GILLETTE CO
Form 10-Q
November 04, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15 (d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended September 30, 2003 — Commission File Number 1-922

THE GILLETTE COMPANY
(Exact name of registrant as specified in its charter)

Incorporated in Delaware	04-1366970
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

Prudential Tower Building, Boston, Massachusetts	02199
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (617) 421-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No______

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes X No______

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Title of each class

Common Stock, $1.00 par value

Shares Outstanding October 31, 2003 1,011,720,627

PART I. FINANCIAL INFORMATION
THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME
(Millions, except per share amounts)
(Unaudited)

	Three Months Ended September 2003	Three Months Ended September 2002	Nine Months Ende September 30 2003	Nine Months Ende September 30 200
Net Sales	$ 2,405	$ 2,168	$ 6,630	$ 5,92
Cost of Sales	935	882	2,583	2,37
Gross Profit	1,470	1,286	4,047	3,55
Selling, General and Administrative Expenses	866	764	2,558	2,28
Restructuring - Gain on Sale of Vaniqa	-	-	-	(3
Profit from Operations	604	522	1,489	1,29
Nonoperating Charges (Income):				
Interest income	(2)	(7)	(8)	(1
Interest expense	13	21	43	6
Exchange	(7)	(9)	(2)	(1
Other charges - net	7	4	4	
	11	9	37	3
Income before Income Taxes	593	513	1,452	1,26
Income Taxes	177	159	435	39
Net Income	$ 416	$ 354	$ 1,017	$ 87
Net Income per Common Share:				
Basic	$ .41	$ .33	$ .99	$ .8
Assuming Full Dilution	$ .41	$ .33	$ .99	$ .8
Dividends per Common Share:				
Declared	$ -	$ -	$ .3250	$ .325
Paid	$.1625	$ .1625	$ .4875	$ .487
Weighted average number of common shares outstanding				
Basic	1,017	1,058	1,025	1,05
Assuming full dilution	1,019	1,060	1,027	1,06

See Accompanying Notes to Consolidated Financial Statements.

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THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET
ASSETS
(Millions)

	September 30, 2003 (Unaudited)	December 31, 2002	September 2002 (Unaudite
Current Assets:			
Cash and cash equivalents	$ 845	$ 801	$ 981
Trade receivables, less allowances, Sept. 2003, $61; December 2002, $73; Sept. 2002, $61	1,249	1,202	1,220
Other receivables	350	311	282
Inventories			
Raw materials and supplies	115	115	113
Work in process	206	191	246
Finished goods	856	622	821
Total Inventories	1,177	928	1,180
Deferred income taxes	333	380	491
Other current assets	271	175	251
Total Current Assets	4,225	3,797	4,405
Property, Plant and Equipment, at cost	6,761	6,429	6,304
Less accumulated depreciation	(3,253)	(2,864)	(2,809)
Net Property, Plant and Equipment	3,508	3,565	3,495
Goodwill	996	962	952
Intangible Assets, less accumulated amortization	514	400	400
Other Assets	1,044	1,139	766
	$10,287	$ 9,863	$10,018

See Accompanying Notes to Consolidated Financial Statements.

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THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED BALANCE SHEET
LIABILITIES AND STOCKHOLDERS' EQUITY
(Millions, except per share amount)

	September 30, 2003 (Unaudited)	December 31, 2002	September 30 2002 (Unaudited)
Current Liabilities:			
Loans payable	$ 732	$ 673	$ 1,176
Current portion of long-term debt	432	527	755
Accounts payable	515	581	519
Accrued liabilities	1,793	1,303	1,238
Dividends payable	-	170	-
Income taxes	223	234	345

Total Current Liabilities	3,695	3,488	4,033
Long-Term Debt	2,715	2,457	1,852
Deferred Income Taxes	709	692	591
Other Long-Term Liabilities	898	920	713
Minority Interest	71	46	44
Contingent Redemption Value of Common Stock Put Options	-	-	241
Stockholders' Equity:			
Common stock, par value $1.00 per share: Authorized 2,320 shares Issued: Sept. 2003, 1,373 shares; Dec. 2002, 1,370 shares; Sept. 2002, 1,370 shares	1,373	1,370	1,370
Additional paid-in capital	1,243	1,197	931
Earnings reinvested in the business	7,292	6,608	6,604
Accumulated other comprehensive loss	(1,248)	(1,523)	(1,396)
Treasury stock, at cost: Sept. 2003, 361 shares; Dec. 2002, 326 shares; and Sept. 2002, 312 shares	(6,461)	(5,392)	(4,965)
Total Stockholders' Equity	2,199	2,260	2,544
	$ 10,287	$ 9,863	$ 10,018

See Accompanying Notes to Consolidated Financial Statements.

THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF CASH FLOWS
(Millions)
(Unaudited)

	Nine Months Ended September 30	
	2003	2002
Operating Activities		
Net income	$1,017	$ 870
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	430	371
Deferred income taxes	70	99
Other	3	12
Changes in assets and liabilities, excluding effects of acquisitions and divestitures:		
Trade and other accounts receivable	5	323
Inventories	(179)	(146)
Accounts payable and accrued liabilities	263	82
Other working capital items	(17)	(60)
Other noncurrent assets and liabilities	110	(131)
Net cash provided by operating activities	1,702	1,420

Investing Activities		
Additions to property, plant and equipment	(218)	(278)
Acquisition of business, net of cash acquired ..	(161)	-
Disposals of property, plant and equipment	28	31
Other	3	1
Net cash used in investing activities	(348)	(246)
Financing Activities		
Purchase of treasury stock	(1,069)	-
Proceeds from sale of put options	-	15
Proceeds from exercise of stock option and purchase plans	48	31
Proceeds from long-term debt	684	619
Repayment of long-term debt	(534)	(197)
Increase (Decrease) in loans payable	51	(1,061)
Dividends paid	(501)	(515)
Settlements of debt-related derivative contracts	6	(8)
Net cash used in financing activities	(1,315)	(1,116)
Effect of Exchange Rate Changes on Cash	5	2
Net Cash Used in Discontinued Operations	-	(26)
Increase in Cash and Cash Equivalents	44	34
Cash and Cash Equivalents at Beginning of Period ...	801	947
Cash and Cash Equivalents at End of Period	$ 845	$ 981
Supplemental disclosure of cash paid for:		
Interest	$ 45	$ 66
Income taxes	$ 359	$ 218

See Accompanying Notes to Consolidated Financial Statements.

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THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Millions)
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2003	2002	2003	2002
Net Income, as reported	$ 416	$ 354	$1,017	$ 870
Other Comprehensive Income, net of tax:				
Foreign Currency Translation	8	32	270	39
Cash Flow Hedges	1	-	5	2
Comprehensive Income	$ 425	$ 386	$1,292	$ 911

Accumulated Other Comprehensive Loss

The balances for the components of Accumulated Other Comprehensive Loss are:

	Foreign Currency Translation	Pension Adjustment	Cash Flow Hedges	Accumulated Other Comprehensive Loss
Balance December 31, 2001	$(1,373)	$ (56)	$ (8)	$(1,437)
Change in period	(46)	-	5	(41)
Income tax benefit (expense)	6	-	(2)	4
Balance March 31, 2002	(1,413)	(56)	(5)	(1,474)
Change in period	172	-	(2)	170
Income tax benefit (expense)	(125)	-	1	(124)
Balance June 30, 2002	$(1,366)	$ (56)	(6)	$(1,428)
Change in period	(37)	-	-	(37)
Income tax benefit (expense)	69	-	-	69
Balance September 30, 2002	$(1,334)	$ (56)	$ (6)	$(1,396)
Balance December 31, 2002	$(1,332)	$ (186)	$ (5)	$(1,523)
Change in period	2	-	3	5
Income tax benefit (expense)	89	-	(1)	88
Balance March 31, 2003	(1,241)	(186)	(3)	(1,430)
Change in period	185	-	3	188
Income tax benefit (expense)	(14)	-	(1)	(15)
Balance June 30, 2003	$(1,070)	(186)	(1)	(1,257)
Change in period	9	-	2	11
Income tax benefit (expense)	(1)	-	(1)	(2)
Balance September 30, 2003	$(1,062)	$ (186)	$ -	$(1,248)

The change in accumulated foreign currency translation adjustment for the quarters ended September 30, 2003, and 2002, were gains, net of tax, of $8 million and $32 million, respectively. The gains in both quarters were due to strengthening European currencies, offset by weakening Latin American currencies, versus the U.S. dollar.

See Accompanying Notes to Consolidated Financial Statements.

THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Accounting Comments

Reference is made to the registrant's 2002 Annual Report to Shareholders, which contains, at pages 32 through 54, the audited consolidated financial statements and the notes thereto, which are incorporated by reference into the registrant's

Annual Report on Form 10-K for the year ended December 31, 2002.

With respect to the financial information for the interim periods included in this report, which is unaudited, the management of the Company believes that all adjustments necessary for a fair presentation of the results for such interim periods have been included.

Financial statements of subsidiaries outside the U.S., other than those operating in highly inflationary environments, are measured using the local currency as the functional currency. Adjustments from translating these financial statements into U.S. dollars are accumulated in the equity section of the balance sheet under the caption, "Accumulated Other Comprehensive Loss."

For subsidiaries operating in highly inflationary economies, the U.S. dollar is the functional currency. Therefore, exchange gains and losses for these subsidiaries are included with all other transactional exchange gains and losses in the Consolidated Statement of Income under the caption, "Exchange."

The Company accounts for its stock option plans under Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Accordingly, no compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and net income per common share if the Company had applied the fair-value-based method under Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation," to record expense for stock option compensation.

(Millions, except per share amounts)	Three Months Ended Sept. 30, 2003	Three Months Ended Sept. 30, 2002	Nine Months Ended Sept. 30, 2003	Nine Months Ended Sept. 30, 2002
Net income, as reported	$ 416	$ 354	$1,017	$ 870
Less: Compensation expense for option awards determined by the fair-value-based method, net of related tax effects	(25)	(29)	(76)	(83)
Pro forma net income	$ 391	$ 325	$ 941	$ 787
Net income per common share				
Basic				
As reported	$ .41	$ .33	$ .99	$ .82
Pro forma	.38	.31	.92	.74
Assuming full dilution				
As reported	$ .41	$ .33	$ .99	$ .82
Pro forma	.38	.31	.92	.74

The fair value of each option grant for the Company's plans is estimated on the date of the grant using the Black-Scholes option pricing model.

(Unaudited)

Accounting Pronouncements

In April 2003, the Financial Accounting Standards Board (FASB) released Statement of Financial Accounting Standards (SFAS) No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative, amends the definition of an underlying contract, and clarifies when a derivative contains a financing component in order to increase the comparability of accounting practices under SFAS No. 133. The Statement is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designated after June 30, 2003. The adoption of SFAS No. 149 did not have a material impact on the Company's consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. The Statement is effective for financial instruments entered into or modified after May 31, 2003. The Company adopted this standard on June 1, 2003. Its adoption did not have any impact on the financial statements.

