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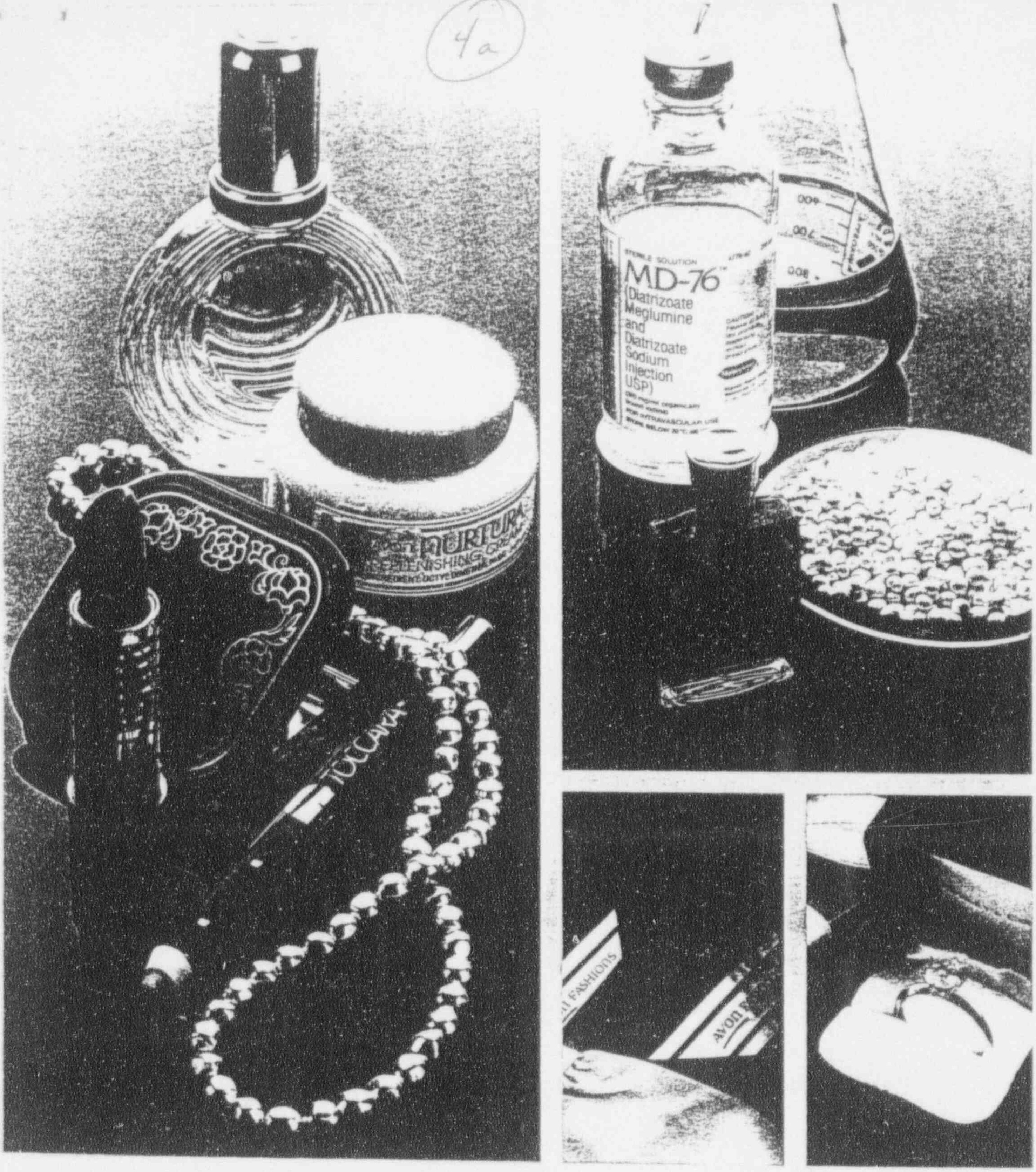
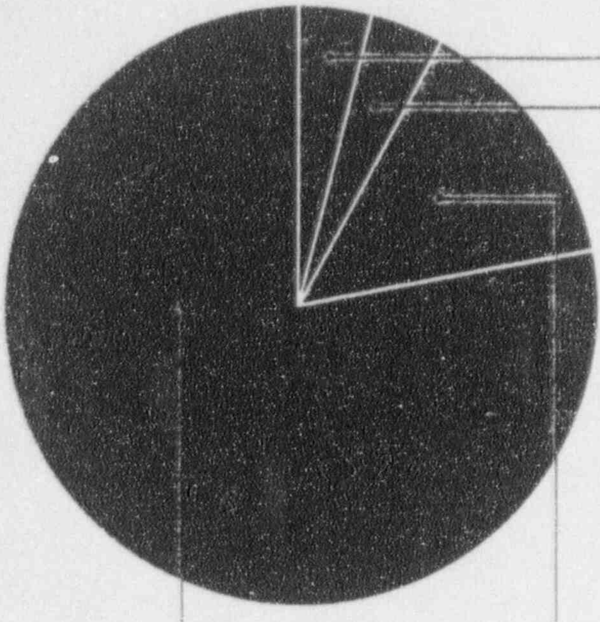


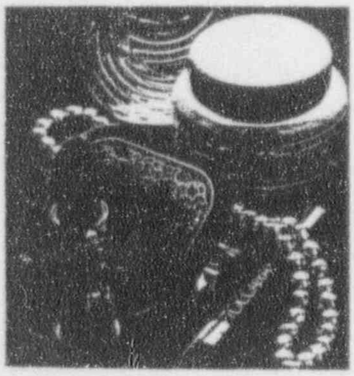
Annual Report for 1982

Avon's corporate mission is to expand aggressively our new, emerging businesses while continuing our historical growth as the world's leading beauty company.

We are pursuing new opportunities in attractive fields, including health care, specialty chemicals, direct mail and fine jewelry. With these additional sources of growth, the Company's markets have expanded to more than $50 billion in the United States alone. This is four times as large as the U.S. markets traditionally served by Avon. Our worldwide sales and earnings opportunities have also increased dramatically.

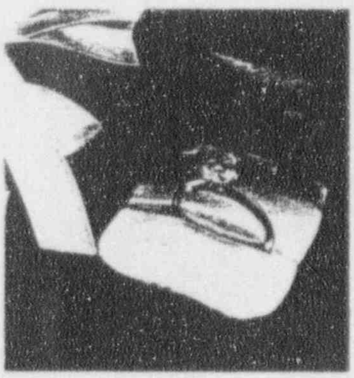
Our Businesses



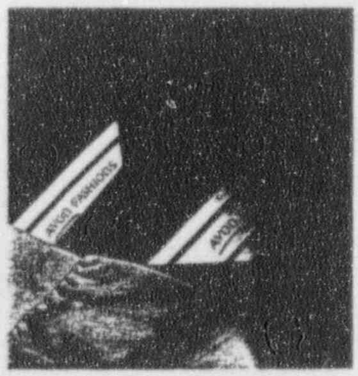


Avon Division
The world's leading manufacturer and distributor of cosmetics, fragrances and fashion jewelry operates in 32 countries, where its many products are sold by 1.34 million independent sales Representatives.

Mallinckrodt, Inc.
Long known for its superior chemical technology, Mallinckrodt develops, manufactures and markets health-care products, specialty chemicals, and food ingredients, flavors and fragrances for both the U.S. and international markets.



Tiffany & Co.
This prestigious jeweler and silversmith sells elegant merchandise to retail, corporate and direct-mail customers, and both designs and manufactures many of its exclusive products.



Direct Mail Division
Presently focusing on the sale of popularly priced, high-quality women's apparel through Avon Fashions, Inc., this fast-growing operation is diversifying into new fields, including men's apparel and magazine subscriptions.

Financial Highlights

Year ended December 31
(in millions, except per share amounts)

	1982	1981	1980
Net Sales	$3,000.8	$2,613.8	$2,569.1
Earnings Before Taxes	392.0	445.7	472.4
Taxes on Earnings	195.4	225.8	230.3
Net Earnings	196.6	219.9	242.1
Earnings per Share	$2.75	$3.66	$4.02
Cash Dividends per Share	$2.50	$3.00	$2.95
Average Shares Outstanding	71.46	60.15	60.15
Cash and Short-Term Investments	$ 161.2	$ 257.8	$ 308.4
Inventories	437.9	391.8	380.3
Working Capital	448.7	460.6	495.4

Note: Includes 49% of Mallinckrodt's results of operations for February 1982 and 100% of such results for the remainder of 1982.

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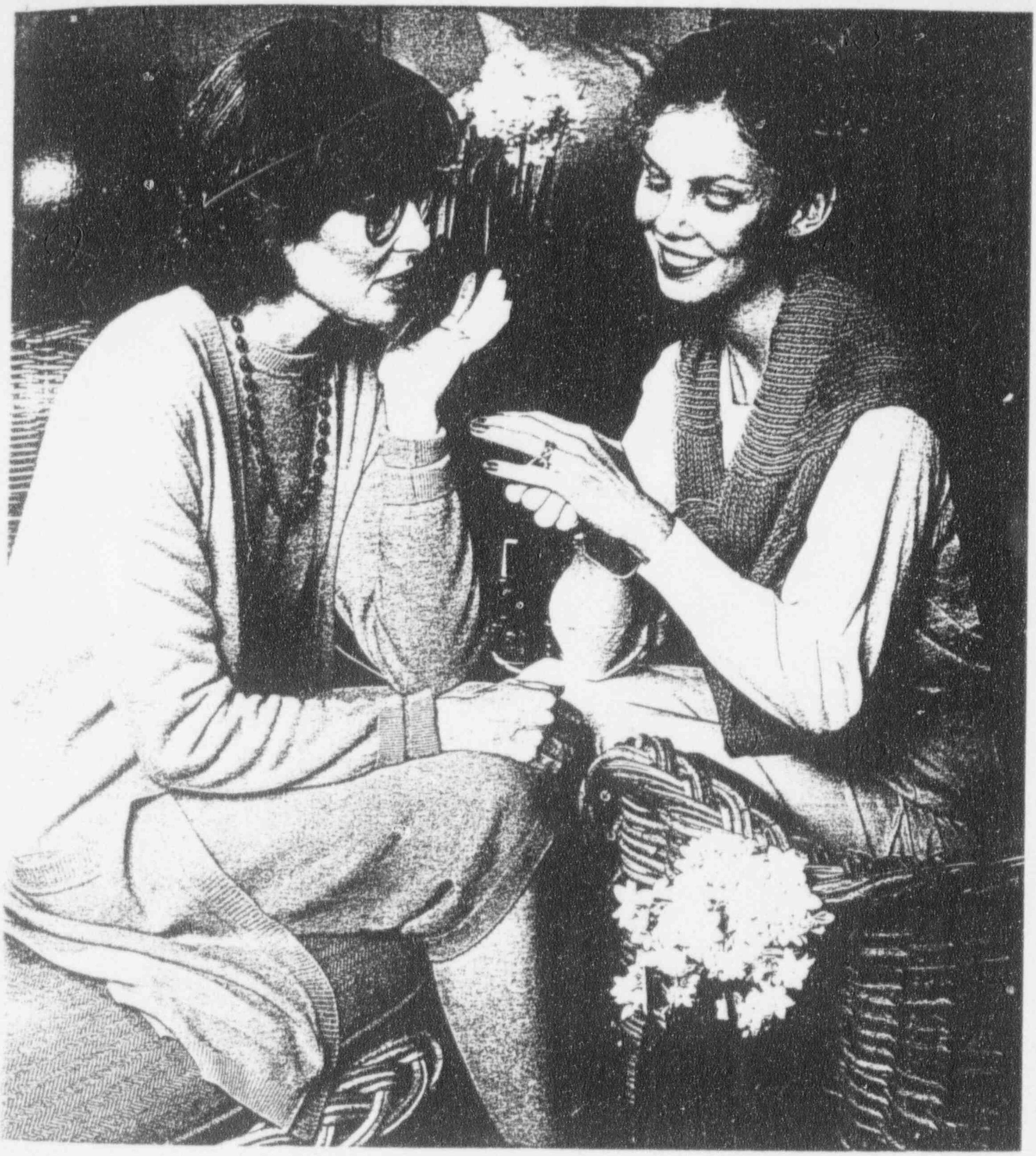


Avon Representatives conveniently provide new beauty, fashion and gift ideas to their customers, while enjoying a significant earning opportunity that complements their diverse lifestyles.

To Our Shareholders:

Consolidated net sales of the Company reached $3.00 billion in 1982, an increase of 15 percent over 1981 sales of $2.61 billion. Our merger with Mallinckrodt, Inc. became effective in March 1982, with full inclusion of its financial results beginning at that time. Our 1981 results did not include Mallinckrodt. Higher sales of Tiffany & Co. and Avon Fashions, Inc., combined with incremental revenues from Mallinckrodt, accounted for the 15 percent increase in consolidated net sales.

In 1982, the Avon Division—our person-to-person beauty business—experienced a 4 percent sales decline, which was primarily attributable to the negative impact of foreign currency devaluations on its international business. Consumers faced a difficult economic environment throughout 1982, resulting in U.S. sales of $1.23 billion, level with 1981. In light of depressed conditions in the U.S. cosmetics and fashion jewelry industries, this domestic performance reflects the fundamental strength of our direct-selling system.

When measured in local currencies, international Representative sales rose by 29 percent. These results reflected the impact of a larger number of Representatives, price increases and unit sales growth. In 1982, the currencies of several large markets—Mexico, Argentina and Brazil in particular—were devalued substantially in relation to the U.S. dollar. When stated in U.S. dollars, international sales last year declined 7 percent to $1.11 billion.

The Company's consolidated net earnings for 1982 were $196.6 million, an 11 percent decline from 1981 earnings of $219.9 million. Our earnings per share were $2.75, compared with $3.66 in 1981. Per-share earnings in 1982 were based on approximately 71.5 million average shares outstanding—substantially more than the 60.2 million average shares in 1981. This increase resulted primarily from shares issued for the Mallinckrodt merger.

The unfavorable impact of foreign currency fluctuations penalized 1982 net earnings by 41 cents per share, compared with a negative effect of 61 cents per share in 1981.

The Company's consolidated operating profit advanced 5 percent in 1982, compared with the previous year. This increase resulted from the inclusion of Mallinckrodt and higher operating profit at Tiffany and Avon Fashions. Consolidated pre-tax earnings were below those in 1981, reflecting a significant increase in the Company's interest expense.

Corporate Milestones

Nineteen eighty-two was marked by important new developments. The first was a major step in the Company's diversification program, which was accomplished through the Mallinckrodt merger. Mallinckrodt has an outstanding reputation for developing, manufacturing and marketing medical, diagnostic and other health-care products, specialty chemicals, and food ingredients, flavors and fragrances. It has maintained an impressive record of sales and earnings performance for some two decades.

Mallinckrodt is a market leader in specialized segments of the health-care field, which is particularly attractive to us because of its high growth rate and profitability, as well as its generally noncyclical nature. In addition, promising growth opportunities are being developed in Mallinckrodt's other major business segments. We are delighted that Mallinckrodt's 4,900 employees have joined forces with us.

One of our primary objectives is to build Mallinckrodt's established health-care business through related acquisitions and the internal development of its present product lines. Health-care acquisitions are of prime importance to the Company. We are also evaluating acquisitions that would broaden our fast-growing direct-mail operations.

New Dividend Policy

Traditionally, the Company has maintained an exceptionally generous dividend policy. Since 1977, we have paid out an average of 75 percent of earnings as dividends. However, an increased level of earnings reinvestment in our growth opportunities will better serve our shareholders' long-term interests. At its August 1982 meeting, the Board of Directors therefore approved an annual dividend rate reduction to $2.00 as part of a new dividend policy under which we expect eventually to pay out approximately 50 percent of earnings as dividends. This will bring our pay-out ratio into line with other comparable, financially sound corporations. The Company remains committed to maintaining its strong balance sheet—a most valuable asset in today's difficult economic climate.

Members of the Office of the Chairman (from left): David W. Mitchell, Chairman of the Board and Chief Executive Officer; William R. Chaney, President; Raymond F. Bentele, Executive Vice President; and James E. Preston, Executive Vice President.

Research and Development

For decades, research and development has been crucial to developing effective, safe, high-quality Avon beauty products. Since the Mallinckrodt merger, however, R&D has gained added prominence among the Company's priorities. In recent years, Mallinckrodt has rapidly expanded its research and development budget. We plan to maintain this commitment.

Major scientific programs at Mallinckrodt include developing improved contrast media, and assessing the potential use of these compounds with emerging diagnostic technologies, such as Nuclear Magnetic Resonance (NMR). In the nuclear medicine field, Mallinckrodt is developing a new radiopharmaceutical product with a particularly short half-life. In addition, a program with scientists at Washington University in St. Louis, Missouri, is using genetic engineering to explore promising compounds called monoclonal antibodies, which may have a significant impact on medical diagnosis and treatment in the future.

As part of its new product development program, the Avon Division's research and development staff is focusing on creating beauty products with unique benefits that distinguish them from other products in the marketplace. The Company's traditional commitment to scientific programs supporting product quality and safety remains as strong as ever.

Capital Expenditures

In 1982, consolidated capital expenditures for the Company were $128.9 million. Current plans call for capital spending programs that are expected to total $150 million in 1983.

Corporate Organization

During its first year, our new organization of four operating Divisions supported by our corporate staff has proven to be highly effective. This structure ensures the creativity, identity and accountability that help energize each of our businesses. It also facilitates the development of long-range corporatewide plans that are crucial to meeting our goals.

Corporate Responsibility

In 1982, the Company remained committed to playing an active role in helping to meet social needs—with particular emphasis on women, minorities, the disabled and the disadvantaged. Women, of course, are a very special group to us. We are very proud to sponsor diverse programs designed to help women fulfill their individual potential. These include unique forums for recognizing outstanding women from around the world. We also emphasize sensitivity to the needs of minorities. For instance, the Company's minority purchasing rose to $13 million in 1982, and our deposits in minority-owned banks increased to $2.5 million.

Board of Directors

Last year, Raymond F. Bentele and Harold E. Thayer were elected to the Board of Directors. Mr. Bentele is President of Mallinckrodt, Inc. and a member of the Company's Office of the Chairman. Mr. Thayer is a former Mallinckrodt Chairman who provided leadership to that organization for over three decades. Later in 1982, Joseph A. Rice, President and member of the Board of Directors of the Irving Trust Company and the Irving Bank Corporation, was elected to the Board of Directors.

The Future

In view of the major corporate developments in 1982 and the complex economic and political environments we face worldwide, a thorough review of each of our businesses and the full range of opportunities they encompass was undertaken last year. These reviews have focused our direction and given us renewed confidence in the Company's future.

In closing, I want to express on behalf of my colleagues in the Office of the Chairman our sincere appreciation to the employees and shareholders of the Company for their continuing support, which is so vital to our success.

Sincerely,

David W. Mitchell

David W. Mitchell
Chairman of the Board and
Chief Executive Officer

February 28, 1983

Over 200 Avon Division scientists and technicians develop effective, safe, high-quality products for markets worldwide. These R&D professionals are focusing on the creation of beauty products with unique benefits that distinguish them from the many other products in

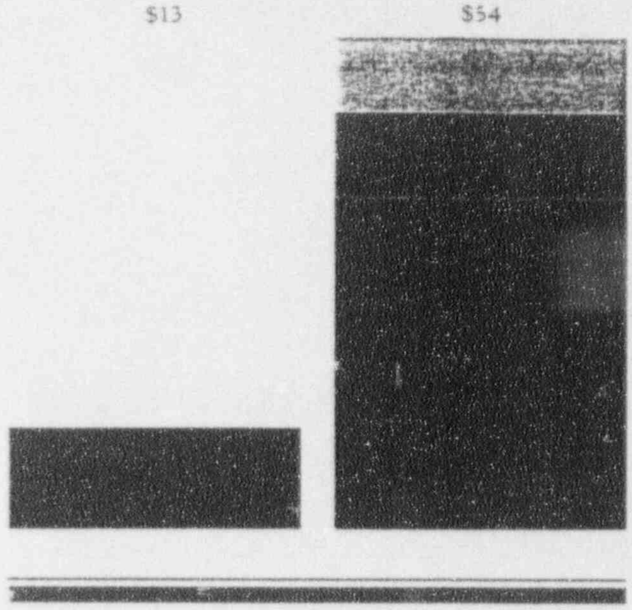
Corporate Mission and Objectives

For 96 years, our primary business has been the sale of beauty products through Avon Representatives. Our Company has been characterized by strong sales and earnings growth that has consistently generated a superior return on shareholders' equity. This performance has been the result of a steadfast commitment to quality and value for our customers, a concern for people and their well-being, and a dedication to growth and success.

In recent years, a strategic evolution has taken place at Avon. Through acquisitions and internal business development, we are pursuing new opportunities in attractive fields, including health care, specialty chemicals, direct mail and fine jewelry. With these additional sources of growth, the Company's markets have expanded to more than $50 billion in the United States alone. This is four times as large as the U.S. markets traditionally served by Avon. Our worldwide sales and earnings opportunities have also increased dramatically.

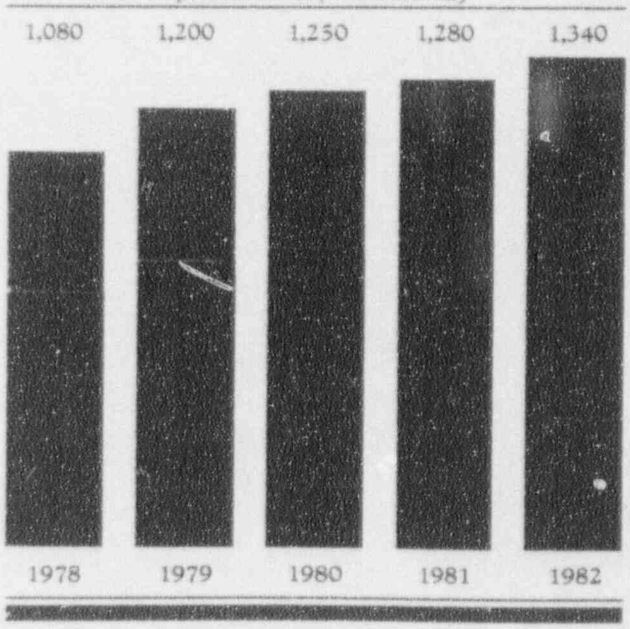
Avon's corporate mission is to expand aggressively our new, emerging businesses while continuing our historical growth as the world's leading beauty business. The Company's diverse operations enhance our access to profitable, consistent growth. Our strong financial position will enable us to fund most growth opportunities through internal sources.

U.S. Markets in Which Avon Participates *(in billions)*



- *Avon Division*
- *Mallinckrodt, Inc.*
- *Direct Mail Division*
- *Tiffany & Co.*

Total Active Representatives *(in thousands)*



- *United States*
- *International*

Strategic Objectives

The Company's resources are focused on the following strategic objectives:

Avon Division—Strengthening our worldwide leadership position in cosmetics, fragrances and fashion jewelry through the Representative organization.

Mallinckrodt, Inc.—Rapidly expanding our health-care segment through internal development and acquisitions, while continuing to build our specialty chemicals, flavors and fragrances businesses at rates of growth higher than industry averages.

Direct Mail Division—Becoming a major direct-mail marketer, with a leading position in women's and men's ready-to-wear apparel and other direct-mail markets.

Tiffany & Co.—Building on our renowned position in fine jewelry and related markets.

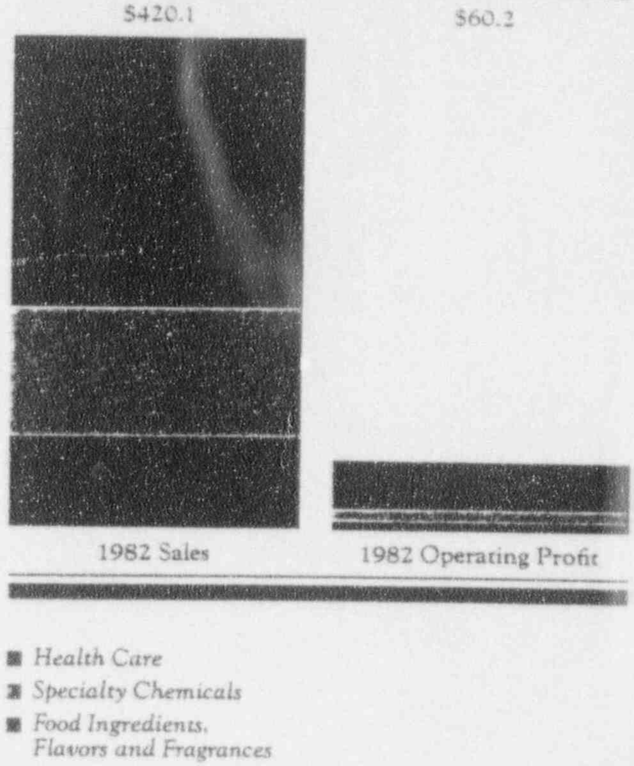
Financial Objectives

Our primary financial objective is to generate consistent long-term earnings growth that will provide a high rate of return on shareholders' investment. Given relatively stable economic and political conditions throughout the world, the Company's specific goals are to generate average annual sales and earnings growth of at least 12 percent and return on shareholders' equity of 20 percent or more.

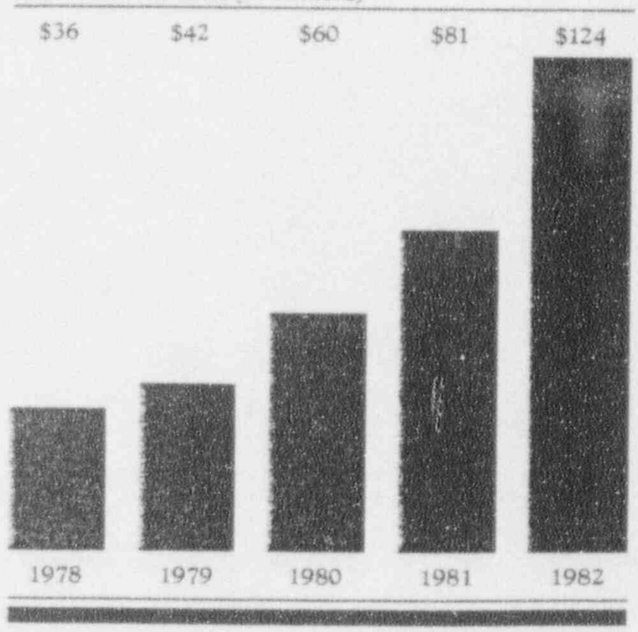
Corporate Philosophy

The principles on which Avon was founded remain the core of our corporate philosophy. These principles affirm our respect for people and belief in their initiative. Our success as a Company derives from a corporate environment that encourages and rewards creativity and excellence. In this setting, talented and motivated people thrive—and the Company prospers.

Mallinckrodt Sales and Operating Profit *(in millions)*



Avon Fashions Sales *(in millions)*



Group Sales Leader Susie Adams, of Kittanning, Pennsylvania, uses her eight years of direct-selling experience with Avon to help recruit, train and motivate other Representatives. Mrs. Adams and her 16,500 counterparts play important roles in Opportunity Unlimited by supporting 20 to 30 other Representatives in their groups. Significantly enhancing the earnings from their selling activities, many Group Sales Leaders received commissions through Opportunity Unlimited at the annual rate of $2,500 in 1982. The most successful earned at the rate of $10,000 through the program.

Avon Division

Net sales of the Avon Division in 1982 were $2.34 billion, a decline of 4 percent from 1981 results. The number of active Representatives worldwide increased 5 percent to 1.34 million at year-end.

U.S. sales of cosmetics, fragrances and fashion jewelry were $1.23 billion, level with the prior year. The number of Representatives rose 1 percent to 440,000. The benefit of more Representatives, however, was offset by a modest decline in the average size of their orders. Customer service, the average number of customers served by each Representative, remained depressed, reflecting the impact of the soft U.S. economy on Representatives and their customers.

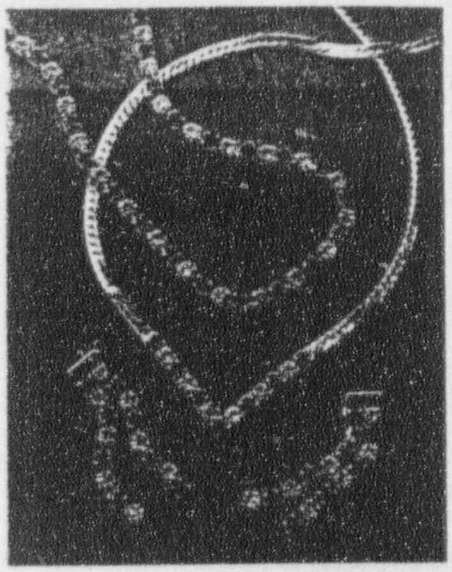
The Avon Division's international sales declined by 7 percent in 1982 to $1.11 billion. Favorable performances in local currencies were penalized significantly by the impact of foreign currency devaluations. The number of international Representatives increased 7 percent to 900,000. Higher average orders by Representatives also contributed to local-currency sales gains and reflected unit increases in 1982.

Operating profit of the Avon Division declined to $337.3 million in 1982. Although costs and expenses were tightly controlled, sluggish sales hindered profitability in the United States. Substantial currency devaluations negatively impacted international profits.

U.S. Field Operations

Nineteen eighty-two was distinguished by major innovations that enhanced the long-range strength of the direct-selling business. None was more important than the U.S. launch of Opportunity Unlimited. This unique field operations approach represents the Division's most significant new sales program in more than a decade.

Opportunity Unlimited is designed to improve Representative recruiting, training and motivation. It also gives top-performing Representatives the opportunity to increase their earnings by becoming Group Sales Leaders, a new level of independent contractor. Each District Sales Manager works with six to 10 Group Sales Leaders, who in turn lead teams of 20 to 30 Representatives. Significantly enhancing the earnings from their selling activities, many



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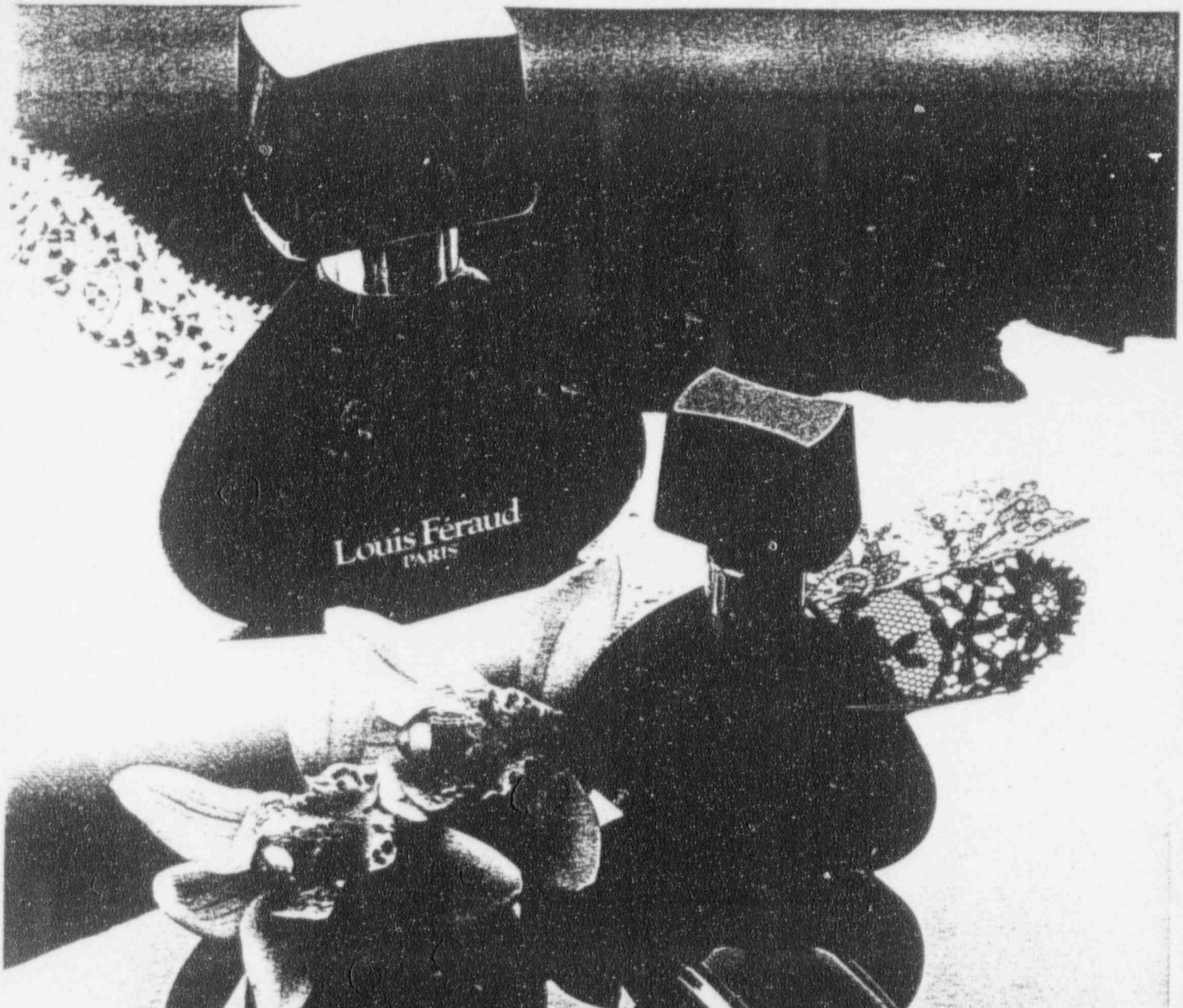
1. In 1982, the Division's most successful fashion jewelry collection ever, the Avon Galaxy of Color, featured these classic designs of crystals alternated with simulated rubies, emeralds and sapphires.

2. Accolade light-textured moisturizer helps dry, maturing skin look both smoother and more resilient.

3. At the Avon Division facility in Newark, Delaware, this automated distribution system expedited the assembly of 2.8 million Representative orders in 1982.



Avon's first designer fragrance, Fantasque, was the Division's most successful U.S. fragrance introduction ever. This elegant product is available in several forms, including Parfum, Perfumed Body Veil and Eau de Cologne Spray.

through Opportunity Unlimited at the annual rate of $2,500 in 1982. The most successful earned at the rate of $10,000 through the program last year, in addition to their Representative income.

Among Opportunity Unlimited's exciting characteristics is its capacity to accommodate other innovative field programs. For example, tests are in progress for a new graduated earnings structure which increases discounts to Representatives who achieve higher total sales.

For years, Avon has evaluated new methods of training and communicating with Representatives. Communications advancements now provide a timely, cost-effective way of achieving this objective. In 1983, each Group Sales Leader will be offered a videotape player and dynamic programs for stimulating Representatives to learn more about Avon products, beauty techniques and direct selling.

In 1982, Avon Division employees dedicated exceptional efforts to the launch of Opportunity Unlimited—revising sales territory boundaries, training field management personnel and supporting Group Sales Leaders.

U.S. Marketing Developments

The Avon Division continued to concentrate on generating greater brand loyalty for existing Standard Line beauty products by extending the life of popular lines, marketing those lines more aggressively and reducing the number of new product introductions. Standard Line sales, which account for almost 60 percent of the Avon Division's U.S. sales, increased nearly 5 percent, compared with 1981.

The successful launch of Avon's first designer fragrance, *Fantasque*, resulted in retail sales approaching $30 million in the fourth quarter of 1982. *Fantasque* was originally developed for European markets, where it was also very successful. It was inspired by one of France's leading couturiers, Louis Féraud.

Nineteen eighty-two was another solid year for the Gift and Decorative sector, where sales rose 5 percent. This growth was led by the collectible lines. Also, Avon's first stuffed toy sold without a beauty product, *Plush Puppy*, achieved the highest sales ever for a Gift and Decorative product. This sector accounts for about 20 percent of domestic Representative sales.

Fashion Jewelry and Accessories sales declined approximately 15 percent in 1982. This category turned around late in the year, however, as the result of more aggressive merchan-

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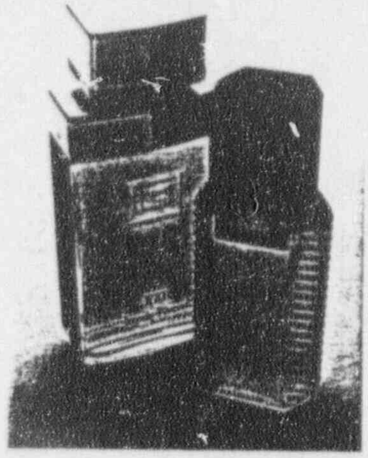

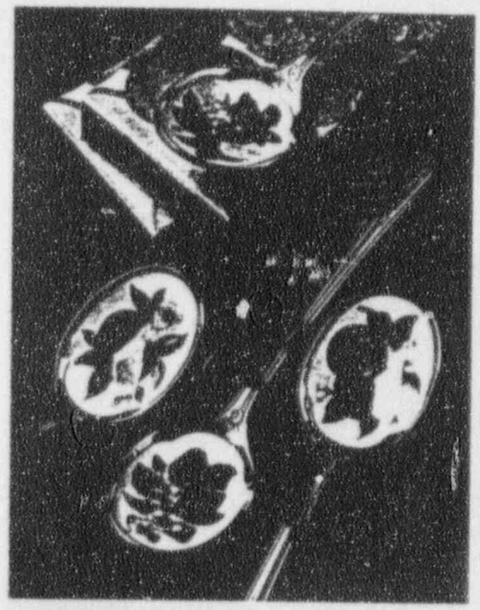

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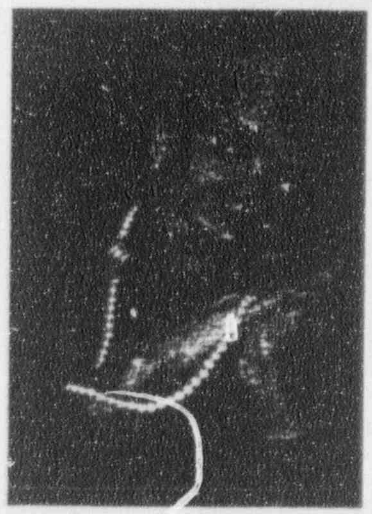

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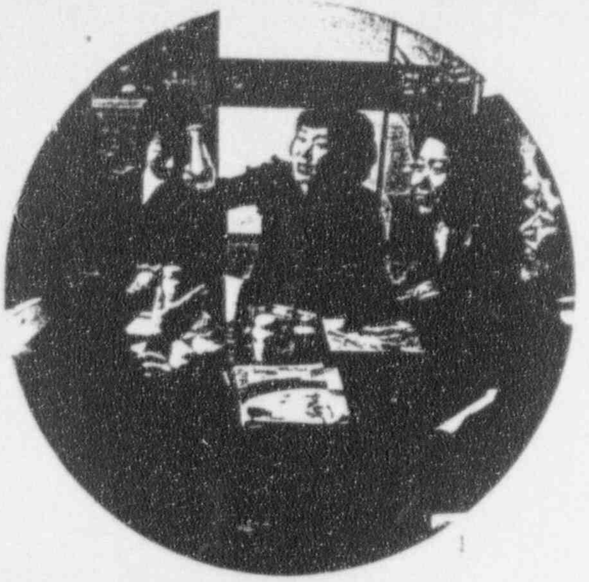
1. The men's designer fragrance Fer and the lively, contemporary fragrance Eau Givrée were specially designed for European tastes.
2. Gift and Decorative successes included the Nature's Best Collection of porcelain spoons, mounted on a mahogany rack.

3. As the world's largest beauty company, Avon offers products that create a complete fashion statement.



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1. *The Avon Division is developing beauty products specifically formulated for Japan.*
2. *Peru was one of three important markets where Avon introduced its Representative business last year.*
3. *In 1982, leading products included Momentum Cell Energizing Formula, a skin cell renewal product, and Ariane Ultra Sensation Body Smoother, which combines the benefits of a body moisturizer, talc and fragrance.*

dising of fashionable new designs. Fashion Jewelry and Accessories represent approximately 20 percent of the Division's U.S. sales.

International Overview

Although tempered by weakening economies during the second half of last year, European sales were strong in terms of local currencies—up 8 percent compared with 1981. When translated into U.S. dollars, however, European sales declined by 6 percent.

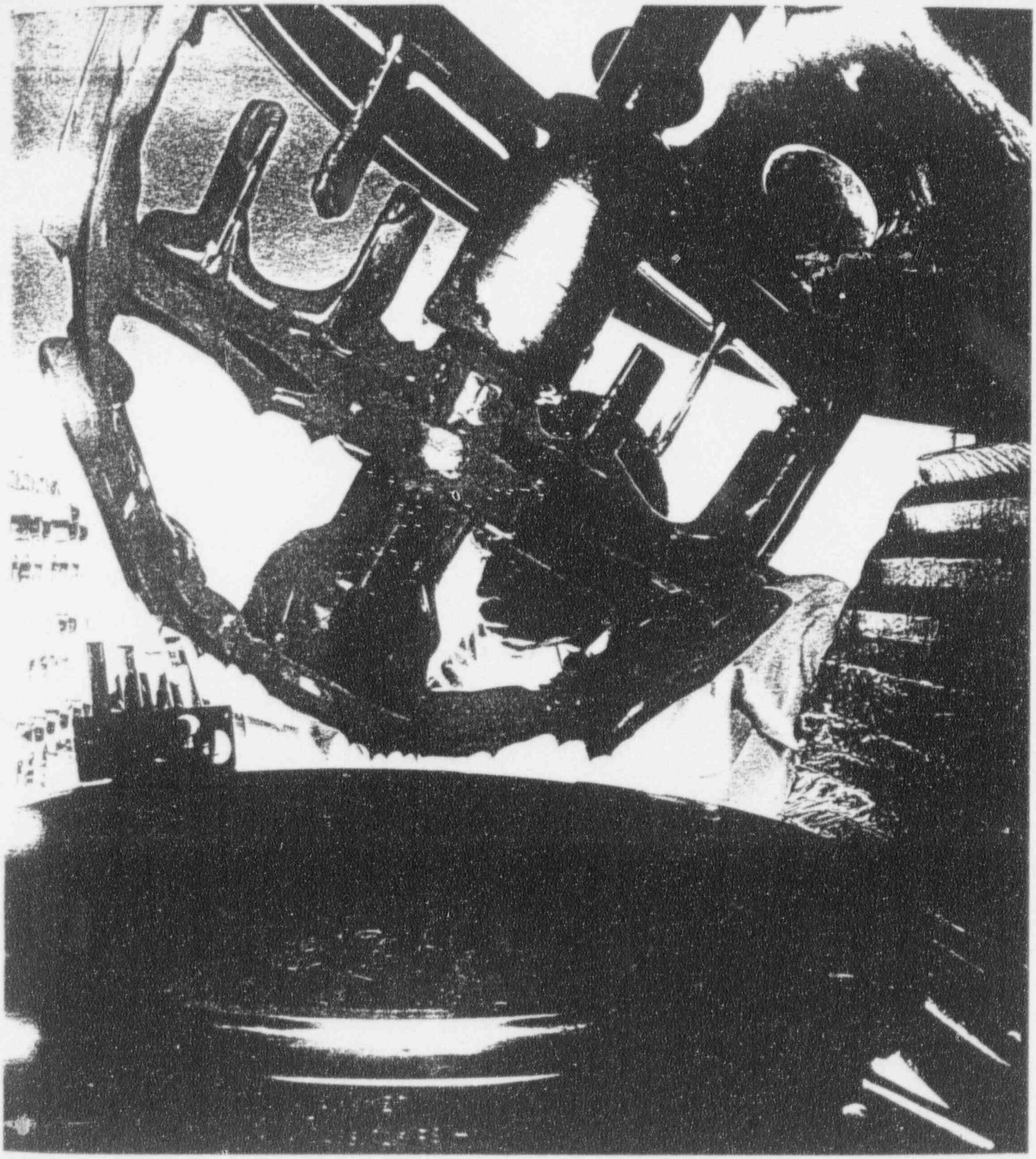
Opportunity Unlimited was launched in the United Kingdom shortly after its U.S. introduction. In most other European markets, the program is being adapted to local conditions, with launches scheduled for 1983 and 1984. The European operations also implemented cost-control programs to contain field expenses.

In Latin America, the person-to-person selling system remains robust, as Representatives maintain Avon's highest customer service levels. In local currencies, the Avon Division's Latin American sales rose by 65 percent in 1982. This excellent performance reflected higher unit sales, as well as substantial price increases in the inflationary economies common to this region. As noted previously, however, major currency devaluations in Mexico and other key markets, such as Argentina and Brazil, more than offset the local-currency sales increases. When translated into U.S. dollars, sales in Latin America declined 13 percent.

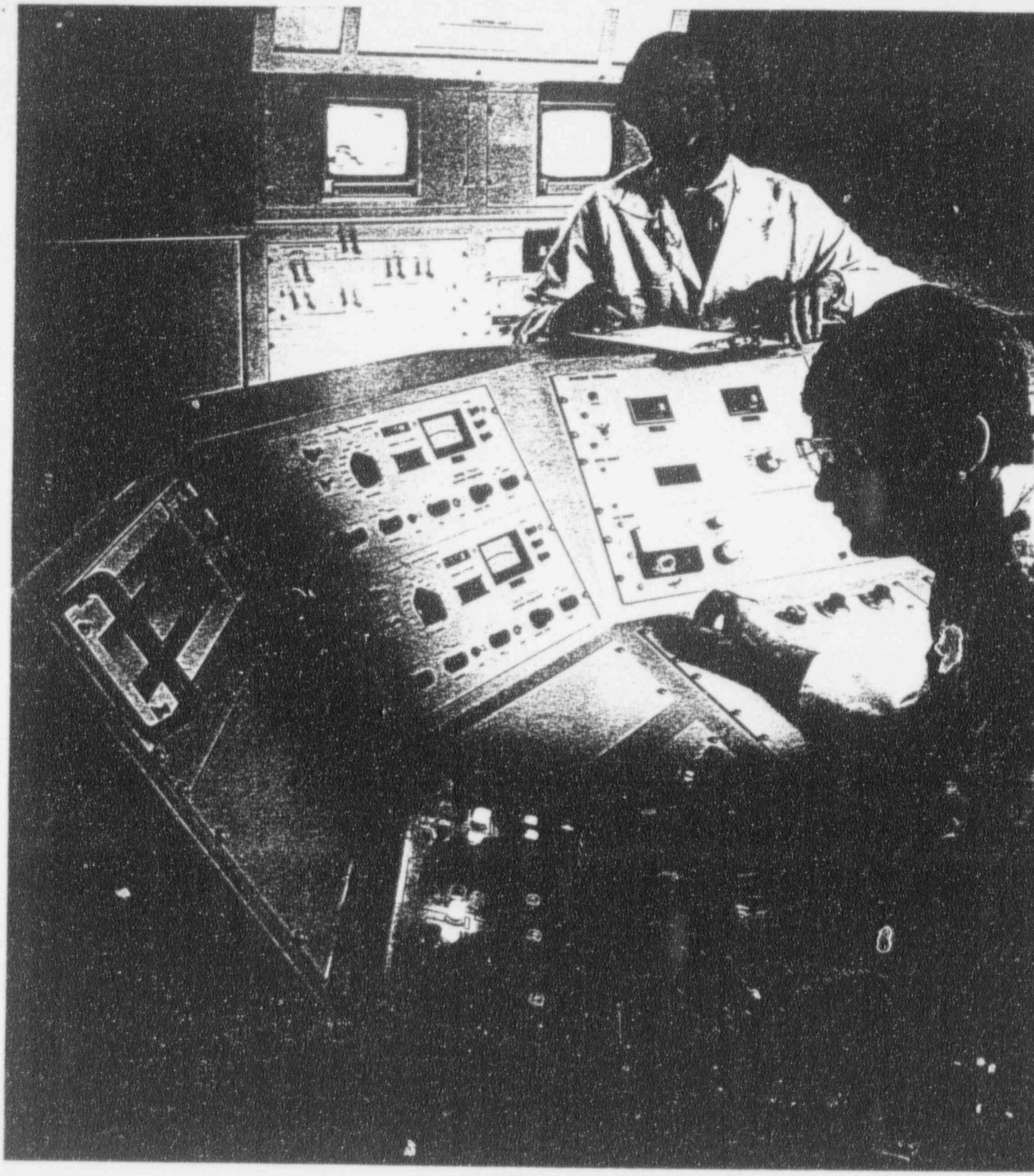
In the Pacific, Canada and other international markets, sales were up 8 percent last year in local currencies, although they were about level when translated into U.S. dollars. Reflecting the relative weakness of the yen, sales in Japan were off slightly in U.S. dollar terms, despite double-digit gains in local currency.

During 1982, the Avon Division entered three new markets—Peru, Portugal and Taiwan. It continues to evaluate additional countries for their receptivity to Avon's person-to-person beauty business.

Providing Representatives with the highest quality products and prompt service remains essential to the Division's success. Therefore, manufacturing and distribution systems were further improved during 1982. Still greater efficiency in these areas, coupled with marketing and sales creativity, should contribute to the achievement of a higher operating profit margin. The world's leading person-to-person beauty business is positioned to strengthen its key role in the Company's growth.



An Avon chemical engineer evaluates a pilot test to ensure that full-scale manufacturing of a new cosmetics product will be efficient. He works at the Avon Research Laboratory in Suffern, New York, which was further modernized in 1982 to strengthen the Division's R&D capabilities.



Mallinckrodt scientists operate a cyclotron, which is used in the production of radiopharmaceuticals. Mallinckrodt has long been a leader in developing, manufacturing and marketing these medical products.

Mallinckrodt, Inc.

Mallinckrodt's net sales advanced to $420.1 million in 1982, as a strong health-care performance offset weak sales in other businesses that were affected more directly by economic conditions. Operating profit declined slightly last year to $60.2 million.

Health Care

In 1982, net sales of Mallinckrodt's worldwide health-care segment reached $228.3 million. Operating profits for the year rose to $40.7 million. Health-care results were led by contrast media, which help physicians interpret x-rays and CAT (Computerized Axial Tomography) scans more effectively. Sales of another major diagnostics line, radiopharmaceuticals, were satisfactory, but intense competition and pressure on selling prices slowed results. More rapid growth was experienced by Mallinckrodt's line of specialty catheters.

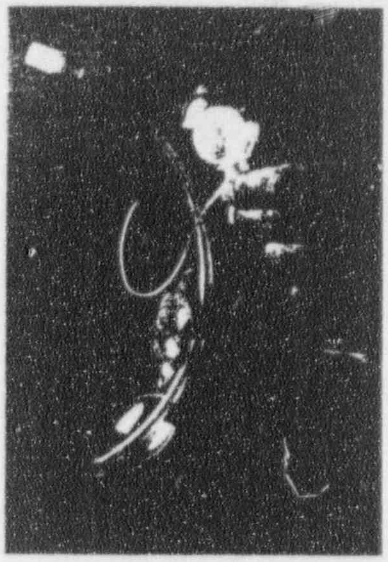
As part of its program of redeploying assets into high-growth, high-profit fields, Mallinckrodt purchased RadPharm, Inc. in May 1982. This California-based radiopharmaceutical manufacturer provides important West Coast manufacturing and distribution capacity.

Specialty Chemicals

The specialty chemicals segment was affected by the economic slowdown, particularly in the automotive, housing and petrochemical industries. Sales declined last year to $112.3 million. Operating profit fell to $12.0 million.

A market that typified the challenge faced by this Mallinckrodt segment was catalysts, which are technically advanced chemical products that enable businesses to save energy and improve manufacturing productivity. The catalyst business was hampered throughout 1982 by customers' slumping sales, particularly in the petrochemical sector. Prospects remained bright, however, for maintaining the growth of Mallinckrodt's line of specialty organic chemicals.

In 1982, Mallinckrodt acquired Van Dyk & Co., Inc., a leader in sunscreen technology and other specialty products for the cosmetics and personal-care industries. As Mallinckrodt moved to concentrate on markets with stronger growth and profit potential, the Bowers Print-Ink operation was sold.



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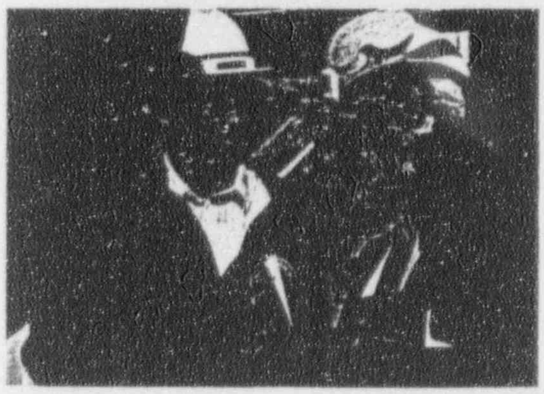

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1. Mallinckrodt's hi-lo® tracheal tube helps physicians to maintain patients' respiration during both surgical and critical care procedures.
2. This home economist evaluates many of the flavors that Mallinckrodt develops for the food industry.

3. A regional sales manager (right) for Mallinckrodt's specialty chemicals business provides technical support to a production manager with Rohm and Haas Company, a major manufacturer of specialty chemicals for agriculture and industry.

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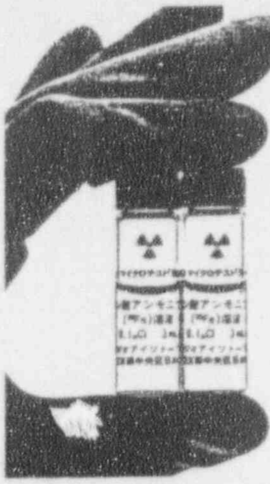

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1. Japan is a growing market for Mallinckrodt's strong health-care business.
2. To ensure safe production of radiopharmaceuticals, a Mallinckrodt scientist works with radioactive materials in a rigorously designed protective environment.
3. Reviewing a CAT scan image enhanced with Mallinckrodt contrast media is Dr. Ronald Evens (seated), Director of the Mallinckrodt Institute, a major independent medical research and teaching institution at Washington University in St. Louis, Missouri.

Food Ingredients, Flavors and Fragrances

Although total net sales of food ingredients, flavors and fragrances declined to $79.5 million, the flavors business achieved solid sales growth. It is a major supplier to the food, soft drink and alcoholic beverage industries. The fragrances business was down slightly, but by establishing itself in higher quality markets, Mallinckrodt is well positioned for the future in this specialty field. Both the flavors and fragrances markets have attractive worldwide growth potential. Sales of food ingredients, which are marketed primarily to the dairy and bakery industries, were unchanged in 1982.

1982 Operating Profit

Mallinckrodt's operating profit for 1982 declined, compared to the previous year. This reflected the depressed specialty chemicals business and lack of growth in the food ingredients, flavors and fragrances segment. Health-care operating profit increased, however, as the result of higher sales levels.

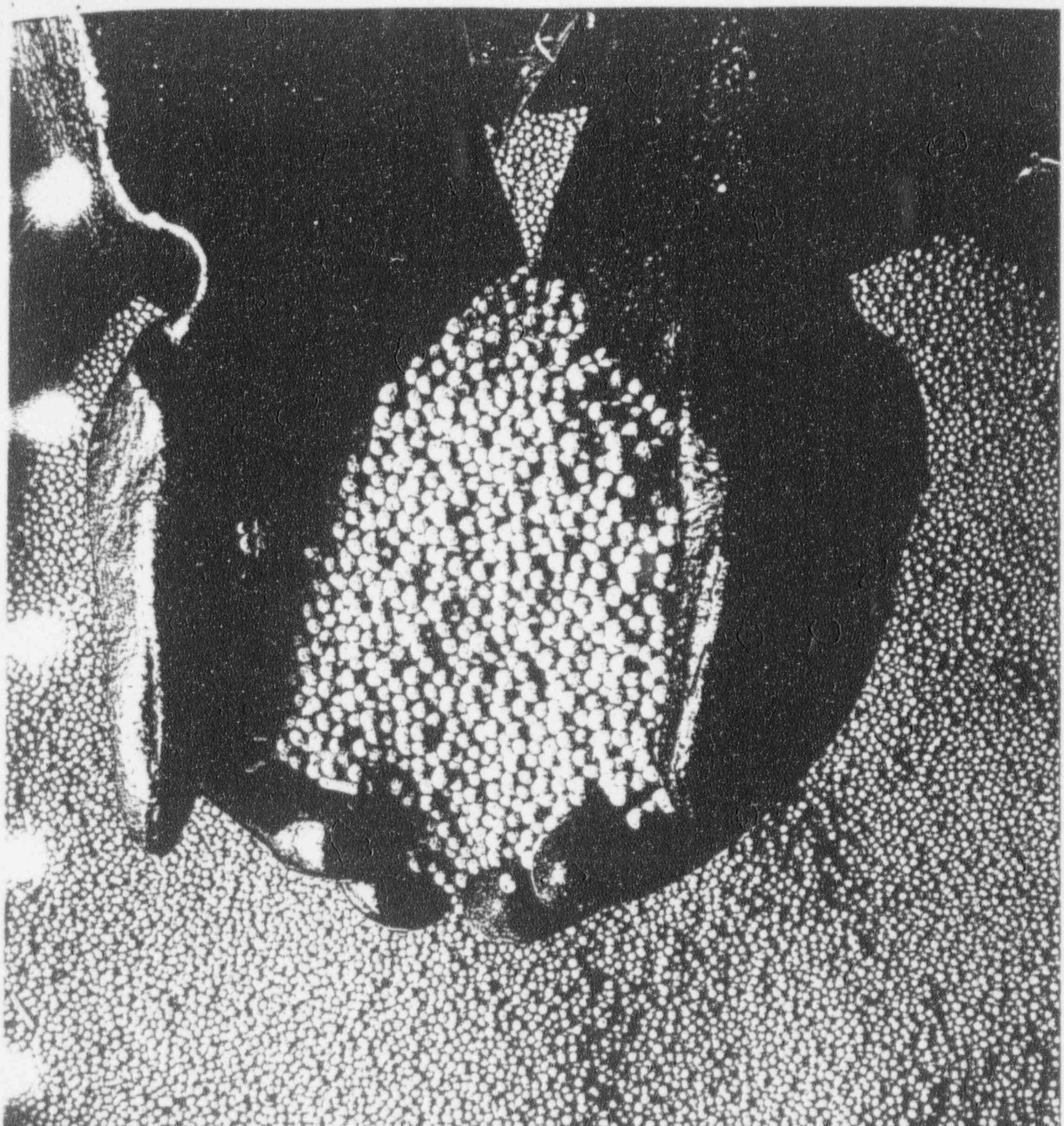
International Perspective

Mallinckrodt's three business segments have established a worldwide presence. Their products are marketed in many countries through subsidiaries, sales offices, distributors and licensees. Mallinckrodt's international sales—of which about two-thirds are in the health-care segment—account for 10 percent of the Division's total volume. Because of the worldwide growth potential projected for many of Mallinckrodt's businesses, especially health-care products, international business development is among its major priorities.

Specialty Products

Mallinckrodt is maintaining its strategy of developing, manufacturing and marketing specialty products that meet customers' distinctive needs—in contrast with commodity products. Competing successfully in these markets demands responsive customer service, intimate knowledge of the marketplace, consistently high-quality products, and creative research and development resulting in products and processes that can be protected by patents or proprietary know-how.

As a Division of Avon, Mallinckrodt is extending its rich technological heritage, while maintaining a record of consistent internal growth and selective acquisitions.



This nickel-based catalyst is a new development used in the production of many petrochemicals. Mallinckrodt's wide range of catalyst products enhances manufacturing productivity and energy conservation.

Tiffany maintains its tradition of classic design and meticulous craftsmanship through creations such as this necklace of 21 perfectly matched sapphires, with diamonds, set in platinum. It was designed by Tiffany's Angela Cummings.

Tiffany & Co.

Net sales of Tiffany & Co. increased to $114.6 million in 1982. Operating profit rose to $6.7 million. The three major segments of Tiffany's business—retail sales in its seven stores, corporate sales focusing on business-related gift needs, and direct-mail sales from its distinctive catalog—all experienced growth in 1982. Considering the depressed economic environment last year, this performance confirms the unique combination of quality, taste, prestige and value represented by the Tiffany line.

While Tiffany perpetuates the classic traditions, it remains in the vanguard of contemporary design—for jewelry, watches, clocks, silver, china and crystal. From its innovative collections come the "classics of tomorrow." Tiffany's world-famous jewelry design team includes Jean Schlumberger, Elsa Peretti, Angela Cummings and Paloma Picasso.

New Store in Dallas

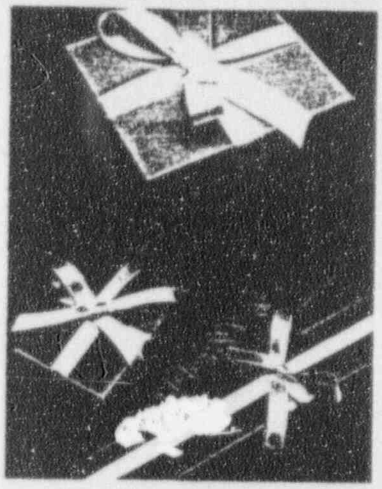
Tiffany launched its retail expansion program by opening a new Dallas store in October. During the next several years, Tiffany plans to expand its retail network further by opening branch stores in other areas with strong potential demand for jewelry, tableware and other elegant merchandise.

For over 20 years, Tiffany has marketed its prestigious products to businesses as incentive and recognition awards. The Division is aggressively building a complete product line specifically targeted to corporate customers, while training its sales force to serve these clients even more effectively. Meanwhile, Tiffany's distinctive mail-order business also grew in 1982.

Systems Modernization

In preparation for future growth, Tiffany continued to upgrade its operational capabilities during 1982. The Division opened a new facility in Parsippany, New Jersey, to expedite the distribution of its extensive product line.

Tiffany is a unique American institution with a premier international reputation. Around the world, the Tiffany name is synonymous with exceptional design, craftsmanship and quality. Avon is dedicated to preserving the Tiffany tradition, while supporting strong sales and earnings growth.



