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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 June 30, 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 X No

The number of shares of Common Stock (par value \$.25) outstanding at July
31, 2000 was 237,421,646

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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

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(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.

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 June 30	
	2000 (Restated Note 2)	1999
	(unaudited)	
Net sales.....	\$1,386.4	\$1,258.1
Other revenue.....	10.0	9.1
	-----	-----
Total revenue.....	1,396.4	1,267.2
Costs and expenses:		
Cost of sales.....	511.9	451.7
Marketing, distribution and administrative expenses.....	663.3	622.8
	-----	-----
Operating profit	221.2	192.7
Interest expense.....	22.8	8.9
Interest income.....	(2.1)	(2.2)
Other expense, net.....	4.6	0.7
	-----	-----
Total other expenses.....	25.3	7.4
	-----	-----
Income before taxes and minority interest..	195.9	185.3
Income taxes.....	69.5	66.6
	-----	-----
Income before minority interest.....	126.4	118.7
Minority interest.....	(1.0)	.8
	-----	-----
Net income.....	\$ 125.4	\$ 119.5
	=====	=====

Earnings per share:

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Basic	\$.53	\$.46
	=====	=====
Diluted.....	\$.52	\$.45
	=====	=====

The accompanying notes are an integral part of these statements.

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

	Six months ended June 30	
	2000 (Restated Note 2)	1999
	(unaudited)	
Net sales.....	\$2,692.7	\$2,471.9
Other revenue.....	20.4	18.3
Total revenue.....	2,713.1	2,490.2
Costs, expenses and other:		
Cost of sales*	1,013.3	959.9
Marketing, distribution and administrative expenses.....	1,340.7	1,273.7
Special charge.....	-	90.4
Asset impairment charge.....	-	38.1
Operating profit.....	359.1	128.1
Interest expense.....	42.7	17.9
Interest income.....	(3.9)	(5.4)
Other expense(income), net	14.8	(7.1)
Total other expenses.....	53.6	5.4
Income before taxes and minority interest..	305.5	122.7
Income taxes.....	108.6	68.7
Income before minority interest and Cumulative effect of accounting change...	196.9	54.0
Minority interest.....	(1.0)	2.6
Net income from continuing operations		

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before and cumulative effect of accounting change, net of taxes.....	195.9	56.6
Cumulative effect of accounting change, net of taxes.....	(6.7)	-
Net Income.....	\$ 189.2	\$ 56.6
Earnings per share:		
Basic earnings per share:		
Continuing operations.....	\$.82	\$.22
Cumulative effect of accounting change..	(.03)	-
	\$.79	\$.22
Diluted earnings per share:		
Continuing operations.....	\$.82	\$.21
Cumulative effect of accounting change.	(.03)	-
	\$.79	\$.21

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

The accompanying notes are an integral part of these statements.

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

	June 30 2000 (Restated Note 2)	December 31 1999
	(unaudited)	
ASSETS		
Current assets:		
Cash and equivalents.....	\$ 75.9	\$ 117.4
Accounts receivable.....	455.7	495.6
Inventories.....	660.2	523.5
Prepaid expenses and other.....	202.1	201.3
Total current assets.....	1,393.9	1,337.8
Property, plant and equipment, at cost.	1,469.5	1,469.3
Less accumulated depreciation.....	741.1	737.2
	728.4	732.1
Other assets.....	454.6	442.9
Total assets.....	\$2,576.9	\$2,512.8
LIABILITIES AND SHAREHOLDERS' DEFICIT		
Current liabilities:		

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Debt maturing within one year.....	\$ 117.4	\$ 306.0
Accounts payable.....	350.9	435.9
Accrued compensation.....	114.1	165.8
Other accrued liabilities.....	368.5	411.6
Sales and taxes other than income.....	89.1	107.5
Income taxes.....	291.1	286.0
	-----	-----
Total current liabilities.....	1,331.1	1,712.8
	-----	-----
Long-term debt.....	1,092.8	701.4
Employee benefit plans.....	397.5	398.1
Deferred income taxes.....	34.5	36.7
Other liabilities.....	92.6	85.7
Shareholders' deficit:		
Common stock.....	88.3	88.1
Additional paid-in capital.....	833.9	819.4
Retained earnings.....	922.7	821.4
Accumulated other comprehensive loss. .	(373.3)	(349.7)
Treasury stock, at cost.....	(1,843.2)	(1,801.1)
	-----	-----
Total shareholders' deficit.....	(371.6)	(421.9)
	-----	-----
Total liabilities and shareholders' deficit	\$2,576.9	\$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)

