellow Procter & Gamble Shareholders:

It is my pleasure to invite you to this year's annual meeting of shareholders, which will be held on Tuesday, October 14, 2008.

The meeting will start at 9:00 a.m., Eastern Daylight Time, at the Procter & Gamble Hall at the Aronoff Center for the Arts, 650 Walnut Street, in Cincinnati.

I appreciate your continued confidence in our Company and look forward to seeing you on October 14.

Sincerely,

A. G. LAFLEY

CHAIRMAN OF THE BOARD AND

CHIEF EXECUTIVE OFFICER

Table of Contents

**THE PROCTER & GAMBLE COMPANY**

**P.O. Box 599**

**Cincinnati, Ohio 45201-0599**

**NOTICE OF ANNUAL MEETING OF SHAREHOLDERS**

August 29, 2008

**Date:** Tuesday, October 14, 2008  
**Time:** 9:00 a.m., Eastern Daylight Time  
**Place:** Procter & Gamble Hall at the Aronoff Center for the Arts  
650 Walnut Street, Cincinnati, Ohio

**Purposes of the meeting:**

To review the minutes of the 2007 annual meeting of shareholders;

To receive reports of officers;

To elect twelve members of the Board of Directors;

To vote on a proposal to ratify the appointment of the independent registered public accounting firm;

To vote on a proposal to amend the Company's Amended Articles of Incorporation to adopt majority voting for the election of directors in non-contested elections;

To vote on two shareholder proposals; and

To consider any other matters properly brought before the meeting.

**Who may attend the meeting:**

Only shareholders, persons holding proxies from shareholders, and invited representatives of the media and financial community may attend the meeting.

Shareholders attending the meeting who are hearing-impaired should identify themselves during registration so they can sit in a special section where an interpreter will be available.

**What to bring:**

## Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

If your shares are registered in your name, and you requested and received a printed copy of the proxy materials, you should bring the enclosed Admission Ticket to the meeting. If you received a Notice of Internet Availability of Proxy Materials and will not be requesting a printed copy of the proxy materials, please bring that Notice with you as your Admission Ticket.

**If your shares are held in the name of a broker, trust, bank, or other nominee, you will need to bring a proxy or letter from that broker, trust, bank, or nominee that confirms that you are the beneficial owner of those shares.**

## **Table of Contents**

### **Webcast of the annual meeting:**

If you are not able to attend the meeting in person, you may join a live video and audiocast of the meeting on the Internet by visiting [www.pg.com/investors](http://www.pg.com/investors) at 9:00 a.m., Eastern Daylight Time on October 14, 2008.

### **Record Date:**

August 15, 2008 is the record date for the meeting. This means that owners of Procter & Gamble stock at the close of business on that date are entitled to:

receive notice of the meeting; and

vote at the meeting and any adjournments or postponements of the meeting.

### **Information About the Notice of Internet Availability of Proxy Materials**

This year, instead of mailing a printed copy of our proxy materials, including our Annual Report, to each shareholder of record, we have decided to provide access to these materials in a fast and efficient manner via the Internet. This reduces the amount of paper necessary to produce these materials, as well as the costs associated with mailing these materials to all shareholders. Accordingly, on August 29, 2008, we began mailing a Notice of Internet Availability of Proxy Materials (the Notice) to all shareholders of record as of August 15, 2008, and posted our proxy materials on the website referenced in the Notice ([www.proxyvote.com](http://www.proxyvote.com)). As more fully described in the Notice, all shareholders may choose to access our proxy materials on the website referred to in the Notice or may request to receive a printed set of our proxy materials. In addition, the Notice and website provide information regarding how you may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis.

### **Householding Information**

We have adopted a procedure approved by the Securities and Exchange Commission ( SEC ) called householding. Under this procedure, shareholders of record who have the same address and last name and have not previously requested electronic delivery of proxy materials will receive a single envelope containing the Notices for all shareholders having that address. The Notice for each shareholder will include that shareholder's unique control number needed to vote his or her shares. This procedure will reduce our printing costs and postage fees.

If, in the future, you do not wish to participate in householding and prefer to receive your Notice in a separate envelope, please call us toll-free at 1-800-742-6253 in the U.S., or inform us in writing at: The Procter & Gamble Company, Shareholder Services, P.O. Box 5572, Cincinnati, OH 45201-5572. We will respond promptly to such requests.

For those shareholders who have the same address and last name and who request to receive a printed copy of the proxy materials by mail, we will send only one copy of such materials to each address unless one or more of those shareholders notifies us, in the same manner described above, that they wish to receive a printed copy for each shareholder at that address.

Beneficial shareholders can request information about householding from their banks, brokers or other holders of record.



**Table of Contents**

**Proxy Voting:**

**Your vote is important. Please vote your proxy promptly so your shares can be represented, even if you plan to attend the annual meeting. You can vote by Internet, by telephone, or by requesting a printed copy of the proxy materials and using the enclosed proxy card.**

**Our proxy tabulator, Broadridge Financial Solutions, must receive any proxy that will not be delivered in person to the annual meeting by 11:59 p.m., Eastern Daylight Time on Monday, October 13, 2008.**

By order of the Board of Directors,

STEVEN W. JEMISON

Chief Legal Officer and Secretary

**Table of Contents**

**Table of Contents**

<u>Voting Information</u>	2
<u>Election of Directors</u>	4
<u>The Board of Directors</u>	7
<u>Committees of the Board</u>	8
<u>Corporate Governance</u>	10
<u>Director Compensation</u>	13
<u>Director Compensation Table</u>	13
<u>Report of the Compensation &amp; Leadership Development Committee</u>	15
<u>Compensation Discussion and Analysis</u>	16
<u>Executive Compensation</u>	37
<u>Summary Compensation Table</u>	37
<u>Grants of Plan-Based Awards Table</u>	41
<u>Outstanding Equity at Fiscal Year-End Table</u>	42
<u>Option Exercises and Stock Vested Table</u>	45
<u>Pension Benefits Table</u>	45
<u>Nonqualified Deferred Compensation Table</u>	47
<u>Payments upon Termination or Change-in-Control</u>	48
<u>Security Ownership of Management and Certain Beneficial Owners</u>	51
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	53
<u>Report of the Audit Committee</u>	54
<u>Proposal to Ratify Appointment of the Independent Registered Public Accounting Firm</u>	56
<u>Proposal to Amend the Company's Amended Articles of Incorporation</u>	56
<u>Shareholder Proposals</u>	58
<u>2009 Annual Meeting Date</u>	60
<u>Other Matters</u>	60
<u>Exhibit A Guidelines of The Procter &amp; Gamble Company Audit Committee for Pre-Approval of Independent Auditor Services</u>	A-1

## **Table of Contents**

### **Proxy Statement**

As more fully described in the Notice, the Board of Directors of The Procter & Gamble Company (the Company) has made these materials available to you over the Internet or, upon your request, has mailed you printed versions of these materials in connection with the Company's 2008 annual meeting of shareholders, which will take place on October 14, 2008. The Notice was mailed to Company shareholders beginning August 29, 2008, and our proxy materials were posted on the website referenced in the Notice on that same date. The Company, on behalf of its Board of Directors, is soliciting your proxy to vote your shares at the 2008 annual meeting of shareholders. We solicit proxies to give all shareholders of record an opportunity to vote on matters that will be presented at the annual meeting. In this proxy statement, you will find information on these matters, which is provided to assist you in voting your shares.

### **Voting Information**

#### **Who can vote?**

You can vote if, as of the close of business on Friday, August 15, 2008, you were a shareholder of record of the Company:

Common Stock;

Series A ESOP Convertible Class A Preferred Stock; or

Series B ESOP Convertible Class A Preferred Stock.

Each share of Company stock gets one vote. On August 15, 2008, there were issued and outstanding:

2,999,885,257 shares of Common Stock;

76,826,663 shares of Series A ESOP Convertible Class A Preferred Stock; and

64,751,804 shares of Series B ESOP Convertible Class A Preferred Stock.

#### **For The Procter & Gamble Shareholder Investment Program participants:**

If you are a participant in The Procter & Gamble Shareholder Investment Program, you can vote shares of common stock held for your account through the custodian for that program.

#### **For participants in The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan and/or The Procter & Gamble Savings Plan:**

If you are a participant in The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan and/or The Procter & Gamble Savings Plan, you can instruct the Trustees how to vote the shares of stock that are allocated to your account. If you do not vote your shares, the Trustees will vote them in proportion to those shares for which they have received voting instructions. Likewise, the Trustees will vote shares held by the trust that have not been allocated to any account in the same manner.

#### **How do I vote by proxy?**

Most shareholders can vote by proxy in three ways:

Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

By Internet You can vote by Internet by following the instructions in the Notice or by accessing the Internet at [www.proxyvote.com](http://www.proxyvote.com) and following the instructions contained on that website;

By Telephone In the United States and Canada you can vote by telephone by following the instructions in the Notice or by calling 1-800-690-6903 (toll free) and following the instructions; or

## **Table of Contents**

**By Mail** You can vote by mail by requesting a full packet of proxy materials be sent to your home address. Upon receipt of the materials, you may fill out the enclosed proxy card and return it per the instructions on the card.

Please see the Notice or the information your bank, broker, or other holder of record provided you for more information on these options.

If you authorize a proxy to vote your shares over the Internet or by telephone, you should not return a proxy card by mail (unless you are revoking your proxy).

If you vote by proxy, your shares will be voted at the annual meeting in the manner you indicate on your proxy card. If you sign your proxy card but do not specify how you want your shares to be voted, they will be voted as the Board of Directors recommends.

### **Can I change or revoke my vote after I return my proxy card?**

Yes. You can change or revoke your proxy by Internet, telephone, or mail at any time before the annual meeting or by attending the annual meeting and voting in person.

### **Can I vote in person at the annual meeting instead of voting by proxy?**

Yes. However, we encourage you to vote your proxy by Internet, telephone, or mail prior to the meeting.

## **Voting Procedures**

**Election of Directors** The twelve candidates receiving the most votes will be elected as members of the Board of Directors. In accordance with the By Laws of the Board of Directors, if a Director nominee receives, in any non-contested election of Directors, a greater number of votes withheld from his or her election than votes for such election, he or she will immediately tender his or her resignation as a Director to the Board of Directors. Within 90 days, the Board will decide, after taking into account the recommendation of the Governance & Public Responsibility Committee (in each case excluding the nominee in question), whether to accept the resignation. Absent a compelling reason for the Director to remain on the Board, the Board of Directors shall accept the resignation. The Board's explanation of its decision shall be promptly disclosed on a Form 8-K submitted to the SEC.

**Board Proposal** Passage of the Board's proposal to amend the Company's Amended Articles of Incorporation requires the affirmative vote of a majority of the Company's issued and outstanding shares. Accordingly, abstentions and broker non-votes have the same effect as votes against this proposal.

**Other Proposals** The affirmative vote of a majority of shares participating in the voting on each proposal is required for adoption. Abstentions and broker non-votes will not be counted as participating in the voting, and will therefore have no effect.

### **Who pays for this proxy solicitation?**

The Company does. We have hired Georgeson Shareholder Communications, Inc., a proxy solicitation firm, to assist us in soliciting proxies for a fee of \$22,000 plus reasonable expenses. In addition, Georgeson and the Company's Directors, officers, and employees may also solicit proxies by mail, telephone, personal contact, email or other online methods. We will reimburse their expenses for doing this.

We will also reimburse brokers, fiduciaries and custodians for their costs in forwarding proxy materials to beneficial owners of Company stock. Other proxy solicitation expenses that we will pay include those for preparing, mailing, returning and tabulating the proxies.

**Table of Contents**

**Election of Directors**

Based on a proposal adopted by the Company's shareholders at the 2005 annual meeting of shareholders, this will be the first year in which all of the Board's nominees for Director will be elected for a one-year term. Accordingly, the terms of Kenneth I. Chenault, Scott D. Cook, Rajat K. Gupta, A. G. Lafley, Charles R. Lee, Lynn M. Martin, W. James McNerney, Jr., Johnathan A. Rodgers, Ralph Snyderman, Margaret C. Whitman, Patricia A. Woertz and Ernesto Zedillo expire at the 2008 annual meeting. The Board has nominated each of these individuals for new terms that will expire at the 2009 annual meeting.

Each of the nominees has accepted the nomination and agreed to serve as a Director if elected by the shareholders. If any nominee becomes unable or unwilling to serve between the date of the proxy statement and the annual meeting, the Board may designate a new nominee and the persons named as proxies will vote for that substitute nominee.

**The Board of Directors recommends a vote FOR Kenneth I. Chenault, Scott D. Cook, Rajat K. Gupta, A. G. Lafley, Charles R. Lee, Lynn M. Martin, W. James McNerney, Jr., Johnathan A. Rodgers, Ralph Snyderman, Margaret C. Whitman, Patricia A. Woertz and Ernesto Zedillo as Directors to hold office until the 2009 annual meeting of shareholders and until their successors are elected.**

**Nominees for Election as Directors with Terms Expiring in 2009**

**Kenneth I. Chenault**

Director since 2008

Mr. Chenault is Chairman and Chief Executive Officer of the American Express Company (financial services). Mr. Chenault was appointed to the Board on April 21, 2008. He is also a Director of International Business Machines Corporation. Age 57.

Member of the Audit and Compensation & Leadership Development Committees.

**Scott D. Cook**

Director since 2000

Mr. Cook is Chairman of the Executive Committee of the Board of Intuit Inc. (software and web services). He is also a Director of eBay Inc. Age 56.

Member of the Compensation & Leadership Development and Innovation & Technology Committees.

**Table of Contents**

**Rajat K. Gupta**

Director since 2007

Mr. Gupta is Senior Partner Emeritus at McKinsey & Company (international consulting). He is also a Director of The Goldman Sachs Group, Inc., Genpact, Ltd. and American Airlines. Age 59.

Member of the Audit and Innovation & Technology Committees.

**A. G. Lafley**

Director since 2000

Mr. Lafley is Chairman of the Board and Chief Executive Officer of the Company. He is also a Director of General Electric Company and Dell Inc. Age 61.

**Charles R. Lee**

Director since 1994

Mr. Lee is retired Chairman of the Board and Co-Chief Executive Officer of Verizon Communications Inc. (telecommunication services). He is also a Director of The DIRECTV Group, Inc., Marathon Oil Corporation, United Technologies Corporation and U.S. Steel Corporation. Age 68.

Chair of the Audit Committee and member of the Compensation & Leadership Development Committee.

**Lynn M. Martin**

Director since 1994

Ms. Martin is a former Professor at the J. L. Kellogg Graduate School of Management, Northwestern University and former Chair of the Council for the Advancement of Women and Advisor to the firm of Deloitte & Touche LLP for Deloitte's internal human resources and minority advancement matters. She is also a Director of AT&T Inc., Ryder System, Inc., Dreyfus Funds and Constellation Energy Group, Inc. Age 68.

Member of the Governance & Public Responsibility and Innovation & Technology Committees.





**Table of Contents**

**W. James McNerney, Jr.**

Director since 2003

Mr. McNerney is Chairman of the Board, President and Chief Executive Officer of The Boeing Company (aerospace, commercial jetliners and military defense systems). Age 59.

Presiding Director, Chair of the Compensation & Leadership Development Committee and member of the Governance & Public Responsibility Committee.

**Johnathan A. Rodgers**

Director since 2001

Mr. Rodgers is President and Chief Executive Officer of TV One, LLC (media and communications). He is also a Director of Nike, Inc. Age 62.

Member of the Innovation & Technology Committee.

**Ralph Snyderman, M.D.**

Director since 1995

Dr. Snyderman is Chancellor Emeritus, James B. Duke Professor of Medicine at Duke University. He is also a Director of Targacept, Inc. and a Venture Partner of NEA. Age 68.

Chair of the Innovation & Technology Committee and member of the Audit Committee.

**Margaret C. Whitman**

Director since 2003

Ms. Whitman is the former President and Chief Executive Officer of eBay Inc. (global internet company that includes online marketplaces, payments and communications). She is also a Director of eBay Inc. and Dreamworks Animation SKG, Inc. Age 52.

Chair of the Governance & Public Responsibility Committee and member of the Compensation & Leadership Development Committee.



**Table of Contents**

**Patricia A. Woertz**

Director since 2008

Ms. Woertz is Chairman, Chief Executive Officer and President of Archer Daniels Midland Company (agricultural processors of oilseeds, corn, wheat and cocoa). Ms. Woertz was appointed to the Board on January 8, 2008. Age 55.

Member of the Audit and Governance & Public Responsibility Committees.

**Ernesto Zedillo**

Director since 2001

Dr. Zedillo is the former President of Mexico, Director of the Center for the Study of Globalization and Professor in the field of International Economics and Politics at Yale University. He is also a Director of Alcoa Inc. and Electronic Data Systems Corporation. Age 56.

Member of the Governance & Public Responsibility and Innovation & Technology Committees.

Messrs. Chenault, Lafley and Rodgers have been executive officers of their respective employers for more than the past five years. Messrs. Cook and Lee have been retired from executive officer positions with their respective former employers for more than the past five years.

Mr. Gupta was named Senior Partner Emeritus at McKinsey & Company in 2007, where he previously held the positions of Senior Partner Worldwide and Managing Director. Ms. Martin was a Professor at Northwestern University from 1993 until her retirement in 1999. Prior to his election as Chairman of the Board, President and Chief Executive Officer of The Boeing Company, Mr. McNerney was Chairman of the Board and Chief Executive Officer of 3M Company from 2001 until July 2005. Dr. Snyderman previously served as Chancellor for Health Affairs and Dean of the Duke University School of Medicine from 1985 until 2004. Ms. Whitman previously served as President and Chief Executive Officer of eBay from March 1998 to March 2008. Prior to her election as Chairman, Chief Executive Officer and President of Archer Daniels Midland Company, Ms. Woertz was Executive Vice President of Chevron Texaco from 2001 until 2006. Dr. Zedillo was President of Mexico from 1994 until 2000.

Messrs. Cook, Lee and McNerney and Dr. Zedillo were elected by shareholders to a three-year term in 2005. Mses. Martin and Whitman, Messrs. Gupta, Lafley and Rodgers and Dr. Snyderman were elected by shareholders to a one-year term in 2007. Ms. Woertz was appointed by the Board of Directors on January 8, 2008 and Mr. Chenault was appointed by the Board of Directors on April 21, 2008.

**The Board of Directors**

The Board of Directors has general oversight responsibility for the Company's affairs pursuant to Ohio's General Corporation Law, the Company's Amended Articles of Incorporation and Code of Regulations and the Board of Directors' By Laws. In exercising its fiduciary duties, the Board of Directors represents and acts on behalf of the Company's shareholders. Although the Board of Directors does not have responsibility for the day-to-day management of the Company, it stays informed about the

## Table of Contents

Company's business and provides guidance to Company management through periodic meetings, site visits and other interactions. The Board is deeply involved in the Company's strategic planning process, leadership development and succession planning. Additional details concerning the role and structure of the Board of Directors are contained in the Board's Corporate Governance Guidelines, which can be found in the corporate governance section of the Company's website at [www.pg.com/investors](http://www.pg.com/investors).

### Committees of the Board

To facilitate deeper penetration of certain key areas of oversight, the Board of Directors has established four Committees. Membership on these Committees, as of June 30, 2008, is shown in the following chart.

	Compensation &	Governance &	
<b>Audit</b>	<b>Leadership Development</b>	<b>Public Responsibility</b>	<b>Innovation &amp; Technology</b>
Mr. Lee*	Mr. McNerney*	Ms. Whitman*	Dr. Snyderman*
Mr. Chenault <sup>1</sup>	Mr. Chenault <sup>1</sup>	Ms. Martin	Mr. Cook
Mr. Gupta	Mr. Cook	Mr. McNerney	Mr. Gupta
Dr. Snyderman	Mr. Lee	Ms. Woertz <sup>2</sup>	Ms. Martin
Ms. Woertz <sup>2</sup>	Ms. Whitman	Dr. Zedillo	Mr. Rodgers
			Dr. Zedillo

\* Committee Chair

<sup>1</sup> Joined the Board in April 2008.

<sup>2</sup> Joined the Board in January 2008.

The Company's Committee Charter Appendix applies to all Committees and can be found in the corporate governance section of the Company's website at [www.pg.com/investors](http://www.pg.com/investors).

Upon Mr. Norman Augustine's retirement from the Board following the August 14, 2007 Board meeting, Mr. McNerney became Chair of the Compensation & Leadership Development Committee. Mr. Joseph T. Gorman retired from the Board, and the Board dissolved the Finance Committee at its October 9, 2007 Board meeting. The Board revised its Committee membership to reflect the appointments of Ms. Woertz and Mr. Chenault, and the retirement of Mr. John F. Smith, Jr. from the Board at its April 21, 2008 meeting. Prior to that date, Mr. Smith was Chair of the Audit Committee and Mr. Lee was Chair of the Governance & Public Responsibility Committee. At that time, Mr. Lee became Chair of the Audit Committee, and Ms. Whitman became Chair of the Governance & Public Responsibility Committee.

The **Audit Committee** met eight times during the fiscal year ended June 30, 2008 to carry out its responsibilities under its charter. At all of these meetings, Deloitte & Touche LLP, the Company's independent registered public accounting firm, and financial management were present to review accounting, control, auditing and financial reporting matters. All members of the Committee are independent under the New York Stock Exchange ( NYSE ) listing standards and the Board of Directors' Guidelines for Determining the Independence of its Members (the Independence Guidelines, which can be found in the corporate governance section of the Company's website at [www.pg.com/investors](http://www.pg.com/investors)). The Audit Committee has the responsibilities set forth in its charter with respect to the quality and integrity of the Company's financial statements; the Company's compliance with legal and regulatory requirements; the Company's overall risk management process; the independent registered public accounting firm's qualifications and independence; the performance of the Company's internal audit function and the independent registered public accounting firm; preparing the annual Report of the Audit Committee to be included in the Company's proxy statement; and assisting the Board of Directors and the Company in interpreting and applying the Company's *Worldwide Business Conduct Manual*. The Audit Committee's charter can be found in the corporate governance section of the Company's website at [www.pg.com/investors](http://www.pg.com/investors).

## **Table of Contents**

The **Compensation & Leadership Development Committee** met six times during the fiscal year ended June 30, 2008, during which it held four executive sessions with no member of management present. All members of this Committee are independent under the NYSE listing standards and the Independence Guidelines. The Compensation & Leadership Development Committee has a charter, under which it has full authority and responsibility for the Company's overall compensation policies, their specific application to principal officers elected by the Board of Directors (including review and evaluation of their compensation) and the compensation of the non-employee members of the Board of Directors. This Committee also assists the Board in the leadership development and evaluation of principal officers. As a practical matter, the Chief Executive Officer makes recommendations to the Committee regarding the compensation elements of the principal officers (other than his own compensation) based on Company performance, individual performance and input from Company management and the Committee's independent compensation consultant. All final decisions regarding compensation for principal officers are made by this Committee. For more details regarding principal officer compensation or this Committee's process for making decisions regarding the compensation of principal officers, please see the Compensation Discussion and Analysis section of this proxy statement found on pages 16 to 37. This Committee also approves all stock-based equity grants made under The Procter & Gamble 2001 Stock and Incentive Compensation Plan and The Gillette Company 2004 Long-Term Incentive Plan to non-principal officers. This Committee has delegated to the Chief Executive Officer the authority to make equity grants to non-principal officers and determine the specific terms and conditions of such grants within the guidelines set forth by the Committee. This Committee retains an independent compensation consultant, hired directly by the Committee, to advise it regarding executive compensation matters. For more details on this arrangement, please see the section entitled "Use of Independent Compensation Committee Consultant" found on page 34 of this proxy statement. The Compensation & Leadership Development Committee's charter can be found in the corporate governance section of the Company's website at [www.pg.com/investors](http://www.pg.com/investors).