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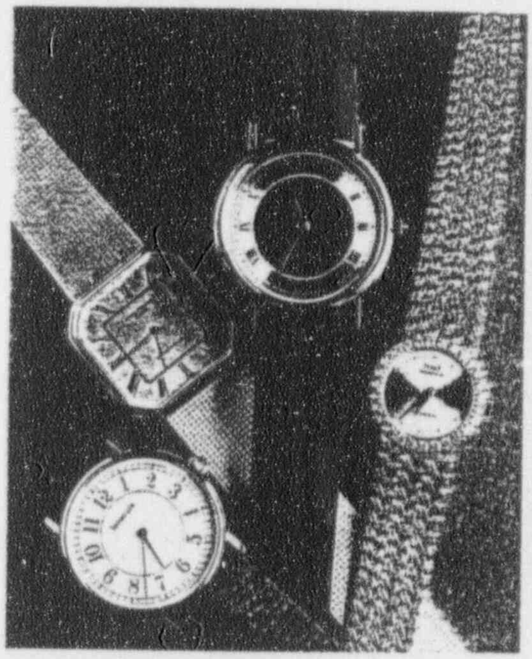

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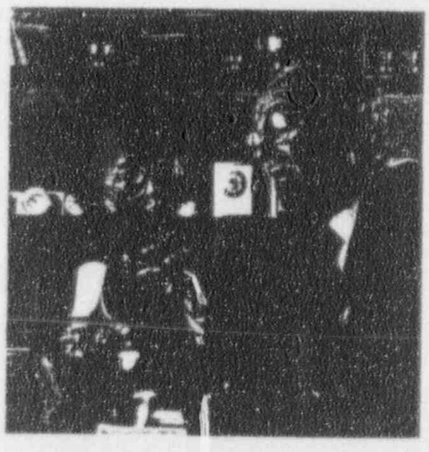

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1. Distinctive gift boxes and catalogs are instantly recognized as elements of Tiffany's elegant merchandising approach.
2. Tiffany's watch selection includes many of the world's finest.
3. Business gifts are selected with assistance from Tiffany's experienced corporate sales professionals.

An exceptional selection of updated, popularly priced sportswear accounts for about half of Avon Fashions' sales. The sportswear category includes tops, pants, coordinates and jeans, as well as activewear such as shorts and T-shirts.

Direct Mail Division

For Direct Mail, 1982 was another notable year. Vigorous sales and earnings growth at Avon Fashions was complemented by promising developments in two important new businesses.

Avon Fashions markets high-quality, fashionable, attractively priced women's apparel through nine direct-mail catalogs annually. After doubling its sales in three years, Avon Fashions grew 54 percent in 1982, with sales reaching $124.1 million. Operating profit advanced to $17.5 million, as margins improved dramatically last year.

Growing Customer Base

Avon Fashions customers are attracted to the convenience of mail-order shopping for stylish apparel that offers excellent value. Presently this fast-growing operation has more than 3.9 million active customers; over 62 million catalogs were distributed in 1982.

A key element in the Avon Fashions success story is its excellent service to customers. Orders are filled through computer-based systems at a highly efficient facility in Newport News, Virginia. This operation is being expanded to meet projected growth.

New Businesses

Experience gained through Avon Fashions has provided the foundation for additional opportunities. In late 1982, the mail-order magazine subscription business was entered with the formation of Great American Magazines. This field has attractive potential—over 80 percent of the 300 million magazine subscriptions sold annually in the United States are marketed by direct mail. Results at Great American Magazines are exceeding expectations.

In early 1983, Avon launched a new direct-mail men's apparel line called James River Traders. Targeted at the "urban outdoorsman," this stylish line offers exceptional quality, value and masculine appeal. The James River Traders catalogs encompass products that range from country elegance to rugged sportswear.

These direct-mail businesses are pursuing growth opportunities. Ten years of experience in the fast-growing direct-mail field have positioned this Division for an exceptionally high

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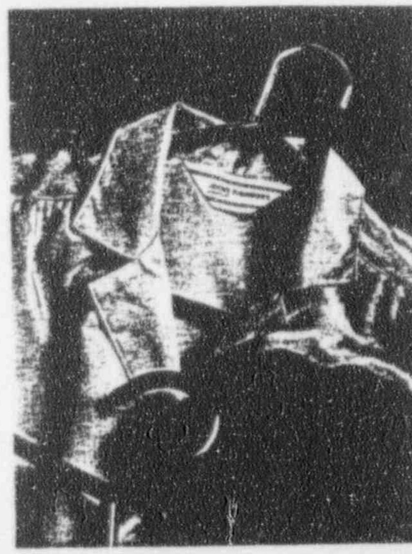
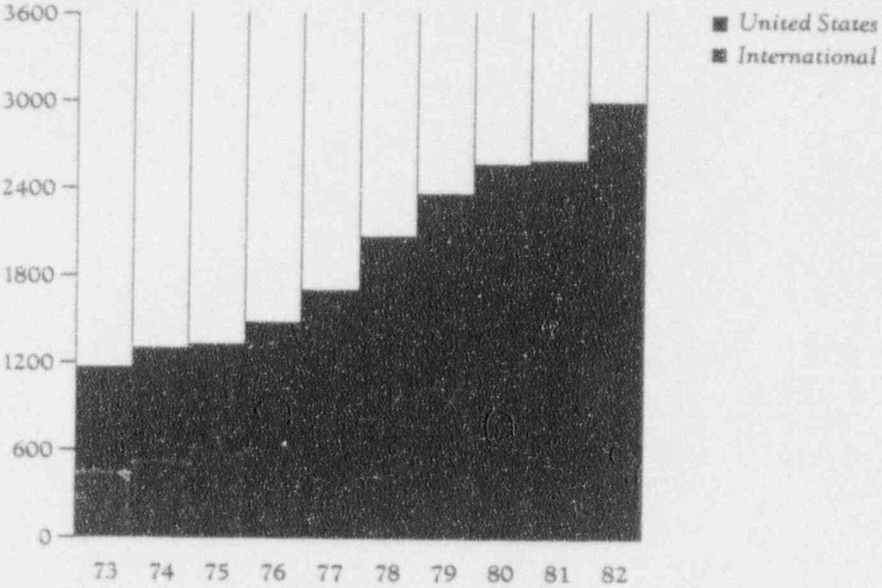


3

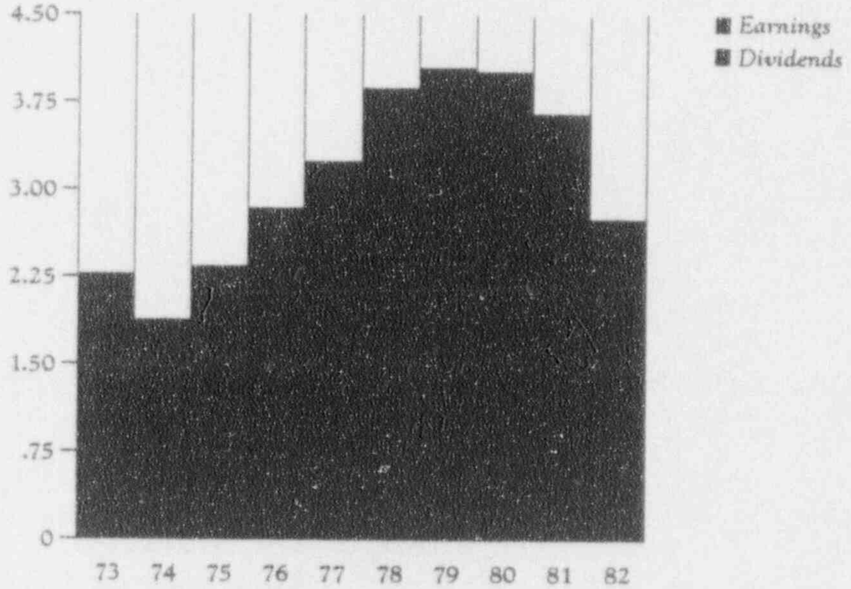
1. Vividly depicting the contemporary look of Avon Fashions apparel, over 62 million catalogs were distributed in 1982.
2. The Avon Fashions label represents fashionability, value and quality to 3.9 million active customers.
3. Quality standards experts help ensure that Avon Fashions garments have the fit customers expect.

Financial Review

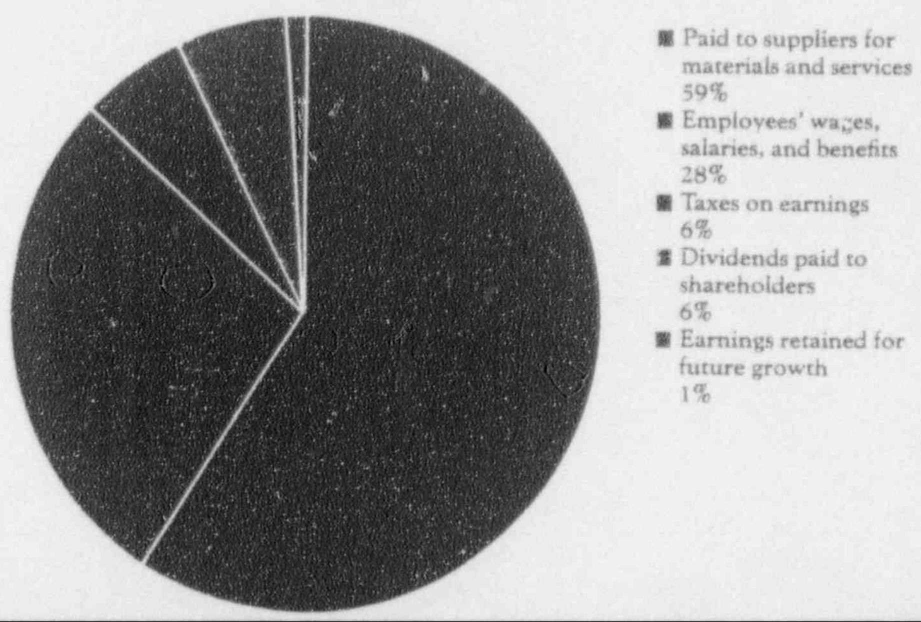
Net Sales
(in millions) $



Earnings and
Dividends Per Share



Distribution of the
Avon Sales Dollar



Note: All graphs include Mallinckrodt's results from the date of acquisition.

Avon's Business

Avon Products, Inc. is a diversified company which includes the Avon Division, Mallinckrodt, Inc., Tiffany & Co., and the Direct Mail Division.

The Avon Division is the world's largest direct-selling business. Its two principal industry segments are the manufacture and sale of cosmetics, fragrances and toiletries, and of fashion jewelry and accessories. These products are sold directly to customers in their homes by Avon Representatives, following the method used since the Company's founding in 1886. The Avon Division currently sells about 650 products in the United States, Europe, Latin America and other parts of the world. Avon products are offered for every member of the family, although products for women have long been, and remain, of primary importance. Although the range of products sold in foreign countries is not as extensive as that sold in the United States, most of the products are substantially the same as those marketed domestically.

In March 1982 the Company acquired Mallinckrodt, Inc., a company involved in the development, manufacture and marketing of medical, diagnostic and other health-care products, specialty chemicals, food ingredients, flavors, and fragrances. All financial data and statements include 49% of Mallinckrodt's results of operations for February 1982 and 100% of such results for the remainder of 1982. Since the merger was accounted for as a purchase, the financial results of 1981 and 1980 do not include Mallinckrodt.

Financial information relating to industry segments and geographic areas is incorporated by reference to the Industry Segment Data note of "Notes to Consolidated Financial Statements" on pages 36 and 37.

Cosmetics, Fragrances and Toiletries

The cosmetics, fragrances and toiletries segment includes the following classes of principal products:

Fragrance and bath products for women—25% of consolidated sales

These products consist of perfumes, colognes, sachets, fragrance candles, pomanders, lotions, soaps and powders. They are marketed in a number of fragrance lines, each based on a particular scent and packaging theme.

Makeup, skin-care and other products for women—26% of consolidated sales

These products include such makeup items as lipstick, eye shadow and mascara; skin-care products; nail and hand-care products; and such hair-care products as shampoos, conditioners and brushes.

Men's toiletry products—6% of consolidated sales

These products include cologne, after-shave lotion, shaving cream, talc and soap, in a number of fragrances that are based on a particular scent and packaging theme.

Daily-need, children's and teen products—9% of consolidated sales

Daily-need items include deodorants, anti-perspirants, oral hygiene products and household products such as room sprays. Children's and teen products include fragrance products and novelty products for young children.

Fashion Jewelry and Accessories—11% of consolidated sales

The fashion jewelry and accessories lines are sold in the United States and in several foreign markets. Jewelry for men, women and children is sold by Avon Representatives, with women's jewelry accounting for most of these sales. The fashion accessories line includes such items as purses, wallets, key cases and pens.

Health-Care Products—8% of consolidated sales

These products of Mallinckrodt include x-ray contrast media and radiopharmaceuticals for medical diagnostic procedures, disposable medical devices for use in surgical procedures and postoperative care, drug chemicals used in the manufacture of dosage-form drugs sold to the pharmaceutical industry, and laboratory chemicals and equipment.

Specialty Chemicals—4% of consolidated sales

These products of Mallinckrodt include high-purity industrial chemicals, preservatives and catalysts.

Fine Jewelry and Tableware—4% of consolidated sales

Tiffany sells fine jewelry, silver, crystal and china from its main store in New York City and from six branch stores in the United States. Tiffany also sells to corporations for business gifts and incentive recognition programs, and conducts a mail-order catalog business.

Apparel—Direct Mail—4% of consolidated sales

Avon Fashions sells women's apparel by mail order in the United States.

Other—3% of consolidated sales

The food, flavor and fragrance products of Mallinckrodt consist of ingredients produced for the food, beverage, cosmetic, industrial and household product industries.

	Year Ended December 31 (in millions)		
	1982	1981	1980
Net Sales of Principal Products			
Cosmetics, fragrances and toiletries:			
Fragrance and bath products for women	$ 763.7	$ 783.3	$ 772.3
Makeup, skin-care and other products for women	779.5	812.4	770.7
Men's toiletry products	194.6	192.8	198.7
Daily-need, children's and teen products	260.2	251.3	241.6
Subtotal	1,998.0	2,039.8	1,983.3
Fashion jewelry and accessories	338.3	383.8	425.2
Health-care products	228.3		
Specialty chemicals	112.3		
Fine jewelry and tableware	114.6		
Apparel—direct mail	124.3		
Other*	86.9	190.2	160.6
Eliminations	(1.9)		
Consolidated	$3,000.8	$2,613.8	$2,569.1

*Includes fine jewelry and tableware, and apparel—direct mail in 1981 and 1980.

Quarterly Financial Data

Quarterly data for the two years ended December 31, 1982 are summarized below (in millions, except per share amounts):

1982					
Quarter	Net Sales	Gross Profit	Operating Profit	Net Earnings	Earnings Per Share
First	$ 588.5	$ 350.6	$ 66.6	$ 34.2	$ .54
Second	767.0	431.4	102.3	44.6	.61
Third	720.8	399.7	76.4	34.2	.45
Fourth	924.5	540.4	170.0	83.6	1.15
	$3,000.8	$1,722.1	$415.3	$196.6	$2.75

1981					
Quarter	Net Sales	Gross Profit	Operating Profit	Net Earnings	Earnings Per Share
First	$ 549.3	$ 343.7	$ 66.1	$ 37.7	$ .63
Second	635.9	387.8	96.4	54.7	.91
Third	600.9	364.5	75.8	47.1	.78
Fourth	827.7	499.7	158.2	80.4	1.34
	$2,613.8	$1,595.7	$396.5	$219.9	$3.66

Discussion of Liquidity and Capital Resources

Cash and short-term investments decreased by $96.6 million during 1982, to $161.2 million at December 31, 1982. During January 1982, the Company purchased 49% of the outstanding common stock of Mallinckrodt, Inc. at a price of $50 per share. The funds required to purchase these shares totaled approximately $367 million. A revolving credit agreement was established to provide $300 million as a part of the financing for the purchase of these Mallinckrodt shares. This merger is described in the Merger note of "Notes to Consolidated Financial Statements" on page 40.

Repayment of the funds obtained under the revolving credit agreement was made during the second quarter, with funds provided by the issuance of commercial paper. The revolving credit agreement and various lines of credit with banks are now used to support the commercial paper. During October 1982, Avon Capital Corporation, a wholly owned subsidiary of the Company, issued $100 million of 11¾% Guaranteed Notes Due 1990, guaranteed by the Company. The proceeds of the notes were distributed to the Company, which used the funds principally to reduce the amount of commercial paper outstanding. During February 1983, Avon International Finance N.V., a wholly owned subsidiary of the Company ("International"), issued $100 million of 10¼% Guaranteed Notes Due 1992, guaranteed by the Company. The proceeds of the notes are payable in two installments: approximately 25% was received in February 1983 and the remainder is to be received in August 1983. The proceeds are to be lent to the Company, which will use the funds principally to reduce the amount of commercial paper outstanding. It is anticipated that in due course the remaining commercial paper will be replaced by longer-term financing.

During the past three years the Company has undertaken major facilities expansion and modernization projects in several countries. Capital expenditures during this three-year period totaled $360.8 million, which were financed without long-term borrowing. Construction programs in progress at December 31, 1982 carried an estimated cost to complete of $70 million. Capital expenditures in the next three years are expected to be at a higher rate than in the previous three years, primarily as a result of the merger with Mallinckrodt. Based on current projections, it will be necessary for the Company to finance some of these projects with long-term borrowing.

During 1983 it may be necessary for the Company to borrow an additional $55 million for seasonal U.S. operating needs. Normal seasonal financing requirements for international operations are expected to be approximately $70 million. The peak level of borrowings during 1983 (for all purposes) might total $590 million.

Short-term borrowing consists primarily of borrowings from banks by international subsidiaries, and it is expected that the level of such borrowings will increase during 1983. Unused lines of credit, including the revolving credit agreement, at December 31, 1982 approximated $420 million. Of this amount, $275 million was used to support the commercial paper. The remaining $145 million was related to the operations of domestic and international subsidiaries.

Discussion of 1982 and 1981

Consolidated net sales were $3.0 billion in 1982, an increase of $387 million or 15% over 1981. U.S. net sales increased 30% to $1.8 billion, and international sales decreased 3% to $1.2 billion. Net earnings decreased 11% to $196.6 million. Net earnings per share were $2.75, compared with $3.66 in 1981.

The merger with Mallinckrodt, Inc. became effective in March 1982. The financial statements included 49% of Mallinckrodt's results of operations for February 1982 and 100% of such results for the remainder of 1982. Since the merger was accounted for as a purchase, the financial results of 1981 do not include Mallinckrodt.

The decrease in net earnings of $23.3 million (91¢ per share) was caused principally by the following factors:

- An increase in cost of goods sold as a percentage of net sales, which decreased net earnings by $54.2 million (90¢ per share).
- A decrease in interest income and an increase in interest expense and other deductions—net, which decreased net earnings by $35.8 million (59¢ per share).
- The greater number of shares outstanding resulting from the merger with Mallinckrodt, which decreased earnings per share by 52¢.

These decreases in net earnings of $90.0 million ($2.01 per share) were partially offset by the following factors:

- Higher net sales, which increased net earnings by $29.0 million (48¢ per share).
- A decrease in marketing, distribution and administrative expenses as a percentage of net sales, which increased net earnings by $34.5 million (57¢ per share).
- A decrease in the effective income tax rate, which increased net earnings by $3.2 million (5¢ per share).

The increase in net sales was attributable to the inclusion of Mallinckrodt's sales since March, and to higher sales for Tiffany and Avon Fashions. In terms of local currencies, international Representative sales increased compared with 1981. Because of weaker currencies abroad, however, these sales expressed in U.S. dollars were lower compared with last year. The number of U.S. and international Representatives increased.

Cost of goods sold increased by $260.6 million, and also increased as a percentage of net sales, to 42.6% in 1982 from 39.0% in 1981. The increase in the cost ratio was primarily the result of the inclusion of Mallinckrodt in 1982, as well as higher sales for Tiffany and Avon Fashions. These businesses have cost ratios that are normally higher than that of the Avon Representative business.

Marketing, distribution and administrative expenses increased $107.6 million, but decreased as a percentage of net sales, to 43.6% in 1982 from 45.9% in 1981. The reduction in the expense ratio resulted from the inclusion of Mallinckrodt in 1982 and the higher sales of Avon Fashions.

Interest income decreased $7.9 million to $41.4 million, and interest expense increased $30.6 million. Major factors were the lower level of short-term investments, and the increased borrowings to purchase Mallinckrodt stock.

Taxes on earnings decreased by $30.4 million, and the effective income tax rate decreased to 49.8% in 1982 from 50.7% in 1981. The principal cause of the decrease in the effective tax rate was lower nondeductible foreign exchange losses. This factor increased the effective rate by 2.8 percentage points in 1982 and by 3.3 percentage points in 1981.

Discussion of 1981 and 1980

Consolidated net sales were $2.6 billion in 1981, an increase of $45 million or 2% over 1980. U.S. net sales increased 6% to $1.4 billion, and international sales declined 3% to $1.2 billion. Net earnings declined 9% to $219.9 million. Earnings per share were $3.66, compared with $4.02 in 1980.

The decrease in net earnings of $22.2 million (36¢ per share) was caused principally by the following factors:

- An increase in cost of goods sold as a percentage of net sales, which decreased net earnings by $20.9 million (34¢ per share).
- An increase in marketing, distribution and administrative expenses as a percentage of net sales, which decreased net earnings by $4.0 million (6¢ per share).

• An increase in the effective income tax rate, which decreased net earnings by $8.5 million (14¢ per share).

These decreases in net earnings of $33.4 million (54¢ per share) were partially offset by the following factors:

• Higher net sales, which increased net earnings by $3.9 million (6¢ per share).

• An increase in other income—net, which increased net earnings by $7.3 million (12¢ per share).

The increase in consolidated net sales resulted from higher unit volume in the U.S., partially offset by lower sales in international. The strengthening of the U.S. dollar abroad and unsettled economic conditions in some of the Company's major foreign markets were significant factors contributing to the decline in international sales. Although sales in Europe increased in terms of local currencies, European sales after translation into U.S. dollars fell 17%. Avon sales in terms of U.S. dollars in Latin America advanced by 6%; and in Canada, the Pacific and Africa combined by 10%. A portion of the sales increase was attributable to a 2% increase in the number of active Representatives.

Cost of goods sold increased by $57.5 million, and also increased as a percentage of net sales, to 39.0% in 1981 from 37.4% in 1980. The increase in the cost ratio was primarily the result of competitive pricing strategies in the U.S. and abroad, and the effect of foreign currency fluctuations.

Marketing, distribution and administrative expenses increased by $28.1 million, and also increased as a percentage of net sales, to 45.9% in 1981 from 45.6% in 1980. The increasing cost of operations overseas was a major factor contributing to the higher level of expenses.

Interest income and other income—net increased $14.2 million to $49.2 million. One major factor contributing to the increase was interest income, which rose $9.5 million to a level of $49.3 million as a result of higher interest rates on short-term investments. Another factor contributing to the increase was greater foreign exchange gains, resulting from the remeasurement of foreign currency statements into U.S. dollars, and realized and unrealized foreign currency transactions in 1981, compared with 1980.

The greater foreign exchange gains included in other income in 1981 were more than offset by higher foreign exchange losses charged to cost of goods sold and to expenses, which resulted from the remeasurement of inventories and prepaid expenses at historical rates. The net effect of these factors reduced net earnings by $36.7 million (61¢ per share) in 1981, compared with $20.0 million (33¢ per share) in 1980.

Taxes on earnings decreased by $4.5 million, but the effective income tax rate increased to 50.7% in 1981 from 48.8% in 1980. The principal cause of the increase in the effective tax rate was greater nondeductible foreign exchange losses. This factor increased the effective rate by 3.3 percentage points in 1981 and by 1.8 percentage points in 1980.

Information on Inflation and Changing Prices

Although the rate of inflation has moderated during the last two years, it continues to have a significant impact on the U.S. economy. Extremely high rates of inflation have been experienced in Mexico, Brazil and Argentina, countries in which the Company has significant operations. Most other countries in which the Company has operations have experienced higher rates of inflation than the United States. For many years the Company has reduced the effects of inflation on its business by increasing selling prices and controlling costs and expenses in order to protect profit margins. Additionally, the majority of U.S. inventories are accounted for on the last-in, first-out basis. Actual cost of goods sold, therefore, generally reflects current costs.

The current cost column of the consolidated summary of earnings includes net sales and net earnings adjusted to a current cost basis. The adjustment to a current cost basis represents a measure of the effect of the changes in specific prices on the Company's inventories and property, and the resulting impact on cost of goods sold and depreciation. Net sales and expenses, other than cost of goods sold and depreciation expense, are assumed to be already stated at current cost in the primary financial statements, thus requiring no adjustment in the current cost statement. Current cost net earnings were lower than historical cost net earnings principally because of increased depreciation associated with the current cost increase in property.

The primary sources of information used to compute the current cost data for inventories, property, cost of goods sold, and depreciation were indices, engineering estimates and vendor price quotations.

Depreciation based on the current cost of buildings and equipment was estimated, using the same depreciation methods and estimated lives used in preparing the primary financial statements. For countries with functional currencies other than the U.S. dollar, current cost data were measured in local currency and then translated into U.S. dollars. The U.S. dollar current cost data were adjusted for the effects of general inflation using the U.S. Consumer Price Index for All Urban Consumers.

Approximately 71% of the $39.3 million decrease in net earnings calculated under the current cost method is attributable to an increase in depreciation associated with the current cost increase in property. The remaining portion of the decrease is primarily attributable to the restatement of first-in, first-out inventory to the current cost basis.

The income tax rate for 1982 increased from 49.8% in the primary financial statements to 55.4% on the current cost basis, because most countries require that deductions for tax purposes be based on historical costs.

The consolidated summary of earnings adjusted for changing prices for the year ended December 31, 1982 follows (in millions):

	As shown in the financial statements (historical cost)	Adjusted for changes in specific prices (current cost)
Net sales	$3,000.8	$3,000.8
Cost of goods sold	1,278.7	1,303.9
Marketing, distribution and administrative expenses	1,306.8	1,320.9
Interest income	41.4	41.4
Interest expense	(34.2)	(34.2)
Other income (deductions)—net	(30.5)	(30.5)
Taxes on earnings	195.4	195.4
Net earnings	$ 196.6	$ 157.3
Income tax rate	49.8%	55.4%
Depreciation included in:		
Cost of goods sold	$ 24.7	$ 38.5
Marketing, distribution and administrative expenses	21.9	35.9
	$ 46.6	$ 74.4
Purchasing power gain on net monetary items		$ 8.3
Increase in current cost of inventory and property held during the year		$ 214.7
Effect of increase in the general price level		65.3
Increase in current cost over rate of increase in the general price level		$ 149.4
Adjustment—foreign currency translation		$ (159.2)
At December 31, 1982:		
Inventories		$ 498.1
Property—net of accumulated depreciation		1,178.1

Selected financial data adjusted for changing prices in average 1982 dollars (in millions, except per share amounts):

	Year ended December 31				
	1982	1981	1980	1979	1978
Net sales	$3,000.8	$2,773.2	$3,009.3	$3,161.5	$3,086.7
Net earnings	157.3	225.8	246.4	279.6	
Earnings per share	2.20	3.75	4.10	4.65	
Purchasing power gain (loss) on net monetary items	8.3	6.9	3.4	(2.3)	
Increase in current cost over (under) increase in the general price level	149.4	(1.1)	(27.7)	20.8	
Adjustment—foreign currency translation	(159.2)	(69.8)	(2.2)	11.1	
Net assets, December 31	1,713.1	1,359.2	1,482.6	1,505.9	
Dividends per share	2.50	3.18	3.46	3.65	3.77
Market price, December 31	26.50	30.80	38.17	49.56	72.31
Average consumer price index (1967 = 100)	289.1	272.4	246.8	217.4	195.4

Stock Market and Dividend Data

Avon capital stock is listed on the New York Stock Exchange (symbol: AVP). At December 31, 1982, there were approximately 39,900 shareholders of record. The price-earnings ratios are based on net earnings per share in each year and the high and low market prices shown below:

	1982		1981	
Quarter	High	Low	High	Low
First	$30⅜	$23	$39⅜	$32½
Second	26¾	22	42⅜	37
Third	25⅝	19⅝	38⅞	32¼
Fourth	29⅛	22¾	35⅜	29⅛
Price-earnings ratio	11	7	12	8

	Cash Dividends Per Share	
Quarter	1982	1981
First	$ .75	$ .75
Second	.75	.75
Third	.50	.75
Fourth	.50	.75
	$2.50	$3.00
Total dividends paid:		
Amount (in millions)	$174.2	$180.4
% to net earnings	89%	82%

Consolidated Statement of Earnings and Retained Earnings

Avon Products, Inc. and Subsidiaries
(in millions, except per share amounts)

	Year Ended December 31 1982	1981	1980
Net sales:			
United States	$1,840.4	$1,413.0	$1,332.1
International	1,160.4	1,200.8	1,237.0
	3,000.8	2,613.8	2,569.1
Cost of goods sold	1,278.7	1,018.1	960.6
Gross profit	1,722.1	1,595.7	1,608.5
Marketing, distribution and administrative expenses	1,306.8	1,199.2	1,171.1
Operating profit	415.3	396.5	437.4
Interest income	41.4	49.3	39.8
Interest expense	(34.2)	(3.6)	(1.3)
Other income (deductions)--net	(30.5)	3.5	(3.5)
Earnings before taxes	392.0	445.7	472.4
Taxes on earnings	195.4	225.8	230.3
Net earnings	196.6	219.9	242.1
Cash dividends	174.2	180.4	177.5
Addition to retained earnings	22.4	39.5	64.6
Retained earnings, January 1	863.3		
Businesses acquired	6.4		
As restated, January 1	869.7	823.8	759.2
Retained earnings, December 31	$ 892.1	$ 863.3	$ 823.8
Per share of capital stock:			
Net earnings	$2.75	$3.66	$4.02
Cash dividends	2.50	3.00	2.95
Average shares outstanding	71.46	60.15	60.15

The accompanying notes are an integral part of these statements.

Consolidated Statement of Financial Condition

Avon Products, Inc. and Subsidiaries
(in millions of dollars)

	December 31 1982	1981
Assets		
Current assets		
Cash	$ 27.1	$ 19.0
Short-term investments	134.1	238.8
Accounts receivable (less allowance for doubtful accounts of $18.7 and $14.7)	282.5	216.4
Inventories		
Finished goods	237.5	195.8
Raw material	200.4	196.0
	437.9	391.8
Prepaid expenses	123.5	122.0
Total current assets	1,005.1	988.0
Property		
Land	47.0	41.9
Buildings	465.3	315.9
Equipment and improvements	391.1	299.2
Construction in progress	65.4	76.4
	968.8	733.4
Less accumulated depreciation	239.2	215.1
	729.6	518.3
Excess of cost over net assets acquired	396.8	3.1
Prepaid U.S. retirement plan expense	41.9	36.0
Deferred charges	59.8	22.4
	$2,233.2	$1,567.8

The accompanying notes are an integral part of these statements.

	December 31 1982	1981
Liabilities and Shareholders' Equity		
Current liabilities		
Notes payable	$ 69.0	$ 49.3
Accounts payable	146.3	115.3
Accrued expenses	95.6	93.0
Accrued compensation	39.0	34.1
Retail sales and other taxes	84.4	89.1
Taxes on earnings	122.1	146.6
Total current liabilities	556.4	527.4
Long-term debt	297.3	4.8
Foreign employee benefit plans	42.7	41.3
Other liabilities	11.4	5.9
Deferred income taxes	106.0	55.4
Shareholders' equity		
Capital stock, par value $.50		
Authorized 80,000,000 shares		
Outstanding 74,350,037 and 60,156,135 shares	37.2	30.1
Additional paid-in capital	386.8	59.3
Adjustment—foreign currency translation	(96.7)	(19.7)
Retained earnings	892.1	863.3
	1,219.4	933.0
	$2,233.2	$1,567.8

Consolidated Statement of Changes in Financial Position

Avon Products, Inc. and Subsidiaries
(in millions)

	Year Ended December 31 1982	1981	1980
Sources of working capital			
Net earnings	$196.6	$219.9	$242.1
Add			
Depreciation	46.6	31.5	27.8
Amortization of intangibles	10.1	.1	.2
Deferred income taxes	50.8	7.0	23.4
Working capital provided from operations	304.1	258.5	293.5
Increase in long-term debt	281.1	2.2	(1.5)
Capital stock issued	334.6	.1	.2
Increase in other liabilities	2.1	(2.7)	2.1
Businesses acquired and sold	9.6		
Disposals of property	5.2	11.4	6.7
	936.7	269.5	301.0
Uses of working capital			
Acquisition of Mallinckrodt, Inc. (exclusive of $123.7 of working capital acquired)			
Property	168.4		
Excess of cost over net assets	402.1		
Other noncurrent assets	33.6		
Long-term debt	(11.4)		
Other noncurrent liabilities	(4.9)		
Cash dividends	174.2	180.4	177.5
Additions to property	128.9	114.2	117.7
Additions to prepaid U.S. retirement plan expense and deferred charges	12.6	7.1	9.9
Effect of foreign currency translation adjustments on working capital	45.1	2.6	6.2
	948.6	304.3	311.3
Decrease in working capital	$(11.9)	$(34.8)	$(10.3)
Changes in components of working capital			
Cash and short-term investments	$(96.6)	$(50.6)	$ 1.5
Accounts receivable	66.1	(23.9)	26.9
Inventories	46.1	11.5	14.2
Prepaid expenses	1.5	1.7	27.2
Notes payable	(19.7)	(12.7)	21.4
Accounts payable and accrued expenses	(38.5)	(5.8)	(39.0)
Accrued taxes	29.2	45.0	(62.5)
Decrease in working capital	$(11.9)	$(34.8)	$(10.3)

Accounting Policies

Principles of consolidation—All majority-owned subsidiaries are consolidated. All other investments are accounted for on the equity basis.

Short-term investments—Short-term investments are stated at cost plus accrued interest, which approximates market value.

Inventories—Inventories are stated at cost, not in excess of market. Cost is determined on a last-in, first-out basis for the majority of U.S. inventories, and on a first-in, first-out basis for all other inventories.

Property and depreciation—Property is recorded at cost. Depreciation over the estimated useful lives of the majority of property in the United States and Canada is determined principally on declining-balance methods for property acquired prior to January 1, 1977, and on the straight-line basis for property acquired subsequently. The remainder of depreciation in the United States and Canada, and all depreciation in other countries, is determined on the straight-line basis.

Intangibles—The excess of cost over the fair market value of net assets of purchased subsidiaries is amortized on the straight-line basis, primarily over 40 years.

Stock options—Proceeds from the sale of capital stock issued pursuant to stock option plans are credited to capital stock to the extent of par value, and to additional paid-in capital for the excess of the option price over par value. Any corporate tax benefits resulting from stock option plans are credited to additional paid-in capital.

Taxes on earnings—Taxes on earnings are adjusted for deferred income taxes where there are differences between the years in which transactions affect taxable income and the years in which they affect net earnings.

Taxes on earnings are reduced by investment tax credits in the year in which the related assets are placed in service. These credits were not material in any of the years presented.

Deferred income taxes—These include the effects of timing differences related to noncurrent items, including depreciation and capitalized interest.

The net deferred income tax benefit associated with certain current items is included in prepaid expenses.

Retirement plans—The Company and several subsidiaries maintain noncontributory retirement plans for substantially all their employees. The annual provisions under these plans, as determined by independent actuaries using accepted actuarial methods, provide for current service cost and straight-line amortization of prior service liability over periods ranging principally up to thirty years. All plans are funded on a current basis except where funding is not required.

Earnings per share—Earnings per share of capital stock are based on the average number of shares outstanding during each year. Shares issuable on the exercise of stock options are excluded from the average number of shares because their inclusion would not reduce earnings per share for any of the years presented.

Taxes on Earnings

The Company has provided for U.S. and foreign income taxes (after giving effect to available tax planning alternatives and foreign tax credits) on earnings of subsidiaries that have been remitted, which are available for remittance or are not intended to be invested in foreign operations. The balance of unremitted earnings of foreign subsidiaries that are not subject to U.S. income taxes or are restricted or required for current or future operations approximated $250 million at December 31, 1982.

An analysis of taxes on earnings and earnings before taxes follows (in millions):

	Year Ended December 31 1982	1981	1980
Taxes on earnings:			
Federal:			
Current	$ 66.4	$123.6	$128.5
Deferred	42.6	8.3	6.7
	109.0	131.9	135.2
Foreign:			
Current	67.3	78.6	63.8
Deferred	8.0	(1.3)	16.7
	75.3	77.3	80.5
State and other	11.1	16.6	14.6
	$195.4	$225.8	$230.3
Earnings before taxes:			
United States	$245.7	$287.0	$274.6
Foreign	146.3	158.7	197.8
	$392.0	$445.7	$472.4

The major component of the provision for deferred income taxes was unremitted retained earnings of foreign subsidiaries of $22 million.

Differences between the consolidated income tax rate and the statutory federal income tax rate are as follows:

	Year Ended December 31 1982	1981	1980
Statutory federal income tax rate	46.0%	46.0%	46.0%
State and local income taxes, net of federal income tax benefit	1.5	2.0	1.7
Foreign income taxes and all other	(.5)	(.6)	(.7)
Consolidated income tax rate before effect of nondeductible foreign exchange losses	47.0	47.4	47.0
Effect of nondeductible foreign exchange losses	2.8	3.3	1.8
Consolidated income tax rate	49.8%	50.7%	48.8%
Net current deferred income tax benefit included in prepaid expenses (in millions)	$ 7.9	$10.4	$19.2

Industry Segment Data

The Company's business is primarily composed of six industry segments: the manufacture and sale of cosmetics, fragrances and toiletries; fashion jewelry and accessories; health-care products; specialty chemicals; fine jewelry and tableware; and apparel sold by direct mail. Operations are conducted in the United States, Europe, Latin America and other parts of the world.

Operating profit consists of total revenues less cost of goods sold and marketing, distribution and administrative expenses.

Interest income, interest expense, and other income (deductions)—net, including amortization of the excess of cost over the fair market value of net assets of purchased subsidiaries, which are included in earnings before taxes, are excluded from operating profit.

The identifiable assets of industry segments and geographic areas are those assets used in the Company's operations in each segment and area. General corporate assets are short-term investments.

Year Ended December 31 (in millions)

Industry Segments	Net Sales	Operating Profit	Identifiable Assets	Depreciation Expense	Additions To Property
1982					
Cosmetics, fragrances and toiletries	$1,998.0	$279.8	$ 969.9	$27.7	$ 69.9
Fashion jewelry and accessories	338.3	61.9	185.0	4.1	9.8
Health-care products	228.3	40.7	476.3	6.8	26.8
Specialty chemicals	112.3	12.0	237.0	4.8	11.6
Fine jewelry and tableware	114.6	6.7	111.2	1.1	7.8
Apparel—direct mail	124.3	17.1	32.4	.5	1.0
Other	86.9	7.5	87.3	1.6	2.0
General corporate	.0	(9.6)	134.1	.0	.0
Eliminations	(1.9)	(.8)	.0	.0	.0
Consolidated	$3,000.8	$415.3	$2,233.2	$46.6	$128.9
1981					
Cosmetics, fragrances and toiletries	$ 2,039.8	$ 306.2	$ 1,012.6	$ 26.7	$ 95.4
Fashion jewelry and accessories	383.8	79.7	193.4	3.7	14.4
Other*	190.2	17.1	123.0	1.1	4.4
General corporate	.0	(6.5)	238.8	.0	.0
Consolidated	$ 2,613.8	$ 396.5	$ 1,567.8	$ 31.5	$ 114.2
1980					
Cosmetics, fragrances and toiletries	$ 1,983.3	$ 339.0	$ 1,010.2	$ 23.2	$ 91.8
Fashion jewelry and accessories	425.2	95.7	191.7	3.8	19.2
Other*	160.6	7.8	98.5	.8	6.7
General corporate	.0	(5.1)	282.7	.0	.0
Consolidated	$ 2,569.1	$ 437.4	$ 1,583.1	$ 27.8	$ 117.7

*Includes fine jewelry and tableware, and apparel—direct mail.

Geographic Areas	Net Sales	Operating Profit	Identifiable Assets	Depreciation Expense	Additions To Property
	Year Ended December 31 (in millions)				
1982					
United States	$1,862.7	$276.5	$1,406.4	$29.1	$ 79.5
Europe	431.8	45.2	266.0	8.2	8.6
Latin America	428.9	59.4	240.9	5.7	27.4
All other foreign	358.5	53.0	185.8	3.6	13.4
Total international	1,219.2	157.6	692.7	17.5	49.4
General corporate	.0	(9.6)	134.1	.0	.0
Eliminations	(81.1)	(9.2)	.0	.0	.0
Consolidated	$3,000.8	$415.3	$2,233.2	$46.6	$128.9
1981					
United States	$ 1,440.5	$ 246.3	$ 702.6	$ 14.9	$ 63.5
Europe	441.1	45.7	227.7	7.9	12.6
Latin America	482.2	71.0	259.9	5.6	27.6
All other foreign	327.5	48.1	138.8	3.1	10.5
Total international	1,250.8	164.8	626.4	16.6	50.7
General corporate	.0	(6.5)	238.8	.0	.0
Eliminations	(77.5)	(8.1)	.0	.0	.0
Consolidated	$ 2,613.8	$ 396.5	$ 1,567.8	$ 31.5	$ 114.2
1980					
United States	$ 1,360.8	$ 245.5	$ 592.3	$ 12.8	$ 56.4
Europe	528.1	64.1	294.0	7.5	33.0
Latin America	456.1	102.0	272.8	4.7	24.1
All other foreign	274.1	36.0	141.3	2.8	4.2
Total international	1,258.3	202.1	708.1	15.0	61.3
General corporate	.0	(5.1)	282.7	.0	.0
Eliminations	(50.0)	(5.1)	.0	.0	.0
Consolidated	$ 2,569.1	$ 437.4	$ 1,583.1	$ 27.8	$ 117.7

Effect of Foreign Exchange Fluctuations

Net earnings were unfavorably affected by foreign exchange fluctuations, as follows (in millions):

	Year Ended December 31 1982	1981	1980
Foreign exchange gains (losses)—net:			
Remeasurement of foreign currency statements into U.S. dollars, and realized and unrealized foreign currency transactions	$ (1.4)	$ 10.2	$ .3
Remeasurement of certain items, principally inventories, at historical rates	(28.2)	(46.9)	(20.3)
	$(29.6)	$(36.7)	$(20.0)
Detail by country:			
Brazil	$(27.0)	$(19.6)	$(15.8)
Argentina	(.8)	(15.6)	(2.9)
All other—net	(1.8)	(1.5)	(1.3)
	$(29.6)	$(36.7)	$(20.0)

An analysis of adjustment—foreign currency translation (in the shareholders' equity section of the statement of financial condition) for the three years ended December 31, 1982 follows (in millions):

	1982	1981	1980
Adjustment—foreign currency translation:			
Balance, January 1	$(19.7)	$ 15.2	$18.0
Translation adjustments	(77.0)	(34.9)	(2.8)
Balance, December 31	$(96.7)	$(19.7)	$15.2

In 1982, Mexico was not accounted for as a country with a highly inflationary economy. If such accounting had been adopted at the beginning of the fourth quarter, earnings per share for 1982 would have been unchanged. An adjustment of $52.1 million, which resulted from the translation of the Mexican foreign currency statements during 1982, was reflected in shareholders' equity. Mexico will be accounted for as a country with a highly inflationary economy throughout 1983.

Short-Term Investments

Short-term investments consisted primarily of certificates of deposit and time deposits.

Lines of Credit

Unused lines of credit at December 31, 1982 approximated $420 million. Of this amount, $275 million was used to support the commercial paper issued by the Company, and consisted of a $200 million revolving credit agreement with six banks, for which Citibank, N.A. was acting as agent, and unused lines of credit with banks aggregating $75 million. Commitment fees for these credit facilities approximated $1 million annually. The remaining $145 million was related to the operations of domestic and foreign subsidiaries. The domestic lines of credit were with banks. The foreign lines of credit consisted almost entirely of overdraft facilities. These lines of credit involve no material compensating balances or commitment fees.

Long-Term Debt

Long-term debt at December 31, 1982 consisted of:

The 11¾% Guaranteed Notes Due 1990 of $100 million issued by Avon Capital Corporation and guaranteed by Avon Products, Inc. The notes may be redeemed at 100% of their principal amount subsequent to October 14, 1988.

Commercial paper of $163.7 million bearing an average interest rate of 8.6%. The Company maintains at all times the revolving credit agreement and unused lines of credit with banks in amounts equal to the principal amount of its outstanding commercial paper.

Notes payable and industrial revenue bonds of $33.6 million, obligations of domestic and foreign subsidiaries payable to 2012 and bearing interest ranging from 5¼% to 10⅜%. Annual maturities for the next five years were (in millions): 1983—$3.6; 1984—$2.2; 1985—$5.0; 1986—$3.6; 1987—$8.6 The notes of foreign subsidiaries are payable in local currencies.

Notes payable of $4.8 million at December 31, 1981 were obligations of domestic and foreign subsidiaries payable to 1994. The notes of foreign subsidiaries were payable in local currencies.

Capital Changes

Stock option transactions are summarized below:

	Shares available for option	Shares under option: Shares	Price
January 1, 1981	292,280	905,515	$29-$60
Granted	(201,500)	201,500	38
Exercised	0	(3,090)	29-40
Cancelled	32,550	(32,550)	38-60
December 31, 1981	123,330	1,071,375	29-60
Mallinckrodt Plan	791,400	368,297	11-26
Granted	(437,720)	437,720	29
Exercised	0	(110,579)	11-23
Cancelled	893,240	(893,240)	29-60
December 31, 1982	1,370,250	873,573	$11-$44

All options were granted at market value on the dates of grant.

The 1970 Stock Option Incentive Plan (the "Plan") permits the granting of stock appreciation rights to optionees. Such rights, as granted, permit the optionees to receive cash and/or stock equal to any excess of the market value over the exercise price. The aggregate difference between the exercise price and the market price is charged to net earnings as compensation expense. The number of shares covered by options is reduced by the number of rights exercised.

During 1982, the Plan was amended to permit the granting of incentive stock options. Subsequently, new stock options for 437,720 shares were granted on the condition that options previously granted during the years 1980 and 1981 covering two shares be surrendered for cancellation for each share covered by such new options. The new options, to the extent permitted by law, were generally incentive stock options.

During 1982, the Mallinckrodt, Inc. 1978 Stock Option Plan was amended to enable outstanding options granted prior to August 13, 1981 to qualify as incentive stock options, and to permit the granting of incentive stock options in the future. Nonqualified options for 145,145 shares were converted to incentive stock options.

Consolidated statements of capital stock and additional paid-in capital for the three years ended December 31, 1982 follow (in millions):

	1982	1981	1980
Capital stock:			
January 1	$ 30.1	$30.1	$30.1
Shares issued for acquisitions	7.0	.0	.0
Shares issued pursuant to stock option plans	.1	.0	.0
	$ 37.2	$30.1	$30.1
Additional paid-in capital:			
January 1	$ 59.3	$59.2	$59.0
Shares issued for acquisitions	325.5	.0	.0
Shares issued pursuant to stock option plans	1.4	.1	.1
Corporate tax benefit arising from the exercise of stock options	.6	.0	.1
	$386.8	$59.3	$59.2

Retirement Plans

Accumulated plan benefits and plan net assets of the Company's U.S. defined benefit retirement plans primarily at January 1, are presented below (in millions):

	1982	1981	1980
Present value of accumulated plan benefits:			
Vested	$161.5	$111.2	$110.8
Nonvested	32.1	26.4	34.0
	$193.6	$137.6	$144.8
Net assets available for benefits	$265.3	$209.9	$151.6

The estimated weighted average rate of return used to determine the present value of accumulated plan benefits was 9.3%, 9.0% and 7.5% for 1982, 1981 and 1980, respectively.

The Company's foreign retirement plans are not required to report pursuant to the Employee Retirement Income Security Act of 1974. They do not determine the actuarial value of accumulated benefits or net assets available for benefits as calculated and disclosed for U.S. plans.

Retirement plan expense was $31.2, $25.3 and $27.2 million in 1982, 1981 and 1980, respectively.

Commitments

Various construction programs were in progress at December 31, 1982, with an estimated additional cost to complete of $70 million.

The Company leases office space in New York City for its executive and administrative offices, and in London, England, for its European Marketing Center, under operating leases that expire in 1997 and 2000 to 2006, respectively. Other real property is leased under operating leases expiring from 1983 to 2036.

The Company leases automobiles and other equipment under operating leases that expire during the next five years.

The minimum annual rental of real property is subject to escalation for increases in taxes, utilities and maintenance labor. Personal property rentals are subject to escalation based on usage.

Rent expense was $65.7, $58.9 and $53.6 million in 1982, 1981 and 1980, respectively.

Long-term lease obligations, all of which are operating leases, at December 31, 1982 consisted of (in millions):

Period	Minimum rental for the period
1983	$ 46.3
1984	33.0
1985	28.9
1986	25.2
1987	24.2
Beyond 1987	242.6
	$400.2

Merger

On March 8, 1982, Mallinckrodt, Inc. became a wholly owned subsidiary of the Company. Under the terms of the merger, approximately 12.9 million shares of the Company's capital stock were issued in exchange for approximately 51% of the outstanding common stock of Mallinckrodt. The remaining 49% of the common stock of Mallinckrodt had been acquired prior to the merger, pursuant to a cash tender offer and a private purchase. Mallinckrodt is engaged in the development, manufacture and marketing of medical, diagnostic and other health-care products, specialty chemicals, and food ingredients, flavors and fragrances.

The acquisition of Mallinckrodt has been accounted for as a purchase. The consolidated financial statements include 49% of Mallinckrodt's results of operations for February 1982 and 100% of such results for subsequent periods. The total purchase price was $711.5 million. For the purpose of determining the investment in Mallinckrodt, the capital stock issued was included at its fair market value on March 8, 1982 of $330.6 million. The purchase price exceeded the values assigned to the underlying net assets of Mallinckrodt by approximately $402.1 million. This excess is being amortized over 40 years.

The following unaudited pro forma combined results of operations for Avon and Mallinckrodt and their consolidated subsidiaries for the year ended December 31, 1982 and 1981 do not necessarily represent the results that would actually have been obtained if the acquisition of Mallinckrodt had been in effect throughout the periods indicated or which may be obtained in the future (in millions, except per share amounts).

	Pro Forma Combined-- Avon and Mallinckrodt Year Ended December 31	
	1982	1981
Net sales	$3,075.3	$3,108.2
Earnings before taxes	387.1	449.3
Net earnings	192.2	217.8
Net earnings per share	$ 2.60	$ 2.[illegible]
Average shares outstanding	73.78	7[illegible].78

Pro forma adjustments included in the table above are the amortization of cost in excess of net assets acquired and the after-tax effect of additional interest expense and reduced interest income incurred as a result of the acquisition of Mallinckrodt, partly offset by the reduced interest expense resulting from the redemption of Mallinckrodt's convertible debentures. Pro forma earnings per share of capital stock are based on the average number of shares assumed to be outstanding during each period presented.

During 1982, certain businesses, whose results of operations are not material to the consolidated results, were acquired on a pooling of interests basis and purchased for cash. Accordingly, no restatement of previously issued financial statements has been made, and the results of these businesses have been included since the dates of acquisition.

Supplemental Information

(in millions)

	Year ended December 31		
	1982	1981	1980
Depreciation	$ 46.6	$ 31.5	$ 27.8
Research and development expense	52.8	30.9	30.0
Advertising expense	22.6	30.7	35.5
Provision for doubtful accounts	40.3	34.7	32.0
Repairs and maintenance expense	38.3	26.2	23.9
Taxes other than on earnings:			
Payroll taxes	$ 71.9	$ 67.3	$ 70.[illegible]
Other	22.4	17.9	17.4
	94.3	85.2	87.[illegible]
Taxes on earnings	195.4	225.8	230.[illegible]
Total taxes	$289.7	$311.0	$318.0
Interest expense:			
Incurred	$ 56.4	$ 16.8	$ 12.[illegible]
Capitalized	(22.2)	(13.2)	(11.0)
Expensed	$ 34.2	$ 3.6	$ 1.[illegible]
Excess of current cost over the stated value of LIFO inventories	$ 30.7	$ 32.4	$ 32.[illegible]

Management's Responsibility for Financial Reporting

Management is responsible for all the information and representations contained in the annual report, including the financial statements, which are prepared in accordance with generally accepted accounting principles. Some elements in the statements are based on management's estimates and informed judgments.

The Company maintains systems of internal control to provide reasonable assurance that its financial records are reliable for the purpose of preparing the financial statements, that its assets are adequately protected, and that there is proper authorization and accounting for all transactions. The internal control system is supported by written policies and procedures, by the careful selection and training of qualified personnel, and by an extensive internal auditing program.

The Company's financial statements have been examined by Main Hurdman, independent public accountants, as stated in their report. Their examination was made in accordance with generally accepted auditing standards, and included a review and evaluation of internal controls.

The Audit Committee of the Board of Directors, composed solely of outside Directors, is responsible for reviewing and monitoring the quality of the Company's accounting and auditing practices. The Committee meets several times each year with management, the internal auditors and the independent public accountants. The independent public accountants and Internal Auditing have complete access to management and to the Audit Committee, and meet with both to discuss their audit activities, the internal controls and financial reporting matters.

Report of Independent Certified Public Accountants

To the Shareholders and Board of Directors of
Avon Products, Inc.

We have examined the consolidated statement of financial condition of Avon Products, Inc. and subsidiaries as of December 31, 1982 and 1981 and the related consolidated statements of earnings and retained earnings and of changes in financial position for each of the three years in the period ended December 31, 1982. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements identified above present fairly the consolidated financial position of Avon Products, Inc. and subsidiaries at December 31, 1982 and 1981 and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1982, in conformity with generally accepted accounting principles applied on a consistent basis.

Main Hurdman

New York, New York
February 1, 1983

Ten-Year Review

Avon Products, Inc. and Subsidiaries
(in millions of dollars, except per share amounts)

	1982	1981
Net sales:		
United States	$1,840.4	$1,413.0
International	1,160.4	1,200.8
	3,000.8	2,613.8
Cost of goods sold	1,278.7	1,018.1
Gross profit	1,722.1	1,595.7
Marketing, distribution and administrative expenses	1,306.8	1,199.2
Operating profit	415.3	396.5
Interest income	41.4	49.3
Interest expense	(34.2)	(3.6)
Other income (deductions)—net	(30.5)	3.5
Earnings before taxes	392.0	445.7
Taxes on earnings	195.4	225.8
Net earnings	$ 196.6	$ 219.9
Per share of stock:		
Net earnings	$2.75	$3.65
Cash dividends	2.50	3.00
Average shares outstanding (in millions)	71.46	60.15
% to net sales:		
Earnings before taxes	13.1%	17.1%
Net earnings	6.6	8.4
Working capital	$ 448.7	$ 460.6
Current ratio	1.81	1.87
Property—net	729.6	518.3
Capital expenditures	128.9	114.2
Total assets	2,233.2	1,567.8
Long-term debt	297.3	4.8
Shareholders' equity	1,219.4	933.0
Per share	16.40	15.51
Number of employees:		
United States	19,100	15,300
International	19,400	18,400
	38,500	33,700

Note: Includes 49% of Mallinckrodt's results of operations for February 1982 and 100% of such results for the remainder of 1982.

1980	1979	1978	1977	1976	1975	1974	1973
$1,332.1	$1,326.5	$1,233.0	$1,019.4	$ 865.1	$ 750.7	$ 758.1	$ 723.6
1,237.0	1,051.0	853.3	689.3	617.1	585.9	537.4	462.0
2,569.1	2,377.5	2,086.3	1,708.7	1,482.2	1,336.6	1,295.5	1,185.6
960.6	903.7	759.1	619.7	544.4	495.6	519.0	433.7
1,608.5	1,473.8	1,327.2	1,089.0	937.8	841.0	776.5	751.9
1,171.1	1,036.7	880.4	718.8	617.1	569.1	540.2	485.1
437.4	437.1	446.8	370.2	320.7	271.9	236.3	266.8
39.8	34.3	29.9	22.0	20.3	12.5	11.1	10.8
(1.3)	(.9)	(5.8)	(4.9)	(3.6)	(5.4)	(8.4)	(5.9)
(3.5)	2.6	(2.7)	2.4	8.6	7.3	3.9	(.7)
472.4	473.1	468.2	389.7	346.0	286.3	242.9	271.0
230.3	229.1	234.6	194.2	174.6	144.9	129.2	133.7
$ 242.1	$ 244.0	$ 233.6	$ 195.5	$ 171.4	$ 141.4	$ 113.7	$ 137.3
$4.02	$4.06	$3.89	$3.26	$2.86	$2.36	$1.90	$2.29
2.95	2.75	2.55	2.20	1.80	1.51	1.48	1.40
60.15	60.14	60.11	60.02	59.99	59.95	59.93	59.90
18.4%	19.9%	22.4%	22.8%	23.3%	21.4%	18.7%	22.9%
9.4	10.3	11.2	11.4	11.6	10.6	8.8	11.6
$ 495.4	$ 505.7	$ 507.9	$ 475.3	$ 418.9	$ 360.0	$ 314.0	$ 294.0
1.89	2.07	2.13	2.37	2.38	2.42	2.32	2.30
479.3	392.6	292.0	242.4	231.8	225.2	218.9	215.6
117.7	116.3	75.6	35.2	27.6	24.0	20.3	34.4
1,583.1	1,417.0	1,282.4	1,082.0	966.7	847.8	780.9	742.9
2.6	4.1	5.4	7.5	9.4	11.6	23.1	24.3
928.3	866.3	770.7	682.4	614.7	547.8	493.6	466.6
15.43	14.40	12.82	11.37	10.25	9.14	8.24	7.77
15,300	16,200	15,200	13,000	12,400	11,700	12,900	13,100
19,000	18,100	17,300	15,200	15,200	14,200	14,900	15,000
34,300	34,300	32,500	28,200	27,600	25,900	27,800	28,100

Board of Directors

Raymond F. Bentele
Executive Vice President

R. Manning Brown, Jr.*
Retired;
former Chairman of the Board
New York Life Insurance Company

William R. Chaney
President

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Retired; former
Executive Vice President

W. Van Alan Clark, Jr.*
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Chief Executive Officer
and President
Morton Thiokol, Inc.
(Specialty chemicals, high-technology propulsion systems, salt and household products)

David W. Mitchell
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and Chief Executive Officer

Emil Mosbacher, Jr.*
Real Estate Investor and
Independent Oil and Gas Producer

Merlin E. Nelson
Vice Chairman, AMF Incorporated
(Leisure time and industrial products)

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The Parker Pen Company
(Writing instruments and temporary help services)

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Ernesta G. Procope*
President
E. G. Bowman Co., Inc.
(Insurance brokerage)

Joseph A. Rice
President
Irving Trust Company and
Irving Bank Corporation

Cecily Cannan Selby
Corporate Director and
Educational Consultant

Harold E. Thayer
Chairman of the Board
Barnes Hospital and Washington University Medical Center;
former Chairman and
Chief Executive Officer,
Mallinckrodt, Inc.

Hicks B. Waldron
Executive Vice President
R. J. Reynolds Industries, Inc.
and Chairman, Heublein Inc.
(Food and beverage products)

Kendrick R. Wilson, Jr.*
Retired; former
Chairman of the Board
Avco Corporation
(Diversified financial services and manufacturing)

*Audit Committee member

Officers

Corporate

David W. Mitchell
Chairman and
Chief Executive Officer

William R. Chaney
President

James E. Preston
Executive Vice President

Raymond F. Bentele
Executive Vice President

Edmund W. Pugh, Jr.
Senior Vice President—Finance

S. Arnold Zimmerman
Senior Vice President, General Counsel and Secretary

Group Vice Presidents

Robert H. Hansen
Donald S. Moss
Jules Zimmerman

Helmuth R. Fandl
Vice President and Treasurer

Norman H. Werthwein
Vice President and Controller

Vice Presidents

Howard T. Johnson
W. Thomas Knight
Margro R. Long
Robert R. McMillan
William H. Willett
Marcia L. Worthing

Avon Division

James E. Preston
President

Group Vice Presidents

Raymond A. Baliatico
J. Frank Casey
Alan J. Daniels
Phyllis B. Davis
Philip B. Evans
Richard W. Flatow
Manoel A. Lima
Paul B. Markovits
L. Robert Pfund
E. Peter Raisbeck

Vice Presidents

Richardson Bainbridge
Gail Blanke
Ronald B. Clark
W. Steven Coggin
Louis V. Consiglio
Charles H. Googe
Michael S. Greenly
Alan D. Kennedy
Joseph C. Kleinhenz
John P. Lausten
Jeffrey J. Leon
Alvin D. Moddelmog
Timothy J. Musios
Stuart A. Ochiltree
Geoffrey M. Peasland
Frederick L. Penichet
Barbara M. Pesin
Donald B. Smith
Andrew J. Sventy
John L. Tefft
Creed R. Terry
David D. Ussery
John J. Wojie
Ronald C. Wolfe
Hans R. Zimmer

Mallinckrodt

Raymond F. Bentele
President

John L. Ufheil
Executive Vice President

Group Vice Presidents

Armand B. Côté
Carl R. Holman
Mack G. Nichols
Harry E. Rich
Walter W. Thulin

Raymond M. Asher
Vice President, Secretary and General Counsel

Vice Presidents

Roger A. Hebrank
Richard E. Kelly
Marvin W. Marsh
David H. Maupin
Donald G. Sillies

Bruce A. Beeler
Treasurer

William B. Stone
Controller

Tiffany

Anthony D. Ostrom
President

Senior Vice Presidents

Albert E. Edwards
John Loring
William T. Sharp

Thomas A. Andruskevich
Controller

Avon Fashions

Robert B. Fry
President

Vice Presidents

Joel M. Divack
Stephen S. Marks
Stewart W. Tarkington
Dwight L. Totten
H. Wells Walker III

Headquarters Office

9 West 57th Street
New York, New York 10019
(212) 546-6015

Annual Meeting

The 1983 Annual Meeting of Shareholders will be held on May 5, 1983. Formal notice of the meeting, proxy statement and proxy will be mailed to shareholders in late March.

Form 10K

Upon written request to Shareholder Relations, Avon Products, Inc., 9 West 57th Street, New York, New York 10019, any shareholder may obtain, without charge, a copy of the Company's 1982 Annual Report (Form 10K) as filed with the Securities and Exchange Commission.

Independent Accountants

Main Hurdman
Park Avenue Plaza
55 East 52nd Street
New York, N.Y. 10055

Transfer Agent and Registrar

Morgan Guaranty Trust Co.
30 West Broadway
New York, N.Y. 10015

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1982 — Commission file number 1-4881

Avon Products, Inc.

(Exact name of registrant as specified in its charter)

NEW YORK (State or other jurisdiction of incorporation or organization)	13-0544597 (I.R.S. Employer Identification No.)
9 WEST 57TH STREET, NEW YORK, NEW YORK (Address of principal executive offices)	10019 (Zip Code)
Registrant's telephone number, including area code	(212) 546-6015

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

Title of each class	Name of each exchange on which registered
Capital Stock (par value $.50)	New York Stock Exchange
11¾% Guaranteed Notes Due 1990 of Avon Capital Corporation	New York Stock Exchange

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

None
(Title of Class)

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 ____

Aggregate market value of Capital Stock (par value $.50) held by nonaffiliates at January 31, 1983—$2.3 billion.