In May 2003, the consensus on EITF Issue No. 01-08, "Determining Whether an Arrangement Contains A Lease," was issued. The guidance in the consensus applies to the purchase or sale of goods and services under various types of contracts, including outsourcing arrangements. Based on the criteria in the consensus, both parties to an arrangement are required to determine whether the arrangement includes a lease within the scope of SFAS No. 13. The new requirement applies prospectively to new or modified arrangements for reporting periods beginning after May 28, 2003. Accordingly, as of July 1, 2003, the Company accounts for new or modified arrangements based on this guidance. The adoption of this standard did not have a material impact on the Company's financial statements.

(Unaudited)

Goodwill and Intangible Assets

In August, 2003, the Company acquired a majority interest in Fujian Nanping Nanfu Battery Co., Ltd., a leading battery company in China. The Nanfu business is reported as part of the Duracell segment. The change between the September 30, 2003, and December 31, 2002, goodwill and intangible balances is due mainly to the acquisition of Nanfu, and, to a lesser degree, the impact of foreign currency translation. The Nanfu acquisition resulted in the capitalization of the Nanfu trademark as an indefinite-lived intangible asset, as well as other definite-lived intangible assets. The values of these intangibles, as well as the related goodwill, may be adjusted in future periods as the purchase price allocation for the acquisition is not final.

Total goodwill by segment follows.

Net Carrying Amount (Millions)	September 30, 2003	December 31, 2002	September 30, 2002

Blades & Razors	$ 140	$ 140	$ 140
Duracell	605	571	563
Oral Care	173	173	173
Braun	78	78	76
Personal Care	-	-	-
Total	$ 996	$ 962	$ 952

The detail of intangible assets follows.

(Millions)	Weighted Average Amortization Period (Years)	September 30, 2003		December 31, 2002		Sept
		Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization	Carryi Amoun
Amortized Intangible Assets						
Patents	6	$ 101	$ 64	$ 101	$ 53	$ 10
Trademarks	6	14	7	13	4	1
Software	5	12	10	12	9	1
Endorsements	-	61	61	61	61	6
Other	23	20	3	11	3	1
Total	7	$ 208	$ 145	$ 198	$ 130	$ 19
Unamortized Intangible Assets						
Trademarks		$ 436		$ 317		$ 31
Pension		15		15		1
Total		$ 659	$ 145	$ 530	$ 130	$ 52
Intangible Assets, net		$ 514		$ 400		$ 40

Aggregate Amortization Expense:	
For the three months ended	
September 30, 2003	$ 4
September 30, 2002	$ 5
For the nine months ended:	
September 30, 2003	$ 15
September 30, 2002	$ 15
Estimated Amortization Expense:	
For the Years ended	
December 31, 2003	$ 21
2004	$ 20
2005	$ 8
2006	$ 5
2007	$ 4
2008	$ 4

Advertising

The advertising expense detailed below is included in selling, general and administrative expenses.

(Millions)	Three Months Ended September 30		Nine Months Ended September 30	
	2003	2002	2003	2002
Net Sales	$ 2,405	$ 2,168	$ 6,630	$ 5,924
Advertising	219	160	572	456
% Net Sales	9.1%	7.4%	8.6%	7.7%

Share Repurchase Program

The Company has two share repurchase programs. The first program authorizes the purchase of up to 150 million shares, and the second program authorizes the purchase of up to 50 million shares in the open market or in privately negotiated transactions, depending on market conditions and other factors. From the inception of the first program through December 31, 2002, the Company repurchased 108.2 million shares in the open market for $4.5 billion. In the three and nine months ended September 30, 2003, the Company repurchased 8.9 million and 34.8 million shares for $282 million and $1.07 billion, respectively. There are 7 million shares remaining on the first authorization. As of September 30, 2003, there has been no activity in the second share repurchase program.

Financial Information by Business Segment

Net sales, profit (loss) from operations and identifiable assets for each of the Company's business segments are set forth below. There are no material intersegment revenues.

	Net Sales			
	Three Months Ended September 30		Nine Months Ended September 30	
(Millions)	2003	2002	2003	2002
Blades & Razors	$1,034	$ 887	$2,930	$2,541
Duracell	514	482	1,330	1,242
Oral Care	328	321	939	861
Braun	293	265	792	685
Personal Care	236	213	639	595
Total	$2,405	$2,168	$6,630	$5,924

	Profit/(Loss) from Operations			
	Three Months Ended September 30		Nine Months Ended September 30	
(Millions)	2003	2002	2003	2002
Blades & Razors	$ 413	$ 377	$1,121	$ 989
Duracell	106	78	199	123
Oral Care	64	60	166	163
Braun	22	22	43	47
Personal Care	26	17	50	33
Subtotal Reportable Segments	631	554	1,579	1,355
All Other (1)	(27)	(32)	(90)	(56)
Total	$ 604	$ 522	$1,489	$1,299

(1) All Other includes the $30 million pretax gain on the sale of Vaniqa in the nine months ended September 30, 2002.

