

PROCTER & GAMBLE CO
Form PRE 14A
July 27, 2006

**SCHEDULE 14A
(RULE 14a-101)**

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES

EXCHANGE ACT OF 1934

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 Section 240.14a-11c or Section 240.14a-12

The Procter & Gamble Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement)

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 transaction applies:

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(3) Per unit price or other underlying value of 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):

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

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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 10, 2006

THE PROCTER & GAMBLE COMPANY

P.O. Box 599

Cincinnati, Ohio 45201-0599

August 29, 2006

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 10, 2006.

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 the Company and look forward to seeing you on October 10.

Sincerely,

A. G. LAFLEY
CHAIRMAN OF THE BOARD, PRESIDENT AND
CHIEF EXECUTIVE

THE PROCTER & GAMBLE COMPANY

P.O. Box 599
Cincinnati, Ohio 45201-0599

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

August 29, 2006

Date: Tuesday, October 10, 2006
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 2005 annual meeting of shareholders;
- To receive reports of officers;
- To vote on a proposal to amend the Company's Code of Regulations to decrease the authorized number of Directors on the Board;
- To elect five 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 reapprove and amend the material terms of the performance goals under The Procter & Gamble 2001 Stock and Incentive Compensation Plan;
- To vote on one shareholder proposal; and
- To consider any other matters properly brought before the meeting.

Who may attend the meeting:

Only shareholders, persons holding proxies from shareholders, and 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:

If your shares are registered in your name, you should bring the enclosed Admission Ticket to the meeting.

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.

Webcast of the annual meeting:

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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 <http://www.pg.com/investors> at 9:00 a.m., Eastern Daylight Time on October 10, 2006. Greater Cincinnati residents can also watch on Time Warner cable channel _____ or Insight cable channel _____.

Record Date:

August 11, 2006 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.

Annual Report:

We have sent a copy of the annual report for the fiscal year that ended June 30, 2006 to each shareholder of record as of August 11, 2006 (except that only one annual report was sent to certain shareholders who share an address unless we have received contrary instructions from one or more of the shareholders). The annual report is not part of the proxy solicitation materials.

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 do not participate in electronic delivery of proxy materials will receive only one copy of our annual report and proxy statement unless one or more of these shareholders notifies us that they wish to continue receiving multiple copies. This procedure will reduce our printing costs and postage fees. If you are still receiving multiple copies of our annual report or proxy statement at a single address and wish to receive a single copy, please contact us 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.

Shareholders who participate in householding will continue to receive separate proxy cards. Householding will not in any way affect the mailing of dividend checks.

If you participate in householding and wish to receive a separate copy of the 2006 annual report or proxy statement, or if you do not wish to participate in householding and prefer to receive separate copies of future materials, 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.

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

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 using the enclosed proxy card. Please see your proxy card for specific instructions on how to vote.

Our proxy tabulator, Automatic Data Processing, 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 9, 2006.

By order of the Board of Directors,

JAMES J. JOHNSON
Secretary

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Proxy Statement

This proxy statement and the accompanying proxy card are being mailed to Procter & Gamble shareholders beginning August 29, 2006. The Procter & Gamble Company (the Company), on behalf of its Board of Directors, is soliciting your proxy to vote your shares at the 2006 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 11, 2006, 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 the Company stock gets one vote. On August 11, 2006, there were issued and outstanding:

_____ shares of common stock;

_____ shares of Series A ESOP Convertible Class A Preferred Stock; and

_____ 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 (SIP), you can vote shares of common stock held for your account through the SIP Custodian.

For participants in The Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan, the Procter & Gamble International Stock Ownership Plan, and the Gillette Employee Stock Ownership Plan:

If you are a participant in one of these plans, you can instruct the applicable trustee how to vote the shares of stock that are allocated to your account. If you do not vote your shares, the applicable trustee will vote them in proportion to those shares for which they have received voting instructions. The trustees of the Procter & Gamble Profit Sharing Trust and Employee Stock Ownership Plan 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:

By Internet You can vote by Internet by following the instructions on your proxy card;

By Telephone In the United States and Canada you can vote by telephone by following the instructions on your proxy card; or

By Mail You can vote by mail by returning the enclosed proxy card.