Capital Stock (par value $.50)—Shares outstanding January 31, 1983 74,358,440

Documents Incorporated by Reference

Parts I and II —Portions of annual report to shareholders for the year ended December 31, 1982.

Parts I and III —Portions of notice of annual meeting and proxy statement dated March 25, 1983.

PART I

ITEM 1. BUSINESS

Avon Products, Inc. (the "Company") is a diversified company which includes the Avon Division, Mallinckrodt, Inc., Tiffany & Co., and the Direct Mail Division. The Company's business is primarily composed of six industry segments: the manufacture and sale of cosmetics, fragrances and toiletries; fashion jewelry and accessories; health-care products; specialty chemicals; fine jewelry and tableware; and appparel sold by direct mail. Financial information relating to sales of classes of principal products, industry segments and geographic areas is incorporated by reference to "Net Sales of Principal Products" on page 26 and to the Industry Segment Data note of "Notes to Consolidated Financial Statements" on pages 36 and 37 of the Company's annual report to shareholders for the year ended December 31, 1982.

Merger

On March 8, 1982, Mallinckrodt, Inc. ("Mallinckrodt") became a wholly owned subsidiary of the Company. Under the terms of the merger, approximately 12.9 million shares of the Company's capital stock were issued in exchange for approximately 51% of the outstanding common stock of Mallinckrodt. The remaining 49% of the common stock of Mallinckrodt had been acquired prior to the merger, pursuant to a cash tender offer and a private purchase. Mallinckrodt is engaged in the development, manufacture and marketing of medical, diagnostic and other health-care products, specialty chemicals, and food ingredients, flavors and fragrances.

The acquisition of Mallinckrodt has been accounted for as a purchase. The consolidated financial statements include 49% of Mallinckrodt's results of operations for February 1982 and 100% of such results for the remainder of 1982. The total purchase price was $711.5 million. For the purpose of determining the investment in Mallinckrodt, the capital stock issued was included at its fair market value on March 8, 1982 of $330.6 million. The purchase price exceeded the values assigned to the underlying net assets of Mallinckrodt by approximately $402.1 million. This excess is being amortized over 40 years.

Avon Division

The Avon Division ("Avon") is the world's largest direct-selling business. Its two principal industry segments are the manufacture and sale of cosmetics, fragrances and toiletries, and of fashion jewelry and accessories. These products are sold directly to customers in their homes by Avon Representatives, following the method used since the Company's founding in 1886. Avon currently sells about 650 products in the United States. Although the range of products sold in Europe, Latin America and other parts of the world is not as extensive as that sold in the United States, most of the products are substantially the same as those marketed domestically. Avon products are offered for every member of the family, although products for women have long been, and remain, of primary importance.

Cosmetics, Fragrances and Toiletries

This industry segment includes the following classes of principal products:

Fragrance and Bath Products for Women—These products consist of perfumes, colognes, sachets, fragrance candles, pomanders, lotions, soaps and powders. They are marketed in a number of fragrance lines, each based on a particular scent and packaging theme.

Makeup, Skin-Care and Other Products for Women—These products include makeup items such as lipsticks, eye shadows and mascaras; skin-care products; nail and hand-care products; and such hair-care products as shampoos, conditioners and brushes.

Men's Toiletry Products—These products include colognes, after-shave lotions, shaving creams, talcs and soaps in a number of fragrances that are based on a particular scent and packaging theme.

Daily-Need, Children's and Teen Products—Daily-need items include deodorants, anti-perspirants, oral hygiene products and household products such as room sprays. Children's and teen products include fragrance products and novelty products for young children.

Fashion Jewelry and Accessories

The fashion jewelry and accessories lines are sold in the United States and in several foreign markets. Jewelry for men, women and children is sold by Avon Representatives, with women's jewelry accounting for most of these sales. The fashion accessories line includes such items as purses, wallets, key cases and pens.

Distribution

Avon's cosmetics, fragrances and toiletries, and fashion jewelry and accessories products are sold by a worldwide total of 1.34 million active Avon Representatives, 440,000 of whom are in the United States. Almost all Representatives are women, most of whom are housewives selling on a part-time basis. In the United States and most other countries, Representatives are independent contractors or independent dealers, and are not agents or employees of Avon. They purchase products directly from Avon and sell them directly to residents of their communities. Avon has used this method of distribution since the establishment of its business in 1886.

With some exceptions in urban markets, each Representative has primary responsibility for a territory. In most countries outside the United States, there are from 100 to 150 homes in an average territory. In the United States the size of an average territory has been gradually reduced over the past five years from 200 homes to 100 homes in order to promote more thorough household coverage within a territory. With the completion of this conversion to 100-home territories during 1982, there were nearly 200,000 additional Representative territories in the United States. Programs designed to reduce the size of the average territory and to create new territories have been completed, are in progress or are planned over the next few years in most other countries outside the United States.

In the United States, the Representative calls on homes in her territory, selling primarily through the use of brochures highlighting new products and specially priced items for each two-week sales campaign. Product samples, demonstration products, makeup color charts and complete sales catalogs are also used. Usually the Representative forwards her order every two weeks to a designated branch distribution center. The Representative's order is processed and assembled by Avon and delivered to her home, generally by a local delivery service. The Representative delivers the merchandise to the customer's home and collects payment from the customer for her own account. Payment from the Representative to Avon is usually made when her next order is forwarded to the branch distribution center. The average cost of merchandise to the Representative is approximately 60% of the recommended selling price.

Outside the United States each sales campaign is of a three-week duration. Although terms of payment and cost of merchandise to the Representative vary from country to country, the basic method of direct selling 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 of Representatives is the primary responsibility of nearly 7,500 Avon District Managers worldwide (including nearly 2,500 in the United States), most of whom are former Representatives. 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.

During 1982, a new incentive program for Representatives—"Opportunity Unlimited"—was implemented in the United States, and top-performing Representatives who qualified for the program became "Group Sales Leaders." Group Sales Leaders, independent contractors who remained Representatives, were motivated to prospect for new Representatives and to provide suggested methods for increasing sales to their team of Representatives. With the implementation of Opportunity Unlimited, each District Manager has responsibility for a market area covered by 200 to 300

Representatives and 6 to 10 Group Sales Leaders. District Managers are employees of Avon and are paid a salary and a commission based on purchases of Avon products by Representatives in their area.

From time to time the question of the legal status of Avon Representatives has arisen, usually in regard to possible coverage under social benefit laws that would require Avon or its subsidiaries (and in most instances the Representatives) to make regular contributions to social benefit funds established for employees. Although generally Avon has been able to deal with these questions in a satisfactory manner, the matter has not been finally resolved in all countries. If there should be a final judicial 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 Avon would have to consider discontinuing operations in that country.

Promotion and Marketing

Avon's sales promotion and sales development activities are directed toward giving direct-selling assistance to the Representatives by making available such sales aids as product samples and demonstration products, as well as the Avon brochure. In order to support the efforts of Representatives to reach new customers, especially working women and other individuals who frequently are not at home, Avon has developed specially designed sales aids, promotional pieces and customer flyers. In addition, Avon seeks to motivate its Representatives through the use of special prize programs that reward superior sales performance. Periodic sales meetings, to which Representatives are invited, are conducted by the District Manager. The meetings are designed to keep Representatives abreast of the product line, explain sales techniques, and give recognition to sales performance.

Under the new Opportunity Unlimited program, top-performing Representatives who qualify as Group Sales Leaders have the opportunity to earn commissions by stimulating sales increases in their teams of 20 to 30 Representatives. Representatives can continue to earn commissions as Group Sales Leaders as long as they stimulate sales increases. Group Sales Leaders prospect for new Representatives, train new Representatives and motivate and assist established Representatives. Group Sales Leaders remain independent contractors and continue to sell in their territories. Opportunity Unlimited, which was developed and tested over a two-year period, is intended to reward and challenge top-performing Representatives while providing greater incentive and support for all Representatives. The Opportunity Unlimited program was implemented in the United Kingdom during 1982 and is also scheduled to be implemented in various other countries during the next two years. Variations in the program will be made to meet local requirements, preserving, however, the incentive nature of the program.

Avon uses a number of merchandising techniques, including the continual introduction of new products, the use of combination offers, the use of trial sizes and the promotion of Avon products packaged as gift items. 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. Special pricing at less than regular prices is one of Avon's primary merchandising techniques, and the bulk of Avon's sales is made at special prices.

From time to time various federal and state regulations or laws have been proposed or adopted which would, in general, restrict or prohibit introductory offers of new products at special prices or restrict the frequency or duration of, or volume resulting from, special price offers. Such regulations or laws, if applicable to Avon, could require changes in Avon's marketing and promotional techniques that utilize special pricing.

Avon's advertising program continues to be directed toward promoting consumer receptivity to the Representatives by increasing their awareness of Avon, its people, products and way of doing business, through the use of broadcast and print media.

Competitive Conditions

The cosmetics, fragrances and toiletries industry and the costume jewelry industry are, in general, highly competitive. Avon is one of the leading manufacturers and distributors of cosmetics and fragrances in the United States. Its principal competitors are the 10 to 20 large and well-known cosmetics and fragrances companies that manufacture and sell broad lines through various types of retail establishments. There are many other companies that compete with Avon in particular products or product lines sold through retail establishments. There are also a number of direct-selling cosmetics and fragrances companies that compete with Avon in the United States, although none has total sales or earnings comparable with Avon's.

Avon is the leading distributor of fashion jewelry for women in the United States. Its principal competition in the costume jewelry industry consists of three or four large companies and many small companies that manufacture and sell costume jewelry for women through retail establishments. There are also a number of direct-selling costume jewelry companies that compete with Avon in the United States, although none has total sales or earnings comparable with Avon's.

The number of competitors and degree of competition that Avon faces in its foreign cosmetics, fragrances and fashion jewelry markets vary widely from country to country. Avon is a significant factor in the cosmetics and fragrances industry in most of its foreign markets, and is also a significant factor in the costume jewelry industry in Europe.

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

Manufacturing

Avon manufactures and packages almost all of its cosmetics, fragrances and toiletries 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 Avon's own staff of artists and designers.

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

Avon has nineteen manufacturing laboratories around the world, three of which are principally devoted to the manufacture of fashion jewelry. In the United States, Avon's cosmetics, fragrances and toiletries products are produced in three manufacturing laboratories for the six branch distribution centers located throughout the country. Most products sold in foreign countries are manufactured in Avon facilities abroad.

The fashion jewelry line is generally developed by Avon's staff and produced in Avon's manufacturing laboratories in Puerto Rico and Ireland or by several independent manufacturers in the United States.

International Operations

Avon commenced its international operations in Canada in 1914. In 1954 it expanded into Puerto Rico and Venezuela. In 1959 Avon entered the European market and thereafter expanded in Europe, Latin America, the Far East and Africa. Avon currently sells in Argentina, Australia, Belgium, Brazil, Canada, Chile, France, Guatemala, Honduras, Italy, Japan, Malaysia, Mexico, The Netherlands, New Zealand, Nigeria, Paraguay, Peru, the Philippines, Portugal, Puerto Rico, Spain, Taiwan, Thailand, the United Kingdom, Uruguay, Venezuela and West Germany. Except for the Puerto Rico operation, which is a branch of Avon, the international operations of Avon are conducted through subsidiaries, all of which are wholly owned except for the Nigerian, Malaysian, Philippine and Spanish subsidiaries.

Operations in Saudi Arabia are conducted by a Saudi-owned company operating under distribution and technical assistance agreements with Avon. Under these agreements merchandise is purchased from Avon, and Avon also provides management, marketing and technical assistance.

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

Trademarks and Patents

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

Although Avon owns several patents and has several more patent applications pending in the United States Patent Office, its business, both in the United States and abroad, is not materially dependent upon patents or patent protection. Avon has no material licenses, franchises or concessions.

Seasonal Nature of Business

Avon's sales and earnings have a marked seasonal pattern characteristic of many companies in the cosmetics, fragrances and toiletries industry, as well as the fashion jewelry industry. Significant Christmas sales cause a sales peak in the fourth quarter of the year. Over the past five years, fourth quarter net sales have averaged approximately 33% of full-year net sales, and fourth quarter operating profit has averaged approximately 43% of full-year operating profit.

MALLINCKRODT, INC.

Mallinckrodt, founded in 1867, develops, manufactures, and markets products that are used principally in the health-care, chemical and food industries. These products are generally based on chemical technology, are specialty in nature as contrasted with commodity products, and are subject to government regulation by various governmental agencies, principally the Food and Drug Administration. Mallinckrodt manufactures and markets its products in the United States and in several foreign countries. Mallinckrodt believes that it can continue to obtain sufficient raw materials and supplies to manufacture and supply its products. These products are principally marketed directly by Mallinckrodt's sales forces. Certain products are marketed through distributors and manufacturer's representatives. The business of Mallinckrodt is not seasonal.

Health-Care Products

Health-care products are sold principally to hospitals, clinical laboratories and pharmaceutical manufacturers in the United States and several foreign countries. Principal product lines are x-ray contrast media and radiopharmaceuticals for medical diagnostic procedures, disposable medical devices for use in surgical procedures and postoperative care, drug chemicals used in the manufacture of dosage-form drugs, and laboratory chemicals and equipment.

X-ray contrast media products include formulations of barium sulfate and iodinated compounds used for x-ray studies of the brain, heart and other soft tissues of the body. Radiopharmaceutical products are used in imaging the brain, heart, other organs, and the bones.

Disposable medical devices include endotracheal tubes, tracheostomy tubes, suction catheters, esophageal stethoscopes, and thoracic and angiographic catheters, which are used in hospitals for anesthesia, critical care and respiratory therapy, and for diagnostic purposes.

Drug chemical products include such analgesics as codeine salts and other opium-based narcotics used to treat pain and cough, and APAP (acetaminophen) used to control pain and reduce fever, and other products.

Specialty Chemicals

Specialty chemicals are generally sold as intermediates which are used by customers as components, ingredients or reagents, rather than as final consumer products. Many of Mallinckrodt's specialty chemical products are processed in common manufacturing facilities. Principal product lines in this segment are catalysts, high-purity industrial chemicals and preservatives. Products within these lines are sold to the plastics, rubber, petrochemical, paper, textile, food and beverage industries.

Catalysts are sold to the petrochemical, textile and food industries, and include such products as platinum and palladium on alumina, copper chromite, mercuric chloride on carbon, tableted and flaked nickel, platinum and palladium on carbon, and zinc acetate on carbon. Catalysts are used to manufacture plasticizers, detergents, rubber, insecticides, lubricants, synthetic motor oil, and food products.

High-purity chemicals include such products as stearates for use as lubricants in molded and extruded plastics, and for coating high-quality printing papers, tannins used in clarifying wines and beer, columbium and tantalum compounds used in the metallurgical and electronics industries, and potassium chloride used as a salt substitute in low-salt diets. Turf fungicides used for the control of plant diseases are marketed to golf courses and commercial nurseries.

Preservatives, sold to the food, drug and cosmetics industries, include sodium benzoate, sodium diacetate, propionates and parabens. Sodium acetate is used in manufacturing processes by the drug, cosmetics and industrial chemicals industries.

Food Ingredients, Flavors and Fragrances

Food ingredients, flavors and fragrances are composed of ingredients produced for the food, beverage, cosmetics, industrial and household products industries. Markets include bakeries, institutional food processors, cosmetics and toiletries manufacturers, dairies, tobacco and pet food processors, and beverage producers.

International and Export Operations

Mallinckrodt's international operations include subsidiary companies and joint ventures that manufacture and market principally health-care and specialty chemical products. Manufacturing or marketing subsidiaries are located in Canada, West Germany, the United Kingdom, the Republic of Ireland, Australia, Puerto Rico, Japan, Mexico and Brazil. Joint ventures are located in West Germany, Japan, The Netherlands, Mexico and Spain. Other companies have been granted licenses to sell or manufacture certain Mallinckrodt products outside the United States. Various health-care and specialty chemical products are also exported from the United States.

Patents, Trademarks and Licenses

Mallinckrodt owns a number of patents and trademarks, has pending a substantial number of patent applications, and is licensed under patents owned by others. Mallinckrodt does not consider any one of its patents to be essential to the business of Mallinckrodt and its subsidiaries considered as a whole. Its patents in the aggregate, however, are of material importance to the operation of its business.

Competition

Competition with both foreign and domestic manufacturers involving quality, service, the development of new technology, and pricing is intense in all markets served. Mallinckrodt believes that it holds important positions in the fields of x-ray contrast media, radiopharmaceuticals, analgesics, laboratory chemicals and certain specialty chemicals, and that its position in other fields is less significant. Mallinckrodt believes that the quality of its products and services, the development of new products and its competitive pricing are significant factors in establishing and maintaining its competitive position.

TIFFANY & CO.

Tiffany & Co ("Tiffany"), founded in 1837, is engaged primarily in the retailing of fine jewelry, silver, crystal and china from its main store in New York City and from six branch stores. Tiffany also makes sales to corporations for business gifts and incentive recognition programs and conducts a mail order catalog business. Tiffany is faced with substantial competition in all areas in which it operates, principally from jewelry stores and department stores. Tiffany believes it has maintained its competitive position by adhering to the principle of high quality of material, workmanship and design with regard to all its products. Significant Christmas sales cause a sales and earnings peak in the fourth quarter of the year.

Tiffany designs and produces much of its platinum, gold and precious stone jewelry in its own workshop located in the New York store. Silverware, consisting of sterling silver flatware and hollow ware, is manufactured at Tiffany's factory in New Jersey.

Direct Mail Division

Avon Fashions, Inc., markets fashionable attractively priced women's apparel through nine direct-mail catalogs annually. The sportswear category, which accounts for about half of Avon Fashions' sales, includes tops, pants, coordinates, jeans, shorts and T-shirts.

In late 1982, the mail-order magazine subscription business was entered with the formation of Great American Magazines, Inc.

In early 1983, a new direct-mail men's apparel line was introduced called The James River Traders. The product line includes both private label and brand name sportswear, activewear, men's clothing and furnishings.

Direct-mail operations are conducted from a sales and distribution facility in Newport News, Virginia.

Research Activities

The amounts spent by the Company on research activities relating to the development of new products and the improvement of existing products were $53 million in 1982, $31 million in 1981 and $30 million in 1980. Avon's 1982 expenditures were $33 million and included the activities of product research and development, new product planning and package design and development. Most of these activities related to the development of cosmetics, fragrances and toiletry products.

Mallinckrodt's 1982 expenditures of $19 million included applied research directed at the development of new products, development of new uses for existing products and improvement of existing products and processes. Research and development programs include laboratory research as well as product development and product application.

Employees

At December 31, 1982, the Company employed approximately 38,500 persons. Of these, 19,100 were employed in the United States and 19,400 in other countries. The number of Avon's employees tends to rise from a low point in January to a high point in November and falls off somewhat in December when Christmas shipments are completed.

Environmental Matters

Compliance in general with regulations governing the discharge of materials into the environment or otherwise relating to the protection of the environment has not had, and is not anticipated to have, any material effect upon the capital expenditures, earnings or competitive position of Avon.

Mallinckrodt, along with the chemical industry generally, expects additional, more stringent regulations to require new expenditures for water and air pollution control and solid waste management. These requirements result from various federal, state and local laws regulating the discharge of materials into the environment. While these expenditures will be substantial, they are not expected to have a material effect on Mallinckrodt's earnings.

ITEM 2. PROPERTIES

Avon's principal properties consist of manufacturing laboratories for the production of merchandise and distribution branches where offices are located and where finished merchandise is received from the manufacturing laboratories, warehoused and shipped to Avon Representatives in fulfillment of their orders. All products sold to Avon Representatives are distributed through the same distribution branches.

Avon's domestic manufacturing laboratories are located in Morton Grove, Illinois; Springdale, Ohio and Suffern, New York; and its distribution branches are located in Atlanta, Georgia; Glenview, Illinois; Kansas City, Missouri; Newark, Delaware; Pasadena, California and Springdale, Ohio. Avon's international properties include five manufacturing laboratories and seven distribution branches in Europe, five manufacturing laboratories and ten distribution branches in Latin America and three manufacturing laboratories and eight distribution branches in other countries. Avon leases space for its executive and administrative offices in New York City, its European Marketing Center in London, England and its fashion jewelry manufacturing facilities in Puerto Rico.

Mallinckrodt's executive and administrative offices and medical products research and development facilities are located in St. Louis County, Missouri. The health-care products domestic production facilities are located at St. Louis and Maryland Heights, Missouri; Raleigh, North Carolina; Paris, Kentucky; Marietta, Ohio; Argyle, Bohemia and Glens Falls, New York, Angleton, Texas and Burlingame, California.

Mallinckrodt's specialty chemical products domestic production facilities are located at St. Louis, Missouri; Jersey City and Belleville, New Jersey and Erie, Pennsylvania. The food ingredient, flavor and fragrance products domestic production facilities are located at Woodside, New York; Cincinnati, Ohio; Englewood, New Jersey; Seattle, Washington and Gardena, California.

Tiffany's main store is located in New York City and its manufacturing and distribution facilities in New Jersey.

Substantially all properties are owned by the Company or its subsidiaries. Certain facilities in the United States and other countries are leased and, in the aggregate, are not material.

ITEM 3. LEGAL PROCEEDINGS

Two lawsuits, *Feldbaum* v. *Avon Products, Inc., et al.*, and *Cohen* v. *Bentele, et al.*, were filed in 1982 in federal court in Missouri. The complaints, filed by certain shareholders of Mallinckrodt who are seeking to have the actions certified as class actions, allege that the defendants have violated federal securities laws and Missouri law in connection with Avon's acquisition of Mallinckrodt. In the opinion of the Company and Mallinckrodt, these lawsuits, which seek equitable relief and damages, are unsupported by fact and are without merit. The defendants have moved to dismiss both actions on the ground that the complaints do not state a claim upon which relief can be granted; no decision has yet been rendered on these motions.

In January 1983, two lawsuits, *Maryland Heights Leasing* v. *Mallinckrodt, Inc.*, and *Bennett et al.* v. *Mallinckrodt, Inc.*, were filed in the St. Louis County Circuit Court by a neighboring property owner, and by eight individuals requesting class action status, seeking damages allegedly resulting from emissions from Mallinckrodt's radiopharmaceutical facility in Maryland Heights, Missouri. The plaintiffs seek approximately $510 million in compensatory damages, $505 million in punitive damages, an injunction against the alleged activities and other relief. Management, based upon advice of counsel, believes the suits are without merit and that the final outcome of such litigation will not have a material adverse effect on the financial position or operations of the Company.

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

None.

EXECUTIVE OFFICERS OF REGISTRANT

Officers are elected by the Board of Directors at its first meeting following the Annual Meeting of Shareholders, and they 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.

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

Title	Name	Age	Elected Officer
Chairman of the Board, Chief Executive Officer and Director	David W. Mitchell	55	1964
President and Director	William R. Chaney	50	1967
Executive Vice President and Director	James E. Preston	49	1971
Executive Vice President and Director	Raymond F. Bentele	46	1982(1)
Senior Vice President—Finance	Edmund W. Pugh, Jr.	63	1969
Group Vice President, General Counsel and Secretary	W. Thomas Knight	45	1979
Group Vice Presidents	Robert H. Hansen	47	1972
	Donald S. Moss	47	1973
	William H. Willett	46	1980
	Jules Zimmerman	48	1976
Vice President and Controller	Norman H. Werthwein	38	1982(2)
Vice President and Treasurer	Helmuth R. Fandl	56	1966
Vice Presidents	Howard T. Johnson	61	1981
	Margro R. Long	45	1977
	Robert R. McMillan	50	1980(3)
	J. Kenneth Richter	41	1980
	Marcia L. Worthing	40	1982

(1) Raymond F. Bentele was elected Executive Vice President and Director of the Company March 8, 1982. He is President and Chief Executive Officer of Mallinckrodt, Inc., and has served in that and various other executive capacities with Mallinckrodt during the past five years.

(2) Norman H. Werthwein was elected Vice President and Controller of the Company on September 2, 1982. He joined Main Hurdman (Certified Public Accountants) in 1967 and was elected a partner in July 1978. From February 1982 through August 1982 he was Vice President—Finance of Tiffany & Co.

(3) Robert R. McMillan joined the Company in October 1979 and was elected Vice President March 1, 1980. From March 1978 through September 1979 he was Senior Vice President of Abraham & Straus, a division of Federated Department Stores, Inc. From August 1973 through February 1978 he was Vice President of the Company.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED SECURITY HOLDER MATTERS

This information is incorporated by reference to "Stock Market and Dividend Data" on page 30 of the Company's annual report to shareholders for the year ended December 31, 1982.

ITEM 6. SELECTED FINANCIAL DATA

This information is incorporated by reference to the "Ten-Year Review" on pages 42 and 43 of the Company's annual report to shareholders for the year ended December 31, 1982.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This information is incorporated by reference to the "Discussion of Liquidity and Capital Resources", the "Discussion of 1982 and 1981", the "Discussion of 1981 and 1980" and "Information on Inflation and Changing Prices" on pages 26 through 30 of the Company's annual report to shareholders for the year ended December 31, 1982.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

This information is incorporated by reference to the "Consolidated Financial Statements and Notes," together with the report thereon of Main Hurdman, on pages 31 through 41, "Quarterly Financial Data" on page 26 and "Information on Inflation and Changing Prices" on pages 28 through 30 of the Company's annual report to shareholders for the year ended December 31, 1982.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors is incorporated by reference to "Election of Directors" on pages 2 through 7 of the Company's notice of annual meeting and proxy statement dated March 25, 1983. Information regarding executive officers is presented in Part I of this Report on pages 8 and 9.

ITEM 11. MANAGEMENT REMUNERATION AND TRANSACTIONS

This information is incorporated by reference to "Board of Directors and Committees", "Remuneration of Directors and Officers", "Retirement Benefits", "Stock Options" and "Other Plans and Arrangements" on pages 8 through 15 of the Company's notice of annual meeting and proxy statement dated March 25, 1983.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated by reference to "Election of Directors" on pages 2 through 8 of the Company's notice of annual meeting and proxy statement dated March 25, 1983.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated by reference to the last paragraph on page 9 and the first full paragraph on page 10 of the Company's notice of annual meeting and proxy statement dated March 25, 1983.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report.

1. Financial statements

The consolidated financial statements and notes to be included in Part II, Item 8 are incorporated by reference to the Company's annual report to shareholders for the year ended December 31, 1982, which is filed as an exhibit to this report.

2. Financial statement schedules

Schedule Number	Description	Page Number
	Report and consent of independent certified public accountants	S-1
I	—Marketable securities—other investments, December 31, 1982	S-2
II	—Accounts receivable from officers and employees, December 31, 1982 and 1981	S-2
V	—Property, plant and equipment, December 31, 1982, 1981 and 1980	S-3
VI	—Accumulated depreciation and amortization of property, plant and equipment, December 31, 1982, 1981 and 1980	S-4
VIII	—Valuation and qualifying accounts and reserves, December 31, 1982, 1981 and 1980	S-5
IX	—Short-term borrowings, December 31, 1982, 1981 and 1980	S-5

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.

3. Exhibits

Exhibit Number	Description
3.1	—Restated Certificate of Incorporation, as amended to May 3, 1979, of Avon Products, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-14, Registration No. 2-75969, filed February 5, 1982).
3.2	—By-laws, as amended to May 3, 1979, of Avon Products, Inc. (incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-14, Registration No. 2-75969, filed February 5, 1982).
4(b)	—Revolving Credit Agreement dated January 8, 1982 among Avon Products, Inc., Citibank, N.A., Manufacturers Hanover Trust Company, Morgan Guaranty Trust Company of New York, The Chase Manhattan Bank (National Association), Irving Trust Company and Centerre Bank National Association (incorporated herein by reference to Exhibit (b)(6) to Amendment No. 3 to the Company's Schedule 14D-1 dated January 11, 1982).
4(c)	—Avon Products, Inc., agrees to provide the Commission, upon request, copies of instruments defining the rights of holders of long-term debt of Avon Products, Inc., and all its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed with the Commission.
10(i)-1	—Stock Purchase Agreement dated December 15, 1981 among Avon Products, Inc., AVP Holdings, Inc., St. Louis Union Trust Company, as agent, Harvard University and The Washington University (incorporated herein by reference to Exhibit (c)(2) to the Company's Schedule 14D-1 dated December 16, 1981).
10(i)-2	—Agreement and Plan of Merger dated December 15, 1981 among Avon Products, Inc., AVP Holdings, Inc. and Mallinckrodt, Inc. (incorporated herein by reference to Annex I to the Prospectus included in the Company's Registration Statement on Form S-14, Registration No. 2-75969, filed February 5, 1982).

Exhibit Number	Description
10(iii)	—Avon Products, Inc. 1970 Stock Option Incentive Plan, as amended (incorporated herein by reference to Exhibit 4 to Post-Effective Amendment No. 4 to the Company's Registration Statement on Form S-8, Registration No. 2-61285, filed December 23, 1982).
10(iii)-2	—Mallinckrodt, Inc. 1978 Stock Option Plan, as amended.
10(iii)-3	—Consulting Agreement dated December 30, 1971, as amended, between Mallinckrodt, Inc. and Harold E. Thayer (incorporated by reference to Exhibit 10(c).3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1981).
10(iii)-4	—Supplemental Retirement Agreement dated August 26, 1975, as amended, between Mallinckrodt, Inc. and Harold E. Thayer (incorporated by reference to Exhibit 10(c).4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1981).
10(iii)-5	—Mallinckrodt, Inc. Executive Salary Protection Plan (incorporated by reference to Exhibit 10(c).6 to the Company's Annual Report on Form 10-K for the year ended December 31, 1981).
10(iii)-6	—Employment Agreement dated December 18, 1979 between Raymond F. Bentele and Mallinckrodt, Inc. (incorporated by reference to Exhibit 10(c).7 to the Company's Annual Report on Form 10-K for the year ended December 31, 1981).
10(iii)-7	—Terminaton Agreement dated October 31, 1980, as amended, between Raymond F. Bentele and Mallinckrodt, Inc. (incorporated by reference to Exhibit 10(c).8 to the Company's Annual Report on Form 10-K for the year ended December 31, 1981).
10(iii)-8	—Notification concerning the duration of Exhibits No. 10(iii)-6 and 7.
10(iii)-9	—Draft of Supplemental Life Insurance Plan adopted during 1982.
10(iii)-10	—Draft of Supplemental Executive Retirement Plan adopted during 1982.
13	—Annual report to shareholders for the year ended December 31, 1982. Such report, except for those portions which are expressly incorporated by reference in this filing, is furnished for the information of the Commission and is not to be deemed "filed" as part of this filing.
22	—Subsidiaries of the registrant.
24	—Consent of Main Hurdman (set forth on page S-1 of this report on Form 10-K).
25	—Power of Attorney.
28	—Undertakings of the Company relating to Post-Effective Amendment No. 4 to the Company's Registration Statement on Form S-8, Registration No. 2-61285, filed December 23, 1982 and Post-Effective Amendment No. 1 on Form S-8 to the Company's Registration Statement on Form S-14, Registration No. 2-75969, filed March 8, 1982.

(b) On October 21, 1982 a Current Report on Form 8-K was filed in connection with the Company's Registration Statement on Form S-3, Registration Statement No. 2-79952, filed October 22, 1982, a shelf registration of $200 million of debt securities. Pro Forma Consolidated Combined Statements of Earnings for the six months ended June 30, 1981 and 1982, and for the year ended December 31, 1981 were filed in satisfaction of Item 11(b) of Form S-3.

(c) The Company's Annual Report on Form 10-K for the year ended December 31, 1982, at the time of filing with the Securities and Exchange Commission, shall modify and supersede all prior documents filed pursuant to Sections 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.

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, on the 25th day of March, 1983.

AVON PRODUCTS, INC.

By W. THOMAS KNIGHT

W. Thomas Knight
Group Vice President, General Counsel
and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
* David W. Mitchell	Chairman of the Board and Chief Executive Officer—Principal Executive Officer	March 25, 1983
* Edmund W. Pugh, Jr.	Senior Vice President—Finance—Principal Financial Officer	March 25, 1983
* Jules Zimmerman	Group Vice President—Finance —Principal Accounting Officer	March 25, 1983
RAYMOND F. BENTELE R. MANNING BROWN, JR. WILLIAM R. CHANEY HAYS CLARK W. VAN ALAN CLARK, JR. CHARLES S. LOCKE EMIL MOSBACHER, JR. MERLIN E. NELSON JAMES R. PETERSON JAMES E. PRESTON ERNESTA G. PROCOPE JOSEPH A. RICE CECILY C. SELBY HAROLD E. THAYER HICKS B. WALDRON KENDRICK R. WILSON, JR.	* Directors	March 25, 1983

*By W. THOMAS KNIGHT — March 25, 1983

W. Thomas Knight, Attorney-in-fact

REPORT AND CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of
Avon Products, Inc.

We hereby consent to the incorporation by reference in this annual report on Form 10-K of Avon Products, Inc., for the year ended December 31, 1982 of our report dated February 1, 1983, which appears on page 41 of the annual report to shareholders for the year ended December 31, 1982.

The examination referred to in the abovementioned report also included the related financial statement schedules for the three years ended December 31, 1982 listed in the accompanying index. In our opinion, such financial statement schedules present fairly the information required to be set forth therein.

We also consent to the incorporation by reference in Post-Effective Amendment No. 4 to the Registration Statement on Form S-8 (Reg. No. 2-61285) of Avon Products, Inc., in Post-Effective Amendment No. 1 on Form S-8 to the Registration Statement on Form S-14 (Reg. No. 2-75969) of Avon Products, Inc. and in the Registration Statement on Form S-3 (Reg. No. 2-79952) of Avon Products, Inc. of our report dated February 1, 1983 which appears on page 41 of the annual report to shareholders for the year ended December 31, 1982.

MAIN HURDMAN

New York, New York
March 25, 1983

AVON PRODUCTS, INC. AND SUBSIDIARIES

SCHEDULE I—MARKETABLE SECURITIES—OTHER INVESTMENTS

(In Millions)

December 31, 1982

Name of issuer and title of issue	Principal amount of securities	Cost of each security	Current market value at balance sheet date	Amount shown in the balance sheet
Time deposits	$ 80.1	$ 80.1	$ 87.8	$ 87.8
Commercial paper and other	5.2	5.2	5.4	5.4
Foreign government securities	40.9	40.4	40.9	40.9
	$126.2	$125.7	$134.1	$134.1

The securities are carried in the consolidated statement of financial condition at cost plus accrued interest. The interest has been included above where appropriate.

SCHEDULE II—AMOUNTS RECEIVABLE FROM OFFICERS AND EMPLOYEES

(In Thousands)

	Balance at beginning of period	Additions	Deductions: Amounts collected	Deductions: Amounts written off	Balance at end of period: Current	Balance at end of period: Not current
Year Ended December 31, 1982						
Eduardo Rafael Mendez Rubelto(a)	$ 0	$ 252	$ 44	$ 0	$208	$ 0
Howard Isermann(b)	0	918	918	0	0	0
	$ 0	$1,170	$962	$ 0	$208	$ 0
Year Ended December 31, 1981						
Maurice Mallette(c)	$236	$ 0	$236	$ 0	$ 0	$ 0
Christopher Palmer(c)	184	0	184	0	0	0
	$420	$ 0	$420	$ 0	$ 0	$ 0

(a) 16% note receivable, to be repaid during 1983.

(b) 9% note receivable, repaid in 1982.

(c) The loans bore no interest, and were repaid in 1981.

AVON PRODUCTS, INC. AND SUBSIDIARIES

SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT

(In Millions)

	Balance at beginning of period	Additions at cost	Retirements	Other changes(a)	Balance at end of period
Year Ended December 31, 1982					
Land	$ 41.9	$ 11.9	$ .7	$ (6.1)	$ 47.0
Buildings	315.9	156.1	1.9	(4.8)	465.3
Equipment	268.8	118.9	17.6	(14.4)	355.7
Leasehold improvements	30.4	5.5	.5	.0	35.4
Construction in progress	76.4	8.5	4.3	(15.2)	65.4
	$733.4	$300.9(b)	$25.0	$(40.5)	$968.8
Year Ended December 31, 1981					
Land	$ 39.1	$ 5.0	$ .0	$ (2.2)	$ 41.9
Buildings	295.8	46.3	1.1	(25.1)	315.9
Equipment	246.0	56.6	14.0	(19.8)	268.8
Leasehold improvements	31.6	3.1	2.0	(2.3)	30.4
Construction in progress	76.6	3.2	1.3	(2.1)	76.4
	$689.1	$114.2	$18.4	$(51.5)	$733.4
Year Ended December 31, 1980					
Land	$ 32.1	$ 6.7	$ 1.3	$ 1.6	$ 39.1
Buildings	234.6	62.5	1.0	(.3)	295.8
Equipment	209.0	47.5	8.9	(1.6)	246.0
Leasehold improvements	28.8	4.0	.7	(.5)	31.6
Construction in progress	79.1	(3.0)	.2	.7	76.6
	$583.6	$117.7	$12.1	$ (.1)	$689.1

(a) Translation adjustments, transfers and reclassifications.

(b) Includes approximately $168.4 million related to the acquisition of Mallinckrodt, Inc.

Depreciation over the estimated useful lives of the majority of property in the United States and Canada is determined principally on declining-balance methods for property acquired prior to January 1, 1977, and on the straight-line basis for property acquired subsequently. The remainder of depreciation in the United States and Canada, and all depreciation in other countries, is determined on the straight-line basis.

The estimated useful lives are generally as follows:

Buildings	20-45 years
Equipment	8-15 years
Leasehold improvements	Life of lease

AVON PRODUCTS, INC. AND SUBSIDIARIES

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION PROPERTY, PLANT AND EQUIPMENT

(In Millions)

	Balance at beginning of period	Additions charged to costs and expenses	Retirements	Other changes (a)	Balance at end of period
Year Ended December 31, 1982					
Buildings	$ 89.6	$35.4	$ .2	$ (4.5)	$120.3
Equipment	114.8	8.8	11.8	(5.3)	106.5
Leasehold improvements	10.2	2.4	.2	.0	12.4
Investment grants	.5	.0	.0	(.5)	.0
	$215.1	$46.6	$12.2	$(10.3)	$239.2
Year Ended December 31, 1981					
Buildings	$ 86.1	$10.0	$ .5	$ (6.0)	$ 89.6
Equipment	114.0	19.1	10.5	(7.8)	114.8
Leasehold improvements	9.3	2.4	.9	(.6)	10.2
Investment grants	.4	.0	.0	.1	.5
	$209.8	$31.5	$11.9	$(14.3)	$215.1
Year Ended December 31, 1980					
Buildings	$ 79.4	$ 8.7	$ .6	$ (1.4)	$ 86.1
Equipment	103.8	16.8	5.0	(1.6)	114.0
Leasehold improvements	7.6	2.3	.3	(.3)	9.3
Investment grants	.2	.0	.0	.2	.4
	$191.0	$27.8	$ 5.9	$ (3.1)	$209.8

(a) Translation adjustments, transfers and reclassifications.

AVON PRODUCTS, INC. AND SUBSIDIARIES

SCHEDULE VIII—VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

(In Millions)

Allowance for doubtful accounts receivable (deducted from accounts receivable):

	Year ended December 31 1982	1981	1980
Balance at beginning of period	$14.7	$13.3	$11.4
Additions:			
Charged to earnings	40.3	34.7	32.0
Recoveries on accounts written off	9.5	7.9	9.2
Accounts written off	(45.8)	(41.2)	(39.3)
Balance at end of period	$18.7	$14.7	$13.3

SCHEDULE IX—SHORT-TERM BORROWINGS

(In Millions)

Category of aggregate short-term borrowings(a)	Balance at end of period	Weighted average interest rate	Maximum amount outstanding during the period	Average amount outstanding during the period(b)	Weighted average interest rate during the period(b)
Year Ended December 31, 1982 Payable to banks	$69.0	15%	$97.9	$77.1	23%
Year Ended December 31, 1981 Payable to banks	$49.3	17%	$81.7	$60.3	21%
Year Ended December 31, 1980 Payable to banks	$36.6	14%	$73.6	$61.3	15%

(a) Short-term borrowings consist of notes payable to banks of foreign subsidiaries. Substantially all of the notes are guaranteed by Avon Products, Inc. and are payable in foreign currencies.

(b) The average short-term borrowings and the weighted average interest rate were calculated on borrowings outstanding at the end of each month.

(5)

Mallinckrodt, Inc.

675 McDONNELL BLVD. • P.O. BOX 5840 • ST. LOUIS, MO 63134 • (314) 895-2000

February 9, 1982

To Our Shareholders:

You are cordially invited to attend a Special Meeting of Shareholders of Mallinckrodt, Inc. to be held on Monday, March 8, 1982 at Mallinckrodt's Headquarters, 675 McDonnell Boulevard (McDonnell Boulevard and I-270), St. Louis County, Missouri commencing at 9:00 o'clock A.M., Central Standard Time.

At the Special Meeting you will be asked to consider and vote upon an Agreement and Plan of Merger (the "Merger Agreement") providing for the merger of Mallinckrodt with and into AVP Holdings, Inc., a wholly owned subsidiary of Avon Products, Inc. If the merger is consummated, Mallinckrodt will become a wholly owned subsidiary of Avon and each outstanding share of Mallinckrodt Common Stock (except shares owned by AVP Holdings and shares held by shareholders who perfect their dissenters' rights under Missouri law) will be converted into the number of shares of Avon Capital Stock determined by dividing $50 by the average closing price of Avon Capital Stock during a period shortly prior to the Special Meeting, but in no event less than 1.429 or more than 1.667 shares. Pursuant to the Merger Agreement, AVP Holdings has acquired, through a cash tender offer to shareholders and a private purchase, 7,334,007 shares (constituting approximately 49%) of Mallinckrodt's outstanding Common Stock at a price of $50 per share.

The attached Joint Proxy Statement will provide you with a detailed description of the proposal to be presented at the Special Meeting and extensive information concerning Mallinckrodt and Avon. Please give this information your careful attention.

After careful consideration, your Board of Directors has unanimously approved the merger and the Merger Agreement and recommends that you vote FOR approval of the Merger Agreement. Mallinckrodt shareholders of record on January 28, 1982 are entitled to vote at the Special Meeting and all adjournments thereof. Since two-thirds of the outstanding shares of Mallinckrodt Common Stock entitled to vote at the Special Meeting must approve the Merger Agreement, all shareholders are urged either to attend the Special Meeting or be represented by proxy.

Shareholders are urged to mark, sign, date and return the accompanying proxy in the enclosed business reply envelope promptly. The giving of a proxy by a shareholder will not prevent voting in person.

Harold E. Thayer

Raymond F. Bentele

Harold E. Thayer
Chairman of the Board

Raymond F. Bentele
President and Chief Executive Officer

Mallinckrodt

MALLINCKRODT, INC.

NOTICE OF A SPECIAL MEETING OF SHAREHOLDERS

Notice is hereby given that a Special Meeting of Shareholders of Mallinckrodt, Inc., a Missouri corporation ("Mallinckrodt"), will be held at Mallinckrodt's Headquarters, 675 McDonnell Boulevard, St. Louis County, Missouri, on Monday, March 8, 1982 at 9:00 o'clock A.M., Central Standard Time, for the following purposes:

1. To consider and vote upon a proposal to approve an Agreement and Plan of Merger dated December 15, 1981 among Avon Products, Inc., a New York corporation ("Avon"), AVP Holdings, Inc., a Missouri corporation and a wholly owned subsidiary of Avon ("Holdings"), and Mallinckrodt, pursuant to which Mallinckrodt will be merged into Holdings, as described in the attached Joint Proxy Statement.

2. To transact such other business as may properly come before the meeting.

In accordance with the By-Laws of Mallinckrodt, the Board of Directors has fixed the close of business on January 28, 1982 as the record date for the determination of shareholders entitled to notice of and to vote at said Special Meeting of Shareholders and all adjournments thereof.

By Order of the Board of Directors

Raymond M. Asher

RAYMOND M. ASHER
Vice President, Secretary and General Counsel

St. Louis, Missouri
February 9, 1982

THE SHARES OF CAPITAL STOCK OF AVON PRODUCTS, INC. TO WHICH THIS PROSPECTUS RELATES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

JOINT PROXY STATEMENT

AVON PRODUCTS, INC. MALLINCKRODT, INC.

Special Meetings of Shareholders to be held on March 8, 1982

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Avon Products, Inc. has filed a Registration Statement with the Securities and Exchange Commission covering the shares of Capital Stock to be issued by Avon in the acquisition of Mallinckrodt, Inc. This Joint Proxy Statement also constitutes the Prospectus of Avon Products, Inc. filed as part of such Registration Statement.

No person has been authorized to give any information or to make any representation other than as contained herein in connection with the matters described herein, and, if given or made, such information or representation must not be relied upon as having been authorized by Avon Products, Inc., AVP Holdings, Inc. or Mallinckrodt, Inc.

The date of this Joint Proxy Statement/Prospectus is February 9, 1982.

SUMMARY OF JOINT PROXY STATEMENT

The following is a brief summary of certain information contained elsewhere in this Joint Proxy Statement. *This summary is necessarily incomplete and is qualified in its entirety by reference to the full text of the Joint Proxy Statement and the Annexes thereto.*

Avon Shareholders' Meeting

Purpose of Meeting: To consider and vote upon the issuance of up to 14,000,000 shares of Avon Capital Stock in connection with the proposed acquisition of Mallinckrodt, Inc. ("Mallinckrodt") pursuant to a merger (the "Merger") of Mallinckrodt into AVP Holdings, Inc. ("Holdings"), a wholly owned subsidiary of Avon Products, Inc. ("Avon").

Date, Time and Place: March 8, 1982, at 10:00 A.M., Eastern Standard Time, at the Morgan Guaranty Trust Company of New York, 522 Fifth Avenue (at 44th Street) New York, New York.

Record Date: February 3, 1982.

Shares Outstanding: On the record date, 60,156,135 shares of Avon Capital Stock were outstanding.

Vote Required: The affirmative vote of a majority of the votes cast at the Avon shareholders' meeting by the holders of shares of Avon Capital Stock entitled to vote will be required to approve the issuance of Avon Capital Stock in connection with the acquisition of Mallinckrodt pursuant to the Merger.

Mallinckrodt Shareholders' Meeting

Purpose of Meeting: To consider and vote upon a proposal to approve the Agreement and Plan of Merger (the "Merger Agreement"), attached as Annex I, pursuant to which the Merger will be effected.

Date, Time and Place: March 8, 1982, at 9:00 A.M., Central Standard Time, at Mallinckrodt's Headquarters, 675 McDonnell Boulevard (McDonnell Boulevard and I-270), St. Louis County, Missouri.

Record Date: January 28, 1982.

Shares Outstanding: On the record date, 15,007,558 shares of Mallinckrodt Common Stock were outstanding.

Vote Required: The affirmative vote of the holders of 66⅔% of the outstanding shares of Mallinckrodt Common Stock is required to approve the Merger Agreement. Holdings owns 7,334,007 shares, or approximately 49% of the shares of Mallinckrodt Common Stock outstanding on the record date, acquired at $50 per share in cash pursuant to a tender offer which expired January 14, 1982 (the "Tender Offer") and a Stock Purchase Agreement dated as of December 15, 1981. Holdings will vote its shares in favor of the approval of the Merger Agreement.

The Merger

Exchange of Shares:

At the effective time of the Merger, each outstanding share of Mallinckrodt Common Stock (except shares owned by Holdings and shares held by shareholders who perfect their dissenters' rights under Missouri law) will be converted into the number of shares of Avon Capital Stock determined by dividing $50 by the average closing price of Avon Capital Stock on the Composite Tape for the 22 New York Stock Exchange ("NYSE") trading days immediately preceding the third calendar day before the Mallinckrodt shareholders' meeting, but in no event less than 1.429 or more than 1.667 shares.

Federal Income Tax Consequences:

Consummation of the Merger is conditioned upon the receipt of opinions of counsel to the effect that the Merger will constitute a tax-free reorganization, and, accordingly, (i) no gain or loss will be recognized by Mallinckrodt shareholders who did not exchange any of their Mallinckrodt Common Stock for cash pursuant to the Tender Offer and who exchange all their Mallinckrodt Common Stock solely for Avon Capital Stock in the Merger and (ii) if the Tender Offer and the Merger are treated as a single integrated transaction, as is believed likely, a Mallinckrodt shareholder who exchanges his Mallinckrodt Common Stock partly for cash pursuant to the Tender Offer and partly for Avon Capital Stock in the Merger will not recognize loss on such exchange but will recognize gain, if any, to the extent of the amount of cash received by him pursuant to the Tender Offer. Such recognized gain may, under some circumstances, be taxed as a dividend. A ruling from the Internal Revenue Service is not being requested. **All Mallinckrodt shareholders should read carefully the description under "The Proposed Merger and Related Transactions—Federal Income Tax Consequences".**

Dissenters' Rights:

A holder of Mallinckrodt Common Stock who, prior to or at the Mallinckrodt shareholders' meeting, files with Mallinckrodt a written objection to the Merger and who does not vote in favor of approval of the Merger Agreement will have the right to object to the Merger and receive in cash the "fair value" of his shares of Mallinckrodt Common Stock as determined in an appraisal proceeding. See "The Proposed Merger and Related Transactions—Dissenting Shareholders of Mallinckrodt and Avon". Avon shareholders are not entitled to appraisal rights in connection with the Merger.

Operation and Management after the Merger:

After the effective time of the Merger, Holdings, as the surviving corporation, will be operated as a wholly owned subsidiary of Avon under the name of Mallinckrodt, Inc. by the current officers of Mallinckrodt. It is Avon's intention that, following the Merger, Messrs. Harold E. Thayer and Raymond F. Bentele of Mallinckrodt will join the Board of Directors of Avon, and Mr. Bentele will be elected an Executive

Vice President of Avon and will join its Office of the Chairman. For information concerning compensation and benefit arrangements of Mallinckrodt which will be modified or assumed by Holdings in connection with the Merger, see "The Proposed Merger and Related Transactions—Benefit Plans of Mallinckrodt" and "Directors and Management of Mallinckrodt".

Conditions to the Merger and Termination of the Merger Agreement:

The respective obligations of Holdings and Mallinckrodt to consummate the Merger and of Avon to issue the shares of Avon Capital Stock issuable in connection therewith are subject to a number of conditions, including the approval of the proposals relating to the Merger by the shareholders of Avon and Mallinckrodt, the receipt of the tax opinions described under "The Proposed Merger and Related Transactions—Federal Income Tax Consequences", and, in the case of Mallinckrodt, the approval for listing, subject to official notice of issuance, on the NYSE of the shares of Avon Capital Stock to be issued pursuant to the Merger. See "The Proposed Merger and Related Transactions—Conditions to the Merger; Termination and Amendment of the Merger Agreement".

Notwithstanding approval of the issuance of Avon Capital Stock by the shareholders of Avon and approval of the Merger Agreement by shareholders of Mallinckrodt, the Merger Agreement may be terminated and the Merger abandoned (i) at any time by mutual consent of Avon and Mallinckrodt or (ii) by Avon or Mallinckrodt if the Merger has not become effective on or prior to December 31, 1982. See "The Proposed Merger and Related Transactions—Conditions to the Merger; Termination and Amendment of the Merger Agreement".

Business of Avon

Avon and its subsidiaries are principally engaged in the manufacture and sale of cosmetics, fragrances, toiletries and fashion jewelry. These products are sold directly to customers in their homes by Avon Representatives following the method used since Avon's founding in 1886. Avon currently sells more than 650 products in the United States, Europe, Latin America, Japan and other parts of the world. Avon, through its subsidiary Tiffany & Co., is also engaged in the retailing, manufacturing and wholesaling of fine jewelry, silverware and other related items. Avon also sells apparel by mail order in the United States under the name "Avon Fashions". The principal executive offices of Avon are located at 9 West 57th Street, New York, New York 10019.

Business of Mallinckrodt

Mallinckrodt is engaged in the development, manufacture, distribution and marketing of specialty products, which are used principally in the health care, chemical and food industries. Mallinckrodt's products require a high degree of technology, are produced and distributed under strict regulation by various governmental agencies, principally the Food and Drug Administration, and are of a "specialty" nature as opposed to high-volume bulk or commodity products. The principal executive offices of Mallinckrodt are located at 675 McDonnell Boulevard, St. Louis County, Missouri 63134.

Selected Consolidated Financial Information

Set forth below is selected financial information of Avon and Mallinckrodt and pro forma combined financial information of Avon and Mallinckrodt. This information is based upon the consolidated financial statements of Avon, the consolidated financial statements of Mallinckrodt and the pro forma financial information of Avon and Mallinckrodt, all of which are presented elsewhere in the Joint Proxy Statement.

AVON	Nine Months Ended September 30,		Year Ended December 31,	
	1981	1980	1980	1979
	(Unaudited) (In Millions, Except Per Share Amounts)			
INCOME STATEMENT DATA				
Net sales				
United States	$ 959.9	$ 888.7	$1,332.1	$1,326.5
International	826.2	813.0	1,237.0	1,051.0
Operating profit	209.6	239.7	439.8	443.0
Net earnings	130.5	133.8	241.3	250.7
BALANCE SHEET DATA (at end of period)				
Working capital	$ 453.7		$ 500.7	$ 507.5
Total assets	1,504.9		1,571.4	1,406.0
Long-term debt	2.4		2.6	4.1
Shareholders' equity	916.5		921.2	857.2
PER SHARE				
Net earnings	$ 2.17	$ 2.22	$ 4.01	$ 4.17
Dividends	$ 2.25	$ 2.20	$ 2.95	$ 2.75
Book value (at end of period)	$ 15.24	$ 14.28	$ 15.32	$ 14.25
AVERAGE SHARES OUTSTANDING	60.15	60.15	60.15	60.14

Avon's sales and earnings have a marked seasonal pattern characteristic of many companies in the cosmetics, fragrances and toiletries industry, as well as the jewelry industry. Heavy Christmas sales cause a sales peak in the fourth quarter of the year. Over the past five years, fourth quarter net sales have averaged approximately 35% of full-year net sales, and fourth quarter net earnings have averaged approximately 45% of full-year net earnings.

On February 2, 1982, Avon announced that during the year ended December 31, 1981, Avon's net sales were approximately $2.6 billion, its net earnings were approximately $219.9 million and its net earnings per share were $3.66.

At its regular meeting on February 4, 1982, Avon's Board of Directors declared a quarterly dividend of $.75 per share of Avon Capital Stock payable March 1, 1982 to shareholders of record on February 16, 1982. Mallinckrodt shareholders will not be entitled to receive this dividend.

MALLINCKRODT	Nine Months Ended September 30,		Year Ended December 31,	
	1981	1980	1980	1979
	(Unaudited) (In Millions, Except Per Share Amounts)			
INCOME STATEMENT DATA				
Net sales	$370.7	$328.8	$441.8	$392.5
Operating income	55.0	49.9	67.2	59.6
Income from continuing operations	29.5	26.4	36.0	31.9
Net income	29.5	26.4	36.0	41.1

	Nine Months Ended September 30,		Year Ended December 31,	
	1981	1980	1980	1979
	(Unaudited) (In Millions, Except Per Share Amounts)			
BALANCE SHEET DATA (at end of period)				
Working capital	$135.9		$128.8	$126.2
Total assets	391.2		356.9	333.0
Long-term debt	40.8		38.7	40.1
Total shareholders' equity	274.4		253.9	228.8
PER SHARE				
Primary				
Income from continuing operations	$ 2.08	$ 1.87*	$ 2.55*	$ 2.27*
Net income	2.08	1.87*	2.55*	2.91*
Fully diluted				
Income from continuing operations	1.97	1.79*	2.44*	2.18*
Net income	1.97	1.79*	2.44*	2.78*
Dividends	.73⅓	.60*	.83⅓*	.70*
Book value (at end of period)	19.32	17.49*	17.94*	16.22*
AVERAGE SHARES OUTSTANDING				
Primary	14.18	14.11*	14.12*	14.10*
Fully diluted	15.32	15.12*	15.15*	15.08*

* Restated to reflect three-for-two stock split distributed in May 1981.

On February 9, 1982, Mallinckrodt announced that net sales, net income and primary earnings per share for the year ended December 31, 1981 were $494.4 million, $39.7 million and $2.79, respectively.

As its regular meeting on February 9, 1982, Mallinckrodt's Board of Directors determined not to declare a dividend for the first quarter of 1982 at this time. It is not expected that any such dividend will be declared by Mallinckrodt for the first quarter of 1982 if the Merger occurs during such period.

PRO FORMA COMBINED AVON AND MALLINCKRODT

Pro Forma Condensed Combined Summary of Earnings

(Unaudited)

	Nine Months Ended September 30, 1981			
	Avon	Mallinckrodt	Pro Forma Adjustments	Pro Forma Combined
	(In Millions, Except Per Share Amounts)			
Net sales	$1,786.1	$370.7	$	$2,156.8
Cost of goods sold	710.7	232.0		942.7
Marketing, distribution and administrative expenses	865.8	83.7	8.6	958.1
Interest income and other income (deductions)—net	51.4	(.3)	(39.2)	11.9
Taxes on earnings	130.5	25.2	(18.0)	137.7
Net earnings	$ 130.5	$ 29.5	$(29.8)	$ 130.2
Per share				
Net earnings	$ 2.17			$ 1.78
Cash dividends	$ 2.25			$ 2.25
Average shares outstanding	60.15			73.05

	Nine Months Ended September 30, 1980			
	Avon	Mallinckrodt	Pro Forma Adjustments	Pro Forma Combined
	(In Millions, Except Per Share Amounts)			
Net sales	$1,701.7	$328.8	$	$2,030.5
Cost of goods sold	638.9	204.2		843.1
Marketing, distribution and administrative expenses	823.1	74.6	8.6	906.3
Interest income and other income (deductions)—net	25.3	(.5)	(38.1)	(13.3)
Taxes on earnings	131.2	23.1	(17.6)	136.7
Net earnings	$ 133.8	$ 26.4	$(29.1)	$ 131.1
Per share				
Net earnings	$ 2.22			$ 1.79
Cash dividends	$ 2.20			$ 2.20
Average shares outstanding	60.15			73.05

	Year Ended December 31, 1980			
	Avon	Mallinckrodt	Pro Forma Adjustments	Pro Forma Combined
	(In Millions, Except Per Share Amounts)			
Net sales	$2,569.1	$441.8	$	$3,010.9
Cost of goods sold	959.9	274.3		1,234.2
Marketing, distribution and administrative expenses	1,169.4	100.3	11.5	1,281.2
Interest income and other income (deductions)—net	32.5	(.8)	(50.7)	(19.0)
Taxes on earnings	231.0	30.4	(23.3)	238.1
Net earnings	$ 241.3	$ 36.0	$(38.9)	$ 238.4
Per share				
Net earnings	$ 4.01			$ 3.26
Cash dividends	$ 2.95			$ 2.95
Average shares outstanding	60.15			73.05

Pro Forma Condensed Combined Summary of Financial Condition
(Unaudited)

	September 30, 1981
	(In Millions, Except Per Share Amount)
Total assets	$2,271.1
Working capital	506.6
Shareholders' equity	1,303.3
Book value per share	17.84

Recent Market Prices of Avon Capital Stock and Mallinckrodt Common Stock

On February 8, 1982, the closing price of Avon Capital Stock on the Composite Tape for the NYSE was $27 per share, and the closing bid and asked prices for Mallinckrodt Common Stock, as reported on the National Association of Securities Dealers Automated Quotation System ("NASDAQ"), were $44⅛ and $44⅜ per share, respectively. On December 11, 1981, the last full day of trading in Avon Capital Stock and Mallinckrodt Common Stock before the proposed Merger was first publicly announced, the closing price of Avon Capital Stock on the Composite Tape for the NYSE was $31⅝ per share, and the closing bid and asked prices for Mallinckrodt Common Stock as reported by NASDAQ were $43⅛ and $43¼ per share, respectively. See "Market Prices of and Dividends on Avon Capital Stock and Mallinckrodt Common Stock".

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JOINT PROXY STATEMENT

INTRODUCTION

Matters to Be Considered at Shareholders' Meetings

This Joint Proxy Statement is furnished to the shareholders of Avon Products, Inc., a New York corporation ("Avon"), and to the shareholders of Mallinckrodt, Inc., a Missouri corporation ("Mallinckrodt"), in connection with the solicitation of proxies by the Boards of Directors of the respective companies for use at the Special Meetings of Shareholders of Avon and Mallinckrodt to be held on March 8, 1982 and any adjournment of either. At the Special Meeting of Shareholders of Avon, shareholders will consider and vote upon the issuance of up to 14,000,000 (the "Maximum Number") shares of Capital Stock, par value $.50 per share, of Avon ("Avon Capital Stock") to shareholders of Mallinckrodt in connection with the merger (the "Merger") of Mallinckrodt into AVP Holdings, Inc., a Missouri corporation and a wholly owned subsidiary of Avon ("Holdings"). At the Special Meeting of Shareholders of Mallinckrodt, shareholders will consider and vote upon a proposal to approve an Agreement and Plan of Merger (the "Merger Agreement"), set forth as Annex I to this Joint Proxy Statement, providing for the Merger.

At the effective time of the Merger, each outstanding share of Common Stock, par value $1.00 per share, of Mallinckrodt ("Mallinckrodt Common Stock"), except shares owned by Holdings and shares held by Mallinckrodt shareholders who perfect their dissenters' rights under Missouri law, will be converted into the number of shares of Avon Capital Stock determined by dividing $50 by the average closing price of Avon Capital Stock on the Composite Tape for the 22 New York Stock Exchange ("NYSE") trading days immediately preceding the third calendar day before the Mallinckrodt shareholders' meeting, but in no event less than 1.429 or more than 1.667 shares.

Each company is sending a copy of the notice of meeting to its shareholders with this Joint Proxy Statement. It is anticipated that the mailing of this Joint Proxy Statement will commence on February 9, 1982.

All the information contained herein with respect to Avon and Holdings has been supplied by Avon. All the information contained herein with respect to Mallinckrodt has been supplied by Mallinckrodt.

As used in this Joint Proxy Statement, "beneficial ownership" of securities means the sole or shared power to vote, or to direct the voting of, such securities and/or investment power with respect to such securities (*i.e.*, the power to dispose of, or to direct the disposition of, such securities).

Avon Shareholders' Meeting

Only shareholders of record at the close of business on February 3, 1982, the record date for the Special Meeting of Shareholders of Avon, will be entitled to notice of and to vote at the meeting. On the record date for the Special Meeting of Shareholders of Avon, Avon had outstanding 60,156,135 shares of Avon Capital Stock. Each Avon shareholder is entitled to one vote for each share then held on each matter on which such shareholder is entitled to vote at the Avon meeting. The holders, in person or by proxy, of a majority of the then outstanding shares of Avon Capital Stock constitute a quorum. Approval of the issuance of up to the Maximum Number of shares of Avon Capital Stock in connection with the Merger will require the affirmative vote of a majority of the votes cast at the Special Meeting of Shareholders of Avon by the holders of such shares entitled to vote at such meeting. Avon believes that its directors and officers intend to vote all shares of Avon Capital Stock that they are entitled to vote (constituting approximately 6.2% of the shares outstanding) for the issuance of up to the Maximum Number of shares of Avon Capital Stock in connection with the Merger.