The **Governance & Public Responsibility Committee** met four times during the fiscal year ended June 30, 2008. All members of the Governance & Public Responsibility Committee are independent under the NYSE listing standards and the Independence Guidelines. The Governance & Public Responsibility Committee has the responsibilities set forth in its charter with respect to identifying individuals qualified to become members of the Board of Directors; recommending when new members should be added to the Board; recommending individuals to fill vacant Board positions; recommending the Director nominees for the next annual meeting of shareholders; recommending to the Board whether to accept the resignation of any Director nominee who received a greater number of withheld votes than for votes in a non-contested election; periodically developing and recommending updates to the Board's Corporate Governance Guidelines; other issues related to Director governance and ethics; evaluation of the Board of Directors and its members; and overseeing matters of importance to the Company and its stakeholders, including employees, consumers, customers, suppliers, shareholders, governments, local communities and the general public. Public responsibility topics considered by this Committee include organization diversity, sustainable development, community and government relations, product quality and quality assurance systems and corporate reputation. The Governance & Public Responsibility Committee's charter can be found in the corporate governance section of the Company's website at [www.pg.com/investors](http://www.pg.com/investors).

The **Finance Committee** met once during the fiscal year ended June 30, 2008. At the October 9, 2007 Board of Directors meeting, the Board elected to dissolve the Finance Committee. Some of the responsibilities of the Finance Committee were transferred to the Audit Committee. Other responsibilities were delegated to management or assumed by the full Board.

The **Innovation & Technology Committee** met twice during the fiscal year ended June 30, 2008. The Innovation & Technology Committee has the responsibilities set forth in its charter with respect to overseeing and providing counsel on matters of innovation and technology. Topics considered by this

## **Table of Contents**

Committee include the Company's approach to technical and commercial innovation; the innovation and technology acquisition process; and tracking systems important to successful innovation. The Innovation & Technology Committee's charter can be found in the corporate governance section of the Company's website at [www.pg.com/investors](http://www.pg.com/investors).

## **Board and Committee Meeting Attendance**

During the fiscal year ended June 30, 2008, the Board of Directors held nine meetings and the Committees of the Board of Directors held 21 meetings for a total of 30 meetings. Average attendance at these meetings by members of the Board during the past year exceeded 94%. All Directors attended greater than 83% of the meetings of the Board and the Committees on which they serve.

## **Corporate Governance**

### **Corporate Governance Guidelines**

The Board of Directors has adopted Corporate Governance Guidelines to set forth its commitments and guiding principles concerning overall governance practices. These guidelines can be found in the corporate governance section of the Company's website at [www.pg.com/investors](http://www.pg.com/investors).

### **Director Independence**

The Board of Directors has determined that the following Directors are independent under the NYSE listing standards and the Independence Guidelines: Kenneth I. Chenault, Scott D. Cook, Rajat K. Gupta, Charles R. Lee, Lynn M. Martin, W. James McNerney, Jr., Ralph Snyderman, Margaret C. Whitman, Patricia A. Woertz and Ernesto Zedillo. As noted previously, all members of the Board's Audit, Compensation & Leadership Development, and Governance & Public Responsibility Committees are independent.

In making these independence determinations, the Board applied the NYSE listing standards and the categorical independence standards contained in the Independence Guidelines. Under the Independence Guidelines, certain relationships were considered immaterial and, therefore, were not considered by the Board in determining independence but were reported to the Chair of the Governance & Public Responsibility Committee. Applying the NYSE listing standards and the Independence Guidelines, the Board determined that there are no transactions, relationships or arrangements that would impair the independence or judgment of any of the directors deemed independent by the Board.

Mr. Lafley is the Company's Chief Executive Officer and cannot be deemed independent under the NYSE listing standards and the Independence Guidelines. Mr. Rodgers is the President and CEO of TV One, LLC, a cable television network. The Board has declared Mr. Rodgers not independent under the Independence Guidelines because during 2006, the Company paid TVOne, LLC for advertising time in an amount that exceeded 2% of TVOne, LLC's gross revenue for that year.

### **Code of Ethics**

For a number of years, the Company has had a code of ethics for its employees. The most recent version of this code of ethics, which is consistent with SEC regulations and NYSE listing standards, is contained in the *Worldwide Business Conduct Manual*, which applies to all of the Company's employees, officers and Directors, and is available on the Company's website at [www.pg.com](http://www.pg.com). The *Worldwide Business Conduct Manual* is firmly rooted in the Company's long-standing Purpose, Values and Principles,

## **Table of Contents**

which can also be found on the Company's website at [www.pg.com](http://www.pg.com). During the fiscal year ended June 30, 2008, the Company continued its deployment of the *Worldwide Business Conduct Manual* throughout the Company in 29 different languages, including online training.

### **Review and Approval of Transactions with Related Persons**

The Company's *Worldwide Business Conduct Manual* requires that all employees and Directors disclose all potential conflicts of interest and promptly take actions to eliminate any such conflict when the Company requests. In addition, the Company has adopted a written Related Person Transaction Policy that prohibits any of the Company's executive officers, Directors or any of their immediate family members from entering into a transaction with the Company, except in accordance with the policy.

Under our Related Person Transaction Policy, the Chief Legal Officer is charged with primary responsibility for determining whether, based on the facts and circumstances, a related person has a direct or indirect material interest in a proposed transaction. To assist the Chief Legal Officer in making this determination, the policy sets forth certain categories of transactions that are deemed not to involve a direct or indirect material interest on behalf of the related person. If, after applying these categorical standards and weighing all of the facts and circumstances, the Chief Legal Officer determines that the related person would have a direct or indirect material interest in the transaction, the Chief Legal Officer must present the proposed transaction to the Audit Committee for review or, if impracticable under the circumstances, to the Chair of the Audit Committee. The Audit Committee must then either approve or reject the transaction in accordance with the terms of the policy. In the course of making this determination, the Audit Committee shall consider all relevant information available to it and, as appropriate, must take into consideration the following:

Whether the proposed transaction was undertaken in the ordinary course of business of the Company;

Whether the proposed transaction was initiated by the Company or the related person;

Whether the proposed transaction contains terms no less favorable to the Company than terms that could have been reached with an unrelated third party;

The purpose of, and the potential benefits to the Company of, the proposed transaction;

The approximate dollar value of the proposed transaction, particularly as it involves the related person;

The related person's interest in the proposed transaction; and

Any other information regarding the related person's interest in the proposed transaction that would be material to investors under the circumstances.

The Audit Committee may only approve the proposed transaction if it determines that the transaction is not inconsistent with the best interests of the Company as a whole. Further, in approving any such transaction, the Audit Committee has the authority to impose any terms or conditions it deems appropriate on the Company or the related person. Absent this approval, no such transaction may be entered into by the Company with any related person.

There were no transactions, nor are there any currently proposed transactions, in which the Company or any of its subsidiaries was or is to be a participant, the amount involved exceeded \$120,000, and any Director, Director nominee, executive officer or any of their immediate family members had a direct or indirect material interest reportable under applicable SEC rules or that required approval of the Audit Committee under the Company's Related Person Transaction Policy.





## **Table of Contents**

### **Presiding Director and Executive Sessions**

After consultation with the Governance & Public Responsibility Committee, the non-employee members of the Board of Directors reappointed W. James McNerney, Jr. to serve as the Presiding Director for fiscal year 2008-09. Mr. McNerney began his service as Presiding Director on August 14, 2007, following the retirement from the Board of then-Presiding Director Norman Augustine and served in that capacity for the remainder of the fiscal year.

The Presiding Director acts as the key Board liaison with the Chief Executive Officer, assists in setting the Board agenda, chairs the executive sessions of the Board and communicates the Board of Directors' feedback to the Chief Executive Officer. The non-employee members of the Board of Directors met four times during fiscal year 2007-08 in executive session (without the presence of employee Directors or other employees of the Company) to discuss various matters related to the oversight of the Company, the management of Board affairs, the Company's top management, and the Chief Executive Officer's performance. It also met in semi-executive session (with the Chief Executive Officer present for portions of the discussion) on six occasions.

### **Communication with Directors and Executive Officers**

Shareholders and others who wish to communicate with the Board of Directors or any particular Director, including the Presiding Director, or with any executive officer of the Company, may do so by writing to the following address:

[Name of Director(s)/Executive Officer or Board of Directors ]

The Procter & Gamble Company

c/o Secretary

One Procter & Gamble Plaza

Cincinnati, OH 45202-3315

All such correspondence is reviewed by the Secretary's office, which logs the material for tracking purposes. The Board of Directors has asked the Secretary's office to forward to the appropriate Director(s) all correspondence, except for items unrelated to the functions of the Board of Directors, business solicitations, advertisements and materials that are profane.

### **Availability of Corporate Governance Documents**

In addition to their availability on the Company's website at [www.pg.com](http://www.pg.com), copies of all Committee Charters, the Committee Charter Appendix, the Corporate Governance Guidelines, the Independence Guidelines, the *Worldwide Business Conduct Manual*, the Company's Purpose, Values and Principles and the Related Person Transaction Policy are available in print upon request by writing to the Company Secretary at One Procter & Gamble Plaza, Cincinnati, OH 45202-3315.

### **Shareholder Recommendations of Board Nominees and Committee Process for Recommending Board Nominees**

The Governance & Public Responsibility Committee will consider shareholder recommendations for candidates for the Board, which should be submitted to:

Chair of the Governance & Public Responsibility Committee

The Procter & Gamble Company

c/o Secretary

One Procter & Gamble Plaza

Cincinnati, OH 45202-3315



**Table of Contents**

Shareholder recommendations should include the name of the candidate, as well as relevant biographical information. The minimum qualifications and preferred specific qualities and skills required for Directors are set forth in Article II, Sections B through E of the Board's Corporate Governance Guidelines. The Committee considers all candidates using these criteria, regardless of the source of the recommendation. The Committee's process for evaluating candidates includes the considerations set forth in Article II, Section B of the Committee's Charter. After initial screening for minimum qualifications, the Committee determines appropriate next steps, including requests for additional information, reference checks and interviews with potential candidates. In addition to shareholder recommendations, the Committee also relies on recommendations from current Directors, Company personnel and others. From time to time, the Committee may engage the services of outside search firms to help identify candidates. During the fiscal year ended June 30, 2008, no such engagement existed (and none currently exists) and no funds were paid to outside parties in connection with the identification of nominees. All nominees for election as Directors who currently serve on the Board are known to the Committee in that capacity. Ms. Woertz and Mr. Chenault were recommended to the Governance & Public Responsibility Committee by various non-employee members of the Board of Directors, the Chief Executive Officer and other executive officers.

**Annual Meeting Attendance**

The Board's expectation is that all its members attend the annual meeting of shareholders. All Directors attended the 2007 annual meeting.

**Director Compensation**

The following table and footnotes provide information regarding the compensation paid to the Company's non-employee Directors in fiscal year 2007-08. Directors who are employees of the Company receive no compensation for their services as Directors.

**Director Compensation Table**

Name	Annual Retainer <sup>1</sup> (\$)	Committee Meeting Fees (\$)	Committee Chair Fee <sup>2</sup> (\$)	Total Fees Earned or Paid in Cash <sup>3</sup> (\$)	Stock Awards <sup>4</sup> (\$)	All Other Compensation <sup>5,6</sup> (\$)	Total <sup>7</sup> (\$)
Norman R. Augustine	12,500	4,000	1,667	18,167 <sup>8</sup>	0	50	18,217
Kenneth I. Chenault	25,000	4,000	0	29,000	0	0	29,000
Scott D. Cook	93,750	16,000	0	109,750 <sup>9</sup>	125,000	974	235,724
Joseph T. Gorman	27,083	6,000	3,333	36,416	0	0	36,416
Rajat K. Gupta	93,750	12,000	0	105,750	125,000	1,412	232,162
Charles R. Lee	93,750	34,000	10,833	138,583	125,000	1,100	264,683
Lynn M. Martin	93,750	12,000	0	105,750	125,000	1,030	231,780
W. James Mc Nerney, Jr.	93,750	24,000	8,333	126,083 <sup>10</sup>	125,000	225	251,308
Johnathan A. Rodgers	93,750	4,000	0	97,750 <sup>11</sup>	125,000	3,985	226,735
John F. Smith, Jr.	77,083	18,000	12,500	107,583 <sup>12</sup>	125,000	3,139	235,722
Ralph Snyderman	93,750	18,000	10,000	121,750 <sup>13</sup>	125,000	4,195	250,945
Margaret C. Whitman	93,750	16,000	1,666	111,416	125,000	511	236,927
Patricia A. Woertz	50,000	8,000	0	58,000	0	945	58,945
Ernesto Zedillo	93,750	12,000	0	105,750 <sup>14</sup>	125,000	3,757	234,507

<sup>1</sup> As further described in the narrative following the table, the annual retainer was increased from \$75,000 to \$100,000 effective October 9, 2007. This amount is paid in quarterly increments. Directors who were paid \$93,750 received \$18,750 for the July-September 2007 quarter, and \$25,000 for each of the remaining three quarters of the fiscal year. Each Director who retired during the fiscal year (Mr. Augustine (August), Mr. Gorman (October) and Mr. Smith (April)), received the prorated portion of the retainer calculated and paid up through his final month of service to the Board of Directors. Each new Director

**Table of Contents**

- appointed during the fiscal year (Mr. Chenault (April) and Ms. Woertz (January)), received the prorated portion of the retainer calculated from the month of his or her appointment to the Board.
- 2 Committee Chair Fees for retiring Directors and for newly appointed Chairs reflect prorated amounts based on when the change in the Chair position occurred. The Committee Chair Fee for Mr. Gorman, who was Chair of the Finance Committee until its dissolution at the October 9, 2007 Board meeting, reflects a prorated fee for July through October 2007.
- 3 Total Fees Earned or Paid in Cash combines the amounts in the three preceding columns.
- 4 Annually, upon election at the Company's annual meeting of shareholders, each Director is awarded a grant of restricted stock units (RSUs) with a grant date fair value of \$125,000. This amount is recognized in the fiscal year for financial statement reporting purposes in accordance with Statement of Financial Accounting Standards 123, as revised (SFAS 123(R)). Because Mr. Augustine retired prior to the 2007 annual meeting of shareholders and Mr. Gorman did not stand for re-election at that meeting, they did not receive the annual RSU award. Ms. Woertz and Mr. Chenault were appointed in January 2008 and April 2008, respectively, and they did not receive the annual RSU award. As of the end of fiscal year 2007-08:
- Mr. Augustine has 8,652 unvested stock awards outstanding and 16,712 option awards outstanding.
  - Mr. Cook has 13,131 unvested stock awards outstanding and 10,674 option awards outstanding.
  - Mr. Gorman has 8,652 unvested stock awards outstanding and 16,712 option awards outstanding.
  - Mr. Gupta has 1,788 unvested stock awards outstanding.
  - Mr. Lee has 34,612 unvested stock awards outstanding and 16,712 option awards outstanding.
  - Ms. Martin has 16,581 unvested stock awards outstanding and 16,712 option awards outstanding.
  - Mr. McNerney has 14,411 unvested stock awards outstanding.
  - Mr. Rodgers has 17,606 unvested stock awards outstanding and 6,644 option awards outstanding.
  - Mr. Smith has 10,439 unvested stock awards outstanding and 2,884 option awards outstanding.
  - Dr. Snyderman has 33,831 unvested stock awards outstanding and 16,712 option awards outstanding.
  - Ms. Whitman has 13,300 unvested stock awards outstanding.
  - Dr. Zedillo has 12,991 unvested stock awards outstanding and 6,644 option awards outstanding.
- Unvested stock awards include RSUs that have not yet 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.
- 5 The All Other Compensation total includes certain costs associated with Directors and their guests (spouse, family member or similar guest) attending Board meetings and/or Board activities. For two Board meetings during fiscal year 2007-08, each Director was encouraged to bring a guest. For each of these meetings, the Company incurred costs associated with providing minor commemorative items, sightseeing and other similar activities for both the Director and accompanying guest. In some cases, the Company also incurred costs associated with commercial airfare for the guest. For all other regular 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). There is no incremental cost to the Company for this benefit. 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 and, during fiscal year 2007-08, made one donation upon the death of a former Director. This program was discontinued for any new Director effective July 1, 2003.
- 6 Mr. Bruce L. Byrnes was an employee Director of the Board during fiscal year 2007-08 until his retirement from the Board effective June 10, 2008. As an employee Director, he did not receive a retainer, fees or stock award. Mr. Byrnes did attend Board meetings and activities as described in footnote 5 above and, in conjunction with those meetings, received \$2,405 as All Other Compensation.
- 7 Total combines the amounts in the Total Fees Earned or Paid In Cash column, the Stock Awards column and the All Other Compensation column.
- 8 Mr. Augustine took all of his fees for fiscal year 2007-08 in unrestricted stock, which had a grant date fair value of \$18,167.
- 9 Mr. Cook took his fees for the first half of the fiscal year in cash, and for the second half of the fiscal year in unrestricted stock, which had a grant date fair value of \$58,000.
- 10 Mr. McNerney took all of his fees for fiscal year 2007-08 in unrestricted stock, which had a grant date fair value of \$126,083.
- 11 Mr. Rodgers took 25% of his fees for fiscal year 2007-08 in cash and 75% of his fees for fiscal year 2007-08 in retirement restricted stock, which had a grant date fair value of \$73,313.
- 12 Mr. Smith took all of his fees for fiscal year 2007-08 in unrestricted stock, which had a grant date fair value of \$107,583.
- 13 Dr. Snyderman took all of his fees for fiscal year 2007-08 as retirement restricted stock which had a grant date fair value of \$121,750.
- 14 For the first half of the fiscal year, Dr. Zedillo took 50% of his fees in cash and 50% in unrestricted stock. During the second half of the fiscal year, Dr. Zedillo took 50% of his retainer as cash and 50% of his retainer as retirement restricted stock, and 100% of his committee fees as cash. The unrestricted stock elected for the first half of the fiscal year had a grant date fair value of \$24,875, and the retirement restricted stock elected for the second half of the fiscal year had a grant date fair value of \$25,000.

---

**Table of Contents**

The objective of the Compensation & Leadership Development Committee of the Board of Directors is to provide non-employee members of the Board of Directors a compensation package consistent with the median of the Peer Group (as this group is further described on page 22 of this proxy statement). In fiscal year 2007-08, non-employee members of the Board of Directors received the following compensation:

A grant of restricted stock units ( RSUs ) on October 9, 2007, following election to the Board at the Company s 2007 annual meeting of shareholders, with a grant date fair value of \$125,000. These units are forfeitable if the Director resigns during the year, will not deliver in shares until at least one year after the Director leaves the Board, and cannot be sold or traded until delivered in shares, thus encouraging alignment with the Company s long-term interests and the interests of shareholders. These RSUs earn dividend equivalents at the same rate as dividends paid to shareholders;

Effective October 9, 2007, an annual retainer fee of \$100,000 paid in quarterly increments;

A committee meeting fee of \$2,000 for every Committee meeting attended; and

An additional annual retainer paid to the Chair of each committee as follows: Chair of the Audit Committee, \$15,000; Chairs of the Compensation & Leadership Development, Governance & Public Responsibility and Innovation & Technology Committees, \$10,000. The Chair of the Finance Committee (which was dissolved at the October 9, 2007 Board of Directors meeting), received a pro rata portion of the \$10,000 annual retainer.

At its October 9, 2007 meeting, the Compensation & Leadership Development Committee recommended that the Board increase the Director s annual retainer fee from \$75,000 to \$100,000, effective that date, to keep the Directors overall compensation package competitive with the median of our Peer Group of companies. The Board of Directors ratified this action and amended its By Laws to reflect this change on December 11, 2007.

Directors can elect to receive any part of their fees or retainer (other than the grant of RSUs) as cash, retirement restricted stock, or unrestricted stock. The Company did not grant any stock options to Directors in fiscal year 2007-08.

Non-employee members of the Board of Directors must own Company stock and/or RSUs worth six times their annual cash retainer. Except for Mr. Gupta, who was appointed in June 2007, Ms. Woertz who was appointed in January 2008, and Mr. Chenault, who was appointed in April 2008, all Directors have already achieved this ownership requirement. Ms. Woertz and Messrs. Gupta and Chenault are on track to achieve this goal within the five-year period established by the Compensation & Leadership Development Committee for achieving this level of ownership.

**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 below, 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, 2008.

*W. James McNerney, Jr. (Chair)*

*Kenneth I. Chenault*

*Scott D. Cook*

*Charles R. Lee*

*Margaret C. Whitman*

**Table of Contents****Compensation Discussion and Analysis****Executive Summary**

The Company's compensation programs are designed to support the achievement of our overall long-term performance goals. In fiscal year 2007-08, the Company delivered another year of growth at or above our long-term goals. These goals, and the results we achieved, are listed in the table below. The Company believes that consistently delivering results at these levels should position the Company to out-perform the consumer products industry for the next decade and beyond.

<b>Measure</b>	<b>Goal</b>	<b>2007-08 Results</b>
Organic sales growth <sup>1</sup>	4% to 6%	5%
Diluted earnings per share (EPS) growth excluding Gillette dilution	10% or better <sup>2</sup>	11-12% <sup>3</sup>
Free cash flow productivity <sup>4</sup>	90% or greater	106%

We choose to focus on these goals because achieving or exceeding them allows us to provide attractive, sustained returns to our shareholders. The Company's strategy is to drive growth through innovation, productivity and operational excellence. Globally, we are experiencing unprecedented increases in material and energy costs. We believe that by continuing to build compelling brands and better and more efficient products, we will deliver better consumer value during these challenging times. Our compensation programs support these strategies by rewarding successes in these key measures.

Our annual cash and long-term incentive programs link compensation payments to the Named Executive Officers (identified below) with the overall success of the Company. The Compensation & Leadership Development Committee establishes target ranges for total compensation that are consistent with comparable positions in Peer Group companies, as discussed below. For fiscal year 2007-08, due in part to achievement of the goals described above, the average actual total compensation for the Named Executive Officers was above the average target total compensation for the year.

**What are the Company's overall compensation principles?**

The Compensation & Leadership Development Committee is responsible for making executive compensation decisions regarding program design and individual pay. The Committee oversees overall Company compensation policies and approves any compensation for the senior officers, including the Named Executive Officers. The Committee has established the following principles for compensating all Company employees:

**Support the business strategy** We align compensation programs with business strategies focused on long-term growth and creating value for shareholders, and we motivate executives to overcome challenges, to deliver commitments and to exceed Company goals;

**Pay for performance** We pay higher compensation when goals are exceeded and lower compensation when goals are not met, taking into consideration individual ability to influence results;

<sup>1</sup> Organic sales is a non-GAAP measure of sales growth that excludes the impact of acquisitions, divestitures and foreign exchange.

<sup>2</sup>

## Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

Our EPS goals are set taking into consideration the Company's stated share repurchase objectives and the year-to-year impact of Gillette dilution.

- <sup>3</sup> Excludes the prior year dilution impact from the Gillette acquisition and a current year \$0.14 net tax benefit from a number of significant adjustments to tax reserves in the U.S. and other countries. Reported EPS growth, which includes both of these impacts, was 20%.
- <sup>4</sup> Free cash flow is defined as operating cash flow less capital spending. Free cash flow productivity is defined as the ratio of free cash flow to net earnings.



## **Table of Contents**

**Pay competitively** Our objective is to set overall target compensation (compensation received when achieving expected results) to be in line with that of individuals holding comparable positions at other multi-national corporations of similar size, value and complexity.

These overall principles have served the Company well and enabled us to deliver strong shareholder value over time including compound average shareholder returns above the Dow Jones Industrial Average for the past one, three, five and ten year periods. The Committee and the Board of Directors are charged with the consistent and fair application of these principles. Over time, we believe this has helped to develop and retain talented employees who are committed to the Company's success.

### **What are the Company's executive compensation objectives?**

Consistent with these overall principles, the Committee has established the following executive compensation objectives to continue the Company's history of superior management and leadership, with an emphasis on long-term success:

**Drive superior business and financial performance** Inspire leaders to achieve or exceed Company, business unit and individual goals;

**Focus on long-term success** Hold those leaders accountable for long-term success so the Company continues to provide superior returns for shareholders over time;

**Retention** Retain talented managers with demonstrated records of superior performance whose continued employment is key to overall Company success; and

**Ownership** Align leaders with shareholders' long-term interests by building significant ownership of Company stock into executive pay programs.

