AVON PRODUCTS INC
Form 10-Q
October 29, 2009
Table of Contents

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 September 30, 2009

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) (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 x 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 x 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	x	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 x

The number of shares of Common Stock (par value $.25) outstanding at September 30, 2009 was 427,056,045.

Table of Contents

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

AVON PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

In millions, except per share data	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008
Net sales	$ 2,527.0	$ 2,618.7
Other revenue	24.3	26.0
Total revenue	2,551.3	2,644.7
Costs, expenses and other:		
Cost of sales	954.8	975.0
Selling, general and administrative expenses	1,338.0	1,372.6
Operating profit	258.5	297.1
Interest expense	26.1	24.6
Interest income	(3.2)	(10.1)
Other expense, net	3.9	3.4
Total other expenses	26.8	17.9
Income before taxes	231.7	279.2
Income taxes	(74.1)	(54.5)
Net income	157.6	224.7
Net income attributable to noncontrolling interest	(1.4)	(2.1)
Net income attributable to Avon	$ 156.2	$ 222.6
Earnings per share:		
Basic	$ .36	$ .52
Diluted	$ .36	$ .52
Cash dividends per common share	$ .21	$ .20

The accompanying notes are an integral part of these statements.

Table of Contents

AVON PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

In millions, except per share data	Nine Months Ended September 30, 2009	2008
Net sales	$ 7,130.4	$ 7,807.6
Other revenue	71.0	74.9
Total revenue	7,201.4	7,882.5
Costs, expenses and other:		
Cost of sales	2,700.3	2,892.1
Selling, general and administrative expenses	3,891.3	4,023.2
Operating profit	609.8	967.2
Interest expense	78.8	76.8
Interest income	(15.2)	(27.9)
Other expense, net	7.9	16.1
Total other expenses	71.5	65.0
Income before taxes	538.3	902.2
Income taxes	(178.6)	(254.3)
Net income	359.7	647.9
Net income attributable to noncontrolling interest	(3.3)	(5.0)
Net income attributable to Avon	$ 356.4	$ 642.9
Earnings per share:		
Basic	$ .83	$ 1.50
Diluted	$ .83	$ 1.49
Cash dividends per common share	$ .63	$ .60

The accompanying notes are an integral part of these statements.

Table of Contents

AVON PRODUCTS, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited)

In millions	September 30, 2009	December 31, 2008
Assets		
Current Assets		
Cash and cash equivalents	$ 1,293.4	$ 1,104.7
Accounts receivable, net	736.2	687.8
Inventories	1,192.7	1,007.9
Prepaid expenses and other	974.5	756.5
Total current assets	4,196.8	3,556.9
Property, plant and equipment, at cost	2,604.2	2,439.9
Less accumulated depreciation	(1,153.3)	(1,096.0)
	1,450.9	1,343.9
Other assets	1,087.8	1,173.2
Total assets	$ 6,735.5	$ 6,074.0
Liabilities and Shareholders Equity		
Current Liabilities		
Debt maturing within one year	$ 431.2	$ 1,031.4
Accounts payable	721.3	724.3
Accrued compensation	273.8	234.4
Other accrued liabilities	642.3	581.9
Sales and taxes other than income	245.1	212.2
Income taxes	70.1	128.0
Total current liabilities	2,383.8	2,912.2
Long-term debt	2,328.0	1,456.2
Employee benefit plans	599.5	665.4
Long-term income taxes	166.1	168.9
Other liabilities	163.0	159.0
Total liabilities	$ 5,640.4	$ 5,361.7
Contingencies (Note 5)		
Shareholders Equity		
Common stock	$ 185.9	$ 185.6
Additional paid-in capital	1,918.5	1,874.1
Retained earnings	4,204.9	4,118.9
Accumulated other comprehensive loss	(711.1)	(965.9)
Treasury stock, at cost	(4,544.8)	(4,537.8)
Total Avon shareholders equity	1,053.4	674.9

Noncontrolling interest		41.7		37.4
Total shareholders equity	$	1,095.1	$	712.3
Total liabilities and shareholders equity	$	6,735.5	$	6,074.0

The accompanying notes are an integral part of these statements.