Principal Shareholders of Avon

To Avon's best knowledge, there are no persons who are beneficial owners of more than 5% of the outstanding shares of Avon Capital Stock as of the record date.

As of December 31, 1981, the directors and officers of Avon as a group beneficially owned 4,189,331 shares of Avon Capital Stock constituting approximately 6.9% of the number of shares of Avon Capital Stock outstanding on such date.

Mallinckrodt Shareholders' Meeting

Only shareholders of record at the close of business on January 28, 1982, the record date for the Special Meeting of Shareholders of Mallinckrodt, will be entitled to notice of and to vote at the meeting. On the record date for the Special Meeting of Shareholders of Mallinckrodt, Mallinckrodt had outstanding 15,007,558 shares of Mallinckrodt Common Stock. A shareholder of record on the record date for the Special Meeting of Shareholders of Mallinckrodt is entitled to one vote for each share then held on each matter on which such shareholder is entitled to vote at the Mallinckrodt meeting. The holders, in person or by proxy, of a majority of the outstanding shares of Mallinckrodt Common Stock constitute a quorum. The approval of the Merger Agreement will require the affirmative vote of the holders of 66⅔% of the outstanding shares of Mallinckrodt Common Stock. Holdings will vote for the approval of the Merger Agreement all the shares of Mallinckrodt Common Stock owned by it, constituting approximately 49% of the outstanding shares of Mallinckrodt Common Stock. In addition, the directors and officers of Mallinckrodt have indicated that they intend to vote all shares of Mallinckrodt Common Stock that they are entitled to vote (constituting approximately 0.6% of the shares outstanding) for the approval of the Merger Agreement. Therefore, the affirmative vote of only approximately 17% of the outstanding shares of Mallinckrodt Common Stock, in addition to those owned and to be voted by Holdings and by directors and officers of Mallinckrodt, will be sufficient to approve the Merger Agreement.

Principal Shareholders of Mallinckrodt

As a result of the Tender Offer and the Stock Purchase Agreement described below, Holdings, whose address is 2345 Grand Avenue, Kansas City, Missouri 64141, is the record and beneficial owner of 7,334,007 shares of Mallinckrodt Common Stock, representing approximately 49% of the outstanding shares of Mallinckrodt Common Stock as of January 28, 1982. In addition, Holdings has an option to purchase 3,600,000 newly issued shares of Mallinckrodt Common Stock granted by Mallinckrodt in connection with negotiations leading to the proposed Merger (the "Option"). See "The Proposed Merger and Related Transactions—Background of the Merger; Tender Offer". Holdings does not intend to exercise the Option, but if Holdings were to do so, Holdings would be the record owner of 10,934,007 shares of Mallinckrodt Common Stock, representing approximately 59% of the shares of Mallinckrodt Common Stock outstanding as of January 28, 1982 (as adjusted to reflect the issuance of such 3,600,000 shares). To Mallinckrodt's best knowledge, there are no other persons who are beneficial owners of more than 5% of the outstanding shares of Mallinckrodt Common Stock.

As of January 20, 1982, the directors and officers of Mallinckrodt as a group beneficially owned 257,030 shares of Mallinckrodt Common Stock, constituting approximately 1.7% of the number of shares of Mallinckrodt Common Stock outstanding on such date. Such figure includes shares of Mallinckrodt Common Stock which directors and officers hold as trustees or in other fiduciary capacities for any person but (with several exceptions) does not include Mallinckrodt Common Stock held by family members in their own right or in other trusts for the benefit of family members, as to which stock they disclaim beneficial ownership. Of such shares, 169,700 are shares of Mallinckrodt Common Stock which certain officers have the right to acquire within 60 days after January 20, 1982, upon the exercise of stock options, which shares were deemed to be outstanding as of January 20, 1982, for the purposes of calculating the percent of class.

Proxies

Shareholders who execute proxies may revoke them by giving notice to the Secretary of Avon or Mallinckrodt, as the case may be, or by giving to such Secretary a duly executed proxy bearing a later date than the proxy being revoked, at any time before such proxies are voted. Attendance at the meeting shall not have the effect of revoking a proxy unless the shareholder so attending shall so notify the secretary of the meeting prior to the voting of the proxy.

A proxy which is properly signed, dated and not revoked will be voted in accordance with the instructions contained therein. If no instructions are given, the persons named in the proxy solicited by the Board of Directors of Avon intend to vote FOR the issuance of up to the Maximum Number of shares of Avon Capital Stock in connection with the Merger, and the persons named in the proxy solicited by the Board of Directors of Mallinckrodt intend to vote FOR the approval of the Merger Agreement.

The Board of Directors of Avon does not know of any matter, other than the approval of the issuance of up to the Maximum Number of shares of Avon Capital Stock in connection with the Merger, that will be presented for consideration at the Special Meeting of Shareholders of Avon. The Board of Directors of Mallinckrodt does not know of any matter, other than the approval of the Merger Agreement, that will be presented for consideration at the Special Meeting of Shareholders of Mallinckrodt. However, if other matters properly come before either meeting, it is intended that the persons named in the accompanying proxy will vote thereon in accordance with their judgment.

Other Matters

Avon and Mallinckrodt will each bear the cost of its own meeting of shareholders and the cost of soliciting proxies therefor, including the cost of mailing the proxy material, and will share equally the cost of printing this Joint Proxy Statement. In addition to solicitation by mail, directors, officers and regular employees of Avon or Mallinckrodt (who will not be specifically compensated for such services) may solicit proxies for the meeting of their respective company by telephone or otherwise. Arrangements will be made with brokerage houses and other custodians, nominees and fiduciaries to forward proxies and proxy material to their principals, and they will be reimbursed for their expenses. In addition, Avon will pay Morrow & Co. approximately $7,500 in fees plus reasonable expenses to solicit Avon proxies on behalf of Avon, and Mallinckrodt will pay Georgeson & Co., Inc. $6,000 in fees plus reasonable expenses to solicit Mallinckrodt proxies on behalf of Mallinckrodt.

THE PROPOSED MERGER AND RELATED TRANSACTIONS

General

The detailed terms of and conditions to the Merger are contained in the Merger Agreement which is attached to this Joint Proxy Statement as Annex I. The statements made in this Joint Proxy Statement with respect to the terms of the transaction are qualified by, and made subject to, the more complete information set forth in the Merger Agreement.

Upon consummation of the Merger, Mallinckrodt will be merged into Holdings, which will change its name to Mallinckrodt, Inc. and will succeed to all the assets, liabilities and businesses of Mallinckrodt, and each share of Mallinckrodt Common Stock then outstanding (except shares owned by Holdings and shares held by Mallinckrodt shareholders who perfect their dissenters' rights under Missouri law) will be converted into the number of shares of Avon Capital Stock determined by dividing $50 by the average closing price of Avon Capital Stock on the Composite Tape for the 22 NYSE trading days immediately preceding the third calendar day before the Mallinckrodt shareholders' meeting, but in no event less than 1.429 or more than 1.667 shares. See "Operation and Management after the Merger" and "Conversion Number".

The proposed Merger is designed as a "tax-free" reorganization under Section 368 of the Internal Revenue Code of 1954, as amended (the "Code"), for Mallinckrodt shareholders who did not exchange any of their Mallinckrodt Common Stock for cash pursuant to the Tender Offer (described below) and who exchange all their Mallinckrodt Common Stock for Avon Capital Stock pursuant to the Merger. See "Federal Income Tax Consequences". In addition, the acquisition of Mallinckrodt will be treated as a purchase by Avon for financial reporting purposes.

Background of the Merger; Tender Offer

During the Spring of 1981, Avon requested representatives of Blyth Eastman Paine Webber Incorporated ("BEPW"), financial advisor to Avon, to approach the senior management of Mallinckrodt on a preliminary and exploratory basis to discuss whether Mallinckrodt might wish to investigate the possibility of a merger with Avon. On April 27, 1981, Raymond F. Bentele, the President and Chief Executive Officer of Mallinckrodt, informed BEPW that Mallinckrodt was not at that time interested in pursuing any negotiations with any potential merger partner.

On September 11, 1981, National Distillers and Chemical Corporation reported in a filing made with the Securities and Exchange Commission relating to its ownership of shares of Mallinckrodt Common Stock that it had purchased an additional 415,000 shares of Mallinckrodt Common Stock from August 17, 1981 through September 10, 1981, that as of the date of the filing it beneficially owned 1,135,750 shares of Mallinckrodt Common Stock (representing approximately 8% of the then outstanding shares), and that it intended to continue such purchases. Following such filing, Mallinckrodt authorized its financial advisor to hold discussions with other companies in connection with the possibility of the acquisition of Mallinckrodt on a basis which would provide fair value to all shareholders.

On October 14, 1981, a representative of BEPW contacted Mr. Bentele to indicate that Avon was still interested in pursuing discussions with Mallinckrodt with respect to a possible acquisition of Mallinckrodt by Avon. On October 26, 1981, representatives of Morgan Stanley & Co. Incorporated ("Morgan Stanley"), financial advisor to Mallinckrodt, contacted David W. Mitchell, Chairman of the Board and Chief Executive Officer of Avon, to indicate that Mallinckrodt would be interested at that time in pursuing discussions with Avon with respect to a possible merger of the two companies. On October 29, 1981, representatives of Avon, BEPW and Morgan Stanley met in New York City to discuss generally the businesses of Avon and Mallinckrodt. During November 1981, Avon and Mallinckrodt exchanged information regarding their respective operations, including certain confidential information regarding Mallinckrodt. On November 25, 1981, representatives of Avon and Mallinckrodt continued their discussions at a meeting in St. Louis, Missouri.

On December 3, 1981, the Board of Directors of Avon authorized its management to pursue negotiations with Mallinckrodt relating to a possible acquisition of Mallinckrodt, and senior management of Avon and Mallinckrodt met in New York City to discuss generally the operations of Avon and Mallinckrodt and the acquisition of Mallinckrodt by Avon. During early December 1981, representatives of Avon and Mallinckrodt, with representatives of their respective financial advisors, commenced negotiations concerning the principal terms of the Merger Agreement.

On December 14, 1981, the Board of Directors of Avon approved the Merger Agreement, and on December 15, 1981, the Board of Directors of Mallinckrodt approved the Merger Agreement. On December 15, 1981, Avon and Mallinckrodt announced the signing of the Merger Agreement under which Avon would acquire Mallinckrodt. The Merger Agreement provides for the purchase at $50 per share of up to 49% of the shares of Mallinckrodt Common Stock and the exchange in the Merger of 51% or more of the Mallinckrodt shares for shares of Avon Capital Stock.

The Merger Agreement contemplates that as a first step in the transaction, Holdings would make a tender offer (the "Tender Offer") to purchase up to 4,560,000 of the outstanding shares of Mallinckrodt Common Stock (representing approximately 32% of such shares outstanding on December 10, 1981) at a price of $50 per share in cash. In addition, Holdings' Offer to Purchase stated that, if Mallinckrodt issued additional shares of Mallinckrodt Common Stock pursuant to the exercise of outstanding employee stock options or warrants or upon the conversion of Mallinckrodt's 5¾% Convertible Subordinated Debentures due 2000 (the "Debentures"), Holdings would purchase additional shares so that the total number of shares of Mallinckrodt Common Stock to be purchased pursuant to the Tender Offer and the Stock Purchase Agreement described below would equal 49% of the aggregate shares of Mallinckrodt Common Stock outstanding on the date withdrawal rights expired under the Tender Offer.

The Merger Agreement also granted Holdings the Option to purchase 3,600,000 newly issued shares of Mallinckrodt Common Stock at the price of $50 per share. Holdings does not intend to exercise the Option.

On December 15, 1981, Avon and Holdings entered into a Stock Purchase Agreement with St. Louis Union Trust Company (now Centerre Trust Company of St. Louis), as agent, Harvard University and The Washington University (the "Stock Purchase Agreement") providing for the purchase by Holdings of 2,494,516 shares of Mallinckrodt Common Stock (representing approximately 17% of such shares outstanding on December 10, 1981) from Harvard University and The Washington University at a price of $50 per share. Holdings purchased these shares on January 18, 1982. Immediately prior to execution of the Stock Purchase Agreement, a trust which held such shares for the benefit of the Universities (and which was to terminate by its terms on January 18, 1982) was terminated by action of St. Louis Union Trust Company, as trustee, with the consent of a committee composed of four members who also were directors of Mallinckrodt. Mr. George Putnam, a director of Mallinckrodt, is Treasurer of Harvard University, and Mr. George H. Capps, Dr. William H. Danforth and Dr. William D. Phillips, directors of Mallinckrodt, are Chairman of the Board of Trustees, Chancellor and Chairman of the Department of Chemistry of The Washington University, respectively.

On December 16, 1981, Holdings commenced the Tender Offer. A total of 8,453,035 shares of Mallinckrodt Common Stock was tendered pursuant to the Tender Offer prior to 5:00 P.M., Eastern Standard Time, on December 28, 1981, and not withdrawn. In accordance with the terms of the Tender Offer, Holdings purchased a total of 4,839,491 shares of Mallinckrodt Common Stock on a pro rata basis from among the shares of Mallinckrodt Common Stock duly tendered by such time and not withdrawn. The Mallinckrodt shares acquired by Holdings pursuant to the Tender Offer and the Stock Purchase Agreement represented approximately 49% of the Mallinckrodt shares outstanding on January 7, 1982, the date withdrawal rights expired under the Tender Offer.

The total amount of funds (including related fees and expenses) required to purchase the 7,334,007 shares of Mallinckrodt Common Stock pursuant to the Tender Offer and the Stock Purchase Agreement was approximately $370,000,000. The funds required by Holdings to make such purchases were obtained as loans or capital contributions from Avon. Of such amount, Avon obtained $300,000,000 under a revolving credit agreement with six banks for which Citibank, N.A. is acting as agent. The remainder of such funds was provided from Avon's available cash and short-term deposits.

In the course of the discussions between Avon and Mallinckrodt relating to the proposed acquisition of Mallinckrodt by Avon, Mallinckrodt provided Avon with certain information that Avon and Mallinckrodt believe is not publicly available, including projections of the net sales and net income from continuing operations for the fiscal years ending December 31, 1981 through 1985. Net sales for such years were projected at $502.7, $582.4, $691.7, $815.5 and $953.5 million, respectively, and net income for such years was projected at $40.1, $46.6, $56.9, $68.9 and $84.2 million, respectively. These projections were based on numerous assumptions, including (a) no acquisitions during the period, (b) no new products other than those currently identified, (c) selling prices based on current prices, increased on an individual product basis to reflect market factors and assumed cost escalation, with overall forecasted sales including price increases averaging 6% annually, (d) inflation rates for costs varying by component, (e) no major equity financing, (f) debt financing (using an assumed interest rate of 15% on debt incurred from 1983 through 1985) used to fund expansion and improvement of property, plant and equipment, (g) tax rates during the period remaining at approximately 45% and (h) foreign exchange rates varying by currency.

Avon and Mallinckrodt cannot and do not assume any responsibility for the accuracy of the above projections. Projections of future performances such as those set forth above are inherently subject to uncertainties and contingencies, all of which are difficult to predict and many of which are beyond the control of Mallinckrodt or any other company preparing forecasts. Accordingly, there can be no assurance that the future results set forth above will be realized by Mallinckrodt.

Reasons for the Merger

The Boards of Directors of Avon and Mallinckrodt believe that the proposed Merger is in the best interests of, and that the terms are fair and equitable to, their respective shareholders, and each recommends to its respective shareholders that they vote for the respective proposals relating to the Merger. The members of both Boards of Directors have unanimously indicated that they intend to vote for the proposals relating to the Merger all shares of stock which they are entitled to vote. Holdings is the record owner of 7,334,007 shares of Mallinckrodt Common Stock (approximately 49% of such shares outstanding on the record date for the Special Meeting of Shareholders of Mallinckrodt) and will vote its Mallinckrodt shares for the approval of the Merger Agreement.

The terms of the Merger are the result of arms-length negotiations between representatives of Avon and its financial advisor, BEPW, and Mallinckrodt and its financial advisor, Morgan Stanley.

For some time, Avon's management has been seeking to broaden Avon's business beyond direct selling of beauty and fashion products and into areas that will add significantly to Avon's long-term growth potential. Accordingly, because of its high growth rates, its generally noncyclical nature and its compatibility with Avon's existing product lines, the health care industry has been a principal focus of Avon's efforts to diversify.

Avon's Board of Directors believes the proposed Merger is in the best interests of Avon and its shareholders for various reasons. The Board believes that in Mallinckrodt it has found the high-quality, well-managed company with an excellent growth record, strong product lines and sound market positions in the health care field that it has sought. The Board believes that the businesses of Mallinckrodt are generally noncyclical in contrast to the present business of Avon and accordingly, the acquisition of Mallinckrodt should improve the stability of Avon's earnings base. The Board believes that Mallinckrodt has favorable growth prospects and can be operated with its present management.

The determination by Mallinckrodt's Board of Directors that the proposed Merger is in the best interests of Mallinckrodt and its shareholders is based upon a number of factors, including the financial condition, results of operations and prospects of Mallinckrodt and Avon (including on a pro forma combined basis) and historical information regarding dividends and prices for Mallinckrodt Common Stock and Avon Capital Stock. Mallinckrodt's Board's determination is also based upon Avon's favorable view and its appreciation of Mallinckrodt's business and Avon's acceptance of Mallinckrodt's basic operating strategy. Mallinckrodt's Board further considered the opinion and the information presented by its financial advisor, Morgan Stanley. See "Investment Bankers' Opinions". In addition, Mallinckrodt's Board considered that the Merger Agreement provided Mallinckrodt's shareholders two alternatives: (a) the Merger, in which each share of Mallinckrodt Common Stock would be exchanged for shares of Avon Capital Stock, which the Board believes would be a tax-free reorganization for those shareholders who would prefer tax-free treatment (because of their low tax basis or for other reasons) and would give shareholders the opportunity for continued equity participation in the combined enterprise; and (b) the Tender Offer at a net price of $50 per share of Mallinckrodt Common Stock, which would provide those shareholders who would prefer to receive cash for their shares of Mallinckrodt Common Stock an opportunity to do so (subject to proration) at a fair price for their shares.

Investment Bankers' Opinions

Each of the Boards of Directors of Avon and Mallinckrodt requested its financial advisor to consider the fairness of the terms of the proposed Merger Agreement to its shareholders from a financial point of view.

BEPW advised Avon's Board of Directors on December 14, 1981 that in its opinion the terms of the transaction as described in the Merger Agreement were fair from a financial point of view to the shareholders of Avon. A copy of BEPW's opinion, which sets forth the factors considered, is attached hereto as Annex II and should be read in its entirety.

BEPW acted as financial advisor to Avon in connection with the Tender Offer and the Merger and assisted Avon in negotiating the terms thereof. Avon paid BEPW fees aggregating $1,000,000 for acting as financial advisor and as dealer-manager for the Tender Offer and will pay BEPW an additional fee of $1,480,000 if Avon acquires the entire equity interest of Mallinckrodt prior to December 31, 1982. Avon and Holdings have also agreed to reimburse BEPW for certain expenses and to indemnify it against certain liabilities.

From time to time, BEPW has provided investment banking services to Mallinckrodt on certain public and private corporate financing matters, including acting as managing underwriter for the offering of the Debentures in 1975. Paine, Webber, Jackson & Curtis Incorporated, an affiliate of BEPW, acted as a market-maker in Mallinckrodt Common Stock up to the commencement of the Tender Offer.

Morgan Stanley advised Mallinckrodt's Board of Directors on December 15, 1981 that in its opinion the terms of the Merger Agreement were fair and equitable to the shareholders of Mallinckrodt from a financial point of view. Morgan Stanley also reviewed with the Board discussions held by Morgan Stanley and officers of Mallinckrodt with other corporations concerning the possible acquisition of Mallinckrodt. A copy of Morgan Stanley's opinion, which sets forth the factors considered, is attached hereto as Annex III and should be read in its entirety.

Morgan Stanley acted as financial advisor to Mallinckrodt in connection with the Tender Offer and the Merger and assisted Mallinckrodt in negotiating the terms thereof. Mallinckrodt has agreed to pay Morgan Stanley a financial advisory fee of $700,000 in connection with acting as a financial advisor to Mallinckrodt with respect to proposals by third parties to acquire Mallinckrodt. In the event a party acquires more than 50% of the issued and outstanding shares of Mallinckrodt Common Stock, Mallinckrodt has agreed to pay Morgan Stanley a total fee (less financial advisory fees already paid) equal to one-half of one percent of the per share value of the consideration paid multiplied by the total number of issued and outstanding shares of Mallinckrodt Common Stock on the date that such party acquires more than 50% of the issued and outstanding shares of Mallinckrodt Common Stock regardless of whether the remainder of the shares of Mallinckrodt Common Stock are acquired. In the event a party acquires 50% or less of the issued and outstanding shares of Mallinckrodt Common Stock, Mallinckrodt has agreed to pay Morgan Stanley a fee (less financial advisory fees already paid) equal to one-half of one percent of the per share value paid for such shares multiplied by the actual number of shares acquired. Mallinckrodt has also agreed to reimburse Morgan Stanley for certain expenses and to indemnify it against certain liabilities. If the Merger is consummated, Mallinckrodt will pay Morgan Stanley a fee of approximately $3,800,000 (less financial advisory fees already paid).

Morgan Stanley has acted and may continue to act from time to time as financial advisor to Avon on certain corporate financing matters and in connection with acquisition studies and advice unrelated to this transaction.

Effective Time of the Merger

If the proposals relating to the Merger are approved by the shareholders of Avon and Mallinckrodt and if the conditions described in "Conditions to the Merger; Termination and Amendment of the Merger Agreement" are satisfied or waived, the Merger will become effective upon the filing of articles of merger with the Secretary of State of Missouri and the issuance by the Secretary of State of a certificate of merger. It is presently contemplated that the effective time of the Merger will occur promptly after obtaining the necessary approvals of the shareholders of Avon and Mallinckrodt. At the effective time of the Merger, the separate corporate existence of Mallinckrodt will terminate and Holdings will change its name to Mallinckrodt, Inc.

Conversion Number

At the effective time of the Merger, each outstanding share of Mallinckrodt Common Stock, except shares owned by Holdings and shares held by Mallinckrodt shareholders who perfect their dissenters' rights under Missouri law, will automatically be converted into the number of shares of Avon Capital Stock (the "Conversion Number") determined by dividing $50 by the average closing price of Avon Capital Stock (the "Average Closing Price") on the Composite Tape for the 22 NYSE trading days immediately preceding the third calendar day before Mallinckrodt's shareholders' meeting, but in no event less than 1.429 or more than 1.667 shares. No certificates or scrip representing fractional shares will be issued in the Merger. There will be paid to each holder of Mallinckrodt Common Stock who would be entitled to receive fractional shares of Avon Capital Stock an amount of cash equal to the product of the fractional share to which such shareholder would be entitled and the Average Closing Price.

After the effective time of the Merger, a letter of transmittal containing instructions with respect to the surrender of stock certificates previously representing shares of Mallinckrodt Common Stock will be furnished to each former Mallinckrodt shareholder for use in exchanging his stock certificates. From and after the effective time of the Merger, each stock certificate formerly representing shares of Mallinckrodt Common Stock will evidence, and will be deemed for all corporate purposes of Avon to evidence, ownership of the number of full shares of Avon Capital Stock into which the shares of Mallinckrodt Common Stock formerly represented thereby were converted, provided that, until such certificates have been exchanged for Avon stock certificates, the holders thereof will not be entitled to receive any dividends on the Avon Capital Stock issuable to them in the Merger. Dividends payable on the Avon Capital Stock prior to the exchange of certificates by any Mallinckrodt shareholder will be remitted to such shareholder, without interest, at the time that his certificates are surrendered for exchange.

Description of Avon Capital Stock

Avon Capital Stock (par value $.50) is the only authorized class of stock of Avon. Avon is authorized to issue 80,000,000 shares of Avon Capital Stock. On February 3, 1982, there were 60,156,135 shares of Avon Capital Stock issued and outstanding.

Each share of Avon Capital Stock entitles the holder to one vote, with the right to cumulate votes in electing directors (*i.e.*, a shareholder may give any nominee as many votes as is equal to the number of directors to be elected multiplied by the number of shares owned by him, or may distribute such votes on the same principle among two or more nominees as he sees fit). All outstanding shares of Avon Capital Stock are, and the shares of Avon Capital Stock to be issued in the Merger when issued will be, fully paid and nonassessable. Avon Capital Stock has no conversion rights and is not subject to redemption. Dividends are payable ratably on Avon Capital Stock as and when declared by the Board of Directors. Upon liquidation or dissolution, the holders of Avon Capital Stock are entitled to receive ratably any assets available for distribution. Avon shareholders have certain preemptive rights which are governed by Section 622 of the New York Business Corporation Law (the "NYBCL"). However, pursuant to Section 622(e)(1) of that law, shares to be issued in a transaction such as the Merger are not subject to preemptive rights.

Comparison of Rights of Holders of Mallinckrodt Common Stock and Holders of Avon Capital Stock

Mallinckrodt is incorporated in the State of Missouri, and Avon is incorporated in the State of New York. Shareholders of Mallinckrodt, whose rights are currently governed by Missouri law as well as by Mallinckrodt's Restated Articles of Incorporation, as amended, and By-Laws will upon consummation of the Merger become shareholders of Avon, and their rights as such will be governed by New York law as well as by Avon's Restated Certificate of Incorporation and By-Laws. A summary of certain significant differences between the rights of Mallinckrodt shareholders under the Missouri General and Business Corporation Law (the "MGBCL") and Mallinckrodt's Restated Articles of Incorporation, as amended, and By-Laws and those of Avon shareholders under the NYBCL and Avon's Restated Certificate of Incorporation and By-Laws is set forth below.

Dividends and Distributions. Under the MGBCL, the board of directors of a corporation may, unless otherwise restricted in the articles of incorporation, pay dividends in cash, property or the corporation's own shares, provided that no dividend may be declared or paid when the assets of the corporation are less than its stated capital or when payment thereof would reduce the net assets below stated capital. The NYBCL provides that a corporation may, unless otherwise restricted in the certificate of incorporation, declare and pay dividends in cash, bonds or property except when the corporation is insolvent or would thereby be made insolvent. The NYBCL also provides that dividends and other distributions may be made out of surplus only and in a manner such that the net assets of the corporation remaining after the dividend or distribution are at least equal to the amount of its stated capital.

Voting Rights. The MGBCL provides for cumulative voting rights in elections of directors. Consequently, each Mallinckrodt shareholder is entitled to as many votes as equals the number of shares owned by him multiplied by the number of directors to be elected and may cast all of such votes for a single director or may distribute them among two or more candidates. The NYBCL provides that the certificate of incorporation may provide for cumulative voting, and Avon's Restated Certificate of Incorporation so provides.

Pursuant to the MGBCL and Mallinckrodt's By-Laws, Mallinckrodt's Board of Directors is divided into three classes. The directors serve for a term of three years or until their successors have been elected and qualified. The term of office of one class of directors expires each year. Although permitted to do so by the NYBCL, Avon's Restated Certificate of Incorporation and By-Laws do not provide for a classified board of directors.

Dissenters' Rights. The MGBCL provides for dissenters' rights in mergers, consolidations and sales of all or substantially all of a corporation's assets (which sales are not sales in the ordinary course of business). Shareholders who comply with certain statutory procedures are entitled to have the "fair value" of such shares judicially appraised and paid by the surviving corporation. The NYBCL also provides a shareholder who follows the statutory procedure with appraisal rights with respect to the events listed above and, in addition, provides a shareholder whose shares are adversely affected with appraisal rights with respect to any amendment to the certificate of incorporation which alters or abolishes (a) the preferential right of such shares having preferences, (b) any provision or right in respect of the redemption of such shares or any sinking fund for such redemption of such shares or (c) any preemptive right to acquire shares or other securities or which excludes or limits the right to vote on any matter.

Preemptive Rights. Mallinckrodt's Restated Articles of Incorporation, as amended, provide that its shareholders are not entitled to preemptive rights to purchase any new or additional shares of the corporation's stock. The NYBCL states that, unless otherwise provided in the certificate of incorporation, shareholders of New York corporations are entitled to certain preemptive rights. Avon's Restated Certificate of Incorporation does not limit the statutory preemptive rights of Avon shareholders.

Stock Exchange Listing. Avon Capital Stock is listed on the NYSE; Mallinckrodt Common Stock is not listed on any stock exchange but is traded in the over the counter market.

The foregoing does not purport to be a complete description of the differences between the rights of the shareholders of Mallinckrodt and Avon. Such differences can be determined in full by reference to the MGBCL, Mallinckrodt's Restated Articles of Incorporation, as amended, and By-Laws, the NYBCL and Avon's Restated Certificate of Incorporation and By-Laws.

Stock Exchange Listing

Application has been made to list the shares of Avon Capital Stock to be issued in the Merger on the NYSE. It is a condition to the obligation of Mallinckrodt to consummate the Merger that such listing subject to official notice of issuance, on the NYSE shall have been approved.

Resale of Shares by Mallinckrodt Affiliates

The Avon Capital Stock to be received in the Merger will be freely transferable, except that shares received by persons who may be deemed to be "affiliates" of Mallinckrodt, as that term is defined in the rules under the Securities Act of 1933, as amended (the "Securities Act"), may be sold by them only in accordance with the provisions of Rule 145 under the Securities Act, pursuant to an effective registration statement under the Securities Act or in transactions exempt from registration thereunder.

Rule 145 provides, in general, that the Avon Capital Stock may be sold by an affiliate of Mallinckrodt if there is available adequate current public information with respect to Avon, and, if the affiliate has not held the securities for at least two years, (a) the amount of securities sold within a three month period does not exceed the greater of (i) 1% of the outstanding shares of the Avon Capital Stock or (ii) the average weekly trading volume in such stock, and (b) the securities are sold in "brokers' transactions" within the meaning of Rule 144 under the Securities Act.

Any shareholder of Mallinckrodt who becomes an affiliate of Avon will be subject to similar restrictions under Rule 144 under the Securities Act.

Debentures and Warrants

Pursuant to the terms of the Merger Agreement and following completion of the Tender Offer, Mallinckrodt called all outstanding Debentures for redemption in accordance with the provisions of the indenture relating to the Debentures.

Pursuant to the terms of the Merger Agreement and following completion of the Tender Offer, Mallinckrodt offered to purchase all then outstanding warrants to purchase shares of Mallinckrodt Common Stock (the "Warrants") in exchange for a cash payment from Mallinckrodt to each Warrantholder equal to the product of (a) the difference between the net exercise price per share of Mallinckrodt Common Stock of such holder's Warrant and $50 and (b) the number of shares of Mallinckrodt Common Stock covered by such Warrant. At the time the Merger becomes effective, Avon will assume any Warrants that are then outstanding and each Warrantholder will be entitled to acquire a number of shares of Avon Capital Stock equal to the product of the number of shares of Mallinckrodt Common Stock covered by such Warrant immediately prior to such time and the Conversion Number, at a net exercise price per share of Avon Capital Stock equal to the net exercise price per share of Mallinckrodt Common Stock specified in such Warrant divided by the Conversion Number.

Benefit Plans of Mallinckrodt

The Merger Agreement provides that either Holdings will assume all benefit plans and programs of Mallinckrodt in effect at the effective time of the Merger, or Holdings will provide benefits at least as favorable to employees of Mallinckrodt and its subsidiaries. The Merger Agreement further provides that Holdings will perform each of the various employment, consulting, supplemental retirement and termination agreements between Mallinckrodt and its employees, directors and independent contractors and each of the indemnity agreements between Mallinckrodt and members of the committee established under the will of Edward Mallinckrodt, Jr. in the same manner and to the same extent that Mallinckrodt would be required to perform them if the Merger had not taken place. See "Directors and Management of Mallinckrodt".

The Merger Agreement further provides that, immediately prior to the effective time of the Merger, (a) each holder of a unit of participation in Mallinckrodt's 1978 Stock Bonus Plan (the "Bonus Plan") will receive from Mallinckrodt a cash payment equal to the product of $50 and the number of such units held by such holder and (b) all deferred compensation under Mallinckrodt's Additional Compensation Plan will become immediately payable and be paid by Mallinckrodt.

Upon execution of the Merger Agreement by Mallinckrodt, all outstanding options granted under Mallinckrodt's 1978 Non-Qualified Stock Option Plan (the "Mallinckrodt Option Plan") became immediately exercisable in full. Pursuant to the Merger Agreement, Mallinckrodt's Executive Compensation Committee has, subject to approval of the Merger Agreement by Mallinckrodt shareholders, (a) given all holders of options granted under the Mallinckrodt Option Plan, other than directors and officers of Mallinckrodt, the right to have Mallinckrodt cancel any such options which would be exercisable by their terms as of the effective time of the Merger without regard to the execution of the Merger Agreement in consideration of a cash payment equal to (i) the difference between the exercise price per share of such options so cancelled and $50, multiplied by (ii) the number of shares of Mallinckrodt Common Stock subject to such options so cancelled, (b) cancelled in consideration of a cash payment as aforesaid all options held by directors and officers of Mallinckrodt who are not members of its Operating Committee which would be exercisable by their terms as of the effective time of the Merger without regard to the execution of the Merger Agreement and (c) with respect to options held by members of Mallinckrodt's Operating Committee, cancelled in consideration of a cash payment as aforesaid the greater of (x) one-third of all options held by each such member or (y) all of each such member's options that would be exercisable by their terms as of the effective time of the Merger without regard to the execution of the Merger Agreement. With respect to options held by members of the Operating Committee, the options cancelled were those with the lowest exercise prices. At the effective time of the Merger, each holder of an option not cancelled for cash will receive in exchange therefor an immediately exercisable option to purchase a number of shares of Avon Capital Stock equal to the product of the number of shares of Mallinckrodt Common Stock covered by such option immediately prior to the effective time of the Merger and the Conversion Number, at an exercise price per share of Avon Capital Stock equal to the exercise price per share of Mallinckrodt Common Stock then specified in such option divided by the Conversion Number.

Federal Income Tax Consequences

The obligation of Mallinckrodt to consummate the Merger is conditioned upon the receipt of an opinion of Messrs. Skadden, Arps, Slate, Meagher & Flom, counsel to Mallinckrodt, substantially to the effect that the Merger (and the Merger together with the Tender Offer if the Tender Offer and the Merger are treated as a single integrated transaction) will be treated for federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Code, that Avon, Holdings and Mallinckrodt each will be a party to that reorganization and that, accordingly, for federal income tax purposes

(a) no gain or loss will be recognized to the shareholders of Mallinckrodt who did not exchange any of their Mallinckrodt Common Stock for cash pursuant to the Tender Offer and who exchange all their Mallinckrodt Common Stock for Avon Capital Stock pursuant to the Merger;

(b) assuming that the Tender Offer and the Merger are treated as a single integrated transaction, no loss will be recognized to the shareholders of Mallinckrodt who exchange part of their Mallinckrodt Common Stock for cash pursuant to the Tender Offer and part of their Mallinckrodt Common Stock for Avon Capital Stock pursuant to the Merger, but gain realized on such exchanges, if any, will be recognized to the extent of the cash received pursuant to the Tender Offer;

(c) the aggregate basis of the Avon Capital Stock received by the shareholders of Mallinckrodt who did not exchange any of their Mallinckrodt Common Stock for cash pursuant to the Tender Offer and exchange all their Mallinckrodt Common Stock for Avon Capital Stock pursuant to the Merger will be the same as the aggregate basis of the Mallinckrodt Common Stock surrendered in exchange therefor;

(d) assuming that the Tender Offer and the Merger are treated as a single integrated transaction, the aggregate basis of the Avon Capital Stock received by shareholders of Mallinckrodt who exchange part of their Mallinckrodt Common Stock for cash pursuant to the Tender Offer and part of their Mallinckrodt Common Stock for Avon Capital Stock pursuant to the Merger will be the same as the aggregate basis of their Mallinckrodt Common Stock surrendered, decreased by the cash received pursuant to the Tender Offer and increased by the amount of gain, if any, recognized on the exchange (including any portion of such gain which is treated as a dividend); and

(e) the holding period of the Avon Capital Stock received will include the period during which the Mallinckrodt Common Stock surrendered in exchange therefor was held, provided such Mallinckrodt Common Stock was held as a capital asset on the date of the exchange.

Such opinion may provide that it is not applicable to stock acquired upon the exercise of employee stock options or otherwise as compensation or to the treatment of cash received in lieu of fractional shares.

The obligation of Avon and Holdings to consummate the Merger is conditioned upon receipt of an opinion of Messrs. Cravath, Swaine & Moore, special counsel to Avon, to the effect that the Merger (and the Merger together with the Tender Offer if the Tender Offer and the Merger are treated as a single integrated transaction) will be treated for federal income tax purposes as a "reorganization" within the meaning of Section 368(a) of the Code, and that Avon, Holdings and Mallinckrodt will each be a party to that reorganization.

If the value of shares of Avon Capital Stock were to decline substantially by the time the Merger would otherwise take place, it might not be possible to obtain such opinions of counsel, and thus the Merger might not occur.

A ruling of the Internal Revenue Service concerning the tax effects of the Merger is not being sought by Avon or Mallinckrodt.

The following discussion of federal income tax considerations of the Merger assumes that the Merger occurs, that it will qualify as a reorganization and, as is believed likely, will be treated together with the Tender Offer as a single integrated transaction for federal income tax purposes.

The federal income tax consequences to a shareholder of Mallinckrodt of the receipt of cash pursuant to the Tender Offer (and pursuant to the exercise of dissenters' rights) may vary depending upon the portion of the Mallinckrodt Common Stock actually and constructively owned by such shareholder which is so exchanged for cash and the portion (if any) which is exchanged for Avon Capital Stock pursuant to the Merger. These consequences are described in the paragraphs below. Under Section 318 of the Code, a shareholder may be deemed to own constructively shares owned (actually or constructively) by related individuals or entities, and shares which he has the right to acquire by exercising options (whether or not presently exercisable) or Warrants or by conversion of Debentures. Shareholders may wish to consult their tax advisors as to the application of the constructive ownership rules to them in their particular situations.

Exchange of Mallinckrodt Common Stock for Cash Pursuant to the Tender Offer and for Avon Capital Stock Pursuant to the Merger. As indicated above, a shareholder who has exchanged Mallinckrodt Common Stock for cash pursuant to the Tender Offer and exchanges other shares of Mallinckrodt Common Stock actually owned by him for Avon Capital Stock pursuant to the Merger will recognize his overall gain on such exchanges, if any is realized, to the extent of the cash he received pursuant to the Tender Offer. Such recognized gain will be eligible for capital gain treatment (assuming the shares of Mallinckrodt Common Stock are held as a capital asset by the shareholder) unless such receipt of cash has the effect of the distribution of a dividend, as provided in Section 356 of the Code, in which case such gain will be taxable as ordinary income. In determining under Section 356 whether the receipt of cash has the effect of the distribution of a dividend, the Internal Revenue Service has indicated in published rulings that the principles applicable under Section 302 of the Code may serve as guidelines. Under those principles, a distribution to a shareholder will not be considered to have the effect of the distribution of a dividend if it is "substantially disproportionate" with respect to the shareholder or if it is "not essentially equivalent to a dividend" to him.

A distribution will be "substantially disproportionate" with respect to a shareholder if (a) the shareholder's proportionate interest in the shares of Avon Capital Stock distributed to all shareholders of Mallinckrodt pursuant to the Merger is less than 80% of (b) the shareholder's proportionate interest in the shares of Mallinckrodt Common Stock outstanding immediately before the purchase of shares of Mallinckrodt Common Stock pursuant to the Tender Offer and the Stock Purchase Agreement. It is unclear whether in applying this test for purposes of Section 356 of the Code the constructive ownership rules of Section 318 of the Code are applicable. Mallinckrodt shareholders should be aware that because the Tender Offer was substantially oversubscribed, resulting in proration, it appears that a Mallinckrodt shareholder will not be able to satisfy the "substantially disproportionate" test solely on the basis of the portion of his shares of Mallinckrodt Common Stock which were purchased pursuant to the Tender Offer, even if all shares owned by him were tendered.

Even though a distribution does not satisfy the "substantially disproportionate" test discussed above, it still may be "not essentially equivalent to a dividend" to a shareholder depending upon his particular facts and circumstances. In an analogous situation, the Internal Revenue Service has ruled, in the case of a shareholder whose proportionate stock interest was minimal and who exercised no control over the corporation's affairs, that the "not essentially equivalent to a dividend" test was satisfied where the shareholder experienced a small reduction in his proportionate stock ownership interest, even though such reduction was much less than that required to qualify under the "substantially disproportionate" test. It is unclear whether in applying this test for purposes of Section 356 of the Code the constructive ownership rules of Section 318 are applicable. Mallinckrodt shareholders should be aware that due to proration in the Tender Offer and the possibility that additional shares of Mallinckrodt Common Stock may be purchased for cash from other Mallinckrodt shareholders pursuant to the exercise of dissenters' rights in the Merger, they may not experience a reduction in their proportionate stock ownership interest solely as a result of the purchase of a portion of their Mallinckrodt Common Stock pursuant to the Tender Offer, even if all shares owned by them were tendered.

Mallinckrodt shareholders who participated in the Tender Offer should consult their tax advisors as to the application of these two tests to them in their particular situations, including the possibility of their satisfying these tests by means of a sale of some of their shares of Mallinckrodt Common Stock prior to the Merger, and the effect on the application of these tests of the exercise of dissenters' rights by other Mallinckrodt shareholders.

Sale or Exchange of All Mallinckrodt Common Stock for Cash. If some shares of Mallinckrodt Common Stock owned by a shareholder were exchanged for cash pursuant to the Tender Offer and all the remaining shares of Mallinckrodt Common Stock actually or constructively owned by him are disposed of prior to the Merger, or pursuant to the exercise of dissenters' rights, then the gain or loss recognized by such shareholder with respect to his exchange of shares pursuant to the Tender Offer will be capital gain or loss, provided that the shares were held as a capital asset. The same tax result will follow if all the shares of Mallinckrodt Common Stock actually and constructively owned by a shareholder are exchanged for cash pursuant to the exercise of dissenters' rights. However, if all the shares of Mallinckrodt Common Stock actually owned by a shareholder are disposed of prior to the Merger, or pursuant to the exercise of dissenters' rights, but such shareholder owns constructively shares which are exchanged by other persons for Avon Capital Stock in the Merger, then it is the Internal Revenue Service's position (although there is no judicial authority directly in point) that the cash received by such shareholder pursuant to the Tender Offer, and pursuant to the exercise of dissenters' rights, may be taxed as a dividend (without regard to the amount of gain, if any, realized) unless one of the two tests under Section 302 of the Code described above ("substantially disproportionate" and "not essentially equivalent to a dividend") is met, taking into account for this purpose such shareholder's actual and constructive ownership of Mallinckrodt Common Stock.

THE FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY. MALLINCKRODT SHAREHOLDERS ARE URGED TO CONSULT THEIR TAX ADVISORS TO DETERMINE THE PARTICULAR TAX CONSEQUENCES TO THEM (INCLUDING THE APPLICATION AND EFFECT OF STATE AND LOCAL INCOME AND OTHER TAX LAWS) IN THE EVENT SHARES OWNED BY THEM WERE EXCHANGED FOR CASH PURSUANT TO THE TENDER OFFER OR ARE EXCHANGED FOR AVON CAPITAL STOCK IN THE MERGER.

Operation and Management after the Merger

After the effective time of the Merger, Holdings, as the successor corporation, will be operated as a wholly owned subsidiary of Avon, under the name Mallinckrodt, Inc., by the current officers of Mallinckrodt. Following the effective time of the Merger, the Board of Directors of the surviving corporation will be composed of Messrs. David W. Mitchell and William R. Chaney, Chairman of the Board and Chief Executive Officer, and President, respectively, of Avon, and Mr. Raymond F. Bentele, President and Chief Executive Officer of Mallinckrodt. It is Avon's intention that, following the Merger, Messrs. Harold E. Thayer and Raymond F. Bentele of Mallinckrodt will join the Board of Directors of Avon and Mr. Bentele will be elected an Executive Vice President of Avon and will join its Office of the Chairman.

Conditions to the Merger; Termination and Amendment of the Merger Agreement

In addition to the approval of the proposals relating to the Merger by the shareholders of Avon and Mallinckrodt and receipt of the tax opinions discussed under "Federal Income Tax Consequences", the consummation of the Merger is subject to a number of conditions (which may be waived by the company entitled to the benefit thereof), including (a) the absence of a preliminary or permanent injunction or other order by any federal or state court which prevents the consummation of the Merger, (b) the accuracy in all material respects of the representations and warranties made in the Merger Agreement, (c) the performance of the agreements and covenants contained in the Merger Agreement, (d) the continued effectiveness of the Registration Statements relating to the shares of Avon Capital Stock issuable pursuant to the Merger and the shares of Avon Capital Stock issuable by Avon to employees of Mallinckrodt who receive options to purchase Avon Capital Stock in accordance with the terms of the Merger Agreement and, in the case of Mallinckrodt, (e) the approval for listing, subject to official notice of issuance, on the NYSE of the shares of Avon Capital Stock to be issued pursuant to the Merger.

The Merger Agreement may be terminated and the Merger abandoned (a) at any time by the mutual consent of Avon and Mallinckrodt or (b) by Avon or Mallinckrodt if the Merger has not become effective on or prior to December 31, 1982.

The Merger Agreement may be amended by Avon, Holdings and Mallinckrodt by action taken by their respective Boards of Directors (or, in the case of Mallinckrodt, by its Executive Committee) at any time before or after the approval of the proposals relating to the Merger by the shareholders of

Avon or Mallinckrodt. After shareholder approval, no amendment may be made which changes the Conversion Number or which in any way adversely affects the rights of such shareholders without further approval of such shareholders.

Governmental and Regulatory Approvals

Certain Foreign Takeover Statutes. Mallinckrodt has three wholly owned Canadian subsidiaries which conduct operations in Canada. The Foreign Investment Review Act of Canada ("FIRA") requires that notice of acquisition of "control" of a "Canadian business enterprise" by a corporation which is not controlled by Canadian residents be furnished to the Canadian Foreign Investment Review Agency (the "Agency") and that such acquisition be reviewed by the Minister (as defined in FIRA) and be approved by the Governor in Council as being or likely to be "of significant benefit to Canada". Avon intends to file such notice, but does not anticipate receiving such approval prior to the consummation of the Merger. If such acquisition should not be approved by the Governor in Council, the Minister could request a Canadian court to issue an order rendering nugatory the acquisition of "control" by Avon of Mallinckrodt's Canadian subsidiaries. Such an order could contain any provision which, in the opinion of the court, is necessary under the circumstances, possibly including the revocation or suspension of voting rights of Holdings with respect to its stock interest in its Canadian subsidiaries, and the sale or other disposition of such stock interest, on such terms and conditions as the court deems just and reasonable. If Holdings were required to dispose of such stock interest, it would not, in the opinion of Mallinckrodt, be material to the operations of Holdings.

Mallinckrodt conducts operations in the Federal Republic of Germany. West German regulations require that Avon and Mallinckrodt file premerger reports with the federal Cartel Office and satisfy certain waiting period requirements prior to consummation of the Merger. Avon and Mallinckrodt intend to file such reports in time to permit review prior to consummation and do not expect the Cartel Office to object to the Merger.

Certain other subsidiaries and joint ventures of Mallinckrodt are located in countries with foreign investment or antitrust laws which require notice to, and in some cases approval by, relevant foreign regulatory authorities. Avon, Holdings and Mallinckrodt intend to give such notices and intend to request such approvals where necessary.

Neither Avon nor Mallinckrodt can give any assurance that all foreign regulatory approvals required to be obtained prior to the Merger will have been obtained by the effective time of the Merger. Receipt of such governmental approvals is not, however, a condition to the consummation of the Merger, and, in the opinion of Mallinckrodt, failure to receive such approvals would not, individually or in the aggregate, have a material adverse effect on Holdings and its subsidiaries taken as a whole.

Regulatory Matters. Mallinckrodt conducts certain of its operations in accordance with licenses, registrations, permits or other authorizations granted by various federal, state and foreign regulatory agencies. The transfer of such authorizations pursuant to the Merger may require Avon, Holdings and/or Mallinckrodt to notify or obtain the consent of a number of such agencies. The United States Nuclear Regulatory Commission and the United States Drug Enforcement Agency have already advised Mallinckrodt that it need not obtain their consent in connection with the Merger. Although Avon, Holdings and Mallinckrodt intend to give all necessary notices and request all necessary approvals, there can be no assurance that all such approvals will be obtained by the effective time of the Merger. Receipt of such regulatory approvals is not a condition to the consummation of the Merger and, in the opinion of Mallinckrodt, failure to receive such approvals would not, individually or in the aggregate, have a material adverse effect on Holdings and its subsidiaries taken as a whole.

Antitrust Matters

On December 16, 1981, both Avon and Mallinckrodt filed Notification and Report Forms with respect to the Merger with the Antitrust Division of the Department of Justice (the "Antitrust Division") and the Federal Trade Commission (the "FTC") for review pursuant to the Hart-Scott-Rodino Antitrust

Improvements Act of 1976 (the "HSR Act"). The waiting period applicable to the Merger under the HSR Act expired on January 15, 1982. Neither Avon nor Mallinckrodt believes that the Merger will violate the antitrust laws of the United States; however, at any time before or after the consummation of the Merger, the Antitrust Division or the FTC or some other person could seek to enjoin or restrain the Merger on antitrust or other grounds. There can be no assurance that such challenge, or any additional challenge, if made, will not be successful.

Dissenting Shareholders of Mallinckrodt and Avon

Mallinckrodt Shareholders

Mallinckrodt shareholders who object to the Merger and who have not voted in favor of approval of the Merger Agreement are entitled under the provisions of Section 351.455 of the MGBCL, as an alternative to receiving Avon Capital Stock in the Merger, to receive a cash payment from Holdings equal to the "fair value" of their shares of Mallinckrodt Common Stock. The "fair value" of such shares, if not agreed upon by the dissenting shareholder and Holdings, may be judicially determined as of the day prior to the date that Mallinckrodt shareholders vote to approve the Merger Agreement. The following is a summary of the statutory procedures that must be followed in order validly to exercise the right to a judicial appraisal. The summary is qualified in its entirety by reference to Section 351.455, which is printed in full as Annex IV to this Joint Proxy Statement. See "Federal Income Tax Consequences" for information regarding the federal income tax consequences to Mallinckrodt shareholders who exercise their dissenters' rights.

To exercise dissenters' rights, a shareholder must file with Mallinckrodt before or at the Mallinckrodt meeting written objection to the Merger Agreement. The written objection should be addressed to Mallinckrodt at 675 McDonnell Boulevard, P.O. Box 5840, St. Louis, Missouri 63134, *Attention:* Raymond M. Asher. The return of a proxy with instructions to vote the shares represented thereby against approval of the Merger Agreement will not by itself satisfy the requirements of a written objection.

Shares of Mallinckrodt Common Stock for which dissenters' rights are sought must not be voted in favor of approval of the Merger Agreement. The submission of a signed blank proxy, unless revoked prior to the vote at the Mallinckrodt meeting, will serve to waive a shareholder's dissenters' rights, since such proxy will be voted in favor of approval of the Merger Agreement.

In addition, within 20 days after the effective time of the Merger, a Mallinckrodt shareholder who wishes to exercise his dissenters' rights must file with Holdings (which would then be named Mallinckrodt, Inc.) written demand for payment of the "fair value" of such shares. The letter of transmittal, described under "Conversion Number", to be furnished to former shareholders of Mallinckrodt will be the only notification of the effective time of the Merger. The written demand should be mailed to Mallinckrodt, Inc. at 675 McDonnell Boulevard, P.O. Box 5840, St. Louis, Missouri 63134, *Attention:* Raymond M. Asher.

If Holdings and any dissenting shareholder fail to agree upon the price to be paid for his shares within the period of 30 days after the effective time of the Merger, then, within 60 days after the expiration of such 30 day period, such dissenting shareholder may institute a special proceeding in a court of competent jurisdiction within the City of St. Louis, Missouri for a determination of the rights of the dissenting shareholder and to fix the "fair value" of his shares. If no such proceeding is instituted within such 60 day period, all appraisal rights will be lost.

Any judicial determination of the "fair value" of the shares of Mallinckrodt Common Stock could be based on numerous considerations including, but not limited to, the market value of the Mallinckrodt Common Stock and the asset values and earnings capacity of Mallinckrodt. Such appraisal may be greater than, the same as or less than the value of the Avon Capital Stock that Mallinckrodt shareholders will be entitled to receive pursuant to the Merger. The final court order would include an allowance for interest at the rate provided by Missouri law (currently 9%) payable from the day prior to the date on which the Mallinckrodt shareholders voted to approve the Merger Agreement.

The foregoing summary is not intended to set forth all of the procedures relating to appraisal rights under Section 351.455 of the MGBCL. Mallinckrodt shareholders are referred to the text of that Section set forth in Annex IV to this Joint Proxy Statement.

IN VIEW OF THE COMPLEXITY OF THESE PROVISIONS OF MISSOURI LAW, MALLINCKRODT SHAREHOLDERS WHO ARE CONSIDERING DISSENTING FROM THE MERGER SHOULD CONSULT THEIR LEGAL ADVISORS.

Avon Shareholders

Avon shareholders have no dissenters' or appraisal rights in connection with the Merger.

Litigation

On January 13, 1982, an action was filed in United States District Court for the Eastern District of Missouri naming Avon, Holdings, Mallinckrodt, Mallinckrodt's then directors and one former director as defendants. According to the complaint, the plaintiff is the owner of 150 shares of Mallinckrodt Common Stock and seeks to have the action certified as a class action on behalf of all persons who owned shares of Mallinckrodt Common Stock on December 16, 1981. The complaint alleges that the defendants have violated federal securities laws and Missouri law in connection with the Tender Offer, the Merger, the Stock Purchase Agreement and the Option and seeks injunctive relief, rescission and damages. Avon and Holdings have filed answers denying all material allegations of the complaint. Mallinckrodt has not yet filed its answer to the complaint. In the opinion of Avon and Mallinckrodt, the lawsuit is unsupported by fact and totally without merit.

MARKET PRICES OF AND DIVIDENDS ON AVON CAPITAL STOCK AND MALLINCKRODT COMMON STOCK

Market Prices

Avon Capital Stock is listed on the NYSE. Mallinckrodt Common Stock is traded in the over the counter market. The following table sets forth the high and low sale prices for Avon Capital Stock, as reported on the Composite Tape for issues listed on the NYSE, and the high and low bid and asked prices for Mallinckrodt Common Stock as reported on the National Association of Securities Dealers Automated Quotation System ("NASDAQ") for the calendar periods indicated, as reported in published financial sources. The prices for Mallinckrodt Common Stock have been adjusted to reflect a three-for-two stock split distributed in May 1981.

	Avon Capital Stock		Mallinckrodt Common Stock			
			Bid		Asked	
	High	Low	High	Low	High	Low
1980						
First Quarter	$40⅝	$31⅛	$21 3/16	$16 13/16	$21 13/16	$17½
Second Quarter	38⅞	32⅝	23 11/16	17 5/16	24 5/16	18
Third Quarter	40¾	34⅞	30 11/16	22 5/16	30 13/16	23
Fourth Quarter	38⅝	32⅝	37	27 11/16	37 3/16	27 13/16
1981						
First Quarter	39⅜	32½	36 11/16	31 5/16	36 13/16	31 11/16
Second Quarter	42⅜	37	39¾	31½	40	31 11/16
Third Quarter	38⅞	32¼	39⅜	31⅝	39½	31⅞
Fourth Quarter	35⅜	29⅛	48⅞	35⅜	49	35⅝
1982						
First Quarter (through February 8, 1982)	30½	26¾	47½	44⅛	47⅝	44⅜

On February 8, 1982, the closing price of Avon Capital Stock on the Composite Tape for the NYSE was $27 per share, and the closing bid and asked prices for Mallinckrodt Common Stock as reported by NASDAQ were $44⅛ and $44⅜ per share, respectively. On December 11, 1981, the last full trading day for Avon Capital Stock and Mallinckrodt Common Stock prior to the commencement of the Tender Offer, the closing price of Avon Capital Stock on the Composite Tape for the NYSE was $31⅝ per share and the closing bid and asked prices of Mallinckrodt Common Stock as reported by NASDAQ were $43⅛ and $43¼ per share, respectively. *Shareholders are urged to obtain current market quotations.*

Dividends

For the years ended December 31, 1979, 1980 and 1981, Avon paid cash dividends on Avon Capital Stock aggregating $2.75, $2.95 and $3.00 per share, respectively. At its regular meeting on February 4, 1982, Avon's Board of Directors declared a quarterly dividend of $.75 per share of Avon Capital Stock payable March 1, 1982 to shareholders of record on February 16, 1982. Mallinckrodt shareholders will not be entitled to receive this dividend.

For the years ended December 31, 1979, 1980 and 1981, Mallinckrodt paid cash dividends on Mallinckrodt Common Stock aggregating $.70, $.83⅓ and $.98⅓ per share, respectively, as adjusted to reflect a three-for-two stock split distributed in May 1981. At its regular meeting on February 9, 1982, Mallinckrodt's Board of Directors determined not to declare a dividend for the first quarter of 1982 at this time. It is not expected that any such dividend will be declared by Mallinckrodt for the first quarter of 1982 if the Merger occurs during such period.

See also "Comparative Per Share Data".

COMPARATIVE PER SHARE DATA

The following tabulation sets forth for the periods and dates indicated the historical earnings, book value and cash dividends per share of Avon Capital Stock and Mallinckrodt Common Stock as well as the related pro forma combined earnings, book value and cash dividends per share of Avon Capital Stock after giving effect to the purchase of 7,334,007 shares of Mallinckrodt Common Stock for $50 per share in cash pursuant to the Tender Offer and the Stock Purchase Agreement and the exchange of the remaining Mallinckrodt shares for 12,895,794 shares of Avon Capital Stock pursuant to the Merger, based on the number of Mallinckrodt shares outstanding on January 7, 1982 and the assumptions set forth in Note 5 under "Summary of Capitalization". The pro forma calculations presented here are shown for comparative purposes only, and it should be noted that if the Merger is consummated, Avon's financial statements would reflect the effects of the acquisition of Mallinckrodt only from the date such acquisition occurs. The comparative data are based upon the historical and pro forma combined financial statements of Avon and Mallinckrodt appearing elsewhere in this Joint Proxy Statement and should be read in conjunction with those financial statements and the related notes.

	Nine Months Ended September 30,		Year Ended December 31,
	1981	1980	1980
	(Unaudited)		
HISTORICAL—AVON			
Net earnings	$ 2.17	$ 2.22	$ 4.01
Book value (at end of period)	15.24	14.28	15.32
Cash dividends	2.25	2.20	2.95
HISTORICAL—MALLINCKRODT			
Net earnings—primary	2.08	1.87*	2.55*
Book value (at end of period)	19.32	17.49*	17.94*
Cash dividends	.73⅓	.60*	.83⅓*
PRO FORMA—AVON AND MALLINCKRODT (Unaudited)			
Net earnings	1.78	1.79	3.26
Book value (at end of period)	17.84		
Cash dividends	2.25	2.20	2.95

* Restated to reflect three-for-two stock split distributed in May 1981.

Avon's sales and earnings have a marked seasonal pattern characteristic of many companies in the cosmetics, fragrances and toiletries industry, as well as the jewelry industry. Heavy Christmas sales cause a sales peak in the fourth quarter of the year. Over the past five years, fourth quarter net sales have averaged approximately 35% of full-year net sales, and fourth quarter net earnings have averaged approximately 45% of full-year net earnings.

SUMMARY OF CAPITALIZATION

The capitalization of Avon and Mallinckrodt and their respective consolidated subsidiaries at September 30, 1981, and the pro forma combined capitalization of Avon and its consolidated subsidiaries after giving effect to the purchase of 7,334,007 shares of Mallinckrodt Common Stock for $50 per share in cash pursuant to the Tender Offer and the Stock Purchase Agreement and the exchange of the remaining Mallinckrodt shares for 12,895,794 shares of Avon Capital Stock pursuant to the Merger, based on the number of Mallinckrodt shares outstanding on January 7, 1982 (see Note 5), are as follows (in millions):

	Avon	Mallinckrodt	Pro Forma Adjustments	Pro Forma Combined—Avon and Mallinckrodt
Short-term debt (including current portion of long-term debt)(1)	$ 81.7	$ 4.9		$ 86.6
Long-term debt(1)				
5¾% Convertible Subordinated Debentures due 2000(2)	$	$ 28.6	$(28.6)	$
Industrial Building Revenue Bonds due 2001				
Series 1977A 6⅛%		1.0		1.0
Series 1977B 8⅜%		5.0		5.0
Others due in installments through 1994	2.4	6.2		8.6
Note payable due January 1984(3)			300.0	300.0
	2.4	40.8	271.4	314.6
Shareholders' equity				
Capital stock, par value $.50				
Authorized 80,000,000 shares				
Outstanding 60,154,424 shares(4)				
Pro forma outstanding 73,050,218 shares (4)(5)	30.1		6.4	36.5
Common stock, par value $1.00				
Authorized 30,000,000 shares				
Outstanding 14,200,087 shares (5)		14.2	(14.2)	
Capital surplus (5)	59.2	35.1	345.3	439.6
Retained earnings (5)	827.2	225.1	(225.1)	827.2
Shareholders' equity	916.5	274.4	112.4	1,303.3
Total long-term debt and shareholders' equity	$918.9	$315.2	$383.8	$1,617.9

(1) Substantially all short-term and long-term debt of Avon and substantially all short-term debt of Mallinckrodt is debt of subsidiaries guaranteed by Avon and Mallinckrodt, respectively. Substantially all short-term debt of Avon and Mallinckrodt is debt of foreign subsidiaries payable to banks in foreign currencies and is translated into U.S. dollar equivalents at current rates at September 30, 1981.

(2) On January 19, 1982, Mallinckrodt called for redemption all outstanding Debentures.

(3) Avon incurred additional debt in connection with the purchase of Mallinckrodt Common Stock pursuant to the Tender Offer and the Stock Purchase Agreement.

