

Edgar Filing: AVON PRODUCTS INC - Form 10-Q/A

AVON PRODUCTS INC  
Form 10-Q/A  
August 12, 2002

FORM 10-Q/A

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Quarterly Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the quarterly period ended March 31, 2000

OR

Transition Report Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

For the transition period from \_\_\_ to \_\_\_

Commission file number 1-4881

AVON PRODUCTS, INC.

-----  
(Exact name of registrant as specified in its charter)

New York

13-0544597

-----  
(State or other jurisdiction of  
Incorporation or organization)

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

1345 Avenue of the Americas, New York, N.Y. 10105-0196

-----  
(Address of principal executive offices)

(212) 282-5000

-----  
(Telephone Number)

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. Yes  No

The number of shares of Common Stock (par value \$.25) outstanding at April  
30, 2000 was 237,422,333.

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### Introductory Note--Restatements

In connection with the settlement of the previously disclosed investigation by the Securities and Exchange Commission ("SEC") relating to the write off of an order management software system known as the "FIRST" project, Avon has restated its Consolidated Financial Statements as of December 31, 2001, 2000 and 1999 and for the years then ended and for each of the fiscal quarters ended March 31, 1999 through March 31, 2002. Avon had written off \$14.8 pretax, or \$10.0 after tax, of FIRST assets in the first quarter of 1999 and \$23.9 pretax, or \$14.5 after tax, of FIRST assets in the third quarter of 2001. Avon has restated its financial statements to reflect the additional write off as of March 31, 1999 of all capitalized costs (\$23.3 pretax, or \$14.0 after tax), associated with the FIRST project as of that date and a reversal of the charge recorded in the third quarter of 2001. Other FIRST-related activity (capitalized costs and amortization) recorded during 1999-2002 has also been restated. A description of the adjustments that comprise the restatements is set forth in Notes 2 and 10 of the Notes to Consolidated Financial Statements filed with this Form 10-Q/A.

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The accompanying financial statements have been restated to reflect the restatements discussed above as well as the accounting changes outlined in Note 2. No attempt has been made in this Form 10-Q/A to modify or update any disclosures except as required to reflect the results of the restatements discussed above and any changes made to prior period financial information for which a Form 10-Q/A was not filed.

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### PART I. FINANCIAL INFORMATION

#### AVON PRODUCTS, INC. CONSOLIDATED STATEMENTS OF OPERATIONS (In millions, except per share data)

	Three months ended March 31	
	2000	1999
	(Restated	----
	-Note 2)	
	(unaudited)	
Net sales.....	\$1,306.3	\$1,213.8
Other revenue.....	10.4	9.2
	-----	-----
Total revenue.....	1,316.7	1,223.0
Costs, expenses and other:		
Cost of sales* .....	501.4	508.2
Marketing, distribution and administrative expenses	677.4	650.9
Special charge.....	-	90.4
Asset impairment charge.....	-	38.1
	-----	-----
Operating profit(loss).....	137.9	(64.6)
Interest expense.....	19.9	9.0
Interest income.....	(1.8)	(3.2)
Other expense(income), net.....	10.2	(7.8)
	-----	-----
Total other expense(income) .....	28.3	(2.0)
	-----	-----
Income(loss) before taxes, minority interest, and cumulative effect of accounting change.....	109.6	(62.6)
Income taxes.....	39.1	2.1
	-----	-----
Income(loss) before minority interest and cumulative effect of accounting change.....	70.5	(64.7)
Minority interest.....	-	1.8
	-----	-----
Income(loss)from continuing operations before cumulative effect of accounting change.....	70.5	(62.9)
Cumulative effect of accounting change, net of taxes .....	(6.7)	-
	-----	-----

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Net income (loss) .....	\$ 63.8	\$ (62.9)
	+=====	=====
Income (loss) per share:		
Basic earnings per share:		
Continuing operations.....	\$ .30	\$ (.24)
Cumulative effect of accounting change .....	(.03)	-
	-----	-----
	\$ .27	\$ (.24)
	=====	=====
Diluted earnings per share:		
Continuing operations.....	\$ .30	\$ (.24)
Cumulative effect of accounting change .....	(.03)	-
	-----	-----
	\$ .27	\$ (.24)
	=====	=====

\*1999 includes a one-time charge of \$46.0 for inventory write-downs.

The accompanying notes are an integral part of these statements.

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AVON PRODUCTS, INC.  
CONSOLIDATED BALANCE SHEETS  
(In millions)

	March 31 2000 (Restated- Note 2)	December 31 1999
	-----	-----
	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 92.3	\$ 117.4
Accounts receivable.....	456.3	495.6
Inventories.....	622.4	523.5
Prepaid expenses and other.....	201.9	201.3
	-----	-----
Total current assets.....	1,372.9	1,337.8
	-----	-----
Property, plant and equipment, at cost.....	1,471.3	1,469.3
Less accumulated depreciation.....	744.7	737.2
	-----	-----
	726.6	732.1
	-----	-----
Other assets.....	445.2	442.9
	-----	-----
Total assets.....	\$2,544.7	\$2,512.8
	=====	=====
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		
Debt maturing within one year.....	\$ 504.3	\$ 306.0
Accounts payable.....	358.1	435.9
Accrued compensation.....	97.7	165.8
Other accrued liabilities.....	403.5	411.6
Sales and taxes other than income.....	98.0	107.5

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Income taxes.....	280.7	286.0
	-----	-----
Total current liabilities.....	1,742.3	1,712.8
	-----	-----
Long-term debt.....	701.2	701.4
Employee benefit plans.....	398.0	398.1
Deferred income taxes.....	35.3	36.7
Other liabilities.....	87.1	85.7
Shareholders' deficit:		
Common stock.....	88.1	88.1
Additional paid-in capital.....	821.7	819.4
Retained earnings.....	841.3	821.4
Accumulated other comprehensive income.....	(352.3)	(349.7)
Treasury stock, at cost.....	(1,818.0)	(1,801.1)
	-----	-----
Total shareholders' deficit.....	(419.2)	(421.9)
	-----	-----
Total liabilities and shareholders' deficit .....	\$2,544.7	\$2,512.8
	=====	=====

The accompanying notes are an integral part of these statements.