Table of Contents

AVON PRODUCTS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

In millions	Nine Months Ended September 30, 2009	2008
Cash Flows from Operating Activities		
Net income	$ 359.7	$ 647.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	131.4	143.0
Provision for doubtful accounts	159.6	149.1
Provision for obsolescence	72.2	54.2
Share-based compensation	43.1	46.5
Deferred income taxes	(36.3)	8.7
Other	44.5	28.1
Changes in assets and liabilities:		
Accounts receivable	(157.0)	(63.8)
Inventories	(207.8)	(262.6)
Prepaid expenses and other	(92.8)	(183.5)
Accounts payable and accrued liabilities	29.8	(178.8)
Income and other taxes	(82.2)	(49.2)
Noncurrent assets and liabilities	(17.1)	(36.9)
Net cash provided by operating activities	247.1	302.7
Cash Flows from Investing Activities		
Capital expenditures	(171.8)	(238.3)
Disposal of assets	10.2	8.5
Purchases of investments	(.7)	(60.5)
Proceeds from sale of investments	61.8	26.6
Other investing activities	5.7	.1
Net cash used by investing activities	(94.8)	(263.6)
Cash Flows from Financing Activities*		
Cash dividends	(273.1)	(262.3)
Debt, net (maturities of three months or less)	(499.1)	(189.8)
Proceeds from debt	948.9	547.1
Repayment of debt	(155.2)	(62.4)
Proceeds from exercise of stock options	3.8	80.8
Excess tax benefit realized from share-based compensation	(2.1)	12.3
Repurchase of common stock	(7.6)	(171.4)
Net cash provided (used) by financing activities	15.6	(45.7)
Effect of exchange rate changes on cash and equivalents	20.8	10.2
Net increase in cash and equivalents	188.7	3.6
Cash and equivalents at beginning of year	1,104.7	963.4
Cash and equivalents at end of period	$ 1,293.4	$ 967.0

* Non-cash financing activities in 2009 and 2008 included the change in fair market value of interest-rate swap agreements of $(32.8) and $4.9, respectively.

The accompanying notes are an integral part of these statements.

Table of Contents

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 (US GAAP). We consistently applied the accounting policies described in our 2008 Annual Report on Form 10-K (2008 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 2008 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, we compute our tax provision on the basis of our estimated annual effective income tax rate, and provide for accruals under our various employee benefit plans for each quarter based on one quarter of the estimated annual expense.

New Accounting Standards Implemented

Effective January 1, 2009, we adopted the fair value measurement provisions as required by the Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Codification (Codification), as it relates to non-recurring, nonfinancial assets and liabilities. The adoption of these provisions did not have an impact on our Consolidated Financial Statements.

Effective January 1, 2009, we adopted enhanced disclosures about how and why we use derivative instruments, how they are accounted for, and how they affect our financial performance as required by the Derivatives and Hedging Topic of the Codification. See Note 12, Derivative Instruments and Hedging Activities.

Effective January 1, 2009, we adopted the provisions required by the Earnings Per Share (EPS) Topic of the Codification. The specific provisions address whether instruments granted in share-based payment awards are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing EPS under the two-class method. Prior periods EPS was adjusted retrospectively which caused the nine month ended September 30, 2008 basic EPS to be adjusted from $1.51 to $1.50. See Note 2, Earnings Per Share and Share Repurchases.

Effective January 1, 2009, we adopted the provisions relating to the accounting for business combinations as required by the Business Combinations Topic of the Codification. These provisions will impact our financial statements both on the acquisition date and in subsequent periods and will be applied prospectively. The impact of adopting these provisions will depend on the nature and terms of future acquisitions.

Effective January 1, 2009, we adopted the provisions for the accounting and reporting of noncontrolling interests in a subsidiary in consolidated financial statements as required by the Consolidations Topic of the Codification. These provisions recharacterize minority interests as noncontrolling interests and require noncontrolling interests to be classified as a component of shareholders equity. These provisions require retroactive adoption of the presentation and disclosure requirements for existing minority interests. As a result of the adoption of these provisions, we reclassified minority interest liabilities of $37.4 from other liabilities to shareholders equity on the Consolidated Balance Sheet for the year ended December 31, 2008.

Effective June 30, 2009, we adopted the interim disclosure provisions about the fair value of financial instruments as required by the Fair Value Measurements and Disclosures Topic of the Codification. These provisions require disclosures about the fair value of financial instruments, previously only required in annual financial statements, to be included in interim financial statements. See Note 11, Fair Value.

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data)

Effective June 30, 2009, we adopted the subsequent event provisions of the Codification. These provisions provide guidance on management s assessment of subsequent events. Management evaluated subsequent events through October 28, 2009, which is the date the financial statements were available to be issued. The adoption of these provisions did not have an impact on our Consolidated Financial Statements.

Effective September 30, 2009, we adopted the Codification. The Codification identifies the source of accounting principles and the framework for selecting the principles used in the preparation of financial statements. The adoption of the Codification did not have an impact on our Consolidated Financial Statements.

New Accounting Standards to be Implemented

In December 2008, the Financial Accounting Standards Board (FASB) issued provisions related to employer s disclosures about postretirement benefit plan assets. These provisions will require additional disclosures about the major categories of plan assets and concentrations of risk, as well as disclosure of fair value levels. The enhanced disclosures about plan assets must be provided in our 2009 Annual Report on Form 10-K.

2. EARNINGS PER SHARE AND SHARE REPURCHASES

We compute earnings per share using the two-class method, which is an earnings allocation formula that determines earnings per share for common stock and participating securities. Our participating securities are our grants of restricted stock and restricted stock units, which contain non-forfeitable rights to dividend equivalents.