### **Who participates in the executive compensation programs?**

The programs discussed here apply in many cases to groups of employees that include more than the five Named Executive Officers. Following are the various individuals and groups who participate in our executive compensation programs:

Named Executive Officers:	Mr. A.G. Lafley, Mr. Clayton C. Daley, Jr., Ms. Susan E. Arnold, Mr. Robert A. McDonald and Mr. E. Dimitri Panayotopoulos
Senior Executives:	Approximately 45 top executives, including the Named Executive Officers
Executives:	Approximately 4,000 top managers
Senior Managers:	Approximately 14,000 managers

**Table of Contents****What objectives are achieved by the Company's executive compensation programs?**

The Company's executive compensation objectives are achieved through the following ongoing programs in which some or all of our Named Executive Officers participate. A more detailed discussion of each program is provided later in this Compensation Discussion and Analysis.

<b>Program</b>	<b>Description</b>	<b>Participants</b>	<b>Objectives Achieved</b>
<b>Annual Cash Compensation</b>			
Base Salary	Fixed rate of pay	All employees	Retention  Drive superior performance
Short-Term Achievement Reward - Annual Bonus ( STAR )	Annual bonus with target awards established at each employee level  Payments can be higher or lower than target, based on business unit and total Company annual results	All Senior Managers, Executives, and Senior Executives, (including Named Executive Officers)	Individual contribution Drive superior performance  Across total Company  Across business units
<b>Long-Term Incentive Programs</b>			
Key Manager Annual Stock Grant	Long-term incentive program tied to growth in stock price  Paid in stock options and restricted stock units (RSUs); grant amounts vary to reflect individual contribution	All Executives and Senior Executives (including Named Executive Officers), plus 15% of Senior Managers	Drive superior performance  Individual contribution  Across total Company  Focus on long-term success  Retention

Business Growth Program Three-Year Incentive ( BGP )	Long-term incentive program with compensation tied to achievement of three-year total Company goals paid in cash and RSUs	All Senior Executives (including Named Executive Officers)	Ownership Drive superior performance  Across total Company  Focus on long-term success  Retention  Ownership
---	---	--	---

**Table of Contents**

<b>Program</b>	<b>Description</b>	<b>Participants</b>	<b>Objectives Achieved</b>
<b>Retirement Programs</b>			
The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan ( PST )	Annual contribution of stock made to employees based on salary and years of service	All full-time U.S. employees	Retention
PST Restoration Program	Grant of RSUs to those PST participants whose Company contribution is capped by tax regulations	Varies annually, approximately 400 U.S.-based Executives and Senior Executives (including Named Executive Officers)	Ownership Retention
Country Pension Plans	Annual retirement benefits (varies by country)	Eligible employees in applicable countries	Ownership Retention
International Retirement Plan ( IRP )	Annual contribution in lieu of home country retirement plan contribution	Certain expatriates who are not eligible to participate in home country plans	Retention Ownership
Global International Retirement Arrangement ( IRA )	Annual contribution to equalize home country benefits	Certain employees whose home country pension is not adjusted to reflect current salary	Retention Ownership
<b>Other Executive Programs</b>			
Perquisites and Executive Benefits	Available to certain executives to assure protection of Company assets and/or focus on Company business with minimal disruption	Specific benefits are offered to different groups of Executives based on business purpose	Security  Minimize business disruption
Expatriate and Relocation Program	Payments made in conjunction with expatriate assignments and required relocations	All employees assigned to work outside home country	Retention Retention
Other Benefits	Medical, welfare and other benefits	All employees	Minimize business disruption Retention
			Healthy, engaged, high-performing employees



**Table of Contents**

**How do we assure that executives' compensation keeps them focused on long-term success?**

*The Company Emphasizes At-Risk Compensation*

Our long-term success depends on excellent financial and operational performance year after year. Therefore, to focus on both the short and long-term success of the Company, our Named Executive Officers' compensation includes a significant portion approximately 80-90% that is at-risk, where the compensation paid is determined based on the achievement of specified results. If short-term and long-term financial and operational goals are not achieved, then performance-related compensation will decrease. If goals are exceeded, then performance-related compensation will increase.

In addition, any compensation that is paid in the form of Company stock, RSUs or stock options instead of cash is further at-risk because its value varies with changes in the stock price. With a considerable percentage of their compensation paid in equity, executives have a significant stake in the long-term success of the Company and gain along with all other shareholders.

As shown in the following charts, in fiscal year 2007-08, 89% of the Chief Executive Officer's total compensation and, on average, 82% of the other Named Executive Officers' compensation, was at-risk dependent on performance. Seventy-two percent of the Chief Executive Officer's total compensation and, on average, 61% of the other Named Executive Officers' total compensation, was paid in stock, RSUs or stock options.

The Committee believes that tying pay to performance and awarding a significant percentage of pay in equity properly motivates Company management to drive superior business and financial performance and focus on long-term success, while retaining talented executives and encouraging ownership.

**Table of Contents**

*Ownership and Holding Requirements Focus on Long-Term Success*

The Committee has established the Executive Share Ownership Program and the Stock Option Exercise Holding Requirement Policy to ensure that our Senior Executives own a significant amount of Company stock. This aligns management's interests with shareholders' interests and focuses Senior Executives, including the Named Executive Officers, on the long-term success of the Company.

The *Executive Share Ownership Program* requires all Senior Executives to own shares of Company stock and/or RSUs valued at a multiple of their base salary. The Chief Executive Officer must own at least eight times his base salary in Company stock and/or RSUs, and the other Named Executive Officers must own at least five times their base salaries. The Committee reviews the stock holdings of our Named Executive Officers annually, and in 2008 they each exceeded these requirements.

The *Stock Option Exercise Holding Requirement Policy* ensures Senior Executives remain focused on sustained shareholder value, even after exercising stock options. Under this policy, during his active employment, the Chief Executive Officer must hold the net shares received from stock option exercises (excluding the stock option exercise cost and related taxes) for at least two years. During their active employment, the other Senior Executives, including the other Named Executive Officers, must hold such net shares for at least one year after exercise. This policy reinforces our Senior Executives' incentive to focus on the long-term business and financial performance of the Company. Incentive plan awards that Senior Executives voluntarily elect to take as stock options instead of cash or unrestricted stock are not subject to the holding period.

Finally, to further align our Senior Executives with the interests of our shareholders, the Company's Insider Trading Policy does not permit pledging, collars, short sales, hedging investments or other derivative transactions involving Company stock. Purchases and sales of Company stock by Named Executive Officers can only be made during the one month period following public earnings announcements or, if outside these window periods, with express permission from the Company's Chief Legal Officer, or in accordance with a previously established trading plan that meets SEC requirements. Only Mr. Lafley currently has such a plan, which began in 2003 and is updated periodically, most recently in May 2007.

**Table of Contents**

*The Company Does Not Offer Employment Contracts to its Employees*

Many companies use employment contracts for their top executives. Generally, the Committee believes these arrangements are not necessary for our executives, because most have spent the majority of their professional careers with the Company, over which time they have developed a focus on the Company's long-term success. Except in certain circumstances such as acquisitions, or where required by law in certain jurisdictions, the Company does not have any employment contracts with its executives. None of the Company's current Named Executive Officers has an employment contract.

**How is competitiveness established for executive compensation?**

The Company's executive compensation is structured so that total targeted annual cash and long-term compensation opportunities are competitive with comparable positions at comparable companies. To determine the amounts for these different elements of compensation, the Company evaluates similar jobs, focusing on positions with similar management and revenue responsibility in large, well-respected companies, and uses a regression analysis to adjust for the differences in revenue size. The Committee has directed Frederic W. Cook & Co., its outside and independent compensation consultant, to advise the Committee on various compensation matters, including peer group identification, competitive practices and trends, specific program design, and Committee actions with respect to principal officer compensation. In addition, the Company uses a different compensation consultant, Hewitt Associates, to provide compensation advice, competitive survey data and other benchmark information related to trends and competitive practices in executive compensation.

The Committee compares pay and performance information for Senior Executive positions (including Named Executive Officers) to a peer group consisting of companies that generally meet the following criteria:

Revenue comparable to the Company (\$76 billion in fiscal year 2006-07) and/or market capitalization comparable to the Company (approximately \$200 billion);

- n Peer group revenues range from \$14 billion to \$375 billion with a median of \$61 billion; and
- n Peer group market capitalization ranges from \$10 billion to \$489 billion with a median of \$84 billion.

Compete with the Company in the marketplace for business;

Compete with the Company for executive talent; and

Have generally similar pay models (we do not compare with financial services, insurance or utility companies where mix of pay elements or program structure is materially different).

The Committee evaluates and, if appropriate, updates the composition of the peer group each year to ensure it remains relevant and is not skewed by over-representation of any non consumer-products industry. Changes to the peer group are carefully considered and made infrequently to assure continuity from year to year. For fiscal year 2007-08, the peer group consisted of the following 25 companies (the Peer Group) unchanged from the prior two fiscal years:

3M	General Electric	Lockheed Martin
Altria Group	General Motors	Merck



Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

AT&T	Hewlett-Packard	Motorola
Boeing	Home Depot	PepsiCo
Chevron	IBM	Pfizer
Coca-Cola	Johnson & Johnson	Target
Colgate-Palmolive	Kimberly-Clark	Verizon Communications
Du Pont	Kraft Foods	Wal-Mart Stores
Exxon Mobil		

**Table of Contents****Details regarding elements of executive compensation*****Annual Cash Compensation***

The building blocks of the Company's annual cash compensation program are base salary and STAR annual bonus. We collect and analyze data from the Peer Group on the total annual cash compensation (base salary plus annual bonus) of positions comparable to those at the Company. For each position, we set a target amount for both base salary and STAR, where the STAR Target is the amount payable as a percentage of salary if all goals are met. The sum of the targets for base salary and STAR for each position is set at the median annual cash compensation of our Peer Group by position, adjusted for size using a regression of Peer Group revenues. The STAR Target determines the amount of annual cash compensation at-risk for achieving annual goals.

**Base Salary**

The purpose of base salary is to provide a competitive fixed rate of pay, recognizing different levels of responsibility within the Company. Salaries are the basis for establishing the target payouts of the performance-driven programs discussed below, as well as the basis for retirement programs, executive group life insurance and certain benefits available to all employees.

In fiscal year 2007-08, the base salaries of Mr. Lafley and Mr. Daley did not change. Ms. Arnold, Mr. McDonald and Mr. Panayotopoulos were each promoted to positions of greater responsibility effective at the beginning of the fiscal year, and received appropriate salary increases at that time to align them with comparable positions at the Peer Group companies.

**STAR Annual Bonus**

The purpose of the STAR bonus program is to provide an incentive to achieve and exceed the annual business goals set for the business units and the total Company. The program rewards the achievement of outstanding business results and reduces the award for those who fail to achieve target business results. STAR Awards are paid in cash, RSUs, stock options or deferred compensation, at the executive's election.

STAR Targets are set by the Committee for Named Executive Officers based on the target bonus for similar positions at Peer Group companies in relation to base salaries. This year, based on an analysis of annual cash compensation and bonus targets at Peer Group companies, the Committee set Mr. Lafley's STAR Target at 170% of base salary. Mr. Daley's, Ms. Arnold's and Mr. McDonald's STAR Targets were set at 115% of base salary and Mr. Panayotopoulos had a STAR Target of 90% of base salary.

STAR Awards earned for fiscal year 2007-08 were based on three target factors: 1) Company performance, 2) business unit performance, and 3) the Company's achievement of Gillette integration goals. By multiplying these factors, each is interrelated and can impact the total award, with the Business Unit Factor having a wider range and therefore the greatest potential impact on the amount of the final award. The measures that determine each factor are discussed below. The STAR Award calculation is:

$$\begin{array}{ccccccccc} \text{Star} & & \text{Total Company} & & \text{Business Unit} & & \text{Gillette Integration} & & \text{STAR} \\ \text{Target (\$)} & \times & \text{Factor (\%)} & \times & \text{Factor (\%)} & \times & \text{Factor (\%)} & = & \text{Award (\$)} \end{array}$$

The Total Company Factor is based on a numeric formula. The Business Unit Factor and the Gillette Integration Factor combine objective and retrospective judgmental elements and are collectively discussed and evaluated by the Chief Executive Officer, the Chief Financial Officer and the Global Human Resources Officer, resulting in a recommendation for each factor to the Committee for review and approval. Due to their role in assessing performance and recommending the award factors for all other participants, these three executives' STAR Awards are determined separately and directly by the Committee. The Committee

**Table of Contents**

determines their awards once the range for all other STAR Awards is decided, taking into account overall STAR performance factors and personal contributions to these results, and uses its discretion to determine the final STAR Awards for Messrs. Lafley, Daley, and the Company's Global Human Resources Officer.

The STAR Awards for Ms. Arnold, Mr. McDonald and Mr. Panayotopoulos use the multiplicative formula shown above. The basis for each element of their awards is discussed below:

**Total Company Factor** Ranging from 80% to 130%, this factor is determined by equally weighting the following two measures against predetermined targets: (1) organic sales growth, and (2) earnings per share (EPS) growth.

*Organic sales growth:* At its August 14, 2007 meeting, the Committee replaced total shareholder return with organic sales growth as a measure for fiscal year 2007-08. The Committee moved to organic sales growth because it drives total shareholder return, is a tangible measure for which Senior Managers take ownership and is directly linked to the performance of each business. Organic sales growth is a key growth measure for the Company as discussed in the Executive Summary on page 16. For 2007-08 STAR, the target was 5.5%, slightly above the midpoint of the Company's long-term goal of 4% to 6%.

*EPS growth:* The target for 2007-08 was 10% diluted EPS growth for the year, excluding the year-to-year impact of Gillette dilution. This measure is used in the STAR calculation because it assures continued Company alignment with shareholder interests. By focusing the 14,000 Senior Managers who participate in STAR on EPS growth, we motivate our leaders to achieve or exceed this key measure of the Company's success.

*2007-08 Results:* Reported organic sales growth for the Company was 5%, slightly below the 5.5% target, while EPS grew above target at 11-12% (excluding the prior year impact of Gillette dilution and a current year net tax benefit). These two results, when entered into a formula previously approved by the Committee, derived a Total Company Factor of 101%, as compared with a target value of 100%.

**Business Unit Factor** Business unit results are included in the bonus calculation to motivate participants to help their business succeed. The performance factor determined for each business unit ranges from 53% to 167%. The targets for each business unit are established at the beginning of the fiscal year and vary by business unit, reflecting a variety of factors such as the different industries in which these businesses compete and the varying levels of investment in each business unit by the Company. Each measure is an indicator of the health of the Company's business units; the array of factors evaluated encourages a balanced approach to all aspects of business management. The targets are determined based on the long-term goals in relation to each business' role in the Company's portfolio. Each Business Unit Factor is determined by:

- n *Quantitative measurements* of topline growth in volume, sales and market share, and bottomline measures of profit, operating cash flow and operating total shareholder return (a cash flow return on investment (CFROI) model that measures sales growth, earnings growth and cash flow to determine the rate of return that a business earns); and
- n *Qualitative measures* of performance relative to competitors, coordination and collaboration with other Company business units, the quality of business strategy and business model, the strength of the innovation program and portfolio and other considerations such as adherence to ethical standards and response to unpredictable events like natural disasters.

**Table of Contents**

*2007-08 Results:* The Business Unit Factors that were applied to Named Executive Officers are as follows:

Ms. Arnold As the President of Global Business Units ( GBUs ), Ms. Arnold is responsible for developing the overall strategy for our portfolio of businesses. Her STAR Award is based on the weighted average of the results of all three GBUs Beauty, Health & Well Being and Household Care. The combined sales growth for the three GBUs was 10%, and the earnings growth was 11%. These factors, combined with the other quantitative and qualitative measures listed above and assessed for each of the business units, resulted in a weighted average Business Unit Factor of 105% applied to Ms. Arnold s STAR calculation. This reflects results that were slightly ahead of expectations.

Mr. McDonald As Chief Operating Officer, Mr. McDonald is responsible for the market development organizations, the global business services organization, and the centralized corporate functions. Accordingly, his Business Unit Factor is a weighted average of the performance factors for these organizations. In 2007-08, the combined market development organizations achieved sales growth of 10%. The global business services award, measured by a specific scorecard including measures such as cost savings, user satisfaction and delivery of service level targets, was ahead of target. Because the centralized corporate functions support all business units, the factor applied to those functions is the average of all Business Unit Factors, which was 110%. Weighting these factors, a composite Business Unit Factor of 113%, reflecting results ahead of expectations, was applied to Mr. McDonald s STAR calculation.

Mr. Panayotopoulos Mr. Panayotopoulos serves as Vice Chair of the Company s Household Care GBU. His Business Unit Factor is based on a weighted average of the performance factors of the businesses that are part of that GBU. The combined sales growth for Household Care was 10%. Earnings growth was 13%. Overall, combining these results with the other quantitative and qualitative factors listed above and assessed for each of the business units in Household Care, a Business Unit Factor of 127% was applied to Mr. Panayotopoulos STAR calculation. This reflects overall results that were ahead of expectations.

**Gillette Integration Factor** Ranging from 80% to 130%, this factor assesses the achievement of Gillette integration goals during key transition years and focuses all participants on the achievement of the goals set for this important integration. The factor has been a component of the STAR Award since 2005. The factor reflects the major integration milestones that occurred in fiscal year 2007-08, and is based on three categories:

- n *Business Momentum* goals relating to maintaining P&G and Gillette base business momentum in areas such as sales, market share and profit growth while integrating Gillette;
- n *Integration Financials* including dilution, cost and revenue synergies and total investment required to deliver the synergies; and
- n *Retention* percentage retention of Gillette heritage managers, plus assessments from employee surveys regarding how well Gillette heritage employees believe their skills and capabilities are being utilized.

*2007-08 Results:* All three components of the Gillette Integration Factor were in line with or ahead of target for the fiscal year. Business momentum was strong as both the heritage Gillette and P&G businesses continued to deliver sales and earnings growth at or ahead of target. The Company s integration financials were ahead of target, as the Gillette merger was modestly accretive in 2007-08. Retention was slightly ahead of the target we established at close of the merger, and our employee survey results indicate that Gillette heritage employees continue to be satisfied with their integration into the Company. Based on these results, the Committee approved an overall Gillette Integration Factor of 125%.

**Table of Contents**

The Committee reviews the recommendations for the Business Unit and Gillette Integration Factors and considering Company performance results, determines final payments for all Senior Executives. They retain the authority to make no award in a given year and the discretion to accept, modify, or reject management's recommendations.

For fiscal year 2007-08, the combined STAR performance factors resulted in a Company average STAR Award of 139% of STAR Target. The Committee concluded that Mr. Lafley and Mr. Daley should receive an award in line with this Company average, reflecting their leadership in achieving the Company's strong results in fiscal year 2007-08.

The following shows the actual STAR calculation for each Named Executive Officer:

**STAR Annual Bonus**

(Dollar Figures Shown in Thousands)

Named Executive Officer	STAR Target (\$)	Total Company Factor	Business Unit Factor	Gillette Integration Factor	STAR Award (\$)	STAR Award as % of Target
<b>A.G. Lafley</b>	2,890	Committee Decision Based on Performance			4,000	138%
<b>Clayton C. Daley, Jr.</b>	1,047	Committee Decision Based on Performance			1,453	139%
<b>Susan E. Arnold</b>	1,150	101%	105%	125%	1,524	133%
<b>Robert A. McDonald</b>	1,150	101%	113%	125%	1,641	143%
<b>E. Dimitri Panayotopoulos</b>	819	101%	127%	125%	1,313	160%

Summary of Total Annual Cash Compensation

Our Named Executive Officers' total annual cash compensation for fiscal year 2007-08 comprises the sum of their base salary and STAR annual bonus. These totals reflect their leadership performance in our Company, which sells products in over 180 countries and has on-the-ground operations in over 80 countries. Under their leadership, the depth and breadth of our portfolio is stronger now than at any time in the Company's history. We compete in over 22 categories and have 24 billion-dollar brands. Their annual cash compensation reflects their performance in a company of our size, scope and complexity.

Comparing the annual cash compensation of the Chief Executive Officer to the median actual annual cash compensation of his peers, Mr. Lafley's total for fiscal year 2007-08 was \$5,700,000, approximately 9% above the median. The Committee believes this properly compensates Mr. Lafley given his leadership as the Company delivered another year of growth at or above the Company's growth goals. It is also appropriate given our Company's size we are now in the 65th percentile for revenue and 82nd percentile for market capitalization among our Peer Group. For more information regarding Mr. Lafley's performance over the year, please see details on pages 33 to 34 of this proxy statement.

We compare the annual cash compensation of the remaining Named Executive Officers to the median cash compensation of similar roles in the Peer Group, accounting for different responsibilities relative to the size of the organization for which each is responsible. On average, the total annual cash compensation of these four officers is approximately 10% above the market median, and reflects their overall performance in leading our business.

**Long-Term Incentive Programs**

The majority of total compensation for Senior Executives is long-term compensation. It is paid through two programs the Key Manager Annual Stock Grant and the BGP three-year incentive plan. The Committee establishes a target for total long-term compensation consistent with the median, total long-term compensation of comparable positions at Peer Group companies regressed for revenue size, and then allocates this overall target into a target for each of the two programs. BGP targets are based on salaries at the beginning of each BGP three-year cycle. Key Manager targets are established by subtracting these BGP targets from the median total long-term compensation of similar positions in the Peer Group described above. Actual amounts earned depend upon performance.



## **Table of Contents**

### **Key Manager Annual Stock Grant**

The purpose of the Key Manager Annual Stock Grant program is to focus executives' attention on the long-term performance of the Company and directly link executives' interests to those of the shareholders. For all Named Executive Officers except Mr. Lafley, these Key Manager Grants were previously made in stock options. Beginning in fiscal year 2007-08 all Executives (except Mr. Lafley) could elect to receive up to 50% of their award in RSUs. The Committee allowed the choice of RSUs to address individual preferences and to better align our practices with those of companies in our Peer Group, which generally grant a mix of stock options and RSUs. The Committee continues to require that at least half of every Key Manager Grant be delivered in stock options because stock options tightly align participants' interests with those of the Company's shareholders producing no value whatsoever if shareholders do not realize gains. The use of stock options and RSUs ties a significant portion of our executives' total compensation to stock price performance. This program aligns with overall compensation program objectives by focusing on long-term Company performance and drives shareholder value by rewarding sustained increases in share price.

The stock options are not exercisable (do not vest) until three years from date of grant and expire ten years from date of grant. RSUs deliver in shares five years from date of grant. Recipients must remain employed for six months after the date of grant to retain their Key Manager Annual Stock Grant. The three-year stock option vest and five-year forfeitability restriction on RSUs enhance ownership and retention because employees who voluntarily resign from the Company during the specified periods forfeit their grants, and those who retire must wait the three or five years before shares are available to them.

Once the Key Manager Grant target is established based on Peer Group competitive data, the Chief Executive Officer recommends specific grants to the Committee for each Senior Executive based on individual performance and experience in their position. These recommendations can be up to 50% above or 50% below the target grant. In exceptional cases, no grant will be awarded. As noted previously, the Committee retains full authority to accept, modify or reject these recommendations. The Committee also reviews total Company performance and individual performance to determine the Key Manager Grant and form of delivery for the Chief Executive Officer.

Based on Mr. Lafley's recommendation, the Committee awarded grants to the other Named Executive Officers with the following fair values as recognized in accordance with SFAS 123(R). Mr. Daley received a grant of \$3,724,096. Mr. Daley's business expertise and leadership in the Gillette integration were determining factors in this grant. Ms. Arnold received a grant of \$3,669,007 reflecting her experience and leadership in her current position and the overall performance of the Company's Global Business Units. Mr. McDonald's grant of \$4,280,511 reflects the important role he played in the Gillette integration and his performance as Chief Operating Officer. Mr. Panayotopoulos received a grant valued at \$3,179,824 based on his performance and leadership of the Global Household Care business unit. Mr. Daley elected to receive 25% of his grant in RSUs. Ms. Arnold and Messrs. McDonald and Panayotopoulos elected to receive 100% of their respective grants in stock options.

The Committee believes Mr. Lafley continues to perform effectively and to deliver consistent results at or ahead of the Company's long-term performance goals. The Committee determined it was appropriate to award Mr. Lafley a Key Manager Grant with a fair value of \$16,032,771. The Committee awarded 50% of the grant in stock options and 50% in RSUs.