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AVON PRODUCTS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In millions)

	Three months ended March 31	
	2000 (Restated Note 2)	1999 ----
	----- (unaudited)	
Cash flows from operating activities:		
Net income(loss).....	\$ 63.8	\$ (62.9)
Adjustments to reconcile net income(loss) to net cash used by operating activities:		
Cumulative effect of accounting charge.....	6.7	-
Special and non-recurring (payments)charges.....	(6.4)	117.5
Asset impairment charge.....	-	38.1
Depreciation and amortization.....	26.7	20.0
Provision for doubtful accounts.....	29.0	23.2
Amortization of debt discount.....	(1.6)	(1.7)
Translation losses(gains).....	.8	(.9)
Deferred income taxes.....	3.0	(11.9)
Other.....	2.2	.1
Changes in assets and liabilities:		
Accounts receivable.....	(19.1)	(46.2)
Inventories.....	(91.6)	(55.7)
Prepaid expenses and other.....	(8.5)	(1.6)
Accounts payable and accrued liabilities.....	(156.1)	(80.7)
Income and other taxes.....	(10.9)	(18.6)
Noncurrent assets and liabilities.....	12.3	5.0
	-----	-----
Net cash used by operating activities.....	(149.7)	(76.3)
	-----	-----

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Cash flows from investing activities:		
Capital expenditures.....	(29.9)	(23.9)
Disposal of assets.....	2.2	3.3
Other investing activities.....	(0.7)	(12.1)
	-----	-----
Net cash used by investing activities.....	(28.4)	(32.7)
	-----	-----
Cash flows from financing activities:		
Cash dividends.....	(45.8)	(48.6)
Book overdraft.....	22.2	9.7
Debt, net (maturities of three months or less).....	211.3	236.5
Proceeds from short-term debt.....	5.4	10.9
Retirement of short-term debt.....	(18.2)	(11.2)
Repurchase of common stock.....	(16.9)	(50.0)
Proceeds from exercise of stock options, net of taxes...	.2	11.1
	-----	-----
Net cash provided by financing activities.....	158.2	158.4
	-----	-----
Effect of exchange rate changes on cash and equivalents.	(5.2)	(16.1)
	-----	-----
Net (decrease)increase in cash and equivalents.....	(25.1)	33.3
Cash and equivalents at beginning of period.....	117.4	105.6
	-----	-----
Cash and equivalents at end of period.....	\$ 92.3	\$ 138.9
	=====	=====

The accompanying notes are an integral part of these statements.

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AVON PRODUCTS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (In millions, except share data)

### 1. ACCOUNTING POLICIES

The accompanying Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and the Notes thereto contained in Avon's 1999 Annual Report to Shareholders. The interim statements are unaudited but include all adjustments, consisting of normal recurring adjustments, that management considers necessary to fairly present the results for the interim periods. Results for interim periods are not necessarily indicative of results for a full year. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles.

In June 1999, the Financial Accounting Standards Board issued Financial Accounting Standard ("FAS") No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FAS No. 133", which delayed the effective date of FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", by one year. FAS No. 133 is now effective for all fiscal quarters of all fiscal years beginning after June 15, 2000 (January 1, 2001 for the Company). FAS No. 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives will be recorded each period in current earnings or accumulated other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction. For fair-value hedge transactions in which the Company is hedging changes in the fair value of an asset, liability, or firm commitment, changes in the fair value of the derivative

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instrument will be included in the income statement along with the offsetting changes in the hedged item's fair value. For cash-flow hedge transactions in which the Company is hedging the variability of cash flows related to a variable rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument will be reported in accumulated other comprehensive income. The gains and losses on the derivative instruments that are reported in accumulated other comprehensive income will be reclassified to earnings in the periods in which earnings are impacted by the variability of the cash flows of the hedged item. The ineffective portion of all of the hedges will be recognized in current period earnings. The impact of FAS No. 133 on the Company's financial statements will depend on a variety of factors, including the future level of forecasted and actual foreign currency transactions, the extent of the Company's hedging activities, the types of hedging instruments used and the effectiveness of such instruments. Based on an analysis of Avon's financial instruments outstanding at March 31, 2000, the Company does not expect the adoption of FAS No. 133 to have a material impact on its earnings or statement of financial position.

To conform to the 2000 presentation, certain reclassifications were made to the prior periods' consolidated financial statements and the accompanying footnotes.

### 2. RESTATEMENTS AND ACCOUNTING CHANGES

#### Restatements

In connection with the settlement of a previously disclosed investigation by the Securities and Exchange Commission relating to the write off of an order management software system known as the "FIRST" project, Avon has restated its Consolidated Financial Statements as of December 31, 2001, 2000 and 1999 and for the years then ended and for each of the fiscal quarters ended March 31, 1999 through March 31, 2002. See Introductory Note-Restatements and Note 10 of the Notes to Consolidated Financial Statements, "Asset Impairment Charge".

The accompanying financial statements have been restated to reflect the restatements discussed above as well as the accounting changes outlined in this Note. No attempt has been made in this Form 10-Q/A to modify or update any disclosures except as required to reflect the results of the restatements

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#### AVON PRODUCTS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions, except share data)

discussed above and any changes made to prior period financial information for which a Form 10-Q/A was not filed.