	Six months ended June 30	
	2000	1999
	(Restated Note 2)	-----

	(unaudited)	
Cash flows from operating activities:		
Net income.....	\$ 189.2	\$ 56.6
Adjustments to reconcile net income to net cash (used)/provided by operating activities:		
Cumulative effect of accounting change.....	6.7	-
Special and non-recurring (payments)charges.....	(10.1)	93.1
Asset impairment charge.....	-	38.1
Depreciation and amortization.....	45.0	39.5
Provision for doubtful accounts.....	48.2	43.6
Translation loss/(gain).....	1.5	(.7)
Deferred income taxes.....	5.4	(18.4)
Amortization of debt discount.....	(3.3)	(3.3)
Other.....	5.4	2.0
Changes in assets and liabilities:		
Accounts receivable.....	(47.5)	(58.5)
Inventories.....	(141.6)	(67.6)
Prepaid expenses and other.....	(16.3)	(1.9)

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Accounts payable and accrued liabilities.....	(130.9)	(120.7)
Income and other taxes.....	(5.8)	(2.7)
Noncurrent assets and liabilities.....	18.1	8.4
	-----	-----
Net cash (used)/provided by operating activities.	(36.0)	7.5
	-----	-----
Cash flows from investing activities:		
Capital expenditures.....	(76.5)	(69.1)
Disposal of assets.....	5.2	5.2
Other investing activities.....	(1.1)	(15.3)
	-----	-----
Net cash used by investing activities.....	(72.4)	(79.2)
	-----	-----
Cash flows from financing activities:		
Cash dividends.....	(89.7)	(95.7)
Book overdraft.....	(8.5)	-
Debt, net (maturities of three months or less).	221.7	254.8
Proceeds from short-term debt.....	25.6	22.1
Retirement of short-term debt.....	(42.7)	(19.5)
Retirement of long-term debt.....	(.1)	(.2)
Repurchase of common stock.....	(42.1)	(125.5)
Proceeds from exercise of stock options, net of taxes.....	10.5	21.4
	-----	-----
Net cash provided by financing activities.....	74.7	57.4
	-----	-----
Effect of exchange rate changes on cash and equivalents.....	(7.8)	(17.5)
	-----	-----
Net decrease in cash and equivalents.....	(41.5)	(31.8)
Cash and equivalents at beginning of period....	117.4	105.6
	-----	-----
Cash and equivalents at end of period.....	\$ 75.9	\$ 73.8
	=====	=====

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 accruals, 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 ("FASB") issued Financial Accounting Standard ("FAS") No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FAS No.

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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). In June 2000, the FASB issued FAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities - an amendment of FASB Statement No. 133". FAS No. 138 amends FAS 133 and will be adopted concurrently with FAS No. 133. 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 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 as amended by FAS 138 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 June 30, 2000, the Company does not expect the adoption of FAS No. 133 as amended by FAS 138 to have a material impact on its earnings or statement of financial position.

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".

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

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 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:

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- 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 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, 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 \$10.0 and \$20.4 for the three and six months ended June 30, 2000, respectively, and \$9.1 and \$18.3 for the three and six months ended June 30, 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 \$4.4, \$1.9 and \$2.5, respectively, for the three months ended June 30, 2000 and \$5.0, \$2.2 and \$2.8, respectively, for the six months ended June 30, 2000 and had no impact on reported Operating profit, Net income or Earnings per share.

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 June 30, 2000			
	As Reported(1)	(2)	As Restated(3)
Net sales	\$1,382.6	\$1,386.4	\$1,386.4
Total revenue	1,392.6	1,396.4	1,396.4
Cost of sales	498.6	511.9	511.9
Marketing, distribution and administrative expenses	673.6	664.1	663.3
Operating profit	220.4	220.4	221.2
Income from continuing operations before taxes, minority interest and cumulative effect of accounting change	195.1	195.1	195.9
Income taxes	69.2	69.2	69.5
Income from continuing operations before minority interest and cumulative effect of accounting change	125.9	125.9	126.4
Income from continuing operations before cumulative effect of accounting change	124.9	124.9	125.4
Net income	124.9	124.9	125.4
Basic earnings per share:			
Continuing operations	\$.53	\$.53	\$.53
Cumulative effect of accounting change	-	-	-
	\$.53	\$.53	\$.53
Diluted earnings per share:			
Continuing operations	\$.52	\$.52	\$.52
Cumulative effect of accounting change	-	-	-
	\$.52	\$.52	\$.52

Consolidated Statement of Operations Six Months Ended June 30, 2000			
	As Reported(1)	(2)	As Restated(3)
Net sales	\$2,689.3	\$2,692.7	\$2,692.7