### **Business Growth Program (BGP) Three-Year Incentive**

BGP is the second long-term incentive component for Senior Executives and focuses these leaders on the long-term goals most critical to the overall success of the Company. BGP places compensation at-risk subject to the achievement of specific Company growth objectives. BGP is designed to reward the achievement of three-year performance goals, with a new period beginning when the preceding three-

**Table of Contents**

year period ends. Fiscal year 2007-08 was the third, and final year in the current three-year program that ran from July 1, 2005 to June 30, 2008. Recommended BGP payments are calculated based on a formula comparing actual results to pre-established performance targets, but the Committee can reduce or eliminate payments if they determine that such payments are inconsistent with shareholders' best interests. The target BGP Award amount for the three-year period which is set at the beginning of the performance period, is six times base salary for the Chief Executive Officer and three times base salary for the other Named Executive Officers.

The total BGP Award amount for the three-year period is based on results with respect to two metrics that balance Senior Executives' focus and lead to sound business decisions for the long-term health of the Company:

Compound EPS Growth Earnings per share growth as measured against goals set by the Committee for the performance period; and

Operating Total Shareholder Return a cash flow return-on-investment (CFROI) model that measures sales growth, earnings growth and cash flow generation to determine the rate of return that a business earns.

For the most recent three-year period, the EPS growth target was maintained at 10% compound annual growth, in line with the Company's commitment to eliminate Gillette dilution within three years of the 2005 acquisition. Operating TSR, an internal, proprietary metric, is based on the Company's on-going EPS growth goal of 10% and our free cash flow productivity goal of 90% or greater. Each of these Company goals is demanding, as they represent industry-leading performance. The Committee established accounting guidelines at the beginning of the three-year performance period to define the methodology for calculating performance results.

The results of these two metrics are entered into a matrix formula that was approved by the Committee at the beginning of the three-year performance period and yields a payout percentage range from 0% to 200%. Interim payments of 30% of the total anticipated BGP Award may be earned and paid in year one and year two of the three-year performance period, but only if both target metrics are met or exceeded for these periods. Once the final year of the three-year period is complete and the final BGP Award calculation is made, any interim payments are subtracted from this final award calculation to determine the final payment to be made in year three. In the unlikely event that total interim payments exceed the final BGP Award for the three-year period, the Committee will require repayment of any amount overpaid.

Each BGP payment is divided in half. One-half is paid in RSUs that do not deliver in shares of stock until three years following the date of grant, even if the executive retires before that time. This aligns the interests of the Senior Executives with shareholders by encouraging participants to focus on the health of the Company beyond the performance period and promotes the retention of key top talent who will forfeit undelivered units if they resign. The other half of each BGP payment is awarded in cash, RSUs or deferred compensation, at the executive's election.



**Table of Contents***2005-2008 Performance Period and Final Payment in the Three-Year Cycle*

The chart below shows the three-year 2005-2008 results of the two BGP metrics, and the final calculation. The results of these metrics were entered into the matrix formula previously approved by the Committee, and the resulting payout percentage factor for the three-year cycle was 120%:

<b>Measure (7/1/2005 - 6/30/2008)</b>	<b>Target</b>	<b>Result</b>
Compound EPS Growth (excluding the dilutive impact of the merger with Gillette)	+10%	+12% <sup>1</sup>
Operating TSR	Pre-established target	Slightly below target
2005-2008 Calculation	120% x Executive's BGP Target	

<sup>1</sup> Excludes the net tax benefit from a number of certain significant adjustments to tax reserves in the U.S. and other countries in fiscal year 2007-08, consistent with the BGP program.

The chart below shows the calculation of the 2008 BGP payment (final year in the three-year cycle) for each Named Executive Officer, taking into account interim payments made in 2006 and 2007. In years one and two of the program, the Company exceeded the compound EPS growth goal and met or exceeded the total shareholder return goal. Therefore, the Company made interim payments in 2006 and 2007 based on these first two years of strong performance. For the full three-year performance period compound EPS growth exceeded the goal while total shareholder return was slightly below the goal. These results, when entered into the matrix formula, derived a three-year BGP Award payout percentage factor of 120%. After applying this factor to each Named Executive Officer's target and subtracting the interim payments made in 2006 and 2007, the final payment is lower than the prior two years and less than 120% of target for the third year. This reflects that the Company's compensation programs are working as described that we pay for performance.

**BGP Payment Summary**  
(Dollar Figures Shown in Thousands)

Named Executive Officer	Three-year Target	Three-year Award Calculation (Target x 120%)	2006 Interim Payment (193%)	2007 Interim Payment (170%)	Final Payment (Three-year Award Calculation minus Sum of Interim Payments)
<b>A. G. Lafley</b>	10,200	12,240	5,906	5,202	1,132
<b>Clayton C. Daley, Jr.</b>	2,520	3,024	1,459	1,285	280
<b>Susan E. Arnold</b>	2,730	3,276	1,581	1,392	303
<b>Robert A. McDonald</b>	2,730	3,276	1,581	1,392	303
<b>E. Dimitri Panayotopoulos</b>	2,400	2,880	1,390	1,224	266

Summary of Long-Term Incentive Compensation

## Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

Our Named Executive Officers' total long-term incentive ( LTI ) compensation represents the sum of the amount awarded under the Key Manager program and the Final Payment amount under the three-year BGP. The Committee considers the performance of these individuals in the context of the size and scope of the organization in which they lead. Mr. Lafley's total annualized LTI of \$17,164,971 is approximately 42% above the Peer Group median and is a reflection of the performance considerations described on pages 33 to 34 of this proxy statement. On average, the other Named Executive Officers' total LTI was approximately 7% above the Peer Group median LTI for comparable positions which is in line with the Company's overall performance over the past year. This reflects each officer's individual

## **Table of Contents**

performance and contributions discussed on page 27 in the Key Manager section of this Compensation Discussion and Analysis and the total Company results of the BGP three-year program.

### ***Retirement Programs***

#### ***The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Program and the PST Restoration Program***

The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Program ( PST ) is the Company's primary retirement program for U.S.-based employees. PST is a qualified defined contribution plan providing retirement benefits for full-time U.S. employees, including the Named Executive Officers. Under the PST program, each employee's PST account receives an annual allocation consisting of a contribution of: 1) preferred shares funded by the PST, and 2) shares of Company common stock purchased by the PST trustees using a cash contribution from the Company. Participants earn dividends on the stock in the PST account and have the option of reinvesting those dividends or taking them in cash. The amount of the combined annual contribution varies based upon individual base salaries and years of service.

Some participants in PST are subject to the federal tax limitations on contributions that may be made each year to their PST accounts and therefore do not receive the full calculated contribution. Under the nonqualified PST Restoration Program, the Company makes an additional contribution, in the form of RSUs, to those participants whose PST contribution is limited. The value of these RSUs is equal to the difference between the amount granted under PST and what would have otherwise been granted under PST, but for the tax limitations. Participants are vested in their PST accounts after five years and their PST Restoration RSUs are forfeitable until they become eligible for retirement.

We are proud of the way PST and PST Restoration have created ownership at all levels of our Company. We believe these programs continue to serve the Company and its shareholders well by focusing employees on the long-term success of the business. We do not have any additional Special Executive Retirement Programs (SERP) for our top executives. Because the accumulation of retirement benefits for all other U.S. employees is dependent upon the Company's share price and PST contributions, we believe it is appropriate for the Named Executive Officers to share the same risk and reward.

#### ***Country Pension Plan***

Certain employees participate in country pension plans that provide primary and supplementary retirement benefits. Because Mr. Panayotopoulos started his career in the United Kingdom, he has assets frozen in his original pension plan in the United Kingdom. The Procter & Gamble Pension Fund (UK) provides for post-retirement payments based on the employee's ending salary and years of service. This plan also includes a supplemental or temporary UK pension benefit that provides pension payments to employees who retire after age 59 but prior to age 65. The amount of such payments is similar to the pension payments that the employee will receive from the government when he or she reaches age 65. This temporary benefit stops when government pension payments begin.

#### ***International Retirement Plan***

Retirement programs have also been established for employees who are on expatriate assignments for an extended period of time or who transfer out of their home country on a permanent basis. These programs are necessary to ensure that individuals who accept an assignment outside their home country are not disadvantaged in their ability to accumulate competitive retirement benefits. The International Retirement Plan ( IRP ) was established to provide retirement savings for certain employees on international assignment who are not eligible to participate in their home country pension plan due to plan or legal restrictions. The annual plan contribution for Mr. Panayotopoulos, who participates in the IRP, is calculated using the same formula as PST. Mr. Panayotopoulos is permitted to take this contribution in the form of RSUs or to invest in one of several investment vehicles offered within the IRP.

## **Table of Contents**

### **Global International Retirement Arrangement**

Mr. Panayotopoulos also participates in the Global International Retirement Arrangement ( Global IRA ). The Global IRA is designed to provide retirement benefits to certain employees whose benefits are frozen under their home country pension plan(s) as a result of having been transferred away from their home country on a permanent basis. Benefits paid under the country pension plans are based on the employee s salary at the time of transfer instead of the employee s salary at the time of his or her retirement. The Global IRA accounts for the differences in retirement benefits attributable to a higher salary at the time of retirement than at the time of transfer out of the home country. As such, the Global IRA is reduced on a dollar for dollar basis by any retirement pension benefit paid by either the Company or the government which was earned through the employee s home country.

### ***Perquisites and Executive Benefits***

The Company provides limited perquisites and special benefits to certain executives. These arrangements fulfill particular business purposes. Benefits such as home security systems, secured workplace parking and an annual physical safeguard Named Executive Officers. While Company aircraft are generally used for Company business only, for security reasons Mr. Lafley is required by the Board to use Company aircraft for all air travel, including personal travel. To increase executive efficiency, in limited circumstances, Named Executive Officers may travel to outside board meetings on Company aircraft, in which case the Company generally receives some reimbursement from the companies on whose boards our executives serve. In addition, if a Company aircraft flight is already scheduled for business purposes and can accommodate additional passengers, Named Executive Officers and their spouse/guests may join flights for personal travel. To the extent any travel on Company aircraft results in imputed income to the Named Executive Officer, the Company does not provide gross-up payments to cover the Named Executive Officer s personal income tax due on such imputed income. We also reimburse Named Executive Officers for tax preparation and some financial counseling to eliminate distraction, focus their attention on business issues and assure accurate personal tax reporting. To remain competitive and retain our top executives, we offer executive group whole life insurance coverage (equal to base salary plus STAR Target). Finally, to further increase executive efficiency, we provide limited local transportation within Cincinnati.

In general, executive benefits make up a very small percentage of total compensation (less than 1%) for the Named Executive Officers. The Company does not gross-up payments to cover personal income taxes that may pertain to any of the executive benefits. The Committee reviews these arrangements regularly to assure they continue to fulfill business needs.

### ***Expatriate and Relocation Program***

The Company s global business needs require it to temporarily relocate certain employees with special or unique skills to countries where those skills may not be available. To meet this need, the Company utilizes expatriate assignments. To provide incentives to encourage employees to accept these assignments, to ensure that they become productive as soon as possible after relocation, and to minimize any financial impacts associated with these assignments, the Company provides certain benefits to these expatriates.

To enable an expatriate to maintain a reasonable standard of living in countries where living expenses are higher than his or her home country, the Company pays for a housing allowance and related support, cost of living adjustments, education support, travel to and from home country, and tax preparation and immigration expenses. The Company also pays for certain expenses upon an employee s return home. In addition, the Company makes certain tax equalization payments or reimbursements for expatriates. The purpose of these tax equalization payments and reimbursements is to ensure that the expatriate assignment is tax neutral to the employee. Expatriates pay a hypothetical tax to the Company, in amounts about equal to the taxes of a home country peer not on expatriate assignment, and the Company then

**Table of Contents**

pays the actual taxes due. The Company's cost is limited to any difference between the actual taxes paid by the Company and the hypothetical tax received from the employee. Tax equalization payments may occur after an expatriate assignment has ended, when taxes are owed in future years to the host country.

In connection with his expatriate assignment in Geneva, Switzerland for 10 months of the fiscal year, and relocation to the United States effective May 1, 2008, Mr. Panayotopoulos received some of these allowances and reimbursements. During this time, the Company also made certain tax equalization payments on his behalf.

**Total Compensation for Named Executive Officers**

The Committee believes the executive compensation programs described above meet the Company's compensation principles of supporting business strategies, paying for performance and paying competitively. Given the Company's emphasis on stock-based compensation as a major form of compensation for its Named Executive Officers, and because the SEC requires stock-based compensation to be reported based on what is expensed in our financial statements, we provide the table below to facilitate understanding of awards to our Named Executive Officers in fiscal year 2007-08. The table summarizes all compensation awarded to Named Executive Officers in the fiscal year and reconciles amounts shown in the table to amounts in the Summary Compensation Table that follows this Compensation Discussion and Analysis. Inclusion of this table is not designed to replace the Summary Compensation Table, but rather to reflect the Committee's decisions about compensation awarded to the Named Executive Officers during the fiscal year.

**Actual Compensation Awarded 2007-08**

Name	Actual Compensation Awarded in 2007-08						Total Compensation Awarded	Adjustments Required for Summary Compensation Table			
	STAR Annual		Value of Key Manager Award <sup>1</sup>	BGP Award	PST Restoration or IRP Award	Other Compensation <sup>2</sup>		Plus Prior stock option grants expensed this FY <sup>3</sup>	Plus Prior RS/RSU grants expensed this FY <sup>4</sup>	Less 2008 stock options to be expensed in future FY <sup>5</sup>	Plus tax and other payments for prior expatriate assignment <sup>6</sup>
	Salary (\$)	Bonus (\$)									
<b>A. G. Lafley</b>	1,700,000	4,000,000	16,032,771	1,132,200	323,648	316,828	23,505,447				26,963
<b>Clayton C. Daley, Jr.</b>	910,000	1,453,327	3,724,096	279,720	150,350	66,893	6,584,386				
<b>Susan E. Arnold</b>	1,000,000	1,524,469	3,669,007	303,030	170,056	59,487	6,726,049	2,511,715	150,009	(1,834,503)	
<b>Robert A. McDonald</b>	1,000,000	1,640,619	4,280,511	303,030	170,056	75,254	7,469,470	2,907,378	300,004		274,925
<b>E. Dimitri Panayotopoulos</b>	910,000	1,313,164	3,179,824	266,400	166,376	57,293	5,893,057		200,003	(244,607)	2,183,852

<sup>1</sup> Represents the grant date fair value of the 2008 Key Manager Award determined in accordance with SFAS 123(R).

<sup>2</sup> Represents total of PST contribution, perquisites and other executive benefits.

<sup>3</sup> Those portions of prior year stock options that were expensed during fiscal year 2007-08.

<sup>4</sup> Those portions of prior year special equity awards that were expensed during fiscal year 2007-08.

<sup>5</sup> Those portions of fiscal year 2007-08 stock option awards that will be expensed in future years.

<sup>6</sup> Tax payments related to Messrs. Lafley's and McDonald's stock options received while on prior expatriate assignments and tax and other payments related to Mr. Panayotopoulos' expatriate assignment during fiscal year 2007-08.

As noted in the Executive Summary on page 16 of this proxy statement, Named Executive Officers' total compensation targets are set consistent with total compensation paid for similar positions in our Peer Group. This is consistent with our approach to compensation at all levels of the Company. Once targets are established, actual Company, business unit and individual performance affect the amount of compensation paid to any individual Named Executive Officer and may result in substantial differences among the Named Executive Officers. The Committee believes this approach is consistent with our principles to pay competitively and to pay for performance, and therefore does not set guidelines for the ratio of any one position's pay to another such as Chief Executive Officer pay relative to other Named Executive Officers.



---

**Table of Contents**

**Chief Executive Officer Compensation**

Mr. Lafley's compensation is determined by the Committee using the same principles applied to all Senior Executives. The Committee works to make its process for assessing Mr. Lafley's performance rigorous and objective, with performance standards based on what is important to the Company's success. The entire process is supported by the Committee's independent compensation consultant, Frederic W. Cook & Co., which does no other work for the Company.

Mr. Lafley's total compensation is linked directly to his personal performance and the Company's performance. Through STAR and BGP it is aligned with business strategies and focused on rewarding sustained, long-term growth in shareholder value. The Committee primarily considered the following factors in determining Mr. Lafley's short and long-term incentive compensation in fiscal year 2007-08:

- The Company's overall results for fiscal year 2007-08, as shown on page 16;
- Mr. Lafley's individual performance during the year;
- The compensation awarded to other chief executives in our Peer Group producing similar results; and
- Our compensation principles and objectives as discussed on pages 16 to 17 of this proxy statement.

In evaluating Mr. Lafley's individual performance, the Committee considered the results of Mr. Lafley's individual leadership and his focus on sustaining growth for the future of the Company, including:

- Continued focus on ethics throughout the Company;
- Continued delivery of business goals, including market shares increasing in more than half of the business, and sales, volume, profit and cash in line with or ahead of the Company's sustainable growth targets;
- Clear and effective business strategies and leveraging of business structure for competitive advantage;
- Enhanced Company ability to innovate and to create and build leading brands;
- Continued focus on employee, customer and consumer diversity as recognized by several global publications;
- Continued emphasis on organizational development, including the development of top talent and potential successors for key executive positions, including the Chief Executive Officer role; and
- External recognition of Mr. Lafley and the Company's leadership, including:
  - n Mr. Lafley named to *Barron's* list of the 30 best corporate leaders worldwide;
  - n #2 on *Fortune's* Top Companies for Leaders survey;
  - n #4 on *Barron's* World's Most Respected List;
  - n #5 ranking on *Fortune's* Global Most Admired Companies;
  - n #8 on *Business Week's* list of World's Most Innovative Companies;
  - n Top ranking on the Dow Jones Sustainability Index from 2000-2008;
  - n Awarded 2008 Advertiser of the Year at the Cannes International Advertising Festival;
  - n A consistent #1 ranking on *Fortune's* U.S. Household and Personal Products most admired list for 23 of 24 total years and for 11 years in a row.

The Committee also considered Mr. Lafley's leadership of the successful completion of the integration of Gillette that occurred in fiscal year 2007-08, the largest and most complex integration in the history of the consumer products industry. Finally, the Committee has tremendous confidence in Mr. Lafley's ongoing leadership, based in part on his sustained performance and his commitment to strengthen the Company for the future. Since 2001, under Mr. Lafley's leadership, the Company's sales have more than doubled to \$83.5 billion, average annual earnings per share growth has been 13%, and the Company has generated \$59 billion in free cash flow. In addition, the Company's compound annual TSR over the past seven years ranked in the top third of its TSR peer group.

## **Table of Contents**

To gain further perspective on Mr. Lafley's total compensation, before making decisions on each element of his total compensation, the Committee reviews a summary of all elements of Mr. Lafley's total compensation, including base salary (which did not increase in the past five years), STAR annual bonus, Key Manager Annual Stock Grant, BGP three-year incentive award, unrealized gains from stock options, restricted stock and RSUs, and the cost to the Company of all retirement programs, benefits and executive benefits. Based on its review of this summary and in consultation with its independent compensation consultant, the Committee determined that the individual compensation elements and Mr. Lafley's total compensation for fiscal year 2007-08 were consistent with his performance.

## **Additional Information**

This additional information may assist the reader in better understanding the Company's compensation practices and principles.

### **Role of the Chief Executive Officer in setting other Named Executive Officers' compensation**

The Committee has broad authority over the compensation of the Company's Senior Executives, including review and evaluation of their total compensation. The Chief Executive Officer makes recommendations to the Committee regarding the annual cash and long-term incentive compensation of the Company's Senior Executives (other than his own compensation) based on Company performance, individual performance and input from Company management and the Committee's independent compensation consultant. All final decisions regarding compensation for Senior Executives, including the Named Executive Officers, are made by the Committee.

### **Tax Gross-Ups**

Generally, the Company does not increase payment to any employees, including Named Executive Officers, to cover personal income taxes. However, certain expatriate allowances, relocation reimbursements and tax equalization payments are made to employees assigned to work outside his or her home country and the Company will cover the personal income taxes due on these items in accordance with expatriate policy. In addition, from time to time, the Company may be required to pay personal income taxes for certain separating executives hired through acquisitions in conjunction with contractual obligations. For more information on the Expatriate and Relocation Program please see pages 31 to 32 of this proxy statement.

### **Use of Independent Compensation Committee Consultant**

The Committee has hired independent consultant Frederic W. Cook & Co. and directed it to advise the Committee on various compensation matters, including peer group identification, competitive practices and trends, specific program design, and Committee actions with respect to principal officer compensation. Under the terms of its agreement with the Committee, Frederic W. Cook & Co. is prohibited from doing any other business for the Company or its management, and the Committee may contact Frederic W. Cook & Co. without any interaction from Company management. This is meant to ensure the independence of the Committee's compensation consultant. Consistent with the terms of the Committee's agreement with Frederic W. Cook & Co., the Committee has adopted a formal policy prohibiting any compensation consultant retained by the Committee from doing any other business for the Company or its management.

### **Timing and Pricing of Stock-Based Grants**

The Company grants stock, RSUs and stock options on dates that are consistent from year to year. If the Committee changes a grant date, it is done well over a year in advance and only after careful review and discussion. The Company has never repriced stock options and is not permitted to do so without prior shareholder approval.



**Table of Contents**

We use the closing price of the Company's stock on the date of grant to determine the grant price for executive compensation awards. However, because PST uses the value of shares based on the average price of Company stock for the last five days in June, the grants of RSUs made under PST Restoration and IRP follow the same grant price practice. The pre-established grant dates and prices for executive compensation programs are:

<b>Program</b>	<b>Grant Date</b>	<b>Grant Price</b>
STAR <sup>1</sup>	Last business day on or before September 15	Closing price on grant date
Key Manager	Last business day of February or, if needed for corrections, a second grant on the last business day prior to May 10	Closing price on grant date
BGP	Last business day on or before September 15	Closing price on grant date
PST Restoration and IRP	First Thursday in August	Average of the high and low stock price for the last five days of June

<sup>1</sup> Stock grants under the STAR program occur only if the Senior Executive elects a payment in stock.

**Special Equity Awards**

On rare occasions, in response to unique situations, the Committee has the authority to make special equity grants in the form of restricted stock or RSUs to Senior Executives to assure retention of the talent necessary to manage the Company successfully or to recognize superior performance. No such grants were made to Named Executive Officers in fiscal year 2007-08. If made, grant dates are reviewed and approved as far in advance as possible. No grants are made retroactively.

**Recoupment Policy**

The Committee has adopted the Senior Executive Officer Recoupment Policy that permits the Company to recoup or claw back STAR or BGP payments made to Senior Executives in the event of a significant restatement of financial results for any reason. This authority is in addition to the Committee's authority under The Procter & Gamble 2001 Stock and Incentive Compensation Plan (as amended) (the 2001 Plan) to suspend or terminate any outstanding stock option if the Committee determines that the participant has acted significantly contrary to the best interests of the Company or its subsidiaries.

**Deferred Compensation Plan**

The Procter & Gamble Company Executive Deferred Compensation Plan, established in 2004 to maintain a competitive benefits package, allows Senior Executives to defer receipt of up to 100% of their STAR annual bonus, up to 50% of their BGP interim and final payments, and/or up to 50% of their annual base salary. The Company retains the cash amounts, while a notional account is set up with investment choices that mirror those available to all U.S. employees who participate in The Procter & Gamble Savings Plan. No above-market or preferential interest is credited on deferred compensation, as defined for purposes of the SEC disclosure rules.

## **Table of Contents**

### **Tax Treatment of Certain Compensation**

Section 162(m) of the Internal Revenue Code limits the Company deductibility of executive compensation paid to certain Named Executive Officers to \$1,000,000 per year, but contains an exception for certain performance-based compensation.

For fiscal year 2007-08, awards granted under the STAR, Key Manager and BGP programs satisfied the performance-based requirements for deductible compensation. The Committee approved award pools for STAR and BGP based on net earnings with a maximum portion of each pool set for each of the Named Executive Officers subject to Section 162(m). The Committee then used its discretion to determine STAR Awards and BGP payments based on Company and business results. Each of the amounts approved for Named Executive Officers subject to Section 162(m) were below the maximums established, and are therefore deductible by the Company.

