

AVON PRODUCTS INC  
Form 10-Q  
May 05, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

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**New York**  
(State or other jurisdiction of

**13-0544597**  
(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 April 30, 2009 was 426,907,237.

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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 March 31,</b>	
	<b>2009</b>	<b>2008</b>
Net sales	\$ 2,157.7	\$ 2,477.9
Other revenue	22.1	23.8
<b>Total revenue</b>	<b>2,179.8</b>	<b>2,501.7</b>
Costs, expenses and other:		
Cost of sales	811.2	923.7
Selling, general and administrative expenses	1,200.2	1,281.8
<b>Operating profit</b>	<b>168.4</b>	<b>296.2</b>
Interest expense	24.8	26.1
Interest income	(7.3)	(9.2)
Other expense, net	4.2	0.7
<b>Total other expenses</b>	<b>21.7</b>	<b>17.6</b>
Income before taxes	146.7	278.6
Income taxes	(29.2)	(92.4)
Net income	117.5	186.2
Net income attributable to noncontrolling interest	(0.2)	(1.5)
Net income attributable to Avon	\$ 117.3	\$ 184.7
<b>Earnings per share:</b>		
Basic	\$ .27	\$ .43
Diluted	\$ .27	\$ .43
Cash dividends per common share	\$ .21	\$ .20

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, 2009</b>	<b>December 31, 2008</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,602.4	\$ 1,104.7
Accounts receivable, net	653.9	687.8
Inventories	1,047.5	1,007.9
Prepaid expenses and other	745.7	756.5
<b>Total current assets</b>	<b>4,049.5</b>	<b>3,556.9</b>
Property, plant and equipment, at cost	2,382.2	2,439.9
Less accumulated depreciation	(1,075.6)	(1,096.0)
	1,306.6	1,343.9
<b>Other assets</b>	<b>1,130.3</b>	<b>1,173.2</b>
<b>Total assets</b>	<b>\$ 6,486.4</b>	<b>\$ 6,074.0</b>
<b>Liabilities and Shareholders Equity</b>		
<b>Current Liabilities</b>		
Debt maturing within one year	\$ 871.2	\$ 1,031.4
Accounts payable	651.0	724.3
Accrued compensation	199.0	234.4
Other accrued liabilities	544.5	581.9
Sales and taxes other than income	208.4	212.2
Income taxes	104.1	128.0
<b>Total current liabilities</b>	<b>2,578.2</b>	<b>2,912.2</b>
Long-term debt	2,294.1	1,456.2
Employee benefit plans	656.7	665.4
Long-term income taxes	163.3	168.9
Other liabilities	147.8	159.0
<b>Total liabilities</b>	<b>\$ 5,840.1</b>	<b>\$ 5,361.7</b>
<b>Contingencies (Note 5)</b>		
<b>Shareholders Equity</b>		
Common stock	\$ 185.9	\$ 185.6
Additional paid-in capital	1,890.5	1,874.1
Retained earnings	4,146.0	4,118.9
Accumulated other comprehensive loss	(1,067.7)	(965.9)
Treasury stock, at cost	(4,543.3)	(4,537.8)

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Total Avon shareholders' equity	611.4	674.9
Noncontrolling interest	34.9	37.4
Total shareholders' equity	\$ 646.3	\$ 712.3
<b>Total liabilities and shareholders' equity</b>	<b>\$ 6,486.4</b>	<b>\$ 6,074.0</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</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash Flows from Operating Activities</b>		
Net income attributable to Avon	\$ 117.3	\$ 184.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	42.8	44.0
Provision for doubtful accounts	47.9	46.4
Provision for obsolescence	24.8	22.7
Share-based compensation	17.3	17.7
Deferred income taxes	1.3	2.7
Other	18.5	13.3
Changes in assets and liabilities:		
Accounts receivable	(32.3)	29.3
Inventories	(106.6)	(118.9)
Prepaid expenses and other	(9.4)	(42.6)
Accounts payable and accrued liabilities	(111.0)	(198.5)
Income and other taxes	(50.5)	(26.4)
Noncurrent assets and liabilities	(20.8)	(15.4)
<b>Net cash used by operating activities</b>	<b>(60.7)</b>	<b>(41.0)</b>
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(51.1)	(61.1)
Disposal of assets	1.6	2.8
Purchases of investments	(0.1)	(4.6)
Proceeds from sale of investments	45.7	4.3
<b>Net cash used by investing activities</b>	<b>(3.9)</b>	<b>(58.6)</b>
<b>Cash Flows from Financing Activities*</b>		
Cash dividends	(89.5)	(91.5)
Debt, net (maturities of three months or less)	(69.4)	(337.8)
Proceeds from debt	883.0	513.9
Repayment of debt	(134.4)	(59.6)
Proceeds from exercise of stock options	0.2	16.0
Excess tax benefit realized from share-based compensation	(0.1)	2.6
Repurchase of common stock	(1.5)	(63.9)
<b>Net cash provided (used) by financing activities</b>	<b>588.3</b>	<b>(20.3)</b>
Effect of exchange rate changes on cash and equivalents	(26.0)	49.1
<b>Net increase (decrease) in cash and equivalents</b>	<b>497.7</b>	<b>(70.8)</b>
Cash and equivalents at beginning of year	1,104.7	963.4
Cash and equivalents at end of period	\$ 1,602.4	\$ 892.6