The principal adjustments comprising the restatements are as follows:

- o Reclassification of \$14.8 of pre-tax charges recorded in the first quarter of 1999 related to the write off of a portion of the FIRST project, out of the "Special charges" line and into the "Asset impairment charge" line;
- o An additional Asset impairment charge of \$23.3 pretax in the first quarter of 1999 to reflect the write off of all capitalized costs associated with the FIRST project as of March 31, 1999;
- o Reversal of the third quarter 2001 Asset impairment charge of \$23.9 pretax related to the abandonment of the FIRST project; and
- o Restatement of all other activity related to the FIRST project, consisting

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of costs incurred and capitalized subsequent to March 31, 1999 and amortization, recorded from the second quarter of 1999 through the first quarter of 2002.

These adjustments resulting from the restatements are reflected in Management's Discussion & Analysis and the following notes: Special and Non-Recurring Charges, Earnings per Share, Comprehensive Income (Loss), Segment Information and Asset Impairment Charge.

### Accounting Changes

In addition, the Form 10-Q/A reflects the following changes to prior period financial information for which a Form 10-Q/A was not previously filed. These changes are primarily the result of the previously disclosed adoption of new accounting pronouncements and are unrelated to the restatements described above and the FIRST project:

- o Accounting changes made to reported 2000 financial information as a result of the adoption of Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements" and previously reported 2000 and 1999 financial information as a result of the adoption of Emerging Issues Task Force ("EITF") 00-10, "Accounting for Shipping and Handling Fees and Costs". The adoption of EITF 00-10 resulted in increases in Marketing, distribution and administrative expenses and Other revenue of \$10.4 and \$9.2 for the three months ended March 31, 2000 and 1999, respectively. The adoption of this EITF had no impact on Net income or Earnings per share;
- o Reclassifications made to reported 2000 financial information as a result of the adoption of EITF No. 00-14, "Accounting for Certain Sales Incentives", EITF No. 00-25, "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products" and EITF 01-09 "Accounting for Consideration Given by a Vendor to a Customer or Reseller of the Vendor's Products". The adoption of these EITFs had no impact on Operating profit, Net income or Earnings per share; and
- o Reclassifications made to reported financial information to conform with the 2002 presentation primarily relating to the sale of fundraising products in the U.S. Previously, the net sales and fundraising expenses associated with certain U.S. fundraising products had been included within Marketing, distribution and administrative expenses. This reclassification resulted in an increase to Net sales, Cost of sales and Marketing, distribution and administrative expenses of \$0.6, \$0.3 and \$0.3, respectively, for the three months ended March 31, 2000 and had no impact on reported Operating profit, Net income or Earnings per share.

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AVON PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In millions, except share data)

The effects of these restatements and accounting changes on the Consolidated Financial Statements are set forth below:

Consolidated Statement of Operations  
For the Three Months Ended March 31, 2000

-----  
As

As



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	Reported(1) -----	(2) -----	Restated(3) -----
Net sales	\$1,306.7	\$1,306.3	\$1,306.3
Total revenue	1,317.1	1,316.7	1,316.7
Cost of Sales	490.8	501.4	501.4
Marketing, distribution and administrative expenses	688.5	677.5	677.4
Operating profit	137.8	137.8	137.9
Income from continuing operations before taxes, minority interest and cumulative effect of accounting change	109.5	109.5	109.6
Income from continuing operations before minority interest and cumulative effect of accounting change	70.4	70.4	70.5
Income from continuing operations before cumulative effect of accounting change	70.4	70.4	70.5
Net income	63.7	63.7	63.8
Basic earnings per share:			
Continuing operations	\$ .30	\$ .30	\$ .30
Cumulative effect of accounting change	(.03)	(.03)	(.03)
	-----	-----	-----
	\$ .27	\$ .27	\$ .27
	=====	=====	=====
Diluted earnings per share:			
Continuing operations	\$ .30	\$ .30	\$ .30
Cumulative effect of accounting change	(.03)	(.03)	(.03)
	-----	-----	-----
	\$ .27	\$ .27	\$ .27
	=====	=====	=====

Consolidated Balance Sheet  
As of March 31, 2000

	As Reported(4) -----	(2) -----	As Restated(3) -----
Accounts receivable	\$ 503.2	\$ 456.3	\$ 456.3
Inventory	604.8	622.4	622.4
Property, plant and equipment, at cost	1,474.0	1,474.0	1,471.3
Other assets	458.2	458.2	445.2
Total assets	2,589.7	2,560.4	2,544.7
Accounts payable	370.5	358.1	358.1
Retained earnings	868.2	857.0	841.3
Total liabilities and shareholder's (deficit) equity	2,589.7	2,560.4	2,544.7

- (1) As reported (as prior period comparative data) in Avon's Form 10-Q for the quarter ended March 31, 2001, which includes adjustments for SAB 101.
- (2) Includes the effects of accounting changes outlined above.
- (3) Includes the effects of restatements and accounting changes outlined above.
- (4) As reported in Avon's Form 10-Q for the quarter ended March 31, 2000.

Note: Refer to the Company's Form 10-Q/A for the quarter ended March 31, 1999 for restatements to 1999 information.

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AVON PRODUCTS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (In millions, except share data)

### 3. INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS

"Net cash used by operating activities" includes the following cash payments for interest and income taxes:

	Three months ended March 31	
	2000	1999
	----	----
Interest.....	\$ 17.7	\$ 12.8
Income taxes, net of refunds received.....	42.2	24.9

### 4. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share ("EPS") are computed by dividing net income (loss) by the weighted-average number of shares outstanding during the year. Diluted earnings (loss) per share are calculated to give effect to all potentially dilutive common shares that were outstanding during the year.