(Footnotes continued on following page)

(4) Avon has reserved 1,194,705 authorized and unissued shares of Avon Capital Stock for issuance under its 1970 Stock Option Incentive Plan (the "Avon Option Plan"). At the effective time of the Merger, each holder of an option to purchase shares of Mallinckrodt Common Stock granted under the Mallinckrodt Option Plan will receive in exchange an immediately exercisable option to purchase a number of shares of Avon Capital Stock equal to the product of the number of shares of Mallinckrodt Common Stock covered by such option immediately prior to the effective time of the Merger and the Conversion Number.

(5) Elimination of Mallinckrodt's shareholders' equity and assumed issuance of 12,895,794 shares of Avon Capital Stock at an assumed value of $30 per share, based on the 14,967,070 shares of Mallinckrodt Common Stock outstanding on January 7, 1982 and assuming the issuance of 102,866 additional shares of Mallinckrodt Common Stock upon the conversion of the $3,446,000 principal amount of Debentures outstanding on January 7, 1982. The computation further assumes that (i) Warrants to purchase 237,971 shares of Mallinckrodt Common Stock outstanding immediately prior to the effective time of the Merger will be purchased by Mallinckrodt for cash, (ii) options to purchase 142,696 shares of Mallinckrodt Common Stock outstanding immediately prior to the effective time of the Merger will be cancelled for cash, and (iii) the remaining options to purchase 220,330 shares of Mallinckrodt Common Stock will be exchanged for options to purchase a maximum of 367,290 shares of Avon Capital Stock.

(6) See Commitment Note of "Avon Products, Inc. and Subsidiaries—Notes to Consolidated Financial Statements" for information regarding long-term lease obligations and other commitments.

PRO FORMA CONDENSED COMBINED STATEMENT OF FINANCIAL CONDITION AND PRO FORMA CONDENSED COMBINED STATEMENT OF EARNINGS—(Unaudited)

The following unaudited pro forma condensed combined statement of financial condition as of September 30, 1981 and the unaudited pro forma condensed combined statements of earnings for the nine months ended September 30, 1981 and 1980 and the year ended December 31, 1980 give effect to the purchase of 7,334,007 shares of Mallinckrodt Common Stock for $50 per share in cash pursuant to the Tender Offer and the Stock Purchase Agreement and the exchange of the remaining Mallinckrodt shares for 12,895,794 shares of Avon Capital Stock pursuant to the Merger, based on the number of Mallinckrodt shares outstanding on January 7, 1982 and the assumptions set forth in Note 5 under "Summary of Capitalization". The pro forma combination with Mallinckrodt has been prepared based on purchase accounting. These pro forma statements do not purport to be indicative of the results which would actually have been obtained if the combination had been in effect on the dates indicated or which may be obtained in the future.

These pro forma statements have been prepared by Avon based upon assumptions deemed proper by it. The pro forma calculations presented here are shown for comparative purposes only, and it should be noted that if the Merger is consummated, Avon's financial statements would reflect the effects of the acquisition of Mallinckrodt only from the date such acquisition occurs. The statements are based upon the historical financial statements of Avon and Mallinckrodt appearing elsewhere in this Joint Proxy Statement and should be read in conjunction with those financial statements and the related notes.

PRO FORMA CONDENSED COMBINED STATEMENT OF FINANCIAL CONDITION

SEPTEMBER 30, 1981

(In Millions)

ASSETS

	Avon	Mallinckrodt	Pro Forma Adjustments	Pro Forma Combined—Avon and Mallinckrodt
Current assets				
Cash and short-term investments	$ 133.9	$ 14.4	$(83.1)(1)	$ 65.2
Accounts receivable—net	230.6	78.4		309.0
Inventories—net	449.8	93.8		543.6
Prepaid expenses	117.0	6.7		123.7
Total current assets	931.3	193.3	(83.1)	1,041.5
Property—net	515.7	162.9		678.6
Goodwill and other assets	57.9	35.0	458.1 (2)	551.0
	$1,504.9	$391.2	$375.0	$2,271.1
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Notes payable	$ 81.7	$ 4.9	$	$ 86.6
Accounts payable and accrued expenses	220.0	41.8		261.8
Retail sales and other taxes	78.5	.7		79.2
Taxes on earnings	97.4	9.9		107.3
Total current liabilities	477.6	57.3		534.9
Long-term debt	2.4	40.8	271.4 (3)	314.6
Other liabilities	49.8	5.3	4.6 (4)	59.7
Deferred income taxes	58.6	13.4	(13.4)(5)	58.6
Shareholders' equity	916.5	274.4	112.4 (6)	1,303.3
	$1,504.9	$391.2	$375.0	$2,271.1

(See notes on following page)

NOTES TO PRO FORMA CONDENSED COMBINED STATEMENT OF FINANCIAL CONDITION

The pro forma adjustments to the pro forma condensed combined statement of financial condition are based on estimated values as of September 30, 1981, and the actual adjustments may differ substantially as a result of changes in such values between September 30, 1981 and the date of the Merger. An explanation of the estimated pro forma adjustments required to record the acquisition as if it had been consummated on September 30, 1981 follows:

(1) To record cash disbursed by Avon for the purchase of shares of Mallinckrodt Common Stock pursuant to the Tender Offer and the Stock Purchase Agreement and by Mallinckrodt to effect the purchase of Warrants, cancellation of certain stock options and termination of the Bonus Plan.

(2) To record cost in excess of assets acquired. No determination has been made regarding allocation of the purchase price to the assets of Mallinckrodt.

(3) To record the borrowing by Avon under a revolving credit agreement of $300,000,000 to consummate the Tender Offer and the Stock Purchase Agreement and to record Mallinckrodt's call for redemption of the Debentures.

(4) To record deferred compensation resulting from the exchange of Mallinckrodt stock options for Avon stock options.

(5) To eliminate Mallinckrodt's deferred income taxes.

(6) To eliminate Mallinckrodt's shareholders' equity and record the issuance of 12,895,794 shares of Avon Capital Stock at an assumed value of $30 per share to effect the Merger. See Note 5 under "Summary of Capitalization".

PRO FORMA CONDENSED COMBINED STATEMENT OF EARNINGS

(In Millions, Except Per Share Amounts)

NINE MONTHS ENDED SEPTEMBER 30, 1981

	Avon	Mallinckrodt	Pro Forma Adjustments	Pro Forma Combined—Avon and Mallinckrodt
Net sales				
United States	$ 959.9	$330.3	$	$1,290.2
International	826.2	40.4		866.6
	1,786.1	370.7		2,156.8
Cost of goods sold	710.7	232.0		942.7
Gross profit	1,075.4	138.7		1,214.1
Marketing, distribution and administrative expenses	865.8	83.7	8.6 (1)	958.1
Operating profit	209.6	55.0	(8.6)	256.0
Interest income	36.9	1.6	(8.6)(2)	29.9
Other income (deductions)—net	14.5	(1.9)	(30.6)(3)	(18.0)
Earnings before taxes	261.0	54.7	(47.8)	267.9
Taxes on earnings	130.5	25.2	(18.0)(4)	137.7
Net earnings	$ 130.5	$ 29.5	$(29.8)	$ 130.2
Per share				
Net earnings	$2.17			$1.78(5)
Book value (at end of period)	$15.24			$17.84
Average shares outstanding	60.15			73.05

NINE MONTHS ENDED SEPTEMBER 30, 1980

	Avon	Mallinckrodt	Pro Forma Adjustments	Pro Forma Combined—Avon and Mallinckrodt
Net sales				
United States	$ 888.7	$294.3	$	$1,183.0
International	813.0	34.5		847.5
	1,701.7	328.8		2,030.5
Cost of goods sold	638.9	204.2		843.1
Gross profit	1,062.8	124.6		1,187.4
Marketing, distribution and administrative expenses	823.1	74.6	8.6 (1)	906.3
Operating profit	239.7	50.0	(8.6)	281.1
Interest income	28.2	1.8	(7.5)(2)	22.5
Other income (deductions)—net	(2.9)	(2.3)	(30.6)(3)	(35.8)
Earnings before taxes	265.0	49.5	(46.7)	267.8
Taxes on earnings	131.2	23.1	(17.6)(4)	136.7
Net earnings	$ 133.8	$ 26.4	$(29.1)	$ 131.1
Net earnings per share	$2.22			$1.79(5)
Average shares outstanding	60.15			73.05

(continued on following page)

PRO FORMA CONDENSED COMBINED STATEMENT OF EARNINGS

(In Millions, Except Per Share Amounts)

YEAR ENDED DECEMBER 31, 1980

	Avon	Mallinckrodt	Pro Forma Adjustments	Pro Forma Combined—Avon and Mallinckrodt
Net sales				
United States	$1,332.1	$394.7	$	$1,726.8
International	1,237.0	47.1		1,284.1
	2,569.1	441.8		3,010.9
Cost of goods sold	959.9	274.3		1,234.2
Gross profit	1,609.2	167.5		1,776.7
Marketing, distribution and administrative expenses	1,169.4	100.3	11.5 (1)	1,281.2
Operating profit	439.8	67.2	(11.5)	495.5
Interest income	39.8	2.1	(9.8) (2)	32.1
Other income (deductions)—net	(7.3)	(2.9)	(40.9) (3)	(51.1)
Earnings before taxes	472.3	66.4	(62.2)	476.5
Taxes on earnings	231.0	30.4	(23.3) (4)	238.1
Net earnings	$ 241.3	$ 36.0	$(38.9)	$ 238.4
Net earnings per share	$4.01			$3.26(5)
Average shares outstanding	60.15			73.05

NOTES TO PRO FORMA CONDENSED COMBINED STATEMENT OF EARNINGS

The pro forma adjustments are based in part on the estimated effect on the pro forma condensed combined statement of earnings of the pro forma condensed combined statement of financial condition adjustments. The actual adjustments to the statement of earnings may differ substantially because of changes in the statement of financial condition adjustments and other assumptions on which the pro forma condensed combined statement of earnings adjustments are based. The following explanation of estimated pro forma adjustments assumes that the Merger was consummated on January 1 of each of the periods presented.

(1) To record amortization of cost in excess of net assets acquired over 40 years on a straight-line basis.

(2) To record reduction of interest income resulting from the reduction of short-term investments in connection with the purchase of shares of Mallinckrodt Common Stock for cash pursuant to the Tender Offer and the Stock Purchase Agreement.

(3) To record interest expense on borrowings of $300,000,000 at an assumed interest rate of 14¼% and the reduction of interest expense resulting from Mallinckrodt's call for redemption of the Debentures.

(4) To record the estimated reduction of taxes on earnings associated with the additional interest expense and the reduced interest income incurred as a result of the purchase of shares of Mallinckrodt Common Stock pursuant to the Tender Offer and the Stock Purchase Agreement, partly offset by the reduced interest expense resulting from Mallinckrodt's call for redemption of the Debentures.

(5) Pro forma earnings per share of Avon Capital Stock are based on the average number of shares assumed to be outstanding during each period presented. See Note 5 under "Summary of Capitalization". Shares issuable upon the exercise of stock options are excluded from the average number of shares because their inclusion would not reduce pro forma earnings per share for any of the periods presented.

HISTORICAL SUMMARY OF EARNINGS

Avon

The following consolidated summary of earnings for the five years ended December 31, 1980 has been derived from financial statements examined by Main Hurdman, independent accountants. Data for the nine months ended September 30, 1981 and 1980 are unaudited but, in the opinion of Avon, include all adjustments necessary for a fair statement of the results of the periods indicated.

This summary should be read in conjunction with the Avon financial statements and notes thereto appearing elsewhere herein.

	Nine Months Ended September 30,		Year Ended December 31,				
	1981	1980	1980	1979	1978	1977	1976
	(Unaudited)		(In Millions, Except Per Share Amounts)				
Net sales							
United States	$ 959.9	$ 888.7	$1,332.1	$1,326.5	$1,233.0	$1,019.4	$ 865.1
International	826.2	813.0	1,237.0	1,051.0	853.3	689.3	617.1
	1,786.1	1,701.7	2,569.1	2,377.5	2,086.3	1,708.7	1,482.2
Cost of goods sold	710.7	638.9	959.9	899.7	759.1	619.7	544.4
Marketing, distribution and administrative expenses	865.8	823.1	1,169.4	1,034.8	880.4	718.8	617.1
Interest income	36.9	28.2	39.8	34.3	29.9	22.0	20.3
Other income (deductions)—net	14.5	(2.9)	(7.3)	2.9	(8.5)	(2.5)	5.0
Taxes on earnings	130.5	131.2	231.0	229.5	234.6	194.2	174.6
Net earnings	$ 130.5	$ 133.8	$ 241.3	$ 250.7	$ 233.6	$ 195.5	$ 171.4
Per share							
Net earnings(1)	$ 2.17	$ 2.22	$ 4.01	$ 4.17	$ 3.89	$ 3.26	$ 2.86
Book value (at end of period)	$ 15.24						
Cash dividends	$ 2.25	$ 2.20	$ 2.95	$ 2.75	$ 2.55	$ 2.20	$ 1.80
Average shares outstanding	60.15	60.15	60.15	60.14	60.11	60.02	59.99

(1) Net earnings per share of Avon Capital Stock are based on the average number of shares outstanding during each year. Shares issuable upon the exercise of stock options are excluded from the average number of shares because their inclusion would not reduce net earnings per share for any of the above years.

The following is a summary of Avon's consolidated operating results for the years ended December 31, 1981 and 1980.

	Year Ended December 31,	
	1981	1980
	(In Millions, Except Per Share Amounts)	
Net sales	$2,613.8	$2,569.1
Taxes on earnings	225.8	230.3
Net earnings	219.9	242.1
Net earnings per share	3.66	4.02

The foregoing summary includes the effect of adopting Statement of Financial Accounting Standards No. 52, Foreign Currency Translation. The results for the year ended December 31, 1980 appearing elsewhere in this Joint Proxy Statement have not been restated to reflect this change.

Mallinckrodt

The following consolidated summary of earnings for the five years ended December 31, 1980 has been derived from financial statements examined by Price Waterhouse, independent accountants. Data for the nine months ended September 30, 1981 and 1980 are unaudited but, in the opinion of Mallinckrodt, include all adjustments necessary for a fair statement of the results of the periods indicated.

This summary should be read in conjunction with the Mallinckrodt financial statements and notes thereto appearing elsewhere herein.

	Nine Months Ended September 30,		Year Ended December 31,				
	1981	1980	1980	1979	1978	1977	1976
	(Unaudited)		(In Millions, Except Per Share Amounts)				
Net sales	$370.7	$328.8	$441.8	$392.5	$352.6	$309.9	$266.0
Gross profit	138.7	124.6	167.5	144.3	126.0	110.7	98.1
Interest expense	2.4	2.3	3.1	3.6	3.4	2.7	2.1
Income taxes	25.2	23.1	30.4	27.6	23.9	22.4	19.9
Income from continuing operations	29.5	26.4	36.0	31.9	26.9	25.6	22.6
Net income	$ 29.5	$ 26.4	$ 36.0	$ 41.1	$ 28.8	$ 27.2	$ 24.2
Earnings per share from continuing operations							
Primary	$ 2.08	$ 1.87*	$ 2.55*	$ 2.27*	$ 1.91*	$ 1.81*	$ 1.63*
Fully diluted	1.97	1.79*	2.44*	2.18*	1.85*	1.76*	1.56*
Earnings per share—net income							
Primary	$ 2.08	$ 1.87*	$ 2.55*	$ 2.91*	$ 2.05*	$ 1.93*	$ 1.75*
Fully diluted	1.97	1.79*	2.44*	2.78*	1.97*	1.87*	1.67*
Book value per share	$19.32						
Cash dividends per common share	$ .73⅓	$ .60*	$ .83⅓*	$ .70*	$ .60*	$ .50*	$ .36⅔*
Average shares outstanding	14.18	14.11*	14.12*	14.10*	14.09*	14.09*	13.84*

* Restated to reflect three-for-two stock split distributed in May 1981.

The following is a summary of Mallinckrodt's consolidated operating results for the years ended December 31, 1981 and 1980.

	Year Ended December 31,	
	1981	1980
	(In Millions, Except Per Share Amounts)	
Net sales	$494.4	$441.8
Income before income taxes	72.2	66.4
Net income	39.7	36.0
Primary earnings per share	2.79	2.55
Fully diluted earnings per share	2.63	2.44

The foregoing summary includes certain non-recurring expenses associated with investment banking and legal services that were charged against income, primarily in the fourth quarter of 1981. Such charges approximated $1,000,000 after income taxes. Mallinckrodt also adopted Statement No. 52 of the Financial Accounting Standards Board, which increased net income by about $950,000. Operating results for years ended December 31, 1976 through 1980 and interim periods appearing in this Joint Proxy Statement have not been restated to reflect this change. Such restatements would not materially change the reported results for any period presented. Although adoption of Statement No. 52 did improve net income, Mallinckrodt's 1981 earnings continued to be adversely affected by the strengthened U.S. dollar versus certain foreign currencies. Without such effects, net income for the fourth quarter and year would have increased over comparable 1980 periods at percentage rates exceeding the percent increases in net sales.

BUSINESS AND PROPERTIES OF AVON

General

The two principal industry segments of Avon are the manufacture and sale of cosmetics, fragrances and toiletries, and fashion jewelry. These products are sold directly to customers in their homes by Avon Representatives following the method used since Avon's founding in 1886. Avon currently sells more than 650 products in the United States, Europe, Latin America and other parts of the world. Avon products are offered for every member of the family, although products for women have long been and remain of primary importance. Products for women and teen-age girls constituted approximately 85% of net sales in 1980. Although the range of products sold in foreign countries is not as extensive as that sold in the United States, most of the products are substantially the same as those marketed domestically. For financial information relating to industry segments and geographic areas, see the Industry Segment Data note of "Avon Products, Inc. and Subsidiaries—Notes to Consolidated Financial Statements" on pages F-9 through F-11 of this Joint Proxy Statement.

NET SALES OF PRINCIPAL PRODUCTS

	Year Ended December 31,		
	1980	1979	1978
		(In Millions)	
Cosmetics, fragrances and toiletries:			
Fragrance and bath products for women	$ 772.3	$ 748.8	$ 689.5
Makeup, skin-care and other products for women	770.7	674.8	532.6
Men's toiletry products	198.7	209.6	202.2
Daily-need, children's and teen products	241.6	213.8	185.2
Subtotal	1,983.3	1,847.0	1,609.5
Fashion jewelry	425.2	399.2	362.4
Other	160.6	131.3	114.4
Consolidated	$2,569.1	$2,377.5	$2,086.3

Cosmetics, Fragrances and Toiletries

This industry segment includes the following classes of principal products:

Fragrance and Bath Products for Women—These products consist of perfumes, colognes, sachets, fragrance candles, pomanders, lotions, soaps and powders. They are marketed in a number of fragrance lines, each based on a particular scent and packaging theme. The present fragrance lines include *Toccara, Odyssey, Foxfire, Tasha, Zany, Tempo, Ariane, Candid, Emprise, Timeless, Unspoken, Sportif, Country Breeze, Sweet Honesty, Honeysuckle, Wild Jasmine, Hawaiian White Ginger, Moonwind, Field Flowers, Charisma, Occur!, Topaze* and *Roses, Roses.*

Makeup, Skin-Care and Other Products for Women—These products include makeup items such as lipsticks, mascaras and eye shadows; skin-care products; nail and hand-care items; and hair-care products such as shampoos, conditioners and brushes.

Men's Toiletry Products—Men's toiletries include colognes, after-shave lotions, shaving creams, talcs and soaps marketed in a number of fragrance lines that are based on a particular scent and packaging theme. Fragrance lines include *Black Suede, Rugger, Trazarra, Clint, Weekend* and *Wild Country.*

Daily-Need, Children's and Teen Products—Daily-need items include deodorants, antiperspirants, oral hygiene products, and household products such as room sprays. Children's and teen products include fragrance products and novelty products for young children.

Fashion Jewelry

The fashion jewelry line is sold in the United States and in several foreign countries. The line, which includes rings, earrings, bracelets and necklaces, has been gradually broadened and given greater merchandising, promotional and advertising support. Avon Representatives sell jewelry products for women, men and children; however, women's items account for most of the sales. Although substantially all jewelry sales are currently made in the United States and Europe, it is anticipated that jewelry will be introduced in additional countries when an adequate supply and uniform quality standards can be assured.

Other

Tiffany & Co. is engaged in the retailing, manufacturing and wholesaling of fine jewelry, sterling silverware, goldware, watches, clocks, china, glassware and stationery from its main store in New York, and from branch stores in Atlanta, Beverly Hills, Chicago, Houston and San Francisco. Tiffany's merchandise is distributed principally through the medium of retail sales. Tiffany is faced with substantial competition in all areas in which it operates, principally from jewelry stores and department stores. Tiffany believes it has maintained its competitive position by adhering to the principle of high quality of material, workmanship and design with regard to all its products.

Tiffany designs and produces much of its platinum, gold and precious stone jewelry in its own workshop located in the New York store. Silverware, consisting of sterling silver flatware and hollow ware, is manufactured at Tiffany's factory in New Jersey.

Avon sells apparel by mail order in the United States under the name "Avon Fashions", operating from a sales and distribution facility in Newport News, Virginia.

Distribution

Avon's cosmetics, fragrances and toiletries, and fashion jewelry products are sold by a worldwide total of approximately 1,250,000 active Avon Representatives, over 425,000 of whom are in the United States. Almost all Representatives are women, most of whom are housewives selling on a part-time basis. In the United States and most other countries, Representatives are independent contractors or independent dealers, and are not agents or employees of Avon. They purchase products directly from Avon and sell them directly to residents of their communities. Avon has used this method of distribution since the establishment of its business in 1886.

With some exceptions in urban markets, each Representative has primary responsibility for a territory. In most countries outside the United States, there are 200 homes in an average territory. In the United States the size of an average territory has been gradually reduced over the past four years from 200 homes to 100 homes in order to promote more thorough household coverage within a territory. When this conversion to 100-home territories is completed in 1982, there will be nearly 200,000 additional Representative territories in the United States. Programs designed to reduce the size of the average territory and to create new territories over the next ten years are also planned in various countries outside the United States.

In the United States, the Representative calls on homes in her territory, selling primarily through the use of brochures highlighting new products and specially priced items for each two-week sales campaign. Product samples, demonstration products, makeup color charts and complete sales catalogs are also used. Usually the Representative forwards her order every two weeks to a designated branch distribution center. The Representative's order is processed and assembled by Avon and delivered to her home, generally by a local delivery service. The Representative delivers the merchandise to the customer's home and collects payment from the customer for her own account. Payment from the Representative to Avon is usually made when her next order is forwarded to the branch distribution center. The average cost of merchandise to the Representative is approximately 60% of the recommended selling price.

Outside the United States each sales campaign is of a three-week duration. Although terms of payment and cost of merchandise to the Representative vary from country to country, the basic method of direct selling 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 of Representatives is the primary responsibility of over 7,500 Avon District Managers worldwide (including nearly 3,000 in the United States), most of whom are former Representatives. 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.

In 1982 a new incentive program for Representatives—"Opportunity Unlimited"—will be implemented in the United States, and top-performing Representatives who qualify for the program and become "Group Sales Leaders" will be motivated to prospect for new Representatives and to provide training. When Opportunity Unlimited is fully implemented in the United States, each District Manager will have responsibility for a market area covered by approximately 300 Representatives and 10 Group Sales Leaders; a District Manager currently has responsibility for a market area covered by approximately 180 Representatives. District Managers are paid a salary and a commission based on purchases of Avon products by Representatives in their area.

From time to time the question of the legal status of Avon Representatives has arisen, usually in regard to possible coverage under social benefit laws that would require Avon or its subsidiaries (and in most instances the Representatives) to make regular contributions to social benefit funds established for employees. Although generally Avon has been able to deal with these questions in a satisfactory manner, the matter has not been finally resolved in all countries. If there should be a final judicial 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 Avon would have to consider discontinuing operations in that country.

Promotion and Marketing

Avon's sales promotion and sales development activities are directed toward giving direct-selling assistance to the Representatives by making available such sales aids as product samples and demonstration products, as well as the Avon brochure. In order to support the efforts of Representatives to reach new customers, especially working women and other individuals who frequently are not at home, Avon has developed specially designed sales aids, promotional pieces and customer flyers. In addition, Avon seeks to motivate its Representatives through the use of special prize programs that reward superior sales performance. Periodic sales meetings, to which Representatives are invited, are conducted by the District Manager. The meetings are designed to keep Representatives abreast of the product line, explain sales techniques, and give recognition to sales performance.

Under the new Opportunity Unlimited program, top-performing Representatives who qualify as Group Sales Leaders have the opportunity to earn commissions by stimulating sales increases in their groups of approximately 30 other Representatives. Representatives can continue to earn commissions as Group Sales Leaders as long as they stimulate sales increases. It is anticipated that Group Sales Leaders will increase group sales by such methods as prospecting for new Representatives, training new Representatives and motivating and assisting established Representatives. Group Sales Leaders will remain independent contractors and continue to sell in their territories. Opportunity Unlimited, which has been developed and tested over the past two years, is intended to reward and challenge top-performing Representatives and increase sales by providing greater incentive and support for all Representatives. The Opportunity Unlimited program is also scheduled to be implemented in various foreign countries during the next several years. Variations in the program may be made to meet local requirements, preserving, however, the incentive nature of the program.

Avon uses a number of merchandising techniques, including the continual introduction of new products, the use of combination offers, the use of trial sizes and the promotion of Avon products packaged as gift items. 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. Special pricing at less than regular prices is one of Avon's primary merchandising techniques, and the bulk of Avon's sales is made at special prices.

From time to time various federal and state regulations or laws have been proposed or adopted which would, in general, restrict or prohibit introductory offers of new products at special prices or restrict the frequency or duration of, or volume resulting from, special price offers. Such regulations or laws, if applicable to Avon, could require changes in Avon's marketing and promotional techniques that utilize special pricing.

Avon's advertising program continues to be directed toward promoting consumer receptivity to the Representatives by increasing their awareness of Avon, its people, products and way of doing business, through the use of broadcast and print media.

Competitive Conditions

The cosmetics, fragrances and toiletries industry and the costume jewelry industry are, in general, highly competitive. Avon is one of the leading manufacturers and distributors of cosmetics and fragrances in the United States. Its principal competitors are the 10 to 20 large and well-known cosmetics and fragrances companies that manufacture and sell broad lines through various types of retail establishments. There are many other companies that compete with Avon in particular products or product lines sold through retail establishments. There are also a number of direct-selling cosmetics and fragrances companies that compete with Avon in the United States, although none has total sales or earnings comparable with Avon's.

Avon is the leading distributor of fashion jewelry for women in the United States. Its principal competition in the costume jewelry industry consists of three or four large companies and many small companies that manufacture and sell costume jewelry for women through retail establishments. There are also a number of direct-selling costume jewelry companies that compete with Avon in the United States, although none has total sales or earnings comparable with Avon's.

The number of competitors and degree of competition that Avon faces in its foreign cosmetics, fragrances and fashion jewelry markets vary widely from country to country. Avon is a significant factor in the cosmetics and fragrances industry in most of its foreign markets, and is also a significant factor in the costume jewelry industry in Europe.

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

Manufacturing

Avon manufactures and packages almost all of its cosmetics, fragrances and toiletries 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 Avon's own staff of artists and designers.

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

Avon has twenty manufacturing laboratories around the world, three of which are principally devoted to the manufacture of fashion jewelry. In the United States, Avon's cosmetics, fragrances and toiletries products are produced in three manufacturing laboratories. Most products in the United States are produced by a single manufacturing laboratory for the six branch distribution centers located throughout the country. Most products sold in foreign countries are manufactured in Avon facilities abroad.

The fashion jewelry line is generally developed by Avon's staff and produced in Avon's manufacturing laboratories in Puerto Rico and Ireland or by several independent manufacturers in the United States.

International Operations

Avon commenced its international operations in Canada in 1914. In 1954, it expanded into Puerto Rico and Venezuela. In 1959, Avon entered the European market and thereafter expanded in Europe, Latin America, the Far East and Africa. Avon currently sells in Argentina, Australia, Belgium, Brazil, Canada, Chile, France, Guatemala, Honduras, Italy, Ivory Coast, Japan, Liberia, Malaysia, Mexico, The Netherlands, New Zealand, Nigeria, Paraguay, the Philippines, Puerto Rico, Senegal, Spain, Sweden, Thailand, the United Kingdom, Uruguay, Venezuela and West Germany. Except for the Puerto Rico operation, which is a branch of Avon, the international operations of Avon are conducted through subsidiaries, all of which are wholly owned except for the Nigerian, Spanish and Senegalese subsidiaries. In addition, government-required divestitures of minority interests are being carried out in the Philippines and Malaysia.

Operations in Saudi Arabia are conducted by a Saudi-owned company operating under distribution and technical assistance agreements with Avon. Under these agreements merchandise is purchased from Avon, and Avon also provides management, marketing and technical assistance.

Avon's international operations are subject to certain risks inherent in carrying on business abroad, including the risk of currency fluctuations, currency remittance restrictions and unfavorable political conditions. It is Avon's opinion that there are presently no political or other risks which would have a material adverse effect on Avon's international operations.

Capital Expenditures

In order to provide for anticipated future production requirements and distribution needs, plans to improve and expand manufacturing and distribution capabilities have been developed for many of Avon's locations worldwide. Capital expenditures were approximately $75,000,000 in 1978, $116,000,000 in 1979 and $118,000,000 in 1980 and for the nine months ended September 30, 1981 and 1980 were approximately $64,000,000 and $82,000,000, respectively. The majority of these expenditures were made in Avon's international subsidiaries. Capital expenditures in the next three years are expected to continue at generally the same level as or a somewhat lower level than the previous three years.

Trademarks and Patents

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

Although Avon owns several patents and has several more patent applications pending in the United States Patent Office, its business, both in the United States and abroad, is not materially dependent upon patents or patent protection.

Avon owns a large number of formulae, and regards many of its processes as secret. However, its business is not materially dependent upon maintaining the secrecy of formulae or processes. Avon has no material licenses, franchises or concessions.

Research Activities

The amounts spent on research activities relating to the development of new products and the improvement of existing products were $30,000,000 in 1980, $25,000,000 in 1979 and $22,000,000 in 1978 and for the nine months ended September 30, 1981 and 1980 were approximately $24,000,000 and $23,000,000, respectively. This research included the activities of product research and development, new product planning and package design and development. Most of these activities related to the development of cosmetics, fragrances and toiletry products.

Seasonal Nature of Business

Avon's sales and earnings have a marked seasonal pattern characteristic of many companies in the cosmetics, fragrances and toiletries industry, as well as the jewelry industry. Heavy Christmas sales cause a sales peak in the fourth quarter of the year. Over the past five years, fourth quarter net sales have averaged approximately 35% of full-year net sales, and fourth quarter net earnings have averaged approximately 45% of full-year net earnings.

Employees

At December 31, 1981, Avon employed approximately 34,400 persons. Of these 15,400 were employed in the United States and 19,000 in other countries. The number of employees tends to rise from a low point in January to a high point in November and falls off somewhat in December when Christmas shipments are completed.

Environmental Matters

Compliance in general with regulations governing the discharge of materials into the environment or otherwise relating to the protection of the environment has not had, and is not anticipated to have, any material effect upon the capital expenditures, earnings or competitive position of Avon.

Properties

Avon's principal properties consist of manufacturing laboratories for the production of merchandise and distribution branches where offices are located and where finished merchandise is received from the manufacturing laboratories, warehoused and shipped to Avon Representatives in fulfillment of their orders. All products sold by Avon Representatives are distributed through the same distribution branches.

Avon owns three manufacturing laboratories in Morton Grove, Illinois; Springdale, Ohio and Suffern, New York; and six distribution branches in Atlanta, Georgia; Glenview, Illinois; Kansas City, Missouri; Newark, Delaware; Pasadena, California and Springdale, Ohio. Avon also owns five manufacturing laboratories and six distribution branches in Europe, three manufacturing laboratories and five distribution branches in Latin America and three manufacturing laboratories and three distribution branches in other countries. In addition, Tiffany owns its main store in New York City and its New Jersey manufacturing facility. Avon leases space for its executive and administrative offices in New York City, its European Marketing Center in London, England and its fashion jewelry manufacturing facilities in Puerto Rico. Certain facilities in other countries are leased and, in the aggregate, are not material.

Legal Proceedings

There are no material legal proceedings pending other than as set forth under "The Proposed Merger and Related Transactions—Litigation".

DIRECTORS AND MANAGEMENT OF AVON

Directors of Avon

Set forth below is certain information furnished to Avon by each member of Avon's Board of Directors, including information as to the beneficial ownership of Avon Capital Stock as of December 31, 1981. Below the name of each director is the year that person first became a director of Avon.

R. Manning Brown, Jr.
1964 Age: 66

Shares Owned Beneficially: 1,000

Mr. Brown is a retired executive of New York Life Insurance Company. He joined New York Life in 1951, was elected a Director in 1967, President in 1969, and Chairman in 1972. He is a Director of New York Life Insurance Company, Associated Dry Goods Corporation, Louisiana Land and Exploration Company, J. P. Morgan & Co., Inc., Morgan Guaranty Trust Company of New York, Union Camp Corporation and Union Carbide Corporation. Mr. Brown is Chairman of the Executive Committee of Princeton University, a Trustee of the Metropolitan Museum of Art and the Alfred P. Sloan Foundation.

William R. Chaney
1975 Age: 49

Shares Owned Beneficially:
Sole Beneficial Ownership: 3,035
Right To Acquire: 52,250

Mr. Chaney was elected President of Avon in 1977. He joined Avon in 1955, and after serving in various sales and operating positions was elected a Vice President in 1967. He became a Group Vice President in 1968, Senior Vice President in 1969, and was Executive Vice President from 1972 until election to his present position. Mr. Chaney is a Director of Irving Bancorporation, Irving Trust

Company, Connecticut Mutual Life Insurance Company, former Chairman of the Board and currently a Director of The Cosmetic, Toiletry and Fragrance Association, Inc. and a member of the Steering Committee of the National Urban Coalition. On January 18, 1982, Mr. Chaney was elected to the Board of Directors of Mallinckrodt pursuant to the terms of the Merger Agreement.

HAYS CLARK
1967 Age: 63

Shares Owned Beneficially:
Sole Beneficial Ownership: 1,391,563
Shared Beneficial Ownership: 1,389,684†
Percent of Capital Stock: 4.63

Mr. Clark was, until his retirement in 1976, Executive Vice President of Avon. He joined Avon in 1945, was elected a Vice President in 1960, and Executive Vice President in 1968. From 1960 to 1976 he was responsible for Avon's international operations. Mr. Clark is a Trustee of the Loomis-Chaffee School and Cornell University, and is a member of the Board of Governors of the Society of New York Hospital. He is also a Trustee of the Marine Biological Laboratory and International House, and is a member of the National Board of Directors of the Boys' Clubs of America.

W. VAN ALAN CLARK, JR.
1953 Age: 62

Shares Owned Beneficially:
Sole Beneficial Ownership: 659,385
Shared Beneficial Ownership: 1,652,234†
Percent of Capital Stock: 3.84

Mr. Clark is Chairman of the Board of TSC Corporation, formerly known as The Sippican Corporation, which is engaged in engineering consulting. From 1946 to 1958 he was associated with Massachusetts Institute of Technology, first as an Associate Professor of Industrial Management, and then as Assistant Dean of the School of Industrial Management. From 1959 to 1965 he served as President of The Sippican Corporation and from 1965 to 1981 was Chairman of the Board of that company. Mr. Clark is a Director of Combustion Engineering, Inc., Tibbetts Industries, Inc., Sippican Ocean Systems, Inc. and Electronic Engineering Co. of California. He is also a Member of the Corporation of Massachusetts Institute of Technology and is a Trustee of the Woods Hole Oceanographic Institution and Williams College.

CHARLES S. LOCKE
1980 Age: 52

Shares Owned Beneficially: 100

Mr. Locke is Chairman of the Board and Chief Executive Officer of Morton-Norwich Products, Inc., a producer and manufacturer of salt, pharmaceuticals, household products, and specialty chemicals. Mr. Locke joined Morton-Norwich in July 1975 as Vice President, Finance and Treasurer and also as a Director. Subsequently, he held positions as President, and Chief Executive Officer of Morton-Norwich.

DAVID W. MITCHELL
1971 Age: 54

Shares Owned Beneficially:
Sole Beneficial Ownership: 1,000
Right To Acquire: 56,200

Mr. Mitchell was elected Chairman of the Board and Chief Executive Officer of Avon in 1977. He joined Avon in 1947, and after serving in various operating and sales positions was elected a Vice President in 1964. He became a Group Vice President in 1965 and Executive Vice President in 1968.

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† The "Shared Beneficial Ownership" of Hays Clark and of W. Van Alan Clark, Jr., who are brothers, includes 1,385,270 shares held by two charitable foundations created by the Clark family, of which they are trustees. The shared beneficial ownership applies to both voting power and investment power.

Mr. Mitchell was elected President of Avon in 1972, and assumed the additional position of Chief Executive Officer in January 1976. Mr. Mitchell is a Director of AMF Incorporated and New York Life Insurance Company, and is a Trustee of Dry Dock Savings Bank. On January 18, 1982, Mr. Mitchell was elected to the Board of Directors of Mallinckrodt pursuant to the terms of the Merger Agreement.

EMIL MOSBACHER, JR. — Shares Owned Beneficially: 2,000
1976 Age: 59

Mr. Mosbacher is a real estate investor and independent oil and gas producer. He served as Chief of Protocol of the United States from 1969 to 1972, and as Chairman of the New York State Racing & Wagering Board in 1973-1974. He is a Director of Chemical Bank, Chemical New York Corporation, The Chubb Corporation, Federal Insurance Co., Putnam Trust Company, Amax Inc. and Vigilant Insurance Company. Mr. Mosbacher is a member of the Board of Overseers of Hoover Institution on War, Revolution and Peace. He is a Trustee of the Lenox Hill Hospital and New York Yacht Club.

MERLIN E. NELSON — Shares Owned Beneficially: 100
1976 Age: 60

Mr. Nelson is Vice Chairman and a Director of AMF Incorporated, a manufacturer of leisure time and industrial products. An attorney, Mr. Nelson joined AMF in 1960 and was elected a Vice President in 1964. He was Executive Vice President—Planning and Foreign Affairs from 1970 to 1975, when he was elected to his present position. He is a member of the Council on Foreign Relations and a Director of Outlet Company, Coronet Life Insurance Company, AIESEC-U.S., Inc. and The Salzburg Seminar, and a Trustee of Dry Dock Savings Bank.

JAMES R. PETERSON — Shares Owned Beneficially: 600
1975 Age: 54

Mr. Peterson became President, Chief Executive Officer and a Director of The Parker Pen Company on January 1, 1982. Parker manufactures and markets writing instruments and provides temporary manpower services. From 1976 through December 31, 1981, he was Executive Vice President and a Director of R. J. Reynolds Industries, Inc., a diversified corporation with major interests in domestic and international tobacco, processed foods, beverages and fresh fruit, containerized freight transportation, energy and packaging. Prior to that time, Mr. Peterson was President and a Director of The Pillsbury Company, with which he had been associated since 1952. Mr. Peterson is a Director of Dun & Bradstreet Corporation, Inc. and Waste Management, Inc., and a member of the Board of Regents of St. Olaf College. He is also a member of the National Council of the Boy Scouts of America and a Trustee of the Moravian Music Foundation.

JAMES E. PRESTON — Shares Owned Beneficially:
1977 Age: 48
Sole Beneficial Ownership: 854
Right To Acquire: 34,000

Mr. Preston was elected Executive Vice President and a Director of Avon in 1977. He joined Avon in 1964, and after serving in various sales and marketing positions was elected a Vice President in 1971. He became a Group Vice President in charge of Marketing in 1972, and in 1977 was named Senior Vice President with responsibility for Avon's worldwide Field Operations. Mr. Preston is a Director of Asian International Bank and the Direct Selling Association. He is also Chairman of the Direct Selling Education Foundation.

ERNESTA G. PROCOPE — Shares Owned Beneficially: 494
1974 Age: 53

Mrs. Procope is President of E. G. Bowman Co., Inc., the country's largest Black-owned insurance brokerage firm, which she founded in 1953. She is a Director of The Chubb Corporation, Columbia Gas System, Inc. and Urban National Corporation. She is a member of the Board of Trustees of Cornell University, Adelphi University, the New York Zoological Society and the Brooklyn Botanical Garden. She is a member of the New York Advisory Board of The Salvation Army, and International Sponsor's Council, Howard University.

Cecily Cannan Selby | Shares Owned Beneficially: 100
1972 Age: 55

Dr. Selby is a Corporate Director and Educational Consultant. She holds a Ph.D. in bio-physics, and from 1950 to 1958 engaged in research and teaching at Sloan-Kettering Institute and Cornell Medical College. She was headmistress of The Lenox School in New York City from 1959 to 1972, and was National Executive Director of the Girl Scouts of the U.S.A. between 1972 and 1975. During 1976 she was President of Americans for Energy Independence. Dr. Selby is a Director of RCA Corporation, the National Broadcasting Company, and Loehmann's Inc. She is a Trustee of Brooklyn Law School, Radcliffe College and Woods Hole Oceanographic Institution, and a Member of the Humanities and Nuclear Engineering Visiting Committees of the Corporation of Massachusetts Institute of Technology.

Hicks B. Waldron | Shares Owned Beneficially: 300
1980 Age: 58

Mr. Waldron is President, Chief Executive Officer and a Director of Heublein Inc. which manufactures spirits, wine and grocery products and operates and franchises quick service restaurants. Mr. Waldron joined Heublein in 1973 as President and Chief Operating Officer. Prior to joining Heublein, Mr. Waldron was with General Electric Company, where he was elected Vice President in 1970 and Group Executive for Consumer Products in 1971. Mr. Waldron is a Director of Connecticut General Insurance Corporation and the Connecticut Bank and Trust Company, and Vice Chairman of Junior Achievement, Inc.

Kendrick R. Wilson, Jr. | Shares Owned Beneficially: 300
1964 Age: 69

Mr. Wilson retired in 1975 from Avco Corporation, a diversified company engaged in consumer finance, insurance, diversified manufacturing and research. He joined Avco in 1950, and was Chairman of the Board from 1960 until 1974 when he became Vice Chairman. Mr. Wilson remains a Director of Avco, and is also a Director of Atlantic Richfield Company, Central and South West Corporation, Dayco Corporation, Pitney-Bowes, Inc., and West Point-Pepperell Inc., and is a Trustee of Dry Dock Savings Bank.

Except for Messrs. Hays Clark and W. Van Alan Clark, Jr., each director's beneficial ownership represents less than $\frac{1}{10}$ of 1% of the Avon Capital Stock outstanding. The percentage of Avon Capital Stock beneficially owned by each director was computed on the basis of the number of shares of Avon Capital Stock outstanding on December 31, 1981 plus, for Messrs. Chaney, Mitchell and Preston, the number of shares which the respective director had the right to acquire within 60 days of December 31, 1981 through the exercise of stock options.

The number of shares shown as beneficially owned by the following directors includes the following shares owned by the immediate family of the director as to which he disclaims beneficial ownership: Mr. Chaney—20 shares; Mr. Hays Clark—4,414 shares; Mr. W. Van Alan Clark, Jr.—4,414 shares; Mr. Preston—260 shares.

As of December 31, 1981, all the directors and officers of Avon as a group beneficially owned (without duplication) 4,189,331 shares, or 6.9 percent of Avon Capital Stock. This number of shares included (without duplication) 1,647,820 shares (2.7 percent) as to which beneficial ownership was shared with others and 461,750 shares (0.8 percent) which the directors and officers as a group had a right to acquire within 60 days of December 31, 1981, through the exercise of stock options. The percentages shown in this paragraph were computed on the basis of the number of shares of Avon Capital Stock outstanding on December 31, 1981, plus such 461,750 shares.

Executive Officers of Avon

Officers are elected by the Board of Directors at its first meeting following the Annual Meeting of Shareholders, and they 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.

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

Title	Name	Age	Elected Officer
Chairman of the Board, Chief Executive Officer and Director	David W. Mitchell	54	1964
President and Director	William R. Chaney	49	1967
Executive Vice President and Director	James E. Preston	48	1971
Senior Vice President—Finance	Edmund W. Pugh, Jr.	62	1969
Senior Vice President, General Counsel and Secretary	S. Arnold Zimmerman	62	1958
Group Vice Presidents	Raymond A. Baliatico	42	1978
	J. Frank Casey	60	1972
	Phyllis B. Davis	50	1972
	Philip B. Evans	38	1979
	Robert H. Hansen	46	1972
	Manoel A. F. Lima	46	1977
	Paul B. Markovits	38	1979
	Norman K. McDowell	57	1971
	Donald S. Moss	46	1973
	L. Robert Pfund	45	1974
	E. Peter Raisbeck	42	1972
Vice President and Controller	Jules Zimmerman	47	1976
Vice President and Treasurer	Helmuth R. Fandl	55	1966

Board of Directors and Committees

Avon's Board of Directors held twelve meetings in 1981. Avon's Audit Committee, composed of R. Manning Brown, Jr. as Chairman, W. Van Alan Clark, Jr., Charles S. Locke, Emil Mosbacher, Jr., James R. Peterson, Ernesta G. Procope and Kendrick R. Wilson, Jr., met three times during 1981. The responsibilities of the Audit Committee include, among other duties, (i) recommendation to the Board with respect to the appointment of independent accountants; (ii) review of the timing, scope and results of the independent accountants' audit examination and the related fees; (iii) review of periodic comments and recommendations by Avon's independent accountants, and of Avon's response thereto; (iv) review of the scope and adequacy of internal controls and auditing procedures; (v) review of, and presentation to the Board of recommendations with respect to, significant changes in accounting policies and procedures; (vi) establishment and review of procedures designed to assure compliance by Avon employees with Avon's policy on standards of business conduct; and (vii) review and approval of all non-audit services performed for Avon by the independent accountants.

Avon's Compensation Committee, composed of Kendrick R. Wilson, Jr. as Chairman, Hays Clark, Merlin E. Nelson, James R. Peterson, Ernesta G. Procope, Cecily C. Selby and Hicks B. Waldron, met twice in 1981. The responsibilities of the Compensation Committee include, in addition to such duties as the Board may specify, review of, and presentation to the Board, or to the disinterested directors in the case of (ii) below, of recommendations with respect to (i) salary rates and bonuses of corporate officers, and terms and conditions thereof; (ii) key employees to receive stock options and stock appreciation rights under Avon stock option incentive plans and the number and terms of such options and rights; and (iii) new compensation plans for corporate officers, and amendments to existing plans.

Avon's Committee on Directors, composed of David W. Mitchell as Chairman, R. Manning Brown, Jr., William R. Chaney, W. Van Alan Clark, Jr., Ernesta G. Procope, Cecily C. Selby and Kendrick R. Wilson, Jr., held no meetings in 1981. The responsibilities of the Committee on Directors include, in addition to such other duties as the Board may specify, review of, and presentation to the Board of recommendations with respect to, (i) Board policies regarding the size and compensation of the Board and qualifications for Board membership, and (ii) prospective candidates for Board membership. Although the Committee will consider nominees recommended by shareholders, there are no formal procedures for such recommendations.

Each director who is not an officer or employee of Avon receives $15,000 per year for serving as a director, a fee of $500 for each meeting of the Board of Directors attended and an annual retainer of $2,000 for each committee of the Board on which he or she serves, except that the Chairmen of the Audit and Compensation Committees receive $3,000 each. Directors who are officers or employees of Avon or any subsidiary of Avon receive no remuneration for services as directors or committee members.

Remuneration of Directors and Officers

The following table shows information with respect to remuneration paid or accrued to the five most highly compensated directors or executive officers and to all directors and officers as a group for services in all capacities to Avon and its subsidiaries during the fiscal year 1981.

		Cash and Cash-Equivalent Forms of Remuneration	
Name of Individual or Identity of Group	Capacities in Which Served	Salaries, Directors' Fees and Bonuses	Securities, Insurance Benefits, Personal Benefits
David W. Mitchell	Chairman of the Board, Chief Executive Officer and Director	$ 604,123	$ 12,040
William R. Chaney	President and Director	$ 428,139	$ 12,260
James E. Preston	Executive Vice President and Director	$ 314,416	$ 11,040
Edmund W. Pugh, Jr.	Senior Vice President—Finance	$ 256,383	$ 20,316
Henry B. Platt(1)	Vice Chairman of Tiffany & Co. and Director	$ 400,000	—
All directors and officers (68 persons including the above)		$9,039,514	$281,085

(1) On July 3, 1981, Mr. Platt resigned from the Board of Directors. The amounts shown in the table include all of Mr. Platt's 1981 remuneration.

Retirement Benefits

Avon's Employees' Retirement Plan (the "Avon Retirement Plan") is a defined benefit plan. Benefits under the Avon Retirement Plan are based on the average of the five highest years' compensation during the ten years prior to retirement and the number of years creditable service, and are offset by a portion of Social Security benefits. The following officers have the indicated years of creditable service: Mr. Mitchell, 34 years; Mr. Chaney, 26 years; Mr. Preston, 17 years; Mr. Pugh, 12 years. The compensation covered by the Avon Retirement Plan includes base salary, wages, commissions and year-end management bonuses. The following table shows the estimated annual retirement allowance for a life annuity for employees retiring at age 65 whose five-year average compensation and years of service at retirement would be in the classifications shown:

ESTIMATED ANNUAL RETIREMENT ALLOWANCES AT AGE 65

Average of Five Highest Years' Compensation In Last Ten	Years of Creditable Service 15	25	35	45
$100,000	$ 25,000	$ 40,000	$ 55,000	$ 70,000
150,000	37,500	60,000	82,500	105,000
200,000	50,000	80,000	110,000	140,000
300,000	75,000	120,000	165,000	210,000
400,000	100,000	160,000	220,000	280,000†
500,000	125,000	200,000	275,000†	350,000†
600,000	150,000	240,000†	330,000†	420,000†
700,000	175,000	280,000†	385,000†	490,000†

† $232,400, however, is the 1981 maximum annual retirement benefit payable under a limit established in the Avon Retirement Plan. The maximum is adjusted each year to reflect cost of living determinations made by the Commissioner of Internal Revenue. The maximum applies after the election of a joint and survivor annuity to which an employee may be entitled. Any such joint and survivor annuity is the actuarial equivalent of the annual retirement allowance without reference to such maximum. Annual benefits in excess of $124,500, the 1981 limit established under the Employee Retirement Income Security Act of 1974 for payments from tax qualified trusts, will be paid from Avon assets and not plan assets.

Mr. Platt is not a participant in the Avon Retirement Plan, but is a participant in the Tiffany and Company Pension Plan. The Tiffany Plan benefit is based on the average salary for the five consecutive years which have the highest such average during the last ten prior to retirement. The benefit is the sum of (a) 1.75% of the average salary multiplied by the number of years of service up to 10 years of service plus (b) 1.5% of the average salary multiplied by the number of years of service in excess of 10 years; such benefit to be reduced by 1.25% of primary Social Security benefits multiplied by the number of years of service but not in excess of 40. Mr. Platt has 34 years of creditable service. Mr. Platt has announced that effective March 1, 1982 he will no longer participate in the management of Tiffany and will retire on February 1, 1984. Prior to his retirement he will receive annual compensation of $175,000. His estimated annual retirement allowance under the Tiffany Plan, assuming retirement on February 1, 1984, would be approximately $149,000. In addition, he will receive $26,000 per year after his retirement.

Stock Options

The following table provides, as to certain directors and officers and as to all directors and officers of Avon as a group, certain information with respect to options and stock appreciation rights granted and exercised since January 1, 1981 under the Avon Option Plan, and unexercised options and stock appreciation rights held as of December 31, 1981. The exercise price of each option is equal to the fair market value of the shares on the date the option was granted. Stock appreciation rights are an alternative to exercising options.

	David W. Mitchell	William R. Chaney	James E. Preston	Edmund W. Pugh, Jr.	Henry B. Platt	All Directors and Officers as a Group
Granted January 1, 1981 to December 31, 1981						
Number of shares	15,000	10,000	7,500	—	—	66,500
Number of rights (1)	15,000	10,000	7,500	—	—	66,500
Average exercise price per share	$37.85	$37.85	$37.85	—	—	$37.85
Exercised January 1, 1981 to December 31, 1981						
Number of rights (1)	—	—	—	—	—	200
Net value realized	—	—	—	—	—	$2,600
Outstanding at December 31, 1981(2)						
Number of shares	56,200	52,250	34,000	12,550	2,000	463,750
Number of rights(1)	56,200	52,250	34,000	12,550	2,000	463,750
Unrealized value	—	—	—	—	—	$19,813

(1) Stock appreciation rights are granted with respect to a number of shares covered by a related option; the stock appreciation rights or the option, but not both, may be exercised with respect to such number of shares.

(2) The information set forth as of December 31, 1981 is unchanged as of January 31, 1982.

As of December 31, 1981, there were 532 participants in the Avon Option Plan, holding options covering an aggregate of 1,071,375 shares, and related rights covering an aggregate of 500,150 shares. These options and related rights expire on dates ranging from February 28, 1982 to August 5, 1991 and have an average exercise price of $37.85 per share.

Other

Alan Newton, a Vice President of Avon who was transferred from Avon's New York headquarters to its London, England marketing headquarters, received a non-interest bearing loan from Avon of $107,991 in 1979 to purchase a home, all of which was repaid in 1980.

BUSINESS AND PROPERTIES OF MALLINCKRODT

General

Mallinckrodt develops, manufactures, markets and distributes specialty products, which are used principally in the health care, chemical and food industries. These products require a high degree of technology, are produced and distributed under strict regulation by various governmental agencies (principally the Food and Drug Administration) and are of a "specialty" natur. 's opposed to high-volume bulk or commodity products. Mallinckrodt manufactures and markets its products in the United States and in foreign countries; however, total sales and assets of international operations are not material. Principal administrative, executive and financial functions are centrally managed in St. Louis, Missouri.

Mallinckrodt's business activities are concentrated in three industry segments: Health Care Products, which includes drug chemicals, x-ray contrast media, radiopharmaceuticals, disposable medical devices and laboratory chemicals and equipment; Specialty Chemical Products, including industrial chemicals, catalysts and printing inks; and Food, Flavor and Fragrance Products which consists of food ingredients, flavors and fragrances. For financial information relating to industry segments, see the "Industry Segment Information" note of "Mallinckrodt, Inc.—Notes to Consolidated Financial Statements" on pages F-33 and F-34 of this Joint Proxy Statement.

Health Care Products

Health Care Products are those products which are instrumental in the delivery of health care services. These products are sold to hospitals, clinical laboratories, pharmaceutical manufacturers and other customers in the United States and foreign countries. They are related by a high degree of innovation and technology, by common regulation from such agencies as the Food and Drug Administration and by markets served. They are significantly affected by conditions within the health care industry.

Principal product lines included in this business segment are x-ray contrast media and radiopharmaceuticals for medical diagnostic procedures, disposable medical devices for use in surgical procedures and postoperative care, drug chemicals used in the manufacture of dosage-form drugs sold to the pharmaceutical industry and laboratory chemicals and equipment.

X-ray contrast media products include formulations of barium sulfate used for visualizing the gastrointestinal tract and iodinated compounds for the visualization of the blood vessels of the head, chest, arms, legs and urinary tract. Radiopharmaceutical products are used in imaging the brain, bones, heart and other organs, and in the evaluation of thyroid gland function. Radiopharmaceutical products and materials used by Mallinckrodt in producing radiopharmaceutical products are regulated by the Nuclear Regulatory Commission and by various state agencies having similar responsibilities.

Radiopharmaceutical products are sold directly to hospitals, radiopharmacies and clinics by a specialized sales force; x-ray contrast media are sold both directly and through distributors.

Disposable medical devices include endotracheal tubes, tracheostomy tubes, suction catheters, connective and conductive tubing, esophageal stethoscopes and thoracic and angiographic catheters which are used in hospital emergency, operating and recovery rooms. These products are marketed both directly and through hospital supply distributors.

Drug chemical products include analgesics such as codeine salts and other opium-based narcotics used to treat pain and cough, and APAP (acetaminophen) used to control pain and reduce fever. Other products include chemicals for manufacturing cosmetics and toiletries and Toleron® brand of ferrous fumarate, a hematinic, or agent which stimulates the formation of red blood cells, used in multivitamins with iron, in the iron fortification of foods and in the treatment of certain anemias. These products are marketed by a Mallinckrodt sales force.

Laboratory equipment and high-purity chemicals are sold through distributors to laboratories in hospitals, clinics, educational institutions, industrial firms and government agencies and to physicians and veterinarians. Mallinckrodt manufactures diagnostic test chemicals and equipment which complement products such as acids, salts and solvents used for laboratory research and analytical work. In addition, a line of biomedical laboratory equipment is sold through distributors, manufacturer's representatives and a Mallinckrodt sales force.

Specialty Chemical Products

Specialty Chemical Products are "specialty" products (as opposed to bulk or commodity chemicals) which are processed by Mallinckrodt and sold to a variety of markets. These products are related by a high degree of chemical technology and multi-process manufacturing. Generally, they are sold as intermediates which are used by customers as components, ingredients or reagents, rather than being sold as final consumer products. Many of Mallinckrodt's Specialty Chemical Products are processed in common manufacturing facilities. These products are also subject to government regulation and industry standards, but generally not to the same degree as Health Care Products. They are affected by market conditions within the particular markets served.

Principal product lines in this segment are high-purity industrial chemicals, preservatives, catalysts and printing inks. Products within these lines are sold to golf courses, commercial nurseries and printing companies, and to the plastic, rubber, petrochemical, paper, textile and food and beverage industries. Mallinckrodt sells Specialty Chemical Products through distributors and a Mallinckrodt sales force.

High-purity chemicals sold to other manufacturers include such products as metallic stearates for use as lubricants in molded and extruded plastics, calcium stearates for coating high-quality printing papers, tannins used in clarifying wines and malt beverages, columbium and tantalum compounds used in the metallurgical and electronics industries and potassium chloride used as a salt substitute in low-salt diets. Turf fungicides used for control of plant root disease are marketed through distributors.

Preservatives which are sold to the food, drug and cosmetic industries include sodium benzoate, sodium diacetate, propionates and parabens. Sodium acetate is used in manufacturing processes by the drug, cosmetic and industrial chemical industries.

Catalysts are sold to the petrochemical, textile and food industries and include such products as platinum and palladium on alumina, copper chromite, mercuric chloride on carbon, tableted and flaked nickel, platinum and palladium on carbon and zinc acetate on carbon. Catalysts are used to manufacture plasticizers, detergents, rubber, insecticides, lubricants, synthetic motor oil and food products.

Customized lithographic and letterpress printing inks are formulated and sold to large printing firms for printing magazines, maps, books, catalogs, brochures, packaging, folding cartons and other commercial materials.

Food, Flavor and Fragrance Products

Food, Flavor and Fragrance Products are comprised of ingredients produced for the food, beverage, cosmetic, industrial and household product industries. Markets include wholesale and retail bakeries, institutional food processing, cosmetic and toiletry manufacturers, dairies, tobacco and pet food processors and beverage producers. Production and distribution of these products are subject to regulation by such agencies as the Food and Drug Administration and the Bureau of Alcohol, Tobacco and Firearms. Products in this segment, particularly fragrances and flavors, require a high level of expertise in the art of formulation and are subject to highly competitive marketing conditions. Distribution of products is accomplished through direct sales, distributors and broker channels. Mallinckrodt manufactures and distributes specialty food ingredients, serving the baking industry with such products as dough concentrates, ready-to-use pie and cookie fillings, icing bases and stabilizers and the dairy industry with flavors for ice creams, yogurts and other frozen desserts, as well as systems and functional ingredients for making cultured dairy products.

Mallinckrodt produces liquid and powdered flavors, which are sold to the food, beverage, pharmaceutical and tobacco industries. The flavors are used in such items as convenience foods and beverages, dry beverage mixes, cordials, cocktails and wines, ice cream, cheese and other dairy products, pharmaceutical products, cake and cookie mixes and other bakery products.

Mallinckrodt manufactures and distributes formulated fragrances to the cosmetic and toiletry industries and to industrial and household packaged goods manufacturers. Formulated fragrance products include fragrances for perfumes, colognes, shampoos, hair sprays, facial make-ups, cleansing creams and men's aftershaves, soaps and detergents, fabric softeners, furniture polishes, household paper products and germicides.

International and Export Operations

International and export operations are principally managed by a group which directs the export of Mallinckrodt's Health Care and Specialty Chemical Products, directs most of its foreign subsidiaries and joint ventures and licenses other companies to sell or manufacture certain of such products outside of the United States.

Although total sales and assets of international operations are not material, international activities have grown through the formation of new companies, joint ventures and licensing agreements.

Mallinckrodt has active manufacturing or marketing subsidiaries in Canada, West Germany, the United Kingdom, Australia, Puerto Rico, Japan, Mexico and Brazil. In addition, Mallinckrodt's new subsidiary in the Republic of Ireland expects to commence active operations in 1982. Active joint ventures are located in West Germany, Japan, The Netherlands, Mexico and Spain. Subsidiaries of Mallinckrodt joint ventures and Mallinckrodt sales offices are located in certain other countries.

The Canadian subsidiaries manufacture and market specialty chemicals and market pharmaceuticals; the West German subsidiary manufactures and markets catheters and specialty chemicals; the Mexican subsidiaries manufacture and market primarily flavors and contrast media; while the other subsidiaries manufacture and/or market primarily diagnostic and pharmaceutical products. The Irish subsidiary will manufacture and market catheters. The West German joint venture is engaged in manufacturing and marketing radiopharmaceuticals and paint additives; the Japanese joint ventures manufacture and market radiopharmaceuticals and catalysts; the Dutch joint venture manufactures and markets radiopharmaceuticals; the Mexican joint venture manufactures and markets industrial paints and coatings; and the Spanish joint venture markets diagnostic products.

Raw Materials

The ability to make timely shipments is an important aspect of Mallinckrodt's business; therefore, most shipments of finished products are made from inventories maintained by Mallinckrodt. The availability of raw materials necessary to maintain adequate inventory levels was generally satisfactory during 1980 and 1981.

Energy Resources

Electricity, natural gas, coal and fuel oil are Mallinckrodt's principal energy sources. Their availability is related to government regulatory action and world supply conditions. In recent years, Mallinckrodt has protected the majority of its operations from fuel shortages by installing alternate fuel capabilities and by expanding fuel inventories. Steps have been taken to convert the largest plant to partial use of coal for the generation of steam. Although energy supplies cannot be predicted with certainty, Mallinckrodt believes that the energy situation will not have a material adverse effect on 1982 operations.

Research and Development

Mallinckrodt's research activities place primary emphasis on applied research directed at the development of new products, development of new uses for existing products and improvement of existing products and processes. Research and development programs include laboratory research as well as product development and product application.

Health Care Product research is supported by a central research and development division responsible for worldwide coordination of Mallinckrodt's development work on new radiopharmaceutical and diagnostic products, separate research and development programs within other domestic divisions and a cooperative research program with the joint ventures. Mallinckrodt's various development activities are directed toward satisfying both individual customers and widespread marketplace demands.

