

PROCTER & GAMBLE CO

Form S-3/A

May 05, 2004

As filed with the Securities and Exchange Commission on May 5, 2004

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**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D. C. 20549  
AMENDMENT NO. 1 TO  
FORM S-3  
REGISTRATION STATEMENT  
UNDER  
THE SECURITIES ACT OF 1933**

**THE PROCTER & GAMBLE COMPANY**

(Exact name of registrant as specified in its charter)

Ohio  
(State or other jurisdiction  
of incorporation or organization)

31-0411980  
(I.R.S. Employer Identification No.)

One Procter & Gamble Plaza, Cincinnati, Ohio 45202  
(513) 983-1100  
(Address, including zip code, and telephone number,  
including area code, of registrant's principal executive offices)

Chris B. Walther, Assistant Secretary  
The Procter & Gamble Company  
One Procter & Gamble Plaza, Cincinnati, Ohio 45202  
(513) 983-8469  
(Name, address, including zip code, and telephone number,  
including area code, of agent for service)

*Copies to:*

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**Approximate date of proposed commencement of sales to the public:** From time to time after the effective date of this Registration Statement, as determined in light of market conditions.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

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If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

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If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of this prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

**Calculation of Registration Fee**

<b>Title of each Class of Securities to be Registered</b>	<b>Amount to be Registered (1)</b>	<b>Proposed Maximum Offering Price per Unit (2)</b>	<b>Proposed Maximum Aggregate Offering Price (2)</b>	<b>Amount of Registration Fee (3)</b>
Debt Securities and Warrants	\$7,000,000,000	100%	\$7,000,000,000	\$886,900

(1) Such amount represents the issue price of any Warrants and the issue price rather than the principal amount of any Debt Securities issued at an original discount. If any Debt Securities are issued at an original discount, then the offering price shall be in such greater principal amount as shall result in a total maximum aggregate offering price not to exceed \$7,000,000,000, less the dollar amount of any securities previously issued hereunder. Any offering of Debt Securities denominated other than in U.S. dollars will be treated as the equivalent in U.S. dollars based on the official exchange rate applicable to the purchase of the Debt Securities from the Registrant.

(2) Estimated solely for the purpose of calculating the registration fee.

(3) Previously paid.

**The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.**

Pursuant to Rule 429 under the Securities Act of 1933, this Registration Statement contains a combined prospectus that also relates to Registration Statement No. 333-84232 on Form S-3 previously filed by the Registrant on March 13, 2002 and declared effective on March 25, 2002.

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**The information in this prospectus is not complete and may be changed. We may not sell those securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the sale is not permitted.**

**Subject To Completion, Dated May \_\_\_, 2004**

**Prospectus**

**THE PROCTER & GAMBLE COMPANY**

*By this prospectus, we may offer -*

**Debt Securities  
Warrants**

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We will provide the specific terms of these securities in supplements to this prospectus. You should read this prospectus and any prospectus supplement carefully before you invest. We may, from time to time, sell in one or more offerings pursuant to this prospectus up to a total dollar amount of \$8,558,000,000 of any combination of our debt securities and warrants.

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This prospectus may not be used to offer and sell securities unless accompanied by a prospectus supplement.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

This prospectus is dated May \_\_\_, 2004

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This prospectus is part of a registration statement that we filed with the SEC utilizing a shelf registration process. Under this shelf process, we may, from time to time, sell in one or more offerings up to a total dollar amount of \$8,558,000,000 of any combination of our debt securities and warrants.

This prospectus provides you with a general description of the securities that we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering, including the specific amounts, prices and terms of the securities offered. The prospectus supplement may also add, update or change information contained in this prospectus.

You should carefully read both this prospectus and any prospectus supplement together with additional information described below under the heading Where You Can Find More Information.

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In this prospectus supplement and the accompanying prospectus, unless we otherwise specify or the context otherwise requires, references to:

**The Company**

- Procter & Gamble, the Company, we, us, and our are to The Procter & Gamble Company and its subsidiaries;
- fiscal followed by a specific year are to our fiscal year ended or ending June 30 of that year; and
- dollars, \$ and U.S.\$ are to United States dollars.

The Procter & Gamble Company was incorporated in Ohio in 1905, having been built from a business founded in 1837 by William Procter and James Gamble. Today, the Company manufactures and markets a broad range of consumer products in many countries throughout the world. Our principal executive offices are located at One Procter & Gamble Plaza, Cincinnati, Ohio 45202, and our telephone number is (513) 983-1100.

Our business is organized into five product-based, reportable segments called Global Business Units ( GBUs ). These units are: Fabric and Home Care; Baby and Family Care; Beauty Care; Health Care; and Snacks and Beverages.

Fabric and Home Care includes laundry detergents, dish care, fabric enhancers and surface cleaners. Representative brands include Ariel, Tide, Dryel, Downy, Cascade, Dawn, Febreze and Swiffer.

Baby and Family Care includes diapers, wipes, tissue and towels. Representative brands include Pampers, Luvs, Charmin and Bounty.

Beauty Care includes hair care, hair colorants, skin care, cosmetics, fine fragrances, deodorants, tampons, pads and pantliners. Representative brands include Pantene, Herbal Essences, Nice N Easy, Head & Shoulders, Olay, Zest, Cover Girl, Secret, Old Spice, Tampax, Always and Whisper.

Snacks and Beverages includes coffee, snacks, commercial services and juice. Representative brands include Folgers, Millstone, Pringles and Sunny Delight.

Health Care includes oral care, personal health care, pharmaceuticals and pet health and nutrition. Representative brands include Crest, Scope, Metamucil, Vicks, Actonel, Asacol, Iams and Eukanuba.

In the most recent fiscal year ended June 30, 2003, the Fabric and Home Care segment accounted for 29% of total sales and Beauty Care accounted for 28% of total sales. Baby and Family Care accounted for 23%, Health Care accounted for 13% and Snacks and Beverages accounted for 7% of total sales.