	Identifiable Assets		
(Millions)	Sept. 30, 2003 (Unaudited)	Dec. 31, 2002	Sept. 30, 2002 (Unaudited)
Blades & Razors	$ 3,325	$ 3,170	$ 3,149
Duracell	2,841	2,741	2,786
Oral Care	1,221	1,094	1,062
Braun	1,130	1,065	1,009
Personal Care	530	520	526
Subtotal Reportable Segments	9,047	8,590	8,532
All Other	1,240	1,273	1,486
Total	$10,287	$ 9,863	$10,018

THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Computation of net income per common share
(Millions, except per share amounts)

	Three Months Ended September 30		Nine Months Ended September 30	
	2003	2002	2003	2002
Net Income	$ 416	$ 354	$1,017	$ 870
Common shares, basic	1,017	1,058	1,025	1,057
Effect of dilutive securities:				
Stock options	2	2	2	4
Common shares, assuming full dilution	1,019	1,060	1,027	1,061
Net Income per Common Share:				
Basic	$ .41	$ .33	$ .99	$ .82
Assuming full dilution	$ .41	$ .33	$ .99	$ .82

As of September 30, 2003 and 2002, 65.5 million and 56.2 million shares of common stock issuable under stock options, respectively, were not included in the calculation of fully diluted earnings per share because the option exercise price was above the market price.

THE GILLETTE COMPANY AND SUBSIDIARY COMPANIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Functional Excellence

In the second quarter of 2002, the Company began actions associated with its Functional Excellence initiative. This initiative impacts all business segments and is focused on upgrading capabilities, while reducing overhead costs by improving processes and eliminating duplication across all functions. Specific program activities include outsourcing certain information technology functions, implementing new worldwide technology tools and processes, streamlining customer management and marketing programs, and consolidating financial functions.

Total pretax charges under the Functional Excellence initiative, including employee termination benefits and other costs, were $17 million and $48 million in the three and nine months ended September 30, 2002, $121 million for the full year 2002, $17 million in the third quarter of 2003, and $103 million in the first nine months of 2003. Employee-related terminations are intended to be completed within 12 months of accrual. The employee-related termination benefits are calculated using the Company's long-standing severance formulas and vary on a country-by-country basis, depending on local statutory requirements.

Details of the Functional Excellence accrual follow. Other costs include items such as consulting, lease buyouts and asset write-downs related to Functional Excellence programs.

(Millions)	Employee-Related	Other	Total
Accrual Balance December 31, 2002	$86	$6	$92
First Quarter 2003:			
Charges	38	6	44
Payments/Uses	(44)	(2)	(46)
Accrual Balance March 31, 2003	$80	$10	$90
Second Quarter 2003:			
Charges	34	8	42
Payments/Uses	(34)	(6)	(40)
Accrual Balance June 30, 2003	$80	$12	$92
Third Quarter 2003:			
Charges	16	1	17
Payments/Uses	(16)	(7)	(23)
Accrual Balance September 30, 2003	$80	$ 6	$86

Functional Excellence charges in 2003 included $2 million and $15 million, which were recorded as cost of goods sold, and $15 million and $88 million, which were recorded as selling, general and administrative expenses, in the three and nine month periods ended September 30, 2003, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Results of Operations

Results for any interim period, such as those described in the following analysis, are not necessarily indicative of results for the entire year.

Third Quarter 2003 versus 2002

Total Company: Sales for the quarter ended September 30, 2003, were $2.41 billion, an increase of 11% versus the same quarter of the prior year. The impact of exchange was 5%, as the strength of European, Australian and Canadian currencies more than offset unfavorable exchange in Latin America. Volume/mix contributed 6% to sales growth, driven by new products, strong retailer support for upcoming fourth-quarter razor programs and increased consumer demand for batteries related to the North American electrical blackouts and Hurricane

Isabel. The impact of pricing was neutral, as price increases in Blades and Razors offset lower list prices in Duracell. Profit from operations of $604 million climbed 16% from $522 million in the prior year, and margin increased by 100 basis points, to 25.1%. This improvement was mainly due to favorable product line mix, cost-savings initiatives, and strong sales growth from new products, partially offset by higher year-over-year exchange-driven European-based costs and significantly higher advertising investment.

Blades and Razors: Third-quarter sales rose 17% from the third quarter of last year. Exchange accounted for 5% of the increase. Sales growth was driven by the continued success of Mach3Turbo and Venus, increased shipments of the Sensor3 premium disposable, which was launched into Europe and continued to gain share in North America, and strong trade demand for fourth-quarter consumer programs that feature the new Mach3Turbo Champion razor. The initial sell-in of those programs in the third quarter in both North America and Europe is anticipated to moderate the pace of sales growth in the upcoming fourth quarter. Third-quarter Blades and Razors profit was up 10%, though margin was down 250 basis points to 40%. The lower margin was driven by a strong double-digit percentage increase in advertising, sampling and display support. The Company announced that it is studying a possible realignment of its European Blades and Razors manufacturing facilities and distribution network to streamline and strengthen its operations.

Duracell: Sales of Duracell for the quarter increased 7% versus those of a year ago, with currency gains accounting for 4% of the increase. The sales gain was driven by incremental consumer demand due to electrical blackouts and Hurricane Isabel in the United States, and the third-quarter 2003 acquisition of the Nanfu battery company in China. The increase was partially offset by lower pricing due to the North American price-deal realignment program, and lower volumes related to the 2002 divestiture of the carbon zinc businesses in South Africa and India. Profit from operations grew 35%, and margins increased 430 basis points versus a year ago, reflecting sales growth, continued manufacturing and purchasing efficiencies and overhead containment, partially offset by a substantial increase in marketing investment. The impact of lower pricing from the price-deal realignment was offset by lower promotional activity and the elimination of free cell giveaways. In August 2003, the Company acquired a majority interest in Fujian Nanping Nanfu Battery Co., Ltd., a leading battery company in China. The results of this business were not material to profits for the quarter.

