

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

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

FORM 10-K/A

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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

For the fiscal year ended December 31, 1999

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  
(New address of principal executive offices)

(212) 282-5000  
(Telephone number)

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class             | Name of each exchange on<br>which registered |
|---------------------------------|--|
| Common stock (par value \$.25)  | New York Stock Exchange                      |
| Preferred Share Purchase Rights | New York Stock Exchange                      |

Securities registered pursuant to Section 12(g) of the Act: None

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 \_\_\_\_

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K/A or any amendment to this Form 10-K/A. [ ].

The aggregate market value of Common Stock (par value \$.25) held by non-affiliates at February 29, 2000 was \$6.4 billion.

The number of shares of Common Stock (par value \$.25) outstanding at February 29, 2000 was 237,514,173.

### Documents Incorporated by Reference

|                |  |
|----------------|--|
| Parts I and II | Portions of the 1999 Annual Report to Shareholders.                          |
| Part III       | Portions of the Proxy Statement for the 2000 Annual Meeting of Shareholders. |

### Introductory Note--Restatements

In connection with the settlement of the previously disclosed investigation by the Securities and Exchange Commission ("SEC") relating to the write off of an order management software system known as the "FIRST" project, Avon has restated its Consolidated Financial Statements as of December 31, 2001, 2000 and 1999 and for the years then ended and for each of the fiscal quarters ended March 31, 1999 through March 31, 2002. Avon had written off \$14.8 pretax, or \$10.0 after tax, of FIRST assets in the first quarter of 1999 and \$23.9 pretax, or \$14.5 after tax, of FIRST assets in the third quarter of 2001. Avon has restated its financial statements to reflect the additional write off as of March 31, 1999 of all capitalized costs (\$23.3 pretax, or \$14.0 after tax), associated with the FIRST project as of that date and a reversal of the charge recorded in the third quarter of 2001. Other FIRST-related activity (capitalized costs and amortization) recorded during 1999-2002 has also been restated. A description of the adjustments that comprise the restatements is set forth in Notes 2 and 15 of the Notes to Consolidated Financial Statements filed with this Form 10-K/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-K/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-K/A was not filed.

## PART I

### ITEM 1. BUSINESS

Certain statements in this report which are not historical facts or information are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, but not limited to, the information set forth 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 Avon Products, Inc.

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("Avon" or 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; the impact of substantial currency exchange devaluations in the Company's principal foreign markets; 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 as discussed in Item 1 of this 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.

### General

The Company is one of the world's leading manufacturers and marketers of beauty and related products, which include cosmetics, fragrance and toiletries (CFT); "beauty plus" which consists of jewelry and accessories and apparel; and "non-core" which consists of gift and decorative and home entertainment products. Avon commenced operations in 1886 and was incorporated in the State of New York on January 27, 1916. Avon's business is comprised of one industry segment, direct selling, which is conducted in North America, Latin America, the Pacific and Europe. The Company's reportable segments are based on geographic operations. Financial information relating to the reportable segments is incorporated by reference to the analysis of net sales and operating profit by geographic area and to Note 12 of the Notes to the Consolidated Financial Statements in Avon's 1999 Restated Annual Report to Shareholders.

### Business Process Redesign

In October 1997, the Company announced a worldwide business process redesign ("BPR") program to streamline operations and improve profitability through margin improvement and expense reductions. The

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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. At December 31, 1999, the remaining liability balance was \$26.2 and relates primarily to severance costs that will be paid in 2000.

BPR initiatives underway are intended to reduce costs by up to \$400.0 a year by 2000, with a portion of the savings being reinvested primarily in consumer-focused initiatives. Total savings from BPR initiatives for 1999 approximated \$250.0.

### Global Business Strategy

In 1999, the Company adopted a new strategic plan to drive revenue growth and expand its customer base around the world by building on the Company's strength as a beauty marketer and a leading home direct seller. The new strategy includes, but is not limited to, plans to accelerate growth in its

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core beauty business by growing global brands, expanding market share, upgrading its beauty image and new product innovation; building a global portfolio of jewelry and accessories; developing innovative programs to train, motivate and retain Representatives; exploiting retail opportunities; and developing new businesses. The Company expects that its BPR programs will continue to provide resources to fund these strategic growth initiatives and contribute to earnings growth. Spending for product innovation and advertising are also key components in building a global beauty image and reaching the end consumer. In 2000, the Company will launch its first-ever global advertising campaign and significantly expand its use of Internet technology.

Avon's global strategies include the following key growth initiatives:

### Direct Selling Contemporization

The Company continues to contemporize its direct selling channel enabling it to reach women quickly and efficiently by offering Representative training, support and earnings opportunities. The Company is planning to roll out a global Sales Leadership program in its ten largest markets around the world. The Sales Leadership program is a modified multi-level selling system which will give Representatives the opportunity to earn commissions generated from downstream sales of other Representatives they recruit. This program limits the number of levels to three and continues to focus on individual product sales.

The Company also plans to implement a Representative development strategy in 2000. This strategy will focus on the professional training and development of its Representatives through the introduction of the Avon Beauty Advisor. Beauty Advisor training will include an in-home study package as well as seminars where Representatives will be trained

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to do beauty makeovers, where permissible, and consultations. In addition to introducing the Avon Beauty Advisor, the Company has formed an alliance with a sales motivation company to introduce a series of Avon-sponsored training materials and seminars called "Success by Design". Avon is also developing enhanced Representative training to support the Sales Leadership opportunity, including a certification process for each Leadership level.