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

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.

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

Yes. However, we encourage you to complete and return the enclosed proxy card to ensure that your shares are represented and voted.

Voting Procedures

Election of Directors The five 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, as amended on June 13, 2006, 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 Securities and Exchange Commission.

Proposals The affirmative vote of a majority of shares participating in the voting on each proposal (except for the Board's proposal dealing with amending the Company's Code of Regulations) is required for adoption. Abstentions and broker non-votes will not be counted as participating in the voting, and will therefore have no effect.

Passage of the Board's proposal to amend the Company's Code of Regulations 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 these proposals.

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, telegraph, or through on-line 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.

Election of Directors

Prior to the 2005 annual meeting of shareholders, the Board of Directors was divided into three classes. The classes were as equal in number as was possible depending on the total number of Directors at any time. Each Director served for a term of three years. The classes were arranged so that the terms of the Directors in each class expired at successive annual meetings. This meant that the shareholders elected approximately one-third of the members of the Board of Directors annually. At the 2005 annual meeting of shareholders, the Company's shareholders approved a proposal to amend the Company's Code of Regulations to provide for the annual election of Directors. As a transition mechanism, this amendment provided that Directors serving on the date of the 2005 annual meeting of shareholders, including those elected at that meeting to serve a three year term, would serve the remainder of their elected terms. Starting with the 2006 annual meeting of shareholders, as the term of each remaining class expires, the Directors in that class, along with those Directors whose terms have expired since the 2005 annual meeting of shareholders, will be elected annually. All Directors will be elected annually starting with the 2008 annual meeting of shareholders, when the three year term of those Directors elected at the 2005 annual meeting of shareholders expires.

The terms of Norman R. Augustine, A. G. Lafley, Johnathan A. Rodgers, John F. Smith, Jr. and Margaret C. Whitman will expire at the 2006 annual meeting. The Board intends to nominate each of these individuals for new terms that will expire at the 2007 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. If the Company's proposal to amend its Code of Regulations to decrease the authorized number of Directors (see page of this proxy statement) is not approved by shareholders at the annual meeting, the Board will take such action as it determines to be appropriate, including permitting one or more vacancies to exist. Any vacancies, whether resulting from non-passage of the Company's proposal or any other reason, may be filled by the Board under the Company's Code of Regulations. The Board expects to fill any such vacancies once it has identified appropriate candidates.

The Board of Directors recommends a vote FOR Norman R. Augustine, A. G. Lafley, Johnathan A. Rodgers, John F. Smith, Jr. and Margaret C. Whitman as Directors to hold office until the 2007 annual meeting of shareholders and until their successors are elected.

Nominees for Election as Directors with Terms Expiring in 2007

Norman R. Augustine

Director since 1989

Mr. Augustine is retired Chairman and Chief Executive Officer of Lockheed Martin Corporation (aerospace, electronics, telecommunications and information management). He is also a Director of The Black & Decker Corporation and ConocoPhillips. Age 71.

Chairman of the Compensation & Leadership Development Committee and member of the Innovation & Technology Committee.

A. G. Lafley Director since 2000
Mr. Lafley is Chairman of the Board, President and Chief Executive of the Company. He is also a Director of General Electric Company and Dell Inc. Age 59.

Johnathan A. Rodgers Director since 2001
Mr. Rodgers is President and Chief Executive Officer of TV One, LLC (media and communications). Age 60.
Member of the Innovation & Technology Committee.

John F. Smith, Jr. Director since 1995
Mr. Smith is Chairman of the Board of Delta Air Lines, Inc. and retired Chairman of the Board and Chief Executive Officer of General Motors Corporation (automobiles and related businesses). He is also a Director of Delta Air Lines, Inc. and Swiss Reinsurance Company. Age 68.
Chairman of the Audit Committee and member of the Governance & Public Responsibility Committee.

Margaret C. Whitman Director since 2003
Ms. Whitman is President and Chief Executive Officer of eBay Inc. (a global on-line marketplace for the sale of goods and services). She is also a Director of eBay Inc. and Dreamworks Animation SKJ, Inc. Age 50.
Member of the Compensation & Leadership Development and Governance & Public Responsibility Committees.