Company deductibility of compensation was taken into account by the Committee when setting compensation levels for current Named Executive Officers. While the Committee's general policy is to preserve the deductibility of compensation paid to the Named Executive Officers, the Committee nevertheless authorizes payments that might not be deductible if it believes they are in the best interests of the Company and its shareholders. The Committee determined that it was appropriate to continue to pay Mr. Lafley a competitive base salary of \$1,700,000, with \$700,000 not deductible by the Company. Named Executive Officers are eligible for other grants, even though such grants may result in non-deductible payments. In certain years, individuals may receive non-deductible payments resulting from awards made prior to becoming a Named Executive Officer. Ms. Arnold received a special equity grant in 2003, before she became a Named Executive Officer. This award of restricted stock vested in June 2008 and was not deductible by the Company.

### **Governing Plans**

All grants of stock options, restricted stock and/or RSUs are made under the 2001 Plan or The Gillette Company 2004 Long-Term Incentive Plan (the Gillette Plan). The 2001 Plan was approved by Company shareholders in 2001. The Gillette Plan was approved by Gillette shareholders in 2004 and adopted by the Company in 2005 as part of our merger with The Gillette Company.

PST retirement benefits are governed by trustees, who oversee both: (a) the Profit Sharing Trust, and (b) the Profit Sharing Trust and Employee Stock Ownership Plan, a qualified defined contribution plan providing retirement benefits for U.S.-based employees. Other retirement benefits discussed in this Compensation Discussion and Analysis are governed by The Procter & Gamble Company Global International Retirement Arrangement, The Procter & Gamble Pension Fund (UK), and The International Retirement Plan.

### **Payment of Dividends and Dividend Equivalents**

Restricted stock earns dividends at the same rate as dividends paid on the Company's common stock. These dividends are paid in cash every quarter. For RSUs granted pursuant to STAR, BGP, PST Restoration and IRP, recipients accumulate additional units called dividend equivalents at the same rate as dividends paid on the Company's common stock. Dividend equivalents are subject to the same restrictions as the award on which they are based, and are only delivered in shares when and if the original award is delivered in shares. For RSUs granted under the Key Manager program, no dividend equivalents are earned.

### **2008-09 Executive Compensation Programs**

The Committee reviewed the competitiveness of total short-term compensation for the Named Executive Officers at its June 10, 2008 meeting and determined that some adjustments are reasonable for

**Table of Contents**

the upcoming year to position the annual cash compensation to the median of our Peer Group when regressed for revenue size. Based on that discussion, the Committee approved an increase to Mr. Lafley's base salary to \$1,800,000 as of July 1, 2008. The Committee also approved increases to STAR Targets as follows: Mr. Lafley from 170% to 175% of base salary and Ms. Arnold and Mr. McDonald from 115% to 125% of base salary, effective for fiscal year 2008-09.

On August 12, 2008, the Committee approved a change to the Company's STAR Program. As further described on pages 23 to 25 of this proxy statement, STAR Awards were previously based on three performance factors: a Total Company Factor, a Business Unit Factor and the Gillette Integration Factor. Because the Company completed the integration of The Gillette Company in fiscal year 2007-08, the Committee removed the Gillette Integration Factor for fiscal year 2008-09.

**Executive Compensation**

The following tables, footnotes and narratives, found on pages 37 to 51, provide information regarding the compensation, benefits and equity holdings in the Company for the Named Executive Officers—the Chief Executive Officer, the Chief Financial Officer and the Company's next three most highly compensated executive officers.

**Summary Compensation**

The following table and footnotes provide information regarding the compensation of the Named Executive Officers for the fiscal years shown.

**Summary Compensation Table**

Name and Principal Position	Year	Salary <sup>1</sup>	Bonus <sup>2</sup>	Stock Awards <sup>3</sup>	Option Awards <sup>4</sup>	Non-Equity Incentive Plan Compensation <sup>5</sup>	Change in Pension Value and Nonqualified Deferred	All Other	Total
							Com-	Com-	
		(\$)	(\$)	(\$)	(\$)	(\$)	pensation Earnings <sup>6</sup>	pensation <sup>7</sup>	(\$)
<b>A. G. Lafley</b> Chairman of the Board and Chief Executive Officer	2007-08	1,700,000	4,000,000	9,139,783	7,782,736	566,100	0	343,791	23,532,410
	2006-07	1,700,000	3,500,000	9,230,459	10,327,514	2,601,000	0	376,761	27,735,734
<b>Clayton C. Daley, Jr.</b> Vice Chairman and Chief Financial Officer	2007-08	910,000	1,453,327	1,262,555	2,751,751	139,860	0	66,893	6,584,386
	2006-07	895,000	1,005,550	790,604	4,167,534	642,600	0	93,761	7,595,049
<b>Susan E. Arnold</b> President-Global Business Units	2007-08	1,000,000	1,524,469	471,580	4,346,219	151,515	0	59,487	7,553,270
	2006-07	910,000	946,021	1,047,474	2,445,322	696,150	0	65,840	6,110,807
<b>Robert A. McDonald</b> Chief Operating Officer	2007-08	1,000,000	1,640,619	621,575	7,187,889	151,515	0	350,179	10,951,777
	2006-07	910,000	1,064,274	1,147,466	3,484,793	696,150	0	321,591	7,624,274
<b>E. Dimitri Panayotopoulos</b> Vice Chairman Global Household Care	2007-08	910,000	1,313,164	499,579	2,935,217	133,200	0	2,241,145	8,032,305

<sup>1</sup> Mr. Daley's salary was increased to \$910,000 in January 2007. For the 10 months of the fiscal year when Mr. Panayotopoulos was on expatriate assignment in Geneva, Switzerland, his U.S. dollar salary was converted to and paid in Swiss francs on a monthly basis. The monthly salary exchange rate was based on a prior four-week weighted average calculated prior to cost of living index updates each month. Rates were collected daily in major international publications.

Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

<sup>2</sup> For fiscal year 2007-08, Bonus reflects 2007-08 STAR awards made in the form of cash or deferred compensation. Each Named Executive Officer can elect to take his or her STAR award in cash, deferred compensation, RSUs or stock options and for fiscal

**Table of Contents**

- year 2007-08 elected the following: Mr. Lafley, 100% deferred compensation; Mr. Daley, 75% cash and 25% deferred compensation; Ms. Arnold and Messrs. McDonald and Panayotopoulos, 100% cash. The totals above reflect the amounts earned for fiscal year 2007-08 that will be paid on September 15, 2008. For more information on STAR, see pages 23 to 26 of this proxy statement.
- 3 For fiscal year 2007-08, Stock Awards includes any of the 2007-08 BGP award earned in the fiscal year that will be paid in RSUs on September 15, 2008, including 50% of the award required to be paid in RSUs. Stock Awards also includes amounts expensed in the fiscal year for PST Restoration Program awards and IRP awards earned during the fiscal year and granted in the form of RSUs on August 7, 2008. For Mr. Lafley, 2007-08 Stock Awards also includes the amounts expensed in the fiscal year for his February 2008 Key Manager RSU award. For Mr. Daley, 2007-08 Stock Awards includes the amount expensed in the fiscal year for the 25% of his Key Manager Award that Mr. Daley elected to take as RSUs. See page 27 of this proxy statement for further discussion about this RSU-election option. For Ms. Arnold and Messrs. McDonald and Panayotopoulos, 2007-08 Stock Awards also includes amounts expensed during the fiscal year for a special equity grant of restricted stock awarded to each of them in a prior year. For more information on BGP, the PST Restoration Program and IRP, and special equity awards, please see pages 27 to 29, 30 to 31, and 35, respectively, of this proxy statement. The fair value of these awards is determined in accordance with SFAS 123(R). Please see Note 8 to the Consolidated Financial Statements contained in the Company's 2008 Annual Report for more information.
- 4 Option Awards for fiscal year 2007-08 includes the dollar amount recognized for financial statement reporting purposes with respect to fiscal year 2007-08, in accordance with SFAS 123(R). As described on page 27 of this proxy statement, executives must remain employed for six months after the date of a Key Manager Annual Stock Grant in order to retain the award (retention period) and Key Manager option grants vest three years from the date of grant (vesting period). For retirement eligible executives, the fair value of the award is fully expensed over the retention period. For executives who become retirement eligible during the vesting period, the fair value of the award is expensed over the longer of the retention period or the period from the grant date until the date of retirement eligibility. For executives not yet retirement eligible and who will not become retirement eligible during the vesting period, the fair value is expensed over the vesting period. Where applicable, amounts expensed during fiscal year 2007-08 for grants made in prior years are also included in this column. Pursuant to SEC rules, the amounts shown exclude the impact of estimated forfeitures related to service-based vesting conditions. For additional information on the assumptions made in the valuation for the current year awards reflected in this column, please see Note 8 to the Consolidated Financial Statements contained in the Company's 2008 Annual Report. For information on the valuation assumptions with respect to grants made in prior fiscal years, please see the corresponding note to the Consolidated Financial Statements contained in the Company's Annual Report in the respective fiscal year. Because Messrs. Lafley, Daley, McDonald and Panayotopoulos received a grant in the January-March quarter and were retirement eligible within the retention period for that grant, the full grant value was expensed over the retention period which fell within the fiscal year and is reflected in the totals above. Mr. Panayotopoulos also received a portion of his Key Manager option grant in the April-June quarter which will be expensed over the retention period for that grant, half of which is in this fiscal year (and reflected in the total above), and half in next fiscal year. In addition, Mr. McDonald's total reflects the portions of prior awards expensed in the fiscal year. Because Ms. Arnold is not yet retirement eligible but will become retirement eligible within the vesting period, the fair value of her award is expensed over the period of time from the grant date until Ms. Arnold becomes retirement eligible. Accordingly, the total above reflects only the portion of the fair value of the current year Key Manager option award that was expensed during the fiscal year, as well as portions of prior awards expensed in the fiscal year.
- 5 Non-Equity Incentive Plan Compensation for fiscal year 2007-08 includes any portion of the 2007-08 BGP award earned in the fiscal year that will be paid in the form of cash or deferred compensation on September 15, 2008, as elected by the individual Named Executive Officer. Executives must take 50% of their award in RSUs, noted above in the Stock Awards column, and the remaining 50% can be paid in cash, deferred compensation or RSUs. All Named Executive Officers elected either cash or deferred compensation for this 50% of their 2007-08 BGP award. Messrs. Lafley, McDonald and Panayotopoulos, and Ms. Arnold, elected to take this 50% of their respective 2007-08 BGP awards in cash, and Mr. Daley elected to take 25% of his 2007-08 BGP award in cash and 25% of his 2007-08 BGP award as deferred compensation.
- 6 The actuarial present value of Mr. Panayotopoulos' pension benefits decreased by \$167,000 for the Global International Retirement Arrangement and increased by \$32,000 for The Procter & Gamble Company Pension Plan (UK), respectively, for the period between July 1, 2007 and June 30, 2008. See the Pension Benefits Table on pages 45 to 46 for additional information on Mr. Panayotopoulos' pension benefits. None of the other Named Executive Officers has a pension plan. None of the Named Executive Officers had above-market earnings on deferred compensation.
- 7 Please see the following table for information on the numbers that comprise the All Other Compensation column.

**Table of Contents****All Other Compensation**

Name	Year	Profit		Executive		Tax		Total
		Sharing Contri- butions <sup>i</sup>	Group Life Insurance <sup>ii</sup>	Flexible Compensation Program Contributions <sup>iii</sup>	Expatriate and Relocation Payments <sup>iv</sup>	Reimburse- ments <sup>v</sup>	Perquisites or Executive Benefits <sup>vi</sup>	
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
A. G. Lafley	2007-08	49,052	12,825	4,450	n/a	26,963	250,501	343,791
	2006-07	47,958	10,628	6,400	n/a	63,309	248,466	376,761
Clayton C. Daley, Jr.	2007-08	49,052	3,447	4,450	n/a	n/a	9,944	66,893
	2006-07	47,958	2,520	6,400	n/a	n/a	36,883	93,761
Susan E. Arnold	2007-08	49,052	2,832	4,450	n/a	n/a	3,153	59,487
	2006-07	47,958	2,230	5,350	n/a	n/a	10,302	65,840
Robert A. McDonald	2007-08	49,052	3,037	4,450	n/a	274,925	18,715	350,179
	2006-07	47,958	2,397	6,400	n/a	254,504	10,332	321,591
E. Dimitri Panayotopoulos	2007-08	33,065	3,046	4,450	245,200	1,938,652	16,732	2,241,145

- i. Amounts contributed by the Company pursuant to PST, a qualified defined contribution plan providing retirement benefits for U.S.-based employees, described more fully on page 30 of this proxy statement. Named Executive Officers also receive contributions in the form of RSU grants pursuant to the PST Restoration Program or IRP, each nonqualified defined contribution plans, described more fully on pages 30 to 31 of this proxy statement. These awards are included in the Stock Awards column of the Summary Compensation Table.
- ii. Under the Executive Group Life Insurance Program (EGLIP), the Company offers key executives who have substantially contributed to the success and development of the business and upon whom the future of the Company chiefly depends, life insurance coverage equal to salary plus their STAR target. These policies are owned by the Company. Because premium payments are returned to the Company when the benefit is paid out, we believe the annual premiums paid by the Company overstate the Company's true cost of providing this life insurance benefit. Accordingly, the amounts shown in the table are an average based on Internal Revenue Service tables used to value the term cost of such coverage for calendar year 2007 and calendar year 2008, which reflect what it would cost the executive to obtain the same coverage in a term life insurance policy. The average of the two calendar years was used because fiscal year data is not available. The average of the dollar value of the premiums actually paid by the Company in calendar years 2007 and 2008 under these policies were as follows: Mr. Lafley, \$104,307; Mr. Daley, \$35,820; Ms. Arnold, \$43,884; Mr. McDonald, \$40,657; and Mr. Panayotopoulos, \$28,145. This program is in addition to any other Company-provided group life insurance in which a Named Executive Officer may enroll that is also available to all employees on the same basis.
- iii. Flexible Compensation Program Contributions are given to U.S.-based employees in the form of credits to pay for coverage in a number of benefit plans including, but not limited to, medical insurance and additional life insurance. Employees may also receive unused credits as cash. Credits are earned based on PST years of service. The fiscal year 2007-08 amounts reflect a Company-wide reduction in this benefit.
- iv. The Company provides assistance to certain employees, including Named Executive Officers, related to expenses incurred in connection with expatriate assignments and Company required relocations. In connection with Mr. Panayotopoulos' expatriate assignment, from July 2007 through April 2008, he received: a housing allowance and related support of \$133,664, cost of living adjustments of \$47,420, education support of \$19,929, an annual home leave trip valued at \$3,980, and tax preparation and immigration expense reimbursement of \$10,521. As part of his relocation to the U.S. on May 1, 2008, Mr. Panayotopoulos also received a relocation payment and travel expense reimbursement totaling \$29,686. During his expatriate assignment, the above payments were first determined in U.S. dollars and converted to and paid in Swiss francs. The exchange rates were based on a prior four-week weighted average calculated prior to cost of living index updates each month. Rates were collected daily in major international publications.
- v. The Company makes tax equalization payments to cover incremental taxes required to be paid to certain countries in connection with certain employees' current or prior expatriate assignments. For fiscal year 2007-08, the Company made such payments for Messrs. Lafley's and McDonald's prior expatriate assignments. For fiscal year 2007-08, the Company made certain tax equalization payments to cover incremental taxes required to be paid in connection with Mr. Panayotopoulos' expatriate assignment which was not completed until April 30, 2008. Mr. Panayotopoulos' tax reimbursement reflects the total of \$2,963,329 the Company paid for actual Swiss taxes due, and \$402,481 for U.S. taxes due in the fiscal year, minus \$1,427,158 of hypothetical tax that Mr. Panayotopoulos paid to the Company in the fiscal year. Because all final tax assessments for prior years have not yet been received from the Swiss authorities, the actual amount paid by the Company includes the final assessment for tax year 2003 of \$39,725 and additional Swiss tax estimates paid based on returns previously filed for 2004, 2005 and 2006 totaling \$2,554,906. Of this amount, \$2,158,274 was Swiss tax paid for the 2006 tax year. The 2006 liability is significantly higher than in prior years because all of Mr. Panayotopoulos' retirement RSUs became taxable in Switzerland in 2006, the year he became retirement eligible. Because these RSUs are not fully taxable in the U.S. until they later deliver in shares, there is a large difference in the hypothetical taxes paid by Mr. Panayotopoulos and the actual Swiss taxes paid by the Company in this fiscal year. Please see the Expatriate and Relocation Program section of the Compensation Discussion and Analysis on pages 31 to 32 of this proxy statement for additional information.



**Table of Contents**

vi. The Named Executive Officers are entitled to the following personal benefits: financial counseling (including tax preparation), an annual physical examination, occasional use of a Company car, secure workplace parking and home security and monitoring. While Company aircraft is generally used for Company business only, Mr. Lafley is required to use Company aircraft for all air travel, including travel to outside board meetings and personal travel, pursuant to the Company's executive security program established by the Board of Directors. While traveling on Company aircraft, Mr. Lafley may bring a limited number of guests (spouse, family member or similar guest) to accompany him. The aggregate incremental aircraft usage costs associated with Mr. Lafley's personal use of Company aircraft, including the costs associated with travel to outside board meetings not fully reimbursed by the other company, was \$225,404 for fiscal year 2007-08 and is included in the total above. Ms. Arnold and Messrs. Daley, McDonald and Panayotopoulos are permitted to use the Company aircraft for travel to outside board meetings and, if the Company aircraft is already scheduled for business purposes and can accommodate additional passengers, may use it for personal travel and guest accompaniment. Ms. Arnold and Messrs. Daley and McDonald utilized the Company aircraft for travel to outside board meetings and any cost associated with travel to those meetings not fully reimbursed by the other company, is included above. Mr. McDonald utilized the Company aircraft for one personal stop while traveling for business and that incremental cost is included in the total above. Each of Ms. Arnold and Messrs. Daley and McDonald utilized the Company aircraft for personal travel and/or guest accompaniment when the aircraft was scheduled for business purposes, but there was no incremental cost to the Company associated with these trips. In addition, the Company holds two or three senior management meetings per year, where the Company allows each executive to bring a guest. In some of these cases, the guest travel costs may be considered incremental or may involve commercial flights. For these meetings, the Company incurred costs associated with providing minor commemorative items, sightseeing and other similar activities for both the executive and the guest. The incremental costs to the Company for these benefits, other than use of Company aircraft, are the actual costs or charges incurred by the Company for the benefits. The incremental cost to the Company for use of the Company aircraft is calculated by using an hourly rate for each flight hour. The hourly rate is based on the variable operational costs of each flight, including fuel, maintenance, flight crew travel expense, catering, communications and fees, including flight planning, ground handling and landing permits. For any flights that involved mixed personal and business usage, any personal usage hours that exceed the business usage are utilized to determine the incremental cost to the Company. Mr. Lafley also serves on the Board of Directors as the Chairman of the Board, and as such he is a participant in the Company's Charitable Gifts Program, which does not have an aggregate incremental cost and is more fully described on page 14 of this proxy statement.

The material factors necessary for an understanding of the compensation detailed in the above two tables are described in the Compensation Discussion and Analysis section of this proxy statement and the footnotes to the two tables above.



**Table of Contents****Grants of Plan-Based Awards**

The following table and footnotes provide information regarding grants of equity under Company plans made to the Named Executive Officers during fiscal year 2007-08.

**Grants of Plan-Based Awards Table**

Name	Grant Date	Compensation & Leadership Development Committee Action Date <sup>1</sup>	Plan Name <sup>2</sup>	All Other Stock Awards: Number of Shares or Stock Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Exercise or Base Price of Option Awards <sup>3</sup> (\$ per share)	Grant Date Fair Value of Stock and Option Awards <sup>4</sup> (\$)
A. G. Lafley	02/29/2008	02/12/2008	Key Manager Options <sup>5</sup>	n/a	480,783	66.18	7,782,736
	02/29/2008	02/12/2008	Key Manager RSUs <sup>6</sup>	137,367	n/a	n/a	8,250,035
	09/14/2007	08/14/2007	BGP 3-Year RSUs <sup>7</sup>	38,358	n/a	n/a	2,601,056
	08/02/2007	04/15/2007	PST Restoration RSUs <sup>8</sup>	5,297	n/a	n/a	324,494
Clayton C. Daley, Jr.	02/29/2008	02/12/2008	Key Manager Options <sup>5</sup>	n/a	169,991	66.18	2,751,751
	02/29/2008	02/12/2008	Key Manager RSUs <sup>6</sup>	16,190	n/a	n/a	972,345
	09/14/2007	08/14/2007	BGP 3-Year RSUs <sup>7</sup>	9,477	n/a	n/a	642,635
	08/02/2007	04/15/2007	PST Restoration RSUs <sup>8</sup>	2,416	n/a	n/a	148,004
Susan E. Arnold	02/29/2008	02/12/2008	Key Manager Options <sup>5</sup>	n/a	226,655	66.18	3,669,007
	09/14/2007	08/14/2007	BGP 3-Year RSUs <sup>9</sup>	10,267	n/a	n/a	696,205
	08/02/2007	04/15/2007	PST Restoration RSUs <sup>10</sup>	2,470	n/a	n/a	151,312
Robert A. McDonald	02/29/2008	02/12/2008	Key Manager Options <sup>5</sup>	n/a	264,431	66.18	4,280,511
	09/14/2007	08/14/2007	BGP 3-Year RSUs <sup>9</sup>	10,267	n/a	n/a	696,205
	08/02/2007	04/15/2007	PST Restoration RSUs <sup>11</sup>	2,470	n/a	n/a	151,312
E. Dimitri Panayotopoulos	05/09/2008	04/20/2008	Key Manager Options <sup>12</sup>	n/a	30,671	65.21	489,214
	02/29/2008	02/12/2008	Key Manager Options <sup>5</sup>	n/a	166,214	66.18	2,690,610
	09/14/2007	08/14/2007	STAR Elected Options <sup>13</sup>	n/a	45,198	67.81	835,792
	09/14/2007	08/14/2007	BGP 3-Year RSUs <sup>9</sup>	9,026	n/a	n/a	612,053
	08/02/2007	04/15/2007	IRP RSUs <sup>11</sup>	2,923	n/a	n/a	179,063

<sup>1</sup> Grant dates for equity awards are consistent from year to year, as described on pages 34 to 35 of this proxy statement. The Compensation & Leadership Development Committee meets on the same timing as the regularly scheduled Board of Directors meetings. Decisions regarding grant amounts are typically made by the Committee at the meeting preceding the established grant date. Decisions regarding PST Restoration Program RSUs and IRP RSUs are made at the April meeting, though grants are not made until August.

<sup>2</sup> All of the plan-based awards reported in this table were granted pursuant to The Procter & Gamble 2001 Stock and Incentive Compensation Plan. We have specified the executive compensation program under which each award was granted. Key Manager Annual Stock Grants were awarded in fiscal year 2007-08. BGP awards, PST Restoration Program awards, STAR awards and IRP RSUs were earned in fiscal year 2006-07 but granted in 2007-08. For awards granted under BGP, PST Restoration Program and IRP, dividend equivalents are earned at the same rate as dividends paid on the Company's common stock. All references below to delivery of RSUs in shares reflect the current election of the Named Executive Officer and may be changed at a later date, subject to applicable tax rules and regulations.

<sup>3</sup> The options granted were awarded using the closing price of the Company stock on the date of grant.

<sup>4</sup> This column reflects the grant date fair value of each award computed in accordance with SFAS 123(R).

<sup>5</sup> These options vest on February 28, 2011 and expire February 28, 2018.

<sup>6</sup> These units deliver in shares on February 28, 2013.

<sup>7</sup> These units are forfeitable until September 14, 2010 and will deliver in shares in ten annual installments beginning one year following retirement.

<sup>8</sup> These units will deliver in shares in ten annual installments beginning one year following retirement.

<sup>9</sup> These units are forfeitable until September 14, 2010, at which time they will deliver in shares.