In addition to the Sales Leadership program and Representative development strategy, the Company is planning to build and relaunch its Avon.com Internet site in the United States with a technology partner. The site will feature Avon's full product line and will be designed to help its U.S. sales Representatives build their own Avon business by enabling them to sell online through their own personalized web pages, developed in partnership with the Company. The Representatives can tailor their web pages to their specific customer bases by promoting particular products, targeting specific age groups and consumer segments, and reflecting seasonal interests and regional tastes. These "e-Representatives" will be able to conduct all aspects of their Avon business online, including customer prospecting, ordering, getting account status and making payments. Avon will also sell products directly to consumers if they choose not to purchase through a Representative.

Additionally, the Company annually produces more than 600 million brochures in a dozen languages, utilizing common imagery and layouts from a single global database to enhance its global beauty image. In 2000, Avon plans on incremental spending to upgrade the quality of brochures, in several of its largest markets, including the U.S.

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### Complementary Access

To accelerate growth in established industrial nations such as the U.S., Western Europe and Japan, the Company has developed new channels to reach more customers and improve access to its products through Avon Beauty Centers and Express Centers in the U.S., toll-free telephone numbers, direct mail and "on line" shopping via the Internet on Avon's web site, Avon.com. Avon Beauty Centers, located in urban malls across the United States, are designed to display an upscale beauty image, showcase the Company's beauty brands and encourage customer trial of product. Avon Express Centers also provide easy access to products and allow Representatives to fill orders immediately, rather than waiting for campaign deliveries. In 2000, Avon intends to implement a more integrated Internet strategy beginning with the U.S. to focus on improving access and accelerating growth. These complementary access programs will further increase Avon's brand awareness and drive its global beauty image.

Access strategies also have helped reach new customers in the Pacific Region. For example, the Philippines, India and Indonesia use decentralized branches and satellite stores to serve Representatives and customers. Representatives come to a branch near their homes to place

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and pick up product orders for their customers. The branches also create visibility for Avon with consumers and help reinforce the Company's beauty image. In Malaysia, Avon has 180 franchised beauty boutiques, which are staffed by franchise Representatives and are located in areas with high concentrations of Representatives. The boutiques provide more direct and personal service to Representatives and their customers. Additionally, in China and Taiwan, beauty counters managed by Avon Representatives are in retail store chains.

The Company is exploring potential retail opportunities in the U.S., including a franchising opportunity for women who would own their own Avon retail store or kiosk and a "store within a store" concept developed through a joint venture with a major retailer.

### Image Enhancement

The Company continues to update the image of its core beauty products and its portfolio of global beauty brands. In the past five years, CFT products have all undergone extensive upgrades in packaging, imaging and formulations, consistent with the global brand strategy. These contemporary products project a consistent, high quality image in all markets and include brands such as Anew, Skin-So-Soft, Avon Color, Far Away, Rare Gold, Millennia, Perceive, Starring, Avon Skin Care and Women of Earth. Global brands are growing rapidly as a percentage of the Company's worldwide CFT business and in 1999, they accounted for 51% of core beauty sales. The Company plans on launching three global hair care brands and launching a global jewelry and fashion accessories line around the world. The development of global brands has also enabled the Company to deliver a consistent beauty image around the world, as well as improve margins through pricing and supply chain efficiencies. Avon is also marketing a more vibrant beauty image through increased advertising and image-building programs focused on the consumer. In 2000, the Company intends to launch its first-ever global advertising campaign entitled "Let's Talk", increase investments in product sampling and development and upgrade the quality of its brochure to further build its worldwide beauty image.

In 1998, an important image enhancement came with the opening of the Avon Centre, a spa, salon and retail store located in Trump Tower, New York City.

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The Avon Centre emphasizes health and beauty and offers a selection of Avon beauty products created exclusively for use at the Avon Centre.

Through these strategic initiatives designed to focus on high-quality, affordable products, as well as convenience for the customer, Avon is not only positioned for continued growth but also as a leading beauty company.

### International Expansion

Avon is one of the most widely recognized brand names in the world. The Company is particularly well positioned to capitalize on growth in new international markets due to high demand for quality products, underdeveloped retail, infrastructures and relatively attractive earnings opportunities for women. The Company presently has operations in 50

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countries outside the United States and its products are distributed in 86 more for coverage in 137 markets, and it continues to expand into new markets. The Company has entered 24 new markets since 1990, including Russia and China and rapidly emerging nations throughout Central Europe, and is currently evaluating several other markets in Eastern Europe and the Pacific region.

### Distribution

Avon's products are sold worldwide by approximately 3.0 million Representatives, approximately 445,000 of whom are in the United States. Almost all Representatives are women who sell on a part-time basis. Representatives are independent contractors or independent dealers, and are not agents or employees of Avon. Representatives purchase products directly from Avon and sell them to their customers.

The Company's products are sold to customers through a combination of direct selling and marketing utilizing independent Representatives, Avon Beauty Centers, Express Centers in urban areas, the mail, phone, fax or "on-line". Representatives go where the customers are, both in the home and in the workplace.

In the United States, the Representative contacts customers, selling primarily through the use of brochures which also highlight new products and specially-priced items for each two-week sales campaign. Product samples, demonstration products and selling aids such as make-up color charts are also used. Generally, the Representative forwards an order every two weeks to a designated distribution center. This order is processed and the products are assembled at the distribution center and delivered to the Representative's home, usually by a local delivery service. The Representative then delivers the merchandise and collects payment from the customer for their own account. Payment by the Representative to Avon is customarily made when the next order is forwarded to the distribution center. The cost of merchandise to the Representative varies according to the product category and/or to the total order size for each two-week sales campaign and averages approximately 60 percent of the recommended selling price.

