

AVON PRODUCTS INC  
Form 10-Q  
April 30, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended March 31, 2010

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)

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**New York** **13-0544597**  
(State or other jurisdiction of **(I.R.S. Employer**  
**Incorporation or organization)** **Identification No.)**  
**1345 Avenue of the Americas, New York, N.Y. 10105-0196**  
  
(Address of principal executive offices) (Zip code)  
  
**(212) 282-5000**  
  
(Telephone Number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of Common Stock (par value \$.25) outstanding at March 31, 2010 was 428,403,476

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****AVON PRODUCTS, INC.****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)**

| <b>In millions, except per share data</b>          | <b>Three Months Ended</b> |                |
|--|---------------------------|----------------|
|  | <b>March 31,</b>          |                |
|  | <b>2010</b>               | <b>2009</b>    |
| Net sales  | \$ 2,458.7                | \$ 2,157.7     |
| Other revenue                                      | 31.7                      | 29.2           |
| <b>Total revenue</b>                               | <b>2,490.4</b>            | <b>2,186.9</b> |
| Costs, expenses and other:                         |                           |                |
| Cost of sales                                      | 948.4                     | 811.2          |
| Selling, general and administrative expenses       | 1,349.2                   | 1,207.3        |
| <b>Operating profit</b>                            | <b>192.8</b>              | <b>168.4</b>   |
| Interest expense                                   | 21.8                      | 24.8           |
| Interest income                                    | (4.9)                     | (7.3)          |
| Other expense, net                                 | 48.2                      | 4.2            |
| <b>Total other expenses</b>                        | <b>65.1</b>               | <b>21.7</b>    |
| Income before taxes                                | 127.7                     | 146.7          |
| Income taxes                                       | (84.4)                    | (29.2)         |
| Net income   | 43.3                      | 117.5          |
| Net income attributable to noncontrolling interest | (.8)                      | (.2)           |
| Net income attributable to Avon                    | \$ 42.5                   | \$ 117.3       |
| <b>Earnings per share:</b>                         |                           |                |
| Basic  | \$ .10                    | \$ .27         |
| Diluted  | \$ .10                    | \$ .27         |
| Cash dividends per common share                    | \$ .22                    | \$ .21         |

The accompanying notes are an integral part of these statements.

**Table of Contents****AVON PRODUCTS, INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)**

| <b>In millions</b>                          | <b>March 31,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|---|---------------------------|------------------------------|
| <b>Assets</b>                               |                           |                              |
| <b>Current Assets</b>                       |                           |                              |
| Cash and cash equivalents                   | \$ 1,122.9                | \$ 1,311.6                   |
| Accounts receivable, net                    | 748.0                     | 779.7                        |
| Inventories                                 | 1,104.6                   | 1,067.5                      |
| Prepaid expenses and other                  | 891.5                     | 1,030.5                      |
| <b>Total current assets</b>                 | <b>3,867.0</b>            | <b>4,189.3</b>               |
| Property, plant and equipment, at cost      | 2,721.2                   | 2,699.3                      |
| Less accumulated depreciation               | (1,185.1)                 | (1,169.7)                    |
|   | 1,536.1                   | 1,529.6                      |
| Other assets                                | 1,415.4                   | 1,113.8                      |
| <b>Total assets</b>                         | <b>\$ 6,818.5</b>         | <b>\$ 6,832.7</b>            |
| <b>Liabilities and Shareholders' Equity</b> |                           |                              |
| <b>Current Liabilities</b>                  |                           |                              |
| Debt maturing within one year               | \$ 770.2                  | \$ 138.1                     |
| Accounts payable                            | 742.6                     | 754.7                        |
| Accrued compensation                        | 268.3                     | 291.0                        |
| Other accrued liabilities                   | 695.1                     | 697.1                        |
| Sales and taxes other than income           | 241.2                     | 259.2                        |
| Income taxes                                | 87.8                      | 134.7                        |
| <b>Total current liabilities</b>            | <b>2,805.2</b>            | <b>2,274.8</b>               |
| Long-term debt                              | 1,828.3                   | 2,307.8                      |
| Employee benefit plans                      | 572.9                     | 588.9                        |
| Long-term income taxes                      | 203.8                     | 173.8                        |
| Other liabilities                           | 123.0                     | 174.8                        |
| <b>Total liabilities</b>                    | <b>\$ 5,533.2</b>         | <b>\$ 5,520.1</b>            |
| <b>Contingencies (Note 5)</b>               |                           |                              |
| <b>Shareholders' Equity</b>                 |                           |                              |
| Common stock                                | \$ 186.3                  | \$ 186.1                     |
| Additional paid-in capital                  | 1,965.2                   | 1,941.0                      |
| Retained earnings                           | 4,331.9                   | 4,383.9                      |
| Accumulated other comprehensive loss        | (683.2)                   | (692.6)                      |
| Treasury stock, at cost                     | (4,556.1)                 | (4,545.8)                    |
| <b>Total Avon shareholders' equity</b>      | <b>1,244.1</b>            | <b>1,272.6</b>               |