<sup>10</sup> These units are forfeitable until Ms. Arnold is eligible for retirement, and will deliver in shares one year following retirement.

Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

- <sup>11</sup> These units will deliver in shares one year following retirement.
- <sup>12</sup> These options vest on May 9, 2011 and expire May 9, 2018.
- <sup>13</sup> These options vest on September 14, 2010 and expire September 14, 2017.

**Table of Contents****Outstanding Equity at Fiscal Year-End**

The following table and footnotes provide information regarding unexercised stock options and stock that has not yet vested as of the end of fiscal year 2007-08. The market value of shares or units that have not vested was determined by multiplying the closing market price of the Company's stock on June 30, 2008 (\$60.81) by the number of shares or units.

**Outstanding Equity at Fiscal Year-End Table**

Name	Grant Date <sup>1</sup>	Option Awards			Stock Awards			
		Number of Securities Underlying Unexercised Options Exercisable <sup>2</sup>	Number of Securities Underlying Unexercised Options Unexercisable <sup>2</sup>	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested <sup>3</sup>	Market Value of Shares or Units That Have Not Vested <sup>4</sup>	
A. G. Lafley	02/26/1999	33,550 <sub>5</sub>		44.2656	02/26/2014			
	07/01/1999	1,908 <sub>5</sub>		43.2423	07/01/2014			
	07/09/1999	7,496 <sub>5</sub>		42.7329	07/09/2014			
	09/15/1999	83,301 <sub>5</sub>		49.4759	09/15/2014			
	07/10/2000	21,720 <sub>5</sub>		27.4459	07/10/2015			
	09/15/2000	204,691 <sub>5</sub>		31.0118	09/15/2015			
	09/24/2001	384,061 <sub>5</sub>	(1)	34.5688	09/24/2016			
	09/13/2002	336,712 <sub>5</sub>		45.6625	09/13/2012			
	09/15/2003	97,890 <sub>5</sub>		45.9700	09/15/2013			
	02/27/2004	352,917 <sub>5</sub>		51.4150	02/27/2014			
	09/15/2004	92,896 <sub>5</sub>		56.5150	09/15/2014			
	09/15/2004					66,215 <sub>5</sub>	4,026,534 (3)	
	09/15/2004					46,925 <sub>5</sub>	2,853,509 (4)	
	02/28/2005	573,229 <sub>5</sub>		53.5950	02/28/2015			
	08/04/2005					3,104 <sub>5</sub>	188,754	
	09/15/2005					45,661 <sub>5</sub>	2,776,645 (10)	
	09/15/2005					30,133 <sub>5</sub>	1,832,388 (8)	
	12/01/2005					125,715 <sub>5</sub>	7,644,729	
	02/28/2006			430,441 <sub>5</sub>	60.5000	02/28/2016		
	02/28/2006					67,694 <sub>5</sub>	4,116,472	
08/03/2006					2,856 <sub>5</sub>	173,673		
09/15/2006					62,428 <sub>5</sub>	3,796,247 (12)		
02/28/2007			579,906	63.4900	02/28/2017			
02/28/2007					83,022	5,048,568		
08/02/2007					5,112	310,861		
09/14/2007					37,030	2,251,794 (13)		
02/29/2008			480,783	66.1800	02/28/2018			
02/29/2008					137,367	8,353,287		
Clayton C. Daley, Jr.	02/26/1999	23,816		44.2656	02/26/2014			
	07/01/1999	5,894		43.2423	07/01/2014			
	07/09/1999	8,358		42.7329	07/09/2014			
	09/15/1999	88,580		49.4759	09/15/2014			
	07/10/2000	27,180		27.4459	07/10/2015			
	09/15/2000	204,964		31.0118	09/15/2015			

Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

09/24/2001	197,480	(1)		34.5688	09/24/2016			
09/13/2002	109,500			45.6625	09/13/2012			
02/27/2004	153,168			51.4150	02/27/2014			
09/15/2004						19,031	1,157,275	(4)
02/28/2005	149,268			53.5950	02/28/2015			
08/04/2005						2,492	151,539	
09/15/2005						14,040	853,772	(8)
12/01/2005						38,156	2,320,266	
02/28/2006			132,232	60.5000	02/28/2016			
08/03/2006						2,500	152,025	

**Table of Contents**

Name	Grant Date <sup>1</sup>	Option Awards			Stock Awards		
		Number of Securities Underlying Unexercised Options Exercisable <sup>2</sup>	Number of Securities Underlying Unexercised Options Unexercisable <sup>2</sup>	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested <sup>3</sup>	Market Value of Shares or Units That Have Not Vested <sup>4</sup>
<b>Clayton C. Daley, Jr. (Cont.)</b>	09/15/2006					11,775	716,038 (12)
	02/28/2007		163,806	63.4900	02/28/2017		
	08/02/2007					2,363	143,694
	09/14/2007					9,203	559,634 (14)
	02/29/2008		169,991	66.1800	02/28/2018		
	02/29/2008					16,190	984,514
<b>Susan E. Arnold</b>	02/26/1999	13,012		44.2656	02/26/2014		
	09/15/1999	37,062		49.4759	09/15/2014		
	09/15/2000	96,752		31.0118	09/15/2015		
	09/24/2001	130,192 (1)		34.5688	09/24/2016		
	09/13/2002	98,550		45.6625	09/13/2012		
	02/27/2004	136,150		51.4150	02/27/2014		
	09/15/2004					14,024	852,799 (5)
	02/28/2005	135,274		53.5950	02/28/2015		
	08/04/2005					3,159	192,099
	09/15/2005					17,393	1,057,668 (9)
	12/01/2005					11,619	706,551
	02/28/2006		136,364	60.5000	02/28/2016		
	08/03/2006					2,865	174,221
	09/15/2006					13,372	813,151 (11)
	02/28/2007		157,506	63.4900	02/28/2017		
08/02/2007					2,510	152,633	
09/14/2007					10,434	634,492 (13)	
	02/29/2008		226,655	66.1800	02/28/2018		
<b>Robert A. McDonald</b>	02/26/1999	14,886		44.2656	02/26/2014		
	09/15/1999	46,256		49.4759	09/15/2014		
	07/10/2000	20,256		27.4459	07/10/2015		
	09/15/2000	161,204		31.0118	09/15/2015		
	09/24/2001	154,210 (2)		34.5688	09/24/2016		
	09/13/2002	161,034		45.6625	09/13/2012		
	09/15/2003	28,284		45.9700	09/15/2013		
	02/27/2004	223,672		51.4150	02/27/2014		
	09/15/2004					26,542	1,614,019 (6)
	02/28/2005	158,597		53.5950	02/28/2015		
	08/04/2005					3,091	187,964
	09/15/2005					16,978	1,032,432 (7)
	12/01/2005					14,464	879,556
	02/28/2006		140,496	60.5000	02/28/2016		
	08/03/2006					2,803	170,450
	09/15/2006					13,057	793,996 (11)
	02/28/2007		160,656	63.4900	02/28/2017		
08/02/2007					2,456	149,349	
09/14/2007					10,192	619,776 (13)	

Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

	02/29/2008		264,431	66.1800	02/28/2018		
<b>E. Dimitri</b>							
<b>Panayotopoulos</b>	02/26/1999	26,194		44.2656	02/26/2014		
	07/01/1999	13,860		43.2423	07/01/2014		
	07/09/1999	9,834		42.7329	07/09/2014		
	09/15/1999	64,574		49.4759	09/15/2014		
	07/10/2000	28,516		27.4459	07/10/2015		
	09/15/2000	179,206		31.0118	09/15/2015		
	09/24/2001	202,644 (1)		34.5688	09/24/2016		
	09/13/2002	163,464		45.6625	09/13/2012		
	09/15/2003	55,758		45.9700	09/15/2013		
	02/27/2004	143,442		51.4150	02/27/2014		
	09/15/2004	44,253		56.5150	09/15/2014		
	02/28/2005	111,951		53.5950	02/28/2015		
	08/04/2005					3,276	199,241
	09/15/2005		30,531	55.4050	09/15/2015		
	09/15/2005					13,968	849,394 (7)

**Table of Contents**

Name	Grant Date <sup>1</sup>	Option Awards				Stock Awards	
		Number of Securities Underlying Unexercised Options Exercisable <sup>2</sup>	Number of Securities Underlying Unexercised Options Unexercisable <sup>2</sup>	Option Exercise Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested <sup>3</sup>	Market Value of Shares or Units That Have Not Vested <sup>4</sup>
		(#)	(#)	(\$)		(#)	(\$)
<b>E. Dimitri Panayotopoulos (Cont.)</b>	12/01/2005					20,720	1,259,983
	02/28/2006		103,306	60.5000	02/28/2016		
	05/01/2006					17,178	1,044,594
	08/03/2006					3,191	194,045
	09/15/2006		46,314	61.3250	09/15/2016		
	09/15/2006					11,452	696,396 (11)
	02/28/2007		118,129	63.4900	02/28/2017		
	08/02/2007					2,896	176,106
	09/14/2007					8,940	543,641 (13)
	09/14/2007		45,198	67.8100	09/14/2017		
	02/29/2008		166,214	66.1800	02/28/2018		
	05/09/2008		30,671	65.2100	05/09/2018		

<sup>1</sup> On December 1, 2005, the Company converted all outstanding retirement restricted stock to RSUs that are deliverable in shares one year following retirement. The numbers contained in this table for December 1, 2005 reflect this conversion. They do not represent an incremental grant of stock awards on that date.

<sup>2</sup> The following provides details regarding the vesting date for each of the option grants included in the table. The Vest Date indicates the date the options become exercisable.

Grant Date		Vest Date		Option Awards		Grant Date		Vest Date	
	02/26/1999		02/26/2002				02/27/2004		02/27/2007
	07/01/1999		07/01/2002				09/15/2004		09/15/2007
	07/09/1999		07/09/2002				02/28/2005		02/28/2008
	09/15/1999		09/15/2002				09/15/2005		09/15/2008
	07/10/2000		07/10/2003				02/28/2006		02/28/2009
	09/15/2000		09/15/2003				09/15/2006		09/15/2009
(1)	09/24/2001		09/24/2004				02/28/2007		02/28/2010
(2)	09/24/2001		01/01/2005				09/14/2007		09/14/2010
	09/13/2002		09/13/2005				02/29/2008		02/28/2011
	09/15/2003		09/15/2006				05/09/2008		05/09/2011

<sup>3</sup> Restricted Stock earns cash dividends that are paid quarterly. RSUs awarded pursuant to BGP, STAR, PST Restoration and IRP earn dividend equivalents which are accrued in the form of additional RSUs each quarter and credited to each Named Executive Officer's holdings. These RSUs have the same vesting restrictions as the underlying RSUs and are ultimately deliverable in shares. The following provides detail regarding the vesting date for Restricted Stock and RSU holdings included in the table. The Vest Date for RSUs indicates the date such units are deliverable in shares. The Vest Date for restricted stock indicates the date that restrictions lapse.

		<b>Stock Awards</b>			
	<b>Grant Date</b>	<b>Vest Date</b>		<b>Grant Date</b>	<b>Vest Date</b>
(3)	09/15/2004	09/15/2019		02/28/2006	2009 or as soon as practical after retirement; whichever is later
(4)	09/15/2004	One year following retirement		05/01/2006	05/01/2011
(5)	09/15/2004	Termination of employment		08/03/2006	One year following retirement
(6)	09/15/2004	09/15/2009	(11)	09/15/2006	09/15/2009
	08/04/2005	One year following retirement	(12)	09/15/2006	One year following retirement
(7)	09/15/2005	09/15/2008		02/28/2007	One year following retirement; no earlier than 02/28/2010
(8)	09/15/2005	One year following retirement		08/02/2007	One year following retirement
(9)	09/15/2005	Termination of employment	(13)	09/14/2007	09/14/2010
(10)	09/15/2005	09/15/2020	(14)	09/14/2007	One year following retirement
	12/01/2005	One year following retirement		02/29/2008	02/29/2013

<sup>4</sup> The Market Value of shares or RSUs that have not vested was determined by multiplying the closing market price of Company stock on June 30, 2008 (\$60.81) by the number of shares or RSUs, respectively.

<sup>5</sup> Totals reflect reduction of option and stock awards that occurred during the fiscal year when beneficial ownership of certain portions of option and stock awards was transferred to former spouse pursuant to an agreed divorce settlement.



**Table of Contents****Option Exercises and Stock Vested**

The following table and footnotes provide information regarding stock option exercises and stock vesting during fiscal year 2007-08 for the Named Executive Officers.

**Option Exercises and Stock Vested Table**

Name	Option Grant Date	Option Awards	Value Realized on Exercise <sup>2</sup>	Stock Award Grant Date	Stock Awards	Value Realized on Vesting <sup>4</sup>
		Number of Shares Acquired on Exercise <sup>1</sup>			Number of Shares Acquired on Vesting <sup>3</sup>	
		(#)	(\$)		(#)	(\$)
<b>A. G. Lafley<sup>5</sup></b>						
<b>Clayton C. Daley, Jr.</b>	02/27/1998	32,588	934,273			
	07/09/1998	6,278	128,838			
<b>Susan E. Arnold</b>	02/27/1998	20,766	509,220	6/10/2003	22,102	1,470,336
	07/09/1998	4,186	78,538			
	07/09/1999	6,144	130,511			
	07/10/2000	21,054	769,084			
<b>Robert A. McDonald</b>	02/27/1998	24,748	612,434	9/15/2004	17,000	1,145,800
	07/09/1998	2,444	49,398			
<b>E. Dimitri Panayotopoulos</b>	02/27/1998	36,568	919,934	9/15/2004	20,134	1,357,032
	07/09/1998	8,134	162,982			

<sup>1</sup> The Number of Shares Acquired on Exercise is the gross number of shares acquired.

<sup>2</sup> The Value Realized on Exercise was determined by multiplying the number of shares acquired by the difference between the average of the high and low price of the Company's common stock on the date of exercise and the exercise price of the options.

<sup>3</sup> Numbers of Shares Acquired on Vesting is the gross number of shares acquired. Please see footnote 3 in the Outstanding Equity at Fiscal Year-End Table for the definition of vesting for Stock Awards.

<sup>4</sup> Value Realized on Vesting was determined by multiplying the number of shares of stock by the average of the high and low price of the Company's common stock on the vesting date.

<sup>5</sup> Beneficial ownership of 1,894,308 options and 290,787 RSUs was transferred to Mr. Lafley's former spouse pursuant to an agreed divorce settlement. Mr. Lafley did not realize a specific dollar amount upon this transfer, as the transfer was part of an overall settlement agreement in which he and his former spouse mutually agreed on an allocation of their marital property and released claims with respect to other marital property.

**Pension Benefits**

The following table and footnotes provide information regarding the Company's pension plans for Mr. Panayotopoulos as of the end of fiscal year 2007-08. None of the other Named Executive Officers had any such arrangements with the Company.

**Pension Benefits Table**

Name	Plan Name	Number of Years of Credited Service <sup>1</sup>	Present Value of Accumulated Benefit	Payments During Last Fiscal Year
			(\$)	(\$)
<b>E. Dimitri Panayotopoulos</b>	The Procter & Gamble Company Global IRA	20 years, 5 months <sup>2</sup>	3,269,000 <sup>3</sup>	0
	Procter & Gamble Pension Fund (UK)	17 years, 5 months <sup>4</sup>	1,590,000 <sup>5</sup>	0

- <sup>1</sup> Numbers in this column are computed as of the same pension plan measurement date used for financial statement reporting purposes for the Company's audited financial statements as found in Note 9 to the Consolidated Financial Statements contained in the Company's 2008 Annual Report.

**Table of Contents**

- 2 Years of credited service accrued under this plan represent the number of years worked outside of his home country from the date of hire until July 1997, when he began to be paid on a U.S.-home basis.
- 3 Value calculated utilizing earliest age at which plan participants can retire without a reduction in benefits (60) and assumptions consistent with the assumptions used in preparing the Company's audited financial statements for fiscal year 2007-08, in accordance with SFAS 87, including a 7% discount rate and RP-2000 combined healthy white collar adjustment mortality table.
- 4 Years of credited service accrued under this plan represent the number of years worked from the date that he became eligible to participate in the plan until June 30, 1995, when he was no longer eligible to accrue additional benefits under the plan.
- 5 Value calculated utilizing the plan's defined retirement age (65) and assumptions consistent with the assumptions used in preparing the Company's audited financial statements for fiscal year 2007-08, in accordance with SFAS 87, including a 6.5% discount rate and 105% of PMA92 base mortality table, with short cohort projections to calendar year 2025. This calculation also includes \$179,000 which is the present value of a contingent spouse's pension benefit approximately equal to 50% of the participant's pension payable at the participant's death.

The Procter & Gamble Pension Fund (UK) ( UK Pension Plan ) is a defined benefit plan for employees whose home country was within the United Kingdom for all or a portion of their career. The UK Pension Plan provides for post-retirement payments based on the employee's salary and years of service at the time of retirement. The benefit paid is calculated using the following formula:

$$.02 \times \text{years of service} \times \text{employee's pensionable base salary}$$

This benefit is paid at retirement and is reduced to account for government-sponsored pension benefits received by the employee. Furthermore, the UK Pension Plan includes a temporary pension benefit that provides temporary pension payments to those employees who retire after age 59 but before they reach their social security retirement age. The amount of these payments is based on the government-sponsored pension benefits that these employees will receive from the UK government when they retire and reach their social security retirement age. Temporary pension benefit payments under this plan cease when government pension payments begin.

The Procter & Gamble Company Global International Retirement Arrangement ( Global IRA ) is designed to provide retirement benefits to certain employees whose benefits are frozen under their home country pension plan(s) as a result of having been transferred away from their home country on a permanent basis. The Global IRA benefit is calculated in accordance with the following formula:

$$.017 \times \text{average salary for three years preceding retirement} \times \text{years of service outside of home country}$$

*(before localization)*

The Global IRA accounts for the differences in retirement benefits attributable to a higher salary at the time of retirement than at the time of transfer out of the home country. As such, the Global IRA is reduced on a dollar for dollar basis by any retirement pension benefit paid by either the Company or the government which was earned through the employee's home country.

**Table of Contents****Nonqualified Deferred Compensation**

The following table and footnotes provide information regarding the Company's non tax-qualified defined contribution and deferred compensation plans for each of the Named Executive Officers for fiscal year 2007-08. For a complete understanding of the table and the footnotes please read the narrative that follows the table.

**Nonqualified Deferred Compensation Table**

Name	Plan Name	Executive Contributions	Registrant Contributions	Aggregate Earnings	Aggregate Withdrawals/	Aggregate Balance
		in Last FY	in Last FY <sup>1</sup>	in Last FY <sup>2</sup>	Distributions	at Last FYE
		(\$)	(\$)	(\$)	(\$)	(\$)
<b>A.G. Lafley</b>	Executive Deferred Compensation Plan	0	0	(784,937)	0	8,514,956
	PST Restoration Program	0	308,383	46,380	0	2,116,233 <sup>3</sup>
<b>Clayton C. Daley, Jr.</b>	Executive Deferred Compensation Plan	824,075 <sup>4</sup>	0	(103,225)	0	1,754,450 <sup>4</sup>
	PST Restoration Program	0	142,430	22,873	0	1,575,080 <sup>5</sup>
<b>Susan E. Arnold</b>	PST Restoration Program	0	151,312	17,717	0	1,225,468 <sup>6</sup>
<b>Robert A. McDonald</b>	PST Restoration Program	0	148,004	(6,683) <sup>7</sup>	0	1,387,296 <sup>6</sup>
<b>E. Dimitri Panayotopoulos</b>	International Retirement Plan	0	174,714	(3,120) <sup>8</sup>	0	2,092,645

<sup>1</sup> Total reflects registrant contributions in the form of RSUs pursuant to the PST Restoration Program for Ms. Arnold and Messrs. Lafley, Daley and McDonald. For Mr. Panayotopoulos, the total reflects registrant contributions in the form of RSUs under the IRP. The PST Restoration Program and IRP are nonqualified defined contribution plans. The contribution amount is the net number of RSUs awarded after withholding for applicable taxes, multiplied by the grant price.

<sup>2</sup> Because none of the Aggregate Earnings in Last FY are above-market earnings under SEC reporting rules, they are not reflected in the Summary Compensation Table.

<sup>3</sup> Total includes \$324,494 previously reported in the Company's Summary Compensation Table for 2006-07.

<sup>4</sup> Total reflects Mr. Daley's deferral of 50% of his 2006-07 STAR award in the amount of \$502,775 and 25% of his 2006-07 BGP award in the amount of \$321,300, pursuant to the Company's Executive Deferred Compensation Plan, described in more detail in the narrative section below. Both amounts were previously reported in the Summary Compensation Table for 2006-07.

<sup>5</sup> Total includes \$148,004 previously reported in the Company's Summary Compensation Table for 2006-07.

<sup>6</sup> Total includes \$151,312 previously reported in the Company's Summary Compensation Table for 2006-07.

<sup>7</sup> Total reflects withholding of 450 RSUs to cover certain taxes resulting from Mr. McDonald becoming retirement eligible during the fiscal year.

<sup>8</sup> Total reflects net earnings on RSUs and losses attributable to other investments held in Mr. Panayotopoulos' IRP account.

All Senior Executives, including the Named Executive Officers, are eligible to participate in The Procter & Gamble Company Executive Deferred Compensation Plan (EDCP). Annually, under EDCP, a participant may defer up to 50% of base salary, up to 100% of the STAR award, and up to 50% of the BGP long-term incentive award. Amounts may be deferred for a minimum of one year or until termination of employment. Payments that commence upon retirement, death or disability may be taken in a lump sum or installments (over a maximum period of ten years). All other payments under the plan are paid as a lump sum.

Amounts deferred under EDCP are credited with market earnings based on the same fund choices available to all employees under the Company's tax-qualified plan. Participants may change fund choices on a daily basis.

As described in the Compensation Discussion and Analysis on page 30 of this proxy statement, federal tax rules limit the size of contributions that can be made to individuals pursuant to tax-qualified



## **Table of Contents**

defined contribution plans like the PST. These limits are based on the annual salary of the plan participant. Because of these limits, certain participants, including the Named Executive Officers (except Mr. Panayotopoulos), are unable to receive their full contributions pursuant to the terms and conditions of the PST.

To account for these limitations, the Company utilizes the PST Restoration Program. This is a nonqualified defined contribution plan under which the Company makes an additional annual contribution in the form of RSUs to those executives whose calculated contribution to their PST accounts was limited by federal tax laws.

These RSUs are forfeitable until the executive becomes eligible for retirement. Executives can elect to receive either a lump sum payment one year post-retirement or ten annual installment payments beginning one year post-retirement, or they can defer receipt of either the lump sum or the ten annual installments to six or eleven years post-retirement. Generally, executives have up until retirement to change a previous deferral election, with any such deferral elections or changes to deferral elections made in compliance with Section 409A of the Internal Revenue Code. These RSUs earn dividend equivalents at the same rate as dividends on Company common stock and are accrued in the form of additional RSUs each quarter and credited to the executive's holdings. The value of each RSU may increase or decrease over time as the value is tied to the price of the Company stock.

The Company's International Retirement Plan (IRP) is designed to provide retirement benefits for employees whose participation in retirement plans in their home countries have been suspended because they are on expatriate assignments outside of that country or have been transferred out of that country on a permanent basis. Under the IRP, the Company makes an annual contribution for each participant equal to the contribution that would have been made under the participant's home country retirement plan had the participant remained in that country and eligible to participate in that plan.

At each participant's election, the Company's IRP contribution is placed into one of several investment vehicles available within the IRP. Participants are also eligible to receive all or a portion of this contribution in RSUs. These contributions vest according to the terms and conditions of the participant's home country retirement plan. Upon retirement from the Company, participants must elect to receive distributions from their IRP accounts in one of four ways: (1) fixed-income annuity, (2) variable annuity, (3) lump sum, or (4) annual installments (over a maximum of 15 years).

Amounts the Named Executive Officers defer under any of the above mentioned plans that are scheduled to be paid after termination of employment must be held by the Company for a minimum of six months in order to comply with Section 409A of the Internal Revenue Code.