Avon employs certain electronic order systems to increase Representative support in the United States and allow them to run their business more efficiently as well as to improve order processing accuracy. One of these systems permits Representatives to submit add-on orders with a touch-tone telephone, enabling them to augment orders already submitted by placing a phone call. Another system, Avon's Personal Order Entry Terminal, permits the

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top-producing Representatives in the United States to transmit orders electronically by phone line, 24 hours a day, seven days a week.

The current Internet site, Avon.com, with nearly 400,000 visitors a month, also sells a limited line of CFT products directly to consumers. In 2000, the Company plans to launch a completely new Avon.com in the U.S., with implementation in certain key markets within about one year of the U.S. launch. The new online initiative will be available to all Representatives and offer a complete line of Avon products 24 hours a day, 7 days a week, with no geographic boundaries.

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Outside the United States, each sales campaign is generally of a three or four week duration. Although terms of payment and cost of merchandise to the Representative vary from country to country, the basic method of direct selling and marketing by Representatives is essentially the same as that used in the United States, and substantially the same merchandising and promotional techniques are utilized.

The recruiting and training of Representatives are the primary responsibilities of district managers. In the United States, each district manager has responsibility for a market area covered by 225 to 300 Representatives. District managers are employees of Avon and are paid a salary and a sales incentive based primarily on the increase over the prior year's sales of Avon products by Representatives in their district. Personal contacts, including recommendations from current Representatives and local advertising, constitute the primary means of obtaining new Representatives. Because of the high rate of turnover among Representatives, a characteristic of the direct-selling method, recruiting and training of new Representatives are continually necessary.

From time to time, the question of the legal status of Representatives has arisen, usually in regard to possible coverage under social benefit laws that would require Avon (and in most instances, the Representatives) to make regular contributions to social benefit funds. Although Avon has generally been able to address these questions in a satisfactory manner, the matter has not been fully resolved in all countries. If there should be a final determination adverse to Avon in a country, the cost for future, and possibly past, contributions could be so substantial in the context of the volume of business of Avon in that country that it would have to consider discontinuing operations in that country.

### Promotion and Marketing

Sales promotion and sales development activities are directed at assisting the Representatives, through sales aids such as brochures, product samples and demonstration products. In order to support the efforts of Representatives to reach new customers, especially working women and other individuals who frequently are not at home, specially designed sales aids, promotional pieces, customer flyers and product and image enhancing media advertising are used. In addition, Avon seeks to motivate its Representatives through the use of special incentive programs that reward superior sales performance. Periodic sales meetings with Representatives are conducted by the district managers. The meetings are designed to keep Representatives abreast of product line changes, explain sales techniques and provide recognition for sales performance.

A number of merchandising techniques, including the introduction of new products, the use of combination offers, the use of trial sizes and the

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promotion of products packaged as gift items, are used. In general for each sales campaign, a distinctive brochure is published, in which new products are introduced and selected items are offered at special prices or are given particular prominence in the brochure. CFT products are available each sales campaign at consistently low prices, while maintaining introductory specials and periodic sales on selected items for limited time periods.

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From time to time, various regulations or laws have been proposed or adopted that would, in general, restrict the frequency, duration or volume of sales resulting from new product introductions, special prices or other special price offers. The Company's pricing flexibility and broad product lines are expected to be able to mitigate the effect of these regulations.

### Competitive Conditions

The CFT; gift and decorative; apparel; and fashion jewelry and accessory industries are highly competitive. Avon is one of the leading manufacturers and distributors of cosmetics and fragrances in the United States. Its principal competitors are the large and well-known cosmetics and fragrances companies that manufacture and sell broad product lines through various types of retail establishments. There are many other companies that compete in particular products or product lines sold through retail establishments.

Avon has many competitors in the gift and decorative products and apparel industries in the United States, including retail establishments, principally department stores, gift shops and direct-mail companies, specializing in these products.

Avon is one of the leading distributors of fashion jewelry and accessories for women in the United States. Its principal competition in the fashion jewelry industry consists of a few large companies and many small companies that manufacture and sell fashion jewelry for women through retail establishments.

The number of competitors and degree of competition that Avon faces in its foreign CFT and fashion jewelry markets varies widely from country to country. Avon is one of the leading manufacturers and distributors in the CFT industry in most of its foreign markets, as well as in the fashion jewelry industry in Europe.

There are a number of direct-selling companies which sell product lines similar to Avon's, some of which also have worldwide operations and compete with Avon.

Avon believes that the personalized customer service offered by its Representatives; the high quality, attractive designs and reasonable prices of its products; new product introductions; innovative CFT products; and its guarantee of satisfaction are significant factors in establishing and maintaining its competitive position.

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Avon's consolidated net sales, by classes of principal products, are as follows:



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|                                     | Years ended December 31 |           |           |
|-------------------------------------|-------------------------|-----------|-----------|
|                                     | 1999                    | 1998      | 1997      |
| Cosmetics, fragrance and toiletries | \$3,226.1               | \$3,176.6 | \$3,093.9 |
| Beauty Plus:                        |                         |           |           |
| Jewelry and accessories             | 455.4                   | 408.1     | 370.2     |
| Apparel                             | 556.1                   | 567.7     | 565.6     |
|                                     | 1,011.5                 | 975.8     | 935.8     |
| Non-core*                           | 1,051.5                 | 1,060.3   | 1,049.7   |
| Total net sales                     | \$5,289.1               | \$5,212.7 | \$5,079.4 |
|                                     | =====                   | =====     | =====     |

\* Non-core category primarily includes gift and decorative and home entertainment items.