In the United States, as of June 30, 2003, the Company owned and operated 35 manufacturing facilities and leased and operated 2

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manufacturing facilities. These facilities were located in 21 different states. In addition, the Company owned and operated 83 manufacturing facilities in 42 other countries. Many of the domestic and international facilities produced products for multiple business segments. Fabric and Home Care products were produced at 45 of these locations; Baby and Family Care products at 32; Health Care products at 25; Beauty Care products at 39; and Snacks and Beverages products at 11.

Our principal executive offices are located at One Procter & Gamble Plaza, Cincinnati, Ohio 45202, and our telephone number is (513) 983-1100.

**Recent Developments**

In March, 2003, the Company entered into an agreement to acquire a controlling interest in Wella AG from the majority shareholders and, in June, 2003, the Company completed a tender offer for the remaining outstanding voting class shares and preference shares. On September 2, 2003, the Company completed the previously announced purchase of the shares of Wella AG held by the majority shareholders. On September 10, 2003, the Company purchased the shares secured through the tender offer. As a result of these purchases, the Company acquired approximately 81% of the outstanding Wella shares (99% of the voting class shares and 45% of the preference shares) for a total purchase price of 4.67 billion Euros, excluding acquisition costs (approximately \$5.1 billion based on actual exchange rates on the date of the transaction). The acquisition was financed by a mixture of available cash balances and debt. Wella AG is a leading beauty care company selling its products in more than 150 countries, focused on professional hair care, retail hair care and cosmetics and fragrances.

**Summary Consolidated  
Financial Information**

The summary consolidated financial information for the years ended June 30, 2003 and 2002 has been derived from our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2003. The summary consolidated financial information for the years ended June 30, 2001 and 2000 has been derived from our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 2001. The summary consolidated financial information for the year ended June 30, 1999 has been derived from our consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended June 30, 1999. All information is reported in U.S. dollars.



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	<b>Years Ended June 30,</b>				
	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>
	<b>(Amounts in Millions Except Per Share Amounts)</b>				
NET SALES	\$ 38,125	\$ 39,951	\$ 39,244	\$ 40,238	\$ 43,377
Cost of products sold	21,027	21,514	22,102	20,989	22,141
Marketing, research, administrative and other expenses	10,845	12,483	12,406	12,571	13,383
OPERATING INCOME	6,253	5,954	4,736	6,678	7,853
Interest expense	650	722	794	603	561
Other income, net	235	304	674	308	238
EARNINGS BEFORE INCOME TAXES	5,838	5,536	4,616	6,383	7,530
Income taxes	2,075	1,994	1,694	2,031	2,344
NET EARNINGS	3,763	3,542	2,922	4,352	5,186
PER COMMON SHARE:					
Basic net earnings	\$ 2.75	\$ 2.61	\$ 2.15	\$ 3.26	\$ 3.90
Diluted net earnings	\$ 2.59	\$ 2.47	\$ 2.07	\$ 3.09	\$ 3.69
AVERAGE SHARES OUTSTANDING:					
Basic	1,328.1	1,313.2	1,300.3	1,297.4	1,296.6
Diluted	1,446.8	1,427.2	1,405.6	1,404.9	1,401.3
RATIO OF EARNINGS TO FIXED CHARGES (1)(2)	8.8	7.1	6.2	10.4	12.8
WORKING CAPITAL (3)	\$ 597	\$ 5	\$ 1,043	(\$538)	\$ 2,862
TOTAL ASSETS	32,192	34,366	34,387	40,776	43,706
LONG-TERM DEBT	6,265	9,012	9,792	11,201	11,475
SHAREHOLDERS EQUITY	12,058	12,287	12,010	13,706	16,186

(1) Earnings used to compute this ratio are earnings before income taxes and before fixed charges (excluding interest capitalized during the period) and after deducting undistributed earnings of equity method investees. Fixed charges consist of interest, whether expensed or capitalized, amortization of debt discount and expense, and one-third of all rent expense (considered representative of the interest factor).

(2) The ratio of earnings to fixed charges for the six months ended December 31, 2003 was 16.5.

(3) Working capital is defined as current assets less current liabilities.

**Results of Operations: Year Ended June 30, 2003 Compared to the Year Ended June 30, 2002**

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**FINANCIAL REVIEW**

**RESULTS OF OPERATIONS**

This financial report for the Company's fiscal year ended June 30, 2003 has been derived from our Annual Report to shareholders for the Company's fiscal year ended June 30, 2003.

The Company markets nearly 300 products in more than 160 countries around the world in five distinct business segments: Fabric and Home Care, Beauty Care, Baby and Family Care, Health Care and Snacks and Beverages.

The Company's results for the fiscal year ended June 30, 2003 reflect broad-based business strength, with four of the five segments delivering top-line sales growth and all five business segments delivering profit growth.

The Company continues to make clear choices about where to play and how to win. The framework for these decisions is grounded in focus areas that include: building core categories and leading brands, growing with leading customers and in the biggest geographic markets, investing in faster-growing, higher margin businesses and building leadership in fast-growing developing markets.

Consistent with this framework, in March 2003 the Company reached an agreement with the controlling shareholders of Wella AG to acquire 77.6% of the voting class shares. In June 2003, the Company completed a tender offer for the remaining outstanding voting class shares and preference shares, securing approximately 81% of the total outstanding Wella AG shares (99% of the voting class shares and 45% of the preference shares). This acquisition closed in the first quarter of fiscal 2004. Wella AG is a leading beauty care company selling its products in more than 150 countries, focused on professional hair care, retail hair care and cosmetics and fragrances.