For the three months ended March 31, 2000 and 1999, the number of shares used in the computation of basic and diluted earnings (loss) per share are as follows:

	2000	1999
	----	----
Basic EPS		
Weighted-average shares	237.64	262.00
Incremental shares from conversion of:		
Stock options (1)	1.51	-
	-----	-----
Diluted EPS		
Adjusted weighted- average shares	239.15	262.00
	-----	-----

(1) At March 31, 2000 and 1999, stock options and forward contracts to purchase Avon common stock totaling 6.3 million shares and 7.9 million shares, respectively, are not included in the earnings per share calculation since their impact is anti-dilutive.

The Company purchased approximately 383,000 shares of common stock for \$16.9 during the first three months of 2000, as compared to approximately 1,267,000 shares of common stock for \$50.0 during the first three months of 1999, under a previously announced share repurchase program.

### 5. INVENTORIES

	March 31	December 31
	2000	1999
	----	----
Raw materials.....	\$172.4	\$156.9
Finished goods.....	450.0	366.6
	-----	-----

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\$622.4	\$523.5
=====	=====

### 6. DIVIDENDS

Cash dividends paid per share of common stock were \$.185 for the three months ended March 31, 2000 and \$.18 for the corresponding 1999 period. On February 3, 2000, the Company increased the annual dividend rate to \$.74 from \$.72.

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AVON PRODUCTS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (In millions, except share data)

### 7. CONTINGENCIES

Various lawsuits and claims (asserted and unasserted), arising in the ordinary course of business or related to businesses previously sold, are pending or threatened against Avon.

In 1991, a class action suit was initiated against Avon on behalf of certain classes of holders of Avon's Preferred Equity-Redemption Cumulative Stock ("PERCS"). This lawsuit alleges various contract and securities law claims relating to the PERCS (which were fully redeemed that year).

Avon has rejected the assertions in this case, believes it has meritorious defenses to the claims and is vigorously contesting this lawsuit.

In the opinion of Avon's management, based on its review of the information available at this time, the total cost of resolving such contingencies at March 31, 2000 should not have a material adverse impact on Avon's consolidated financial position, results of operations or cash flows.

### 8. COMPREHENSIVE INCOME (LOSS)

For the three months ended March 31, 2000 and 1999, the components of comprehensive income(loss) are as follows:

	2000	1999
	-----	-----
Net income(loss)	\$ 63.8	\$(62.9)
Other comprehensive loss:		
Change in equity due to foreign currency translation and transaction adjustments	(2.6)	(41.6)
	-----	-----
Comprehensive income(loss)	\$ 61.2	\$(104.5)
	=====	=====

### 9. SPECIAL AND NON-RECURRING CHARGES

In October 1997, the Company announced a worldwide business process redesign program to streamline operations and improve profitability through margin improvement and expense reductions. The special and non-recurring charges associated with this program totaled \$136.4 pretax (\$111.9 net of tax, or \$.43 per share on a basic and diluted basis) for the year ended December 31,

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1999 and \$154.4 pretax (\$122.8 net of tax, or \$.46 per share on a basic and diluted basis) for the year ended December 31, 1998.

The 1999 special and non-recurring charges by business segment are as follows:

North America	\$ 33.6
Latin America	14.7
Europe	69.8
Pacific	11.8
Corporate	6.5
	-----
Total	\$ 136.4
	=====

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### AVON PRODUCTS, INC. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In millions, except share data)

The 1999 special and non-recurring charges by category of expenditures are as follows:

	Special Charge	Cost of Sales Charge	Total
	-----	-----	-----
Employee severance costs	\$ 57.0		\$ 57.0
Inventories		\$ 46.0	46.0
Write-down of assets to net realizable value	11.6		11.6
Recognition of foreign currency translation adjustment	9.8		9.8
Other	12.0		12.0
	-----	-----	-----
Total	\$ 90.4	\$ 46.0	\$ 136.4
	=====	=====	=====

Employee severance costs are expenses, both domestic and international, associated with the realignment of the Company's global operations. Certain employee severance costs were accounted for in accordance with the Company's existing FAS 112 ("Employers' Accounting for Postemployment Benefits") severance plans. Remaining severance costs were accounted for in accordance with other existing accounting literature. The workforce has been reduced by 3,700 associates, or 9% of the total. Approximately one-half of the terminated employees related to facility closures.

Inventory related charges represent losses to write-down the carrying value of non-strategic inventory prior to disposal. The charges primarily result from a new business strategy for product dispositions which fundamentally changes the way the Company markets and sells certain inventory. This new strategy, approved and effective in March 1999, is meant to complement other redesign initiatives, with the objective of reducing inventory clearance sales, building core brochure sales and building global brands.

The write-down of assets (primarily fixed and other assets) mainly relates to the restructuring of operations in Western Europe, including the closure of a jewelry manufacturing facility in Ireland. By centralizing certain key functional areas and exiting unprofitable situations, the Company plans to

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increase operating efficiencies and ultimately, profit growth in the long-term.

The recognition of foreign currency translation adjustment relates to the closure of the jewelry manufacturing facility in Ireland.

The "Other" category primarily represents contract termination costs, legal and consulting fees and other costs associated with the facility closures.

The liability balance at March 31, 2000 is as follows:

	Special Charge -----	Cost of Sales Charge -----	Total -----
Balance at December 31, 1999	\$ 26.2	\$ -	\$ 26.2
Cash expenditures	(6.4)		(6.4)
	-----	----	-----
Balance at March 31, 2000	\$ 19.8 =====	\$ - =====	\$ 19.8 =====

The balance at March 31, 2000 related primarily to employee severance costs that will be paid during 2000.