### International Operations

Avon's international operations are subject to certain customary risks inherent in carrying on business abroad, including the risk of adverse currency fluctuations, currency remittance restrictions and unfavorable economic and political conditions.

Avon's international operations are conducted primarily through subsidiaries in 50 countries and Avon's products are distributed in some 86 other countries.

### Manufacturing

Avon manufactures and packages almost all of its CFT products. Raw materials, consisting chiefly of essential oils, chemicals, containers and packaging components, are purchased from various suppliers. Packages, consisting of containers and packaging components, are designed by its staff of artists and designers.

The design and development of new products are affected by the cost and availability of materials such as glass, plastics and chemicals. Avon believes that it can continue to obtain sufficient raw materials and supplies to manufacture and produce its products.

Avon has eighteen manufacturing laboratories around the world, one of which is principally devoted to the manufacture of fashion jewelry. In the United States, Avon's CFT products are produced in three manufacturing laboratories for the four distribution centers and all Beauty and Express centers. Most products sold in foreign countries are manufactured in Avon's facilities abroad.

The fashion jewelry line is generally developed by Avon's staff and produced in its manufacturing laboratory in Puerto Rico or by several independent manufacturers.

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Avon's business is not materially dependent on third party patent or other intellectual property rights and Avon is not a party to any material license, franchise or concession. The Company, however, does seek to protect its key proprietary technologies by aggressively pursuing comprehensive patent coverage in all major markets.

Avon's major trademarks are protected by registration in the United States and the other countries where its products are marketed as well as in many other countries throughout the world.

### Contingencies

Although Avon has completed its divestiture of all discontinued operations, various lawsuits and claims (asserted and unasserted), are pending or threatened against Avon. The Company is also involved in a number of proceedings arising out of the federal Superfund law and similar state laws. In some instances Avon, along with other companies, has been designated as a potentially responsible party which may be liable for costs associated with these various hazardous waste sites. 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 should not have a material adverse impact on Avon's consolidated financial position, results of operations or cash flows.

### SEASONAL NATURE OF BUSINESS

Avon's sales and earnings have a marked seasonal pattern characteristic of many companies selling CFT; gift and decorative products; apparel; and fashion jewelry. Christmas sales cause a sales peak in the fourth quarter of the year. Fourth quarter net sales were 30 percent of total net sales in both 1999 and 1998, respectively, and before one-time charges, fourth quarter operating profit was 36 percent and 37 percent of total operating profit in 1999 and 1998, respectively.

### RESEARCH ACTIVITIES

Avon's research and development department is a leader in the industry, based on the number of new product launches, including formulating effective beauty treatments relevant to women's needs. In addition, Avon's research and development supports its environmental responsibilities.

A team of researchers and technicians apply the disciplines of science to the practical aspects of bringing products to market around the world. Relationships with well known dermatologists and other specialists extend Avon's own research to deliver new formulas and ingredients. Each year, Avon researchers test and develop more than 600 products in the CFT and Beauty Plus categories.

Avon has pioneered many innovative products, including Skin-So-Soft, its best-selling bath oil; BioAdvance, the first skin care product with stabilized retinol, the purest form of Vitamin A; and Collagen Booster, the premier product to capitalize on Vitamin C technology. Avon also

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introduced the benefits of aromatherapy to millions of American women, encapsulated color for the Color-Release line and introduced alpha-hydroxy acid for cosmetic use in the Anew Perfecting Complex products. Today, Avon's Anew product line has been expanded to include technologically advanced products

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such as Retinol Recovery Complex PM Treatment, Night Force Vertical Lifting Complex, Clearly C 10% Vitamin C Serum and Luminosity Brightening Complex. Night Force employs a patented material named AVC10, a molecule that was engineered by Avon researchers over a three-year period. Luminosity Brightening Complex contains Diamonex, Avon's exclusive skin brightening system. Avon has introduced Hydra Finish Lip Color, the first lipstick developed with 20% water, and Perceive, a fragrance which uses the mood-enhancing effects of pheromone technology. In 2000, the Company will be launching a complete renovation of Avon Color with improved formulas and redesigned packaging, rolling out a reformulated Anew All-In-One skin care regimen and launching Positivity, a new line of skin care products for menopausal women.

The amounts incurred on research activities relating to the development of new products and the improvement of existing products were \$34.4 million in 1999, \$31.4 million in 1998, and \$29.9 million in 1997. This research included the activities of product research and development and package design and development. Most of these activities are related to the development of CFT products.

### ENVIRONMENTAL MATTERS

Pursuant to Avon's global environmental policy, environmental audits are conducted to ensure Avon facilities around the world meet or exceed local regulatory standards. A corporate environmental operations committee ensures that opportunities for environmental performance improvements are reflected in our products, packaging and manufacturing processes.

In general, compliance with environmental regulations impacting Avon's global operations has not had, and is not anticipated to have, any material effect upon the capital expenditures, financial position or competitive position of Avon.

### EMPLOYEES

At December 31, 1999, Avon employed 40,500 people. Of these, 8,800 were employed in the United States and 31,700 in other countries. The number of employees tends to rise from a low point in January to a high point in November and decreases somewhat in December when Christmas shipments are completed.