This framework also requires some difficult decisions, including the Company's announcement in July 2003 to seek strategic alternatives for its Sunny Delight and Punica juice drink brands. Another example is the Company's continuing evaluation of outsourcing arrangements in areas where the Company can leverage industry expertise and scale to obtain high quality services at a lower cost. The Company has announced plans to outsource real estate and facilities management, information technology and certain other administrative and manufacturing processes.

**VOLUME AND NET SALES**

The Company achieved record sales of \$43.38 billion in 2003, exceeding 2002 sales by \$3.14 billion, or 8%. Volume growth of 8% was broad-based, with particular strength in Fabric and Home Care, Beauty Care and Health Care. In fact, 19 of the Company's top 20 brands increased volume as compared to the prior year. Excluding the impacts of acquisitions and divestitures, volume was also up 8%, as the impact of the Clairol acquisition in November 2001 was offset by the impact of the Jif and Crisco spin-off in May 2002. Net sales included a favorable foreign exchange impact of 2%, as the strength of the Euro was partially offset by weakness in certain Latin American currencies. The foreign exchange impact was offset by pricing of 2% to stimulate growth and

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remain competitive in key categories, including the diapers, tissue, hair care, feminine care, teeth whitening and coffee. Future pricing activities will be aimed at providing value to both consumers and customers and will be influenced by competitive activity and the Company's product initiative program.

Fiscal year 2002 sales were \$40.24 billion, an increase of 3%, compared to \$39.24 billion in 2001, on volume growth of 7% driven by Health Care and Beauty Care. Net sales grew less than volume due to a 1% impact for exchange effects, a 1% impact for pricing and a 2% impact for mix.

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**NET EARNINGS**

Net earnings were \$5.19 billion in 2003, an increase of 19% compared to \$4.35 billion in 2002. Reported results included after-tax restructuring charges of \$538 million in 2003 and \$706 million in 2002. Increased earnings were driven by volume growth, the shift in mix to higher profit products in the Health Care and Beauty Care segments, lower restructuring costs and lower manufacturing costs as a percentage of net sales. Net earnings in 2001 were \$2.92 billion, including after-tax restructuring charges of \$1.48 billion. Net earnings in 2002 exceeded 2001 due to volume growth, manufacturing savings and lower restructuring charges. The restructuring program covered enrollment reductions, manufacturing consolidations and portfolio choices to scale back or discontinue under-performing businesses and initiatives and was substantially complete at June 30, 2003. It is discussed in more detail in the Restructuring Program section and Note 2 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2003.

Diluted net earnings per share were \$3.69 in 2003 compared to \$3.09 in 2002 and \$2.07 in 2001, including the restructuring charge impact of \$0.39, \$0.50 and \$1.05 per share, respectively.

**OPERATING COSTS**

Cost of products sold was \$22.14 billion in 2003 compared to \$20.99 billion in 2002 and \$22.10 billion in 2001. Before-tax restructuring charges included in cost of products sold were \$381 million in 2003, \$508 million in 2002 and \$1.14 billion in 2001. Gross margin in 2003 improved to 49.0%, an increase of 120 basis points versus the previous year. Lower restructuring costs accounted for 40 basis points of the improvement with the remainder achieved behind lower material costs and the benefits of restructuring and base business savings delivered outside the restructuring program. Gross margin of 47.8% in 2002 improved versus 43.7% in 2001, which was more significantly impacted by restructuring charges.

Marketing, research, administrative and other expense (MRA&O) was \$13.38 billion in 2003 versus \$12.57 billion in 2002 and \$12.41 billion in 2001. MRA&O included before-tax restructuring charges of \$374 million in 2003, \$519 million in 2002 and \$583 million in 2001. The increase in MRA&O in 2003 versus 2002 was driven by additional marketing investments behind new product launches and expansions of existing brands, including Tide with Bleach, Swiffer Duster, Crest Whitestrips and Olay Regenerist. Marketing investments were partially offset by lower research and administrative costs, reflecting savings from the Company's restructuring program.

As a percent of net sales, MRA&O has improved with 2003 down 30 basis points to 30.9%. Marketing expenses as a percentage of net sales increased 75 basis points due to the marketing investments discussed in the preceding paragraph as well as other product launches and brand equity building activities. This was more than offset by lower research and administrative expenses as a percentage of net sales due to scale efficiencies and lower restructuring costs. MRA&O was 31.2% of net sales in 2002 versus 31.6% in 2001, with higher marketing investments more than offset by lower restructuring costs.

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**NON-OPERATING ITEMS**

Interest expense was \$561 million in 2003, compared to \$603 million in 2002 and \$794 million in 2001. The decline in interest expense in 2003 was driven by lower interest rates and debt balances. The decline in 2002 versus 2001 was driven by lower interest rates partially offset by an increase in debt to fund the Clairol acquisition in November 2001.

Other non-operating income, which consists primarily of interest and investment income and divestitures, contributed \$238 million in 2003 compared to \$308 million in 2002 and \$674 million in 2001. This decline was driven by significantly lower gains from divestitures and asset sales in 2003 and 2002 versus 2001, as the Company's activity to divest non-strategic brands declined.

The Company's effective tax rate for 2003 was 31.1%, a reduction of 70 basis points compared to the 2002 rate of 31.8%. The effective tax rate for 2001 was 36.7%. The decline in the current year was driven primarily by the country mix impact of foreign operations, as earnings increased in countries with lower overall tax rates. The declining rate since 2001 also reflected the impact of lower restructuring charges and amortization of goodwill and indefinite-lived intangibles prior to the adoption of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets.

**NET EARNINGS MARGINS**

Net earnings margin was 12.0% in 2003 versus 10.8% in 2002 and 7.4% in 2001. The margin increase in 2003 was primarily driven by higher volume, lower unit cost of products sold due to lower materials costs, the benefits of restructuring, as well as base business savings, and a reduction in restructuring charges. In 2002, the margin increase reflected a reduction in restructuring charges, the benefit of base and restructuring cost savings projects on both manufacturing and overhead costs and the benefits of lower interest expense.