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AVON PRODUCTS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(In millions, except share data)

### 10. ASSET IMPAIRMENT CHARGE

In the first quarter of 1999, Avon originally recorded a Special charge of \$151.2 pretax, which included the write off of \$14.8 in pre-tax costs (\$10.0 after tax) associated with a portion of the order management software system known as the FIRST project. The balance of the FIRST project's development costs had been carried as an asset until the third quarter of 2001, when Avon recorded a pre-tax charge of \$23.9 (\$14.5 after tax) to write off the carrying value of costs related to that project. The non-cash charge recorded in the third quarter of 2001 included software development costs, certain hardware, software interfaces and other related costs. Prior to the write off, the capitalized software was included in Property, plant and equipment, at cost and Other assets on the Consolidated Balance Sheet.

The decision to abandon the FIRST project was based on various factors, including project management and implementation issues and costs, costs for ongoing support, and changes in Avon business strategies.

The FIRST project, and the Special charge reported by Avon in the first quarter of 1999 that included the write off of \$14.8 in pre-tax costs associated with FIRST, were the subject of a formal investigation by the SEC commenced in August 2000. Avon has settled that matter with the SEC and, as part of that settlement, has restated its financial statements to reflect the additional write off as of March 31, 1999 of all capitalized costs (\$23.3 pretax, and \$14.0 after tax) associated with the FIRST project as of that date for a total first quarter write off of \$38.1 pretax (\$24.0 after tax). Avon has also reversed the charge recorded in the third quarter of 2001, and has restated all other FIRST-related activity recorded during 1999-2002.

See the Introductory Note - Restatements and Note 2 of the Notes to

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Consolidated Financial Statements, "Restatements and Accounting Changes".

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AVON PRODUCTS, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (In millions, except share data)

### 11. SEGMENT INFORMATION

Summarized financial information concerning the Company's reportable segments is as follows:

	Three Months Ended March 31			
	2000		1999	
	Net Sales	Operating Profit	Net Sales	Operating (Loss)
	-----	-----	-----	-----
North America:				
U.S.	\$ 452.0	\$ 81.1	\$ 428.8	\$ 77.5
Other*	58.8	4.8	54.1	6.6
	-----	-----	-----	-----
Total	510.8	85.9	482.9	84.1
	-----	-----	-----	-----
International:				
Latin America North**	188.3	39.9	177.1	36.8
Latin America South**	215.4	29.9	201.4	28.6
	-----	-----	-----	-----
Latin America	403.7	69.8	378.5	65.4
Pacific	190.0	22.4	157.3	13.6
Europe	202.2	20.6	195.1	14.1
	-----	-----	-----	-----
Total International	795.9	112.8	730.9	93.1
	-----	-----	-----	-----
Total from operations	\$1,306.7	198.7	\$1,213.8	177.2
Global expenses		(60.8)		(67.3)
Special and non-recurring charges		-		(136.4)
Asset impairment charge		-		(38.1)
Reclassifications for accounting changes (Note 2)	(.4)	-	-	-
	-----	-----	-----	-----
Total	\$1,306.3	\$ 137.9	\$1,213.8	\$ (64.6)
	=====	=====	=====	=====

\* Includes operating information for Canada and Puerto Rico.

\*\*Latin America North includes the major markets of Mexico, Venezuela and Central America. Latin America South includes the major markets of Brazil, Argentina, Chile and Peru.

To conform to the 2000 presentation, certain reclassifications were made to the prior periods' segment information.

### 12. OTHER FINANCING ACTIVITIES

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The Company has entered into forward contracts to purchase 2,078,200 shares of Avon Common Stock at an average price of \$37.24 per share as of March 31, 2000. The contracts mature over the next 1-1/2 years and provide for physical or net share settlement to the Company. Accordingly, no adjustment for subsequent changes in fair value has been recognized.

### 13. SUBSEQUENT EVENT

On May 4, 2000, the Company declared a quarterly dividend on its common stock of \$.185 per share, payable June 1, 2000, to shareholders of record on May 17, 2000.

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AVON PRODUCTS, INC.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE  
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### ITEM 2. Management's Discussion and Analysis of the Results of Operations and Financial Condition (Restated)

Results of Operations--Three Months Ended March 31, 2000 and 1999.

Consolidated

Avon's net income from continuing operations for the three months ended March 31, 2000 was \$70.5, or \$.30 per share on a basic and diluted basis, compared with a net loss of \$62.9, or \$.24 per share on a basic and diluted basis, in 1999. Operating profit was \$137.9 in 2000 compared to an operating loss of \$64.6 in 1999.

Consolidated net sales for the three months ended March 31, 2000 increased 8% over the same period of 1999. The sales improvement was a result of increases in all geographic regions. Excluding the impact of foreign currency exchange, consolidated net sales rose 10% over the comparable period of the prior year, with double-digit increases in all international regions.

Gross margin increased 3.5 percentage points in the first three-month period of 2000 compared to the same period of 1999. The cost of sales for the three months ended March 31, 1999 includes a one-time charge of \$46.0 for inventory write-downs related to the Company's BPR program. See Note 9 for further detail. In addition, the 2000 financial information was restated to reflect certain accounting changes (see Note 2 of the Notes to Consolidated Financial Statements), which had an unfavorable impact on gross margin and no restatements were made to the 1999 financial statements for these changes. Excluding the one-time charge in 1999 and restatement for the accounting changes in 2000, the gross margin increased .5 percentage points resulting from improvements in all regions, most significantly in Mexico, Venezuela, Argentina, Central Europe and most major markets in the Pacific region.

Marketing, distribution and administrative expenses increased \$26.5, or 4%, as of March 31, 2000 over the comparable period of 1999 due to increases in all regions excluding Europe, which remained level. Partially offsetting these increases was a decrease in global expenses. Marketing, distribution and administrative expenses decreased as a percentage of total revenue to 51.4% from 53.2% primarily due to improved expense ratios in Brazil, Central Europe and the Pacific region, primarily Japan, partially offset by higher ratios in

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the United Kingdom, Venezuela and the North America region.