(shares in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
Components of Basic and Diluted Earnings per Share	**2009**	**2008**	**2009**	**2008**
Numerator:				
Net income attributable to Avon	$ 156.2	$ 222.6	$ 356.4	$ 642.9
Less: Earnings allocated to participating securities	(1.2)	(1.4)	(2.9)	(4.1)
Net income allocated to common shareholders	155.0	221.2	353.5	638.8
Denominator:				
Basic EPS weighted-average shares outstanding	426.99	425.74	426.76	426.36
Dilutive effect of assumed conversion of stock options	2.62	2.54	1.17	2.46
Diluted EPS adjusted weighted-average shares outstanding	429.61	428.28	427.93	428.82
Earnings per Common Share:				
Basic EPS	$ .36	$ .52	$ .83	$ 1.50
Diluted EPS	$ .36	$ .52	$ .83	$ 1.49

At September 30, 2009 and 2008, we did not include stock options to purchase 20.8 million shares and 8.8 million shares of Avon common stock, respectively, in the calculations of diluted earnings per share because their inclusion would be anti-dilutive.

We purchased approximately 0.4 million shares of Avon common stock for $7.6 during the first nine months of 2009, as compared to approximately 4.6 million shares of Avon common stock for $171.4 during the first nine months of 2008 under our previously announced share repurchase program and through acquisition of stock from employees in connection with tax payments upon the vesting of restricted stock units.

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data)

3. INVENTORIES

Components of Inventories	September 30, 2009	December 31, 2008
Raw materials	$ 363.9	$ 292.7
Finished goods	828.8	715.2
Total	$ 1,192.7	$ 1,007.9

4. EMPLOYEE BENEFIT PLANS

	Three Months Ended September 30,					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Postretirement Benefits	
Net Periodic Benefit Costs	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Service cost	$ 3.0	$ 4.2	$ 3.7	$ 4.3	$ .8	$ .8
Interest cost	9.4	11.3	10.4	10.7	2.5	2.6
Expected return on plan assets	(10.5)	(13.1)	(9.5)	(11.9)	(.6)	(.9)
Amortization of prior service credit	(.2)	(.2)	(.3)	(.4)	(2.4)	(1.5)
Amortization of actuarial losses	7.4	6.5	3.2	2.8	.8	.2
Settlements/curtailments	(0.3)			(2.2)	(.4)	
Special termination benefits	2.0					
Net periodic benefit costs	$ 10.8	$ 8.7	$ 7.5	$ 3.3	$ 0.7	$ 1.2

	Nine Months Ended September 30,					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Postretirement Benefits	
Net Periodic Benefit Costs	**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Service cost	$ 8.6	$ 13.3	$ 11.0	$ 13.0	$ 2.6	$ 2.5
Interest cost	31.0	34.2	30.0	32.1	8.1	8.0
Expected return on plan assets	(33.1)	(38.7)	(27.1)	(35.6)	(1.8)	(2.4)
Amortization of prior service credit	(.4)	(.8)	(.7)	(1.2)	(5.4)	(4.5)
Amortization of actuarial losses	23.6	21.8	9.2	8.3	2.2	.8
Settlements/curtailments	1.2		12.3	(2.2)	(.4)	
Special termination benefits	4.8					
Net periodic benefit costs	$ 35.7	$ 29.8	$ 34.7	$ 14.4	$ 5.3	$ 4.4

We previously disclosed in our Consolidated Financial Statements for the year ended December 31, 2008, that we expected to contribute approximately $60 to $100 and $20 to $30 to our U.S. and non-U.S. pension plans, respectively, in 2009. As of September 30, 2009, we made approximately $20 and $15 of contributions to the U.S. and non-U.S. pension plans, respectively. We now anticipate contributing approximately $1 to $2 and $5 to $15 to fund our U.S. and non-U.S. pension plans, respectively, during the remainder of 2009. Our funding requirements may be impacted by regulations or interpretations thereof.

In August 2009, we announced changes to our postretirement medical and life insurance benefits offered to U.S. retirees. The changes to the retiree medical benefits reduced the plan s obligations by $36.3. This amount is being amortized as a negative prior service cost over the average future service of active participants which is approximately 12 years. The changes to the retiree life insurance benefits reduced the plan s obligations by $27.7. This amount is being amortized as a negative prior service cost over 40 months, which is the remaining term of the plan.

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data)

5. CONTINGENCIES

In 2002, 2003 and 2004, our Brazilian subsidiary received a series of excise tax assessments from the Brazilian tax authorities for alleged tax deficiencies during the years 1997-2001 asserting that the establishment in 1995 of separate manufacturing and distribution companies in that country was done without a valid business purpose and that Avon Brazil did not observe transfer pricing rules to define the taxable basis of excise tax, based on purported market sales data. The structure adopted in 1995 is comparable to that used by other companies in Brazil. We believe that our Brazilian corporate structure is appropriate, both operationally and legally, and that the assessments are unfounded. This matter is being vigorously contested and in the opinion of our outside counsel, the likelihood that the assessments ultimately will be upheld is remote. Management believes that the likelihood that the assessments will have a material impact on our consolidated financial position, results of operations or cash flows is correspondingly remote. As of September 30, 2009, the total assessments related to these remote contingencies, including penalties and accruing interest, amounted to approximately $600 at the exchange rate on September 30, 2009. In the event that assessments are upheld in the earlier stages of review, it may be necessary for us to provide security to pursue further appeals, which, depending on the circumstances, may result in a charge to income. We are currently awaiting decisions at the first administrative level for the 2002 assessment and at the second administrative level for the 2003 and 2004 assessments. It is not possible to make a reasonable estimate of the amount or range of expense that could result from an unfavorable outcome in respect of these or any additional assessments that may be issued for subsequent periods.