**FINANCIAL CONDITION**

The Company's financial condition remains solid, particularly as demonstrated by cash flow generation. One of the Company's key focus areas is cash management, including capital spending targets, to achieve superior shareholder return.

***Cash***

Operating cash flow provides the primary source of funds to finance operating needs, capital expenditures and shareholder dividends. This is supplemented by additional borrowings to provide funds to finance the share repurchase program and acquisitions. The overall cash position of the Company reflects a global strategy to optimize cash management while considering offshore funding needs, liquidity management objectives and other economic considerations.

The Company continues to generate strong operating cash flow. In 2003, operating cash flow was \$8.70 billion, up \$958 million from \$7.74 billion in 2002. The increase in 2003 was primarily driven by higher earnings. Changes in working capital also contributed, primarily behind

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an increase in current liabilities. Operating cash flow in 2002 was up \$1.94 billion from \$5.80 billion in 2001, driven by higher earnings and an increase in taxes payable, partially offset by lower depreciation and amortization charges.

Operating cash flow less capital spending, or free cash flow, was \$7.22 billion for 2003, a 19% increase over the prior year. The majority of the year-over-year improvement was driven by increased earnings with lower capital spending also contributing. Free cash flow was \$6.06 billion in 2002 and \$3.32 billion in 2001.

Net cash used for acquisitions in 2003 was \$61 million. This compares to \$5.47 billion in cash used in 2002, primarily for the Clairol acquisition, and \$138 million in 2001. The acquisition of Wella AG, which occurred subsequent to the 2003 fiscal year, was funded using a combination of debt and available cash balances.

Proceeds from the divestiture of certain non-strategic brands and other asset sales generated \$143 million in cash flow in the current year, compared to the \$227 million generated in 2002. Divestitures in both years reflect historical levels, but represent a significant decline when compared to the \$788 million generated in 2001, during the Company's program to divest minor brands.

The Company maintains a share repurchase program and annually authorizes the purchase of shares of Company stock on the open market. A primary purpose of the program is to mitigate the dilutive impact of stock option grants, effectively prefunding the exercise obligation. Additionally, there is a discretionary component under which the Company may repurchase additional outstanding shares. Current year purchases under the combined programs were \$1.24 billion, reflecting a return to historical levels, compared to \$568 million in 2002 and \$1.25 billion in 2001. The decline in 2002 was primarily due to cash requirements associated with the Clairol acquisition.

Common share dividends grew 8% to \$1.64 per share in 2003 versus \$1.52 in 2002 and \$1.40 in 2001. The annual dividend rate will increase 11% to \$1.82 per common share in 2004, marking the 48th consecutive fiscal year of increased common share dividend payments. Total dividend payments, to both common and preferred shareholders, were \$2.25 billion, \$2.10 billion and \$1.94 billion in 2003, 2002 and 2001, respectively.

Total debt decreased from \$14.93 billion in 2002 to \$13.65 billion in 2003, a reduction of \$1.28 billion. Total debt in 2001 was \$12.02 billion. The decrease in 2003 was primarily due to the utilization of cash flow from operations to pay down existing balances. The increase in debt in 2002 was primarily driven by the Clairol acquisition.

Due to strong credit ratings, the Company is able to issue commercial paper at favorable rates and to readily access general bank financing. The Company's Standard & Poor's (S&P) and Moody's short-term credit ratings are A-1+ and P-1, respectively.

***Capital Spending***

Capital spending efficiency continues to be a focus area for the Company. Total capital spending in 2003 was \$1.48 billion, a decrease of \$197 million compared to 2002 spending of \$1.68 billion. Capital spending in 2001 was \$2.49 billion. Capital spending in 2003 as a percentage of net sales was 3.4%, the lowest level in over a decade. Capital spending was 4.2% and 6.3% of net sales in 2002 and 2001,

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respectively. This is a result of the systemic interventions the Company has made to improve capital spending efficiencies and asset utilization and is primarily the result of lower spending in Baby and Family Care. On an ongoing basis, while there may be exceptional years when specific business circumstances, such as capacity additions, may lead to higher spending, the Company's goal is to maintain capital spending at about 4% of net sales.

### ***Guarantees and Other Off-Balance Sheet Arrangements***

The Company does not have guarantees or other off-balance sheet financing arrangements that the Company believes could have a material impact on financial condition or liquidity.

### ***Purchase Commitments***

The Company has purchase commitments for materials, supplies, services and fixed assets as part of the normal course of business. Due to the proprietary nature of many of the Company's materials and processes, certain supply contracts contain penalty provisions for either early termination or failure to purchase contracted quantities. The Company does not expect potential payments under these provisions to materially affect results of operations or financial condition. This conclusion is made based upon reasonably likely outcomes assumed by reference to historical experience and current business plans.

### ***Liquidity***

As discussed previously, the Company's primary source of liquidity is cash generated from operations. Additionally, the Company is able to support its short-term liquidity, if necessary, through agreements with a diverse group of creditworthy financial institutions. The Company has never drawn on these facilities and does not intend to do so in the foreseeable future. However, should the facilities be needed, when combined with cash on hand, the Company believes they would provide sufficient credit funding to meet any short-term financing requirements. The Company does not have other commitments or related party transactions that are considered material to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2003.