Expenditures on research and development for the years ended December 31, 1980, 1979 and 1978 were \$15,484,000, \$12,948,000 and \$11,727,000, respectively, and for the nine months ended September 30, 1981 and 1980 were \$13,721,000 and \$11,458,000, respectively.

Among the types of products in which Mallinckrodt has made developments during the past several years are: Health Care Products—x-ray contrast media, radiopharmaceuticals, catheters, medicinal and pharmaceutical chemicals; Specialty Chemical Products—specialty catalysts, fungicides and commercial stearates; Food, Flavor and Fragrance Products—flavors and fragrances.

Patents, Trademarks and Licenses

Mallinckrodt owns a number of patents and trademarks, has pending a substantial number of patent applications and is licensed under patents owned by others. Mallinckrodt does not consider any one of its patents to be essential to the business of Mallinckrodt and its subsidiaries considered as a whole; however, its patents in the aggregate are of material importance to the operation of its business.

Employees

At December 31, 1981, Mallinckrodt employed 5,089 persons. Approximately 41 percent of full-time hourly employees are covered by collective bargaining contracts. During 1980 new three-year contracts were approved by Mallinckrodt and its hourly employees at its Chicago, Illinois and Seattle, Washington plants without a work stoppage. On March 8, 1981 a new three-year contract was signed at the St. Louis and Maryland Heights, Missouri plants after a five-day work stoppage. On August 25, 1981, a new three-year contract was signed at the Gardena, California plant. On September 30, 1981, a new three-year contract was signed at the Pointe Claire, Quebec, Canada plant after an 18 week work stoppage. Mallinckrodt believes that its employee relations are generally satisfactory.

Competition

Competition with both foreign and domestic manufacturers involving price, service, quality and the development of new technology is intense in all markets served.

While exact measurement of market position is not possible, Mallinckrodt believes that it holds important positions in the fields of radiopharmaceuticals, analgesics, x-ray contrast media, laboratory chemicals and certain specialty chemicals and that its position in other fields is less significant.

Regulation and Environment

Various federal, state, municipal and foreign laws and regulations, including regulations of the Food and Drug Administration, govern the production, packaging, labeling, and distribution of many of Mallinckrodt's products. Mallinckrodt's medicinal narcotics business is rigidly controlled by regulations at various levels of government, including regulations of the Drug Enforcement Administration and state and local agencies having similar responsibilities. In addition, Mallinckrodt's use and production of radioactive materials, principally in connection with the production of radiopharmaceuticals, is regulated by the Nuclear Regulatory Commission and various state agencies having similar responsibilities.

Many chemical products, intermediates and by-products are subject to the provisions of the Toxic Substances Control Act. An important requirement under this law is that Mallinckrodt notify the Environmental Protection Agency of its intent to manufacture new products and show that such products will not threaten human health or the environment. This requirement may affect Mallinckrodt's ability to develop new chemical products.

Numerous laws and regulations relating to pollution control and other environmental matters are applicable to Mallinckrodt's operations. Fungicides and herbicides are regulated under the federal Insecticide, Fungicide and Rodenticide Act and similar state and local laws and regulations. Mallinckrodt, along with the chemical industry generally, expects additional, more stringent regulations to require new expenditures for water and air pollution control and improved solids waste management. These requirements stem from the 1977 amendments to the federal Water Pollution Control and Clean Air Acts, the federal Resource Conservation and Recovery Act and the adopted OSHA generic carcinogen standard. While these expenditures will be substantial, they are not expected to have a material adverse effect on Mallinckrodt's earnings.

In addition, in the past Mallinckrodt has engaged in clean-up operations for purposes of decontamination of certain facilities arising out of its prior activities involving processing radioactive materials for the federal government; the expense of such clean-up historically has been paid predominantly by the federal government. Clean-up operations continue to be under study and may reoccur in the future although no health risk is believed to be involved. Should such future operations occur, while the cost could be significant, Mallinckrodt would expect the cost to be borne substantially by the federal government and Mallinckrodt does not believe that existing conditions or the costs associated with such operations would have a material adverse effect on Mallinckrodt's financial condition.

Properties

Mallinckrodt owns corporate offices and medical products research and development facilities which are located in St. Louis County, Missouri.

Mallinckrodt's Specialty Chemical Products domestic production facilities are located at St. Louis, Missouri; Jersey City, New Jersey; Erie, Pennsylvania; Chicago, Illinois; East Windsor, Connecticut and Hawthorne, California.

The Health Care Products domestic production facilities are located at St. Louis and Maryland Heights, Missouri; Raleigh, North Carolina; Paris, Kentucky; Marietta, Ohio; Argyle, Bohemia and Glens Falls, New York and Angleton, Texas.

The Food, Flavor and Fragrance Products domestic production facilities are located at Woodside, New York; Cincinnati, Ohio, Englewood, New Jersey; Seattle, Washington and Gardena, California.

Mallinckrodt has common distribution systems for many of its products through warehouses located at St. Louis, Missouri; Paris, Kentucky and Los Angeles, California.

Some foreign subsidiaries and affiliates also have production and distribution facilities.

The St. Louis (City) production, warehousing and distribution facilities encompass an area approximating 1.3 million square feet and are owned by Mallinckrodt; the remaining such domestic facilities in the aggregate total approximately 2.1 million square feet, of which approximately 14% are leased and 86% are owned by Mallinckrodt.

Legal Proceedings

Mallinckrodt and its subsidiaries are defendants in a number of lawsuits. In general these proceedings are considered to have arisen in the ordinary course of business. Although the results of litigation cannot be predicted, management, based upon the advice of counsel, believes that the final outcome of such lawsuits will not have a material adverse effect on the financial position or operations of Mallinckrodt and its consolidated subsidiaries.

Three of Mallinckrodt's major customers for medicinal narcotics, McNeilab, Inc., Burroughs Wellcome Co. and Lee Laboratories, Inc., were recently granted registrations from the Drug Enforcement Administration to import raw materials and to manufacture these products in bulk. If these customers build the necessary facilities to manufacture such products, Mallinckrodt's sales of medicinal narcotics could be adversely affected.

See also "The Proposed Merger and Related Transactions—Litigation".

DIRECTORS AND MANAGEMENT OF MALLINCKRODT

Directors of Mallinckrodt

The following table sets forth the names of the directors of Mallinckrodt and the number of shares of Mallinckrodt Common Stock owned by each of them and by all officers and directors of Mallinckrodt as a group.

			Avon Capital Stock to Be Beneficially Owned Upon Consummation of the Merger			
	Mallinckrodt Common Stock Beneficially Owned as of January 20, 1982		Assuming Maximum Conversion Number of 1.667		Assuming Minimum Conversion Number of 1.429	
Director	Number of Shares	Percent of Class	Number of Shares	Percent of Class(1)	Number of Shares	Percent of Class(1)
Raymond F. Bentele	38,504(2)	*	64,186(3)	*	55,022(3)	*
George H. Capps	0	0	0	0	0	0
William R. Chaney(4)	0(5)	0	55,285(6)	*	55,285(6)	*
William H. Danforth	300(7)	*	500	*	429	*
William L. Davis	300	*	500	*	429	*
August H. Homeyer	32,520	*	54,211	*	46,471	*
Harry W. Kroeger	12,000(8)	*	20,004	*	17,148	*
David W. Mitchell(4)	0(5)	0	57,200(6)	*	57,200(6)	*
William D. Phillips	0	0	0	0	0	0
George Putnam	3,750	*	14,451	*	13,559	*
Harold E. Thayer	43,500(2)(9)	*	72,515(3)	*	62,162(3)	*
John L. Ufheil	25,000(2)	*	41,675(3)	*	35,725(3)	*
All directors and officers as a group (22 persons)	257,030	1.7	428,469	0.6	367,296	0.5

(footnotes on following page)

* Less than 0.5%.

(1) Assuming 60,156,135 shares of Avon Capital Stock outstanding immediately prior to consummation of the Merger.

(2) Includes the following shares which such persons have the right to acquire within 60 days after January 20, 1982 upon the exercise of stock options granted under the Mallinckrodt Option Plan: Mr. Bentele, 38,500; Mr. Thayer, 18,000; Mr. Ufheil, 25,000.

(3) Assuming that all shares of Mallinckrodt Common Stock which such persons have the right to acquire within 60 days after January 20, 1982 are acquired by such persons and are converted into Avon Capital Stock pursuant to the Merger Agreement.

(4) Messrs. Mitchell and Chaney, Chairman of the Board and President, respectively, of Avon, were elected by the Board of Directors of Mallinckrodt on January 18, 1982, following successful completion of the Tender Offer, pursuant to the Merger Agreement.

(5) Excludes 7,334,007 shares held by Holdings. Messrs. Mitchell and Chaney disclaim beneficial ownership of such shares.

(6) Includes the following shares which such persons have the right to acquire within 60 days after December 31, 1981 upon exercise of stock options granted under the Avon Option Plan: Mr. Chaney 52,250; Mr. Mitchell 56,200.

(7) Excludes 375 shares held by members of Dr. Danforth's family, as to which shares Dr. Danforth disclaims beneficial ownership.

(8) Excludes 1,368 shares held by Mr. Kroeger's wife and daughter, as to which shares Mr. Kroeger disclaims beneficial ownership.

(9) Excludes 2,850 shares held by Mr. Thayer's wife in her individual capacity and as trustee and custodian, as to which shares Mr. Thayer disclaims beneficial ownership.

Remuneration of Directors and Officers

The following table sets forth information concerning the 1981 remuneration of each of the five most highly paid directors or executive officers of Mallinckrodt whose total remuneration exceeded $50,000 and all directors and officers of Mallinckrodt as a group for services in all capacities to Mallinckrodt and its subsidiaries.

		Cash and Cash-Equivalent Forms of Remuneration		
Name of Individual or Persons in Group	Capacities in which Served	Salaries, Fees, Directors' Fees and Bonuses(1)	Insurance Benefits and Personal Benefits	Aggregate of Contingent Forms of Remuneration
Raymond M. Asher	Vice President, Secretary and General Counsel	$ 141,000	$10,367	$ 61,897(2)
Raymond F. Bentele	President, Chief Executive Officer and Director	358,333	5,688	143,812(2)
Harold E. Thayer	Chairman of the Board and Director	450,000	19,561	308,148(3)
Walter W. Thulin	Vice President, Food, Flavor and Fragrance Group	156,500	1,719	63,197(2)
John L. Ufheil	Executive Vice President, Chief Operating Officer and Director	216,250	3,445	109,527(2)
All directors and officers (22 persons including the above)		$2,525,066(4)	$55,219	$636,904(2)(3)

(1) Includes amounts awarded under Mallinckrodt's Additional Compensation Plan in 1981, the payment of which has been deferred in part but will be paid in full prior to consummation of the Merger. Excludes amounts awarded in prior years, reported as deferred compensation in the remuneration table in prior years, and paid in 1981.

(2) Includes amounts charged to expense in 1981 under the Bonus Plan described below.

(3) Includes amounts paid for life insurance to fund Mallinckrodt's obligations to pay death benefits, and accruals for payments after retirement, under the Consulting and Supplemental Agreements described below.

(4) Includes $90,000 and $24,000, respectively, awarded and/or paid to A. H. Homeyer and W. D. Phillips, directors of Mallinckrodt, for consulting services. Includes amounts with respect to directors and officers only for the periods during which they held such positions.

Retirement Plans and Agreements

Mallinckrodt maintains a Retirement Income Plan for Salaried Employees (the "Mallinckrodt Retirement Plan") which is a defined benefit plan. Employees participating on March 28, 1981 will receive a retirement benefit of the greatest amount produced by any of several formulae. Generally, participants with 25 years of service begin receiving upon retirement an annual amount substantially equivalent to 47.5% of their average annual base salary over the five highest consecutive years during the last ten years of their employment, less one-half of their Social Security primary benefit. Participants with fewer years of service receive proportionately lesser amounts. Participants with more 25 years of service begin receiving upon retirement an annual amount equivalent to 1.2% times years of service times $15,370, plus 1.7% times years of service (to a maximum of 30) times average annual base salary in excess of $15,370. The aggregate contribution to the Mallinckrodt Retirement Plan in 1981 was 7.0% of the total remuneration of all employees covered by the Mallinckrodt Retirement Plan.

The following table shows the annual benefits payable upon retirement at age 65 for various salary and years of service combinations under the Mallinckrodt Retirement Plan. The credited years of service covered by the Mallinckrodt Retirement Plan for each of the persons named in the remuneration table above are as follows: R. M. Asher—10; R. F. Bentele—14; H. E. Thayer—42; W. W. Thulin—3; and J. L. Ufheil—4. Payment of the specified retirement benefits is contingent upon continuation of the Mallinckrodt Retirement Plan in its present form until the employee retires. Directors who are not, or who have not been, employees of Mallinckrodt will not receive benefits under the Mallinckrodt Retirement Plan.

ESTIMATED ANNUAL RETIREMENT BENEFIT AT AGE 65 AFTER

Average Annual Salary	Years of Service			
	15	25	35	45
$125,000	$ 41,075	$ 59,825	$ 62,350	$ 64,200
175,000	57,325	83,575	87,850	89,700
225,000	73,575	107,325	113,350	115,200
275,000	89,825	131,075(1)	138,850(1)	140,700(1)

(1) Participants with average annual salary in excess of $275,000 and 25 or more years of credited service will be limited to the maximum annual benefit under the Mallinckrodt Retirement Plan as provided under the Employee Retirement Income Security Act of 1974, $124,500 in 1981.

Pursuant to the Merger Agreement, Holdings will either maintain the Mallinckrodt Retirement Plan in its present form or provide benefits which are at least as favorable to its participants.

In 1971, Mallinckrodt entered into an agreement with Mr. Thayer (the "Consulting Agreement") which, as amended in 1977, 1978 and 1980, entitles him to receive upon his retirement from active service with Mallinckrodt, whether voluntary or involuntary, $5,000 per month payable for a period of 120 months beginning on the first day of the month next following his retirement. In the event Mr. Thayer dies before expiration of such 120 month period, his designated beneficiary (or, if none is designated, his estate) will receive a lump sum payment equal to 10/7 of the commuted value at the time of Mr. Thayer's death (using an 8% discount factor) of the aggregate monthly payments for the unexpired portion (or, if Mr. Thayer has not retired prior to the time of his death, the entire term) of such 120 month period. Payments under the Consulting Agreement are in addition to Mr. Thayer's salary and any benefits he is now, or may become, entitled to receive under any Mallinckrodt stock option plan, incentive compensation plan, pension plan (including the Mallinckrodt Retirement Plan) and other general plans which are now, or may in the future be, in effect.

The Consulting Agreement requires that Mr. Thayer render certain consulting services to Mallinckrodt for a period of 120 months after retirement (unless incapacitated) or until his earlier death, prohibits him from engaging in any competitive activity and renders the benefits thereunder nonassignable (except in limited circumstances).

In 1975, Mallinckrodt entered into an agreement with Mr. Thayer (the "Supplemental Agreement") which, as subsequently amended, entitles him to receive upon his retirement and for as long as he is alive an annual amount which, when added to the amounts received by him each year under the Consulting Agreement and the Mallinckrodt Retirement Plan (as in effect at the time of his retirement), will aggregate $150,000. The annual amount is subject to increase proportionately with actual pension benefits; however, such increases may not cause the annual amount payable under the Supplemental Agreement to exceed an amount which, when added to the amounts received annually by Mr. Thayer under the Consulting Agreement and the Mallinckrodt Retirement Plan (as in effect at the time of his retirement), will aggregate more than $325,000. Mr. Thayer will be entitled to receive any improvements extended to retired employees under the Mallinckrodt Retirement Plan after Mr. Thayer retires without reduction in the amounts payable under the Supplemental Agreement.

The Supplemental Agreement provides that in the event Mr. Thayer dies within five years after retirement, his designated beneficiary (or, if none is designated, his estate) will receive a lump sum payment equal to 10/7 of the commuted value at the time of Mr. Thayer's death (using an 8% discount factor) of the benefits payable under the Supplemental Agreement for the unexpired portion of such five-year period. In addition, upon Mr. Thayer's death at any time after retirement, his beneficiary or estate will be paid a lump sum equal to 10/7 times Mr. Thayer's annual salary at the time of his retirement. If Mr. Thayer dies prior to his retirement, his beneficiary or estate will receive a lump sum amount equal to 10/7 of ten times the aggregate of (i) Mr. Thayer's annual benefits payable at such time under the Mallinckrodt Retirement Plan and Supplemental Agreement, reduced by (ii) the amount of any life insurance maintained by Mallinckrodt payable upon Mr. Thayer's death to his beneficiaries or estate. Such amounts are in addition to amounts payable under the Consulting Agreement.

The Supplemental Agreement contains provisions requiring consulting services, prohibiting competitive activities and restricting assignment similar to those contained in the Consulting Agreement.

If Mr. Thayer ceases to be a Mallinckrodt employee following a change in control of Mallinckrodt (as defined in the Supplemental Agreement), he will receive $325,000 per year during his life. In addition, five days after he ceases to be an employee following a change in control, Mr. Thayer will be entitled to receive payment of (1) all base salary and deferred compensation which is accrued or awarded to him but not paid; (2) an amount equal to the spread between the exercise price(s) of all options held by him to purchase shares of Mallinckrodt Common Stock and the higher of the then market price or the highest price paid in connection with any change in control of Mallinckrodt and (3) payment of certain legal fees. The Tender Offer constitutes a change in control as defined in the Supplemental Agreement.

At retirement Mr. Thayer will have the right to elect to receive payment of the benefits under both the Consulting and Supplemental Agreements on any actuarially equivalent basis which would be available to him under the Mallinckrodt Retirement Plan.

On his retirement on April 21, 1973, Dr. August H. Homeyer, then a Vice President of Mallinckrodt, agreed to serve the company as a consultant until April 21, 1983. During such time as Dr. Homeyer provides consulting services up to one-half his pre-retirement working time, he will be compensated at the rate of $2,500 per month, and thereafter until April 21, 1983, at the rate of $1,000 per month. In the event of Dr. Homeyer's death prior to April 21, 1983, his wife shall be entitled to receive $500 per month for a period expiring April 21, 1983 or until her death, whichever first occurs. Such payments are in addition to any benefits to which Dr. Homeyer may be entitled under the Mallinckrodt Retirement Plan. Dr. Homeyer is prohibited from engaging in competitive activity for the period ending April 21, 1983. With respect to 1981, Dr. Homeyer was awarded additional compensation of $60,000, reflecting management's judgment of the value of his contribution to Mallinckrodt.

Mallinckrodt has entered into a Consulting Agreement with Dr. William D. Phillips, a director of Mallinckrodt, pursuant to which Dr. Phillips provides consulting services to Mallinckrodt on an exclusive basis for a minimum of four days per month at a rate of $500 per day. Such Agreement is automatically renewed annually on December 1 unless notice to the contrary is given by October 31.

Other Plans and Agreements

Mallinckrodt maintains an Additional Compensation Plan (the "Additional Compensation Plan") to provide reward and incentive to officers and key employees. The Executive Compensation Committee annually determines which officers and key employees are eligible for additional compensation and sets aside for the Additional Compensation Plan an amount which may not exceed 20% of net income before federal income taxes and any provision for the Additional Compensation Plan after deducting an amount equal to 6% of the monthly average aggregate par value of the Mallinckrodt Common Stock outstanding during the year and 6% of the aggregate earned surplus and of the monthly average of any paid-in or other capital surplus during the year. Out of the amount set aside, the Committee allocates specific amounts to participants and may award each participant's share in a single cash payment, in annual installments over not more than five years, as deferred compensation or in any combination thereof. In practice, payments under the Additional Compensation Plan in the last five years have ranged from 1% to 1.8% of pre-tax income and have not exceeded 3.4% in the last 10 years.

Mallinckrodt has adopted an Executive Salary Protection Plan (the "ESP Plan") pursuant to which the beneficiaries of eligible officers are entitled to receive continued payment of a designated portion of such officers' compensation in the event of the death of such officers while Mallinckrodt employees. The ESP Plan provides for the payment to the beneficiary of 100% of a designated portion of the eligible officer's compensation for one year following death and the payment of 50% of such amount during each year thereafter for the longer of nine years or until such officer would have attained the age of 65. In addition, the ESP Plan provides for the payment of one lump sum death benefit equal to 100% of a designated portion of the eligible officer's compensation in the event of the death of such officer after retirement. Ten officers of Mallinckrodt, including Messrs. Asher, Bentele, Thulin and Ufheil, but excluding Mr. Thayer, participate in the ESP Plan, and these officers do not participate in Mallinckrodt's group life insurance plans.

Pursuant to the Merger Agreement, Holdings will either maintain both the ESP Plan and the Additional Compensation Plan, or provide benefits at least as favorable to their respective participants.

In 1978 Mallinckrodt adopted the Bonus Plan, under which "units" of participation have been awarded to seven officers of the company, excluding Mr. Thayer. The purpose of the Bonus Plan, which is administered by the Executive Compensation Committee of the Board of Directors, is to provide increased incentive for certain officers and key employees to apply their abilities toward attainment of Mallinckrodt's objective of increased earnings over the five year period of the Bonus Plan. The Bonus Plan established as a growth target the achievement for the year ended December 31, 1983 of fully diluted earnings of $3.32 per share, which represents a compounded annual earnings growth of 11% above fully diluted earnings of $1.97 per share for 1978 (restated to reflect the three-for-two split of Mallinckrodt Common Stock in 1981). If this target were achieved each participant in the Bonus Plan would have been paid a bonus equal to the number of units held by the participant multiplied by the lesser of the fair market value of a share of Mallinckrodt Common Stock on December 31, 1983, or $80.00. A reduced bonus would have been paid if earnings for 1983 were at least $3.03 per share.

The Merger Agreement provides that each participant in the Bonus Plan will receive in exchange for his units of participation awarded thereunder an amount of cash equal to the highest cash price per share paid for shares of Mallinckrodt Common Stock in the Tender Offer, multiplied by the number of units granted to such participant, and the Bonus Plan will thereupon be terminated. Units in the Bonus Plan are outstanding as follows: Mr. Asher, 4,500; Mr. Bentele, 9,000; Mr. Thulin, 2,250; Mr. Ufheil, 6,750; three other officers of Mallinckrodt, 9,000.

The Board of Directors approved Mallinckrodt's Employee Stock Ownership Plan (a "Tax Reduction Act Stock Ownership Plan" or "TRASOP") effective January 1, 1978 for employees on U.S. payrolls who are not subject to a collective bargaining agreement, other than officers of Mallinckrodt. Under the TRASOP, Mallinckrodt is allowed an increased investment tax credit when the funds generated by the credit are used to purchase Mallinckrodt Common Stock for the accounts of participants in the TRASOP. Mallinckrodt employees are eligible to participate after three years of service. Shares available under the TRASOP are allocated equally to participants' accounts. Because the costs of the TRASOP are offset by the increased investment tax credit, the TRASOP has no effect on net earnings.

Mallinckrodt has entered into three-year employment contracts with Messrs. Asher, Bentele, Ufheil and seven other officers, providing for base compensation at their then current rates and such supplemental, incentive or additional compensation, if any, as may be awarded by the Board of Directors or Executive Compensation Committee. These contracts are renewed annually at the officers' current rates of base compensation. Additional agreements were entered into in 1980 and 1981 with these officers and with certain other officers and key employees which provide that such officers and employees will be entitled to certain severance benefits if their employment is terminated after a change in control of Mallinckrodt (as defined in such agreements), unless such termination is by reason of death, disability or retirement, by Mallinckrodt for cause or by the officer or employee for other than good reason. The Tender Offer constitutes such a change in control of Mallinckrodt. With respect to the specified officers, such benefits consist principally of a lump sum cash payment of the following amounts: (1) three times the sum of his annual base salary and the amount awarded under the Additional Compensation Plan for the most recent year; (2) the spread between the exercise price of all outstanding options then held by him under the Mallinckrodt Option Plan and the higher of the then market price or the highest price paid per share in connection with the change in control; and (3) payment in an amount equal to the value of his units under the Bonus Plan based on the earnings per share having met the required average compound growth rate through the end of the most recently completed quarter. Under certain circumstances Mallinckrodt will also pay certain relocation expenses and legal fees. In addition, Mallinckrodt will continue to provide the terminated officer or employee with all benefits to which he was entitled under Mallinckrodt's employee benefit plans, or provide him with substantially similar benefits for three years after termination, and pay him a lump sum at his retirement age equal to the actuarial equivalent of the pension to which he would have been entitled under the Mallinckrodt Retirement Plan, without regard to vesting requirements, as if he had accumulated specified additional years of service under the Mallinckrodt Retirement Plan reduced by the single sum actuarial equivalent of any amount to which he is entitled under the Mallinckrodt Retirement Plan.

Pursuant to the Merger Agreement the termination agreements have been amended to provide that (i) Holdings shall have no obligation under such agreements to continue plans or arrangements which are specifically cancelled or modified pursuant to the Merger Agreement, to the extent cancelled or modified, and (ii) the requirement that Mr. Raymond F. Bentele report to the Chief Executive Officer of Avon shall not constitute grounds for Mr. Bentele to terminate his employment and receive benefits under his termination agreement.

Stock Options

Under the Mallinckrodt Option Plan, options may be granted to key employees of Mallinckrodt and its subsidiaries. The purchase price of such options is 100% of the fair market value at the time of grant, and the term of such options is 10 years. The Mallinckrodt Option Plan is administered by Mallinckrodt's Executive Compensation Committee. Approximately 200 persons are eligible to participate in the Mallinckrodt Option Plan, and 128 persons held options under the Mallinckrodt Option Plan at January 20, 1982.

Upon execution of the Merger Agreement by Mallinckrodt, all outstanding options granted under the Mallinckrodt Option Plan became immediately exercisable in full. Pursuant to the Merger Agreement, the Executive Compensation Committee has, subject to approval of the Merger Agreement by Mallinckrodt shareholders, (a) given all holders of options granted under the Mallinckrodt Option Plan, other than directors or officers of Mallinckrodt, the right to have Mallinckrodt cancel any such options which would be exercisable by their terms as of the effective time of the Merger without regard to the execution of the Merger Agreement in consideration of a cash payment equal to (i) the difference between the exercise price per share of such options so cancelled and $50, multiplied by (ii) the number of shares of Mallinckrodt Common Stock subject to such options so cancelled, (b) cancelled in consideration of a cash payment as aforesaid all options held by directors and officers of Mallinckrodt who are not members of its Operating Committee which would be exercisable by their terms as of the effective time of the Merger without regard to the execution of the Merger Agreement and (c) with respect to options held by members of Mallinckrodt's Operating Committee, cancelled in consideration of a cash payment as aforesaid the greater of (x) one-third of all options held by each such member or (y) all of each such member's options that would be exercisable by their terms as of the effective time of the Merger without regard to the execution of the Merger Agreement. With respect to options held by members of the Operating Committee, the options cancelled were those with the lowest exercise prices.

AVON'S RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

Main Hurdman has audited the accounts of Avon in each year since 1922. Avon is informed that no member of the firm of Main Hurdman has any direct financial interest, or any material indirect financial interest, in Avon or any of its subsidiaries. A member of the firm will be present at Avon's Special Meeting of Shareholders to answer appropriate questions concerning its examinations and to make a statement if he desires.

MALLINCKRODT'S RELATIONSHIP WITH INDEPENDENT ACCOUNTANTS

Price Waterhouse has acted as Mallinckrodt's independent accountants for many years. Mallinckrodt has been advised by Price Waterhouse that, to the best of their knowledge, neither such firm nor any of its partners has, or has had since their engagement by Mallinckrodt, any direct or indirect financial interest in Mallinckrodt or any of its subsidiaries, or any relationship with Mallinckrodt or its subsidiaries other than their duties as auditors and accountants. A representative of Price Waterhouse will be present at Mallinckrodt's Special Meeting of Shareholders to answer appropriate questions concerning its examinations and to make a statement if he so desires.

EXPERTS

The consolidated financial statements of Avon and subsidiaries included in this Joint Proxy Statement (except as they relate to the unaudited nine month periods ended September 30, 1981 and 1980) have been included in reliance upon the report of Main Hurdman, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Mallinckrodt and subsidiaries included in this Joint Proxy Statement (except as they relate to the unaudited nine month periods ended September 30, 1981 and 1980) have been included in reliance upon the report of Price Waterhouse, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The following table sets forth certain information with respect to options outstanding at January 20, 1982.

Number of Shares	Exercise Price	Expiration Date
146,701	$18.50	March 6, 1988
140,375	20.50	April 22, 1990
3,000	30.50	December 16, 1990
3,000	34.833	February 10, 1991
3,000	33.00	March 24, 1991
3,000	32.125	July 10, 1991
60,950	38.75	September 23, 1991
3,000	43.125	December 14, 1991

The following table shows, as to certain directors and officers of Mallinckrodt and as to all directors and officers of Mallinckrodt as a group, the following information with respect to options: (i) the aggregate number of shares of Mallinckrodt Common Stock subject to options granted during the specified period, (ii) the average per share option exercise price thereof, (iii) the net value (market value less exercise price) realized in shares acquired during the specified period upon the exercise of options granted during the specified period or prior thereto, (iv) the number of shares sold during the specified period, (v) the aggregate number of shares of Mallinckrodt Common Stock subject to all options outstanding as of the end of the specified period and (vi) the potential (unrealized) value (market value less exercise price) of such outstanding options as of the end of the specified period. The numbers of options set forth below correspond to the numbers of shares to which they relate.

	R. M. Asher	R. F. Bentele	H. E. Thayer	W. W. Thulin	J. L. Ufheil	All Directors and Officers as a Group
Granted—1/1/77 to 12/31/81:						
Number of options	17,000	38,500	18,000	12,000	25,000	195,950
Average per share option price	$ 23.11	$ 24.54	$ 18.50	$ 27.34	$ 25.74	$ 23.41
Exercised—1/1/77 to 12/31/81:						
Net value realized in shares (market value less exercise price)	$ —	$ —	$ —	$ —	$ —	$ —
Sales—1/1/77 to 12/31/81:						
Number of shares*	—	—	—	—	—	—
Outstanding at 12/31/81:						
Number of options	17,000	38,500	18,000	12,000	25,000	169,700
Potential (unrealized) value—(market value less exercise price)	$402,938	$857,532	$509,625	$233,625	$526,875	$3,855,096

* Sales by directors and officers who exercised options during the period from January 1, 1977 to December 31, 1981.

In addition, during the period employees who are not officers or directors were granted options for a total of 268,575 shares at an average option price per share of $21.56.

The average of the closing bid and asked prices of Mallinckrodt Common Stock on December 31, 1981, as reported by NASDAQ, was $46.8125.

Upon execution of the Merger Agreement by Mallinckrodt, all outstanding options granted under the Mallinckrodt Option Plan became immediately exercisable in full. Pursuant to the Merger Agreement, the Executive Compensation Committee has, subject to approval of the Merger Agreement by Mallinckrodt shareholders, (a) given all holders of options granted under the Mallinckrodt Option Plan, other than directors or officers of Mallinckrodt, the right to have Mallinckrodt cancel any such options which would be exercisable by their terms as of the effective time of the Merger without regard to the execution of the Merger Agreement in consideration of a cash payment equal to (i) the difference between the exercise price per share of such options so cancelled and $50, multiplied by (ii) the number of shares of Mallinckrodt Common Stock subject to such options so cancelled, (b) cancelled in consideration of a cash payment as aforesaid all options held by directors and officers of Mallinckrodt who are not members of its Operating Committee which would be exercisable by their terms as of the effective time of the Merger without regard to the execution of the Merger Agreement and (c) with respect to options held by members of Mallinckrodt's Operating Committee, cancelled in consideration of a cash payment as aforesaid the greater of (x) one-third of all options held by each such member or (y) all of each such member's options that would be exercisable by their terms as of the effective time of the Merger without regard to the execution of the Merger Agreement. With respect to options held by members of the Operating Committee, the options cancelled were those with the lowest exercise prices.

AVON'S RELATIONSHIP WITH INDEPENDENT PUBLIC ACCOUNTANTS

Main Hurdman has audited the accounts of Avon in each year since 1922. Avon is informed that no member of the firm of Main Hurdman has any direct financial interest, or any material indirect financial interest, in Avon or any of its subsidiaries. A member of the firm will be present at Avon's Special Meeting of Shareholders to answer appropriate questions concerning its examinations and to make a statement if he desires.

MALLINCKRODT'S RELATIONSHIP WITH INDEPENDENT ACCOUNTANTS

Price Waterhouse has acted as Mallinckrodt's independent accountants for many years. Mallinckrodt has been advised by Price Waterhouse that, to the best of their knowledge, neither such firm nor any of its partners has, or has had since their engagement by Mallinckrodt, any direct or indirect financial interest in Mallinckrodt or any of its subsidiaries, or any relationship with Mallinckrodt or its subsidiaries other than their duties as auditors and accountants. A representative of Price Waterhouse will be present at Mallinckrodt's Special Meeting of Shareholders to answer appropriate questions concerning its examinations and to make a statement if he so desires.

EXPERTS

The consolidated financial statements of Avon and subsidiaries included in this Joint Proxy Statement (except as they relate to the unaudited nine month periods ended September 30, 1981 and 1980) have been included in reliance upon the report of Main Hurdman, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The consolidated financial statements of Mallinckrodt and subsidiaries included in this Joint Proxy Statement (except as they relate to the unaudited nine month periods ended September 30, 1981 and 1980) have been included in reliance upon the report of Price Waterhouse, independent accountants, given on the authority of said firm as experts in auditing and accounting.

ADDITIONAL INFORMATION

This Joint Proxy Statement is also a Prospectus delivered in compliance with the Securities Act. A Registration Statement under the Securities Act has been filed by Avon with the Securities and Exchange Commission (the "SEC"), Washington, D.C., with respect to the shares of Avon Capital Stock issuable in the Merger. As permitted by the rules and regulations of the SEC, this Prospectus omits certain information contained in the Registration Statement on file with the SEC. The information omitted can be inspected at Room 6101 of the office of the SEC, 1100 L Street, N.W., Washington, D.C., and copies can be obtained from the SEC at prescribed rates by writing to it at 500 North Capitol Street, Washington, D.C. 20549. For further information pertaining to the securities offered hereby, reference is made to the Registration Statement, including the exhibits filed as a part thereof.

INDEX TO FINANCIAL STATEMENTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Shareholders and Board of Directors of
AVON PRODUCTS, INC.

We have examined the consolidated statement of financial condition of Avon Products, Inc. and subsidiaries as of December 31, 1980 and 1979 and the related consolidated statements of earnings and retained earnings and of changes in financial position for each of the three years in the period ended December 31, 1980. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements identified above present fairly the consolidated financial position of Avon Products, Inc. and subsidiaries at December 31, 1980 and 1979 and the consolidated results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles, applied on a consistent basis.

MAIN HURDMAN

New York, New York
February 2, 1981

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AVON PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

(In Millions)

ASSETS

	September 30, 1981 (Unaudited)	December 31, 1980	December 31, 1979
Current assets			
Cash	$ 17.4	$ 25.7	$ 34.7
Short-term investments	116.5	282.7	272.2
Accounts receivable (less allowance for doubtful accounts of $10.4, $13.3 and $11.4)	230.6	240.3	213.4
Inventories			
Finished goods	240.3	178.5	167.2
Raw material	209.5	202.9	198.7
	449.8	381.4	365.9
Prepaid expenses	117.0	120.9	92.7
Total current assets	931.3	1,051.0	978.9
Property			
Land	40.9	36.7	31.4
Buildings	330.5	281.0	220.4
Equipment and improvements	264.2	274.0	233.0
Construction in progress	96.0	76.3	78.8
	731.6	668.0	563.6
Less accumulated depreciation	215.9	202.2	181.4
	515.7	465.8	382.2
Deferred charges and other assets	57.9	54.6	44.9
	$1,504.9	$1,571.4	$1,406.0

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION—(Continued)

(In Millions)

LIABILITIES AND SHAREHOLDERS' EQUITY

	September 30, 1981 (Unaudited)	December 31, 1980	December 31, 1979
Current liabilities			
Notes payable	$ 81.7	$ 36.6	$ 58.0
Accounts payable	92.8	113.5	102.1
Accrued expenses	68.1	87.7	62.4
Accrued compensation	59.1	31.4	30.5
Retail sales and other taxes	78.5	107.6	76.9
Taxes on earnings	97.4	173.5	141.5
Total current liabilities	477.6	550.3	471.4
Long-term debt	2.4	2.6	4.1
Other liabilities			
Foreign employee benefit plans	43.8	45.7	42.0
Other	6.0	4.8	5.9
	49.8	50.5	47.9
Deferred income taxes	58.6	46.8	25.4
Shareholders' equity			
Capital stock, par value $.50			
Authorized 80,000,000 shares Outstanding 60,154,424, 60,153,045 and 60,148,245 shares	30.1	30.1	30.1
Capital surplus	59.2	59.2	59.0
Retained earnings	827.2	831.9	768.1
	916.5	921.2	857.2
	$1,504.9	$1,571.4	$1,406.0

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS
(In Millions, Except Per Share Amounts)

	Nine Months Ended September 30,		Year Ended December 31,		
	1981	1980	1980	1979	1978
	(Unaudited)				
Net sales:					
United States	$ 959.9	$ 888.7	$1,332.1	$1,326.5	$1,233.0
International	826.2	813.0	1,237.0	1,051.0	853.3
	1,786.1	1,701.7	2,569.1	2,377.5	2,086.3
Cost of goods sold	710.7	638.9	959.9	899.7	759.1
Gross profit	1,075.4	1,062.8	1,609.2	1,477.8	1,327.2
Marketing, distribution and administrative expenses	865.8	823.1	1,169.4	1,034.8	880.4
Operating profit	209.6	239.7	439.8	443.0	446.8
Interest income	36.9	28.2	39.8	34.3	29.9
Other income (deductions)—net	14.5	(2.9)	(7.3)	2.9	(8.5)
Earnings before taxes	261.0	265.0	472.3	480.2	468.2
Taxes on earnings	130.5	131.2	231.0	229.5	234.6
Net earnings	130.5	133.8	241.3	250.7	233.6
Cash dividends	135.2	132.3	177.5	164.6	149.6
Addition to retained earnings	(4.7)	1.5	63.8	86.1	84.0
Retained earnings, January 1	831.9	768.1	768.1	682.0	598.0
Retained earnings, end of period	$ 827.2	$ 769.6	$ 831.9	$ 768.1	$ 682.0
Per share of capital stock					
Net earnings	$2.17	$2.22	$4.01	$4.17	$3.89
Cash dividends	2.25	2.20	2.95	2.75	2.55
Average shares outstanding	60.15	60.15	60.15	60.14	60.11

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(In Millions)

	Nine Months Ended September 30, 1981 (Unaudited)	Nine Months Ended September 30, 1980 (Unaudited)	Year Ended December 31, 1980	Year Ended December 31, 1979	Year Ended December 31, 1978
Source of working capital					
Net earnings	$ 130.5	$ 133.8	$241.3	$250.7	$233.6
Add					
Depreciation	13.7	15.9	27.4	23.4	20.8
Deferred income taxes	11.8	11.1	21.4	10.2	.8
Working capital provided from operations	156.0	160.8	290.1	284.3	255.2
Increase in other liabilities	(.7)	1.9	2.6	8.1	8.2
Disposals of property	.0	.0	6.7	2.7	5.2
Sales of capital stock under option, and other capital transactions	.0	.0	.2	.4	4.3
	155.3	162.7	299.6	295.5	272.9
Use of working capital					
Cash dividends	135.2	132.3	177.5	164.6	149.6
Additions to property	63.6	81.7	117.7	116.3	75.6
Additions to deferred charges and other assets	3.3	5.2	9.7	13.7	13.0
Decrease in long-term debt	.2	(1.3)	1.5	1.3	2.1
	202.3	217.9	306.4	295.9	240.3
Increase (decrease) in working capital	$ (47.0)	$ (55.2)	$ (6.8)	$ (.4)	$ 32.6
Change in components of working capital					
Cash and short-term investments	$(174.5)	$(146.2)	$ 1.5	$(35.2)	$(43.7)
Accounts receivable	(9.7)	8.8	26.9	25.1	51.9
Inventories	68.4	61.2	15.5	11.9	117.2
Prepaid expenses	(3.9)	42.3	28.2	17.9	12.4
Notes payable	(45.1)	(15.1)	21.4	(13.5)	(20.2)
Accounts payable and accrued expenses	12.6	(23.9)	(37.6)	1.5	(49.1)
Accrued taxes	105.2	17.7	(62.7)	(8.1)	(35.9)
Increase (decrease) in working capital	$ (47.0)	$ (55.2)	$ (6.8)	$ (.4)	$ 32.6

The accompanying notes are an integral part of these statements.

AVON PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounting Policies

Principles of Consolidation—All subsidiaries are consolidated.

Interim Financial Statements—The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q. In the opinion of the Company, they contain all adjustments necessary to present fairly its financial position at September 30, 1981 and 1980, and the results of its operations and the changes in its financial position for the nine months ended September 30, 1981 and 1980.

Short-term Investments—Short-term investments are stated at cost plus accrued interest, which approximates market value.

Inventories—Inventories are stated at cost, not in excess of market. Cost is determined on a last-in, first-out basis for substantially all U.S. inventories, and on a first-in, first-out basis for all other inventories.

Property and Depreciation—Property is recorded at cost. Depreciation over the estimated useful lives of the property in the United States and Canada is determined principally on declining-balance methods for property acquired prior to January 1, 1977, and on the straight-line basis for property acquired subsequently. In other countries depreciation is determined on the straight-line basis.

Stock Options—Proceeds from the sale of capital stock issued pursuant to stock option plans are credited to capital stock to the extent of par value, and to capital surplus for the excess of the option price over par value. Any corporate tax benefits resulting from stock option plans are credited to capital surplus.

Taxes on Earnings—Taxes on earnings are adjusted for deferred income taxes where there are differences between the years in which transactions affect taxable income and the years in which they affect net earnings.

Taxes on earnings are reduced by investment tax credits in the year in which the related assets are placed in service. These credits were not material in 1980, 1979 or 1978.

Deferred Income Taxes—These include the effects of timing differences related to noncurrent items, including depreciation, and tax liabilities not currently payable.

The net deferred income tax benefit associated with certain current items is included in prepaid expenses.

Retirement Plans—Avon Products, Inc. and several subsidiaries maintain noncontributory retirement plans for substantially all their employees. The annual provisions under these plans, as determined by independent actuaries using accepted actuarial methods, provide for current service cost and straight-line amortization of prior service liability primarily over a thirty-year period. All plans are funded on a current basis except where funding is not required.

Earnings Per Share—Earnings per share of capital stock are based on the average number of shares outstanding during each year. Shares issuable upon the exercise of stock options are excluded from the average number of shares because their inclusion would not reduce earnings per share for 1980, 1979 or 1978.

Taxes on Earnings

Differences between the consolidated income tax rate and the statutory federal income tax rate are as follows:

	1980	1979	1978
Statutory federal income tax rate	46.0%	46.0%	48.0%
State and local income taxes, net of federal income tax benefit	1.7	2.0	2.5
Effect of translating foreign currency statements	2.0	1.1	.9
Foreign income taxes and all other	(.8)	(1.3)	(1.3)
Consolidated income tax rate	48.9%	47.8%	50.1%

The Company has provided for U.S. and foreign income taxes (after giving effect to available tax planning alternatives and foreign tax credits) on earnings of subsidiaries that have been remitted, that are available for remittance or that are not intended to be invested in foreign operations. The balance of unremitted earnings of foreign subsidiaries that are restricted or required for current or future operations approximated $289.4 million at December 31, 1980.

Industry Segment Data

The Company's business is primarily comprised of two industry segments, the production and sale of cosmetics, fragrances and toiletries; and of fashion jewelry. Operations are conducted in the United States, Europe, Latin America and other parts of the world.

Operating profit consists of total revenues less cost of goods sold and marketing, distribution and administrative expenses. Interest income and other income (deductions)—net, which are included in earnings before taxes, are excluded from operating profit.

The identifiable assets of industry segments and geographic areas are those assets used in the Company's operations in each segment and area. General corporate assets are short-term investments.

	Year Ended December 31, (In Millions)				
	Net Sales	Operating Profit	Identifiable Assets	Depreciation Expense	Additions To Property
INDUSTRY SEGMENTS					
1980					
Cosmetics, fragrances and toiletries	$1,983.3	$341.3	$ 999.3	$22.8	$ 91.8
Fashion jewelry	425.2	95.8	190.9	3.8	19.2
All other	160.6	7.8	98.5	.8	6.7
General corporate	.0	(5.1)	282.7	.0	.0
Consolidated	$2,569.1	$439.8	$1,571.4	$27.4	$117.7

	Year Ended December 31, (In Millions)				
	Net Sales	Operating Profit	Identifiable Assets	Depreciation Expense	Additions To Property
INDUSTRY SEGMENTS—(Continued)					
1979					
Cosmetics, fragrances and toiletries	$1,847.0	$327.1	$ 858.9	$19.3	$ 93.0
Fashion jewelry	399.2	108.4	174.2	3.1	21.5
All other	131.3	11.0	100.7	1.0	1.8
General corporate	.0	(3.5)	272.2	.0	.0
Consolidated	$2,377.5	$443.0	$1,406.0	$23.4	$116.3
1978					
Cosmetics, fragrances and toiletries	$1,609.5	$353.9	$ 760.5	$17.6	$ 58.1
Fashion jewelry	362.4	91.9	141.5	2.4	15.3
All other	114.4	5.2	71.2	.8	2.2
General corporate	.0	(4.2)	309.2	.0	.0
Consolidated	$2,086.3	$446.8	$1,282.4	$20.8	$ 75.6
GEOGRAPHIC AREAS					
1980					
United States	$1,360.8	$245.5	$ 592.3	$12.8	$ 56.4
Europe	528.1	64.2	283.4	6.7	33.0
Latin America	456.1	103.1	275.3	4.9	24.1
All other foreign	274.1	37.2	137.7	3.0	4.2
Total international	1,258.3	204.5	696.4	14.6	61.3
General corporate	.0	(5.1)	282.7	.0	.0
Eliminations	(50.0)	(5.1)	.0	.0	.0
Consolidated	$2,569.1	$439.8	$1,571.4	$27.4	$117.7
1979					
United States	$1,352.3	$282.3	$ 526.9	$12.3	$ 45.4
Europe	461.7	69.1	255.8	5.0	40.1
Latin America	367.4	72.2	230.6	3.4	23.2
All other foreign	238.1	28.6	120.5	2.7	7.6
Total international	1,067.2	169.9	606.9	11.1	70.9
General corporate	.0	(3.5)	272.2	.0	.0
Eliminations	(42.0)	(5.7)	.0	.0	.0
Consolidated	$2,377.5	$443.0	$1,406.0	$23.4	$116.3

	Year Ended December 31, (In Millions)				
	Net Sales	Operating Profit	Identifiable Assets	Depreciation Expense	Additions To Property
GEOGRAPHIC AREAS—(Continued)					
1978					
United States	$1,253.0	$298.7	$ 499.0	$11.5	$ 35.4
Europe	370.1	67.2	181.5	4.2	15.6
Latin America	298.6	64.2	185.9	3.0	12.2
All other foreign	194.8	25.9	106.8	2.1	12.4
Total International	863.5	157.3	474.2	9.3	40.2
General corporate	.0	(4.2)	309.2	.0	.0
Eliminations	(30.2)	(5.0)	.0	.0	.0
Consolidated	$2,086.3	$446.8	$1,282.4	$20.8	$ 75.6

Effect of Foreign Exchange Fluctuations

Net earnings were unfavorably affected by foreign exchange fluctuations, as follows (in millions):

	1980	1979	1978
Foreign exchange gains (losses)—net:			
Translation of foreign currency statements into U.S. dollars, and realized and unrealized foreign currency transactions	$ (2.4)	$ 5.5	$(3.6)
Translation of certain items, principally inventories, at historical rates	(19.6)	(18.3)	(5.3)
	$(22.0)	$(12.8)	$(8.9)
Detail by country:			
Brazil	$(16.2)	$(16.1)	$(9.3)
Argentina	(3.1)	(4.7)	(2.5)
Germany	(1.7)	3.4	2.6
United Kingdom	1.2	2.1	.0
Japan	(2.3)	2.0	.3
All other—net	.1	.5	.0
	$(22.0)	$(12.8)	$(8.9)

Short-term Investments

Short-term investments consisted primarily of certificates of deposit and time deposits.

Lines of Credit

Unused lines of credit at December 31, 1980 approximated $105 million. This amount is related to International operations and consisted almost entirely of overdraft facilities. These lines of credit involved no material commitment fees. As a matter of practice, the Company maintains its bank balances in amounts sufficient to compensate banks for credit lines and services.

Long-term Debt

Notes payable of $2.6 million at December 31, 1980 and 1979 were obligations of domestic and foreign subsidiaries payable to 1994. The notes of foreign subsidiaries were payable in local currency.

The 6¼% bonds of $1.5 million at December 31, 1979, of a subsidiary are guaranteed by Avon Products, Inc. and are payable in U.S. dollars. The final maturity date of the 6¼% bonds was February 1, 1981. Included in notes payable at December 31, 1980 and 1979 was $1.5 million, the current portion of the 6¼% bonds.

Capital Changes

Stock option transactions are summarized below:

	Shares Available For Option	Shares Under Option	
		Shares	Price
January 1, 1979	594,030	619,025	$29-$60
Granted	(265,750)	265,750	46-48
Exercised	0	(10,460)	29-44
Cancelled	50,670	(50,670)	41-60
December 31, 1979	378,950	823,645	29-60
Granted	(817,770)	817,770	40
Exercised	0	(4,800)	29
Cancelled	731,100	(731,100)	29-60
December 31, 1980	292,280	905,515	$29-$60

All options were granted at market value on the dates of grant.

The 1970 Stock Option Incentive Plan permits the granting of stock appreciation rights to optionees. Such rights, as granted, permit the optionees to receive cash and/or stock equal to any excess of the market value over the option exercise price. The aggregate difference between the option price and the market price is charged to net earnings as compensation expense. The number of shares covered by options is reduced by the number of rights exercised.

For the three years ended December 31, 1980, increases in capital stock and capital surplus were attributable to stock issued pursuant to the 1970 Stock Option Incentive Plan as follows (in millions):

	1980	1979	1978
Capital stock	$ .0	$ .0	$ .1
Capital surplus:			
Options exercised	$ .1	$ .3	$3.6
Corporate tax benefit arising from the exercise of stock options	.1	.1	.6
	$ .2	$ .4	$4.2

Retirement Plans

Accumulated plan benefits and plan net assets for the Company's U.S. defined benefit retirement plans at January 1, 1980 are presented below (in millions):

Present value of accumulated plan benefits:	
Vested	$110.8
Nonvested	34.0
	$144.8
Net assets available for benefits	$151.6

The estimated rate of return used to determine the present value of accumulated plan benefits was 7.5%.

The Company's foreign retirement plans are not required to report pursuant to the Employee Retirement Income Security Act of 1974 and do not determine the actuarial value of accumulated benefits or net assets available for benefits as calculated and disclosed for U.S. plans.

Commitments

Various construction programs were in progress at December 31, 1980, with an estimated additional cost to complete of $80 million.

The Company leases office space in New York City for its executive and administrative offices; and in London, England, for its European Marketing Center, under operating leases that expire in 1997 and 1982 to 2000, respectively. Other real property is also leased under operating leases expiring from 1981 to 2036.

The Company leases automobiles and other equipment under operating leases that expire during the next five years.

The minimum annual rental of real property is subject to escalation for increases in taxes, utilities and maintenance labor. Personal property rentals are subject to escalation based on usage.

Long-term lease obligations, all of which are operating leases, at December 31, 1980 consisted of (in millions):

Period	Minimum Rental For The Period
1981	$ 41.2
1982	29.5
1983	22.1
1984	18.6
1985	18.3
Beyond 1985	207.7
	$337.4

AVON PRODUCTS, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Concluded)

Supplemental Information

	Year Ended December 31, 1980	1979	1978
		(In Millions)	
Depreciation	$ 27.4	$ 23.4	$ 20.8
Rent expense	53.6	46.9	38.2
Retirement plan expense	27.2	24.6	22.4
Research and development expense	30.0	24.9	21.6
Media advertising	35.5	44.0	46.8
Provision for doubtful accounts	32.0	26.8	23.5
Foreign exchange gains (losses)—net	(2.4)	5.5	(3.6)
Earnings before taxes:			
United States	$274.6	$313.0	$327.3
Foreign	197.7	167.2	140.9
	$472.3	$480.2	$468.2
Taxes on earnings:			
Federal:			
Current	$128.6	$137.9	$156.5
Deferred	6.6	8.6	2.0
	135.2	146.5	158.5
Foreign:			
Current	66.5	63.3	55.0
Deferred	14.7	1.6	(1.2)
	81.2	64.9	53.8
State and other	14.6	18.1	22.3
	231.0	229.5	234.6
Taxes other than on earnings:			
Payroll taxes	70.3	61.6	48.2
Other	17.4	15.5	13.2
	87.7	77.1	61.4
Total taxes	$318.7	$306.6	$296.0
Interest cost:			
Incurred	$ 12.3	$ 10.8	$ 5.9
Capitalized	(11.0)	(9.9)	.0
Expensed	$ 1.3	$ .9	$ 5.9
Excess of current cost over stated value of LIFO inventories	$ 32.8	$ 17.2	$ 13.2
Maximum short-term borrowings	73.6	69.4	54.6
Average short-term borrowings	61.3	56.5	33.8
Net current deferred income tax benefit included in prepaid expenses	19.2	13.8	10.1

MANAGEMENT'S DISCUSSION OF LIQUIDITY AND CAPITAL RESOURCES AND OF THE CONSOLIDATED STATEMENTS OF INCOME

Discussion of Liquidity and Capital Resources

Cash and short-term investments increased $1.5 million, to $308.4 million at December 31, 1980. During the past three years the Company has undertaken major facilities expansion projects in several countries, including the United States, the United Kingdom, Brazil, Japan and Ireland. Capital expenditures during this three-year period totaled $309.6 million, all of which was financed without long-term borrowing. Construction programs in progress at December 31, 1980 carried an estimated cost to complete of $80 million. Capital expenditures in the next three years are expected to continue at generally the same rate as, or at a somewhat lower rate than, the previous three years. Based on current projections, these projects will also be financed without long-term borrowing.

Short-term borrowing consists primarily of borrowings from banks by subsidiaries. It is expected that the level of such borrowings will not increase at a rate greater than the rate of expansion of worldwide operations. Unused lines of credit at December 31, 1980 approximated $105 million. This amount relates to International operations and consists almost entirely of overdraft facilities.

The Company's sales and earnings have a marked seasonal pattern that is characteristic of many companies in the cosmetics, fragrances and toiletries industry, as well as the jewelry industry. Heavy Christmas business causes a sales peak in the fourth quarter of the year. Fourth quarter net sales have averaged approximately 35% of full-year net sales, and fourth quarter net earnings have averaged about 45% of full-year net earnings. As a result, December 31 balances of cash and short-term investments are usually at the highest level attained during the year, while inventories and notes payable are at, or near, the lowest levels of the year.

By contrast, first quarter net sales and net earnings are at the lowest level of the year. First quarter net sales have averaged approximately 19% of full-year net sales, and first quarter net earnings have averaged about 15% of full-year net earnings. Second and third quarter net sales have each averaged approximately 23% of full-year net sales, and net earnings for each of these quarters have averaged about 20% of full-year net earnings. These seasonal fluctuations in net sales and net earnings cause cash and short-term investments to decline each quarter from the year-end high to a low point at the end of the third quarter. Conversely, inventories and notes payable generally increase each quarter from the year-end low to a high point at the end of the third quarter. In addition to the lower levels of net sales and net earnings during the first three quarters, and the building of inventories to meet the higher sales demands of the fourth quarter, other factors that contribute to the decrease in cash and short-term investments and to the increase in notes payable are the quarterly payments of dividends to shareholders and large income tax and other tax payments during the first and second quarters.

Discussion of 1980 and 1979

Consolidated net sales were $2.57 billion in 1980, an increase of $192 million or 8% over 1979. U.S. net sales increased $5.6 million to $1.33 billion, and International net sales increased 18% to $1.24 billion. Net earnings decreased 4% to $241.3 million. Earnings per share were $4.01, compared with $4.17 in 1979.

The decrease in net earnings of $9.4 million (16¢ per share) was caused principally by the following factors:

- An increase in marketing, distribution and administrative expenses as a percentage of net sales decreased net earnings by $26.7 million (45¢ per share).
- A decrease in other income-net reduced net earnings $2.5 million (4¢ per share).
- An increase in the income tax rate decreased net earnings by $5.3 million (9¢ per share).

These decreases in net earnings of $34.5 million (58¢ per share) were partially offset by:

- Higher net sales that increased net earnings by $18.6 million (31¢ per share)
- A decrease in cost of goods sold as a percentage of net sales that increased net earnings by $6.4 million (11¢ per share).

The increase in consolidated net sales resulted from increased net sales in International, where higher unit volume and higher average unit selling prices both contributed to the increase. A portion of the increased unit volume was attributable to a 5% increase in the number of active Avon Representatives. In the U.S. sales to Representatives declined by 2%, as lower unit volume more than offset higher unit selling prices.

Cost of goods sold increased by $60.2 million but decreased as a percentage of net sales, to 37.4% in 1980 from 37.8% in 1979. The decrease in the cost ratio occurred after including the adoption of the LIFO method of accounting for the inventories of Tiffany & Co. This change increased cost of goods sold $11.6 million. The cost ratio, exclusive of the effect of the adoption of LIFO by Tiffany, was 36.9%. Lessening of the rate of discount on specially priced items in the U.S. and price increases in certain foreign countries contributed to the decline in the cost ratio.

Marketing, distribution and administrative expenses increased $134.6 million, and also increased as a percentage of net sales, to 45.5% in 1980 from 43.5% in 1979. Approximately two-thirds of the increased expenditures occurred in International, primarily to support marketing and field operations programs. The increase as a percentage of net sales resulted from the continued support of U.S. marketing and field operations programs in the face of lower sales.

Foreign currency fluctuations included in cost of goods sold; marketing, distribution and administrative expenses; and other deductions-net, decreased net earnings by $22.0 million (37¢ per share) in 1980 compared with $12.8 million (21¢ per share) in 1979.

Taxes on earnings increased $1.5 million, and the income tax rate increased to 48.9% in 1980 from 47.8% in 1979. The primary cause of the increase in the tax rate was the effect of greater foreign exchange losses in 1980.

A discussion of the impact of inflation on the Company follows under "Information on Inflation and Changing Prices" on pages F-20 through F-23.

Discussion of 1979 and 1978

Consolidated net sales were $2.38 billion in 1979, an increase of $291 million, or 14%, over 1978. U.S. net sales increased 8% to $1.33 billion, and International net sales increased 23% to $1.05 billion. Net earnings increased 7% to $250.7 million. Earnings per share were $4.17, compared with $3.89 in 1978.

The increase in net earnings of $17.1 million (28¢ per share) was caused principally by the following factors:

- Higher net sales increased net earnings by $31.1 million (52¢ per share).
- Increased other income-net increased net earnings by $7.9 million (13¢ per share).
- A lower income tax rate increased net earnings $11.1 million (18¢ per share).

These increases in net earnings were partially offset by:

- An increase in cost of goods sold as a percentage of net sales caused net earnings to decline \$17.2 million (29¢ per share).
- Higher marketing, distribution and administrative expenses as a percentage of net sales caused net earnings to decline \$15.8 million (26¢ per share).

The increase in U.S. net sales resulted primarily from higher unit volume in the cosmetics, fragrances and toiletries segment, and from a lessening in the rate of discount on specially priced items. Although there was a 9% gain in the number of active Representatives, lower average Representative orders reduced the rate of U.S. sales gain.

The increase in International net sales resulted from higher unit volume and price increases in certain countries. A portion of the increased unit volume is attributable to the 12% increase in the number of active Avon Representatives. Improved average Representative orders and higher levels of customer service in most major markets contributed to the International sales gain.

Consolidated cost of goods sold increased \$140.6 million and also increased as a percentage of sales to 37.8% in 1979 from 36.4% in 1978. The increase in the cost ratio was primarily the result of a less favorable product mix, inflationary cost pressures in the U.S., and a greater adverse effect of foreign exchange fluctuations.

The less favorable product mix resulted from higher sales of the standard line of cosmetic and fragrance products, which are generally less profitable than other products in the cosmetics, fragrances and toiletries segment. Sales of fashion jewelry were relatively flat for the year because of a slowdown in consumer demand that began during the third quarter and continued through the end of the year, thus further contributing to the less favorable product mix, since jewelry represents the Company's most profitable product segment.

Marketing, distribution and administrative expenses increased \$154.4 million, and increased as a percentage of net sales, to 43.5% in 1979, from 42.2% in 1978. These increases were primarily the result of various marketing and field operations programs. The marketing programs included the introduction of integrated promotional events in the United Kingdom, Canada and Australia. These events were supported by strong merchandising, sales promotion, advertising and field operations efforts and were successful in increasing customer service. Two similar events were conducted in the United States. Field operations programs included the creation of smaller Representative territories in the United States and several foreign countries.

The Company elected in 1979 to adopt Statement of Financial Accounting Standards No. 34, which permits the capitalization of interest expense as part of the cost of certain fixed assets in 1979, and which requires its capitalization in subsequent years. As a result, interest expense in 1979 was only \$928,000, lower by \$5.0 million because of Statement No. 34.

In 1979, other income-net was \$2.9 million, compared with other deductions-net of \$8.5 million in 1978. A major factor contributing to this swing from other income-net to other deductions-net was foreign exchange gains, resulting from the translation of foreign currency statements into U.S. dollars and realized and unrealized foreign currency transactions in 1979, compared with foreign exchange losses in 1978.

The increased foreign exchange gains included in other income in 1979 were more than offset by increased foreign exchange losses charged to cost of goods sold and expenses resulting from the translation of inventories and prepaid expenses at historical rates. The net effect of these factors reduced net earnings $12.8 million (21¢ per share) in 1979, compared with $8.9 million (15¢ per share) in 1978.

Taxes on earnings declined by $5.1 million and the income tax rate was 47.8% in 1979, compared with 50.1% in 1978. The major factor causing the decline in the income tax rate was the reduction of the U.S. statutory rate to 46% from 48%.

Discussion of Nine Months Ended September 30, 1981 and 1980

Consolidated net sales were $1.79 billion in the first nine months of 1981, an increase of $84.4 million or 5% over the first nine months of 1980. U.S. net sales increased 8% to $959.9 million, and International net sales increased 2% to $826.2 million. Net earnings decreased 2% to $130.5 million. Net earnings per share were $2.17, compared with $2.22 in 1980.