We are conducting an internal investigation under the oversight of the Audit Committee and with the assistance of outside independent counsel into compliance with the Foreign Corrupt Practices Act (FCPA) and related U.S. and foreign laws. The initial focus of the internal investigation has been on certain expenses incurred in connection with our China operations. In order to evaluate our compliance efforts, we are also reviewing our practices relating to FCPA and related U.S. and foreign laws in additional countries. We have voluntarily advised the United States Securities and Exchange Commission and the United States Department of Justice of the internal investigation. Because the internal investigation is ongoing, we cannot predict how the results of the investigation may impact our internal controls, business, and results of operations or financial condition.

Various other lawsuits and claims, arising in the ordinary course of business or related to businesses previously sold, are pending or threatened against Avon. In management s opinion, based on its review of the information available at this time, the total cost of resolving such other contingencies at September 30, 2009, should not have a material adverse effect on our consolidated financial position, results of operations or cash flows.

6. COMPREHENSIVE INCOME

Components of Comprehensive Income	**Three Months Ended September 30, 2009**	**Three Months Ended September 30, 2008**	**Nine Months Ended September 30, 2009**	**Nine Months Ended September 30, 2008**
Net income	$ 157.6	$ 224.7	$ 359.7	$ 647.9
Foreign currency translation adjustments	100.5	(158.5)	176.5	(4.4)
Change in unrealized gains from available-for-sale securities	(.2)	(.3)	(.3)	(.6)
Change in derivative losses on cash flow hedges	2.5	1.3	6.9	(5.6)
Adjustment for amortization of net actuarial loss, prior service cost, and transition obligation, net of taxes	46.2	5.1	71.7	15.3
Comprehensive income	$ 306.6	$ 72.3	$ 614.5	$ 652.6
Less: comprehensive income attributable to noncontrolling interest	(3.3)	(2.4)	(3.6)	(3.4)

Comprehensive income attributable to Avon	$ 303.3	69.9	$ 610.9	649.2

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data)

7. SEGMENT INFORMATION

Summarized financial information concerning our reportable segments was as follows:

	Three Months Ended September 30, 2009		2008	
	Revenue	Operating Profit (Loss)	Revenue	Operating Profit (Loss)
Latin America	$ 1,113.9	$ 192.4	$ 1,064.8	$ 207.1
North America	535.2	24.1	584.5	29.9
Central & Eastern Europe	314.1	46.7	382.4	59.3
Western Europe, Middle East & Africa	298.2	11.8	315.8	18.3
Asia Pacific	222.6	23.2	221.4	24.3
China	67.3	2.5	75.8	(7.3)
Total from operations	2,551.3	300.7	2,644.7	331.6
Global and other		(42.2)		(34.5)
Total	$ 2,551.3	$ 258.5	$ 2,644.7	$ 297.1

	Nine Months Ended September 30, 2009		2008	
	Revenue	Operating Profit (Loss)	Revenue	Operating Profit (Loss)
Latin America	$ 2,885.0	$ 414.4	$ 2,939.8	$ 515.2
North America	1,631.5	71.7	1,811.4	169.0
Central & Eastern Europe	960.0	114.4	1,236.6	244.0
Western Europe, Middle East & Africa	841.2	30.8	987.4	79.5
Asia Pacific	631.0	49.9	666.0	74.8
China	252.7	23.1	241.3	(1.6)
Total from operations	7,201.4	704.3	7,882.5	1,080.9
Global and other		(94.5)		(113.7)
Total	$ 7,201.4	$ 609.8	$ 7,882.5	$ 967.2

Our consolidated net sales by classes of principal products were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008

Beauty[(1)]	$ 1,841.8	$ 1,905.3	$ 5,163.4	$ 5,646.0
Fashion[(2)]	425.2	439.0	1,243.2	1,373.8
Home[(3)]	260.0	274.4	723.8	787.8
Net sales	2,527.0	2,618.7	7,130.4	7,807.6
Other revenue[(4)]	24.3	26.0	71.0	74.9
Total revenue	$ 2,551.3	$ 2,644.7	$ 7,201.4	$ 7,882.5

(1) Beauty includes color cosmetics, fragrances, skin care and personal care.

(2) Fashion includes fashion jewelry, watches, apparel, footwear and accessories.

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data)

(3) Home includes gift and decorative products, housewares, entertainment and leisure products and children s and nutritional products.
(4) Other revenue primarily includes shipping and handling fees billed to Representatives.
Sales from Health and Wellness products and *mark.* are included among these categories based on product type.