All of the nominees for election as Directors with terms expiring in 2007, except Mr. Rodgers, have been executive officers of their respective employers, and/or retired from such positions, for more than the past five years. Prior to his appointment as President and Chief Executive Officer of TV One, Mr. Rodgers was President of Discovery Networks, U.S. from 1996 until 2002.

Each of the Directors with terms expiring in 2006 was elected by the shareholders at the annual meeting in 2003.

Incumbent Directors with Terms Expiring in 2007

Joseph T. Gorman

Director since 1993

Mr. Gorman is retired Chairman and Chief Executive Officer of TRW Inc. (automotive, aerospace and information systems) and Chairman and Chief Executive Officer of Moxahela Enterprises, LLC (venture capital). He is also a Director of Alcoa Inc., Imperial Chemical Industries plc., Tonsburg Magnesium Group International AB and Vector Intersect Security Acquisition Corporation. Age 68.
Chairman of the Finance 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 66.
Member of the Finance and Governance & Public Responsibility Committees.

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 Axonyx Inc. and Cardiome Pharma Corporation. Age 66.
Chairman of the Innovation & Technology Committee and member of the Audit and Finance Committees.

All of the Directors with terms expiring in 2007, except Ms. Martin, have been executive officers of their respective employers, and/or retired from such positions, for more than the past five years. Ms. Martin was a Professor at Northwestern University from 1993 until 1999.

Each of the Directors with terms expiring in 2007 was elected by the shareholders at the annual meeting in 2004.

Incumbent Directors with Terms Expiring in 2008

Bruce L. Byrnes

Director since 2002

Mr. Byrnes is Vice Chairman of the Board P&G Household Care of the Company. He is also a Director of Cincinnati Bell Inc. Age 58.

Scott D. Cook

Director since 2000

Mr. Cook is Chairman of the Executive Committee of the Board of Intuit Inc. (a software and web services firm). He is also a Director of Intuit Inc. and eBay Inc. Age 54.

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

Charles R. Lee

Director since 1994

Mr. Lee is retired Chairman of the Board and Co-Chief Executive Officer of Verizon Communications (telecommunication services). He is also a Director of The DIRECTV Group, Inc., Marathon Oil Corporation, United Technologies Corporation and US Steel Corporation. Age 66.

Chairman of the Governance & Public Responsibility Committee and member of the Audit and Compensation & Leadership Development Committees.

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). He is also a Director of The Boeing Company. Age 57.

Member of the Audit and Finance Committees.

Ernesto Zedillo

Director since 2001

Dr. Zedillo is the former President of Mexico and 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. Age 54.

Member of the Finance and Governance & Public Responsibility Committees.

All of the Directors with terms expiring in 2008, except Mr. McNerney and Dr. Zedillo, have been executive officers of their respective employers, and/or retired from such positions, for more than the past five years. 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 and President and Chief Executive Officer of General Electric Aircraft Engines from 1997 until 2000. Dr. Zedillo was President of Mexico from 1994 until 2000.

Each of the Directors with terms expiring in 2008 was elected by the shareholders at the annual meeting in 2005.

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 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 shareholders. Although the Board of Directors does not have responsibility for the day-to-day management of the Company, it stays informed about the 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 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.

Committees of the Board

To facilitate deeper penetration of certain key areas of oversight, the Board of Directors has established five Committees. Membership on these Committees is shown in the following Chart.

Audit	Compensation & Leadership Development	Governance & Public Responsibility
Mr. Lee Mr. McNerney Mr. Smith* Dr. Snyderman	Mr. Augustine* Mr. Cook Mr. Gorman Mr. Lee Ms. Whitman	Mr. Lee* Ms. Martin Mr. Smith Ms. Whitman Dr. Zedillo
Finance	Innovation & Technology	
Mr. Gorman* Ms. Martin Mr. McNerney Dr. Snyderman Dr. Zedillo	Mr. Augustine Mr. Cook Mr. Rodgers Dr. Snyderman*	

* Committee Chair

The **Audit Committee** met eight times during the fiscal year ended June 30, 2006, with representatives of Deloitte & Touche LLP, the Company's independent registered public accounting firm, and financial management to review accounting, control, auditing and financial reporting matters. All members of the Committee are independent under the New York Stock Exchange 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 and are attached to this proxy statement as Exhibit A). 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 profile; 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 Audit Committee Report 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, and is attached as Exhibit B.