Financial results for 1980 have been restated to reflect the adoption of the LIFO (last-in, first-out) method for the valuation of the inventories of Tiffany & Co.

The decrease in net earnings of $3.3 million (5¢ per share) was caused principally by the following factors:

- An increase in cost of goods sold as a percentage of sales, which decreased net earnings by $20.3 million (34¢ per share).
- An increase in marketing, distribution and administrative expenses as a percentage of sales, which decreased net earnings by $900,000 (1¢ per share).
- An increase in the effective income tax rate, which decreased net earnings by $1.3 million (2¢ per share).

These decreases in net earnings of $22.5 million (37¢ per share) were partially offset by the following factors:

- Higher net sales, which increased net earnings by $6.0 million (10¢ per share).
- An increase in interest income and other income-net, which increased net earnings by $13.2 million (22¢ per share).

The increase in net sales resulted primarily from higher unit volume in the U.S. and from price increases in certain foreign countries. A portion of the sales increase is attributable to a 3% increase in the number of active Avon Representatives.

Cost of goods sold increased by $71.8 million, and also increased as a percentage of net sales, to 39.8% in 1981 from 37.5% in 1980. The increase in the cost ratio was primarily the result of the effect of foreign currency fluctuations.

Marketing, distribution and administrative expenses increased $42.7 million, and also increased as a percentage of net sales, to 48.5% in 1981 from 48.4% in 1980. A major factor contributing to the increase was higher expenditures in International, relative to sales.

MANAGEMENT'S DISCUSSION OF LIQUIDITY AND CAPITAL RESOURCES AND OF THE CONSOLIDATED STATEMENTS OF INCOME—(Concluded)

Other income-net increased $26.1 million to $51.4 million. A major factor contributing to the increase was increased foreign exchange gains, resulting from the translation of foreign currency statements into U.S. dollars, and realized and unrealized foreign currency transactions in 1981, compared with 1980.

The greater foreign exchange gains included in other income in 1981 were more than offset by higher foreign exchange losses charged to cost of goods sold and to expenses, which resulted from the translation of inventories and prepaid expenses at historical rates. The net effect of these factors reduced net earnings by $35.1 million (58¢ per share) in 1981, compared with $17.3 million (29¢ per share) in 1980.

Taxes on earnings decreased by $700,000, but the effective income tax rate increased to 50.0% in 1981 from 49.5% in 1980. The principal cause of the increase in the effective tax rate was higher tax rates on International earnings.

AVON PRODUCTS, INC. AND SUBSIDIARIES

SUPPLEMENTAL FINANCIAL DATA

Quarterly Financial Data—(Unaudited)

Quarterly data for the nine months ended September 30, 1981 and the two years ended December 31, 1980 are summarized below (in millions, except per share amounts):

	Nine Months Ended September 30, 1981				
Quarter	Net Sales	Gross Profit	Operating Profit	Net Earnings	Earnings Per Share
First	$ 549.3	$ 340.5	$ 60.9	$ 41.3	$ .69
Second	635.9	379.5	85.2	52.7	.87
Third	600.9	355.4	63.5	36.5	.61
	$1,786.1	$1,075.4	$209.6	$130.5	$2.17

	1980				
Quarter	Net Sales	Gross Profit	Operating Profit	Net Earnings	Earnings Per Share
First	$ 516.1	$ 326.9	$ 66.9	$ 39.0	$ .65
Second	601.8	370.6	91.8	49.6	.82
Third	583.8	365.3	81.0	45.2	.75
Fourth	867.4	546.4	200.1	107.5	1.79
	$2,569.1	$1,609.2	$439.8	$241.3	$4.01

	1979				
Quarter	Net Sales	Gross Profit	Operating Profit	Net Earnings	Earnings Per Share
First	$ 453.6	$ 286.4	$ 66.0	$ 39.0	$ .65
Second	566.5	352.8	103.7	56.6	.94
Third	555.1	346.6	86.5	51.1	.85
Fourth	802.3	492.0	186.8	104.0	1.73
	$2,377.5	$1,477.8	$443.0	$250.7	$4.17

Information on Inflation and Changing Prices—(Unaudited)

Constant Dollar Data

The following consolidated summary of earnings includes the annual amount of net sales and net earnings adjusted to a constant 1980 dollar basis, using the Consumer Price Index for All Urban Consumers (CPI-U). The restated amounts are referred to as constant dollar earnings, since the intent of this method is to hold the purchasing power of the dollar constant for the period reported. The amounts shown under the heading "Adjusted for General Inflation" are derived by restating cost of goods sold and depreciation expense to dollars whose purchasing power is equivalent to the average purchasing power of the dollar for the year 1980 as measured by the CPI-U. Net sales and all expenses, other than cost of goods sold and depreciation expense, are assumed to have occurred proportionately in relation to the changing CPI-U over the course of the year and are deemed to be stated in average 1980 dollars in the primary financial statements, thus requiring no adjustment in the constant dollar statement.

Cost of goods sold is adjusted by restating the historical cost of inventories at the beginning and end of the year, and inventories acquired and sold during the year, to average 1980 dollars, thereby adjusting the amounts charged to current earnings.

Depreciation expense is adjusted by restating the historical cost of depreciable assets on hand during the year to average 1980 dollars, and using the revised amounts to calculate adjusted depreciation expense for the year. Depreciation expense included in the constant dollar statement is restated to average 1980 dollars, employing the same estimated useful lives and depreciation methods as used in the primary financial statements.

The effect of the decline in purchasing power on net monetary assets or liabilities is determined by calculating these net monetary items at the beginning and end of the year, adjusted for the change in such items during the year, in terms of average 1980 dollars.

Current Cost Data

The consolidated summary of earnings also includes the annual amount of net sales and net earnings adjusted to a current cost basis. The restated amounts are referred to as current cost earnings, since the intent of this method is to measure the effects of changing prices on inventories, property, cost of goods sold and depreciation for the period reported. The amounts shown under the heading "Adjusted for Changes in Specific Prices" are derived by restating cost of goods sold and depreciation expense to the current cost at the date of sale or use. Net sales and all expenses, other than cost of goods sold and depreciation expense, are assumed to be stated at current cost in the primary financial statements, thus requiring no adjustment in the current cost statement.

The current cost of raw material was based on current purchase contracts, vendor price quotations and other published prices for the quality, quantity and time at which the Company purchases these items, or by applying an index of relevant purchase prices to the historical cost of such items.

Finished goods current cost was estimated on the basis of standard costs adjusted to reflect current material, labor and overhead costs, as well as current cost depreciation of buildings and equipment.

In the U.S., substantially all inventories are accounted for on a last-in, first-out basis, and actual cost of goods sold therefore generally reflects current costs. In other countries current cost of goods sold was estimated by adjusting historical costs for the approximate time lag between acquisition of inventories and their subsequent sale. The result is the current cost to replace inventories at December 31 and cost of goods sold at the time of sale.

The current cost of buildings that were assumed to be reproduced was estimated by applying published construction cost indexes to the acquisition prices of the buildings. Current estimated construction costs to obtain equivalent floor space were used for buildings that would not be replaced in their present configuration, and for buildings in those countries where published construction cost indexes do not exist.

Where practicable, the current cost of equipment was estimated on the basis of current quoted market prices for new machinery of equivalent capacity. The current cost of all other equipment was developed by using engineering estimates or by applying indexes that were derived from recent cost data for items of similar productive capacity.

Depreciation based on the current cost of buildings and equipment was estimated using the same depreciation methods and estimated useful lives used in preparing the historical cost financial statements.

Summary

The current cost method measures the estimated change in specific prices, and may also assume replacement with different plant and equipment than that currently in use. The use of this method results in an estimated current cost of plant and equipment, inventories, cost of goods sold and depreciation. Constant dollar adjustment indicates the effect of the general rate of inflation, as measured by the CPI-U, on inventories, cost of goods sold, plant and equipment, and depreciation, by restating their historical cost in terms of average current year dollars. Current cost differs from constant dollar adjusted amounts to the extent that the estimated changes in the current cost of material, labor, overhead, and plant and equipment differ from the general rate of inflation.

The effect of constant dollar and current cost restatement is to increase cost of goods sold and depreciation expense and therefore, to show lower adjusted net earnings. This impact was moderated by the fact that U.S. inventories are valued on the last-in, first-out method. Depreciation represents approximately 2% of total costs and expenses.

As shown in the consolidated adjusted summary of earnings, the income tax rate for 1980 increased from 48.9% to 54.2% on the constant dollar basis and to 52.5% on the current cost basis, because most countries allow tax deductions only for historical costs.

The consolidated summary of earnings adjusted for general inflation and changing prices for the year ended December 31, 1980 follows (in millions):

	As Shown In The Financial Statements (Historical Cost)	Adjusted For General Inflation (Constant Dollar)	Adjusted For Changes In Specific Prices (Current Cost)
Net sales	$2,569.1	$2,569.1	$2,569.1
Cost of goods sold	959.9	998.2	980.6
Marketing, distribution and administrative expenses	1,169.4	1,177.4	1,181.0
Interest income	39.8	39.8	39.8
Other income (deductions)—net	(7.3)	(7.3)	(7.3)
Taxes on earnings	231.0	231.0	231.0
Net earnings	$ 241.3	$ 195.0	$ 209.0
Income tax rate	48.9%	54.2%	52.5%
Depreciation included in:			
Cost of goods sold	$ 11.3	$ 16.7	$ 19.3
Marketing, distribution and administrative expenses	16.1	24.1	27.7
	$ 27.4	$ 40.8	$ 47.0
Purchasing power gain on net monetary items		$ 2.7	$ 2.7
Increase in current cost of inventory and property held during the year			$ 118.5
Effect of increase in general price level			137.3
Increase in current cost under increase in the general price level			$ (18.8)
At December 31, 1980:			
Inventories			$ 453.9
Property—net of accumulated depreciation			800.8

AVON PRODUCTS, INC. AND SUBSIDIARIES

SUPPLEMENTAL FINANCIAL DATA—(Concluded)

Selected financial data adjusted for general inflation and changing prices in average 1980 dollars (in millions, except per share amounts):

	Year Ended December 31,				
	1980	1979	1978	1977	1976
Constant dollar information:					
Net sales	$2,569.1	$2,699.0	$2,635.1	$2,323.5	$2,145.5
Net earnings	195.0	238.7			
Earnings per share	3.24	3.97			
Purchasing power gain (loss) on net monetary items	2.7	(2.3)			
Net assets, December 31	1,189.2	1,177.5			
Dividends per share	2.95	3.12	3.22	3.00	2.61
Market price, December 31	32.59	42.31	61.73	63.82	70.09
Average consumer price index (1967=100)	246.8	217.4	195.4	181.5	170.5
Current cost information:					
Net earnings	$ 209.0	$ 241.8			
Earnings per share	3.47	4.02			
Increase in current cost over (under) increase in the general price level	(18.8)	10.9			
Net assets, December 31	1,271.0	1,287.2			

REPORT OF INDEPENDENT ACCOUNTANTS

To the Shareholders and the Board of Directors of
Mallinckrodt, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, of changes in shareholders' equity and of changes in financial position present fairly the financial position of Mallinckrodt, Inc. and its subsidiaries at December 31, 1980 and 1979, and the results of their operations and the changes in their financial position for each of the three years in the period ended December 31, 1980, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

PRICE WATERHOUSE

St. Louis, Missouri
February 6, 1981, except as to the third and fourth sentences of the Note entitled "Shareholders' Equity", which is as of May 4, 1981.

MALLINCKRODT, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in Thousands)

	September 30, 1981 (Unaudited)	December 31, 1980	December 31, 1979
ASSETS			
Current assets			
Cash	$ (697)	$ 5,001	$ 4,276
Marketable securities, principally U.S. Treasury Bills, at cost which approximates market	15,089	11,014	36,521
Accounts receivable, less allowance for doubtful accounts of $527 in 1981, $517 in 1980 and $513 in 1979	78,364	67,537	56,131
Inventories			
Raw materials	28,182	25,797	19,992
Work in process	23,111	17,426	13,138
Finished products	42,478	42,323	39,854
Other	6,727	6,940	5,824
Total current assets	193,254	176,038	175,736
Property, plant and equipment			
Land	9,253	9,110	8,490
Buildings and improvements	62,044	59,528	54,866
Machinery and equipment	146,499	136,006	119,002
Construction in progress	21,735	14,848	8,319
	239,531	219,492	190,677
Accumulated depreciation	(76,582)	(68,208)	(60,261)
	162,949	151,284	130,416
Investments and other assets	17,928	15,481	11,646
Intangible assets, at cost less amortization	17,057	14,121	15,203
	$391,188	$356,924	$333,001
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	$ 38,406	$ 32,707	$ 27,239
Income taxes	9,939	5,937	13,180
Current maturities of debt	4,857	4,598	5,533
Salaries and wages	4,103	4,032	3,564
Total current liabilities	57,305	47,274	49,516
Long-term debt			
5¾ % Convertible Subordinated Debentures due 2000	28,658	30,000	30,000
6½ % Notes, due in annual installments through 1981			1,500
Industrial Building Revenue Bonds due 2001			
Series 1977A, 6⅛ %	1,000	1,000	1,000
Series 1977B, 8⅜ %	5,000	5,000	5,000
Others, due in installments through 1989	6,167	2,706	2,622
Total long-term debt	40,825	38,706	40,122
Deferred income taxes	13,414	12,100	10,768
Other liabilities	5,231	4,941	3,775
Shareholders' equity			
Common stock, $1 par value—authorized 30,000,000 shares; issued 14,200,087 shares in 1981, 9,435,198 in 1980 and 9,402,217 in 1979	14,200	9,435	9,402
Capital in excess of par value	35,082	38,428	37,609
Earnings invested in the business	225,131	206,040	181,809
Total shareholders' equity	274,413	253,903	228,820
	$391,188	$356,924	$333,001

The notes to consolidated financial statements are an integral part of these statements.

MALLINCKRODT, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In Thousands, Except Per Share Amounts)

	Nine Months Ended September 30, 1981	Nine Months Ended September 30, 1980	Year Ended December 31, 1980	Year Ended December 31, 1979	Year Ended December 31, 1978
	(Unaudited)				
Net sales	$370,664	$328,760	$441,795	$392,470	$352,648
Cost of goods sold	232,000	204,181	274,327	248,204	226,610
Gross profit	138,664	124,579	167,468	144,266	126,038
Selling, general and administrative expenses	69,949	63,182	84,816	71,691	61,248
Research and development expenses	13,721	11,458	15,484	12,948	11,727
	83,670	74,640	100,300	84,639	72,975
Operating income	54,994	49,939	67,168	59,627	53,063
Other income and expense					
Interest expense	(2,378)	(2,262)	(3,077)	(3,644)	(3,388)
Interest income and other, net	2,117	1,760	2,275	3,501	1,127
	(261)	(502)	(802)	(143)	(2,261)
Income from continuing operations before income taxes	54,733	49,437	66,366	59,484	50,802
Provision for income taxes	25,240	23,070	30,364	27,552	23,862
Income from continuing operations	29,493	26,367	36,002	31,932	26,940
Income from discontinued operations, net of taxes				554	1,901
Gain on sale of ethical drug business, net of taxes				8,582	
Net income	$ 29,493	$ 26,367	$ 36,002	$ 41,068	$ 28,841
Primary earnings per share					
Income from continuing operations	$2.08	$1.87	$2.55	$2.27	$1.91
Income from discontinued operations				.04	.14
Gain on sale of ethical drug business				.60	
Net income	$2.08	$1.87	$2.55	$2.91	$2.05
Fully diluted earnings per share					
Income from continuing operations	$1.97	$1.79	$2.44	$2.18	$1.85
Income from discontinued operations				.04	.12
Gain on sale of ethical drug business				.56	
Net income	$1.97	$1.79	$2.44	$2.78	$1.97

The notes to consolidated financial statements are an integral part of these statements.

MALLINCKRODT, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

(In Thousands)

	Nine Months Ended September 30,		Year Ended December 31,		
	1981	1980	1980	1979	1978
	(Unaudited)				
Working capital was provided by					
Continuing operations					
Income from continuing operations	$29,493	$26,367	$36,002	$31,932	$26,940
Depreciation and amortization	12,412	10,716	14,159	12,727	10,945
Deferred income taxes	1,326	1,237	1,394	689	1,183
Equity in undistributed earnings of affiliated companies	(1,906)	(1,129)	(2,191)	(1,870)	(1,258)
Working capital provided by continuing operations	41,325	37,191	49,364	43,478	37,810
Discontinued operations				804	2,458
Total working capital provided by operations	41,325	37,191	49,364	44,282	40,268
Net working capital provided from sale of ethical drug business				13,744	
Proceeds from long-term debt	3,000	538	1,375	650	2,962
Disposal and retirement of property				1,796	1,351
Conversion of 5¾% Debentures	1,342				
Other, net	444	(965)	237	609	284
Total provided	46,111	36,764	50,976	61,081	44,865
Working capital was used for					
Expansion and improvement of property	20,712	25,049	33,135	19,640	17,062
Acquisitions, net of working capital acquired	5,238				5,909
Purchase of intangibles		735	735	3,973	
Cash dividends	10,402	8,469	11,771	9,869	8,457
Reductions of long-term debt	2,050	2,209	2,791	2,831	4,027
Investments in affiliated companies	524				1,880
Total used	38,926	36,462	48,432	36,313	37,335
Increase in working capital	$ 7,185	$ 302	$ 2,544	$24,768	$ 7,530
Analysis of changes in working capital					
Increase (decrease) in current assets					
Cash	$(5,698)	$(1,996)	$ 725	$ 886	$ (673)
Marketable securities	4,075	(32,478)	(25,507)	34,466	(9,793)
Accounts receivable	10,827	15,888	11,406	579	10,716
Inventories	8,225	16,685	12,562	3,967	12,424
Other assets	(213)	24	1,116	148	719
Total	17,216	(1,877)	302	40,046	13,393
(Increase) decrease in current liabilities					
Accounts payable	(5,699)	(5,510)	(5,468)	(6,715)	(2,290)
Income taxes	(4,002)	8,139	7,243	(6,530)	(3,307)
Current maturities of debt	(259)	(380)	935	(1,941)	332
Salaries and wages	(71)	(70)	(468)	(92)	(598)
Total	(10,031)	2,179	2,242	(15,278)	(5,863)
Increase in working capital	$ 7,185	$ 302	$ 2,544	$24,768	$ 7,530

The notes to consolidated financial statements are an integral part of these statements.

MALLINCKRODT, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In Thousands, Except Share Amounts)

	Common Stock		Capital in Excess of Par Value	Earnings Invested in the Business
	Shares	Amount		
Balance at December 31, 1977	9,395,367	$ 9,395	$37,432	$130,226
Exercise of stock options	1,000	1	30	
Conversion of notes	1,250	2	24	
Net income				28,841
Dividends				(8,457)
Balance at December 31, 1978	9,397,617	9,398	37,486	150,610
Exercise of stock options	4,600	4	123	
Net income				41,068
Dividends				(9,869)
Balance at December 31, 1979	9,402,217	9,402	37,609	181,809
Exercise of stock options	14,481	14	477	
Exercise of warrants	18,500	19	342	
Net income				36,002
Dividends				(11,771)
Balance at December 31, 1980	9,435,198	$ 9,435	$38,428	$206,040
Nine Months Ended September 30, 1980				
(Unaudited)				
Balance at December 31, 1979	9,402,217	$ 9,402	$37,609	$181,809
Exercise of stock options	4,565	4	122	
Exercise of warrants	18,500	19	342	
Net income				26,367
Dividends				(8,469)
Balance at September 30, 1980	9,425,282	$ 9,425	$38,073	$199,707
Nine Months Ended September 30, 1981				
(Unaudited)				
Balance at December 31, 1980	9,435,198	$ 9,435	$38,428	$206,040
Exercise of stock options before stock split	4,999	5	134	
Conversion of 5¾% Debentures before stock split	14,585	15	706	
Three-for-two stock split May 4, 1981	4,726,935	4,727	(4,727)	
Exercise of stock options after stock split	200		4	
Conversion of 5¾% Debentures after stock split	18,170	18	537	
Net income				29,493
Dividends				(10,402)
Balance at September 30, 1981	14,200,087	$14,200	$35,082	$225,131

The notes to consolidated financial statements are an integral part of these statements.

MALLINCKRODT, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of the Company and all majority owned subsidiaries, after elimination of material intercompany accounts and transactions. Investments in 50 percent owned foreign companies are recorded on the equity method of accounting.

Presentation of Interim Financial Statements—The accompanying unaudited consolidated financial statements as of September 30, 1980 and 1981 have been prepared in accordance with the instructions to Form 10-Q and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and changes in financial position in conformity with generally accepted accounting principles. In the Company's opinion, all adjustments necessary for a fair statement of the results of operations of the interim periods presented herein have been made.

Inventories are stated at the lower of cost (first-in, first-out) or market.

Property is carried at cost. New facilities, major renewals and betterments are capitalized; maintenance, repairs and minor renewals are charged to earnings as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss on disposal is charged or credited to income.

Depreciation is provided on the straight-line method at rates based on the expected useful life of the property (buildings 2½ to 5%, machinery and equipment principally 6½%).

Interest costs, beginning in 1980, as required by a new rule of the Financial Accounting Standards Board, are capitalized as part of acquisition cost during the construction period for major assets that are constructed for the Company's use.

Intangible Assets—Purchased patents and licenses are amortized for financial reporting and tax purposes on the straight-line method over their legal lives. Purchased formulae are amortized on the straight-line method over their estimated useful lives (average 15 years) for financial reporting.

Income taxes are provided based on income reported for financial reporting purposes. Provisions for deferred federal income taxes represent the tax effects of timing differences between income for financial reporting and income for tax purposes. Investment tax credits are recorded as direct reductions of income tax expense in the year the credits arise. Deferred federal income taxes have not been provided on the undistributed earnings of a Domestic International Sales Corporation since these earnings are expected to be reinvested for an indefinite period of time.

Pensions—The Company has several non-contributory pension plans covering substantially all full-time employees and certain part-time employees who qualify under the provisions of ERISA. Under the principal plans, pension costs, which include current service costs and amortization of prior service costs, are funded as accrued, using the unit credit actuarial cost method. Prior service costs result from improvements in pension benefits and are being amortized over periods ranging from 10 to 22 years.

Earnings Per Share—Primary earnings per share are computed by dividing net income by the weighted average number of shares of common stock outstanding. Fully diluted earnings per share computations include the weighted average number of shares outstanding during the year and shares which would have been outstanding upon exercise of dilutive stock options and warrants and conversion of convertible debentures. In the fully diluted calculation, net income is increased by the interest expense (net of tax) relating to such convertible debentures.

Business Disposal and Acquisitions

On June 15, 1979, the Company sold its Pharmaceutical Products Division which represented its ethical drug manufacturing and distribution business. Proceeds from the sale were $25,000,000 cash, which resulted in a net gain of $8,582,000 after taxes of $5,710,000. The gain on the sale and the operating results of the division were accounted for as a discontinued operation and are not included in the Company's results from continuing operations. At December 31, 1979, financial statements for the prior years were restated to reflect the ethical drug business as a discontinued operation. Net sales of the division were $5,586,000 for the five and one-half months of 1979 and $13,074,000 for 1978, resulting in net income of $554,000 and $1,901,000 in 1979 and 1978, respectively, after taxes of $506,000 and $1,685,000.

On March 31, 1978, the Company acquired all of the outstanding shares of Richardson & Holland Corporation, a manufacturer of specialty food ingredients, for $7,700,000. The acquisition was accounted for as a purchase, and the operations of Richardson & Holland Corporation are included in the Consolidated Statements of Income for the periods since acquisition.

Property and Depreciation

Expenditures for property, plant and equipment were $33,135,000 in 1980 as compared to $19,640,000 in 1979 and $17,062,000 in 1978. At December 31, 1980, projects requiring approximately $21,000,000 to complete were in progress. The provision for depreciation was $12,317,000 in 1980, $11,459,000 in 1979 and $9,566,000 in 1978.

Total interest expense incurred during the year ended December 31, 1980 was $3,782,000, of which $705,000 was capitalized pursuant to the provisions of Statement No. 34 of the Financial Accounting Standards Board.

Investments and Other Assets

Included in the Company's investments are $12,571,000 at December 31, 1980 and $9,773,000 at December 31, 1979 representing the cost of capital stock, advances and the Company's share of undistributed income of 50 percent owned foreign companies. These companies have no significant restrictions on the payment of dividends.

Total sales of joint ventures were $83,608,000 in 1980, $68,949,000 in 1979 and $48,736,000 in 1978. Sales increases generally reflect volume growth and the sales of Byk-Mallinckrodt CIL B.V. which was acquired in December, 1978. These sales are not included in the Company's consolidated sales because of less-than-majority ownership. The Company's share of pretax income attributable to joint venture operations is included in consolidated sales and operating income, because of the substantial ownership position (50%) and the Company's active role in management of the joint ventures.

Pensions

Total pension expense was $5,387,000 in 1980 as compared to $5,325,000 in 1979 and $4,528,000 in 1978. As of March 28, 1980, actuarial present values of vested and nonvested accumulated plan benefits were $35,077,000 and $2,541,000, respectively, and net assets available for benefits were $33,142,000. The assumed rate of return used to determine the actuarial present values was 8 percent.

Long-Term Debt

The 5¾% Convertible Subordinated Debentures are convertible into common stock at $33.50 per share, subject to certain adjustments as provided in the Indenture. The Debentures are redeemable at the Company's option, in whole or in part, at 104% of the principal amount, decreasing ratably over the term of the Debentures to 100% in the fifth year prior to maturity, plus accrued interest. Under the Indenture, the Company is required to provide a sinking fund for the redemption and retirement of $1,650,000 principal amount of Debentures on November 1 each year beginning in 1986.

Concerning the industrial revenue bonds, the 8⅜% issue provides for annual sinking fund payments of $250,000, commencing June 1, 1983, while the 6⅛% issue provides for annual sinking fund payments of $125,000, commencing June 1, 1995.

On February 29, 1980, the Company entered into credit agreements with several banks in a total amount of $50,000,000. The credit arrangements operate as revolving credit with the option to convert committed amounts to term loans on either March 1, 1982 or March 1, 1983, depending on the individual agreement. The term loans are to be repaid in equal semi-annual installments over a period up to five years.

Interest under the credit agreements is to be computed at the prime commercial rate on the revolving credit and at prime plus an average of one-half percent on the term loans. During the period of revolving credit, the Company is required to pay a commitment fee of one-half percent on the unused amounts of credit available.

The credit agreements provide certain restrictions on borrowings, levels of contingent liabilities, guarantees and leases, and require the maintenance of certain specified working capital. The agreements also contain certain restrictions on payment of cash dividends on common stock. These restrictions are not expected to affect either the Company's operations or dividend payments. As of December 31, 1980, the Company was in compliance with the provisions of the credit agreements, and there have been no borrowings under such agreements.

Aggregate payments on long-term debt will be as follows for the next five years (amounts in thousands):

1981	1982	1983	1984	1985
$1,948	$418	$2,094	$402	$343

Income Taxes

Presented below is a comparative summary of income tax expense:

	1980	1979	1978
		(In Thousands)	
U.S. current	$22,839	$21,968	$18,890
U.S. deferred	1,281	608	1,179
State	2,651	1,842	1,873
Foreign, including deferred	5,384	4,109	3,370
Investment tax credit	(1,791)	(975)	(1,450)
	$30,364	$27,552	$23,862

The effective income tax rates were 45.8%, 46.3% and 47.0% for 1980, 1979 and 1978, respectively.

The source of pretax income follows:

	1980	1979 (In Thousands)	1978
United States	$55,139	$52,212	$44,494
Foreign	11,227	7,272	6,308
	$66,366	$59,484	$50,802

The U.S. federal deferred tax provision results from timing differences in the recognition of revenue and expense for tax purposes and for financial reporting purposes. Sources of these differences and the tax effect of each follows:

	1980	1979 (In Thousands)	1978
Depreciation	$ 2,047	$ 1,992	$ 1,667
Amortization of non-patent intangibles	(398)	(340)	(57)
Foreign earnings and other, net	(368)	(1,044)	(431)
	$ 1,281	$ 608	$ 1,179

The Company has not provided deferred income taxes on the undistributed earnings of a Domestic International Sales Corporation aggregating $3,172,000 at December 31, 1980, $2,534,000 at December 31, 1979 and $1,900,000 at December 31, 1978.

Shareholders' Equity

On April 28, 1981, the shareholders voted to increase the authorized shares of $1.00 par value common stock from 15,000,000 to 30,000,000 shares and authorized the future issuance of 10,000,000 shares of preferred stock. No preferred shares have been issued. Also approved was a three-for-two stock split in the form of a 50% stock dividend to shareholders of record at the close of business on May 4, 1981. All amounts contained herein which are related to per share data and shares of common stock have been restated to reflect such stock split.

Shares of authorized but unissued common stock reserved at December 31, 1980 were as follows:

Reserved For	Shares
5¾ % Convertible Subordinated Debentures due 2000	895,522
Stock options	346,379
Stock bonus plan	18,750
Warrants	237,971
	1,498,622

Following is a summary of data related to the warrants outstanding at December 31, 1980:

Number of Warrants	Date Exercisable	Date of Expiration	Exercise Price
87,971	Mar. 31, 1975	Aug. 31, 1983	$14.00
150,000	Mar. 31, 1976	Feb. 28, 1983	$29.083

In April, 1978 the shareholders approved a stock option plan for certain officers and key employees. The plan provides for the granting of options to purchase a maximum of 375,000 shares of the Company's common stock at a price equal to 100% of the fair market value of the stock at date of grant.

Presented below is a summary of changes in stock options outstanding:

	1980	1979
Outstanding at beginning of year	198,000	235,950
Granted	155,625	
Exercised	(21,722)	(6,900)
Cancelled	(3,751)	(31,050)
Outstanding at end of year	328,152	198,000
Exercisable at end of year	151,347	175,317

The option price of the 21,722 shares exercised in 1980 was $18.50. The 328,152 options outstanding at December 31, 1980 were issued at exercise prices from $18.50 to $30.50 per share, aggregating $6,412,000. Shares available for the granting of options at December 31, 1980 and December 31, 1979 were 18,227 and 170,100, respectively.

Industry Segment Information

The Company develops, manufactures, markets and distributes specialty products, which are used principally in the health care, chemical and food industries. These business activities are concentrated in three industry segments: Health Care Products, which includes drug chemicals, x-ray contrast media, radiopharmaceuticals, disposable medical devices, and laboratory chemicals and equipment; Specialty Chemical Products, including industrial chemicals, catalysts and printing inks; and Food, Flavor and Fragrance Products which consists of flavors, specialty bakery and food ingredients, and fragrances. Products of each business segment are manufactured and marketed in the United States and in foreign countries; however, total sales and assets of international operations are not material. The accompanying table reflects industry segment information on a worldwide basis.

Segment sales and operating profit include the Company's portion of pretax income attributable to joint venture operations. The amounts included in operating profit were approximately $6,217,000 in 1980, $4,972,000 in 1979 and $3,694,000 in 1978. Of these totals, about 53% is in Health Care operating profit and 47% is in Specialty Chemical operating profit.

Operating profit represents net sales of each industry segment less applicable operating expenses. Intersegment sales are not material. Identifiable assets of each industry segment are the assets used by that segment in its operations.

General corporate expenses are primarily the costs of the Company's principal administrative and financial functions, which are centrally managed. Other income and expense includes interest income and other items which do not relate directly to any of the industry segments. Corporate assets include cash, marketable securities and other investments, and corporate headquarters facilities.

Drug chemical sales included in the Health Care segment accounted for 17.6%, 20.3% and 23.8% of consolidated net sales for the years 1980, 1979 and 1978, respectively. No other class of similar products and no single customer accounted for 10% or more of consolidated net sales during the years being reported.

	1980	1979	1978
		(In Thousands)	
Sales to unafiliated customers			
Health Care	$240,443	$211,269	$198,901
Specialty Chemicals	124,463	109,945	96,791
Food, Flavor & Fragrance	76,889	71,256	56,956
Net sales	$441,795	$392,470	$352,648
Operating profit			
Health Care	$ 51,782	$ 45,481	$ 39,648
Specialty Chemicals	19,788	17,178	16,429
Food, Flavor & Fragrance	10,028	8,781	7,027
	81,598	71,440	63,104
General corporate expenses	(14,430)	(11,813)	(10,041)
Interest expense	(3,077)	(3,644)	(3,388)
Interest income and other, net	2,275	3,501	1,127
Income before income taxes	$ 66,366	$ 59,484	$ 50,802
Identifiable assets at year-end			
Health Care	$193,912	$167,933	$159,616
Specialty Chemicals	88,758	69,976	58,064
Food, Flavor & Fragrance	39,345	36,919	37,118
	322,015	274,828	254,798
Corporate assets	34,909	58,173	23,617
Assets of discontinued operations			9,331
Total assets at year-end	$356,924	$333,001	$287,746
Depreciation and amortization expense			
Health Care	$ 7,207	$ 6,733	$ 5,698
Specialty Chemicals	3,516	2,741	2,412
Food, Flavor & Fragrance	2,135	2,013	1,737
Capital expenditures			
Health Care	$ 15,400	$ 11,015	$ 10,396
Specialty Chemicals	15,807	6,466	2,708
Food, Flavor & Fragrance	1,232	1,374	1,459

Supplemental Inflation Adjusted Financial Information (unaudited)

For supplemental inflation adjusted financial information, see "Supplemental Inflation Adjusted Financial Information" on pages F-38 through F-41.

MALLINCKRODT, INC.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCIAL CONDITION

Introduction

On June 15, 1979, the Company sold its Pharmaceutical Products Division which represented its ethical drug manufacturing and distribution business. The gain from the sale and the operating results of the ethical drug business were accounted for as discontinued operations and are not included in the following analysis of results from continuing operations. All applicable amounts included in the following discussion have been adjusted to reflect a three-for-two stock split which was distributed in May 1981.

The effects of inflation on the Company's operating results and financial condition are discussed and presented on pages F-38 through F-41 of this Joint Proxy Statement.

Operations—1980 vs. 1979

Consolidated net sales increased by 12.6% over 1979. This increase consists of approximately one-third in sales volume and the remainder in price increases. Volume increases were lower in 1980 than in other recent years because of a recessionary economy in the United States and lower volume of certain drug chemical products. Sales of Health Care Products increased 13.8% over 1979. Substantial increases in domestic and foreign sales of medical products, particularly diagnostic products, catheters, and laboratory chemicals and equipment, were partially offset by lower sales volume and price reductions on certain drug chemicals. Sales of Specialty Chemical Products increased by 13.2%, reflecting strong sales of catalysts and columbium-tantalum compounds; other specialty chemicals were impacted by recessionary economic conditions. Sales of Food, Flavor and Fragrance Products increased 7.9% over 1979. Higher growth in sales of certain food ingredients was partially offset by only marginal growth in sales of flavors and fragrances, which were also affected by economic conditions. Cost of goods sold was 62.1% of net sales in 1980, compared to 63.2% in 1979. The resulting improvement in gross profit margins reflects higher sales and a general improvement in manufacturing efficiency.

Selling, general and administrative expenses increased 18.3% over 1979, as a result of inflation in salaries and other costs and expanded sales and marketing programs. Research and development expenses increased 19.6%, reflecting inflation and the Company's commitment to new research programs for higher future growth.

General corporate expenses increased 22.2% in 1980, as a result of inflation of salaries and other expenses, a negative impact of foreign currency activity, and other administrative costs.

Interest expense decreased 15.6% from 1979, resulting from capitalization of certain interest on construction in accordance with a new accounting regulation, effective for 1980. Interest and other income decreased by a net of $1.2 million due to reduced interest income on lower marketable security balances.

Income taxes were 45.8% of pretax income in 1980, compared to 46.3% in 1979. The lower rate results from higher investment tax credit on increased capital spending in 1980.

Income from continuing operations increased 12.7% in 1980 and represents 8.1% of net sales for both 1980 and 1979.

Operations—1979 vs. 1978

Net sales in 1979 increased 11.3% over 1978, consisting of over one-half in volume growth and the remainder in increased selling prices. Sales of Health Care Products increased 6.2%; this rate of growth was lower than in the several preceding years and is attributed to a lower volume growth and competitive pricing conditions in certain drug chemicals. Sales of Specialty Chemical Products increased

13.6% over 1978, reflecting a general increase in volume, particularly in catalysts. The increase of Food, Flavor and Fragrance Products sales of 25.1% over 1978 is attributed to volume growth and the inclusion of a full year of the operating results of Richardson & Holland Corporation in 1979, compared to only nine months in 1978.

Cost of goods sold was 63.2% of net sales in 1979, compared to 64.3% in 1978, reflecting the higher sales, improved manufacturing performance and the absence in 1979 of plant startup costs which had impaired operating performance in 1978. Depreciation expense increased 19.8% in 1979 because of the higher level of capital expenditures in recent years.

Selling, general and administrative expenses increased 17.1% in 1979 due to general inflation of salaries and other expenses and additional cost of expanded sales and marketing programs.

Interest and other income increased by $2.4 million because of interest earned at higher rates on funds generated by operations and the $25.0 million proceeds from the sale of the ethical drug business.

The overall effective income tax rate decreased from 47.0% in 1978 to 46.3% in 1979 due to a lower U.S. federal tax rate, partially offset by a lower estimate of investment tax credit. Income from continuing operations increased 18.5% in 1979, resulting principally from the higher sales and improved gross profit margins, and represented 8.1% of net sales, compared to 7.6% in 1978.

Operations—Nine Months Ended September 30, 1981 and 1980

Net sales for the third quarter and first nine months of 1981 improved by $14.6 million (13.6%) and $41.9 million (12.7%), respectively, over the comparable periods of 1980. Third quarter sales growth was primarily volume related. For the first nine months, the sales improvement over 1980 was about equally split between higher sales volume and price increases.

Cost of goods sold as a percentage of net sales for the third quarters of 1981 and 1980 were virtually the same. For the first nine months of 1981, cost of goods sold increased from 62.1% to 62.6% of sales reflecting startup costs associated with new manufacturing facilities.

Selling, general and administrative expenses were $3.6 million (17.7%) over the third quarter of 1980 and $6.8 million (10.7%) over the prior year for the first nine months of 1981. These increases reflect general inflation of salaries and other expenses and additional costs of expanded sales and marketing programs.

Research and development expenses for the third quarter and first nine months of 1981 increased by $1.0 million (25.9%) and $2.3 million (19.8%), respectively, over the comparable 1980 periods. The increased expenses reflect the Company's expanded efforts to develop new and improved products and processes. Third quarter spending levels include certain costs associated with a major three-year research agreement between the Company and The Washington University in St. Louis.

For the third quarter of 1981, interest expense increased by $0.4 million compared to the third quarter of 1980. The 1980 period was more favorably affected by the capitalization of $0.5 million of interest expense for the first nine months of the year. Capitalized interest was recorded quarterly for 1981.

Interest income and other, net, for the third quarter and first nine months of 1981 increased by $0.6 million and $0.4 million, respectively, over the comparable 1980 periods. These increases resulted primarily from higher interest earned on marketable securities.

The effective income tax rate for the third quarter of 1981 was 44.4% compared to 45.9% for the third quarter of last year. For the first nine months of 1981 and 1980, the effective tax rates were 46.1% and 46.7%, respectively. The lower 1981 effective rates result principally from higher tax credits.

The Company's 1981 earnings have been adversely affected by the strengthened U.S. dollar versus certain foreign currencies. Without such effects, net income for the third quarter and first nine months would have increased over comparable 1980 periods at percentage rates exceeding the percent increases in net sales.

Financial Condition

Total assets were $357 million at December 31, 1980, a 7% increase from the previous year-end. This increase largely reflects additional investments in plant and equipment.

Net working capital increased slightly in 1980 and was $129 million at year-end. The working capital ratio was 3.7 to 1 at the end of 1980, compared to 3.5 to 1 at December 31, 1979. Total current assets were virtually unchanged, reflecting a large decrease in cash and marketable securities ($25 million) and large increases in accounts receivable and inventories. The decrease in cash and securities results from higher capital spending, increased receivables and inventories, and payment in 1980 of income taxes on the 1979 gain on sale of the ethical drug business. Receivables increased $11 million (20%) due to higher sales in the fourth quarter of 1980 and an increase in the average collection period. Higher international sales, which are collected more slowly, and a slowdown in domestic remittances relating to recessionary conditions and high interest rates were the principal reasons for the longer collection period. Inventories increased $13 million (17%) because of higher costs of raw materials and certain purchases made to obtain favorable prices and to protect against potential shortages.

Capital spending was $33 million in 1980, compared to $20 million in 1979. The increase results from authorizations in 1979 and 1980 made to provide for new and expanded facilities required to satisfy greater demand for the Company's new and existing products. Capital spending in 1981 is expected to exceed that of 1980.

Long-term debt of $39 million at the end of 1980 was $1.4 million below 1979, reflecting scheduled payments. Total long-term debt was 15.2% of shareholders' equity at December 31, 1980, representing a reduction from 17.5% at the end of 1979.

Shareholders' equity increased from $229 million ($16.22 per share) at the end of 1979 to $254 million ($17.94 per share) at the end of 1980. This increase reflects 1980 earnings and dividends, which were increased 19.3% over 1979. The percentage return on average shareholders' equity decreased from 15.2% in 1979 to 14.9% in 1980. This ratio is affected by the incremental equity resulting from the gain on sale of the ethical drug business. Excluding such incremental equity, the return on average shareholders' equity was 15.5% in 1980.

The Company has generally been able to finance its growth investments in working capital and property, plant and equipment through retained earnings and other funds provided by operations. A $50 million committed line of credit has been established with several banks and, although not used to date, is available as a source of additional funds. Further, the Company's operating performance and strong financial position provide a substantial capability for additional debt or equity financing.

Net working capital was $135.9 million at September 30, 1981, an increase of $7.2 million (5.6%) over December 31, 1980. The working capital ratios were 3.4 to 1 and 3.7 to 1 at September 30, 1981 and December 31, 1980, respectively. Much of the increase in current asset and liability balances resulted from the Company's acquisitions in the first quarter 1981, which were accounted for as purchases. In addition to the acquisitions, higher accounts receivable resulted from increased sales in the quarter. Inventories increased due to raw material purchases and generally higher business activity, and accounts and notes payable were influenced by inventory and capital equipment purchases.

MALLINCKRODT, INC.

SUPPLEMENTAL FINANCIAL DATA

Quarterly Financial Information—(Unaudited)

(In Thousands, Except Per Share Amounts)

	First Quarter			Second Quarter			Third Quarter			Fourth Quarter	
	1981	1980	1979	1981	1980	1979	1981	1980	1979	1980	1979
Net sales	$121,324	$112,004	$98,328	$127,375	$109,357	$100,014	$121,965	$107,399	$95,554	$113,035	$98,574
Gross profit	45,501	42,103	35,709	48,044	42,806	37,230	45,119	39,670	34,948	42,889	36,379
Income from continuing operations	10,123	9,029	7,479	10,214	9,050	8,241	9,156	8,288	7,458	9,635	8,754
Income from discontinued operations, net of taxes			279			275					
Gain on sale of ethical drug business, net of taxes						8,582					
Net income	10,123	9,029	7,758	10,214	9,050	17,098	9,156	8,288	7,458	9,635	8,754
Primary earnings per share											
Income from continuing operations	.71	.64	.53	.72	.64	.58	.65	.59	.53	.68	.63
Net income	.71	.64	.55	.72	.64	1.20	.65	.59	.53	.68	.63
Fully diluted earnings per share											
Income from continuing operations	.67	.61	.51	.69	.62	.56	.61	.56	.51	.65	.60
Net income	.67	.61	.53	.69	.62	1.14	.61	.56	.51	.65	.60

Supplemental Inflation Adjusted Financial Information—(Unaudited)

Financial Accounting Standards Board (FASB) Statement No. 33 requires disclosure of the general impact of inflation in annual reports to shareholders. These supplementary disclosures are designed to present the impact of both general inflation price changes (constant dollars) and specific price changes (current cost). Both methods of disclosure represent departures from the Company's primary financial statements, which are prepared in accordance with generally accepted accounting principles and are based on historical cost. In periods of inflation, valuation of inventory and property, plant and equipment at historical cost may not necessarily reflect changes in the purchasing power of the dollar or the current cost to replace such assets. The Company has, therefore, prepared supplementary statements in accordance with the current disclosure rules. Following are comments to assist in understanding such statements.

The constant dollar method attempts to express historical amounts in terms of changes in the general purchasing power of the dollar. The index chosen by the FASB to adjust for inflation for selected financial data is the Consumer Price Index for All Urban Consumers (CPI-U). Disclosure for inflation under the current cost method adjusts historical costs to reflect changes in specific prices for resources used in operations. Earnings derived under both methods involve estimates and assumptions, and include changes to the historical statements for only the inventory component in cost of sales and depreciation expense related to restated values of property, plant and equipment. Sales and all other income and expenses are left unchanged. Accordingly, these selected financial data should not be viewed as precise measures of inflation, nor should they be interpreted to represent the realizable value of assets if they were sold.

Earnings for 1980 are lower than those reported in the primary financial statements under both the constant dollar and current cost methods. Depreciation expense, which was $12,317,000 in the primary statements, is calculated at $17,443,000 and $17,514,000 under the constant dollar and current cost methods, respectively. This results from the higher restated values of property, plant and equipment under both methods. Under the constant dollar method, historical property, plant and equipment were adjusted for the average CPI-U in effect at acquisition date for such assets, while specific price indices and internal appraisals were used to adjust property, plant and equipment under the current cost method. Depreciation expense is then calculated based upon the adjusted amounts using the same methods and asset lives as were used in calculating depreciation for the primary financial statements.

Cost of goods sold, excluding depreciation expense, is $264,883,000 in the Company's historical financial statements compared to $273,865,000 under the constant dollar method and $267,442,000 under the current cost method. Although cost of sales under both methods is higher than reported in the primary statements, the current cost method more appropriately presents the impact of inflation on the Company. Many of the major raw materials that were consumed in the production process increased in price at rates lower than the CPI-U, which is a composite of inflation for a broad range of commodities. In general, the Company's manufacturing conversion costs also increased at rates lower than the CPI-U. Accordingly, the more specific internal purchase price and other indices used for the current cost method more appropriately represent the Company's operating environment. Adjusted inventory costs were based on FIFO inventory amounts, restated by the appropriate indices for the constant dollar and current cost methods.

The current cost of inventory and property, plant and equipment (net of accumulated depreciation) was $86,707,000 and $214,677,000, respectively, at December 31, 1980. Corresponding amounts for year-end 1979 were $84,489,000 and $194,190,000, respectively.

In 1980, the Company experienced a purchasing power gain of $1,247,000, on the theoretical concept that all monetary assets decrease in value at the rate of the CPI-U, and all monetary liabilities are reduced at the same rate as the CPI-U. Since the Company was in a net monetary liability position at December 31, 1980, the calculation resulted in a gain.

Adjustments of the primary financial statements for changes in price levels for inventory and property, plant and equipment are presented in the accompanying Supplementary Statement of Earnings and Other Data. In accordance with FASB Statement No. 33, income taxes are not revised for effects of the adjustments because the current income tax laws do not recognize the effects of changing prices. This results in effective tax rates of 58.1% and 51.8% for constant dollar and current dollar data, respectively, compared to 45.8% in the Company's primary financial statements.

As presented on the five-year summary of Selected Supplementary Financial Data, general application of the CPI-U to historical financial statements may not necessarily result in inflation-adjusted statements which present the real impact of inflation on the business enterprise. For example, use of the average CPI-U to adjust the Company's reported net sales results in figures which indicate a sales volume decrease from 1979 to 1980. In fact, about one-third of the Company's reported sales improvement resulted from volume increases, with the balance attributed to price.

MALLINCKRODT, INC.

SUPPLEMENTAL FINANCIAL DATA—(Continued)

SUPPLEMENTARY STATEMENT OF EARNINGS AND OTHER DATA
ADJUSTED FOR CHANGING PRICES FOR THE YEAR ENDED DECEMBER 31, 1980

(In Thousands)
(Unaudited)

	As Reported In The Primary Financial Statements	Adjusted For General Inflation (Constant Dollar)	Adjusted For Changes In Specific Prices (Current Costs)
Net sales	$441,795	$441,795	$441,795
Cost of goods sold excluding related depreciation expense	264,883	273,865	267,442
Gross profit, excluding depreciation	176,912	167,930	174,353
Other operating expenses, excluding related depreciation expense	97,427	97,427	97,427
Depreciation expense	12,317	17,443	17,514
Total operating expenses	109,744	114,870	114,941
Operating income	67,168	53,060	59,412
Other income or expense, net	(802)	(802)	(802)
Income before income taxes	66,366	52,258	58,610
Provision for income taxes	30,364	30,364	30,364
Income from continuing operations	$ 36,002	$ 21,894	$ 28,246
Gain from decline in purchasing power of net amounts owed		$ 1,247	$ 1,247
Increase in general price level of inventories and property, plant and equipment held during the year			$ 32,840
Effect of increase in specific prices (current cost)			20,841
Excess of increase in general price level over increase in specific prices			$ 11,999

MALLINCKRODT, INC.

SUPPLEMENTAL FINANCIAL DATA—(Concluded)

FIVE-YEAR COMPARISON OF SELECTED SUPPLEMENTARY FINANCIAL DATA
ADJUSTED FOR EFFECTS OF CHANGING PRICES

(In Thousands, Except Per Share and Statistical Data)
(Stated in Average 1980 Dollars)
(Unaudited)

	1980	1979	1978	1977	1976
Net sales	$441,795	$445,546	$445,412	$409,174	$384,969
Historical Cost/Constant Dollar Data					
Income from continuing operations	$ 21,894	$ 23,481			
Income per common share	1.55	1.67			
Net assets at year-end	310,954	299,644			
Current Cost Data					
Income from continuing operations	$ 28,246	$ 26,292			
Income per common share	2.00	1.86			
Excess of increase in general price level over increase in specific prices	11,999	11,566			
Net assets at year-end	305,872	299,213			
Other Information					
Gain from decline in purchasing power of net amounts owed	$ 1,247	$ 2,601			
Cash dividend declared per common share	$ .83⅓	$ .79⅓	$ .76	$ .68	$ .53⅓
Market price per common share	$ 35.41	$ 22.01	$ 22.30	$ 27.63	$ 38.70
Average consumer price index	246.8	217.4	195.4	181.5	170.5

NOTE: This supplementary financial data should be read in conjunction with the accompanying explanatory comments in order to better determine whether the data fairly reflects the effects of inflation on the Company.

AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER (the "Agreement") being made and entered into on this 15th day of December, 1981 by and among AVON PRODUCTS, INC., a New York corporation ("Parent"), AVP HOLDINGS, INC., a Missouri corporation and a wholly owned subsidiary of Parent (the "Subsidiary"), and MALLINCKRODT, INC., a Missouri corporation (the "Company").

WHEREAS, the Boards of Directors of Parent, the Subsidiary and the Company have approved the acquisition of the Company by Parent; and

WHEREAS, in furtherance thereof it is proposed that the Subsidiary will make a tender offer (the "Offer") to purchase for cash not more than 4,560,000 shares of the issued and outstanding shares of Common Stock, $1.00 par value, of the Company (the "Company Common Stock") at $50.00 per share net to the seller; and

WHEREAS, the whole Board of Directors of the Company has unanimously determined not to resist or oppose the Offer and recommended its acceptance by shareholders of the Company who wish to receive cash at this time; and

WHEREAS, the Parent, the Subsidiary, St. Louis Union Trust Company, as agent, The Washington University and Harvard University have entered into a Purchase Agreement (the "University Stock Purchase Agreement") pursuant to which such Universities will sell to the Purchaser and the Purchaser will buy from such Universities all the 2,494,516 shares of Company Common Stock owned by such Universities (the "University Shares") at $50.00 per share; and

WHEREAS, also in furtherance of such acquisition, the Boards of Directors of Parent, the Subsidiary and the Company have, and Parent, as the sole shareholder of the Subsidiary has, approved the merger (the "Merger") of the Company into the Subsidiary, following the consummation or termination of the Offer, in accordance with The General and Business Corporation Law of Missouri (the "GBCL"), pursuant to which each outstanding share of Company Common Stock, except for those held by Parent, the Subsidiary or any other Parent subsidiary, and except for those held by persons who object to the Agreement and who comply with all of the provisions of Section 351.455 of the GBCL (the "Dissenting Shares"), shall be converted into shares of capital stock, par value $.50 per share, of Parent ("Parent Common Stock"), in accordance with the provisions of this Agreement; and

WHEREAS, for federal income tax purposes, it is intended that the Merger shall qualify as a reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1954, as amended (the "Code"); and

WHEREAS, Parent, the Subsidiary and the Company desire to make certain representations, warranties and agreements in connection with the Offer and the Merger and also desire to set forth various conditions precedent to the Offer and the Merger;

NOW, THEREFORE, in consideration of the premises and the representations, warranties and agreements herein contained, the parties agree as follows:

I. THE OFFER

As promptly as practicable, but in no event later than December 21, 1981, Parent shall cause the Subsidiary to commence the Offer. The Offer shall be made pursuant to the Offer Documents (as defined below) in substantially the form heretofore agreed upon by the Company and Parent, with such changes as they shall mutually agree upon. The obligation of Parent and the Subsidiary to commence the Offer and accept for payment or pay for any Company Common Stock tendered shall be subject to the conditions set forth in Section 7.01 hereof. In connection with the Offer, the Company shall cause its transfer agent to furnish the Subsidiary with mailing labels containing the names and addresses of the record holders of Company Common Stock as of a recent date and shall furnish to the Subsidiary such information and assistance as Parent or the Subsidiary may reasonably request in communicating the Offer to the Company's shareholders. The Company hereby consents to the Offer and represents that the whole Board of Directors of the Company has unanimously adopted a resolution determining not to resist or oppose the Offer and recommending acceptance of the Offer to the Company's shareholders who wish to receive cash at this time.

II. THE MERGER

2.01. (a) As promptly as practicable following the consummation or termination of the Offer, subject to the terms and conditions of this Agreement, the Company shall be merged into the Subsidiary in accordance with the GBCL, with the Subsidiary being the surviving corporation (sometimes referred to hereinafter as the "Surviving Corporation"), and the separate existence of the Company shall cease. The Merger shall be effective when (i) duplicate originals of properly executed articles of merger (together with any other documents required by law to effectuate the Merger, all of which shall be prepared, executed and delivered by the appropriate parties promptly as required) shall be filed with the secretary of state of the State of Missouri, which filing shall be made as soon as possible after the closing of the transactions contemplated by this Agreement, and (ii) a certificate of merger shall be issued by such secretary of state. When used in this Agreement, the term "Effective Time" shall mean the time when such certificate of merger is so issued.

(b) The Surviving Corporation shall have the name "Mallinckrodt, Inc.", and shall possess all of the properties and rights and be subject to all of the liabilities of the Company and the Subsidiary and be governed by the laws of the State of Missouri.

(c) Subject to the terms and conditions hereof, the parties hereto shall take all action necessary in accordance with applicable law and their respective charters and by-laws to cause such Merger to be consummated as soon as is reasonably practicable.

(d) The Articles of Incorporation of the Subsidiary in effect immediately prior to the Effective Time shall be the Articles of Incorporation of the Surviving Corporation until amended in accordance with the provisions thereof and the GBCL, except that Article First of such Articles of Incorporation shall be amended to read as follows: "The name of the Corporation is Mallinckrodt, Inc."

(e) The By-Laws of the Subsidiary in effect immediately prior to the Effective Time shall be the By-Laws of the Surviving Corporation until altered, amended or repealed as provided therein, in the Articles of Incorporation of the Surviving Corporation and the GBCL.

(f) The directors of the Subsidiary and the officers of the Company immediately prior to the Effective Time shall be the directors and officers of the Surviving Corporation until their respective successors are duly elected and qualified.

2.02. At the Effective Time.

(a) Each share of stock of the Subsidiary which is issued and outstanding immediately prior thereto shall remain outstanding and continue as one share of the Surviving Corporation.

(b) Each share of Company Common Stock which is issued and outstanding immediately prior thereto, except for Dissenting Shares (which shall be paid for solely out of the assets of the Subsidiary and not out of the assets acquired from the Company), shall thereupon and without more be converted into that number of shares (rounded to the nearest thousandth of a share) (the "Conversion Number") of Parent Common Stock determined by dividing $50.00 by the average closing price of Parent Common Stock (the "Average Closing Price") as reported on the Composite Tape for New York Stock Exchange (the "NYSE") listed securities for the twenty-two trading days immediately preceding the third calendar day before the meeting of the Company's shareholders referred to in Section 6.03 hereof (provided that if such Average Closing Price exceeds \$35.00 it shall be deemed to be \$35.00 and if such Average Closing Price is less than \$30.00 it shall be deemed to be \$30.00), adjusted to give effect to any Adjustment Event as defined in Section 2.04 hereof. Notwithstanding any other provision of this Agreement, any shares of Company Common Stock which are owned by Parent, the Subsidiary or by any other Parent subsidiary or held in the treasury of the Company immediately prior to the Effective Time shall not be converted but shall be cancelled.

(c) The holders of certificates representing shares of Company Common Stock shall cease to have any rights as shareholders of the Company, except such rights, if any, as they may have pursuant to the GBCL and, except as aforesaid, their sole rights shall be the right to receive the number of whole shares of Parent Common Stock into which their shares of Company Common Stock shall have been converted by the Merger as provided in Section 2.02(b) and the right to receive the cash value of any fraction of a share of Parent Common Stock as provided in Section 2.03(f) hereof.

(d) At the Effective Time, Parent shall assume the Company's rights and obligations with respect to then outstanding options to purchase shares of Company Common Stock granted pursuant to the Company's 1978 Non-Qualified Stock Option Plan, in and by which assumption the optionee shall be entitled to acquire the largest whole number of shares of Parent Common Stock determined by multiplying the number of shares of Company Common Stock covered by such option immediately prior to the Effective Time by the Conversion Number, at an exercise price per share of Parent Common Stock equal to the exercise price per share then specified in such option divided by the Conversion Number rounded to the nearest cent. All of the terms and provisions of each option shall remain the same as and shall continue all of the terms and provisions of such option as presently outstanding, except that there shall be substituted the appropriate number of shares of Parent Common Stock for Company Common Stock and the exercise price of such shares of Parent Common Stock for the exercise price of the Company Common Stock, effective as of the Effective Time. As promptly as practicable after the Effective Time, Parent will issue to each holder of an option a written instrument evidencing Parent's assumption of such option.

(e) At the Effective Time, Parent shall assume the Company's rights and obligations under each then existing and outstanding warrant to purchase shares of Company Common Stock in accordance with the terms of such warrants, in and by which assumption the warrant holder shall be entitled to acquire the largest whole number of shares of Parent Common Stock determined by multiplying the number of shares of Company Common Stock covered by such warrant immediately prior to the Effective Time by the Conversion Number, at a price per share of Parent Common Stock equal to the price per share then specified in such warrant divided by the Conversion Number rounded to the nearest cent. All of the terms and provisions of each warrant shall remain the same as and shall continue all of the terms and provisions of such warrant as of the date hereof, including, but not limited to, the times when such warrant may be exercised and registration rights relating thereto, except that there shall be substituted the appropriate number of shares of Parent Common Stock for Company Common Stock and the exercise price of such shares of Parent Common Stock for the exercise price of the Company Common Stock, effective as of the Effective Time. As promptly as practicable after the Effective Time, Parent will issue to each holder of a then outstanding warrant a written instrument evidencing Parent's assumption of such warrant.

2.03. (a) Promptly after the Effective Time, Parent shall make available for exchange or conversion in accordance with this Article II, by transferring to the Surviving Corporation or to Morgan Guaranty Trust Company of New York or such other person as Parent may appoint to act as exchange agent (the "Exchange Agent") for the benefit of the shareholders of the Company, such number of shares of Parent Common Stock as shall be issuable pursuant to Section 2.02 in exchange for outstanding shares of Company Common Stock and such amount of cash as may be payable in lieu of fractional shares of Parent Common Stock pursuant to Section 2.03(f).

(b) As soon as practicable after the Effective Time, the Exchange Agent shall mail to each holder of record (other than Parent, any Parent subsidiary, the Company or any subsidiary of the Company) of a certificate or certificates which immediately prior to the Effective Time represented outstanding shares of Company Common Stock (the "Certificates") (i) a form letter of transmittal (which shall specify that delivery shall be effected, and risk of loss and title to the Certificates shall pass, only upon delivery of the Certificates to the Exchange Agent) and (ii) instructions for use in effecting the surrender of the Certificates in exchange for certificates representing shares of Parent Common Stock. Upon surrender of a Certificate for cancellation to the Exchange Agent or to such other agent or agents as may be appointed by Parent, together with such letter of transmittal, duly executed, the holder of such Certificate shall be entitled to receive in exchange therefor a certificate representing that number of whole shares of Parent Common Stock into which the shares of Company Common Stock theretofore represented by the Certificate so surrendered shall have been converted pursuant to the provisions of this Article II, and the Certificate so surrendered shall forthwith be cancelled. In the event of a transfer of ownership of Company Common Stock which is not registered in the transfer records of the Company, a certificate representing the proper number of shares of Parent Common Stock may be issued to a transferee if the Certificate representing such Company Common Stock is presented to the Exchange Agent, accompanied by all documents required to evidence and effect such transfer and by any applicable stock transfer taxes.

(c) No dividends or other distributions declared after the Effective Time with respect to Parent Common Stock and payable to the holders of record thereof after the Effective Time shall be paid to the holder of any unsurrendered Certificate with respect to the shares of Parent Common Stock represented thereby until the holder of record shall surrender such Certificate. Subject to the effect, if any, of applicable law, after the subsequent surrender and exchange of a Certificate, the holder thereof shall be entitled to receive any such dividends or other distributions, without any interest thereon, which theretofore became payable with respect to shares of Parent Common Stock represented by such Certificate. All dividends or other distributions declared after the Effective Time with respect to Parent Common Stock and payable to the holders of record thereof after the Effective Time which are payable to the holder of Certificates not theretofore surrendered and exchanged for certificates representing shares of Parent Common Stock pursuant to this Section 2.03 shall be paid or delivered by Parent to the Exchange Agent, in trust, for the benefit of such holders. All such dividends or other distributions held by the Exchange Agent for payment or delivery to the holders of unsurrendered Certificates and unclaimed at the end of one year from the Effective Time shall be repaid or redelivered by the Exchange Agent to Parent, after which time any holder of Certificates who has not theretofore surrendered such Certificates to the Exchange Agent, subject to applicable law, shall look as a general creditor only to Parent for payment or delivery of such dividends or distributions, as the case may be. Any shares of Parent Common Stock delivered or made available to the Surviving Corporation or the Exchange Agent pursuant to this Section 2.03 and not exchanged for Certificates within one year after the Effective Time pursuant to this Section 2.03 shall be returned by the Surviving Corporation or the Exchange Agent, as the case may be, to Parent which shall thereafter act as Exchange Agent subject to the rights of holders of unsurrendered Certificates under this Article II.