## **Forward-Looking Statements**

All statements, other than statements of historical fact included in this Prospectus, are forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. In addition to the risks and uncertainties noted in this presentation, there are certain factors that could cause actual results to differ materially from those anticipated by some of the statements made. These include: (1) the ability to achieve business plans, including growing existing sales and volume profitably despite high levels of competitive activity, especially with respect to the product categories and geographical markets (including developing markets) in which the Company has chosen to focus; (2) successfully executing, managing and integrating key acquisitions (including Wella) and completing planned divestitures (including the potential divestiture of the company's juice business), (3) the ability to manage and maintain key customer relationships; (4) the ability to maintain key manufacturing and supply



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sources (including sole supplier and plant manufacturing sources); (5) the ability to successfully manage regulatory, tax and legal matters (including product liability matters), and to resolve pending matters within current estimates; (6) the ability to successfully implement, achieve and sustain cost improvement plans in manufacturing and overhead areas, including successful completion of the Company's outsourcing projects; (7) the ability to successfully manage currency (including currency issues in volatile countries), interest rate and certain commodity cost exposures; (8) the ability to manage the continued global political and/or economic uncertainty, especially in the Company's significant geographical markets, as well as any political and/or economic uncertainty due to terrorist activities; and (9) the ability to successfully manage increases in the prices of raw materials used to make the Company's products. If the company's assumptions and estimates are incorrect or do not come to fruition, or if the Company does not achieve all of these key factors, then the company's actual results might differ materially from the forward-looking statements made herein. For additional information concerning factors that could cause actual results to materially differ from those projected herein, please refer to our most recent 10-K, 10-Q and 8-K reports.

## **Use of Proceeds**

Unless otherwise indicated in the applicable prospectus supplement, we will use the net proceeds from the sale of debt securities and warrants offered by this prospectus for general corporate purposes.

## **Description of Debt Securities**

This section describes the general terms and provisions of any debt securities that we may offer in the future. A prospectus supplement relating to a particular series of debt securities will describe the specific terms of that particular series and the extent to which the general terms and provisions apply to that particular series.

## **General**

We expect to issue the debt securities under an indenture, dated as of September 28, 1992, between us and J.P. Morgan Trust Company, National Association, successor in interest to Bank One Trust Company, National Association, as trustee. We have filed a copy of the indenture as an exhibit to the registration statement of which this prospectus forms a part. The following summaries of various provisions of the indenture are not complete. You should read the indenture for a more complete understanding of the provisions described in this section. The indenture itself, not this description or the description in the prospectus supplement, defines your rights as a holder of debt securities. Parenthetical section and article numbers in this description refer to sections and articles in the indenture.

The debt securities will be unsecured obligations of Procter & Gamble. The indenture does not limit the amount of debt securities that we may issue under the indenture. The indenture provides that we may issue debt securities from time to time in one or more series.

## **Terms of a Particular Series**

Each prospectus supplement relating to a particular series of debt securities will include specific information relating to the offering.

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This information will include some or all of the following terms of the debt securities of the series:

the title of the debt securities;

any limit on the total principal amount of the debt securities;

the date or dates on which the debt securities will mature;

the rate or rates, which may be fixed or variable, at which the debt securities will bear interest, if any, and the date or dates from which interest will accrue;

the dates on which interest, if any, will be payable and the regular record dates for interest payments;

any mandatory or optional sinking fund or similar provisions;

any optional or mandatory redemption provisions, including the price at which, the periods within which, and the terms and conditions upon which we may redeem or repurchase the debt securities;

the terms and conditions upon which the debt securities may be repayable prior to final maturity at the option of the holder;

the portion of the principal amount of the debt securities that will be payable upon acceleration of maturity, if other than the entire principal amount;

provisions allowing us to defease the debt securities or certain restrictive covenants and certain events of default under the indenture;

if other than in United States dollars, the currency or currencies, including composite currencies, of payment of principal of and premium, if any, and interest on the debt securities;

the federal income tax consequences and other special considerations applicable to any debt securities denominated in a currency or currencies other than United States dollars;

any index used to determine the amount of payments of principal of and premium, if any, and interest, if any, on the debt securities;

if the debt securities will be issuable only in the form of a global security as described below, the depository or its nominee with respect to the debt securities and the circumstances under which the global security may be registered for transfer or exchange in the name of a person other than the depository or its nominee; and

any other terms of the debt securities. (Section 301)

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**Payment of Principal, Premium and Interest**

Unless otherwise indicated in the prospectus supplement, principal of and premium, if any, and interest, if any, on the debt securities will be payable, and the debt securities will be exchangeable and transfers of debt securities will be registrable, at the office of the trustee at 1 Bank One Plaza, Suite IL1-0823 Chicago, Illinois 60670. At our option, however, payment of interest may be made by:

wire transfer on the date of payment in immediately available federal funds or next day funds to an account specified by written notice to the trustee from any holder of debt securities;

any similar manner that the holder may designate in writing to the trustee; or

check mailed to the address of the holder as it appears in the security register. (Sections 301, 305 and 1002)

Any payment of principal and premium, if any, and interest, if any, required to be made on a day that is not a business day need not be made on that day, but may be made on the next succeeding business day with the same force and effect as if made on the non-business day. No interest will accrue for the period from and after the non-business day. (Section 113)

Unless otherwise indicated in the prospectus supplement relating to the particular series of debt securities, we will issue the debt securities only in fully registered form, without coupons, in denominations of \$1,000 or any multiple of \$1,000. (Section 302) We will not require a service charge for any transfer or exchange of the debt securities, but we may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with any transfer or exchange. (Section 305)

**Original Issue Discount Securities**

Debt securities may be issued under the indenture as original issue discount securities to be offered and sold at a substantial discount from their stated principal amount. An original issue discount security under the indenture includes any security which provides for an amount less than its principal amount to be due and payable upon a declaration of acceleration upon the occurrence of an event of default. In addition, under regulations of the U.S. Treasury Department it is possible that debt securities which are offered and sold at their stated principal amount would, under certain circumstances, be treated as issued at an original issue discount for federal income tax purposes, and special rules may apply to debt securities and warrants which are considered to be issued as investment units. Federal income tax consequences and other special considerations applicable to any such original issue discount securities, or other debt securities treated as issued at an original issue discount, and to investment units will be described in the applicable prospectus supplement.