### **Payments upon Termination or Change-in-Control**

Because the Company does not have any employment contracts with its Named Executive Officers, there are no severance payments required to be made to any of the Company's Named Executive Officers upon termination of their employment with the Company. Certain elements of compensation are, however, treated differently upon various termination of employment scenarios, as described below. The following describes how certain elements of compensation are generally handled under these scenarios for all Company employees, including the Named Executive Officers.

**Base salary** Base salary is paid through the last day worked, regardless of reason for termination of employment. In the event that the Company encourages a U.S. employee to terminate employment with the Company (but not for cause), that individual may receive a separation allowance of up to one year's annual base salary, calculated based on years of service.

**STAR** Individuals who work through the last day of the fiscal year are eligible for the STAR award payable for that year, regardless of the reason for termination of employment. Past short-term bonus awards where the employee voluntarily elected stock or options in lieu of cash are either retained or paid out in a lump sum, regardless of the reason for termination.

**Table of Contents**

Equity Awards under the Company's Key Manager Annual Stock Grant program, BGP, PST Restoration Program and IRP Treatment is governed by the Company's equity compensation plans and depends on the reason for termination of employment, as follows. Past equity awards where the employee voluntarily elected stock or options in lieu of cash or unrestricted stock are either retained or paid out in a lump sum, regardless of the reason for termination. Further, in certain situations, employees are entitled to keep all equity awards according to their original terms. Each of the following assumes that the individual fully complies with certain provisions of the Company's equity compensation plans, including compliance with the Company's Purpose, Values and Principles and the provision that prohibits individuals from competing with the Company following termination of employment, each of which can result in forfeiture and/or cancellation of outstanding equity awards.

- n Voluntary Termination by the Employee All stock options that were not vested and all RSUs for which the forfeiture date has not yet occurred are forfeited effective upon the date of termination. All vested stock options that were not exercised prior to termination are forfeited.
- n Retirement or Permanent Disability Stock Options and Key Manager RSUs received at least six months prior to retirement or permanent disability are retained, with stock options held until expiration and Key Manager RSUs delivering in shares, each according to their original terms. All other RSUs are also retained, with delivery of shares according to the original terms.
- n Company Encouraged Termination, Not for Cause Stock Options and Key Manager RSUs received at least six months prior to termination are retained, with stock options held until expiration and Key Manager RSUs delivering in shares, each according to their original terms. All other RSUs for which the forfeiture date has not yet occurred are forfeited, unless agreed otherwise by the Compensation & Leadership Development Committee.
- n Termination for Cause All stock options and RSUs are forfeited effective upon the date of termination.
- n Change-in-Control All stock options vest immediately. All RSUs are deliverable in shares immediately.
- n Death All stock options and RSUs transfer by will or laws of descent and distribution. All stock options vest immediately. All RSUs are deliverable in shares immediately.

**Special Equity Awards** In special circumstances, the Compensation & Leadership Development Committee may make a special award of restricted stock or RSUs to a Senior Executive. Such awards are forfeitable immediately upon termination of employment from the Company for any reason other than death, unless agreed otherwise by the Compensation & Leadership Development Committee. In the event of a change-in-control, all restrictions lapse immediately and, in a case of hardship, the Committee may accelerate the lapse of restrictions.

**BGP** Employees who work through the last day of the three-year performance period are eligible for the BGP awards payable for that year, unless otherwise determined by the Compensation & Leadership Development Committee. For employees who leave prior to the end of the performance period, the Committee has discretion to determine the amount of a BGP award, if any.

**Retirement Plans** The retirement plans in which the Named Executive Officers participate do not discriminate in scope, terms or operation for Named Executive Officers versus all other participants. All Named Executive Officers are fully vested in PST and will retain all shares upon termination of employment regardless of reason. Mr. Panayotopoulos is currently eligible for retirement and so becomes vested in the IRA and entitled to the full benefit value upon separation from the Company. Mr. Panayotopoulos is fully vested in his IRP and UK Pension account balances and therefore would retain those balances upon termination for any reason.

**Deferred Compensation** Amounts deferred under The Procter & Gamble Company Executive Deferred Compensation Plan have been earned and therefore are retained upon termination for any reason. Any RSUs granted pursuant to the PST Restoration Program or IRP would be treated as described above under Equity Awards, but are not included in the following table because they are reported on the Nonqualified Deferred Compensation Table on page 47 of this proxy statement.

**Table of Contents**

## Perquisites and Other Executive Benefits

- n Executive Group Life Insurance Benefits are retained if employee is eligible for early retirement.
- n Financial Counseling Employee may use the remaining balance until the end of the current calendar year for reimbursable charges under the program.
- n Unused Vacation Employee entitled to lump sum payment equal to value of accrued, but unused, vacation days.
- n Other programs In most cases, participation ends on the last day worked, unless otherwise agreed by the Committee.

Expatriate and Relocation Program If an employee's expatriate assignment terminates for any reason, the Company would pay for relocation to the home country and would cover future taxes due related to the expatriate assignment. The following table and footnotes quantify the payments and benefits that each Named Executive Officer would be required to be paid under the Company's compensation programs upon various scenarios for termination of employment or a change-in-control of the Company.

**Payments upon Termination or Change-in-Control Table**

Name	Voluntary Termination, Retirement, Permanent Disability or Termination for Cause <sup>1</sup>	Company Encouraged Termination, not for Cause <sup>2</sup>	Change-in- Control or Death <sup>3</sup>
	(\$)	(\$)	(\$)
<b>A. G. Lafley</b>			
Stock Options	0	0	133,437
Stock Awards	0	0	41,257,264
Salary	0	1,700,000	0
Executive Group Life Insurance	0	0	4,590,000
<b>Clayton C. Daley, Jr.</b>			
Stock Options	0	0	40,992
Stock Awards	0	0	5,463,638
Salary	0	910,000	0
Executive Group Life Insurance	0	0	1,956,500
<b>Susan E. Arnold</b>			
Stock Options	0	0	42,273
Stock Awards	0	0	3,358,111
Salary	0	1,000,000	0
Executive Group Life Insurance	0	0	2,150,000
<b>Robert A. McDonald</b>			
		0	43,554



Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

Stock Options	0	0	4,060,237
Stock Awards	0	1,000,000	0
Salary	0	0	2,150,000
Executive Group Life Insurance	0		
<b>E. Dimitri Panayotopoulos</b>			
Stock Options	0	0	197,045
Stock Awards	0	0	3,133,995
Salary	0	910,000	0
Executive Group Life Insurance	0	0	1,729,000

<sup>1</sup> As noted above, no severance payments are required to be made to any of the Named Executive Officers under any of these termination of employment scenarios. Retention of certain elements of compensation, such as equity-based compensation, may vary depending on the reason for termination. For a complete understanding of these differences, please see the narrative section above.

**Table of Contents**

<sup>2</sup> Each of the Named Executive Officers has enough years of service with the Company to receive one year's salary upon a Company encouraged termination of employment (not for cause). As noted above, the Compensation & Leadership Development Committee has discretion to allow a Named Executive Officer to retain certain equity awards that otherwise would be forfeited under the Company's compensation programs in the event of a Company encouraged termination (not for cause).

<sup>3</sup> The amounts shown for stock options and stock awards represent the in-the-money value of unexercisable stock options and RSUs (excluding PST Restoration RSUs and IRP RSUs which are reported in the Nonqualified Deferred Compensation Table) that would immediately become exercisable and/or deliverable in shares, respectively, upon a change-in-control or death of the Named Executive Officer, based on the Company's closing stock price on June 30, 2008 of \$60.81. The amounts shown for the Executive Group Life Insurance death benefit assumes June 30, 2008 death. A change-in-control does not trigger payment of a death benefit.

**Security Ownership of Management and Certain Beneficial Owners**

The following tables and footnotes provide information regarding the ownership of the Company's Common and Series A and B ESOP Convertible Class A Preferred Stock by all Directors and nominees, each Named Executive Officer, all Directors and executive officers as a group, and the owners of more than five percent of the outstanding Series A and B ESOP Convertible Class A Preferred Stock, on August 15, 2008:

**COMMON STOCK**

(Number of shares/options)

Owner	Amount and Nature of Beneficial Ownership				Percent of Class	Restricted Stock Units <sup>5</sup>
	Direct <sup>1</sup> and Profit Sharing Plan <sup>2</sup>	Right to Acquire <sup>3</sup>	Trusteeships and Family Holdings <sup>4</sup>	Total		
Susan E. Arnold	32,474	646,992	20	679,486	6	78,523
Kenneth I. Chenault	1,000			1,000	6	
Scott D. Cook	7,953	10,674	32,463	51,090	6	10,499
Clayton C. Daley, Jr.	116,987	968,208	60,300	1,145,495	6	139,401
Rajat K. Gupta					6	1,798
A. G. Lafley <sup>7</sup>	144,823	2,190,371	1,314	2,336,508	6	721,415
Charles R. Lee	60,292	16,712		77,004	6	10,499
Lynn M. Martin	11,451	16,712		28,163	6	10,499
Robert A. McDonald	57,524	968,399	27,822	1,053,745	6	66,015
W. James McNerney, Jr.	9,233			9,233	6	10,499
E. Dimitri Panayotopoulos	189,949	1,074,227		1,264,176	6	67,356
Johnathan A. Rodgers	9,319	6,644		15,963	6	10,499
Ralph Snyderman	30,390	16,712		47,102	6	10,499
Margaret C. Whitman	2,810		8,200	11,010	6	10,499
Patricia A. Woertz					6	
Ernesto Zedillo	3,551	6,644		10,195	6	10,499
28 Directors and executive officers, as a group	1,004,783	9,672,273	138,909	10,815,965	6	1,612,402

<sup>1</sup> Includes unrestricted common stock over which each Director or executive officer has sole voting and investment power and restricted common stock over which they have voting power but no investment power (until restrictions lapse).

<sup>2</sup> Common stock allocated to personal accounts of executive officers under the Retirement Trust pursuant to PST. Plan participants have sole discretion as to voting and, within limitations provided by PST, investment of shares. Shares are voted by the Trustees in accordance with instructions from participants. If instructions are not received by the Trustees as to the voting of particular shares, shares are to be voted in proportion to instructions actually received from other participants in the Trust.

<sup>3</sup> Amounts reflect vested stock options and stock options that will vest within 60 days of the record date (August 15, 2008). If shares are acquired, the Director or executive officer would have sole discretion as to voting and investment.

<sup>4</sup> The individuals involved share voting and/or investment powers with other persons with respect to the shares shown in this column.

<sup>5</sup> RSUs represent the right to receive unrestricted shares of common stock upon the lapse of restrictions, at which point the holders will have sole investment and voting power. RSUs are not considered beneficially owned because holders are not entitled to voting rights or investment control until the restrictions lapse.



**Table of Contents**

- <sup>6</sup> Less than 0.079% for any one Director or Named Executive Officer, and less than 0.361% for the Directors and executive officers, as a group.  
<sup>7</sup> Totals reflect reduction that occurred during the fiscal year when beneficial ownership of certain holdings was transferred to former spouse pursuant to an agreed divorce settlement.

**SERIES A ESOP CONVERTIBLE CLASS A PREFERRED STOCK**

(Number of shares)

Owner	Amount and Nature of Beneficial Ownership		Percent of Series
	Profit Sharing Plan <sup>1</sup>	Trusteeships	
Susan E. Arnold	11,267		<sup>2</sup>
Kenneth I. Chenault	0		
Scott D. Cook	0		
Clayton C. Daley, Jr.	16,104		<sup>2</sup>
Rajat K. Gupta	0		
A. G. Lafley <sup>3</sup>	393		<sup>2</sup>
Charles R. Lee	0		
Lynn M. Martin	0		
Robert A. McDonald	12,254		<sup>2</sup>
W. James Mc Nerney, Jr.	0		
E. Dimitri Panayotopoulos	179		<sup>2</sup>
Johnathan A. Rodgers	0		
Ralph Snyderman	0		
Margaret C. Whitman	0		
Patricia A. Woertz	0		
Ernesto Zedillo	0		
28 Directors and executive officers, as a group	125,754		<sup>2</sup>
Employee Stock Ownership Trust of The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan, P.O. Box 599, Cincinnati, Ohio 45201-0599 (S. P. Donovan, Jr., E. H. Eaton, Jr., and R. C. Stewart, Trustees)		18,665,686 <sup>4</sup>	24.30%

<sup>1</sup> Shares allocated to personal accounts of executive officers under the Employee Stock Ownership Trust pursuant to PST. Plan participants have sole discretion as to voting and, within limitations provided by PST, investment of shares. Shares are voted by the Trustees in accordance with instructions from participants. If instructions are not received by the Trustees as to the voting of particular shares, shares are to be voted in proportion to instructions actually received from other participants in the Trust.

<sup>2</sup> Less than 0.022% for any Named Executive Officer; by the terms of the stock, only persons who are or have been employees can have beneficial ownership of these shares. Less than 0.164% for the Directors and executive officers, as a group.

<sup>3</sup> Total reflects reduction that occurred during the fiscal year when beneficial ownership of certain holdings was transferred to former spouse pursuant to an agreed divorce settlement.

<sup>4</sup> Unallocated shares. The voting of these shares is governed by the terms of PST, which provides that the Trustees shall vote unallocated shares held by them in proportion to instructions received from Trust participants as to voting of allocated shares. The disposition of these shares in connection with a tender offer would be governed by the terms of PST, which provides that the Trustees shall dispose of unallocated shares held by them in proportion to instructions received from Trust participants as to the disposition of allocated shares.

**Table of Contents****SERIES B ESOP CONVERTIBLE CLASS A PREFERRED STOCK**

(Number of shares)

Owner	Amount and Nature of Beneficial Ownership		Percent of Series
	Profit Sharing Plan <sup>1</sup>	Trusteeships	
Susan E. Arnold	0		
Kenneth I. Chenault	0		
Scott D. Cook	0		
Clayton C. Daley, Jr.	136		<sup>2</sup>
Rajat K. Gupta	0		
A. G. Lafley	683		<sup>2</sup>
Charles R. Lee	0		
Lynn M. Martin	0		
Robert A. McDonald	86		<sup>2</sup>
W. James McNerney, Jr.	0		
E. Dimitri Panayotopoulos	86		<sup>2</sup>
Johnathan A. Rodgers	0		
Ralph Snyderman	0		
Margaret C. Whitman	0		
Patricia A. Woertz	0		
Ernesto Zedillo	0		
28 Directors and executive officers, as a group	1,892		<sup>2</sup>
Employee Stock Ownership Trust of The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan, P.O. Box 599, Cincinnati, Ohio 45201-0599 (S. P. Donovan, Jr., E. H. Eaton, Jr., and R. C. Stewart, Trustees)		43,669,875 <sup>3</sup>	67.44%

<sup>1</sup> Shares allocated to personal accounts of executive officers under the Employee Stock Ownership Trust pursuant to PST. Plan participants have sole discretion as to voting and, within limitations provided by PST, investment of shares. Shares are voted by the Trustees in accordance with instructions from participants. If instructions are not received by the Trustees as to the voting of particular shares, shares are to be voted in proportion to instructions actually received from other participants in the Trust.

<sup>2</sup> Less than 0.0012% for any Named Executive Officer; by the terms of the stock, only persons who are or have been employees can have beneficial ownership of these shares. Less than 0.0029% for the Directors and executive officers, as a group.

<sup>3</sup> Unallocated shares. The voting of these shares is governed by the terms of PST, which provides that the Trustees shall vote unallocated shares held by them in proportion to instructions received from Trust participants as to voting of allocated shares. The disposition of these shares in connection with a tender offer would be governed by the terms of PST, which provides that the Trustees shall dispose of unallocated shares held by them in proportion to instructions received from Trust participants as to the disposition of allocated shares.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Ownership of and transactions in Company stock by executive officers and Directors of the Company are required to be reported to the SEC pursuant to Section 16 of the Securities Exchange Act of 1934. As a practical matter, the Company assists its Directors and officers by monitoring transactions and completing and filing Section 16 reports on their behalf.

On November 15, 2007, Charlotte R. Otto, an executive officer of the Company, filed a Form 4 to correct an inadvertent failure by the Company to timely file a required report for the sale of 9,543 shares on November 12, 2007. On February 20, 2008, Clayton C. Daley, Jr., an executive officer of the Company, filed a Form 4 to correct an inadvertent failure by the Company to report a charitable donation of 1,200 shares made on November 29, 2006. On February 21, 2008, the following executive officers filed a Form 4 to correct an inadvertent failure by the Company to timely report the automatic conversion of RSUs to withhold for taxes upon dividend equivalents granted in the form of RSUs on February 15, 2008, in the following amounts: Mariano Martin (22); Filippo Passerini (6); and Robert A. Steele (11).



---

**Table of Contents**

**Report of the Audit Committee**

Each member of the Audit Committee is an independent Director as determined by the Board of Directors, based on the New York Stock Exchange listing standards and the Board's own Independence Guidelines. Each member of the Committee also satisfies the SEC's additional independence requirement for members of audit committees. The Board of Directors has determined that Charles R. Lee meets the criteria for "Audit Committee Financial Expert" as defined by SEC rules. The Board of Directors has also determined that all Audit Committee members are financially literate. As noted previously in the proxy statement, the Committee's work is guided by a Board-approved charter, which can be found in the corporate governance section of the Company's website at [www.pg.com/investors](http://www.pg.com/investors).

The Committee reviews and oversees the Company's financial reporting process on behalf of the Board. Management has the Company's primary responsibility for establishing and maintaining adequate internal financial control, for preparing the financial statements and for the public reporting process. Deloitte & Touche LLP, the Audit Committee-appointed independent registered public accounting firm for the fiscal year ended June 30, 2008, is responsible for expressing opinions on the conformity of the Company's audited financial statements with generally accepted accounting principles and on management's assessment of the effectiveness of the Company's internal control over financial reporting.

In this context, the Committee reviewed and discussed with management and Deloitte & Touche LLP the audited financial statements for the year ended June 30, 2008, and management's assessment of the effectiveness of the Company's internal control over financial reporting. The Committee met eight times (including telephone meetings to discuss quarterly results) during the fiscal year ended June 30, 2008. The Committee has discussed with Deloitte & Touche LLP the matters that are required to be discussed by Statement on Auditing Standards No. 61 (Communication With Audit Committees), as modified or supplemented. In addition, the Committee has discussed various matters with Deloitte & Touche LLP related to the Company's consolidated financial statements, including critical accounting policies and practices used, alternative treatments for material items that have been discussed with management, and other material written communications between Deloitte & Touche LLP and management. The Committee has also received written disclosures and the letter from Deloitte & Touche LLP required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees" and has discussed with Deloitte & Touche LLP its independence from the Company and its management. In addition, the Committee has received written material addressing Deloitte & Touche LLP's internal quality control procedures and other matters, as required by the New York Stock Exchange listing standards. The Committee understands the need for Deloitte & Touche LLP to maintain objectivity and independence in its audit of the Company's financial statements and internal controls over financial reporting. The Committee has implemented a formal pre-approval process for non-audit fee spending, and it seeks to limit this spending to a level that keeps the core relationship with Deloitte & Touche LLP focused on financial statement review and evaluation. A copy of this pre-approval process is attached to this proxy statement as Exhibit A.

Based on the considerations referred to above, the Committee recommended to our Board of Directors that the audited financial statements for the year ended June 30, 2008 be included in our Annual Report on Form 10-K for 2008 and selected Deloitte & Touche LLP as the independent registered public accounting firm for the Company for the fiscal year ending June 30, 2009. This report is provided by the following independent Directors, who constitute the Committee:

*Charles R. Lee (Chair)*  
*Kenneth I. Chenault*  
*Rajat K. Gupta*  
*Ralph Snyderman*  
*Patricia A. Woertz*

**Table of Contents****Fees Paid to the Independent Registered Public Accounting Firm**

The Audit Committee, with the ratification of the shareholders, engaged Deloitte & Touche LLP to perform an annual audit of the Company's financial statements for the fiscal year ended June 30, 2008. Pursuant to rules of the SEC, the fees paid to Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively "Deloitte"), are disclosed in the table below:

**Fees Paid to Deloitte**

(Dollars in Thousands)

	<b>FY 2006-07<sup>1</sup></b>	<b>FY 2007-08</b>
Audit Fees	\$ 33,063	\$ 31,827
Audit-Related Fees	1,630	3,821
Tax Fees	2,548	1,757
<i>Subtotal</i>	37,241	37,405
All Other Fees	2,299	859
<b>Deloitte Total Fees</b>	<b>\$ 39,540</b>	<b>\$ 38,264</b>

<sup>1</sup> The actual amount paid in fiscal year 2006-07 is different than the amount included in last year's proxy statement due to the impact of foreign exchange at the time the bills were paid and variations in the timing of billing cycles.

**Services Provided by Deloitte**

All services provided by Deloitte are permissible under applicable laws and regulations. The Company has adopted policies and procedures for pre-approval of services by Deloitte as described in Exhibit A to this proxy statement. The fees paid to Deloitte shown in the table above were all pre-approved in accordance with these procedures and include:

- 1) **Audit Fees** These are fees for professional services performed by Deloitte for the audit of the Company's annual financial statements and review of financial statements included in the Company's 10-Q filings, and services that are normally provided in connection with statutory and regulatory filings or engagements.
- 2) **Audit-Related Fees** These are fees for assurance and related services performed by Deloitte that are reasonably related to the performance of the audit or review of the Company's financial statements. This includes: employee benefit and compensation plan audits; due diligence and audits related to mergers and acquisitions; other attestations by Deloitte, including those that are required by statute, regulation or contract; procedures relating to securities offerings; and consulting on financial accounting/reporting standards and controls.
- 3) **Tax Fees** These are fees for professional services performed by Deloitte with respect to tax compliance and tax returns. This includes review of original and amended tax returns for the Company and its consolidated subsidiaries; refund claims, payment planning/tax audit assistance; and tax work stemming from Audit-Related items.
- 4) **All Other Fees** These are fees for other permissible work performed by Deloitte that does not meet the above category descriptions. The fees cover various local engagements that are permissible under applicable laws and regulations.



## Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

including tax filings for individual employees included in the Company expatriate program. These services are actively monitored (both spending level and work content) by the Audit Committee to maintain the appropriate objectivity and independence in Deloitte's core work, which is the audit of the Company's consolidated financial statements. The Committee also concluded that Deloitte's provision of audit and non-audit services to the Company and its affiliates is compatible with Deloitte's independence.

**Table of Contents**

**PROPOSAL TO RATIFY APPOINTMENT OF THE  
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board has selected Deloitte & Touche LLP as the Company's independent registered public accounting firm to perform the audit of our financial statements and our internal controls over financial reporting for the fiscal year ending June 30, 2009. Deloitte & Touche LLP was our independent registered public accounting firm for the fiscal year ended June 30, 2008.

Deloitte & Touche LLP representatives are expected to attend the 2008 annual meeting. They will have an opportunity to make a statement if they desire to do so and will be available to respond to appropriate shareholder questions.

We are asking our shareholders to ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm. Although ratification is not required by the Company's Code of Regulations, the Board of Directors' By Laws or otherwise, the Board is submitting the selection of Deloitte & Touche LLP to our shareholders for ratification as a matter of good corporate practice. Even if the selection is ratified, the Audit Committee, in its discretion, may select a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interest of the Company and our shareholders.

**The Board of Directors recommends a vote FOR the following proposal:**

RESOLVED, That action by the Audit Committee appointing Deloitte & Touche LLP as the Company's independent registered public accounting firm to conduct the annual audit of the financial statements of the Company and its subsidiaries for the fiscal year ending June 30, 2009 is hereby ratified, confirmed and approved.