The **Compensation & Leadership Development Committee** met five times during the fiscal year ended June 30, 2006. All members of the Committee are independent under the New York Stock Exchange listing standards and the Independence Guidelines. The Compensation & Leadership Development Committee has the responsibilities set forth in its charter with respect to overseeing overall Company compensation policies and their specific application to principal officers elected by the Board of Directors and to members of the Board of Directors; preparing an annual report on executive compensation for inclusion in the Company's proxy statement; and assisting the Board in the development and evaluation of principal officers. 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.

The **Governance & Public Responsibility Committee** met six times during the fiscal year ended June 30, 2006. All members of the Governance & Public Responsibility Committee are independent under the New York Stock Exchange 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; 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.

The **Finance Committee** met three times during the fiscal year ended June 30, 2006. The Finance Committee has the responsibilities set forth in its charter with respect to overseeing financial matters of importance to the Company. Topics considered by this Committee include the Company's annual financing plans; global financing principles and objectives; financial strategies and capital structures; funding and oversight of the Company's pension and benefit plans; the Company's insurance program; the financial implications of major investments, restructurings, joint ventures, acquisitions and divestitures; and the impact of various finance activities on debt ratings. The Finance Committee's charter can be found in the corporate governance section of the Company's website at www.pg.com/investors.

The **Innovation & Technology Committee** met two times during the fiscal year ended June 30, 2006. 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 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.

The Company's **Committee Charter Appendix**, which applies to all committees, can be found in the corporate governance section of the Company's website at www.pg.com/investors.

Board and Committee Meeting Attendance

During the fiscal year ended June 30, 2006, the Board of Directors held eight meetings and the Committees of the Board of Directors held 24 meetings for a total of 32 meetings. Average attendance at these meetings by nominees and incumbents serving as Directors during the past year was in excess of 93%.

Corporate Governance Guidelines

The Board of Directors has adopted Corporate Governance Guidelines to set forth its agreements concerning overall governance practices. These Guidelines can be found in the corporate governance section of the Company's website at www.pg.com/investors. Shareholders can request a copy of the Corporate Governance Guidelines by writing to the Company Secretary at One Procter & Gamble Plaza, Cincinnati, OH 45202-3315.

Director Independence

In addition to the Corporate Governance Guidelines, the Board has adopted the Independence Guidelines, which can be found in the corporate governance section of the Company's website at www.pg.com/investors, and are attached to this proxy statement as Exhibit A. The Board of Directors has determined that the following Directors are independent under the New York Stock Exchange listing standards and the Independence Guidelines: Norman R. Augustine, Scott D. Cook, Joseph T. Gorman, Charles R. Lee, Lynn M. Martin, W. James McNerney, Jr., John F. Smith, Jr., Ralph Snyderman, Margaret C. Whitman and Ernesto Zedillo.

Code of Ethics

For a number of years, the Company has had, in one form or another, a code of ethics for its employees. During the fiscal year ended June 30, 2004, the Company adopted a revised version of its code of ethics to comply with new SEC regulations and New York Stock Exchange listing standards. This code of ethics 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. The *Worldwide Business Conduct Manual* is firmly rooted in the Company's long-standing Purpose, Values and Principles, which can also be found on the Company's website at www.pg.com. During the fiscal year ended June 30, 2006, the Company continued its broad deployment of the *Worldwide Business Conduct Manual* in 29 different languages, including on-line training.

Presiding Director and Executive Sessions

After consultation with the Governance & Public Responsibility Committee, the non-employee members of the Board of Directors appointed Norman R. Augustine to serve as the Presiding Director for fiscal year 2006-07. Mr. Augustine also served as Presiding Director during fiscal years 2004-05 and 2005-06. The Presiding Director acts as the key liaison with the Chief Executive, assists in setting the Board agenda, chairs the executive sessions and communicates the Board of Directors' feedback to the Chief Executive. The non-employee Directors met three times during the year in executive session without the presence of management Directors or employees of the Company to discuss various matters related to oversight of the Company, the management of Board affairs and the Chief Executive's performance.