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- \* Non-cash financing activities in 2009 and 2008 included the change in fair market value of interest-rate swap agreements of \$(4.4) and \$11.7, 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. 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.

We have reclassified some prior year amounts in the consolidated financial statements and accompanying notes for comparative purposes. We reclassified \$7.8 from accounts receivable to prepaid expenses and other on the Consolidated Statements of Cash Flows for the three months ended March 31, 2008.

*New Accounting Standards Implemented*

Effective January 1, 2009, we adopted the provisions of SFAS 157, *Fair Value Measurements* ( SFAS 157 ), as it relates to non-recurring, nonfinancial assets and liabilities. The adoption of these provisions of SFAS 157 did not have an impact on our Consolidated Financial Statements.

Effective January 1, 2009, we adopted SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*, ( SFAS 161 ), which changes, among other things, the disclosure requirements for derivative instruments and hedging activities. We are required to provide enhanced disclosures about how and why we use derivative instruments, how they are accounted for, and how they affect our financial performance. See Note 12, Derivative Instruments and Hedging Activities.

Effective January 1, 2009, we adopted FSP Emerging Issues Task Force ( EITF ) 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, ( FSP EITF 03-6-1 ), which addresses 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 earnings per share ( EPS ) under the two-class method. Prior period EPS was adjusted retrospectively. The adoption of FSP EITF 03-6-1 did not have a material impact on the calculation of basic or diluted earnings per share. See Note 2, Earnings Per Share and Share Repurchases.

Effective January 1, 2009, we adopted SFAS No. 141 (revised 2007), *Business Combinations*, ( SFAS 141R ), which changed how business combinations are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 141R will be applied prospectively. The impact of adopting SFAS 141R will depend on the nature and terms of future acquisitions.

Effective January 1, 2009, we adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*, ( SFAS 160 ), which changed the accounting and reporting standards for the noncontrolling interests in a subsidiary in consolidated financial statements. SFAS 160 recharacterizes minority interests as noncontrolling interests and requires noncontrolling interests to be classified as a component of shareholders equity. SFAS 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. As a result of the adoption of SFAS 160, we reclassified minority interest liabilities of \$37.4 from other liabilities to equity on the Consolidated Balance Sheet for the year ended December 31, 2008.



**Table of Contents****AVON PRODUCTS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Dollars in millions, except per share data)***New Accounting Standards to be Implemented*

In December 2008, the FASB issued Staff Position No. ( FSP ) FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*. The FSP will require additional disclosures about the major categories of plan assets and concentrations of risk, as well as disclosure of fair value levels, similar to the disclosure requirements of SFAS 157. The enhanced disclosures about plan assets required by this FSP must be provided in our 2009 Annual Report on Form 10-K.

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*. This statement requires disclosures about fair value of financial instruments, previously only required in annual financial statements, to also be included in interim financial statements. This statement is effective for interim reporting periods ending after June 15, 2009. We will adopt this standard June 30, 2009.

**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)	<b>Three Months Ended March 31,</b>	
<b>Components of Basic and Diluted Earnings per Share</b>	<b>2009</b>	<b>2008</b>
<b>Numerator:</b>		
Net income attributable to Avon	\$ 117.3	\$ 184.7
Less: Earnings allocated to participating securities	(1.1)	(1.1)
Net income allocated to common shareholders	116.2	183.6
<b>Denominator:</b>		
Basic EPS weighted-average shares outstanding	426.37	426.79
Diluted effect of assumed conversion of stock options	0.08	2.43
Diluted EPS adjusted weighted-average shares outstanding	426.45	429.22
<b>Earnings per Common Share:</b>		
Basic EPS	\$ .27	\$ .43
Diluted EPS	\$ .27	\$ .43

At March 31, 2009 and 2008, we did not include stock options to purchase 22.1 million shares and 8.2 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 0.3 million shares of Avon common stock for \$6.0 during the first three months of 2009, as compared to approximately 1.7 million shares of Avon common stock for \$64.7 during the first three months of 2008 under our previously announce