8. SUPPLEMENTAL BALANCE SHEET INFORMATION

At September 30, 2009 and December 31, 2008, prepaid expenses and other included the following:

Components of Prepaid Expenses and Other	**September 30, 2009**	**December 31, 2008**
Deferred tax assets	$ 247.3	$ 194.6
Receivables other than trade	147.5	127.1
Prepaid taxes and tax refunds receivable	283.0	156.5
Prepaid brochure costs, paper and other literature	130.8	126.0
Short-term investments	33.4	40.1
Property, plant and equipment held for sale	8.2	
Other	124.3	112.2
Prepaid expenses and other	$ 974.5	$ 756.5

At September 30, 2009 and December 31, 2008, other assets included the following:

Components of Other Assets	**September 30, 2009**	**December 31, 2008**
Deferred tax assets	$ 490.7	$ 502.5
Goodwill (Note 10)	225.2	224.5
Intangible assets (Note 10)	17.5	28.6
Investments	52.3	108.9
Deferred software	103.9	98.3
Interest-rate swap agreements (Note 11 and 12)	73.1	103.7
Other	125.1	106.7
Other assets	$ 1,087.8	$ 1,173.2

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data)

9. RESTRUCTURING INITIATIVES

2005 Restructuring Program

In November 2005, we announced a multi-year turnaround plan to restore sustainable growth. As part of our turnaround plan, we launched a restructuring program in late 2005 (the 2005 Restructuring Program). Restructuring initiatives under this program include:

- enhancement of organizational effectiveness, including efforts to flatten the organization and bring senior management closer to consumers through a substantial organization downsizing;
- implementation of a global manufacturing strategy through facilities realignment;
- implementation of additional supply chain efficiencies in distribution; and
- streamlining of transactional and other services through outsourcing and moves to lower-cost countries.

We have approved and announced all of the initiatives that are part of our 2005 Restructuring Program. We expect to record total restructuring charges and other costs to implement restructuring initiatives of approximately $530 before taxes. We have recorded total costs to implement, net of adjustments, of $523.8 ($19.6 in the first nine months of 2009, $60.6 in 2008, $158.3 in 2007, $228.8 in 2006, and $56.5 in 2005) for actions associated with our restructuring initiatives.

Restructuring Charges First, Second and Third Quarters of 2009

During the three and nine months ended September 30, 2009, we recorded total costs to implement associated with previously approved initiatives that are part of our 2005 Restructuring Program of $2.6 and $19.6, respectively, and the costs consisted of the following:

- net charges of $0.5 and $6.8, respectively, primarily for employee-related costs;
- implementation costs of $0.9 and $7.6, respectively, for professional service fees, primarily associated with our initiatives to outsource certain finance processes and realign certain distribution operations; and
- accelerated depreciation of $1.2 and $5.2, respectively, associated with our initiatives to realign certain distribution operations.

Of the total costs to implement, $2.5 and $19.2 were recorded in selling, general and administrative expenses for the three and nine months ended September 30, 2009, respectively, and $.1 and $.4 were recorded in cost of sales for each of the three and nine months ended September 30, 2009, respectively.

Restructuring Charges First, Second and Third Quarters of 2008

During the three and nine months ended September 30, 2008, we recorded total costs to implement associated with previously approved initiatives that are part of our 2005 Restructuring Program of $14.4 and $53.2, respectively, and the costs consisted of the following:

- net charges of $3.8 and $18.5, respectively, primarily for employee-related costs;
- implementation costs of $6.4 and $27.0, respectively, for professional service fees, primarily associated with our initiatives to outsource certain finance and human resource processes; and
- accelerated depreciation of $4.2 and $7.7, respectively, associated with our initiatives to realign certain distribution operations and close certain manufacturing operations.

Of the total costs to implement, $11.8 and $50.3 were recorded in selling, general and administrative expenses for the three and nine months ended September 30, 2008, respectively, and $2.6 and $2.9 were recorded in cost of sales for the three and nine months ended September 30, 2008, respectively.

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data)

The liability balances for the initiatives under the 2005 Restructuring Program are shown below:

	Employee-Related Costs	Asset Write-offs	Inventory Write-offs	Currency Translation Adjustment Write-offs	Contract Terminations/ Other	Total
Balance December 31, 2008	$ 93.6	$	$	$	$ .3	$ 93.9
2009 Charges	15.7					15.7
Adjustments	(8.7)		(.2)			(8.9)
Cash payments	(36.8)				(.2)	(37.0)
Non-cash write-offs	(13.9)					(13.9)
Foreign exchange	1.6					1.6
Balance September 30, 2009	$ 51.5	$	$ (.2)	$	$ .1	$ 51.4

The following table presents the restructuring charges incurred to date, net of adjustments, under the 2005 Restructuring Program, along with the charges expected to be incurred under the plan:

	Employee-Related Costs	Asset Write-offs	Inventory Write-offs	Currency Translation Adjustment Write-offs	Contract Terminations/ Other	Total
Charges incurred to date	$ 351.5	$ 10.8	$ 7.2	$ 11.6	$ 8.6	$ 389.7
Charges to be incurred on approved initiatives	5.5					5.5
Total expected charges on approved initiatives	$ 357.0	$ 10.8	$ 7.2	$ 11.6	$ 8.6	$ 395.2