**Book-Entry Debt Securities**

The debt securities of a series may be issued in the form of one or more global securities that will be deposited with a depository or its nominee identified in the prospectus supplement relating to the debt

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securities. In this case, one or more global securities will be issued in a denomination or total denominations equal to the portion of the total principal amount of outstanding debt securities to be represented by the global security or securities. Unless and until it is exchanged in whole or in part for debt securities in definitive registered form, a global security may not be registered for transfer or exchange except as a whole by the depository for the global security to a nominee of the depository and except in the circumstances described in the prospectus supplement relating to the debt securities. We will describe in the prospectus supplement the terms of any depository arrangement and the rights and limitations of owners of beneficial interests in any global debt security. (Sections 204 and 305)

**Restrictive Covenants**

In this section we describe the principal covenants that will apply to the debt securities unless the prospectus supplement for a particular series of debt securities states otherwise. We make use of several defined terms in this section. The definitions for these terms are located at the end of this section under **Definitions Applicable to Covenants**.

***Restrictions on Secured Debt***

If we or any Domestic Subsidiary shall incur, assume or guarantee any Debt secured by a Mortgage on any Principal Domestic Manufacturing Property or on any shares of stock or debt of any Domestic Subsidiary, we will secure, or cause such Domestic Subsidiary to secure, the debt securities then outstanding equally and ratably with (or prior to) such Debt. However, we will not be restricted by this covenant if, after giving effect to the particular Debt so secured the total amount of all Debt so secured, together with all Attributable Debt in respect of sale and leaseback transactions involving Principal Domestic Manufacturing Properties, would not exceed 5% of our and our consolidated subsidiaries Consolidated Net Tangible Assets.

In addition, the restriction will not apply to, and there shall be excluded in computing secured Debt for the purpose of the restriction, Debt secured by

- (1) Mortgages on property of, or on any shares of stock or debt of, any corporation existing at the time the corporation becomes a Domestic Subsidiary;
  - (2) Mortgages in favor of us or a Domestic Subsidiary;
  - (3) Mortgages in favor of U.S. governmental bodies to secure progress or advance payments;
  - (4) Mortgages on property, shares of stock or debt existing at the time of their acquisition, including acquisition through merger or consolidation, purchase money Mortgages and construction cost Mortgages; and
  - (5) any extension, renewal or refunding of any Mortgage referred to in the immediately preceding clauses (1) through (4), inclusive. (Section 1004)
- The indenture does not restrict the incurrence of unsecured debt by us or our subsidiaries.

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***Restrictions on Sales and Leasebacks***

Neither we nor any Domestic Subsidiary may enter into any sale and leaseback transaction involving any Principal Domestic Manufacturing Property, the completion of construction and commencement of full operation of which has occurred more than 120 days prior to the transaction, unless

we or the Domestic Subsidiary could incur a lien on the property under the restrictions described above under Restrictions on Secured Debt in an amount equal to the Attributable Debt with respect to the sale and leaseback transaction without equally and ratably securing the debt securities then outstanding or

we, within 120 days, apply to the retirement of our Funded Debt an amount not less than the greater of (1) the net proceeds of the sale of the Principal Domestic Manufacturing Property leased pursuant to such arrangement or (2) the fair value of the Principal Domestic Manufacturing Property so leased, subject to credits for various voluntary retirements of Funded Debt.

This restriction will not apply to any sale and leaseback transaction

between us and a Domestic Subsidiary,

between Domestic Subsidiaries or

involving the taking back of a lease for a period of less than three years. (Section 1005)

***Definitions Applicable to Covenants***

The term *Attributable Debt* means the total net amount of rent, discounted at 10% per annum compounded annually, required to be paid during the remaining term of any lease.

The term *Consolidated Net Tangible Assets* means the total amount of assets, less applicable reserves and other properly deductible items, after deducting (a) all current liabilities and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and other like intangibles, all as described on our and our consolidated subsidiaries most recent balance sheet and computed in accordance with generally accepted accounting principles.

The term *Debt* means notes, bonds, debentures or other similar evidences of indebtedness for money borrowed.

The term *Domestic Subsidiary* means any of our subsidiaries except a subsidiary which neither transacts any substantial portion of its business nor regularly maintains any substantial portion of its fixed assets within the United States or which is engaged primarily in financing our and our subsidiaries operations outside the United States.

The term *Funded Debt* means Debt having a maturity of, or by its terms extendible or renewable for, a period of more than 12 months after the date of determination of the amount of Debt.

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The term **Mortgage** means pledges, mortgages and other liens.

The term **Principal Domestic Manufacturing Property** means any facility (together with the land on which it is erected and fixtures comprising a part of the land) used primarily for manufacturing or processing, located in the United States, owned or leased by us or one of our subsidiaries and having a gross book value in excess of 3/4 of 1% of Consolidated Net Tangible Assets. However, the term **Principal Domestic Manufacturing Property** does not include any facility or portion of a facility (1) which is a pollution control or other facility financed by obligations issued by a state or local governmental unit pursuant to Section 103(b)(4)(E), 103(b)(4)(F) or 103(b)(6) of the Internal Revenue Code of 1954, or any successor provision thereof, or (2) which, in the opinion of our board of directors, is not of material importance to the total business conducted by us and our subsidiaries as an entirety.