Oral Care: Oral Care third-quarter sales were 3% above 2002, with a 5% positive impact from exchange. Sales growth was restrained by softness in the rechargeable toothbrush segment, chiefly in Germany, and price competition in the batteries segment. Sales gains were realized on a constant currency basis in the AMEE (Africa/Middle East/Eastern Europe) and Latin America regions, where the manual toothbrush business achieved solid growth and battery-powered toothbrushes were successfully launched. Oral Care profit from operations grew 6% from a year ago, reflecting increased sales from new products, including the CrossAction Power battery toothbrush, partially offset by higher exchange-driven European-based manufacturing costs and a double-digit percentage increase in advertising to support new product launches.

Braun: Sales of Braun rose 11% above the previous year. Currency represented 8% of the increase. Sales gains were driven by the introduction of the FreeGlider and Flex XP2 male shavers in North America, the introduction of the SoftPerfection epilator and the top-of-the-line Activator shaver in Japan and Europe, and strong sales of household appliances in Russia. These gains helped offset the effects of a weak economic environment in Europe and competitive pressures in mid-price shavers in Japan. Favorable mix towards male shavers and higher priced household appliances were offset by a double-digit percentage increase in marketing spending to support new product launches and by higher European-based manufacturing costs due to exchange. This resulted in lower profits and a 110 basis-point reduction in margin versus a year ago.

Personal Care: Sales for the quarter increased 10%. Exchange impacted sales favorably by 3%. Growth was primarily driven by shave preparations, and was achieved in all regions except Latin America. Growth in antiperspirant/deodorants also contributed to the increase, as PowerStripe technology was extended throughout the product line in the United States, and the restaging of the Right Guard brand gained strength in Europe. Profit for the quarter increased 54% as compared with the prior year, and margins improved by 320 basis points to 11.1%, chiefly due to growth from new products and the benefit of cost-savings initiatives, partially offset by a double-digit percentage increase in advertising behind new product and brand restaging activities.

Nine Months 2003 versus 2002

Total Company: Sales for the nine months ended September 30, 2003, were $6.63 billion, an increase of 12% versus the same period last year. The impact of exchange was 5%, and volume/mix contributed 7% to sales growth. Overall, pricing had no material impact on the period, as price increases in Blades and Razors were offset by lower prices in Duracell. Profit from operations of $1.49 billion increased 15% from $1.30 billion in the prior year, and margin increased by 60 basis points to 22.5%. Profit from operations in 2002 included a $30 million pretax gain on the sale of the Vaniqa business. The profit increase was driven by strong sales growth from new products, ongoing favorable mix to premium shaving products, and cost-savings initiatives, which more than offset higher European-based costs due to exchange, increased advertising investment, and incremental Functional Excellence and pension expenses. Heightened competitive activity is expected for the balance of the year in Blades and Razors, which could have a dampening effect on Gillette's 2003 and 2004 earnings potential through increased marketing investment and potential share loss. However, this activity is not expected to inhibit our ability to deliver on our financial growth targets.

Blades and Razors: Sales rose 15% compared with the first nine months of last year. The impact of exchange was 5%. Sales growth was driven by the strength of premium shaving systems and disposables. Profit from operations was up 13% from the prior year. However, favorable product mix was more than offset by a double-digit percentage increase in marketing support, resulting in a 60 basis-point decline in margin.

Duracell: Sales of Duracell for the nine months increased 7% versus those of a year ago, with currency gains accounting for 4% of the increase. Consumer pantry-loading in North America during the first and third quarters of 2003 was partially offset by lower pricing from the price-deal realignment initiative in North America and unmatched 2002 sales related to the divestiture of the carbon zinc businesses in South Africa and India. Profit year-to-date increased 62% and margin grew 510 basis points, due to higher sales, solid cost-savings programs and the absence of first-quarter 2002 costs associated with withdrawing selected hearing aid batteries. These gains were partially offset by significantly higher advertising expenses.

Oral Care: Oral Care sales for the nine months were 9% above those of 2002.

Favorable foreign exchange contributed 5% to the increase. Sales growth was driven by the success of new product introductions in both the manual and power categories, as well as strong growth in emerging markets. Profit increased 2% over the prior year, and margin was 120 basis points lower, as higher sales from new products and improved product mix were more than offset by higher exchange-driven export costs from Europe, a significant increase in marketing expenses to launch new products in 2003, and higher warranty-related accruals in the first quarter of 2003.

Braun: Sales of Braun increased 16% over the prior year, with currency gains representing 10%. Growth was driven by significant gains in both male and female electric shavers, as well as strong first-half sales of Thermoscan thermometers, fueled by concerns over the SARS epidemic. Profit from operations declined 9%, due to incremental warranty accruals incurred in the first quarter of 2003, and the impact of exchange on European-based manufacturing costs, which more than offset benefits from improved product mix, manufacturing efficiencies and strong sales growth.

Personal Care: Personal Care sales increased 7% over those of 2002. Exchange contributed 3% to the sales growth. Volume growth was primarily driven by shave preparations, and to a lesser degree by new product successes in antiperspirant/deodorants. Profit from operations increased 50%, due to higher sales and cost-savings initiatives, partially offset by increased marketing investment for new product launches.

Costs and Expenses

Third Quarter 2003 versus 2002

Gross profit for the three months ended September 30, 2003, was $1.47 billion, an increase of 14% versus 2002. Gross profit as a percentage of sales of 61.1% compared with 59.3% in 2002. This improvement stemmed from favorable product line mix, cost-savings initiatives and manufacturing efficiencies, particularly at Duracell, partially offset by higher year-over-year exchange driven European-based manufacturing costs.