The first quarter 1999 results include a Special charge of \$90.4 pretax for the Company's Business Process Redesign program ("BPR") related to employee severance benefits worldwide and the restructuring of operations in Western Europe (see Note 9 of the Notes to Consolidated Financial Statements) and an Asset impairment charge of \$38.1 pretax related to the write off of an order management software system (see Note 10 of the Notes to Consolidated Financial Statements).

Interest expense of \$19.9 increased \$10.9 versus the comparable period of 1999, primarily as a result of increased domestic borrowings related to the acceleration of the share repurchase program and working capital requirements.

Interest income of \$1.8 decreased \$1.4 as compared to the same period in 1999 primarily due to reduced interest rates in Brazil and Mexico during 2000.

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Other expense (income), net of \$10.2 was \$18.0 unfavorable to the comparable period of 1999 mainly due to favorable foreign exchange in 1999 resulting from gains on Brazilian forward contracts.

Excluding the 1999 Special charge and Asset impairment charge, the effective tax rate was 35.7% in the first quarter of 2000 versus 36.4% in the first quarter of 1999, due to the earnings mix and tax rates of international subsidiaries. The tax benefit of the special charges in 1999 was 22.1% due to the mix of countries and tax jurisdictions incurring the charges.

The following discussion addresses net sales and operating profit by reportable segment as presented in Note 11:

### North America

Net sales increased 6% in the first quarter of 2000 over prior year. The U.S. business, which represents almost 90% of the North American segment, reported a sales increase of 5% for the first three months of 2000. The increase resulted from a 7%, 5% and 2% improvement in the number of units sold, customers served and active Representatives, respectively. U.S. sales of cosmetics, fragrance and toiletries ("CFT") grew 7% during the first quarter reflecting double-digit increases in color cosmetics, due to the successful launch of Glazewear and Nailwear. Personal care products also had double-digit increases primarily due to Skin-So-Soft. Furthermore, sales of jewelry and watches posted a 13% sales growth primarily due to the continued success of the Pokemon watch and Power Beads. Partially offsetting these sales improvements was a decline in the apparel category mainly due to a strategic shift in product mix.

Operating profit in North America increased 2% (U.S. increased 5%) for the first quarter of 2000 over the comparable period in 1999. This improvement is primarily attributable to increased sales, as well as a higher gross margin in the U.S. due to improved sourcing and competitive bidding, partially offset by the success of lower margin items in the jewelry and watch segment. Operating profit margin in North America declined .6 points primarily due to unfavorable



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timing of expenses in Puerto Rico, and to a lesser extent an unfavorable expense ratio in the U.S. driven by increased spending on advertising and internet projects.

### International

International U.S. dollar net sales for the first quarter of 2000 increased 9% compared to the same period in 1999. The international sales improvement was a result of double-digit increases in the Pacific as well as a mid single-digit increase in Europe and Latin America regions. Excluding the effect of foreign currency exchange, international sales increased 13%.

The 21% sales improvement in the Pacific region was driven by significant increases in units, orders and active Representatives, most significantly in Japan and Taiwan. Sales in Japan have grown due to focus on customer reach through advertising and customer offers and an outreach program consisting of distributed flyers. Also, sales in Taiwan continued to increase due to a recruitment and retention program which began in fourth quarter 1999. Local currency sales in the Pacific region increased 16%.

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In Latin America, sales increased 7% in the first quarter of 2000 mainly due to double-digit growth in Brazil, Mexico, Central America and Chile partially offset by a decline in Venezuela. The sales increase in Brazil was primarily driven by a higher average order. The increases in Mexico, Central America and Chile were primarily due to improvements in orders, active Representatives and customers. Mexico was also impacted by a favorable foreign exchange. The sales decline in Venezuela resulted from the impact of floods in late 1999 as well as a significant unfavorable exchange impact. Excluding the impact of exchange, sales in Latin America increased 9%.

In Europe, sales increased 4% in the first quarter primarily due to growth in the United Kingdom and Central Europe partially offset by a sales decline in Germany. The sales improvement in the United Kingdom arose from strong double-digit growth in average order size as well as increases in units and customers served. The improvement in Central Europe, primarily Poland, resulted from continued increases in active Representatives, units and customers served. Poland's success reflects strong growth in the CFT category, increased Representative retention and a change in the campaign cycle including a new brochure every 4 weeks versus 6 weeks in the prior year. The sales decline in Germany was primarily the result of a weak economic climate which negatively impacted key business indicators. Excluding the impact of exchange, Europe sales grew 17%, a 13 point variance from the dollar increase largely due to an unfavorable exchange impact in Central Europe and Germany.

International operating profit increased 21% in the first quarter of 2000 compared to the same period in 1999.

Operating profit growth in the Pacific of 65% in the first quarter of 2000 resulted from the sales growth, discussed above, and operating margin improvements in nearly all markets, most significantly in Japan, the Philippines and China, partially offset by an operating margin decline in Taiwan. Japan's expense ratio improved largely due to BPR efforts which

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continue to generate significant savings across all expense areas. An improvement in the gross margin in the Philippines was primarily due to an improved sales mix, as well as lower costs for apparel products. China's gross margin increase resulted from improved sales, including a shift in sales channels to beauty counters and boutiques, as well as localization of raw materials and a shift in mix to higher margin items. A gross margin decline in Taiwan reflects increased costs resulting from the earthquake during 1999 as well as the undersale of certain high-margin CFT products. Overall, the first quarter operating margin in the Pacific was up 3.1 points versus the prior year.