**PROPOSAL TO AMEND THE COMPANY'S AMENDED ARTICLES OF INCORPORATION  
TO ADOPT MAJORITY VOTING FOR THE ELECTION OF DIRECTORS  
IN NON-CONTESTED ELECTIONS**

The following proposal will be presented for action at the annual meeting by direction of the Board of Directors:

RESOLVED, That the Company's Amended Articles of Incorporation be amended to include a new Article EIGHTH so that directors in non-contested elections must receive a majority of the votes cast to be elected to the Board. The new Article EIGHTH would read as follows:

***EIGHTH:*** *Each nominee for director shall be elected to the Board of Directors by a vote of the majority of the votes cast with respect to such nominee at any meeting of shareholders for the election of directors at which a quorum is present; provided, however, that if the number of nominees for directors exceeds the number of directors to be elected, the nominees receiving the greatest number of votes (up to the number of directors to be elected) shall be elected. For purposes of this provision, a majority of the votes cast means that the number of shares voted for a nominee must exceed the number of votes cast against that nominee.*

**The Board of Directors recommends a vote FOR this resolution for the following reasons:**

***Background***

Historically, Ohio law provided that each director nominee who receives the highest number of affirmative votes cast is elected, regardless of whether such votes constitute a majority of all votes cast (including votes withheld). This system, referred to as plurality voting, has always been utilized by the Company for director elections.

## **Table of Contents**

In June 2006, the Board modified its By Laws and Corporate Governance Guidelines such that any director nominee who receives a greater number of withheld votes than for votes was required to immediately tender his or her resignation to the Board. The Board would then decide, through a process managed by the Governance & Public Responsibility Committee (excluding the nominee in question), whether to accept the resignation.

On July 19, 2007, Ohio law was amended. The new law retains plurality voting as the default standard, but now explicitly authorizes companies to adopt a majority voting standard in director elections.

## ***Board Position***

For the past few years, the Board has monitored developments in corporate governance as the practices surrounding the majority vote standard have evolved. As the investor community has focused on this issue, the legal and other potential consequences of adopting a majority vote standard have been reviewed more closely. A number of public companies have adopted some form of majority vote standard, and there is now more experience and knowledge as to how it can be implemented. The Board has continued to evaluate the merits, risks and uncertainties relating to a majority vote standard and, after careful consideration, believes it is now in the best interest of the Company and its shareholders to strengthen the approach initially adopted by the Company by amending the Amended Articles of Incorporation to provide for a majority vote standard.

To further strengthen the Company's commitment to sound corporate governance, the Board has authorized and recommends that shareholders approve an amendment to the Company's Amended Articles of Incorporation that would require director nominees in a non-contested election to receive a majority of votes cast to be elected. This would ensure that each vote is specifically counted for or against a director's election, and would further enhance the accountability of each director to the Company's shareholders. No director would be elected unless he or she received more votes cast for than against. Shareholders will also be entitled to abstain with respect to the election of a director. Abstentions will have no effect in determining whether the required affirmative majority vote has been obtained.

Under Ohio law, shareholders must approve any amendments to the Company's Articles of Incorporation. If approved, this amendment will become effective upon the filing with the Ohio Secretary of State of a certificate of amendment of the Company's Amended Articles of Incorporation. The Company would make such a filing promptly after the annual meeting.

Upon approval of this proposal and the filing of the certificate of amendment, the Board will also amend its By Laws and Corporate Governance Guidelines to conform its director resignation policy to the majority vote standard, so that an incumbent director who did not receive the requisite affirmative majority of the votes cast for his or her re-election must tender his or her resignation to the Board. Under Ohio law, an incumbent director who is not re-elected may remain in office until his or her successor is elected and qualified, continuing as a holdover director until his or her position is filled by a subsequent shareholder vote or his or her earlier resignation or removal by a shareholder vote. The Board will adopt the holdover director resignation policy to address the continuation in office of a director that would result from application of the holdover director provision. Under the holdover director resignation policy, the Board will decide whether to accept the resignation in a process similar to the one the Board currently uses pursuant to the existing policy.

**For all of these reasons, the Board of Directors recommends a vote FOR this resolution.**

**Table of Contents**

**Shareholder Proposals**

***Shareholder Proposal #1***

Mrs. Evelyn Y. Davis, Watergate Office Building, 2600 Virginia Avenue N.W., Suite 215, Washington, D.C. 20037, owner of 800 shares of common stock of the Company, has given notice that she intends to present for action at the annual meeting the following resolution:

RESOLVED: That the stockholders of P&G recommend that the Board take the necessary steps to rotate the annual meeting between Cincinnati, New York, Chicago, L.A. Dallas, Miami and other major cities where there is a large concentration of holders.

REASONS: Many corporations such as Verizon, IBM, Pfizer, J.P. Morgan Chase, Lockheed Martin, United Technologies, Aetna, Disney, US Airways, GE and many many others rotate their annual meetings.

Shareholders in other parts of the country should also have the opportunity to meet management and directors.

The Cincinnati meeting is mostly attended by P&G employees and retirees.

If you AGREE, please mark your proxy FOR this proposal.

**The Board of Directors recommends a vote AGAINST this proposal for the following reasons:**

The Regulations of the Company adopted by the shareholders provide that the annual meeting of shareholders shall be held in Cincinnati, Hamilton County, Ohio. Under Ohio law, these Regulations are binding on the Board of Directors and the management of the Company unless revised or amended by majority vote of the outstanding shares of the Company at a meeting called for this purpose.

The Board of Directors believes that having the annual meeting in Cincinnati continues to serve the Company and its shareholders very well. The Cincinnati area remains the locale of the largest single concentration of Company shareholders. Accordingly, holding the meeting in Cincinnati offers the opportunity of attendance on a local basis to the largest possible number of individuals.

Furthermore, less than one quarter of *Fortune*'s Top 25 companies and only two of the U.S. companies included on *Fortune*'s Top 20 Most Admired Companies list, rotate the location of their annual meeting. The overwhelming majority of these companies hold their annual meeting in the same location each year, generally in or adjacent to the city where they are headquartered.

We are also cognizant of the expense that will be incurred by rotating the meeting location. Travel and fuel costs are at an all time high and may discourage attendance regardless of the location. The process of staging a meeting in a city other than Cincinnati would involve substantially more expense and diversion of effort for the many Company personnel involved. For the reasons set forth herein, the Board recommends a vote against this proposal.

**The Board recommends a vote AGAINST this proposal.**

## **Table of Contents**

### ***Shareholder Proposal #2***

Mr. Peter Flaherty of the National Legal and Policy Center, 107 Park Washington Court, Falls Church, VA 22046, owner of 60 shares of common stock of the Company, has given notice that he intends to present for action at the annual meeting the following resolution:

RESOLVED, shareholders request that our board of directors adopt a policy that allows shareholders to vote on an advisory management resolution at each annual meeting to approve or disapprove the Compensation Discussion and Analysis report in the proxy statement.

The policy should provide that appropriate disclosures will be made to ensure that shareholders fully understand that the vote is advisory, will not affect any person's pay, and will not affect the approval of any compensation-related proposal submitted for a vote of stockholders at the same or any other meeting of stockholders.

#### Supporting Statement:

Current rules governing senior executive compensation do not give shareholders enough influence over pay practices. In the United Kingdom, public companies allow stockholders to cast an advisory vote on the directors remuneration report. Although the vote isn't binding, it allows shareholders a voice.

Excessive executive compensation creates two problems. First, public outrage undermines support for the free market, the system that makes possible corporate profits. Second, overcompensated executives are more likely to acquiesce to demands from anti-business activists, in order to insulate themselves from criticism for their high pay.

Unless P&G voluntarily gives shareholders such a voice, Congress may pass legislation forcing the Company to do so, such as the Shareholder Vote on Executive Compensation Act (H.R. 1257).

#### **The Board of Directors recommends a vote AGAINST this proposal for the following reasons:**

The Board's Compensation & Leadership Development Committee takes seriously its responsibility for establishing the Company's policies and practices for setting the compensation of the Company's executive officers. As discussed in the Compensation Discussion and Analysis section of this proxy statement, the Committee has established clear principles and objectives for executive compensation and designed executive compensation programs that meet those principles and objectives. These programs pay strictly for performance over the short and long-term and pay competitively with industries and companies comparable to the Company and with whom we compete for talent.

Given the broad range of issues and commentary surrounding executive compensation, the Board believes that this Committee, comprised solely of independent Directors with experience in a wide range of industries and geographies and significant executive management and board governance experience, is in the best position to make judgments about the amount and form of executive compensation.

The addition of an advisory vote at each annual meeting to approve or disapprove the Compensation Discussion and Analysis report in the proxy statement, will not assist the Committee in carrying out its duties because it would not provide specific, actionable input regarding executive compensation decisions. The results of any such overall vote, without analysis of the component parts of executive compensation, would not give the Committee useful information into what particular aspects of the Company's executive compensation programs should be addressed or how to address them. For example, it would be impossible to determine if a significant vote against the Compensation Discussion and Analysis report meant that shareholders were concerned with overall compensation or with the mix of compensation (i.e., salary versus bonus versus equity) or with one or more specific compensation elements within the overall mix. Further, such a vote is a relatively ineffective method of communicating with the Board regarding executive compensation.

## **Table of Contents**

A more meaningful method of communication would be to write directly to the Board, the Compensation & Leadership Development Committee or the Presiding Director, who chairs the Compensation & Leadership Development Committee, with specific concerns. This process is described under the section entitled "Communication with Directors and Executive Officers" found on page 12 of this proxy statement.

Nevertheless, because it takes executive compensation seriously, the Company has engaged in dialogue with several significant shareholders, other leading companies and other stakeholders to address a number of important topics related to executive compensation. This dialogue resulted from Walden Asset Management's submission of its own shareholder proposal last year requesting an advisory vote by shareholders on executive compensation. Walden agreed to withdraw the proposal in light of the company's positive approach and willingness to study the issue in cooperation with concerned investors. The dialogue prompted by Walden's proposal was very meaningful, and the Board will continue to examine executive compensation issues in earnest as shareholders, stakeholders and the federal government consider further action on these matters.

Based on the fact that a broad advisory vote on the Compensation Discussion and Analysis will not assist the Compensation & Leadership Development Committee in carrying out its duties, the Board believes that an advisory vote on executive compensation is unwarranted.

**The Board of Directors recommends a vote AGAINST this proposal.**

### **2009 Annual Meeting Date**

It is anticipated that the 2009 annual meeting of shareholders will be held on Tuesday, October 13, 2009. Pursuant to regulations issued by the SEC, to be considered for inclusion in the Company's proxy statement for presentation at that meeting, all shareholder proposals must be received by the Company on or before the close of business on Wednesday, May 1, 2009. Any such proposals should be sent to The Procter & Gamble Company, c/o Secretary, One Procter & Gamble Plaza, Cincinnati, OH 45202-3315. If a shareholder notifies the Company after July 15, 2009 of an intent to present a proposal at the 2009 annual meeting of shareholders, the Company will have the right to exercise its discretionary voting authority with respect to such proposal without including information regarding such proposal in its proxy materials.

### **Other Matters**

No action will be taken with regard to the minutes of the annual meeting of shareholders held October 9, 2007, unless they have been incorrectly recorded.

The Board of Directors knows of no other matters which will come before the meeting. However, if any matters other than those set forth in the notice should be properly presented for action, the persons named in the proxy intend to take such action as will be in harmony with the policies of the Company and in that connection will use their discretion.

**Table of Contents**

**Exhibit A**

**Guidelines of**

**The Procter & Gamble Company Audit Committee**

**For Pre-Approval Of Independent Auditor Services**

**The Committee has adopted the following guidelines regarding the engagement of the Company's independent auditor to perform services for the Company:**

For audit services (including statutory audit engagements as required under local country laws), the independent auditor will provide the Committee with an engagement letter during the July-September quarter of each year outlining the scope of the audit services proposed to be performed during the fiscal year. If agreed to by the Committee, this engagement letter will be formally accepted by Committee.

The independent auditor will submit to the Committee for approval an audit services fee proposal after acceptance of the engagement letter.

For non-audit services, Company management will submit to the Committee for approval the list of non-audit services that it recommends the Committee engage the independent auditor to provide for the fiscal year. Company management and the independent auditor will each confirm to the Committee that each non-audit service on the list is permissible under all applicable legal requirements. In addition to the list of planned non-audit services, a budget estimating non-audit service spending for the fiscal year will be provided. The Committee will approve both the list of permissible non-audit services and the budget for such services. The Committee will be informed routinely as to the non-audit services actually provided by the independent auditor pursuant to this pre-approval process.

To ensure prompt handling of unexpected matters, the Committee delegates to the Chair the authority to amend or modify the list of approved permissible non-audit services and fees. The Chair will report action taken to the Committee at the next Committee meeting.

The independent auditor must ensure that all audit and non-audit services provided to the Company have been approved by the Committee. The Vice-President of Internal Controls will be responsible for tracking all independent auditor fees against the budget for such services and report at least annually to the Audit Committee.

**Table of Contents**

0038-6001



**Table of Contents**

***THE PROCTER & GAMBLE COMPANY***

***P.O. BOX 5572***

***CINCINNATI, OH 45201-5572***

**VOTE BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. on October 13, 2008. Have your proxy/voting instruction card and/or your Notice Regarding Internet Availability of Proxy Materials for the Annual Meeting in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

**ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS**

If you would like to reduce the costs incurred by The Procter & Gamble Company in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

**VOTE BY PHONE - 1-800-690-6903**

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. on October 13, 2008. Have your proxy/voting instruction card in hand when you call and then follow the instructions.

**VOTE BY MAIL**

Mark, sign and date your proxy/voting instruction card and return it in the postage-paid envelope we have provided or return it to The Procter & Gamble Company, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:

PGAMB1      KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY  
**THIS PROXY/VOTING INSTRUCTION CARD IS VALID ONLY WHEN SIGNED AND DATED.**

**THE PROCTER & GAMBLE  
COMPANY**

## Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

### Vote on Directors

The Board of Directors recommends a vote <b>FOR</b> the following action:	<b>For</b>  <b>All</b>	<b>Withhold</b>  <b>All</b>	<b>For All Except</b>	To withhold authority to vote for any individual nominee(s), mark <b>For All Except</b> and write the number(s) of the nominee(s) on the line below.
---	------------------------------	-----------------------------------	-----------------------	--

1. ELECTION OF DIRECTORS (terms expiring in 2009) <b>Nominees:</b> 01) Kenneth I. Chenault, 02) Scott D. Cook, 03) Rajat K. Gupta, 04) A. G. Lafley, 05) Charles R. Lee, 06) Lynn M. Martin, 07) W. James McNERNEY, Jr., 08) Johnathan A. Rodgers, 09) Ralph Snyderman, M.D., 10) Margaret C. Whitman, 11) Patricia A. Woertz, and 12) Ernesto Zedillo	..	..	..	
--	----	----	----	--

### Vote on Proposals

The Board of Directors recommends a vote <b>FOR</b> the following proposals:	<b>For</b>	<b>Against</b>	<b>Abstain</b>
2. Ratify Appointment of the Independent Registered Public Accounting Firm	..	..	..
3. Amend Company's Amended Articles of Incorporation to Adopt Majority Voting	..	..	..

The Board of Directors recommends a vote <b>AGAINST</b> the following proposals:	<b>For</b>	<b>Against</b>	<b>Abstain</b>
4. Shareholder Proposal #1 - Rotate Site of Annual Meeting	..	..	..
5. Shareholder Proposal #2 - Advisory vote on Executive Compensation	..	..	..

	<b>Yes</b>	<b>No</b>
Please indicate if you would like to keep your vote confidential under the current policy	..	..

**(NOTE: Please sign exactly as your name(s) appear(s) hereon. All holders must sign. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. If a corporation, please sign in full corporate name, by authorized officer. If a partnership, please sign in partnership name by authorized person.)**

Signature [PLEASE SIGN WITHIN BOX]	Signature (Joint Owners)	Date
------------------------------------	--------------------------	------

Table of Contents

**NOTICE OF ANNUAL MEETING  
OF  
SHAREHOLDERS  
AND  
ADMISSION TICKET**

This is notice of your invitation to attend the annual meeting of shareholders of The Procter & Gamble Company to be held on Tuesday, October 14, 2008 at 9:00 a.m. at the Procter & Gamble Hall at The Aronoff Center for the Arts, 650 Walnut Street, Cincinnati, Ohio.

In addition to reviewing the minutes of last year's annual meeting and receiving reports of officers, the purposes of the meeting are listed on the voting portion of the proxy card attached below to this Admission Ticket.

You should present this Admission Ticket in order to gain admittance to the meeting. This ticket admits only the shareholder listed on the reverse side and is not transferable. If the shares are held in the name of a broker, trust, bank or other nominee, you should bring with you a proxy or letter from the broker, trustee, bank or nominee confirming the beneficial ownership of the shares.

**Important Notice Regarding Internet Availability of Proxy Materials for the Annual Meeting:**

The Notice and Proxy Statement and Annual Report are available at [www.proxyvote.com](http://www.proxyvote.com).

**THE PROCTER & GAMBLE COMPANY**

**SHAREHOLDER'S PROXY AND CONFIDENTIAL VOTING INSTRUCTION CARD**

**Annual Meeting of Shareholders-Tuesday, October 14, 2008**

The undersigned hereby appoints A. G. Lafley, Charles R. Lee and W. James McNeerney, Jr., (the Proxy Committee), and each of them (with respect to any shares of Common Stock held by the undersigned directly or via the Company's Shareholder Investment Program) as proxies to attend the annual meeting of shareholders of the Company to be held on Tuesday, October 14, 2008 at 9:00 a.m. in Cincinnati, Ohio and any adjournment thereof and vote all shares held by

## Edgar Filing: PROCTER & GAMBLE CO - Form DEF 14A

or for the benefit of the undersigned as indicated on the reverse side of this card for the election of Directors, and on the proposals listed; and, at their discretion, on such other matters as may properly come before the meeting. **If you sign and return this card without marking, this proxy card will be treated as being FOR the election of Directors, FOR items 2 and 3, and AGAINST the proposals listed as items 4 and 5.**

This proxy also provides voting instructions for shares held by the Trustees of the Retirement Trust, and the Employee Stock Ownership Trust of The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan, and the Procter & Gamble Savings Plan (as applicable, with respect to shares of Common Stock, and Series A and B ESOP Convertible Class A Preferred Stock held for the benefit of the undersigned), and directs such Trustees to vote all shares held for the benefit of the undersigned as indicated on the reverse side of this card for the election of Directors, and on the proposals listed; and with the Proxy Committee on such other matters as may properly come before the meeting. The Trustees will vote shares of the Company's Stock held by them for which instructions are not received in direct proportion to the voting of shares for which instructions have been received, provided that such voting is not contrary to the Employee Retirement Income Security Act of 1974, as amended. The Trustees will vote unallocated shares in direct proportion to voting by allocated shares of the same Class in aggregate, for which instructions have been received.

**This proxy/voting instruction card is solicited jointly by the Board of Directors of The Procter & Gamble Company and the Trustees listed above pursuant to a separate Notice of Annual Meeting and Proxy Statement, receipt of which is hereby acknowledged. Votes should be received by the Company's proxy tabulator, Broadridge Financial Solutions, 51 Mercedes Way, Edgewood, NY 11717 by 11:59 p.m. on Monday, October 13, 2008, for Common shares to be voted and 4:00 p.m. on Friday, October 10, 2008 for the Trustees to vote the Plan shares. Broadridge will report separately to the Proxy Committee and to the Trustees as to proxies received and voting instructions provided, respectively. Individual proxy voting and voting instructions will be kept confidential by Broadridge and not provided to the Company.**

**Table of Contents**

***THE PROCTER & GAMBLE COMPANY***

**\*\* IMPORTANT NOTICE \*\***

**Regarding the Availability of Proxy Materials**

You are receiving this communication because you hold shares in the above company, and the materials you should review before you cast your vote is now available.

This communication presents only an overview of the more complete proxy materials that are available to you on the Internet. We encourage you to access and review all of the important information contained in the proxy materials before voting.

*THE PROCTER & GAMBLE COMPANY*

*P.O. BOX 5572*

*CINCINNATI, OH 45201-5572*

**Shareholder Meeting to be held on October 14, 2008**

**Proxy Materials Available**

Notice and Proxy Statement  
Annual Report

**PROXY MATERIALS - VIEW OR RECEIVE**

You can choose to view the materials Online or receive a paper or e-mail copy. There is NO charge for requesting a copy. Requests, instructions and other inquiries will NOT be forwarded to your investment advisor.

To facilitate timely delivery please make the request as described below on or before September 30, 2008.

**HOW TO VIEW MATERIALS VIA THE INTERNET**

Have the 12 Digit Control Number(s)\* available and visit:  
[www.proxyvote.com](http://www.proxyvote.com)

**HOW TO REQUEST A COPY OF MATERIALS**

1) BY INTERNET - [www.proxyvote.com](http://www.proxyvote.com)

2) BY TELEPHONE - 1-800-579-1639

3) BY E-MAIL - [sendmaterial@proxyvote.com](mailto:sendmaterial@proxyvote.com)

If requesting materials by e-mail, please send a blank e-mail with the 12 Digit Control Number(s)\* in the subject line.

\*Control Number(s) located on the following page.

**\*\* SEE THE REVERSE SIDE FOR MEETING INFORMATION AND INSTRUCTIONS ON HOW TO VOTE \*\***

**Table of Contents**

**Meeting Information**

Meeting Type: Annual  
Meeting Date: October 14, 2008

Meeting Time: 9:00 a.m.

For holders as of: August 15, 2008

**Meeting Location:**

The Procter & Gamble Hall

The Aronoff Center for the Arts

650 Walnut Street

Cincinnati, OH

**Directions to Meeting:**

For directions to the Aronoff Center for the Arts, please call 1-800-742-6253.

**How To Vote**

**Vote By Internet**

To vote **now** by Internet, go to

**WWW.PROXYVOTE.COM.**

You can vote by accessing the Internet at [www.proxvote.com](http://www.proxvote.com) up until 11:59 p.m. on October 13, 2008. Have your Notice in hand when you access the web site and follow the instructions.

**Vote In Person**

You can gain entrance to the shareholder meeting by producing the attached Admission Ticket or a proxy or letter from the broker, trust, bank or other nominee confirming beneficial ownership of your shares. During the Meeting you will need to request a ballot to vote these shares.

**ADMISSION TICKET**

This is notice of your invitation to attend the annual meeting of shareholders of The Procter & Gamble Company to be held on Tuesday, October 14, 2008 at 9:00 a.m. at the Procter & Gamble Hall at The Aronoff Center for the Arts, 650 Walnut Street, Cincinnati, Ohio.

In addition to reviewing the minutes of last year's annual meeting and receiving reports of officers, the purposes of the meeting are listed on the following page.

You should present this Admission Ticket in order to gain admittance to the meeting. This ticket admits only the shareholder listed on the reverse side and is not transferable. If the shares are held in the name of a broker, trust, bank or other nominee, you should bring with you a proxy or letter from the broker, trustee, bank or nominee confirming the beneficial ownership of the shares.

**Table of Contents**

**Voting items**

The Board of Directors recommends a vote **FOR** the following action:

1. ELECTION OF DIRECTORS (terms expiring in 2009) **Nominees:** 01) Kenneth I. Chenault, 02) Scott D. Cook, 03) Rajat K. Gupta, 04) A. G. Lafley, 05) Charles R.

Lee, 06) Lynn M. Martin, 07) W. James McNerney, Jr., 08) Johnathan A. Rodgers,

09) Ralph Snyderman, M.D., 10) Margaret C. Whitman, 11) Patricia A. Woertz,

and 12) Ernesto Zedillo

The Board of Directors recommends a vote **FOR** the following proposals:

2. Ratify Appointment of the Independent Registered Public Accounting Firm

3. Amend Company's Amended Articles of Incorporation to Adopt Majority Voting

The Board of Directors recommends a vote **AGAINST** the following proposals:

4. Shareholder Proposal #1 - Rotate Site of Annual Meeting

5. Shareholder Proposal #2 - Advisory Vote on Executive Compensation

**Table of Contents**



**Table of Contents**

Dear Shareholder:

On August 29, 2008 we sent you a notice indicating that the proxy statement and voting instructions for the annual meeting of shareholders of The Procter & Gamble Company to be held on Tuesday, October 14, 2008 were available on line at [www.proxyvote.com](http://www.proxyvote.com).

As of September 30 we have not received your proxy. If you have in fact already voted, we thank you. If not, we hope you will do so now.

In case you have lost the original notice, a proxy card is enclosed together with a return envelope. You can also vote by telephone or via the Internet at [www.proxyvote.com](http://www.proxyvote.com). Instructions are included on the proxy card.

Thank you for your attention to this matter.

THE PROCTER & GAMBLE COMPANY