The charges, net of adjustments, of initiatives under the 2005 Restructuring Program by reportable business segment were as follows:

	Latin America	North America	Central & Eastern Europe	Western Europe, Middle East & Africa	Asia Pacific	China	Corporate	Total
2005	$ 3.5	$ 6.9	$ 1.0	$ 11.7	$ 18.2	$ 4.2	$ 6.1	$ 51.6
2006	34.6	61.8	6.9	45.1	22.2	2.1	29.5	202.2
2007	14.9	7.0	4.7	65.1	4.3	1.3	12.7	110.0
2008	1.9	(1.1)	1.7	19.0	.6		(3.0)	19.1
First quarter 2009	.4	.2		(1.4)	.6		(1.6)	(1.8)
Second quarter 2009	.2	(.7)	(.5)	(1.1)	11.4	(.2)	(1.0)	8.1
Third quarter 2009	.3	.2						0.5
Charges recorded to date	$ 55.8	$ 74.3	$ 13.8	$ 138.4	$ 57.3	$ 7.4	$ 42.7	$ 389.7
Charges to be incurred on approved initiatives	3.6	0.9		0.5	0.4		0.1	5.5

Total expected charges on approved initiatives	$ 59.4	$ 75.2	$ 13.8	$ 138.9	$ 57.7	$ 7.4	$ 42.8	$ 395.2

As noted previously, we expect to record total costs to implement of approximately $530 before taxes for all restructuring initiatives under the 2005 Restructuring Program, including restructuring charges and other costs to implement. The amounts shown in the tables above as charges recorded to date relate to initiatives that have been approved and recorded in the financial statements as the costs are probable and estimable. The amounts shown in the tables above as total expected charges on approved initiatives represent charges recorded to date plus charges yet to be recorded for approved initiatives as the relevant accounting criteria for recording an expense have not yet been met. In addition to the charges included in the tables above, we will incur other costs to implement restructuring initiatives such as consulting, other professional services, and accelerated depreciation.

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data)

2009 Restructuring Program

In February 2009, we announced a new restructuring program (the 2009 Restructuring Program) which targets increasing levels of efficiency and organizational effectiveness across the Company s global operations. The 2009 Restructuring Program initiatives are expected to include:

- restructuring the Company s global supply chain operations;
- realigning certain local business support functions to a more regional basis to drive increased efficiencies; and
- streamlining transaction related services, including selective outsourcing.

We expect to record total restructuring charges and other costs to implement restructuring initiatives in the range of $300 to $400 before taxes over the next several years, with actions to be completed by 2012-2013.

Restructuring Charges First, Second and Third Quarters of 2009

During the three and nine months ended September 30, 2009, we recorded total costs to implement associated with approved initiatives that are part of our 2009 Restructuring Program of $30.9 and $117.8, respectively, and the costs consisted of the following:

- net charges of $24.2 and $98.6, respectively, for employee related costs;
- implementation costs of $3.5 and $16.0, respectively, for professional service fees, primarily associated with our initiatives to realign certain support functions to a more regional basis and realignment of certain manufacturing facilities; and
- accelerated depreciation of $3.2 for each of the periods, associated with our initiatives to realign certain distribution operations and close certain manufacturing operations.

Of the total costs to implement, $27.7 and $114.6 were recorded in selling, general and administrative expenses for the three and nine months ended September 30, 2009, respectively, and $3.2 was recorded in cost of sales for each of the three and nine months ended September 30, 2009.

The liability balances for the initiatives under the 2009 Restructuring Program are shown below:

	Employee-Related Costs	Asset Write-offs	Inventory Write-offs	Currency Translation Adjustment Write-offs	Contract Terminations/ Other	Total
2009 Charges	$ 98.8					$ 98.8

Adjustments	(0.2)					(0.2)
Cash payments	(8.4)					(8.4)
Non-cash write-offs	(4.0)					(4.0)
Foreign exchange	0.6					0.6
Balance September 30, 2009	$ 86.8	$	$	$	$	$ 86.8

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data)

The charges, net of adjustments, of initiatives approved to date under the 2009 Restructuring Program by reportable business segment were as follows:

	Latin America	North America	Central & Eastern Europe	Western Europe, Middle East & Africa	Asia Pacific	China	Corporate	Total
First quarter 2009	$ .2	$ 1.6	$ 1.7	$ .5	$ .1	$	$ 3.0	$ 7.1
Second quarter 2009	15.7	16.2	18.7	15.0	.1	.7	.9	67.3
Third quarter 2009	1.6	7.9	1.1	5.1	2.5	(.7)	6.7	24.2
Charges recorded to date	$ 17.5	$ 25.7	$ 21.5	$ 20.6	$ 2.7	$	$ 10.6	$ 98.6
Charges to be incurred on approved initiatives	6.0	2.6	2.6	1.4	1.0			13.6
Total expected charges on approved initiatives	$ 23.5	$ 28.3	$ 24.1	$ 22.0	$ 3.7	$	$ 10.6	$ 112.2

As noted previously, we expect to record total costs to implement in the range of $300 to $400 before taxes for all restructuring initiatives under the 2009 Restructuring Program, including restructuring charges and other costs to implement. The amounts shown in the table above as charges recorded to date relate to initiatives that have been approved and recorded in the financial statements as the costs are probable and estimable. The amounts shown in the table above as total expected charges on approved initiatives represents charges recorded to date plus charges yet to be recorded for approved initiatives as the relevant accounting criteria for recording an expense have not yet been met. In addition to the charges included in the table above, we will incur other costs to implement restructuring initiatives such as consulting, other professional services, and accelerated depreciation.