### ITEM 2. PROPERTIES

Avon's principal properties consist of manufacturing laboratories for the production of CFT and fashion jewelry and distribution centers where offices are located and where finished merchandise is warehoused and shipped to Representatives in fulfillment of their orders. Substantially all of these properties are owned by Avon or its subsidiaries, are in good repair, adequately meet Avon's needs and operate at reasonable levels of productive capacity.

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The domestic manufacturing laboratories are located in Morton Grove, IL; Springdale, OH; and Suffern, NY; the distribution centers are located in Atlanta, GA; Glenview, IL; Newark, DE; and Pasadena, CA. Other properties include four manufacturing laboratories and ten distribution centers in Europe; five manufacturing laboratories and nine distribution centers in Latin America; two manufacturing laboratories and three distribution centers in North America (other than in the United States); and four manufacturing laboratories and ten distribution centers in the Pacific region. The research and development

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laboratories are located in Suffern, NY. Avon leases space for its executive and administrative offices in New York City and its fashion jewelry manufacturing facility in Puerto Rico.

### ITEM 3. LEGAL PROCEEDINGS

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 lawsuit 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. It is anticipated that a trial may take place later in 2000.

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

Avon is involved in a number of proceedings arising out of the federal Superfund law and similar state laws. In some instances Avon, along with other companies, has been designated as a potentially responsible party which may be liable for costs associated with these various hazardous waste sites. Based upon Avon's current knowledge of the proceedings, management believes, without taking into consideration any insurance recoveries, if any, that in the aggregate they would not have a material adverse impact on Avon's consolidated financial position, results of operations or cash flows.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the quarter ended December 31, 1999.

Officers are elected by the Board of Directors at its first meeting following the Annual Meeting of Shareholders. Officers serve until the first meeting of the Board of Directors following the Annual Meeting of Shareholders at which Directors are elected for the succeeding year, or until their successors are elected, except in the event of death, resignation or removal, or the earlier termination of the term of office.

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Information regarding employment contracts between Avon and named executive officers is incorporated by reference to the "Contracts with Executives" section of Avon's Proxy Statement for the 2000 Annual Meeting of Shareholders.

Listed below are the executive officers of Avon, each of whom (except as noted) has served in various executive and operating capacities with Avon during the past five years:

| Title | Name | Age | Elected Officer |
|-------|------|-----|-----------------|
| ----- | ---- | --- | -----           |

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|   |                     |    |          |
|---|---------------------|----|----------|
| Retired Chairman of the<br>Board and Director .....   | James E. Preston    | 66 | 1971 (1) |
| Retired Chief Executive<br>Officer and Director.....  | Charles R. Perrin   | 54 | 1998 (1) |
| President and<br>Chief Executive Officer and Director...  | Andrea Jung         | 41 | 1997 (2) |
| Executive Vice President<br>Chief Operating Officer, North America<br>and Global Business Operations..... | Susan J. Kropf      | 51 | 1997 (3) |
| Executive Vice President<br>Chief Operating Officer, International<br>and New Business Development.....   | Jose Ferreira       | 43 | 1997 (4) |
| Executive Vice President, Asia Pacific...   | Fernando Lezama     | 60 | 1997     |
| Executive Vice President and<br>Chief Financial Officer.....  | Robert J. Corti     | 50 | 1988     |
| Senior Vice President, General Counsel<br>and Secretary.....  | Ward M. Miller, Jr. | 67 | 1993     |
| Senior Vice President, Human Resources...   | Jill Kanin-Lovers   | 48 | 1998     |
| Vice President and Controller.....  | Janice Marolda      | 39 | 1998     |

(1) Charles R. Perrin joined Avon as Vice Chairman and Chief Operating Officer in January 1998 and was later elected Chief Executive Officer, effective July 1998 and Chairman of the Board in May 1999, succeeding James E. Preston in his capacity as Chairman of the Board. Mr. Perrin retired from Avon in November 1999. Also effective November 1999, Ms. Andrea Jung was named President and CEO, succeeding Mr. Perrin in his capacity as CEO and outside director Stanley C. Gault was elected non-executive Chairman of the Board of Directors.

(2) Andrea Jung was elected President and Chief Executive Officer effective November 1999, succeeding Charles R. Perrin who retired November 1999. Ms. Jung joined Avon in January 1994 as President, Product Marketing and was promoted to Executive Vice President, Global Marketing and New Business in March 1997. In January 1998, she was elected President and was later elected Chief Operating Officer.

(3) Susan J. Kropf was elected Chief Operating Officer, North America and Global Business Operations, effective November 1999. Ms. Kropf has been with Avon for almost thirty years. Prior to this appointment, she had been Executive Vice President and President, North America. She also served as Senior Vice President, U.S. Marketing and as Vice President, Product Development.

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(4) Jose Ferreira was elected Chief Operating Officer, International and New Business Development, effective November 1999. Mr. Ferreira has been with Avon for twenty years. Prior to this appointment, he had been Executive Vice President, Europe, Asia and Africa since January 1999. Prior to that, in 1997, he was promoted to Executive Vice President and President, Asia Pacific.

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## PART II

### ITEM 5. MARKET FOR THE REGISTRANTS COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

This information is incorporated by reference to "Market Prices per Share of Common Stock by Quarter" in Avon's Restated 1999 Annual Report to Shareholders.

### ITEM 6. SELECTED FINANCIAL DATA (RESTATED)

The information for the five-year period 1995 through 1999 is incorporated by reference to the "Eleven-Year Review" in Avon's Restated 1999 Annual Report to Shareholders.