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Total revenue	2,709.7	2,713.1	2,713.1
Cost of sales	989.4	1,013.3	1,013.3
Marketing, distribution and administrative expenses	1,362.1	1,341.6	1,340.7
Operating profit	358.2	358.2	359.1
Income from continuing operations before taxes, minority interest and cumulative effect of accounting change	304.6	304.6	305.5
Income taxes	108.3	108.3	108.6
Income from continuing operations before minority interest and cumulative effect of accounting change	196.3	196.3	196.9
Income from continuing operations before cumulative effect of accounting change	195.3	195.3	195.9
Net income	188.6	188.6	189.2
Basic earnings per share:			
Continuing operations	\$.82	\$.82	\$.82
Cumulative effect of accounting change	(.03)	(.03)	(.03)
	-----	-----	-----
	\$.79	\$.79	\$.79
	=====	=====	=====
Diluted earnings per share:			
Continuing operations	\$.82	\$.82	\$.82
Cumulative effect of accounting change	(.03)	(.03)	(.03)
	-----	-----	-----
	\$.79	\$.79	\$.79
	=====	=====	=====

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

Consolidated Balance Sheet
As of June 30, 2000

	As Reported(4)	(2)	As Restated(3)
	-----	-----	-----
Accounts receivable	\$ 496.8	\$ 455.7	\$ 455.7
Inventory	645.2	660.2	660.2
Property, plant and equipment, at cost	1,472.2	1,472.2	1,469.5
Other assets	467.1	467.1	454.6
Total assets	2,618.2	2,592.1	2,576.9
Accounts payable	361.3	350.9	350.9
Retained earnings	948.6	937.9	922.7
Total liabilities and shareholder's (deficit) equity	2,618.2	2,592.1	2,576.9

(1) As reported (as prior period comparative data) in Avon's Form 10-Q for the quarter ended June 30, 2001, which includes adjustments for SAB 101.

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- (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 10-Q for the quarter ended June 30, 2000.

Note: Refer to the Company's Form 10-Q/A for the quarter ended June 30, 1999 for restatements to 1999 information.

3. INFORMATION RELATING TO THE STATEMENT OF CASH FLOWS

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

	Six months ended June 30	
	2000	1999
	-----	-----
Interest.....	\$ 50.6	\$19.5
Income taxes, net of refunds received....	102.0	73.1

4. EARNINGS PER SHARE

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

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

For the three and six months ended June 30, 2000 and 1999, the number of shares used in the computation of basic and diluted earnings per share are as follows:

	Three Months ended June 30		Six Months ended June 30	
	2000	1999	2000	1999
	-----	-----	-----	-----
Basic EPS				
Weighted-average shares	237.50	261.54	237.57	261.77
Incremental shares from assumed conversion of stock options and settlement of forward contracts(1)	2.06	3.47	1.78	3.09
	-----	-----	-----	-----
Diluted EPS				
Adjusted weighted- average shares	239.56	265.01	239.35	264.86

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(1) At June 30, 2000 and 1999, stock options and forward contracts to purchase Avon common stock totaling 2.3 million shares and 2.6 million shares, respectively, are not included in the earnings per share calculation since their impact is anti-dilutive.

The Company purchased approximately 1,060,255 shares of common stock for \$42.1 during the first six months of 2000, as compared to approximately 2,756,500 shares of common stock for \$125.5 during the first six months of 1999.

5. INVENTORIES	June 30	December 31
	2000	1999
	----	----
Raw materials.....	\$180.6	\$156.9
Finished goods.....	479.6	366.6
	-----	-----
	\$660.2	\$523.5
	=====	=====

6. DIVIDENDS

Cash dividends paid per share of common stock were \$.185 and \$.37 for the three and six months ended June 30, 2000, respectively, and \$.18 and \$.36 for the corresponding 1999 periods. On February 3, 2000, the Company increased the annual dividend rate to \$.74 from \$.72.

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.

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

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 June 30, 2000 should not have a material adverse impact on Avon's consolidated financial position, results of operations or cash flows.