10. GOODWILL AND INTANGIBLE ASSETS

Goodwill

	Latin America	Central & Eastern Europe	Western Europe, Middle East & Africa	Asia Pacific	China	Total
Balance at December 31, 2008	$ 94.9	$ 8.8	$ 33.3	$ 12.4	$ 75.1	$ 224.5
Adjustments				(.4)		(.4)
Foreign exchange		.1	.8	.1	.1	1.1
Balance at September 30, 2009	$ 94.9	$ 8.9	$ 34.1	$ 12.1	$ 75.2	$ 225.2

Intangible assets

	September 30, 2009	December 31, 2008

	Gross Amount	Accumulated Amortization	Gross Amount	Accumulated Amortization
Amortized Intangible Assets				
Customer relationships	$ 38.6	$ (29.7)	$ 38.4	$ (25.6)
Licensing agreements	42.3	(35.2)	42.4	(28.3)
Noncompete agreements	7.4	(5.9)	7.4	(5.7)
Total	$ 88.3	$ (70.8)	$ 88.2	$ (59.6)

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data)

Estimated Amortization Expense:

2009	$ 14.0
2010	2.0
2011	2.0
2012	2.0
2013	2.0

Aggregate amortization expense during the three and nine months ended September 30, 2009, was $3.7 and $11.2, respectively, compared to $3.3 and $11.9, respectively, for the same periods of 2008.

11. FAIR VALUE

We adopted the fair value measurement provisions required by the Fair Value Measurements and Disclosures Topic of the Codification as of January 1, 2008, with the exception of the application to non-recurring, nonfinancial assets and liabilities, which was adopted as of January 1, 2009, with no impact on our Consolidated Financial Statements. The adoption of the fair value measurement provisions did not have a material impact on our fair value measurements. The fair value measurement provisions define fair value as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. In addition, the fair value measurement provisions establish a fair value hierarchy, which prioritizes the inputs used in measuring fair value into three broad levels as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly.

Level 3 Unobservable inputs based on our own assumptions.

The following table presents the fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of September 30, 2009:

	Fair Value at September 30, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Available-for-sale securities	$ 1.9			$ 1.9
Interest-rate swap agreements		$ 73.1		73.1
Foreign exchange forward contracts		16.5		16.5
Total	$ 1.9	$ 89.6		$ 91.5
Liabilities:				

Interest-rate swap agreements	$ 12.6	$ 12.6
Foreign exchange forward contracts	9.4	9.4
Total	$ 22.0	$ 22.0

Table of Contents

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data)

The net asset (liability) amounts recorded in the balance sheet (carrying amount) and the estimated fair values of financial instruments at September 30, 2009 and December 31, 2008, consisted of the following:

	2009		2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 1,293.4	$ 1,293.4	$ 1,104.7	$ 1,104.7
Available-for-sale securities	1.9	1.9	2.3	2.3
Grantor trust cash and cash equivalents	8.4	8.4	20.1	20.1
Debt maturing within one year	431.2	433.4	1,031.4	1,038.6
Long-term debt, net of related discount or premium	2,328.0	2,371.3	1,456.2	1,346.1
Foreign exchange forward contracts	7.1	7.1	(10.7)	(10.7)
Interest-rate swap agreements	60.5	60.5	87.6	87.6

The methods and assumptions used to estimate fair value are as follows:

Available-for-sale securities The fair values of these investments were based on the quoted market prices for issues listed on securities exchanges.

Debt maturing within one year and long-term debt The fair values of all debt and other financing were determined based on quoted market prices.

Foreign exchange forward contracts The fair values of forward contracts were based on quoted forward foreign exchange prices at the reporting date.

Interest-rate swap agreements The fair values of interest rate swap and treasury lock agreements were estimated based LIBOR yield curves at the reporting date.

12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Derivatives are recognized on the balance sheet at their fair values. The following table presents the fair value of derivative instruments outstanding at September 30, 2009:

	Asset Balance Sheet Classification	Fair Value	Liability Balance Sheet Classification	Fair Value
Derivatives designated as hedges:				
Interest-rate swap agreements	Other assets	$ 58.0	Other Liabilities	$
Foreign exchange forward contracts	Prepaid expenses and other		Accounts Payable	1.3
Total derivatives designated as hedges		$ 58.0		$ 1.3
Derivatives not designated as hedges:				
Interest-rate swap agreements	Other assets	$ 15.1	Other Liabilities	$ 12.6
Foreign exchange forward contracts	Prepaid expenses and other	16.5	Accounts Payable	8.1

Total derivatives not designated as hedges	$ 31.6	$ 20.7
Total derivatives	$ 89.6	$ 22.0

When we become a party to a derivative instrument, we designate, for financial reporting purposes, the instrument as a fair value hedge, a cash flow hedge, a net investment hedge, or a non-hedge.