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION (RESTATED)

This information is incorporated by reference to "Management's Discussion and Analysis" in Avon's Restated 1999 Annual Report to Shareholders.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See discussion under the heading "Risk Management Strategies and Market Rate Sensitive Instruments" in Avon's Restated 1999 Annual Report to Shareholders for information concerning market risk sensitive instruments. Such information is incorporated by reference in this Form 10-K/A.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA (RESTATED)

This information is incorporated by reference to the "Consolidated Financial Statements and Notes", together with the report thereon of PricewaterhouseCoopers LLP, and "Results of Operations by Quarter" in Avon's Restated 1999 Annual Report to Shareholders.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

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## PART III

### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors is incorporated by reference to the "Election of Directors" and "Information Concerning the Board of Directors" sections of Avon's Proxy Statement for the 2000 Annual Meeting of Shareholders. Information regarding executive officers is presented in Part I of this report.

### ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated by reference to the "Information Concerning the Board of Directors" and "Executive Compensation" sections of Avon's Proxy Statement for the 2000 Annual Meeting of Shareholders.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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This information is incorporated by reference to the "Ownership of Shares" section of Avon's Proxy Statement for the 2000 Annual Meeting of Shareholders.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated by reference to the "Contracts with Executives" section of Avon's Proxy Statement for the 2000 Annual Meeting of Shareholders.

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### PART IV

#### ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULE, AND REPORTS ON FORM 8-K (RESTATED)

Form 10-K/A  
Page Number  
-----

(a) 1. Consolidated Financial Statements of  
Avon Products, Inc. and Subsidiaries (as restated)

|  |       |
|--|-------|
| Consolidated statements of income for<br>each of the years in the three-year<br>period ended December 31, 1999.....                                      | 18    |
| Consolidated balance sheets at<br>December 31, 1999 and 1998.....  | 19    |
| Consolidated statements of cash flows<br>for each of the years in the three-year<br>period ended December 31, 1999.....                                  | 20    |
| Consolidated statements of changes in<br>shareholders' (deficit)equity for each<br>of the years in the three-year period<br>ended December 31, 1999..... | 21    |
| Notes to consolidated financial<br>statements.....   | 22-45 |
| Report of Independent Accountants<br>PricewaterhouseCoopers LLP.....   | 46    |

(a) 2. Financial Statement Schedule

|  |     |
|--|-----|
| Report of Independent Accountants on<br>Financial Statement Schedule<br>PricewaterhouseCoopers LLP .....       | S-1 |
| Consent of Independent Accountants<br>PricewaterhouseCoopers LLP .....   | S-2 |
| Financial statement schedule for each<br>of the years in the three-year period<br>ended December 31, 1999..... |     |
| II. Valuation and qualifying<br>accounts.....  | S-3 |

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Financial statements of the registrant and all other financial statement schedules are omitted because they are not applicable or because the required information is shown in the consolidated financial statements and notes.

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### (a)3. Exhibits

| Exhibit<br>Number<br>----- | Description<br>-----  |
|----------------------------|---|
| 3.1                        | Restated Certificate of Incorporation of Avon, filed with the Secretary of State of the State of New York on May 13, 1996 (incorporated by reference to Exhibit 3.1 to Avon's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996).   |
| 3.2                        | By-laws of Avon, as restated, effective December 2, 1999 (incorporated by reference to Exhibit 3.2 to Avon's Annual Report on Form 10-K for the year ended December 31, 1999).  |
| 3.3                        | Certificate of Amendment of the Certificate of Incorporation of Avon Products, Inc., filed May 13, 1998 (incorporated by reference to Exhibit 3.3 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 30, 1998).  |
| 4.1                        | Amended and Restated Revolving Credit and Competitive Advance Facility Agreement, dated as of August 8, 1996, among Avon, Avon Capital Corporation and a group of banks and other lenders (incorporated by reference to Exhibit 4.1 to Avon's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996).                                  |
| 4.2                        | Indenture dated as of August 1, 1997 between Avon as Issuer, and The Chase Manhattan Bank, as Trustee relating to the 6.55% Notes due 2007 (incorporated by reference to Exhibit 4.2 to Avon's Registration Statement on Form S-4, Registration Statement No. 333-41299 filed December 1, 1997).  |
| 4.3                        | Rights Agreement, dated as of March 30, 1998 (the "Rights Agreement"), between Avon and First Chicago Trust Company of New York (incorporated by reference to Exhibit 4 to Avon's Registration Statement on Form 8-A, filed March 18, 1998).  |
| 4.4                        | Indenture dated as of November 9, 1999 between Avon as Issuer and The Chase Manhattan Bank, as Trustee relating to the 6.9% Notes due November 15, 2004 and the 7.15% Notes due November 15, 2009 (incorporated by reference to Exhibit 4.4 to Avon's Registration Statement on Form S-4, Registration Statement No. 333-92333 filed December 8, 1999). |
| 10.1*                      | Avon Products, Inc. 1993 Stock Incentive Plan, approved by stockholders on May 6, 1993 (incorporated by reference to Exhibit 10.2 to Avon's Quarterly Report on Form 10-Q for the quarter ended June 30, 1993).   |
| -16-                       |   |
| 10.2*                      | Form of Stock Option Agreement to the Avon Products, Inc. 1993 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to Avon's Annual Report on Form 10-K for the year ended December 31, 1993).  |
| 10.3*                      | First Amendment to the 1993 Avon Stock Incentive Plan effective January 1, 1997, approved by stockholders on May 1, 1997 (incorporated by reference to exhibit 10.1 to Avon's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997).  |