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|   |                   |                   |
|---|-------------------|-------------------|
| Noncontrolling interest                           | 41.2              | 40.0              |
| Total shareholders' equity                        | \$ 1,285.3        | \$ 1,312.6        |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 6,818.5</b> | <b>\$ 6,832.7</b> |

The accompanying notes are an integral part of these statements.

**Table of Contents****AVON PRODUCTS, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

| <b>In millions</b>  | <b>Three Months Ended<br/>March 31,</b> |               |
|---|---|---------------|
|   | <b>2010</b>                             | <b>2009</b>   |
| <b>Cash Flows from Operating Activities</b>                                       |   |               |
| Net income  | \$ 43.3                                 | \$ 117.5      |
| Adjustments to reconcile net income to net cash provided by operating activities: |   |               |
| Depreciation and amortization   | 44.3                                    | 42.8          |
| Provision for doubtful accounts   | 52.8                                    | 47.9          |
| Provision for obsolescence  | 20.0                                    | 24.8          |
| Share-based compensation  | 20.0                                    | 17.3          |
| Deferred income taxes   | 20.6                                    | 1.3           |
| Charge for Venezuelan monetary assets and liabilities                             | 46.1                                    |               |
| Other   | 21.4                                    | 18.3          |
| Changes in assets and liabilities:  |   |               |
| Accounts receivable   | (45.3)                                  | (32.3)        |
| Inventories   | (62.6)                                  | (106.6)       |
| Prepaid expenses and other  | (26.5)                                  | (9.4)         |
| Accounts payable and accrued liabilities  | (41.1)                                  | (111.0)       |
| Income and other taxes  | (68.9)                                  | (50.5)        |
| Noncurrent assets and liabilities   | (7.0)                                   | (20.8)        |
| <b>Net cash provided (used) by operating activities</b>                           | <b>17.1</b>                             | <b>(60.7)</b> |
| <b>Cash Flows from Investing Activities</b>                                       |   |               |
| Capital expenditures  | (56.8)                                  | (51.1)        |
| Disposal of assets  | 3.8                                     | 1.6           |
| Purchases of investments  | (0.3)                                   | (0.1)         |
| Proceeds from sale of investments   | 1.4                                     | 45.7          |
| Acquisitions and other investing activities                                       | (146.1)                                 |               |
| <b>Net cash used by investing activities</b>                                      | <b>(198.0)</b>                          | <b>(3.9)</b>  |
| <b>Cash Flows from Financing Activities*</b>                                      |   |               |
| Cash dividends  | (95.3)                                  | (89.5)        |
| Debt, net (maturities of three months or less)                                    | 133.1                                   | (69.4)        |
| Proceeds from debt  | 6.1                                     | 883.0         |
| Repayment of debt   | (10.0)                                  | (134.4)       |
| Proceeds from exercise of stock options   | 7.4                                     | 0.2           |
| Excess tax benefit realized from share-based compensation                         | 0.7                                     | (0.1)         |
| Repurchase of common stock  | (10.4)                                  | (1.5)         |
| <b>Net cash provided by financing activities</b>                                  | <b>31.6</b>                             | <b>588.3</b>  |
| Effect of exchange rate changes on cash and equivalents                           | (39.4)                                  | (26.0)        |
| <b>Net (decrease) increase in cash and equivalents</b>                            | <b>(188.7)</b>                          | <b>497.7</b>  |
| Cash and equivalents at beginning of year   | 1,311.6                                 | 1,104.7       |

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|                                       |            |            |
|---------------------------------------|------------|------------|
| Cash and equivalents at end of period | \$ 1,122.9 | \$ 1,602.4 |
|---------------------------------------|------------|------------|

\* Non-cash financing activities in 2010 and 2009 included the change in fair market value of interest-rate swap agreements of \$17.7 and \$(4.4), respectively. Non-cash financing activities in 2009 also includes \$4.5 million of shares that were repurchased by us in connection with employees using shares to pay withholding taxes upon the vesting of their restricted stock units. The withholding taxes were not settled at March 31, 2009.