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.

Shareholder Recommendations of Board Nominees

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

Chairman of the Governance & Public Responsibility Committee
The Procter & Gamble Company
c/o Secretary
One Procter & Gamble Plaza
Cincinnati, OH 45202-3315

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, 2006, no such engagement existed (and none currently exists) and no funds were paid to outside parties in connection with identification of nominees. All nominees for election as Directors currently serve on the Board and are known to the Committee in that capacity.

Annual Meeting Attendance

The Board's expectation is that all its members attend the annual meeting of shareholders. All Directors attended the 2005 annual meeting, except for Robert D. Storey.

Director Compensation

Directors who are Company employees do not receive Directors' fees.

Our objective is to provide non-employee Directors a compensation package at the median of our peer group (the Compensation Survey Group) as further described on page of this proxy statement. In fiscal year 2005-06 non-employee Directors received the following compensation:

An annual grant of restricted stock units on October 11, 2005, the value of which the Committee increased from \$100,000 to \$125,000. This positions the Director Compensation package at the median of the Compensation Survey Group (as defined on page of this proxy statement) and achieves a mix of stock and cash consistent with that group. These units are forfeitable for one year, will not convert to common stock until at least one year after leaving the Board and cannot be sold or traded until converted to common stock, thus encouraging alignment with the Company's long-term interests. Restricted stock units earn dividend equivalents at the same rate as dividends paid to shareholders;

An annual retainer fee of \$75,000 paid in quarterly increments, which the Directors can elect to receive as cash, common stock or deferred compensation;

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A Committee meeting fee of \$2,000 for every Committee meeting attended, which the Directors can elect to receive as cash, common stock or deferred compensation; and

The Chairman of the Audit Committee also received an additional \$15,000 annual retainer. The Chairmen of the Compensation & Leadership Development, Finance, Governance & Public Responsibility and Innovation & Technology Committees each received an additional \$10,000 annual retainer. These Chairmen can elect to receive these additional retainers as cash, common stock or deferred compensation.

Stock and restricted stock unit awards made to non-employee Directors are made under The Procter & Gamble 2003 Non-Employee Directors Stock Plan, as approved by shareholders on October 14, 2003.

The following table presents the compensation provided by the Company to the non-employee Directors for fiscal year 2005-06.

NON-EMPLOYEE DIRECTOR COMPENSATION TABLE

Name	Annual Cash Retainer	Restricted Stock Units	Committee Meeting Fees	Committee Chairman Fee	Total
Norman R. Augustine	\$75,000	\$125,000	\$14,000	\$10,000	\$224,000
Scott D. Cook	75,000	125,000	14,000	0	214,000
Joseph T. Gorman	75,000	125,000	16,000	10,000	226,000
Charles R. Lee	75,000	125,000	38,000	2,500*	240,500
Lynn M. Martin	75,000	125,000	14,000	0	214,000
W. James McNerney, Jr.	75,000	125,000	18,000	0	218,000
Johnathan A. Rodgers	75,000	125,000	2,000	0	202,000
John F. Smith, Jr.	75,000	125,000	28,000	15,000	243,000
Ralph Snyderman	75,000	125,000	20,000	10,000	230,000
Robert D. Storey**	75,000	125,000	12,000	10,000	222,000
Margaret C. Whitman	75,000	125,000	20,000	0	220,000
Ernesto Zedillo	75,000	125,000	18,000	0	218,000

* Partial year as committee chair

** Mr. Storey retired as a Director on May 1, 2006.

Non-employee Directors also receive life insurance coverage in the amount of \$750,000, payable in the event of accidental death or disability occurring while traveling on Company business.

If a non-employee Director elects to defer cash fees under The Procter & Gamble Deferred Compensation Plan for Directors, such fees are credited to the Director's account but not funded. Interest is credited to the account at the end of each month at the prime rate then in effect at J. P. Morgan Chase. Amounts credited to these deferred compensation accounts are payable upon the retirement or death of the Director, or after a term of years after retirement as specified by the Director.