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- 10.4\* Avon Products, Inc. 1997 Long-Term Incentive Plan, effective as of January 1, 1997 approved by stockholders on May 1, 1997 (incorporated by reference to Exhibit 10.4 to Avon's Annual Report on Form 10-K for the year ended December 31, 1997).
- 10.5\* Supplemental Executive Retirement Plan and Supplemental Life Plan of Avon Products, Inc., as amended and restated as of July 1, 1998 (incorporated by reference to Exhibit 10.5 to Avon's Annual Report on Form 10K for the year ended December 31, 1998).
- 10.6\* Benefit Restoration Pension Plan of Avon Products, Inc., effective as of January 1, 1994 (incorporated by reference to Exhibit 10.7 to Avon's Annual Report on Form 10-K for the year ended December 31, 1994).
- 10.7\* Trust Agreement, amended and restated as of March 2, 1990, between Avon and Chase Manhattan Bank, N.A. (incorporated by reference to Exhibit 10.2 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 1990 and refiled under Form SE for the year ended December 31, 1996).
- 10.8\* First Amendment, dated as of January 30, 1992, to the Trust Agreement, dated as of March 2, 1990, by and between Avon and Chase Manhattan Bank, N.A. (incorporated by reference to Exhibit 10.2 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 1993).
- 10.9\* Second Amendment, dated as of June 12, 1992 to the Trust Agreement, dated as of March 2, 1990, by and between Avon and Chase Manhattan Bank, N.A. (incorporated by reference to Exhibit 10.3 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 1993).
- 10.10\* Third Amendment, dated as of November 5, 1992, to the Trust Agreement, dated as of March 2, 1990, by and between Avon and Chase Manhattan Bank, N.A. (incorporated by reference to Exhibit 10.4 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 1993).
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- 10.11\* The Avon Products, Inc. Deferred Compensation Plan, as amended and restated as of July 1, 1998 (incorporated by reference to Exhibit 4(b) to Avon's Registration Statement on Form S-8, Registration No. 333-65989 filed October 22, 1998).
- 10.12\* Trust Agreement, dated as of April 21, 1995, between Avon and Chemical Bank, amending and restating the Trust Agreement as of August 3, 1989 between Avon and Manufacturers Hanover Trust Company (incorporated by reference to Exhibit 10.14 to Avon's Annual Report on Form 10-K for the year ended December 31, 1995).
- 10.13\* Stock Option Agreement between Avon and Stanley C. Gault dated November 4, 1999 (incorporated by reference to Exhibit 10.13 to Avon's Annual Report on Form 10K for the year ended December 31, 1999).
- 10.14\* Employment Agreement, dated as of December 11, 1997 between Avon and Charles R. Perrin (incorporated by reference to Exhibit 10.18 to

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Avon's Annual Report on Form 10-K for the year ended December 31, 1997).

- 10.15\* Stock Option Agreement between Avon and Charles R. Perrin dated December 10, 1997 (incorporated by reference to Exhibit 10.19 to Avon's Annual Report on Form 10-K for the year ended December 31, 1997).
  - 10.16\* Employment Agreement dated as of December 11, 1997 between Avon and Andrea Jung (incorporated by reference to Exhibit 10.20 to Avon's Annual Report on Form 10-K for the year ended December 31, 1997).
  - 10.17\* Form of Employment Agreement, dated as of September 1, 1994, between Avon and certain senior officers (incorporated by reference to Exhibit 10.2 to Avon's Quarterly Report on Form 10-Q for the quarter ended September 30, 1994).
  - 10.18\* Avon Products, Inc. Compensation Plan for Non-Employee Directors, effective May 1, 1997 (incorporated by reference to Exhibit 10.22 to Avon's Annual Report on Form 10-K for the year ended December 31, 1997).
  - 10.19\* Avon Products, Inc. Board of Directors' Deferred Compensation Plan, amended and restated, effective January 1, 1997 (incorporated by reference to Exhibit 10.23 to Avon's Annual Report on Form 10-K for the year ended December 31, 1997).
  - 10.20\* Trust Agreement, dated as of December 31, 1991, between Avon and Manufacturers Hanover Trust Company (incorporated by reference to Exhibit 10.23 to Avon's Annual Report on Form 10-K for the year ended December 31, 1991 and refiled under Form SE for the year ended December 31, 1996).
- 18-
- 10.21\* First Amendment, dated as of November 5, 1992, to the Trust Agreement dated as of December 31, 1991, by and between Avon and Manufacturers Hanover Trust Company (incorporated by reference to Exhibit 10.7 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 1993).
  - 10.22\* Stock Option Agreement between Avon and Charles R. Perrin dated June 4, 1998 (incorporated by reference to Exhibit 10.1 to Avon's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
  - 10.23\* Stock Option Agreement between Avon and Andrea Jung dated June 4, 1998 (incorporated by reference to Exhibit 10.2 to Avon's Quarterly Report on Form 10-Q for the quarter ended June 30, 1998).
  - 13 Portions of the Restated Annual Report to Shareholders for the year ended December 31, 1999 incorporated by reference in response to Items 1,5 through 8 in this filing.
  - 18 Preferability letter from PricewaterhouseCoopers LLP regarding change in accounting principle.
  - 21 Subsidiaries of the registrant (incorporated by reference to Exhibit 21 to Avon's Annual Report on Form 10K for the year ended December 31, 1999).