**Events of Default**

Any one of the following are events of default under the indenture with respect to debt securities of any series:

- (1) our failure to pay principal of or premium, if any, on any debt security of that series when due;
- (2) our failure to pay any interest on any debt security of that series when due, continued for 30 days;
- (3) our failure to deposit any sinking fund payment, when due, in respect of any debt security of that series;
- (4) our failure to perform any other of our covenants in the indenture, other than a covenant included in the indenture solely for the benefit of other series of debt securities, continued for 90 days after written notice as provided in the indenture;
- (5) certain events involving bankruptcy, insolvency or reorganization; and
- (6) any other event of default provided with respect to debt securities of that series. (Section 501)

If an event of default with respect to outstanding debt securities of any series shall occur and be continuing, either the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of that series may declare the principal amount (or, if the debt securities of that series are original issue discount securities, the portion of the principal amount as may be specified in the terms of that series) of all the debt securities of that series to be due and payable immediately. At any time after a declaration of acceleration with respect to debt securities of any series has been made, but before a judgment or decree based on acceleration has been obtained, the holders of a majority in principal amount of the outstanding debt securities of that series may, under some circumstances, rescind and annul the acceleration. (Section 502) For information as to waiver of defaults, see the section below entitled **Modification and Waiver** .

A prospectus supplement relating to each series of debt securities which are original issue discount securities will describe the

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particular provisions relating to acceleration of the maturity of a portion of the principal amount of such original issue discount securities upon the occurrence of an event of default and its continuation.

During default, the trustee has a duty to act with the required standard of care. Otherwise, the indenture provides that the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders, unless the holders shall have offered to the trustee reasonable indemnity. (Section 603) If the provisions for indemnification of the trustee have been satisfied, the holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of that series. (Section 512)

We will furnish to the trustee annually a certificate as to our compliance with all conditions and covenants under the indenture. (Section 1007)

**Defeasance**

The prospectus supplement will state if any defeasance provision will apply to the debt securities. Defeasance refers to the discharge of some or all of our obligations under the indenture.

***Defeasance and Discharge***

We will be discharged from any and all obligations in respect of the debt securities of any series if we deposit with the trustee, in trust, money and/or U.S. government securities which through the payment of interest and principal will provide money in an amount sufficient to pay the principal of and premium, if any, and each installment of interest on the debt securities of the series on the dates those payments are due and payable.

If we defease a series of debt securities, the holders of the debt securities of the series will not be entitled to the benefits of the indenture, except for

the rights of holders to receive from the trust funds payment of principal, premium and interest on the debt securities,

our obligation to register the transfer or exchange of debt securities of the series,

our obligation to replace stolen, lost or mutilated debt securities of the series,

our obligation to maintain paying agencies,

our obligation to hold monies for payment in trust and

the rights of holders to benefit, as applicable, from the rights, powers, trusts, duties and immunities of the trustee.

We may defease a series of debt securities only if, among other things:

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we have received from, or there has been published by, the Internal Revenue Service a ruling to the effect that holders of the debt securities of the series will not recognize income, gain or loss for federal income tax purposes as a result of the deposit, defeasance and discharge and will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if the deposit, defeasance and discharge had not occurred, and

we have delivered to the trustee an opinion of counsel, who may be our employee or counsel, to the effect that the debt securities of the series, if then listed on the New York Stock Exchange, will not be delisted as a result of the deposit, defeasance and discharge. (Section 403)

***Defeasance of Covenants and Events of Default***

We may omit to comply with the covenants described above under Restrictions on Secured Debt (Section 1004) and Restrictions on Sales and Leasebacks (Section 1005), and the failure to comply with these covenants will not be deemed an event of default (Section 501(4)), if we deposit with the trustee, in trust, money and/or U.S. government securities which through the payment of interest and principal will provide money in an amount sufficient to pay the principal of and premium, if any, and each installment of interest on the debt securities of the series on the dates those payments are due and payable. Our obligations under the indenture and the debt securities of the series will remain in full force and effect, other than with respect to the defeased covenants and related events of default.

We may defease the covenants and the related events of default described above only if, among other things, we have delivered to the trustee an opinion of counsel, who may be our employee or counsel, to the effect that

the holders of the debt securities of the series will not recognize income, gain or loss for federal income tax purposes as a result of the deposit and defeasance of the covenants and events of default, and the holders of the debt securities of the series will be subject to federal income tax on the same amount and in the same manner and at the same times as would have been the case if the deposit and defeasance had not occurred, and

the debt securities of the series, if then listed on the New York Stock Exchange, will not be delisted as a result of the deposit and defeasance. (Section 1006)

If we choose covenant defeasance with respect to the debt securities of any series as described above and the debt securities of the series are declared due and payable because of the occurrence of any event of default other than the event of default described in clause (4) under Events of Default , the amount of money and U.S. government securities on deposit with the trustee will be sufficient to pay amounts due on the debt securities of the series at the time of their stated maturity. The amount on deposit with the trustee may not be sufficient to pay amounts due on the debt securities of the series at the time of the acceleration resulting from the event of default. However, we will remain liable for these payments.



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**Modification and Waiver**

Procter & Gamble and the trustee may make modifications of and amendments to the indenture if the holders of at least 66 2/3% in principal amount of the outstanding debt securities of each series affected by the modification or amendment consent to the modification or amendment.

However, the consent of the holder of each debt security affected will be required for any modification or amendment that

changes the stated maturity of the principal of, or any installment of principal of or interest on, any debt security,

reduces the principal amount of, or the premium, if any, or interest, if any, on, any debt security,

reduces the amount of principal of an original issue discount security payable upon acceleration of the maturity of the security,

changes the place or currency of payment of principal of, or premium, if any, or interest, if any, on, any debt security,

impairs the right to institute suit for the enforcement of any payment on any debt security, or

reduces the percentage in principal amount of debt securities of any series necessary to modify or amend the indenture or to waive compliance with various provisions of the indenture or to waive various defaults.