Stock Ownership Guidelines for Non-employee Directors

Non-employee Directors must own Company stock (and/or restricted stock units) worth six times their annual cash retainer. All Directors have already achieved this ownership requirement.

Charitable Gifts Program

Effective July 1, 2003, the Charitable Gifts Program was discontinued for any new Directors. Only those current and retired Directors who were participants prior to July 1, 2003 continue in this program, which is funded by life insurance on the lives of the non-employee members of the Board of Directors and the Chief Executive. Participants receive no financial benefit from the program because the Company receives all insurance proceeds and charitable deductions. Under this program, the Company makes charitable contributions of up to a total of \$1 million following the death of a participant. These contributions are divided among up to five charitable organizations selected by the participant. The following current and retired Directors are participants in this program: David M. Abshire, Edwin L. Artzt, Norman R. Augustine, Donald R. Beall, Theodore F. Brophy, Richard B. Cheney, Scott D. Cook, Domenico DeSole, Richard J. Ferris, Joseph T. Gorman, Robert A. Hanson, Durk I. Jager, A. G. Lafley, Joshua Lederberg, Charles R. Lee, Lynn M. Martin, W. James McNerney, Jr., John E. Pepper, David M. Roderick, Johnathan A. Rodgers, John G. Smale, John F. Smith, Jr., Ralph Snyderman, Robert D. Storey, Margaret C. Whitman, Marina v.N. Whitman and Ernesto Zedillo.

Report of the Compensation & Leadership Development Committee of the Board of Directors on Executive Compensation

Introduction

The Compensation & Leadership Development Committee of the Board of Directors (the Committee) is responsible for ensuring that the Company's executive compensation policies, practices and systems are competitive and reflect the long-term interests of shareholders. None of its members have been an officer or recent employee of the Company, and each is considered independent for purposes of applicable New York Stock Exchange listing standards as well as the Independence Guidelines. You can learn more about the Committee's purpose, responsibilities, structure and other details by reading the Committee's charter and the Company's Committee Charter Appendix, which can both be found in the corporate governance section of the Company's website at www.pg.com/investors.

The Committee is also responsible for reporting on the Company's executive compensation each year, as part of the annual proxy statement. The Committee utilized market-based data and a pay-for-performance approach to determine executive compensation. This Report explains:

The Company's total compensation philosophy;

Key components of executive compensation, including the Chief Executive's compensation;

The factors the Committee considered as compensation levels were established; and

Details regarding stock ownership, share retention requirements and deductibility of qualifying compensation.

Summary

The Company's executive compensation is based on a few simple principles:

Pay competitively;

Pay for performance; and

Design compensation programs that support the business with emphasis on the longer term.

These principles have served the Company well, and have enabled the Company to deliver strong shareholder value increases over time. Additionally, these principles have assisted the

Company in developing and retaining extraordinary executive talent at a level matched by few other major corporations.

At the executive level, the vast majority of compensation is at risk, vests over time, and is tied directly to the Company's long-term success. Company executives are compensated at levels competitive with individuals performing similar jobs in comparable companies and achieving similar results. This conclusion is based on the Committee's evaluation of comprehensive surveys by Hewitt Associates, which is an independent outside compensation consulting firm retained by the Company, and on the opinion of Frederic W. Cook & Co., an independent compensation advisory firm that is retained by and reports exclusively to the Committee and does no other work with the Company or its management.

The Committee compares the Company's pay structure and its business, financial and stock price performance to a benchmark group (the Compensation Survey Group) that consists of two kinds of companies—those we compete with in the marketplace and those outside our industry with whom we compete for talent. The group consists of 25 companies. The Committee periodically evaluates the Compensation Survey Group's composition to ensure it remains relevant, and updates it accordingly. Considering that the acquisition of Gillette substantially increased the size of the Company, the Committee reevaluated the appropriateness of each company in the peer group. To better align the peer group to the Company's increased size, the Committee replaced five of the relatively smaller companies (a group with median sales of \$17.4 billion), with five larger companies (a group with median sales of \$73.1 billion). For this past fiscal year the Compensation Survey Group consists