Selling, general and administrative expenses increased $102 million, or 13%, versus the prior year. Advertising and sales promotion combined increased 29% over the prior year, with advertising growing to 9.1% of sales, from 7.4% in the prior year. The increase was driven by our marketing investments, which included a higher level of sampling year-over-year. Every segment of the Company realized a double-digit percentage increase in advertising support. Sales promotion was flat as a percentage of sales, although display support increased due to the launch of Mach3Turbo Champion in Blades and Razors. Other selling, general and administrative expenses increased 6% from the prior year, and fell 100 basis points as a percentage of sales, from 24.5% in the third quarter of 2002 to 23.5% this year. This reduction was achieved despite higher European- based costs due to exchange.

Net interest expense decreased, due to lower rates year-over-year.

The effective tax rate was 30%, versus 31% the year before. The decrease was primarily due to favorable changes in the mix of earnings to countries taxed at rates lower than the U.S. statutory rate.

Net income of $416 million was 18% above the $354 million in the prior year. Diluted net income per common share of $.41 was 24% above the $.33 reported for 2002. The growth in diluted net income per common share outpaced net income growth due to a reduction in the number of outstanding shares resulting from stock repurchases.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS

Nine Months Ended September 30, 2003 versus 2002

Gross profit for the nine months ended September 30, 2003, was $4.05 billion, an increase of 14% versus 2002. Gross profit as a percentage of sales of 61.0% compared with 59.9% in 2002. This was due to favorable product mix in Blades and Razors, cost-savings initiatives and manufacturing efficiencies, which more than offset higher European-based costs due to exchange.

Selling, general and administrative expenses increased $277 million, or 12%. Advertising and sales promotion expenses combined increased by 21%, with advertising up 25% to 8.6% of sales from 7.7% in the prior year, and sales promotion up 13% versus last year. Other selling, general and administrative expenses increased 8%, and were down as a percentage of sales, to 26.1% from 27.0% in the prior year. This reduction was achieved through cost-savings initiatives, offset partially by incremental Functional Excellence and pension expenses, and higher European-based costs due to the strengthening of the Euro. Net interest expense decreased due to lower rates in 2003. Exchange gains were lower than in the prior year.

The effective tax rate was 30%, versus 31% the prior year. The decrease was primarily due to favorable changes in the mix of earnings to countries taxed at rates lower than the U.S. statutory rate.

Net income was $1.02 billion, up 17% versus $870 million a year earlier. Diluted net income per common share of $.99 was 21% above $.82 in 2002. Net income in 2002 included a $21 million after-tax gain on the sale of the Vaniqa business which had a $.02 favorable impact on diluted net income per common share. The growth in diluted net income per common share, which outpaced net income growth, was driven by a reduction in the number of outstanding shares resulting from stock repurchases.

Financial Condition

Cash provided by operations is the Company's primary source of funds to finance operating needs, capital expenditures, stock repurchases and dividend payments. Free cash flow for the nine months ended September 30, 2003, was $1.51 billion, compared with $1.17 billion in the same period last year. Free cash flow, defined as cash flow from operations less capital investments, is analyzed by the Company as a measure of its liquidity, as well as its ability to fund future growth and to provide a return to shareholders. Free cash flow is not a measure of the residual cash flow that is available for discretionary expenditures since the Company has certain non-discretionary obligations such as debt service that are not deducted from the measure. A reconciliation of free cash flow to the increase in cash and cash equivalents in accordance with Generally Accepted Accounting Principles (GAAP) follows.

	Nine months ended September 30	
(Millions)	2003	2002
Net cash provided by operating activities	$1,702	$1,420
Additions to property, plant and equipment	(218)	(278)
Disposals of property, plant and equipment	28	31
Free cash flow	$1,512	$1,173

Acquisition of business, net of cash acquired, and other	(158)	1
Net cash used in investing activities	$ (348)	$ (246)
Net cash used in financing activities	$(1,315)	$(1,116)
Effect of exchange rate changes on cash	5	2
Net cash used in discontinued operations	-	(26)
Increase in cash and cash equivalents	$ 44	$ 34

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net cash provided by operating activities was $1.70 billion during the nine months ended September 30, 2003, as compared with $1.42 billion during the same period in 2002. The increase in net cash provided by operating activities in 2003 was due primarily to $190 million in lower pension funding and higher profits.

Lower capital spending during the nine months ended September 30, 2003, was due primarily to timing. Capital spending continued to be focused on new products and cost-reduction projects.

In August 2003, the Company acquired a majority interest in Fujian Nanping Nanfu Battery Co., Ltd., a leading battery company in China. The results of this business are reported as part of the Duracell segment and were not material to the quarter.

The Company spent $1.07 billion to repurchase 35 million shares and paid $501 million in dividends during the nine months ended September 30, 2003. Total long-term debt increased by $163 million, to $3.15 billion in September 2003 from $2.98 billion at December 2002. Loans payable increased by $59 million, and cash and cash equivalents increased by $44 million for the same period.

The Company's investment grade long-term credit ratings of AA- from Standard & Poor's and Aa3 from Moody's and commercial paper ratings of A1+ from Standard & Poor's and P1 from Moody's provide a high degree of flexibility in obtaining funds. The Company has the ability to issue up to $1.53 billion in commercial paper in the U.S. and Euro markets. The Company's commercial paper program is supported by its revolving credit facility and other sources of liquidity; primarily the Company's cash flow from operations. At September 30, 2003, there was $609 million outstanding under the Company's commercial paper program, an increase of $60 million from $549 million outstanding at December 31, 2002. The Company has a revolving bank credit facility in the amount of $1.15 billion, of which $863 million is available on a 364-day basis and expires on October 12, 2004, and $288 million is available for five years. The Company believes it has sufficient alternative sources of funding available to replace its commercial paper program, if necessary.