8. COMPREHENSIVE INCOME

For the three and six months ended June 30, 2000 and 1999, the components of comprehensive income are as follows:

Three Months ended	Six Months ended
--------------------	------------------

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	June 30		June 30	
	2000	1999	2000	1999
Net income	\$125.4	\$119.5	\$189.2	\$56.6
Other comprehensive (loss) income:				
Change in equity due to foreign currency translation and transaction adjustments	(21.3)	1.4	(23.9)	(40.2)
Comprehensive income	\$104.1	\$120.9	\$165.3	\$16.4

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, 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

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

Employee severance costs	\$ 57.0
Inventories	46.0
Write-down of assets to net realizable value	11.6
Recognition of foreign currency translation adjustment	9.8
Other	12.0

Total	\$ 136.4

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

The recognition of a 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 June 30, 2000 is as follows:

	Special Charge	Cost of Sales Charge	Total
	-----	-----	-----
Balance at December 31, 1999	\$ 26.2	\$ -	\$ 26.2
Cash expenditures	(10.1)		(10.1)
	-----	-----	-----
Balance at June 30, 2000	\$ 16.1	\$ -	\$ 16.1
	=====	=====	=====

The balance at June 30, 2000 relates primarily to employee severance costs that will be paid during 2000.

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.

AVON PRODUCTS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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 Consolidated Financial Statements, "Restatements and Accounting Changes".

11. SEGMENT INFORMATION

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

	Three Months Ended June 30			
	2000		1999	
	Net Sales	Operating Profit	Net Sales	Operating Profit
North America:				
U.S.	\$ 455.3	\$ 96.2	\$ 430.0	\$ 91.0
Other*	58.6	6.6	54.2	7.3
Total	513.9	102.8	484.2	98.3
International:				
Latin America North**	213.9	57.3	181.1	46.0
Latin America South**	247.8	50.9	226.9	48.8
Latin America	461.7	108.2	408.0	94.8
Pacific	199.0	29.6	169.2	22.8
Europe	208.0	35.8	196.7	31.8
Total	868.7	173.6	773.9	149.4
Total from operations	\$1,382.6	276.4	\$1,258.1	247.7
Global expenses		(55.2)		(55.0)
Reclassifications for Accounting changes				

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(Note 2)	3.8	-	-	-
	-----	-----	-----	-----
Total	\$1,386.4	\$ 221.2	\$1,258.1	\$ 192.7
	=====	=====	=====	=====

*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.

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AVON PRODUCTS, INC.
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	Six Months Ended June 30			
	2000		1999	
	Net Sales	Operating Profit	Net Sales	Operating Profit
	-----	-----	-----	-----
North America:				
U.S.	\$ 907.3	\$ 177.3	\$ 858.8	\$ 168.5
Other*	117.4	11.4	108.3	13.9
	-----	-----	-----	-----
Total	1,024.7	188.7	967.1	182.4
	-----	-----	-----	-----
International:				
Latin America North**	402.2	97.2	358.2	82.9
Latin America South**	463.2	80.8	428.2	77.4
	-----	-----	-----	-----
Latin America	865.4	178.0	786.4	160.3
Pacific	389.0	52.0	326.6	36.3
Europe	410.2	56.4	391.8	45.9
	-----	-----	-----	-----
Total	1,664.6	286.4	1,504.8	242.5
	-----	-----	-----	-----
Total from operations	\$2,689.3	475.1	\$2,471.9	424.9
Global expenses		(116.0)		(122.3)
Special and non-recurring charges		-		(136.4)
Asset impairment charge		-		(38.1)
Reclassifications for accounting changes (Note 2)	3.4	-	-	-
	-----	-----	-----	-----

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Total	\$2,692.7	\$ 359.1	\$2,471.9	\$ 128.1
	=====	=====	=====	=====

*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

The Company had entered into forward contracts to purchase approximately 1,698,200 shares of Avon common stock at an average price of \$36.47 per share as of June 30, 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.

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

13. SUBSEQUENT EVENT

During July 2000, the Company issued in a private placement \$735.8 principal amount at maturity of zero-coupon convertible senior notes due July 12, 2020 (the "Notes"), with proceeds of approximately \$350.0. The issue price per note was \$475.66, being 47.566% of the principal amount of \$1,000 per Note at maturity. The Notes have a 3.75% yield to maturity and are convertible at any time into the Company's common stock at a conversion rate of 8.2723 shares of common stock per \$1,000 principal amount at maturity of the Notes (equivalent to a conversion price of \$57.50 per share based on the initial offering price of the Notes). The Notes may be redeemed at the option of the Company on or after July 12, 2003 at a redemption price equal to the issue price plus accrued original issue discount to the redemption date. The holders can require the Company to purchase all or a portion of the Notes on July 12, 2003, July 12, 2008, and July 12, 2013 at the redemption price per Note of \$531.74, \$640.29 and \$771.00, respectively. The holders may also require the Company to repurchase the Notes if a fundamental change, as defined, involving Avon occurs prior to July 12, 2003. The Company has the option to pay the purchase price or, if a fundamental change has occurred, the repurchase price in cash or common stock or a combination of cash and common stock. The indenture under which the Notes were issued restricts the Company's ability to merge with or consolidate into another company or to sell substantially all of the Company's assets.