The accompanying notes are an integral part of these statements.



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**AVON PRODUCTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Dollars in millions, except per share data)**

**1. ACCOUNTING POLICIES**

***Basis of Presentation***

We prepare our unaudited interim consolidated financial statements in conformity with accounting principles generally accepted in the United States ( GAAP ). Except for the foreign currency implications of our subsidiary in Venezuela ( Avon Venezuela ) being considered highly inflationary, we consistently applied the accounting policies described in our 2009 Annual Report on Form 10-K ( 2009 Form 10-K ) in preparing these unaudited financial statements. In our opinion, we made all adjustments of a normal recurring nature that are necessary for a fair statement of the results for the interim periods. Results for interim periods are not necessarily indicative of results for a full year. You should read these unaudited interim consolidated financial statements in conjunction with our consolidated financial statements contained in our 2009 Form 10-K. When used in these notes, the terms Avon, Company, we or us mean Avon Products, Inc.

For interim consolidated financial statement purposes, our tax provision is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. We also provide for accruals under our various employee benefit plans for each quarter based on one quarter of the estimated annual expense.

We have reclassified some immaterial amounts in the consolidated financial statements and accompanying notes for comparative purposes. We reclassified \$7.1 of fees from selling, general and administrative expenses to other revenue on the Consolidated Statements of Income for the three months ended March 31, 2009.

***Foreign Currency***

Financial statements of foreign subsidiaries operating in other than highly inflationary economies are translated into U.S. dollars from the respective subsidiary's functional currency at period-end exchange rates for assets and liabilities and average exchange rates during the year for income and expense accounts. The resulting translation adjustments are recorded within accumulated other comprehensive loss ( AOCI ). Gains or losses resulting from the impact of changes in foreign currency rates on assets and liabilities denominated in a currency other than the functional currency are recorded in Other expense, net .

For financial statements of Avon subsidiaries operating in highly inflationary economies, the U.S. dollar is required to be used as the functional currency. Highly inflationary accounting requires monetary assets and liabilities, such as cash, receivables and payables, to be remeasured into U.S. dollars at the current exchange rate at the end of each period with the impact of any changes in exchange rates being recorded in income. We record the impact of changes in exchange rates on monetary assets and liabilities in Other expense, net . Similarly, deferred tax assets and liabilities are remeasured into U.S. dollars at the current exchange rates; however, the impact of changes in exchange rates is recorded in Income taxes in the Consolidated Statement of Income. Nonmonetary assets and liabilities, such as inventory, property, plant and equipment and prepaid expenses are recorded in U.S. dollars at the historical rates at the time of acquisition of such assets or liabilities.

***Venezuela Currency***

Effective January 1, 2010, we began to account for Venezuela as a highly inflationary economy. Effective January 11, 2010, the Venezuelan government devalued its currency and moved to a two-tier exchange structure. The official exchange rate moved from 2.15 to 2.60 for essential goods and to 4.30 for non-essential goods and services. We expect most of the imports of Avon Venezuela to fall into the non-essential classification. We use the non-essentials rate of 4.30 to remeasure our Bolivar denominated assets and liabilities into U.S. dollars at the reporting date, since this is the rate expected to be available for dividend remittances. We record a loss within operating profit when we believe we are going to convert these Bolivar denominated assets or settle our U.S. dollar denominated liabilities from non-government sources where the exchange rate is less favorable than the official rate (the parallel rate ). We record a gain within operating profit when U.S. dollar denominated liabilities are settled at the essentials rate.

As a result of the change in the official rate to 4.30 in conjunction with accounting for our operations in Venezuela under highly inflationary accounting guidelines, we recorded net charges of \$46.1 million in Other expense, net and \$12.7 million in income taxes .



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**AVON PRODUCTS, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Dollars in millions, except per share data)**

***New Accounting Standards Implemented***

In June 2009, the Financial Accounting Standards Board ( FASB ) amended its accounting guidance on the consolidation of variable interest entities ( VIE ). Among other things, the new guidance requires a qualitative rather than a quantitative assessment to determine the primary beneficiary of a VIE based on whether the entity (1) has the power to direct matters that most significantly impact the activities of the VIE and 2) has the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. In additi