(Section 902)

Without the consent of any holder of debt securities, we and the trustee may make modifications or amendments to the indenture in order to

evidence the succession of another person to us and the assumption by that person of the covenants in the indenture,

add to the covenants for the benefit of the holders,

add additional events of default,

permit or facilitate the issuance of securities in bearer form or uncertificated form,

add to, change, or eliminate any provision of the indenture in respect of a series of debt securities to be created in the future,

secure the securities as required by Restrictions on Secured Debt,

establish the form or terms of securities of any series,

evidence the appointment of a successor trustee, or

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cure any ambiguity, correct or supplement any provision which may be inconsistent with another provision, or make any other provision, provided that any action may not adversely affect the interests of holders of debt securities in any material respect.

The holders of at least 66 2/3% in principal amount of the outstanding debt securities of any series may on behalf of the holders of all debt securities of that series waive compliance by us with various restrictive provisions of the indenture. (Section 1008)

The holders of a majority in principal amount of the outstanding debt securities of any series may on behalf of the holders of all debt securities of that series waive any past default with respect to that series, except

a default in the payment of the principal of or premium, if any, or interest on any debt security of that series, or

a default in respect of a provision which under the indenture cannot be modified or amended without the consent of the holder of each outstanding debt security of that series that would be affected. (Section 513)

**Consolidation, Merger and Sale of Assets**

If the conditions below are met, we may, without the consent of any holders of outstanding debt securities:

consolidate or merge with or into another entity, or

transfer or lease our assets as an entirety to another entity.

We have agreed that we will engage in a consolidation, merger or transfer or lease of assets as an entirety only if

the entity formed by the consolidation or into which we are merged or which acquires or leases our assets is a corporation, partnership or trust organized and existing under the laws of any United States jurisdiction and assumes our obligations on the debt securities and under the indenture,

after giving effect to the transaction no event of default would have happened and be continuing, and

various other conditions are met. (Article Eight)

**Regarding the Trustee**

J.P. Morgan Trust Company, National Association, successor in interest to Bank One Trust Company, National Association, is the trustee under the indenture. J.P. Morgan Trust Company is also a depository of Procter & Gamble and has performed other services for us and our subsidiaries in the normal course of its business.

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**Description of Warrants**

This section describes the general terms and provisions of the warrants to which any prospectus supplement may relate. The particular terms of the warrants offered by any prospectus supplement and the extent, if any, to which the general provisions may apply to the warrants so offered will be described in the prospectus supplement relating to the offered warrants.

We may issue the following types of warrants:

warrants for the purchase of debt securities,

warrants to buy or sell government debt securities, which are debt securities of or guaranteed by the United States,

warrants to buy or sell foreign currencies, currency units or units of a currency index or currency basket,

warrants to buy or sell units of a stock index or stock basket and

warrants to buy and sell a commodity or a commodity index.

We may issue warrants independently or together with any debt securities offered by any prospectus supplement. Warrants may be attached to or separate from any debt securities. The warrants will be settled either through physical delivery or through payment of a cash settlement value as described below and in any applicable prospectus supplement.

Warrants will be issued under a warrant agreement to be entered into between Procter & Gamble and a bank or trust company, as warrant agent, all as described in the prospectus supplement relating to the particular issue of warrants. The warrant agent will act solely as our agent in connection with the warrant certificates and will not assume any obligation or relationship of agency or trust for or with any holders of warrant certificates or beneficial owners of warrants.

We have filed a copy of the form of warrant agreement, including the form of warrant certificate, as an exhibit to the registration statement of which this prospectus forms a part. The following summaries of various provisions of the form of warrant agreement are not complete. You should read the form of warrant agreement for a more complete understanding of the provisions described in this section. The warrant agreement itself, not this description or the description in the prospectus supplement, defines your rights as a holder of warrants.

**Terms**

The prospectus supplement will describe the following terms of the offered warrants:

the offering price;

the currency, currency unit, currency index or currency basket based on or relating to currencies for which warrants may be purchased;

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the date on which the right to exercise the warrants commences and the date on which the right expires;

whether the warrant certificates will be issuable in definitive registered form or global form or both;

federal income tax consequences;

whether the warrant is for debt securities, government debt securities, currencies, currency units, currency indices or currency baskets, stock indices, stock baskets, commodities, commodity indices or another index or reference as described in the prospectus supplement; and

any other terms of the warrants, including any terms which may be required or advisable under United States laws or regulations.

**Warrants to Purchase Debt Securities**

If the offered warrants are to purchase debt securities, the prospectus supplement will also describe

the designation, total principal amount, currency, currency unit or currency basket of denomination and other terms of the debt securities purchasable upon exercise of the offered warrants;

the designation and terms of the debt securities with which the offered warrants are issued and the number of offered warrants issued with each debt security;

the date on and after which the offered warrants and the related debt securities will be separately transferable; and

the principal amount of debt securities purchasable upon exercise of one offered warrant and the price at which and currency, currency unit or currency basket in which such principal amount of debt securities may be purchased upon exercise.

**Warrants to Buy or Sell Government Debt Securities or Foreign Currencies**

If the offered warrants are to buy or sell government debt securities or a foreign currency, currency unit, currency index or currency basket, the offered warrants will be listed on a national securities exchange and the prospectus supplement will describe

the amount and designation of the government debt securities or currency, currency unit, currency index or currency basket, as the case may be, subject to each offered warrant,

whether the offered warrants provide for cash settlement or delivery of the government debt securities or foreign currency, currency unit, units of the currency index or currency basket upon exercise, and

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the national securities exchange on which the offered warrants will be listed.

**Warrants on a Stock Index or a Stock Basket**

If the offered warrants are warrants on a stock index or a stock basket, the offered warrants will provide for payment of an amount in cash determined by reference to increases or decreases in the stock index or stock basket and will be listed on a national securities exchange, and the prospectus supplement will describe

the terms of the offered warrants,

the stock index or stock basket covered by the offered warrants and the market to which the stock index or stock basket relates, and

the national securities exchange on which the offered warrants will be listed.

**Warrants on a Commodity or Commodity Index**

If the offered