The Company also granted to the initial purchasers of the Notes an over-allotment option to purchase an additional \$105.0 of Notes. As of August 8, 2000, the over-allotment option had been exercised and additional Notes with an aggregate principal amount at maturity of approximately \$105.0 were purchased by the initial purchasers from the Company, for proceeds of approximately \$50.0.

The net proceeds from the offering (including the proceeds of the

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over-allotment option) will be used for general corporate purposes, including the repayment of short-term debt. Accordingly, \$391.8 of commercial paper borrowings were reclassified from short-term to long-term on the Consolidated Balance Sheet.

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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)

ITEM 2. Management's Discussion and Analysis of the Results of Operations and Financial Condition (Restated)

Results of Operations - Three and Six Months Ended June 30, 2000 and 1999.

Consolidated

Avon's net income for the second quarter and six-month period of 2000 was \$125.4 and \$189.2, respectively, or \$.52 and \$.79 per share on a diluted basis, respectively, compared with net income of \$119.5 and \$56.6, respectively, or \$.45 and \$.21 per share on a diluted basis, respectively, in 1999. Operating profit was \$221.2 and \$359.1, respectively, in the second quarter and six-month period of 2000 compared with \$192.7 and \$128.1, respectively, in the same periods of 1999.

Consolidated net sales for the second quarter and six-month period of 2000 increased 10% and 9%, respectively, over the same periods of 1999. The 2000 financial information was restated to reflect the adoption of EITF 00-14, which had an unfavorable impact on gross margin. No restatements were made to 1999 Financial Statements. The second quarter and year-to-date sales improvements were a result of increases in all geographic regions. Excluding the impact of foreign currency exchange, consolidated net sales for the second quarter and six-month period rose 13% and 12%, respectively, over the comparable periods of the prior year, with double-digit increases in all international regions.

Gross margin decreased in the second quarter but increased in the six-month period of 2000 compared to the same periods of 1999. 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. The cost of sales for the six months ended June 30, 1999 included a one-time charge of \$46.0 for inventory write-downs related to the Company's BPR program. See Note 9 for further detail. The decreased gross margin for the second quarter resulted from decreases in the U.S., Mexico, Brazil and Germany, partially offset by

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increases in Venezuela, the United Kingdom, Japan and China. The increase in the June year-to-date gross margin was primarily due to increases in Venezuela, Chile, Russia, Japan and China, partially offset by decreases in Brazil and Germany.

Marketing, distribution and administrative expenses increased \$40.5, or 7%, and \$67.0, or 5%, in the second quarter and six-month period of 2000, respectively, over the same periods of 1999, in line with sales increases in all regions. Marketing, distribution and administrative expenses decreased as a percentage of total revenue to 47.5% in the second quarter of 2000 from 49.1% in 1999, and to 49.4% in the first six months of 2000 from 51.1% in the comparable period of 1999. The second quarter expense ratio decline resulted from improvements in North America, Latin America and Europe, partially offset by a slight increase in the Pacific Region. The six-month period expense ratio decline resulted from expense ratio improvements in Latin America, Europe and the Pacific, partially offset by an increase in North America.

The June year-to-date 1999 results include a Special charge of \$90.4 pretax for the Company's BPR program primarily related to employee severance benefits worldwide and the restructuring of operations in Western Europe. See Note 9 for further detail.

An Asset impairment charge of \$38.1 pretax was recorded in 1999 related to the write off of an order management software system. See Note 10 of the Notes to Consolidated Financial Statements for further detail.

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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)

Interest expense increased to \$22.8 in the second quarter of 2000 as compared with \$8.9 in 1999 and to \$42.7 in the first six months of 2000 compared with \$17.9 in 1999, primarily as a result of increased domestic borrowings related to the acceleration of the share repurchase program which occurred in the second half of 1999 and working capital requirements.

Interest income of \$2.1 decreased \$0.1 in the second quarter of 2000 and decreased \$1.5 to \$3.9 in the first six months of 2000 versus the comparable periods of 1999. The six-month decrease was primarily the result of reduced interest rates in Brazil and Mexico during 2000.

Other expense(income), net of \$4.6 in the second quarter of 2000 was \$3.9 unfavorable to the comparable period of 1999 primarily due to a value-added tax refund in China in 1999 as well as unfavorable foreign exchange in 2000. Other expense(income) of \$14.8 for the six-month period of 2000 was \$21.9 unfavorable over the comparable period of 1999 mainly due to favorable foreign exchange in 1999 resulting from gains on Brazilian forward contracts.