During 2002, two shelf registration statements were filed allowing the Company to offer to the public up to $2.8 billion in debt securities in the U.S. It is currently anticipated that the proceeds from the sale of any debt securities issued under these shelf registration statements will be used to repay commercial paper borrowings and replace other maturing debt, although the proceeds may also be used for other corporate purposes, including the repurchase of the Company's common stock.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

During the nine months ended September 30, 2003, $686 million was issued in public offerings under these shelf registration statements, consisting of $300 million 2.875% notes, due March 2008, $300 million 2.50% notes, due June 2008, $83 million in floating rate notes, due April 2043, and $3 million issued under the Gillette medium-term note program. All proceeds from these issuances were used to reduce commercial paper borrowings. The $83 million floating rate notes are redeemable at the option of the holder at various prices on a yearly basis from April 2004 to April 2014 and each third anniversary thereafter to maturity. The floating rate notes are also redeemable at the Company's option at various prices from April 2033 to maturity. At September 30, 2003, a total of $1.29 billion remained available under these shelf registrations.

With its strong brands, leading market positions, strong financial condition and substantial cash-generating capability, Gillette expects to continue to have capital available for growth through both internally generated funds and significant credit resources. The Company has substantial unused lines of credit and access to worldwide financial markets, enabling the Company to raise funds at favorable rates.

The Company has no material contingent commitments. The Company has no material "off balance sheet" arrangements and no non-consolidated Variable Interest Entities.

Functional Excellence

In the second quarter of 2002, the Company began actions associated with its Functional Excellence initiative, which is described in Notes to Consolidated Financial Statements. The total cost of this project is estimated at $350-$400 million through 2005. Annualized savings from the Functional Excellence initiative are currently expected to be approximately $300-$350 million by 2006.

During 2002, the Company recorded expenses related to this initiative in the amount of $121 million ($79 million after taxes, or $.07 in diluted net income per common share). Charges for the three and nine-month periods ended September 30, 2003 and 2002, follow:

(Millions, except per share amounts)	Three Months Ended September 30		Nine months Ended September 30	
	2003	2002	2003	2002
Functional Excellence expense	$ 17	$ 17	$103	$ 48
Functional Excellence expense, net of tax	$ 14	$ 11	$ 85	$ 30
Impact on diluted net income per share	$.01	$.01	$.08	$.03

Third quarter 2003 Functional Excellence charges were recorded to cost of goods sold in the amount of $2 million and to selling, general and administrative expense in the amount of $15 million. Of the $103 million in charges through the first nine months of 2003, $15 million was charged to cost of goods sold and $88 million was charged to selling, general and administrative expense. It is currently expected that total 2003 Functional Excellence expenses will be approximately $140 million. Additional costs will be recorded in 2004 and 2005 as programs are developed and approved. These forward-looking cost and savings numbers contain management estimates that are subject to change over time.

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DISCLOSURE CONTROLS AND PROCEDURES

Item 4. Controls and Procedures

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of the Company's disclosure controls and procedures as defined in Securities and Exchange Commission ("SEC") Rule 13a-15(e) as of the end of the period covered by this report. Based on that evaluation, management has concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act is communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

There have been no significant changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are subject, from time to time, to legal proceedings and claims arising out of our business, which cover a wide range of matters, including antitrust and trade regulation, advertising, product liability, contracts, environmental issues, patent and trademark matters and taxes. Management, after review and consultation with counsel, considers that any liability from all of these legal proceedings and claims would not materially affect our consolidated financial position, results of operations or liquidity.

Item 5. Other Information

Shareholder Proposals

The Company's 2004 Annual Meeting of Shareholders is scheduled to be held on May 20, 2004. The deadline for submitting shareholder proposals for inclusion in the Company's proxy statement and form of proxy for that meeting is December 8, 2003.

Cautionary Statement

Certain statements that we may make from time to time, including statements contained in this report, constitute "forward-looking statements" under the federal securities laws. Forward-looking statements may be identified by words such as "plans," "expects," "believes," "anticipates," "estimates," "projects," "will" and other words of similar meaning used in conjunction with, among other things, discussions of future operations, acquisitions and divestitures, financial performance, our strategy for growth, product development and new product launches, market position and expenditures.

Forward-looking statements are based on current expectations of future events, but actual results could vary materially from our expectations and projections. Investors are cautioned not to place undue reliance on any forward-looking statements. We assume no obligation to update any forward-looking statements. We caution that historical results should not be relied upon as indications of future performance.

Factors that could cause actual results to differ materially from those expressed in any forward-looking statement made by us, or on our behalf, include the following, some of which are described in greater detail below:

- the pattern of our sales, including variations in sales volume within periods;
- consumer demands and preferences, including the acceptance by our customers and consumers of new products and line extensions;
- the mix of products sold;
- our ability to control our internal costs and the cost of raw materials;
- competitive factors, including the prices, promotional incentives and trade terms of our products and our response, as well as those of our customers and competitors, to changes in these terms;
- business combinations and divestitures of our competitors and customers;
- our technological advances and/or those of our competitors;
- new patents granted to us or our competitors;
- changes in exchange rates in one or more of our geographic markets;
- changes in laws and regulations, including trade regulations, accounting standards and tax laws, governmental actions affecting the manufacturing and sale of our products, unstable governments and legal systems, and nationalization of industries;
- changes in accounting policies;
- acquisition, divestiture or other collaborative activities; or
- the impact of general political and economic conditions or hostilities in the United States or in other parts of the world.