In Latin America, operating profit for the first quarter of 2000 increased 7% as compared to the same period in 1999. This operating profit improvement resulted from the sales increases, discussed above, as well as operating profit margin improvements in Mexico, Chile and Argentina, partially offset by an operating profit margin decline in Venezuela. In Mexico, gross margin was favorable due to savings resulting from global sourcing strategies, lower costs resulting from vendor negotiations as well as a shift in mix to higher margin CFT products. The expense ratio in Chile was favorable primarily due to sales growth resulting from an improved economy. In Argentina, a gross margin improvement was primarily due to lower overhead and material costs. Brazil's operating profit margin was relatively level impacted by difficult prior year comparisons. The operating expense ratio decline in Venezuela was primarily the result of severe floods in late 1999. Increased bad debt, resulting from collection difficulties, and higher distribution and transportation expenses were direct results of the flooding.

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### AVON PRODUCTS, INC. MANAGEMENT'S DISCUSSION AND ANALYSIS OF THE RESULTS OF OPERATIONS AND FINANCIAL CONDITION (In millions, except share data)

Operating profit in Europe increased 46% in the first quarter of 2000 primarily due to the sales increases, discussed above, as well as operating profit margin improvements in Central Europe and Russia, partially offset by margin declines in the United Kingdom and Germany. The improvement in Central Europe, most significantly Poland, resulted from a sizeable reduction in expenses, volume efficiencies and cost savings from BPR initiatives. In Russia, the gross margin improved due to a favorable comparison against last year's discount pricing policy, and the expense ratio was favorable due to stringent expense controls on a higher sales base. The increased operating expense ratio in the United Kingdom resulted from increased shipping and distribution costs due to a decreased capacity of shipping lines during transition to a new shipping system, as well as increased advertising, consumer motivation and sampling activities to support strong sales growth. In Germany, depressed sales due to weak economic conditions led to an increased expense ratio.

#### Global Expenses

Global expenses decreased 10% in the first quarter of 2000 over the same period in 1999 primarily due to lower expenses related to the Company's long-term incentive plan, coupled with the timing of global marketing expenses.

#### Liquidity and Capital Resources

#### Cash Flows

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Excluding changes in debt, there was a net decrease in cash of \$223.6 in the first quarter of 2000 compared with a decrease of \$202.9 in the comparable period of 1999. The \$20.7 variance resulted from higher net cash used by operations which primarily reflects higher working capital levels which included the payout of the long-term incentive plan in 2000, the timing of cash payments, as well as increased inventory levels due to growing sales trends and additional stock on hand to protect service levels. These uses of cash were partially offset by lower repurchases of common stock, a favorable effect of foreign currency exchange and decreased cash used for investing activities due to the acquisition of a manufacturing facility in 1999.

During the first quarter of 2000, the Company purchased approximately 383,000 shares of common stock for \$16.9 compared with \$50.0 spent for the repurchase of approximately 1,267,000 shares during the comparable period in 1999.

In October 1999, the Company's Board of Directors approved a significant acceleration of the Company's share repurchase program. As of March 31, 2000, the Company has substantially completed its current \$1.1 billion buyback program, which had been scheduled to run through 2001.

### Capital Resources

Total debt increased \$198.1 to \$1,205.5 from \$1,007.4 at December 31, 1999, principally due to working capital requirements and the payout of the Company's long-term incentive plan. Total debt of \$1,205.5 at March 31, 2000 was \$709.6 higher than total debt of \$495.9 at March 31, 1999, primarily due to increased borrowings to fund the Company's share repurchase program. In addition, at March 31, 2000 and December 31, 1999, other accrued liabilities include approximately \$104.9 and \$106.4, respectively, related to securities lending activities.

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At March 31, 2000, there were no borrowings under the amended and restated revolving credit and competitive advance facility agreement. This agreement is also used to support the Company's commercial paper borrowings of which \$427.8 was outstanding at March 31, 2000.

At March 31, 2000, there were \$8.0 of borrowings outstanding under uncommitted lines of credit and there were no borrowings under the Company's bankers' acceptance facilities.

Management currently believes that cash from operations and available financing alternatives are adequate to meet anticipated requirements for working capital, dividends, capital expenditures, the stock repurchase program and other cash needs.

### Working Capital

As of March 31, 2000 and December 31, 1999, current liabilities exceeded current assets by \$369.4 and \$375.0, respectively. The decrease of current liabilities over current assets of \$5.6 was primarily due to an increase in net inventories, primarily due to growing sales trends and additional stock on hand

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to protect service levels, and a decrease in accrued compensation and accounts payable reflecting the seasonal pattern of Avon's operations and the payout of the cash component of the Company's three-year long-term incentive plan in 2000. The decrease of current liabilities over current assets was partially offset by an increase in net debt (debt less cash and equivalents), discussed in the Debt section above.

Although current liabilities exceeded current assets at March 31, 2000, management believes this is due to the Company's direct selling business format which results in lower receivable and working capital levels as well as the Company's practice of repurchasing shares with available cash. Avon's liquidity results from its ability to generate significant cash flows from operations and its ample unused borrowing capacity. At March 31, 2000, the large excess of current liabilities over current assets as well as the issuance of long-term debt in 1999 reflect the aforementioned acceleration of the Company's share repurchase program. These share repurchases resulted in a shareholders' deficit balance at March 31, 2000 of \$419.2. Avon's credit agreements do not contain any provisions or requirements with respect to working capital.

### Financial Instruments and Risk Management Strategies

The Company operates globally, with manufacturing and distribution facilities in various locations around the world. The Company may reduce its exposure to fluctuations in interest rates and foreign exchange rates by creating offsetting positions through the use of derivative financial instruments. The Company currently does not use derivative financial instruments for trading or speculative purposes, nor is the Company a party to leveraged derivatives.

The Company periodically uses interest rate swaps to hedge portions of interest payable on its debt. In addition, the Company may periodically employ interest rate caps to reduce exposure, if any, to increases in variable interest rates.