The effective tax rate for the second quarter 2000 was 35.5% versus 35.9% in 1999, and the effective tax rate was 35.5% in the first six months of 2000 versus 56.0% in 1999. Excluding the impact of the Special and non-recurring charge and Asset impairment charge, the effective tax rate was 36.1% in the first six months of 1999. The tax rate fluctuations result from the earnings mix and tax rates of international subsidiaries.

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Minority interest of \$(1.0) in the second quarter and first six months of 2000 decreased \$1.8 and \$3.6, respectively, due to improved results in Japan and China in 2000.

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

North America

Net sales increased 6% in both the second quarter and six-month period of 2000, over the same periods in 1999. The U.S. business, which represents almost 90% of the North American segment, reported a sales increase of 6% in both the second quarter and six-month period of 2000, over the same periods in 1999. The second-quarter U.S. increase resulted from a 10% increase in the number of units sold as well as a 5% increase in customers served. U.S. sales of cosmetics, fragrance and toiletries ("CFT") increased 6%, reflecting a double-digit increase in color cosmetics, driven by nail, face and eye products, including strong growth in the Be Radiant Spring Shade Event. Additionally, fragrance sales grew double-digits, primarily due to the launch of Perceive for Men in 2000. These increases were partially offset by a decrease in skincare, reflecting softness in Anew and Brand Avon. Sales in the Beauty Plus category grew low single digits. Within this category, jewelry and watches increased over 20%, reflecting the success of several new watches, including the Radio Digital Sports watch, as well as a strong performance in fashion and fine jewelry. These increases were partially offset by a decline in apparel and accessories, reflecting a planned strategic decline in apparel and softer than expected luggage sales. Beyond Beauty and other sales increased 12% primarily due to gifts, reflecting the success of the Blushing Bride Barbie Doll and the Personal Data Organizer, as well as candles sales, new in 2000.

On a June year-to-date basis, sales in the U.S. increased 6% resulting from a 9% increase in the number of units sold, as well as a 5% increase in customers served. This increase reflects a mid single-digit increase in the CFT category, with color cosmetics having a double-digit increase due to the successful launch of Glazewear and Nailwear, as well as a double-

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

digit increase in fragrance. Sales in the Beauty Plus category grew 3%, including jewelry and watches, which increased 17%, partially offset by a decline in apparel. Beyond Beauty and other sales grew 8% reflecting the introduction of candles sales in 2000.

Operating profit in North America increased in the second quarter and first six months of 2000 compared with 1999 primarily attributable to the region's increased sales, discussed above. While the operating profit increased in both the second quarter and six-month period, operating margin declined in 2000 versus 1999. In the second quarter, the U.S. posted a decline in gross margin reflecting value merchandising in higher penetration CFT categories, as well as continued softness in the Anew brand, partially offset by an increase in apparel and accessories margins, due to improved sourcing and competitive bidding, and incremental supply chain savings. The U.S. gross margin decline was offset by an improvement in the expense ratio driven by aggressive expense

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management in marketing, as well as field and administration, partially offset by higher volume-related customer service expenses, higher fuel costs and advertising. Gross margin declines in Puerto Rico contributed to the operating margin decline in North America.

The U.S. year-to-date gross margin declined due to the investment in CFT to drive customer transactions, as well as the success of lower margin items in the jewelry and watch segment. Partially offsetting these declines was an increase in apparel and accessories due to improved sourcing and competitive bidding and incremental supply chain savings. The gross margin decline was offset by an expense ratio improvement in the U.S. driven by cost containment and BPR savings, partially offset by increased spending on advertising and the Company's e-commerce initiatives. The North American operating margin decline was also attributable to higher expenses in Puerto Rico.

International

International U.S. dollar net sales for the second quarter and first six months of 2000 increased 12% and 11%, respectively over the comparable periods in 1999. The sales growth in both periods was the result of double-digit increases in the Pacific and Latin America regions, as well as mid single-digit increases in Europe. Excluding the effect of foreign currency exchange, international sales increased 17% and 16%, respectively, with increases in all regions.

In the Pacific Region, the sales improvements in the second quarter and first six months of 2000 were driven by increases in nearly all markets resulting from double-digit increases in the number of units sold and active Representatives. In Japan, sales increased double-digits due to an increase in the number of units sold and active Representatives, partially offset by a decrease in average order. In Taiwan, order growth was the key sales driver in both the first and second quarters. In China, sales growth continues to be driven by channel expansion, led by beauty boutiques.