Competitive Environment

We experience intense competition for sales of our products in most markets. Our products compete with widely advertised, well-known, branded products, as well as private label products, which typically are sold at lower prices. In most of our markets, we have major competitors, some of which are larger and more diversified than we are. Aggressive competition within our markets to preserve, gain or regain market share can affect our results in any given period.

Changes in Technology and New Product Introductions

In most product categories in which we compete, there are continuous technological changes and frequent introductions of new products and line extensions. Our ability to successfully introduce new products and/or extend lines of established products will depend on, among other things, our ability to identify changing consumer tastes and needs, develop new technologies, differentiate our products and gain market acceptance of new products. We cannot be certain that we will successfully achieve these goals.

With respect specifically to primary alkaline batteries, category growth could be adversely affected by the following additional factors:

- technological or design changes in portable electronic and other devices that use batteries as a power source;
- continued improvement in the service life of primary batteries;
- improvements in rechargeable battery technology; or
- the development of new battery technologies.

Intellectual Property

We rely upon patent, copyright, trademark and trade secret laws in the United States and in other countries to establish and maintain our proprietary rights in technology, products and our brands. Our intellectual property rights, however, could be challenged, invalidated or circumvented. We do not believe that our products infringe the intellectual property rights of others, but such claims, if they are established, can result in material liabilities or loss of business.

Cost-Savings Strategy

We have implemented and approved a number of programs designed to reduce costs. Such programs will require, among other things, the consolidation and integration of facilities, functions, systems and procedures, all of which present significant management challenges. There can be no assurance that such actions will be accomplished as rapidly as anticipated or that the full extent of expected cost reductions will be achieved.

PART II. OTHER INFORMATION

Sales and Operations Outside of the United States

Sales outside of the United States represent a substantial portion of our business. In addition, we have a number of manufacturing facilities and suppliers located outside of the United States. Accordingly, the following factors could adversely affect operating results in any reporting period:

- changes in political or economic conditions;
- trade protection measures;
- import or export licensing requirements;
- changes in the mix of earnings taxed at varying rates;
- unexpected changes in regulatory requirements or tax laws; or
- longer payment cycles in certain countries.

We are also exposed to foreign currency exchange rate risks with respect to our sales, profits, and assets and liabilities denominated in currencies other than the U.S. dollar. Although we use instruments to hedge certain foreign currency risks (through foreign currency forward, swap and option contracts and non-U.S. dollar denominated financings) and we are partially hedged through our foreign manufacturing operations, there can be no assurance that we will be fully protected against foreign currency fluctuations.

Retail Environment

With the growing trend towards retail trade consolidation, especially in developed markets such as the United States and Europe, we are increasingly dependent upon key retailers whose bargaining strength is growing. Accordingly, we face greater pressure from retail trade customers to provide more favorable trade terms.

We can be negatively affected by changes in the policies of our retail trade customers, such as inventory destocking, limitations on access to shelf space and other conditions. Many of our customers, particularly our high-volume retail trade customers, have engaged in accelerated efforts to reduce inventory levels and shrinkage and to change inventory delivery systems. While we expect the level of trade inventory of our products to decline over time, the speed and magnitude of such reductions, and/or our inability to develop satisfactory inventory delivery systems, could adversely affect operating results in any reporting period.

Effect of Military Hostilities and Political Activity

Recent military hostilities and the threat of future hostilities, as well as attendant political activity, have created an atmosphere of economic uncertainty throughout the world. A disruption in our supply chain, an increase in import or export costs and/or other macroeconomic events resulting from military or political events could adversely affect operating results in any reporting period.

PART II. OTHER INFORMATION

Item 6(a) Exhibits

The following exhibits are included herewith:

10.1 Employment Agreement, dated January 19, 2001, between The Gillette Company and James M. Kilts, as amended through August 6, 2003.

10.2 $862,500,000 364-Day Credit Agreement, dated as of October 14, 2003, among The Gillette Company, JPMorgan Chase Bank, as agent, and a syndicate of domestic and foreign banks.

10.3 $287,500,000 5-Year Credit Agreement, dated as of October 14, 2003, among The Gillette Company, JPMorgan Chase Bank, as agent, and a syndicate of domestic and foreign banks.

12 Statement Regarding Computation of Ratio of Earnings to Fixed Charges.

31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).

31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).

32 Certification Pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).

Item 6(b) Reports on Form 8-K

The following reports on Form 8-K were filed or furnished to the Commission:

(a) The Company furnished, on August 5, 2003, a current report on Form 8-K containing one exhibit: a Press Release announcing the Company's financial results for the second quarter of 2003.

(b) The Company furnished on August 7, 2003, a current report on Form 8-K containing two exhibits: the employment agreement between the Company and James M. Kilts, as amended, and a press release announcing that James M. Kilts, Chairman and Chief Executive Officer, had extended his employment agreement for one year.

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SIGNATURE

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE GILLETTE COMPANY
(Registrant)

/s/ Claudio E. Ruben

Claudio E. Ruben
Vice President, Controller
and Principal Accounting Officer

November 4, 2003

EXHIBIT INDEX

Exhibit Number and Description

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Exhibit 12 Statement Regarding Computation of Ratio of Earnings to Fixed Charges.

Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Rule 13a-14(a).

Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).

Exhibit 32 Certification Pursuant to Rule 13a-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code).