We assess, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. The ineffective portion of a derivative s gain or loss, if any, is recorded in earnings in other expense, net on the Consolidated

AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Dollars in millions, except per share data)

Statements of Income. When we determine that a derivative is not highly effective as a hedge, hedge accounting is discontinued. When it is probable that a hedged forecasted transaction will not occur, we discontinue hedge accounting for the affected portion of the forecasted transaction, and reclassify gains or losses that were accumulated in accumulated other comprehensive income (AOCI) to earnings.

Interest Rate Risk

We use interest-rate swap agreements, which effectively convert the fixed rate on long-term debt to a floating interest rate, to manage our interest rate exposure. These agreements are designated as fair value hedges. At September 30, 2009, we held interest-rate swap agreements that effectively converted approximately 82% of our outstanding long-term, fixed-rate borrowings to a variable interest rate based on LIBOR. Our total exposure to floating interest rates at September 30, 2009, was approximately 78%.

At September 30, 2009, we had interest-rate swap agreements designated as fair value hedges of fixed-rate debt, with notional amounts totaling $1,975. During the three and nine months ended September 30, 2009, we recorded a net gain of $24.6 and a net loss of $30.2, respectively, in interest expense for these interest-rate swap agreements designated as fair value hedges. The impact on interest expense of these interest-rate swap agreements was offset by an equal and offsetting impact in interest expense on our fixed-rate debt.

At times, we may de-designate the hedging relationship of a receive-fixed/pay-variable interest-rate swap agreement. In these cases, we enter into receive-variable/pay-fixed interest-rate swap agreements that are designed to offset the gain or loss on the de-designated contract. At September 30, 2009, we had interest-rate swap agreements that are not designated as hedges with notional amounts totaling $650. During the three and nine months ended September 30, 2009, we recorded a net loss of $1.2 and $2.6 in other expense, net associated with these undesignated interest-rate swap agreements.

Foreign Currency Risk

The primary currencies for which we have net underlying foreign currency exchange rate exposures are the Argentine peso, Brazilian real, British pound, Canadian dollar, Chinese renminbi, Colombian peso, the euro, Japanese yen, Mexican peso, Philippine peso, Polish zloty, Russian ruble, Turkish lira, Ukrainian hryvnia and Venezuelan bolivar. We use foreign exchange forward contracts to manage a portion of our foreign currency exchange rate exposures. At September 30, 2009, we had outstanding foreign exchange forward contracts with notional amounts totaling approximately $274 for the euro, the Hungary forint, the Peru new sol, the Czech Republic koruna, the Romania leu, the Canadian dollar, the Australian dollar, the New Zealand dollar, the Polish zloty and the British pound.

We use foreign exchange forward contracts to hedge portions of our forecasted foreign currency cash flows resulting from intercompany royalties, and other third-party and intercompany foreign currency transactions where there is a high probability that anticipated exposures will materialize. These contracts are designated as cash flow hedges. The effective portion of the gain or loss on the derivative is recorded in AOCI to the extent effective and reclassified into earnings in the same period or periods during which the transaction hedged by that derivative also affects earnings. The ineffective portion of the gain or loss on the derivative is recorded in other expense, net. For the three and nine months ended September 30, 2009, there was no ineffectiveness reported. The effective portion of these hedges resulted in a gain of $0.7 and loss of $2.9 being recognized in AOCI for the three and nine months ended September 30, 2009, respectively. $1.4 and $8.6 of losses were reclassified from AOCI to cost of sales to offset a gain on the item being hedged during the three and nine months ended September 30, 2009, respectively.

We also use foreign exchange forward contracts to manage foreign currency exposure of intercompany loans. These contracts are not designated as hedges for financial reporting purposes. The change in fair value of these contracts is immediately recognized in earnings and substantially offsets the foreign currency impact recognized in earnings relating to the intercompany loans. During the three and nine months ended September 30, 2009, we recorded a gain of $5.7 and $7.7 in other expense, net related to these undesignated foreign exchange forward contracts. During the three and nine months ended September 30, 2009, we recorded a loss of $4.3 and $3.9, respectively, related to the intercompany loans, caused by changes in foreign currency exchange rates.

We have used foreign currency-denominated debt to hedge the foreign currency exposure related to the net assets of a foreign subsidiary. A loss of $1.6 on the foreign currency-denominated debt was effective as a hedge of the net assets of the foreign subsidiary and was recorded in AOCI. During the three and nine months ended September 30, 2009, the ineffective portion of the loss was nil and $.3 on the foreign currency-denominated debt and was recorded in other expense, net.

Table of Contents