In Latin America, sales increased 13% and 10% for the second quarter and first six months of 2000, respectively, due to increases in all markets, most significantly in Mexico, Brazil and Venezuela. The sales growth in Mexico was driven by solid increases in the number of units sold, orders, customers served and active Representatives. Higher average order was the main driver for the sales increase in Brazil. In Venezuela, second-quarter sales increased strong double-digits mainly due to an increase in the number of units sold, orders, customers and active Representatives. June year-to-date sales for Venezuela increased near double-digits despite the late 1999 flooding, which negatively affected operations at the beginning of 2000, along with the persistent uncertain economic and political environment. Excluding the impact of foreign currency exchange, sales in Latin America increased 19% and 14% in the second quarter and six-month period, respectively.

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In Europe, sales increased 6% and 5% in the second quarter and first six months of 2000, respectively, primarily due to growth in the United Kingdom, Central and Eastern Europe and Russia, partially offset by a sales decline in

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Germany. The sales improvement in the United Kingdom arose from solid growth in average order size, as well as increases in units sold and customers served. The improvement in Central and Eastern Europe, primarily Poland, resulted from continued increases in active Representatives, units and customers served. The sales improvement in Russia was driven by strong performance in all indicators. The sales decline in Germany was primarily the result of a weak economic climate, as well as lower than expected performance of new Representatives. Excluding the impact of foreign currency exchange, Europe sales grew 16% and 17% for the second quarter and six-month period, respectively.

International operating profit increased 16% and 18% in the second quarter and six-month period of 2000, respectively, compared to the same periods in 1999.

Operating profit growth in the Pacific Region of 30% and 43% in the second quarter and first six-month period of 2000, respectively, 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 gross margin improved due to product cost savings initiatives and a favorable change of product mix from non-CFT to higher margin CFT products. While Japan's year-to-date expense ratio improved slightly, the second-quarter expense ratio increased primarily due to increased spending on advertising and sampling. An improved expense ratio in the Philippines was primarily due to timing of expenses related to a Representative event. China's operating expense ratio improvement was driven primarily by increased sales growth. In Taiwan, the operating expense ratio increased primarily due to increased costs resulting from moving to a new facility as well as increased spending to support sales growth; however, in the second quarter, the operating expense ratio increase was partially offset by an improved gross margin resulting from a shift in product mix

In Latin America, operating profit grew 14% and 11% for both the second quarter and first six months of 2000 over 1999, respectively. In both periods, increased operating margins in Venezuela and Chile were partially offset by decreased margins in Brazil and Argentina. The improvement in Venezuela's operating margin resulted from the sales increase, discussed above, as well as pricing and cost improvements. Partially offsetting the six-month period operating margin improvement in Venezuela was an increased expense ratio resulting from higher expenses associated with the flooding in late 1999, including higher distribution and transportation expenses. The increased gross margin and improved expense ratio in Chile resulted from a favorable shift in product mix as well as tight controls over variable and fixed expenses. Despite sales increases over 1999, Brazil experienced a decline in gross margin as a result of difficult prior year comparisons due to strong vendor negotiations and foreign exchange gains that favorably impacted last year's margin. In Argentina, the expense ratio increased primarily due to higher advertising, incentives and commissions. In Mexico, operating profit increased double-digits; however, a second-quarter decline in gross margin resulted from increased sales of lower margin items, as well as the strategic decision to lower prices, partially offset by lower costs resulting from vendor negotiations. These lower costs contributed to Mexico's slight increase in operating margin in the six-month period.

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Operating profit in Europe increased in the second quarter resulting from sales increases discussed above, partially offset by margin declines in the United Kingdom and Poland. The expense ratio increase in the United Kingdom was due to increased brochure costs to support the strong sales growth, increases in volume-related costs and increased shipping and distribution costs due to reduced capacity of shipping lines during the transition to a new shipping system. In Poland, the expense ratio increase resulted from increased distribution costs to support order growth, as well as unfavorable timing of advertising and sampling.

Operating profit in Europe for the first six months of 2000 increased over 1999, resulting from the sales increases discussed above coupled with operating margin improvements in Russia and Poland, partially offset by margin declines in the United Kingdom and Germany. The operating margin improvement in Russia was primarily due to a favorable comparison against last year's discount pricing policy as well as tight expense controls on a higher sales base. In Poland, the favorable expense ratio was due to timing of advertising, planned for the second half of 2000. Partially offsetting these improvements was an increased expense ratio in the United Kingdom resulting from increased advertising, consumer motivation and sampling activities to support strong sales growth, as well as increases in shipping and distribution costs due to reduced capacity of shipping lines during the transition to a new shipping system. Additionally, Germany had a decreased operating margin resulting from an unfavorable product mix, as well as a decreased sales base.