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At March 31, 2000, the Company had a five-year interest rate swap agreement with a notional amount of \$50.0 to convert fixed interest on a portion of the Company's \$100 million bonds to a variable interest rate, based on LIBOR. The Company also has five-year and ten-year interest rate swap contracts with notional amounts of \$200.0 and \$300.0, respectively, to convert fixed interest on the Company's \$200.0 five-year notes and \$300.0 ten-year notes to a variable interest rate, based on commercial paper rates.

The Company may periodically hedge foreign currency royalties, net investments in foreign subsidiaries, firm purchase commitments and contractual foreign currency cash flows or obligations, including third-party or intercompany foreign currency transactions. The Company regularly monitors its foreign currency exposures and ensures that hedge contract amounts do not exceed the amounts of the underlying exposures.

At March 31, 2000, the Company held foreign currency forward contracts with notional amounts totaling \$258.1 and option contracts with notional amounts totaling \$20.0 to hedge foreign currency items. All of these contracts have

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maturities prior to December 31, 2000. Also outstanding at March 31, 2000 were foreign currency forward contracts with notional amounts totaling \$29.8 and option contracts with notional amounts totaling \$30.0 which do not qualify as hedging transactions under the current accounting definitions and, accordingly, have been marked to market. The mark-to-market adjustment at March 31, 2000 was not material.

The Company has entered into forward contracts to purchase 2,078,200 shares of Avon common stock at an average price of \$37.24 per share as of March 31, 2000. The contracts mature over the next 1-1/2 years and provide for physical or net share settlement to the Company. Accordingly, no adjustment for subsequent changes in fair value have been recognized.

The Company attempts to minimize its credit exposure to counterparties by entering into interest rate swap and cap and equity forward contracts only with major international financial institutions with "A" or higher credit ratings as issued by Standard & Poor's Corporation. The Company's foreign currency and interest rate derivatives are comprised of forward contracts, swaps or options with major international financial institutions. Although the Company's theoretical credit risk is the replacement cost at the then estimated fair value of these instruments, management believes that the risk of incurring losses is remote and that such losses, if any, would not be material.

### Euro

A single currency called the euro was introduced in Europe on January 1, 1999. Eleven of the fifteen member countries of the European Union adopted the euro as their common legal currency on that date. Fixed conversion rates between these participating countries' existing currencies (the "legacy currencies") and the euro were established as of that date. The legacy currencies are scheduled to remain legal tender as denominations of the euro until June 30, 2002 after which they will be withdrawn from circulation. During this transition period, parties may settle transactions using either the euro or a participating country's legal currency. Beginning in January 2002, new euro-denominated bills and coins will be issued.

Avon operating subsidiaries affected by the euro conversion have established plans to address issues raised by the euro currency conversion. These issues include, among others, the need to adapt information technology systems, business processes and equipment to accommodate euro-denominated transactions, the impact of one common

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currency on pricing and recalculating currency risk. Avon does not expect system and equipment conversion costs to be material. Due to the numerous uncertainties associated with the market impact of the euro conversion, the Company cannot reasonably estimate the effects one common currency will have on pricing and the resulting impact, if any, on results of operations, financial condition or cash flows.

### Year 2000

The Company has not experienced any disruptions to its normal operations

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as a result of the transition into calendar year 2000. Thorough testing of mission critical business processes was performed on January 1, 2000. The Company also closely monitored its key business processes during the first few months of 2000 in order to validate the data integrity of internal and external system interfaces. Based on the Company's preparations prior to January 1, 2000 and the absence of any problems to date, no significant disruptions are anticipated.

CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements in this report which are not historical facts or information are forward-looking statements, including, but not limited to, the information set forth in "Other Information" herein. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, levels of activity, performance or achievement of the Company, or industry results, to be materially different from any future results, levels of activity, performance or achievement expressed or implied by such forward-looking statements. Such factors include, among others, the following: general economic and business conditions; the ability of the Company to implement its business strategy; the Company's access to financing and its management of foreign currency risks, the Company's ability to successfully identify new business opportunities; the Company's ability to attract and retain key executives; the Company's ability to achieve anticipated cost savings and profitability targets; changes in the industry; competition; the effect of regulatory and legal restrictions imposed by foreign governments; the effect of regulatory and legal proceedings and other factors discussed in Item 1 of the Company's Form 10-K/A. As a result of the foregoing and other factors, no assurance can be given as to the future results and achievements of the Company. Neither the Company nor any other person assumes responsibility for the accuracy and completeness of these statements.

AVON PRODUCTS, INC.

PART II. OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

(a) At the annual meeting of shareholders of Avon, held on May 4, 2000, the matters described under (c) below were voted upon.

(c) Annual meeting votes:

For	Against or Withheld	Abstentions and Broker Non-Votes
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(1)	To elect three directors to three-year terms expiring in 2003 .....	204,561,181	-	2,629,179
(2)	To elect two directors to a one-year term expiring in 2001 .....	204,563,065	-	2,627,295
(3)	To act upon a proposal to approve the Avon Products, Inc., Year 2000 Stock Incentive Plan .....	174,730,771	10,669,779	21,789,810
(4)	To ratify the appointment of PricewaterhouseCoopers LLP as Avon's independent accountants for 2000.....	206,332,415	318,154	549,791

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AVON PRODUCTS, INC.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

There are no exhibits.

(b) Reports on Form 8-K.

On February 2, 2000, the Company filed a Form 8K to announce its fourth quarter and full year earnings for 1999.

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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.

AVON PRODUCTS, INC.

-----  
(Registrant)

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Date: August 12, 2002

By /s/ Janice Marolda

-----  
Janice Marolda  
Vice President,  
Controller  
Principal Accounting Officer

Signed both on behalf of the  
registrant and as principal  
accounting officer.