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- 23 Consent of PricewaterhouseCoopers LLP (set forth on page S-2 of this Annual Report on Form 10-K/A).
- \* The Exhibits identified above and in the Exhibit Index with an asterisk (\*) are management contracts or compensatory plans or arrangements.
- (b) Reports on Form 8-K  
There was no Form 8-K filed during the fourth quarter of 1999.
- (c) Avon's Annual Report on Form 10-K/A for the year ended December 31, 1999, at the time of filing with the Securities and Exchange Commission, shall modify and supersede all prior documents filed pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934 for purposes of any offers or sales of any securities after the date of such filing pursuant to any Registration Statement or Prospectus filed pursuant to the Securities Act of 1933, which incorporates by reference such Annual Report on Form 10-K/A.

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### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)

Date: August 12, 2002

/s/ Janice Marolda

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

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### REPORT OF INDEPENDENT ACCOUNTANTS ON FINANCIAL STATEMENT SCHEDULE

To the Board of Directors of Avon Products, Inc.:

Our audits of the consolidated financial statements referred to in our report dated January 27, 2000, except for Notes 2 and 15 as to which the date is July 31, 2002, appearing in the 1999 Annual Report to Shareholders of Avon Products, Inc., which report and consolidated financial statements are incorporated by reference in this Annual Report on Form 10-K/A, also included an audit of the financial statement schedule listed in Item 14(a)(2) of this Form 10-K/A. In our opinion, this financial statement schedule presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements.

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PricewaterhouseCoopers LLP  
New York, New York

January 27, 2000, except for Notes 2 and 15  
as to which the date is July 31, 2002.

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## CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the Registration Statements on Form S-3 (Reg. No. 33-45808) and on Form S-8 (Reg. Nos. 33-43820, 33-47209, 33-65989, and 33-65998) of Avon Products, Inc. of our report dated January 27, 2000, except for Notes 2 and 15 as to which the date is July 31, 2002, relating to the financial statements which appear in the 1999 Annual Report to Shareholders, which is incorporated in this Annual Report on Form 10-K/A. We also consent to the incorporation by reference of our report dated January 27, 2000, except for Notes 2 and 15 as to which the date is July 31, 2002, relating to the financial statement schedule, which appears in this Form 10-K/A.

PricewaterhouseCoopers LLP  
New York, New York

August 12, 2002

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## AVON PRODUCTS, INC. AND SUBSIDIARIES SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS (In millions) Years ended December 31

|                        |            | Additions  |          |            |           |
|------------------------|------------|------------|----------|------------|-----------|
|                        | Balance at | Charged to | Charged  | Deductions | Balance   |
|                        | beginning  | costs and  | to other |            | at end    |
|                        | of period  | expenses   | accounts |            | of period |
|                        | -----      | -----      | -----    | -----      | -----     |
| 1999                   |            |            |          |            |           |
| Allowance for doubtful |            |            |          |            |           |
| accounts receivable    | \$ 49.0    | \$ 87.5    | \$ --    | \$96.5 (a) | \$40.0    |
|                        | =====      | =====      | =====    | =====      | =====     |
| 1998                   |            |            |          |            |           |
| Allowance for doubtful |            |            |          |            |           |
| accounts receivable    | \$ \$35.5  | \$ 91.3    | \$ --    | \$77.8 (a) | \$49.0    |
|                        | =====      | =====      | =====    | =====      | =====     |
| 1997                   |            |            |          |            |           |
| Allowance for doubtful |            |            |          |            |           |
| accounts receivable    | \$ \$36.4  | \$ 80.8    | \$ --    | \$81.7 (a) | \$35.5    |
|                        | =====      | =====      | =====    | =====      | =====     |

(a) Accounts written off, net of recoveries and foreign currency translation

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adjustment.

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

-----

FORM 10-K/A

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

For the fiscal year ended December 31, 1999  
Commission file number 1-4881

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AVON PRODUCTS, INC.  
(Exact name of registrant as specified in its charter)

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EXHIBITS

INDEX TO EXHIBITS

(a)3. Exhibits

| Exhibit<br>Number<br>----- | Description<br>-----  |
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| 3.2                        | By-laws of Avon, as restated, effective December 2, 1999 (incorporated by reference to Exhibit 3.2 to Avon's Annual Report on Form 10K for the year ended December 31, 1999).   |
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ended March 30, 1998).

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ended March 31, 1990 and refiled under Form SE for the year ended December 31, 1996).

- 10.8\* First Amendment, dated as of January 30, 1992, to the Trust Agreement, dated as of March 2, 1990, by and between Avon and Chase Manhattan Bank, N.A. (incorporated by reference to Exhibit 10.2 to Avon's Quarterly Report on Form 10-Q for the quarter ended March 31, 1993).
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- 10.18\* Avon Products, Inc. Compensation Plan for Non-Employee Directors, effective May 1, 1997 (incorporated by reference to Exhibit 10.22 to Avon's Annual Report on Form 10-K for the year ended December 31,

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1997).

- 10.19\* Avon Products, Inc. Board of Directors' Deferred Compensation Plan, amended and restated, effective January 1, 1997 (incorporated by reference to Exhibit 10.23 to Avon's Annual Report on Form 10-K for the year ended December 31, 1997).
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- 21 Subsidiaries of the registrant (incorporated by reference to Exhibit 21 to Avon's Annual Report on Form 10K for the year ended December 31, 1999).
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- \* The Exhibits identified above and in the Exhibit Index with an asterisk (\*) are management contracts or compensatory plans or arrangements.