Global Expenses

In the second quarter of 2000, global expenses increased slightly versus 1999 primarily due to increased strategic investments in information technology and e-commerce initiatives, offset by insurance proceeds received in 2000 related to 1998 hurricane losses in Central America. In the first half of 2000, global expenses decreased 5% versus 1999 primarily due to lower expenses related to the Company's long-term incentive plan, the aforementioned insurance proceeds and the timing of global marketing expenses, partially offset by increased investments in information technology and e-commerce initiatives.

Liquidity and Capital Resources

Cash Flows

Excluding changes in debt, there was a net decrease in cash of \$246.0 in the first six months of 2000 compared with a decrease of \$289.0 in the comparable period of 1999. The \$43.0 variance primarily reflects a decrease in repurchases of common stock, decreased cash used for investing activities due to the acquisition of a manufacturing facility in 1999 and a favorable effect of foreign currency exchange. These sources of cash were partially offset by higher net cash used by operations, reflecting higher working capital levels which included increased inventory levels due to growing sales trends and additional stock on hand to protect service levels, the payout of the long-term incentive plan in 2000 and the timing of cash payments, offset in part by a higher net income.

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During the first half of 2000, the Company purchased approximately 1,060,255 shares of common stock for \$42.1 compared with \$125.5 spent for the repurchase of approximately 2,756,500 shares during the comparable period in 1999.

Capital Resources

Total debt increased \$202.8 to \$1,210.2 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 \$1,210.2 at June 30, 2000 was \$693.2 higher than total debt of \$517.0 at June 30, 1999, primarily due to increased borrowings to fund the Company's share repurchase program which was significantly accelerated during the second half of 1999. In addition, at June 30, 2000 and December 31, 1999, other accrued liabilities include approximately \$103.4 and \$106.4, respectively, related to securities lending activities.

At June 30, 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 \$431.9 was outstanding at June 30, 2000. The Company has excluded \$391.8 of these commercial paper borrowings from current liabilities as of June 30, 2000 because it intends to refinance a portion of the obligations on a long-term basis. The Company issued Notes in July and August 2000 to refinance these obligations (see Note 13 to the Consolidated Financial Statements for further details).

At June 30, 2000, there was \$9.6 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 June 30, 2000, current assets exceeded current liabilities by \$62.8, while at December 31, 1999, current liabilities exceeded current assets by \$375.0. The increase in current assets over current liabilities was primarily due to a decrease in short-term net debt (debt less cash equivalents) reflecting the refinancing of short-term commercial paper borrowings with the proceeds of the Notes discussed in the Capital Resources section above and Note 11 to the Consolidated Financial Statements, an increase in net inventories, primarily due to growing sales trends and additional stock on hand to protect service levels, and decreases in accounts payable, accrued compensation and other accrued liabilities. The decline in payables and accrued liabilities reflects the seasonal pattern of Avon's operations, the timing of cash payments and the payout of the cash component of the Company's three-year long-term incentive plan in 2000.

Avon's liquidity results from its ability to generate significant cash flows from operations and its ample unused borrowing capacity. The aforementioned acceleration of the Company's share repurchase program resulted in a shareholders' deficit balance at June 30, 2000 of \$371.6. Avon's credit agreements do not contain any provisions or requirements with respect to working capital.

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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.

At June 30, 2000, the Company had a five-year interest rate swap contract with a notional amount of \$50.0 to effectively convert fixed interest on a portion of the Company's \$100.0 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.

In May 2000, the Company entered into an interest rate cap agreement with a notional amount of \$150.0 expiring on May 31, 2001 to convert variable interest, resulting from the interest rate swaps above, to a fixed interest rate. The cap rate under this contract is 7%.

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 exposures and ensures that hedge contract amounts do not exceed the amounts of the underlying exposures.

At June 30, 2000, the Company held foreign currency forward contracts with notional amounts totaling \$233.1 and option contracts with notional amounts totaling \$13.0 to hedge foreign currency items. Only \$23.0 of these contracts have maturities after 2000. Also outstanding at June 30, 2000 were foreign currency forward contracts with notional amounts totaling \$72.4 and option contracts totaling \$33.0 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 June 30, 2000 was not material. The Company's risk of loss on the options in the future is limited to premiums paid, which are not material.

The Company has entered into forward contracts to purchase approximately 1,698,200 shares of Avon common stock at an average price of \$36.47 per share as of June 30, 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.

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The Company attempts to minimize its credit exposure to counterparties by entering into interest rate swap and cap contracts only with major international financial institutions with "A" or higher credit ratings as issued by Standard and 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 of 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.

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Other Information

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 estimated 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 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.

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.

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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.
There were no reports on Form 8-K filed during the second quarter of 2000.

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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.