(d) All shares of Parent Common Stock issued upon the surrender for exchange of Company Common Stock in accordance with the terms hereof (including any cash paid pursuant to Section 2.03(f)) shall be deemed to have been issued in full satisfaction of all rights pertaining to such shares of Company Common Stock, subject, however, to the Surviving Corporation's obligation to pay any dividends which may have been declared by the Company on such shares of Company Common Stock in accordance with the terms of this Agreement and which remain unpaid at the Effective Time.

(e) After the Effective Time, there shall be no further registration of transfers on the stock transfer books of the Surviving Corporation of the shares of Company Common Stock which were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates representing such shares are presented to the Surviving Corporation, they shall be cancelled and exchanged as provided in this Article II.

(f) No certificates or scrip representing fractional shares of Parent Common Stock shall be issued upon the surrender for exchange of Certificates, no dividend or distribution of Parent shall relate to any fractional share, and such fractional share interests will not entitle the owner thereof to vote or to any rights of a shareholder of Parent. In lieu of any fractional share, the Exchange Agent or the Surviving Corporation, as the case may be, shall pay to each holder of shares of Company Common Stock who otherwise would be entitled to receive a fractional share of Parent Common Stock an amount of cash (without interest) determined by multiplying (i) the Average Closing Price by (ii) the fractional share interest (subject to adjustment pursuant to Section 2.04 hereof) to which such holder would otherwise be entitled.

2.04. If, between the date of this Agreement and the Effective Time, the outstanding shares of Parent Common Stock shall have been changed into a different number of shares or a different class by reason of any reclassification, recapitalization, split-up, combination, exchange of shares, or readjustment, or a stock dividend thereon shall be declared with a record date within such period (an "Adjustment Event"), the Conversion Number shall be appropriately adjusted.

III. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company represents and warrants to Parent and the Subsidiary that:

3.01. Each of the Company and its subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, and has all requisite power and authority, corporate and otherwise, to own, operate and lease its respective properties and to carry on its businesses substantially as they are being conducted on the date of this Agreement, except where the failure of any such subsidiary to be so organized or existing would not have a material adverse effect on the Company and its subsidiaries taken as a whole. The Company has all requisite corporate power and authority to enter into this Agreement and, subject to approval by the shareholders of the Company, to consummate the transactions contemplated hereby.

3.02. (a) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company, subject to the approval of this Agreement by the shareholders of the Company. This Agreement has been duly executed and delivered by the Company and, subject to approval of this Agreement by the shareholders of the Company, constitutes a valid and binding obligation of the Company.

(b) The execution and delivery of this Agreement do not, and the consummation of the transactions contemplated hereby will not, conflict with or result in any violation of or default or loss of a material benefit under or permit the acceleration of any obligation under any provision of the charter or by-laws of the Company or any of its subsidiaries or any mortgage, indenture, lease, agreement or other instrument, permit, concession, grant, franchise, license, judgment, order, decree, statute, law, ordinance, rule or regulation applicable to the Company or any of its subsidiaries or their respective properties, other than any such conflicts, violations or defaults which individually or in the aggregate (i) do not have a material adverse effect on the Company and its subsidiaries taken as a whole or (ii) will be cured or waived prior to the Effective Time. No consent, approval, order or authorization of, or registration, declaration or filing with, any United States federal or state governmental authority is required by or with respect to the Company in connection with the execution and delivery of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby, except where the failure to obtain such consent or approval or the failure to make such filing, declaration or registration would not have a material adverse effect upon the Company and its subsidiaries taken as a whole and except for (a) the filing of a premerger notification report by the

Company and Parent under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act"), (b) the filing of the Offer Documents and the Schedule 14D-9 (as hereinafter defined) and a joint proxy statement in connection with the meetings of the Company's and Parent's shareholders described in Section 6.03 hereof (the "Joint Proxy Statement") with the Securities and Exchange Commission (the "SEC"), (c) the filing of a Registration Statement on Form S-14 relating to the shares of Parent Common Stock to be issued pursuant to this Agreement (the "Merger Registration Statement") and a Registration Statement on Form S-8 relating to the shares of Parent Common Stock to be issued upon exercise of options to purchase Company Common Stock following the Effective Time (collectively, the "Registration Statements") to be filed by Parent with the SEC and various blue sky authorities and (d) the filing of appropriate articles of merger with respect to the Merger with the secretary of state of the State of Missouri and with other states in which the Company is qualified to do business and the issuance by such secretary of state of a certificate of merger.

3.03. The authorized capital stock of the Company consists of 40,000,000 shares of capital stock. There are 30,000,000 authorized shares of Company Common Stock, of which, as of the close of business on December 10, 1981, 14,388,793 shares were issued and outstanding, 378,527 shares were reserved for issuance pursuant to outstanding options granted under Company stock option plans, 666,746 shares were reserved for issuance upon conversion of the 5¾% Convertible Subordinated Debentures Due 2000 (the "Company Debentures"), 237,971 shares were reserved for issuance upon exercise of outstanding warrants, 15,750 shares were reserved for issuance in connection with the outstanding Unit[illegible]ted under the Company's Stock Bonus Plan, and no shares were treasury shares or held by any sub[illegible]ry of the Company. There are 10,000,000 authorized shares of preferred stock, $1.00 par value, of the Company, none of which is issued or outstanding as of the date hereof. All shares of Company Common Stock outstanding as of the date hereof are duly authorized, validly issued, fully paid and nonassessable. Except for options granted under the Company's 1978 Non-Qualified Stock Option Plan, the Company Debentures and warrants issued in connection with the Company's acquisitions of Fries & Fries, Inc. and Basic Foods, Inc., and except for the Option (as hereinafter defined), there are as of the date hereof no outstanding options, rights or warrants obligating the Company or any of its subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of the capital stock of the Company or any subsidiary or obligating the Company or any of its subsidiaries to grant, extend or enter into any such agreement or commitment.

3.04. The Company has heretofore delivered to Parent and the Subsidiary its (i) Annual Reports on Form 10-K for the years ended December 31, 1978, December 31, 1979, and December 31, 1980, as filed with the SEC, (ii) Quarterly Reports on Form 10-Q for the quarters ended March 31, 1981, June 30, 1981, and September 30, 1981, (iii) proxy statements relating to the Company's meetings of shareholders (whether annual or special) during 1979, 1980 and 1981, and (iv) all other reports or registration statements filed by the Company with the SEC since December 31, 1980. As of their respective dates, such reports and statements did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited consolidated interim financial statements of the Company included in such reports have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present the consolidated financial position of the Company and its consolidated subsidiaries as at the dates thereof and the consolidated results of their operations and changes in financial position for the periods then ended subject, in the case of the unaudited consolidated interim financial statem[illegible], to normal year-end adjustments and any other adjustments described therein. Since September 30, 1981, neither the Company nor any of its subsidiaries has undergone or suffered any change in its condition (financial or otherwise), properties, assets, liabilities, business or operations which have been, in any case or in the aggregate, materially adverse to the Company and its subsidiaries taken as a whole.

3.05. None of the information supplied by the Company for inclusion in (i) the Joint Proxy Statement or the Registration Statements, (ii) the documents pursuant to which the Offer will be made, including a Schedule 14D-1, an offer to purchase and a related letter of transmittal (the "Offer Documents"), and (iii) the Schedule 14D-9 to be filed by the Company in connection with the Offer (the "Schedule 14D-9") will, in the case of the Schedule 14D-1, Schedule 14D-9 or any amendments thereof or supplements thereto, at the respective times such schedules or any amendments thereof or supplements thereto are filed with the SEC, or, in the case of the Joint Proxy Statement or any amendments thereof or supplements thereto, at the time of the meetings of shareholders to be held in connection with the Merger, or, in the case of the Registration Statements, at the times they become effective and at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Schedule 14D-9 and the Joint Proxy Statement will comply as to form in all material respects with the provisions of the Securities and Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "Exchange Act").

3.06. The businesses of the Company and its subsidiaries are not being conducted in violation of any law, ordinance or regulation of any governmental entity, including, without limitation, any law, ordinance or regulation relating to the protection of the environment or occupational health and safety, except for possible violations which either singly or in the aggregate do not and, insofar as reasonably can be foreseen, in the future will not have a material adverse effect on such businesses. No investigation or review by any governmental entity with respect to the Company or any of its subsidiaries is pending or, to the knowledge of the Company, threatened, nor has any governmental entity indicated an intention to conduct the same, other than those the outcome of which will not materially adversely affect the Company and its subsidiaries taken as a whole.

3.07. Except as disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 1980 and the Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1981, June 30, 1981, and September 30, 1981, there is no suit, action or proceeding pending or, to the knowledge of the Company, threatened against or affecting the Company or any of its subsidiaries which, if adversely determined, would materially and adversely affect the financial condition, businesses or results of operations of the Company and its subsidiaries, taken as a whole; nor is there any judgement, decree, injunction, rule or order of any court, governmental department, commission, agency, instrumentality or arbitrator outstanding against the Company or any of its subsidiaries having, or which, insofar as reasonably can be foreseen, in the future would have, any such effect.

3.08. Each of the Company and each of its subsidiaries has filed all material tax returns required to be filed by any of them and has paid (or the Company has paid on its behalf), or has set up an adequate reserve for the payment of, all taxes required to be paid in respect of the periods covered by such returns and has set up an adequate reserve, or the Company has set up a reserve which the Company believes to be adequate, for the payment of all income and other taxes with respect to the Company and its subsidiaries anticipated to be payable in respect of periods through the date hereof. Neither the Company nor any of its subsidiaries is delinquent in the payment of any material tax, assessment or governmental charge. No material deficiencies for any taxes have been proposed, asserted or assessed against the Company or any of its subsidiaries, and no requests for waivers of the time to assess any such tax are pending. The federal income tax returns of the Company and each of its consolidated subsidiaries have been examined by and settled with the Internal Revenue Service for all years through 1974. For the purposes of this Agreement, the term "tax" shall include all federal, state, local and foreign taxes.

IV. REPRESENTATIONS AND WARRANTIES OF PARENT AND THE SUBSIDIARY

Parent and the Subsidiary jointly and severally represent and warrant to the Company that:

4.01. Each of Parent and its subsidiaries is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite power and authority, corporate and otherwise, to own, operate and lease its respective properties and to carry on its businesses substantially as they have been and are being conducted on the date of this Agreement, except where the failure of any such subsidiary to be so organized or existing would not have a material adverse effect on Parent and its subsidiaries taken as a whole. Parent and the Subsidiary have all requisite corporate power and authority to enter into this Agreement and, subject to approval by the shareholders of Parent, consummate the transactions contemplated hereby.

4.02. (a) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Parent and the Subsidiary, subject to the approval of the issuance of Parent Common Stock in accordance with this Agreement by the shareholders of Parent. This Agreement has been duly executed and delivered by Parent and the Subsidiary and, subject to approval of this Agreement by the shareholders of Parent, constitutes a valid and binding obligation of Parent and the Subsidiary.

(b) The execution and delivery of this Agreement do not, and the consummation of the transactions contemplated hereby will not, conflict with or result in any violation of or default or loss of a material benefit under or permit the acceleration of any obligation under any provision of the charter or by-laws of Parent or any of its subsidiaries or any mortgage, indenture, lease, agreement or other instrument, permit, concession, grant, franchise, license, judgement, order, decree, statute, law, ordinance, rule or regulation applicable to Parent or any of its subsidiaries or their respective properties, other than any such conflicts, violations or defaults which individually or in the aggregate (i) do not have a material adverse effect on Parent and its subsidiaries taken as a whole or (ii) will be cured or waived prior to the Effective Time. No consent, approval, order or authorization of, or registration, declaration or filing with, any United States federal or state governmental authority is required by or with respect to Parent or the Subsidiary in connection with the execution and delivery of this Agreement by Parent and the Subsidiary or the consummation by Parent and the Subsidiary of the transactions contemplated hereby, except where the failure to obtain such consent or approval or the failure to make such filing, declaration or registration would not have a material adverse effect upon Parent and its subsidiaries taken as a whole and except for (a) the filing of a premerger notification report by Parent and the Company under the HSR Act, (b) the filing of the Offer Documents, the Schedule 14D-9 and the Joint Proxy Statement with the SEC, (c) the filing of the Registration Statements with the SEC and various blue sky authorities and (d) the filing of appropriate articles of merger with respect to the Merger with the secretary of state of the State of Missouri and with other states in which the Company is qualified to do business and the issuance by such secretary of state of a certificate of merger.

4.03. Parent has cash available to it (either on hand or pursuant to written bank commitments) sufficient to enable Parent and the Subsidiary to carry out all of their obligations to pay cash under this Agreement and will continue to have sufficient cash available until all such obligations are satisfied.

4.04. The authorized capital stock of the Subsidiary consists of 1,000 shares of common stock, par value $1.00 per share, all of which are issued and outstanding and owned by Parent on the date hereof. The authorized capital stock of Parent consists of 80,000,000 shares of Parent Common Stock, of which, as of the close of business on December 1, 1981, 60,156,135 shares were issued and outstanding, 1,193,705 shares were reserved for issuance under Parent stock option plans and no shares were treasury shares. All shares of capital stock of Parent and each of its subsidiaries outstanding as of the date hereof are duly authorized, validly issued, fully paid and nonassessable. Except for options granted under Parent's 1970 Stock Option Incentive Plan, as amended, there are no outstanding options, rights or warrants obligating Parent or any of its U.S. subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of the capital stock of Parent or any subsidiary or obligating Parent or any of its U.S. subsidiaries to grant, extend or enter into any such agreement or commitment.

4.05. Parent has heretofore delivered to the Company its (i) Annual Reports on Form 10-K for the years ended December 31, 1978, December 31, 1979, and December 31, 1980 as filed with the SEC, (ii) Quarterly Reports on Form 10-Q for the quarters ended March 31, 1981, June 30, 1981, and September 30, 1981, (iii) proxy statements relating to Parent's meetings of shareholders (whether annual or special) during 1979, 1980 and 1981, and (iv) all other reports or registration statements filed by Parent with the SEC since December 31, 1980. As of their respective dates, such reports and statements did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. The audited consolidated financial statements and unaudited consolidated interim financial statements of Parent included in such reports have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved (except as may be indicated in the notes thereto) and fairly present the consolidated financial position of Parent and its consolidated subsidiaries as at the dates thereof and the consolidated results of their operations and changes in financial position for the periods then ended subject, in the case of the unaudited consolidated interim financial statements, to normal year-end adjustments and any other adjustments described therein. Since September 30, 1981, neither Parent nor any of its subsidiaries has undergone or suffered any change in its condition (financial or otherwise), properties, assets, liabilities, business or operations which have been, in any case or in the aggregate, materially adverse to Parent and its subsidiaries taken as a whole.

4.06. None of the information supplied by Parent or the Subsidiary for inclusion in the Joint Proxy Statement, the Registration Statements or the Offer Documents will, in the case of the Offer Documents or any amendments thereof or supplements thereto at the respective times the Offer Documents or any amendments thereof or supplements thereto are filed with the SEC, or, in the case of the Joint Proxy Statement or any amendments thereof or supplements thereto, at the time of the meetings of shareholders to be held in connection with the Merger, or, in the case of the Registration Statements, at the times they become effective and at the Effective Time, contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Offer Documents and the Joint Proxy Statement will comply as to form in all material respects with the provisions of the Exchange Act, and the Registration Statements will comply as to form in all material respects with the provisions of the Securities Act of 1933, as amended, and the rules and regulations thereunder (the "Securities Act").

4.07. The businesses of Parent and its subsidiaries are not being conducted in violation of any law, ordinance or regulation of any governmental entity, including, without limitation, any law, ordinance or regulation relating to the protection of the environment or occupational health and safety, except for possible violations which either singly or in the aggregate do not and, insofar as reasonably can be foreseen, in the future will not have a material adverse effect on such businesses. Except as disclosed in the documents referred to in Section 4.08, no investigation or review by any governmental entity with respect to Parent or any of its subsidiaries is pending or, to the knowledge of Parent, threatened; nor has any governmental entity indicated an intention to conduct the same, other than those the outcome of which will not materially adversely affect Parent and its subsidiaries taken as a whole.

4.08. Except as disclosed in Parent's Annual Report on Form 10-K for the year ended December 31, 1980 and Parent's Quarterly Reports on Form 10-Q for the quarters ended March 31, 1981, June 30, 1981, and September 30, 1981, there is no suit, action or proceeding pending or, to the knowledge of Parent, threatened against or affecting Parent or any of its subsidiaries which, if adversely determined, would materially and adversely affect the financial condition, businesses or results of operations of Parent and its subsidiaries, taken as a whole; nor is there any judgment, decree, injunction, rule or order of any court, governmental department, commission, agency, instrumentality or arbitrator outstanding against Parent or any of its subsidiaries having, or which, insofar as reasonably can be foreseen, in the future would have, any such effect.

4.09. Each of Parent and its subsidiaries has filed all material tax returns required to be filed by any of them and has paid (or Parent has paid on its behalf), or has set up an adequate reserve for the payment of, all taxes required to be paid in respect of the periods covered by such returns and has set up an adequate reserve, or Parent has set up a reserve which Parent believes to be adequate, for the payment of all income and other taxes with respect to Parent and its subsidiaries anticipated to be payable in respect of periods through the date hereof. Neither Parent nor any of its subsidiaries is delinquent in the payment of any material tax, assessment or governmental charge. No material deficiencies for any taxes have been proposed, asserted or assessed against Parent or any of its subsidiaries, and no requests for waivers of the time to assess any such tax are pending. The federal income tax returns of Parent and each of its subsidiaries have been examined by and settled with the Internal Revenue Service for all years through 1976. For the purposes of this Agreement, the term "tax" shall include all federal, state, local and foreign taxes.

V. COVENANTS

5.01. During the period commencing on the date hereof and continuing until the Effective Time, the Company agrees (except as expressly contemplated by this Agreement or to the extent that Parent shall otherwise consent in writing) that:

(a) The Company will carry on its business in, and only in, the usual, regular and ordinary course in substantially the same manner as heretofore conducted and, to the extent consistent with such business, use all reasonable efforts to preserve intact its present business organizations, keep available the services of its present officers and employees and preserve its relationships with customers, suppliers and others having business dealings with it to the end that its goodwill and going business shall be unimpaired at the Effective Time.

(b) The Company will not declare any dividends on or make other distributions in respect of the Company Common Stock, except that the Company may continue the declaration of regular quarterly cash dividends not in excess of $.25 per share of Company Common Stock. The Company will not amend its Restated Articles of Incorporation, as amended, or By-Laws except as necessary to permit the election of directors described in Section 6.25.

(c) The Company will not issue, authorize or propose the issuance of, or purchase or propose the purchase of, any shares of its capital stock of any class or securities convertible into, or rights, warrants or options to acquire, any such shares or other convertible securities (other than the issuance of Company Common Stock upon the exercise in accordance with the present terms of employee stock options outstanding on the date of this Agreement, exercise of the Option, conversion of the Company Debentures or exercise of warrants outstanding on the date of this Agreement), except in each case as permitted in this Agreement.

(d) The Company will use its best efforts to comply promptly with all requirements which federal or state law may impose on the Company with respect to the Offer and the Merger and will promptly cooperate with and furnish information to Parent in connection with any such requirements imposed upon Parent or on the Subsidiary or on any of their subsidiaries in connection with the Offer and the Merger.

(e) The Company will use its, and will cause its subsidiaries to use their, best efforts to obtain (and to cooperate with Parent and its subsidiaries in obtaining) any consent, authorization or approval of, or any exemption by, any governmental authority or agency, or other third party, required to be obtained or made by the Company or its subsidiaries (or by Parent or its subsidiaries) in connection with the Offer or the Merger or the taking of any action contemplated thereby.

(f) The Company will not, nor will it permit any subsidiary to, nor will it authorize or permit any officer, director or employee of or any investment banker, attorney, accountant or other representative retained by the Company or any subsidiary to solicit or encourage (including by way of furnishing information) any inquiries or the making of any proposal which it is reasonably expected may lead to any takeover proposal. The Company will promptly advise Parent orally and in writing of any such inquiries or proposals. As used in this Section 5.01(f), "takeover proposal" shall mean any proposal for a merger or other business combination involving the Company or any of its subsidiaries or for the acquisition of a substantial equity interest in the Company or any of its subsidiaries or a substantial portion of the assets of the Company or any of its subsidiaries other than the one contemplated by this Agreement.

(g) The Company will not and will not permit any of its subsidiaries to acquire or agree to acquire by merging or consolidating with, purchasing substantially all of the assets of or otherwise, any business or any corporation, partnership, association or other business organization or division thereof.

(h) The Company will not and will not permit any of its subsidiaries to sell, lease or otherwise dispose of any of its assets, except in the ordinary course of business, which are material, individually or in the aggregate, to the business or financial condition of the Company and its subsidiaries taken as a whole.

(i) The Company will not and will not permit any of its subsidiaries to incur any indebtedness for money borrowed or issue or sell any debt securities other than in the ordinary course of business consistent with prior practice.

(j) The Company will not grant and will not permit any of its subsidiaries to grant to any executive officer any increase in compensation or in severance or termination pay, or enter into any employment agreement with any executive officer, except as may be required under employment or termination agreements in effect on the date hereof or in the ordinary course of business consistent with prior practice.

(k) The Company will not and will not permit any of its subsidiaries to adopt or amend in any material respect any collective bargaining, employee pension, profit-sharing, retirement, insurance, incentive compensation, severance, vacation or other plan, agreement, trust, fund or arrangement for the benefit of employees (whether or not legally binding) other than as necessary to comply with Section 6.10 or in the ordinary course of business.

(l) The Company will promptly advise Parent orally and in writing of any change in the condition (financial or otherwise), properties, assets, liabilities, operations, business or prospects of the Company or any of its subsidiaries which is or may be materially adverse to the Company and its subsidiaries taken as a whole.

5.02. During the period commencing on the date hereof and continuing until the Effective Time, Parent and the Subsidiary each agrees (except as expressly contemplated by this Agreement or to the extent that the Company shall otherwise consent in writing) that:

(a) Parent will carry on its business in, and only in, the usual, regular and ordinary course in substantially the same manner as heretofore conducted and, to the extent consistent with such business, use all reasonable efforts to preserve intact its present business organizations, keep available the services of its present officers and employees and preserve its relationships with customers, suppliers and others having business dealings with it to the end that its goodwill and going business shall be unimpaired at the Effective Time.

(b) Parent will not declare any dividends on or make other distributions in respect of Parent Common Stock, except that Parent may continue the declaration of regular quarterly cash dividends not in excess of $.75 per share of Parent Common Stock. Parent will not amend its Certificate of Incorporation or By-Laws.

(c) Parent will not (i) issue, authorize or propose the issuance of any shares of its capital stock of any class or securities convertible into, or rights, warrants or options to acquire, any such shares or other convertible securities (other than the issuance of Company Common Stock upon the exercise in accordance with the present terms of employee stock options outstanding on the date of this Agreement), except in each case as permitted in this Agreement.

(d) Parent and the Subsidiary will use their respective best efforts to comply promptly with all requirements which federal or state law may impose on them with respect to the Offer and the Merger and will promptly cooperate with and furnish information to the Company in connection with any such requirements imposed upon the Company or on any of its subsidiaries in connection with the Offer and the Merger.

(e) Parent and the Subsidiary will use their respective best efforts to obtain (and to cooperate with the Company in obtaining) any consent, authorization or approval of, or exemption by, any governmental authority or agency, or other third party, required to be obtained or made by Parent or any of its subsidiaries (or by the Company or its subsidiaries) in connection with the Offer or the Merger or the taking of any action contemplated thereby.

(f) Parent will promptly advise the Company orally and in writing of any change in the condition (financial or otherwise), properties, assets, liabilities, operations, business or prospects of Parent or any of its subsidiaries which is or may be materially adverse to Parent and its subsidiaries taken as a whole.

VI. ADDITIONAL AGREEMENTS

6.01. The Company and Parent and the Subsidiary shall each afford to the other and to the other's accountants, counsel and other representatives, full access during normal business hours during the period prior to the Effective Time to all of their respective properties, books, contracts, commitments and records and, during such period, each shall use its best efforts to furnish promptly to the other (a) a copy of each report, schedule and other document filed or received by it during such period pursuant to the requirements of federal and state securities laws and (b) all other information concerning its business properties and personnel as such other party may reasonably request. Any failure to comply with this covenant shall be disregarded if promptly corrected without material adverse consequences to the other parties. The parties will not use such information and will otherwise hold such information in confidence until such time as such information otherwise becomes publicly available, and in the event of the termination of this Agreement each party will deliver any copies of documents made to the other.

6.02. Parent shall prepare and file as soon as is reasonably practicable with the SEC the Registration Statements and shall use all reasonable efforts to have the Registration Statements declared effective by the SEC as promptly as practicable after the termination of the Offer. Parent shall also take any action required to be taken under any applicable state blue sky or securities laws in connection with the issuance of the shares of Parent Common Stock to be issued as set forth in this Agreement, and the Company shall furnish all information concerning the Company and the holders of Company Common Stock as may reasonably be requested in connection with any such action.

6.03. The Company and Parent each shall call a meeting of its respective shareholders to be held after termination of the Offer for the purpose of voting upon this Agreement and related matters. Each party will use its best efforts to hold such meeting as promptly as practicable following consummation of the Offer and will, through its Board of Directors, recommend to its shareholders, consistent with its fiduciary duties, approval of the Merger.

6.04. The Company shall deliver to Parent a letter indentifying all persons who are, at the time the Merger is submitted to a vote of the shareholders of the Company, "affiliates" of the Company for purposes of Rule 145 under the Securities Act. The Company shall use its best efforts to cause each person who is identified as an "affiliate" in the letter referred to above to deliver to Parent on or prior to the Effective Time a written agreement, in form satisfactory to Parent, that such person will not offer to sell, sell or otherwise dispose of any of the shares of Parent Common Stock issued to such person pursuant to the Merger in violation of the Securities Act.

6.05. Parent shall use its best efforts to cause the shares of Parent Common Stock to be issued in the transactions contemplated by this Agreement to be approved for listing on the NYSE, subject to official notice of issuance, prior to the Effective Time.

6.06. Subject to the terms of Sections 2.02(d), 6.09 and 6.10, Parent will cause the Surviving Corporation to maintain all employee pension, retirement, insurance and other health and welfare plans and programs of the Company in effect at the Effective Time in accordance with the terms of such plans and programs, including the Company's Executive Salary Protection Plan and the Company's Additional Compensation Plan for Officers and Key Employees (the "Additional Compensation Plan"), or will otherwise make available plans and programs which provide benefits at least as favorable (including with respect to eligibility, benefits and vesting) to Company employees.

6.07. Whether or not the Merger is consummated, all costs and expenses incurred in connection with the Offer, this Agreement and the transactions contemplated hereby and thereby shall be paid by the party incurring such expense, except that expenses incurred in connection with printing the Joint Proxy Statement and the Registration Statements shall be shared equally by Parent and the Company.

6.08. Each of Parent, the Subsidiary and the Company represents, as to itself, that no agent, broker, investment banker or other firm or person is or will be entitled to any broker's or finder's fee or any other commission or similar fee in connection with any of the transactions contemplated by this Agreement, except Morgan Stanley & Co. Incorporated, whose fees and expenses will be paid by the Company, and Blyth Eastman Paine Webber Incorporated, whose fees and expenses will be paid by Parent.

6.09. Parent agrees that the Committee (as defined in the Company's 1978 Non-Qualified Stock Option Plan) prior to the Effective Time, may, in its discretion, permit the cancellation of all options to purchase shares of Company Common Stock granted pursuant to such plan which options would be exercisable by their terms as of the Effective Time without regard to the execution of this Agreement in consideration of the payment of an amount of cash equal to (i) the difference between the exercise price per share of such options so cancelled and the highest cash price per share paid for shares of Company Common Stock in the Offer, multiplied by (ii) the number of shares of Company Common Stock subject to such options so cancelled, provided, however, that the Committee may, in its discretion, with respect to the options held by members of the Company's Operating Committee, cancel the greater of (x) one-third of each such person's options (which may be those options having the lowest exercise prices) or (y) all of each such person's options that would be exercisable by their terms as of the Effective Time without regard to the execution of this Agreement in consideration of a cash payment as aforesaid and provided further that the total number of options so cancelled pursuant to this Section 6.09 shall not exceed 137,780.

6.10. (a) Immediately prior to the Effective Time, each participant in the Company's 1978 Stock Bonus Plan (the "Bonus Plan") then holding Units of Participation (as defined in the Bonus Plan) will receive in exchange therefor an amount of cash equal to the highest cash price per share paid for shares of Company Common Stock in the Offer, multiplied by the number of Units of Participation granted to such participant under the Bonus Plan, and the Bonus Plan will thereupon be terminated.

(b) Immediately prior to the Effective Time, the Company will cause all deferred awards under the Additional Compensation Plan to become immediately payable, and will pay to each participant in the Additional Compensation Plan in cash the full amount of any such deferred awards then relating to his account, compounded in accordance with past practice.

6.11. (a) Parent will cause the Surviving Corporation to perform each of the various employment, consulting, supplemental retirement and termination agreements (subject to paragraph (b) below) between the Company and its employees, directors and independent contractors and each of the indemnity agreements (the "Indemnity Agreements") between the Company and members of the committee established under the Will of Edward Mallinckrodt, Jr. (the "Trust Committee") in the same manner and to the same extent that the Company would be required to perform them if the Merger had not taken place.

(b) Prior to the occurrence of an event constituting a "change of control" of the Company as defined in the termination agreements, the Company will use its best efforts to obtain modification of the termination agreements to provide that (i) the Surviving Corporation shall have no obligation under such agreements to continue plans or arrangements which are specifically cancelled or modified pursuant to this Agreement to the extent cancelled or modified and (ii) the requirement that Mr. Raymond F. Bentele report to the Chief Executive Officer of Parent shall not constitute "Good Reason" within the meaning of Mr. Bentele's termination agreement.

6.12. Subject to the terms and conditions herein provided, each of the parties hereto agrees to use all reasonable efforts to take, or cause to be taken, all action, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the transactions contemplated by the Offer, this Agreement and the Merger. In case at any time after the Effective Time any further action is necessary or desirable to carry out the purposes of this Agreement, the proper officers and/or directors of the Company, Parent or the Subsidiary, as the case may be, shall take all such necessary action. Parent shall vote, and shall cause its subsidiaries to vote, in favor of approval of this Agreement all shares of Company Common Stock which it and its subsidiaries are then entitled to vote, it being understood that such favorable vote shall not in any way limit Parent's rights under Article VII hereof.

6.13. The Company and Parent shall, as soon as practicable, file Notification and Report Forms under the HSR Act with the Federal Trade Commission (the "FTC") and the Antitrust Division of the Department of Justice (the "Antitrust Division") and shall use reasonable efforts to respond as promptly as practicable to all inquiries received from the FTC or the Antitrust Division for additional information or documentation. The Company and Parent will take all such action as may be necessary under the federal securities laws applicable to or necessary for, and will file and, if appropriate, use their best efforts to have declared effective or approved all documents and notifications with the SEC and other governmental or regulatory bodies which they deem necessary or appropriate for, the consummation of the Merger and the transactions contemplated hereby, and each party shall give the other information reasonably requested by such other party pertaining to it and its subsidiaries and affiliates to enable such other party to take such actions, and the Company and Parent shall file in a timely manner all reports and documents required to be so filed by or under the Exchange Act.

6.14. In making the Offer, Parent and the Subsidiary shall comply in all material respects with the provisions of the Exchange Act and other applicable laws.

6.15. Prior to the Effective Time, the Company will deliver to Parent, and Parent will deliver to the Company, not later than 45 days after the end of any fiscal quarter or fiscal year, a consolidated statement of financial position of such party and its subsidiaries as at the last day of such fiscal quarter and the consolidated statements of income and changes in financial position of such party and its subsidiaries for the fiscal period then ended (which statements may be unaudited if not for a fiscal year) prepared in conformity with the requirements of Form 10-Q or Form 10-K, as the case may be, under the Exchange Act.

6.16. Parent shall cause the Surviving Corporation to indemnify, defend and hold harmless the present and former officers, directors, employees and agents of the Company (an "Indemnified Party") after the Effective Time against all liabilities arising out of actions or omissions occurring prior to the Effective Time to the full extent permitted or required under Missouri law, the Company's By-Laws and the Indemnity Agreements in effect at the date hereof, including provisions relating to advances of expenses incurred in the defense of action or suit, provided that any determination required to be made with respect to whether an Indemnified Party's conduct complies with the standards set forth in Missouri law, the Company's By-Laws and the Indemnity Agreements shall be made by independent counsel selected by the Surviving Corporation and reasonably satisfactory to the Indemnified Party. After the Effective Time, Parent or the Subsidiary shall provide for five years officers' and directors' liability insurance and liability insurance in respect of the Trust Committee covering such persons with respect to actions or omissions occurring prior to the Effective Time, on terms no less favorable than such insurance maintained in effect by the Company on the date hereof in terms of coverage and amounts.

6.17. At all times prior to the Effective Time, each party shall promptly notify the other in writing of the occurrence of any event which will or may result in the failure to satisfy the conditions specified in Sections 7.01, 7.02 or 7.03.

6.18. Parent presently intends to operate the business conducted by the Company as a separate subsidiary headquartered in St. Louis, Missouri and not to make any changes in management (with respect to both domestic and foreign operations) or employees generally.

6.19. Parent shall provide and deliver or cause to be provided and delivered all cash payable to holders of Company Common Stock in connection with the Offer. Parent will keep cash available to it (either on hand or pursuant to written bank commitments) sufficient to enable Parent and the Subsidiary to carry out all of their obligations under this Agreement.

6.20. Promptly following completion of the Offer, provided that the Subsidiary shall have purchased pursuant to the Offer at least 4,560,000 of the shares of Company Common Stock ("successful completion of the Offer"), the Company shall call all then outstanding Company Debentures for redemption in accordance with the provisions of the Indenture dated as of November 1, 1975, relating to the Company Debentures (the "Indenture").

6.21. At the Effective Time, if any Company Debentures are then outstanding, the Surviving Corporation and Parent, shall, jointly and severally, assume by a supplemental indenture, executed and delivered in accordance with the provisions of the Indenture and satisfactory in form and substance to the Trustee under the Indenture, all of the Company's obligations under the Indenture and the Company Debentures. Parent shall take all necessary action, including, but not limited to, reserving the shares of Parent Common Stock into which Company Debentures may be converted after the Effective Time, to comply and to cause the Subsidiary to comply with the provisions of the Indenture and such supplemental indenture.

6.22. Promptly following successful completion of the Offer, the Company shall offer to cancel, and, to the extent its offer is accepted, shall cancel, all then outstanding warrants to purchase Company Common Stock in exchange for a cash payment to each warrant holder equal to (i) the difference between the net exercise price per share of such holder's warrant and the highest cash price per share paid for shares of Company Common Stock in the Offer, multiplied by (ii) the number of shares of Company Common Stock covered by such warrant.

6.23. At all times until the Effective Time, each party shall promptly advise and cooperate with the other prior to issuing, or permitting any of its subsidiaries, directors, officers, employees or agents, to issue any press release or other information to the press or any third party with respect to this Agreement or the transactions contemplated hereby.

6.24. Parent and the Subsidiary will not take any action at any time after the Effective Time which would cause the Merger not to qualify as a reorganization within the meaning of Section 368 of the Code for failure to satisfy the "continuity of business enterprise" requirement of Section 1.368-1(d) of the Income Tax Regulations or the "substantially all the properties" requirement of Section 368(a)(2)(D) of the Code, both as presently constituted or, if amended so as to apply to the Merger, as amended at the time any such action might be taken; provided, however, that in taking any action Parent and the Subsidiary may rely on an opinion of Messrs. Cravath, Swaine & Moore that such action will not cause the Merger not to qualify as a reorganization within the meaning of Section 368 of the Code. Parent and the Subsidiary will file their federal income tax returns for all periods beginning after or including the Effective Time on a basis consistent with the treatment of the Merger as a reorganization within the meaning of Section 368 of the Code.

Parent and the Subsidiary represent that neither they nor any corporation which is affiliated with them, within the meaning of Section 1504 of the Code, own, either beneficially or of record, any Company Common Stock and agree that, unless this Agreement is terminated in accordance with its terms, they will not acquire any Company Common Stock except as provided in this Agreement or the University Stock Purchase Agreement. Neither Parent nor any corporation which is affiliated with Parent within the meaning of Section 1504 of the Code has any present intention nor at the Effective Time will have any intention to purchase, redeem or otherwise acquire from the shareholders of the Company any of the Parent Common Stock to be received by them in the Merger (provided that purchases in open market transactions in which such shareholders may happen to have sold Parent Common Stock shall not be deemed to be intentional). For the five-year period beginning at the Effective Time neither Parent nor any corporation which is affiliated with Parent within the meaning of Section 1504 of the Code will purchase, redeem or otherwise acquire such Parent Common Stock (except for open market purchases of 50,000 or fewer shares of such Parent Common Stock from any one seller) unless in the opinion of Messrs. Cravath, Swaine & Moore (who in rendering any such opinion may rely on the statement of intention contained in the preceding sentence) such purchase, redemption or acquisition will not cause the Merger to fail to qualify as a reorganization within the meaning of Section 368 of the Code.

6.25. Promptly following successful completion of the Offer the Company shall take all actions necessary to cause two persons designated by Parent to be elected to the Company's Board of Directors.

VII. CONDITIONS

7.01. Notwithstanding any other term of the Offer, Parent and the Subsidiary shall not be required to commence the Offer or to accept for payment or pay for any Company Common Stock not theretofore accepted for payment or paid for, and may terminate or amend the Offer as to such shares of Company Common Stock, if, at any time on or after December 11, 1981 and before the acceptance of such shares for payment or the payment therefor, any of the following situations exists:

(a) a preliminary or permanent injunction or other order by any federal or state court which prevents the acceptance for payment of, or payment for, some or all of the Company Common Stock shall have been issued and shall remain in effect;

(b) there shall be instituted or pending any action or proceeding by any United States federal or state government or governmental agency or instrumentality, before any United States federal or state court or governmental agency or other regulatory or administrative agency or instrumentality, (i) challenging the acquisition by Parent or the Subsidiary of shares of Company Common Stock or otherwise seeking to restrain or prohibit the consummation of the Offer or the Merger or material damages or (ii) seeking to prohibit Parent's or the Subsidiary's ownership or operation of all or a material portion of Parent's or the Company's business or assets, or to compel Parent or the Subsidiary to dispose of or hold separate all or a material portion of Parent's or the Company's business or assets, as a result of the Offer or the Merger, which, in either case, in the reasonable judgment of Parent, would probably result in the relief sought being obtained;

(c) there shall be any action taken, or any statute, rule, regulation or order enacted, promulgated or issued or deemed applicable to the Offer or the Merger by any United States federal or state government or governmental agency or instrumentality or court, which would (i) prohibit Parent's or the Subsidiary's ownership or operation of all or a material portion of Parent's or the Company's business or assets, or compel Parent or the Subsidiary to dispose of or hold separate all or a material portion of Parent's or the Company's business or assets, as a result of the Offer or the Merger, (ii) render Parent or the Subsidiary unable to purchase or pay for some or all of the shares of the Company Common Stock or to consummate the Merger, except for the waiting period provisions of the HSR Act, (iii) make such purchase, payment or consummation illegal, or (iv) impose or confirm material limitations on the ability of Parent or the Subsidiary effectively to exercise full rights of ownership of the shares of Company Common Stock, including, without limitation, the right to vote the shares of the Company Common Stock purchased by it on all matters properly presented to the Company's shareholders;

(d) any change shall have occurred in the business, financial condition, operations or prospects of the Company and its subsidiaries which is or is reasonably likely to be materially adverse to the Company and its subsidiaries taken as a whole;

(e) there shall have occurred (i) any general suspension of, or limitation on prices for, trading in securities on the NYSE or the National Association of Securities Dealers Automated Quotation System, (ii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States or any limitation by federal or state authorities on the extension of credit by lending institutions, (iii) a commencement of a war or armed hostilities or other national or international calamity directly or indirectly involving the United States, or (iv) in the case of any of the foregoing existing at the time the commencement of the Offer, a material acceleration or worsening thereof;

(f) the Company shall have (i) issued, authorized or proposed the issuance of, or purchased or proposed the purchase of, any shares of its capital stock of any class or securities convertible into, or rights, warrants or options to acquire, any such shares or other convertible securities (other than the issuance of Company Common Stock upon the exercise in accordance with the present terms of employee stock options outstanding on the date of this Agreement, exercise of the Option, conversion of the Company Debentures or exercise of warrants outstanding on the date of this Agreement), (ii) issued, authorized or proposed the issuance of any other securities in respect of, in lieu of or in substitution for shares of capital stock of the Company, (iii) declared or paid any dividend or distribution on shares of capital stock of the Company except for regular quarterly cash dividends on the Company Common Stock not in excess of $.25 per share, (iv) authorized, recommended or proposed, or announced its intention to authorize, recommend or propose, any merger, consolidation or business combination or any acquisition or disposition of a material amount of its assets or a material change in its capitalization or any comparable event not in the ordinary course of business, other than the Offer or the Merger, or (v) amended or authorized any amendment to its Restated Articles of Incorporation or By-laws, except in each case as permitted by this Agreement;

(g) more than 25% of the shares of the Company Common Stock shall have been acquired by another person (including a "group" as defined in Section 13(d)(3) of the Exchange Act) or a tender or exchange offer for the shares of Company Common Stock shall have been commenced or a business combination proposal shall have been made by another person, if such tender or exchange offer or business combination could result in such other person and its affiliates beneficially owning directly or indirectly more than 25% of the shares of Company Common Stock;

(h) the representations and warranties of the Company set forth in Article III of this Agreement shall then be materially incorrect; or

(i) the Company shall have failed to perform in all material respects any obligation or to comply in all material respects with any agreement, covenant or condition of the Company to be performed or complied with by it hereunder; which in the sole judgment of Parent in any such case, and regardless of the circumstances (including any action or inaction by Parent or any of its subsidiaries) giving rise to any such condition, makes it inadvisable to proceed with such acceptance for payment or payment.

7.02. Notwithstanding any other provision of this Agreement, neither Parent nor the Subsidiary shall be obligated to consummate the Merger if any of the following situations exists:

(a) The Merger or this Agreement shall not have been validly approved by the requisite vote of the shareholders of the Company and the issuance of Parent Common Stock in accordance with this Agreement shall not have been validly approved by the requisite vote of the shareholders of Parent.

(b) A preliminary or permanent injunction or other order by any federal or state court which prevents the consummation of the Merger shall have been issued and shall remain in effect.

(c) Any of the representations and warranties made by the Company in Article III hereof shall not have been true in any material respect as of the date of this Agreement and as of the Effective Time as though made on and as of the Effective Time, except as otherwise contemplated by this Agreement.

(d) The Company shall have failed to perform in all material respects any obligation or comply in all material respects with any agreement, covenant or condition required by this Agreement to be performed or complied with by it prior to or at the Effective Time and the Company shall not have delivered to Parent a certificate dated the Effective Time and signed by its chairman or president to the effect set forth in this paragraph.

(e) The Merger Registration Statement shall not have become effective, or a stop order suspending such effectiveness shall have been issued and shall remain in effect.

(f) Parent shall not have received an opinion of Cravath, Swaine & Moore, counsel to Parent, to the effect that the Merger (together with the Offer if the Offer and the Merger are treated as a single integrated transaction) will be treated for federal income tax purposes as a reorganization within the meaning of Section 368 of the Code, and that Parent, the Subsidiary and the Company will each be a party to that reorganization within the meaning of Section 368(b) of the Code.

7.03. Notwithstanding any other provisions of this Agreement, the Company shall not be obligated to consummate the Merger if any of the following situations exists:

(a) The Merger or this Agreement shall not have been validly approved by the requisite vote of the shareholders of the Company and the issuance of Parent Common Stock in accordance with this Agreement shall not have been validly approved by the requisite vote of the shareholders of Parent.

(b) A preliminary or permanent injunction or othe order by any federal or state court which prevents the consummation of the Merger shall have been issued and shall remain in effect.

(c) Any of the representations and warranties made by either Parent or the Subsidiary in Article IV hereof shall not have been true in any material respect as of the date of this Agreement and as of the Effective Time as though made on and as of the Effective Time, except as otherwise contemplated by this Agreement.

(d) Parent or the Subsidiary shall have failed to perform in all material respects any obligation or comply in all material respects with any agreement, covenant or condition required by this Agreement to be performed or complied with by it prior to or at the Effective Time, and Parent shall not have delivered to the Company a certificate dated the Effective Time and signed by its chairman or president to the effect set forth in this paragraph.

(e) The Company shall not have received an opinion from its counsel, Messrs. Skadden, Arps, Slate, Meagher & Flom, dated the Effective Time, satisfactory to the Company, substantially to the effect that, on the basis of facts and representations set forth in such opinion which are consistent with the state of facts existing at the Effective Time, the Merger (together with the Offer if the Offer and the Merger are treated as a single integrated transaction) will be treated for federal income tax purposes as a reorganization within the meaning of Section 368 of the Code, and that Parent, the Subsidiary and the Company will each be a party to that reorganization within the meaning of Section 368(b) of the Code and that, accordingly, (i) no gain or loss will be recognized to the shareholders of the Company who did not exchange any of their Company Common Stock for cash pursuant to the Offer and who exchange all of their Company Common Stock for Parent Common Stock pursuant to the Merger; (ii) assuming that the Offer and the Merger are treated as a single integrated transaction for federal income tax purposes, no gain or loss will be recognized to the shareholders of the Company who exchange part of their Company Common Stock for cash pursuant to the Offer and part of their Company Common Stock for Parent Common Stock pursuant to the Merger, except that gain realized, if any, will be recognized to the extent of the cash received; (iii) the aggregate basis of the Parent Common Stock received by shareholders of the Company who did not exchange any of their Company Common Stock for cash pursuant to the Offer and exchange all of their Company Common Stock for Parent Common Stock in the Merger will be the same as the aggregate basis of the Company Common Stock surrendered in exchange therefor; (iv) assuming that the Offer and the Merger are treated as a single integrated transaction for federal income tax purposes, the aggregate basis of the Parent Common Stock received by shareholders of the Company who exchange part of their Company Common Stock for Parent Common Stock in the Merger and part of their Company Common Stock for cash in the Offer will be the same as the aggregate basis of their Company Common Stock surrendered, decreased by the cash received and increased by the amount of gain, if any, recognized on the exchange (including any portion of such gain which is treated as a dividend); (v) the holding period of the Parent Common Stock received will include the period during which the Company Common Stock surrendered in exchange therefor was held, provided such Company Common Stock was held as a capital asset on the date of the exchange; and (vi) in the case of a shareholder all of whose Company Common Stock (including Company Common Stock deemed to be owned by him under Section 318 of the Code) is exchanged solely for cash in the Offer, gain or loss will be recognized and such gain or loss will constitute capital gain or loss provided that such shareholder held his Company Common Stock as a capital asset.

In rendering any such opinion Messrs. Skadden, Arps, Slate, Meagher & Flom may rely on certificates of officers of the Company and Parent and upon the representations and agreements of Parent contained in Articles IV and VI hereof. Such opinion may provide that it is not applicable to stock acquired upon the exercise of employee stock options or otherwise as compensation or to the treatment of cash received in lieu of fractional shares.

(f) The Registration Statements shall not have become effective, or a stop order suspending such effectiveness or proceedings for that purpose shall have issued and shall remain in effect.

(g) The shares of Parent Common Stock issuable at and after the Effective Time pursuant to this Agreement shall not have been approved for listing, subject to official notice of issuance, on the NYSE.

VIII. TERMINATION, AMENDMENT AND WAIVER

8.01. This Agreement may be terminated at any time prior to the Effective Time, whether before or after approval by the shareholders of Parent, the Subsidiary and the Company:

(a) by mutual consent of the Board of Directors of Parent and the Board of Directors or Executive Committee of the Company; or

(b) by the Company if the Offer has not been commenced by December 21, 1981 or by either the Company or Parent if the Offer is terminated without any shares of Company Common Stock being purchased thereunder; or

(c) by either Parent or the Company if the Merger shall not have been consummated on or before December 31, 1982.

8.02. In the event of termination of this Agreement by either Parent or the Company as provided above, this Agreement (including, without limitation, the agreement contained in Section 6.24 hereof) shall forthwith become void and there shall be no liability hereunder on the part of Parent, the Subsidiary, or the Company or their respective officers or directors except for wilful breach and except that the agreements with respect to confidentiality contained in Section 6.01 and the agreements contained in Section 6.07 hereof shall survive the termination hereof.

8.03. This Agreement may be amended by the parties hereto by action taken by their respective Boards of Directors or, in the case of the Company, the Executive Committee at any time before or after approval hereof by the shareholders of either the Company or the Subsidiary, but, after any such approval, no amendment shall be made which changes the Conversion Number as provided in this Agreement or which in any way adversely affects the rights of such shareholders without the further approval of such shareholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties hereto.

8.04. Any term, provision or condition of this Agreement (other than the requirement for shareholder approval) may be waived in writing at any time by the party which is, or the shareholders of which are, entitled to the benefits thereof.

IX. GENERAL PROVISIONS

9.01. All representations, warranties and agreements of Parent, the Subsidiary and the Company in this Agreement or in any instrument delivered by Parent, the Subsidiary or the Company pursuant to this Agreement shall not survive the Merger, except that the agreements contained in Article II and in Sections 6.01, 6.06, 6.07, 6.08, 6.11, 6.12, 6.16, 6.18, 6.19, 6.21 and 6.24 shall survive the Merger and shall inure to the benefit of and be enforceable by the persons referred to in such Article and Sections.

9.02. The closing of the transactions contemplated by this Agreement shall take place as promptly as practicable following approval of the Merger by the shareholders of the Company and Parent.

9.03. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or mailed by registered or certified mail (return receipt requested) to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to Parent or the Subsidiary:

Avon Products, Inc.
9 West 57th Street
New York, New York 10019
Attention: Mr. S. Arnold Zimmerman
Senior Vice President, General
Counsel and Secretary

(b) if to the Company:

Mallinckrodt, Inc.
675 McDonnell Boulevard
P.O. Box 5840
St. Louis, Missouri 63134
Attention: Raymond M. Asher, Esq.
Vice President, Secretary and
General Counsel

Copy to:
Peter Allan Atkins, Esq.
Skadden, Arps, Slate, Meagher & Flom
919 Third Avenue
New York, New York 10022

9.04. This Agreement (including the documents and instruments referred to herein or therein) (a) constitutes the entire agreement and supersedes all other prior agreements and undertakings, both written and oral, among the parties, or any of them, with respect to the subject matter hereof, except for the letter agreement dated November 20, 1981, between Parent and the Company (except that the restriction on purchases of Company Common Stock or offers or proposals contained in such letter agreement shall not apply if (i) the Subsidiary purchases the University Shares and exercises the Option in full or (ii) there is a successful completion of the Offer, and in either case this Agreement shall have been terminated in accordance with its terms); (b) is not intended to confer upon any other person any rights or remedies hereunder except as specifically provided herein; (c) shall not be assigned by operation of law or otherwise; and (d) shall be governed in all respects, including validity, interpretation and effect, by the laws of the State of Missouri (regardless of the law which may be applicable under principles of conflicts of law). This Agreement may be executed in two or more counterparts which together shall constitute a single agreement.

X. THE OPTION

10.01. The Company hereby grants to the Subsidiary an option (the "Option") to purchase up to 3,600,000 shares of authorized but unissued Company Common Stock at a price per share of $50.00 in cash.

10.02. The Option may be exercised by the Subsidiary, in whole or in part, at any time or from time to time, before March 31, 1982; provided, however, that, to the extent the Option shall not have been exercised, it shall terminate and be of no further force and effect upon the termination of this Agreement in accordance with Section 8.01. In the event the Subsidiary wishes to exercise the Option, the Subsidiary shall send a written notice (the date of such notice being herein called the "Notice Date") to the Company specifying (i) the total number of shares of the Company Common Stock it will purchase pursuant to such exercise and (ii) a place and a date not earlier than two business days nor later than 10 business days from the Notice Date for the closing of such purchase.

10.03. At the closing referred to in Section 10.02, (a) the Subsidiary will make payment to the Company of the aggregate price for the shares of the Company Common Stock by certified or official bank check and (b) the Company will deliver to the Subsidiary a certificate or certificates representing the number of shares of Company Common Stock so purchased. At any such closing, the Subsidiary shall deliver a letter representing that the Company Common Stock acquired by it pursuant to this Article X is being acquired for investment and not with a view to any distribution thereof and agreeing that such person will not offer to sell or otherwise dispose of any Company Common Stock so acquired by it in violation of the Securities Act.

10.04. This Option shall not be assigned by the Subsidiary or any permitted assignee except that it may be assigned in whole or in part to Parent or a direct or indirect wholly owned subsidiary or subsidiaries of Parent without the prior written consent of the Company.

In Witness Whereof, Parent, the Subsidiary and the Company have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the date first written above.

AVON PRODUCTS, INC.

By: /s/ David W. Mitchell

Name: David W. Mitchell
Title: Chairman of the Board and Chief Executive Officer

AVP HOLDINGS, INC.

By: /s/ David W. Mitchell

Name: David W. Mitchell
Title: President and Director

MALLINCKRODT, INC.

By: /s/ Harold E. Thayer

Name: Harold E. Thayer
Title: Chairman of the Board

ANNEX II

BLYTH EASTMAN PAINE WEBBER
INCORPORATED
1221 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10020
212-730-8500

December 14, 1981

Board of Directors
AVON PRODUCTS, INC.
9 West 57th Street
New York, New York 10019

Dear Directors:

We wish to confirm our opinion requested by you and rendered orally on the date of this letter as to the fairness from a financial point of view to the present shareholders of Avon Products, Inc. ("Avon") of the terms of the proposed acquisition of Mallinckrodt, Inc. ("Mallinckrodt") by Avon described below.

On December 15, 1981, AVP Holdings, Inc., a wholly owned subsidiary of Avon (the "Purchaser"), will enter into an agreement (the "Purchase Agreement") with St. Louis Union Trust Company pursuant to which the Purchaser will purchase 2,301,516 shares of Mallinckrodt Common Stock, $1 par value, ("Stock") for $50.00 cash per share. The Purchaser expects to enter into an agreement to purchase an additional 193,000 shares of Stock from Harvard University at the same price. The total of 2,494,516 shares of Stock to be so purchased represents approximately 17% of the outstanding shares of Stock. As more specifically detailed in the Agreement and Plan of Merger to be dated December 15, 1981 (the "Agreement"), on December 16, 1981 the Purchaser will commence an offer to purchase by means of a tender offer up to approximately 4,560,000 shares of Stock for $50.00 cash per share (the "Tender Offer"), representing approximately 32% of the outstanding shares of Stock. Subsequent to the Tender Offer, and subject to the terms and conditions of the Agreement, the Purchaser will effect a merger with Mallinckrodt under which each outstanding share of Mallinckrodt not owned by the Purchaser will be converted into that number of shares of Avon Common Stock, $.50 par value, rounded to the nearest thousandth, determined by dividing $50.00 by the average closing price of Avon Common Stock on the Composite Tape for the 22 New York Stock Exchange trading days immediately preceding the third calendar day before the meeting of the stockholders of Mallinckrodt (the "Average Closing Price"); provided, however, that if the Average Closing Price exceeds $35.00, it shall be deemed to be $35.00, and if the Average Closing Price is less than $30.00, it shall be deemed to be $30.00.

We have acted as financial advisor to Avon in connection with negotiations leading to the proposed acquisition of Mallinckrodt and will act as Dealer Manager in the Tender Offer.

In arriving at our opinion, we have: (1) reviewed Avon's and Mallinckrodt's historical operating results and publicly reported financial statements and certain other publicly available information relating to Avon and Mallinckrodt and their businesses, (2) reviewed current financial forecasts provided by Avon and Mallinckrodt, (3) discussed with Avon's and Mallinckrodt's principal executives and financial officers each company's respective operations, business plans, and general prospects from a business and financial point of view, (4) reviewed available drafts of the Agreement and the Purchase Agreement, (5) reviewed the historical prices and reported trading volumes of Avon's and Mallinckrodt's common stocks, (6) compared certain financial and current market data pertaining to Avon and Mallinckrodt with similar data of other companies in generally similar businesses, (7) reviewed the financial terms of certain other recent mergers and acquisitions deemed relevant, and (8) performed such other studies, analyses and investigations as we deemed appropriate under the circumstances.

In preparing our opinion, we have relied upon the accuracy and completeness of the financial and other information furnished to us by Avon and Mallinckrodt and have not attempted independently to verify such information, nor have we made or caused to have made any independent evaluation of any assets of either Avon or Mallinckrodt.

Based upon the foregoing and our general knowledge and experience in the valuation of securities, it is our opinion that the terms of the above-described transaction are fair from a financial point of view to the present shareholders of Avon.

Very truly yours,

BLYTH EASTMAN PAINE WEBBER
INCORPORATED

ANNEX III

MORGAN STANLEY

*MORGAN STANLEY & CO.
INCORPORATED
1251 AVENUE OF THE AMERICAS
NEW YORK, NEW YORK 10020*

December 15, 1981

Board of Directors
MALLINCKRODT, INC.
675 McDonnell Blvd.
St. Louis, Missouri 63134

Dear Sirs:

We understand that Mallinckrodt, Inc. ("Mallinckrodt") intends to enter into an agreement with Avon Products, Inc. ("Avon") providing for the acquisition of Mallinckrodt by Avon.

The terms of the proposed acquisition are set forth in an Agreement and Plan of Merger dated December 15, 1981 (the "Agreement"). The terms of the Agreement provide, among other things, for (i) the acquisition pursuant to a cash tender offer (the "Tender Offer") of up to 49% of Mallinckrodt's outstanding shares of Common Stock, $1.00 par value ("Mallinckrodt Common Stock"), at $50 per share in cash and (ii) the acquisition of the remainder of the shares of Mallinckrodt Common Stock by way of a merger (the "Merger") of Mallinckrodt into a subsidiary of Avon in exchange, intended to be tax free, for shares of Avon Common Stock, $.50 par value ("Avon Common Stock"), having a value, calculated as provided in the Agreement, of $50 provided that in no event will Avon exchange more than 1.667 or less than 1.429 shares of Avon Common Stock for each share of Mallinckrodt Common Stock. The Agreement further provides that following successful completion of the Tender Offer (i) Mallinckrodt will offer to purchase outstanding Warrants to purchase Mallinckrodt Common Stock at a price for each underlying share of $50 less the exercise price of such Warrants and (ii) Mallinckrodt will call for redemption, pursuant to the terms thereof, its outstanding 5¾% Convertible Subordinated Debentures due 2000.

You have asked for our opinion as to whether the terms of the Agreement are fair and equitable to the shareholders of Mallinckrodt from a financial point of view.

As you are aware, from time to time we have acted as financial adviser to Avon on certain corporate financing matters and in connection with previous acquisition studies and advice.

For purposes of this opinion we have, among other things, (i) studied Mallinckrodt's and Avon's historical and current earnings, cash flow, dividends and book value in the aggregate and on a per share basis; (ii) reviewed the consolidated financial statements of Mallinckrodt and Avon for recent years and interim periods to date and other relevant financial and operating data for Mallinckrodt and Avon available from published sources; (iii) reviewed certain internal financial and operating data and projections for Mallinckrodt and Avon which were provided to us by the managements of the respective companies and have discussed the business and prospects of Mallinckrodt and Avon with certain executive officers of the respective companies; (iv) analyzed published information of certain other companies and have compared Mallinckrodt and Avon from a financial point of view with these other companies; (v) reviewed the recent stock market trading characteristics of Mallinckrodt's and Avon's publicly traded securities and have compared these data with statistics for other comparable companies and with market indices; and (vi) compared the financial terms of the Agreement with the financial terms, to the extent publicly available, of comparable business combinations. We have also read the Agreement and have made such other analyses and examinations as we have deemed appropriate.

Over the past several months we have advised Mallinckrodt in connection with certain preliminary discussions with other companies with a view towards exploring possible business combinations with Mallinckrodt. The proposal forming the basis of the Agreement with Avon developed as a result of this program.

Except as stated herein, we have not independently verified the information concerning Mallinckrodt or Avon or other data which we have considered in our review and, for purposes of this opinion, we have assumed the accuracy and completeness of all such information. We have also assumed that the transaction will be consummated substantially as contemplated in the Agreement.

Based on the foregoing, we are of the opinion that the terms of the Agreement are fair and equitable to the shareholders of Mallinckrodt from a financial point of view.

Very truly yours,

MORGAN STANLEY & CO. INCORPORATED

By JOSEPH G. FOGG, III
Managing Director

ANNEX IV

General and Business Corporation Law of Missouri

351.455. Shareholder who objects to merger may demand value of shares, when.—1. If a shareholder of a corporation which is a party to a merger or consolidation shall file with such corporation, prior to or at the meeting of shareholders at which the plan of merger or consolidation is submitted to a vote, a written objection to such plan of merger or consolidation, and shall not vote in favor thereof, and such shareholder, within twenty days after the merger or consolidation is effected, shall make written demand on the surviving or new corporation for payment of the fair value of his shares as of the day prior to the date on which the vote was taken approving the merger or consolidation, the surviving or new corporation shall pay to such shareholder, upon surrender of his certificate or certificates representing said shares, the fair value thereof. Such demand shall state the number and class of the shares owned by such dissenting shareholder. Any shareholder failing to make demand within the twenty day period shall be conclusively presumed to have consented to the merger or consolidation and shall be bound by the terms thereof.

2. If within thirty days after the date on which such merger or consolidation was effected the value of such shares is agreed upon between the dissenting shareholder and the surviving or new corporation, payment therefor shall be made within ninety days after the date on which such merger or consolidation was effected, upon the surrender of his certificate or certificates representing said shares. Upon payment of the agreed value the dissenting shareholder shall cease to have any interest in such shares or in the corporation.

3. If within such period of thirty days the shareholder and the surviving or new corporation do not so agree, then the dissenting shareholder may, within sixty days after the expiration of the thirty day period, file a petition in any court of competent jurisdiction within the county in which the registered office of the surviving or new corporation is situated, asking for a finding and determination of the fair value of such shares, and shall be entitled to judgment against the surviving or new corporation for the amount of such fair value as of the day prior to the date on which such vote was taken approving such merger or consolidation, together with interest thereon to the date of such judgment. The judgment shall be payable only upon and simultaneously with the surrender to the surviving or new corporations of the certificate or certificates representing said shares. Upon the payment of the judgment, the dissenting shareholder shall cease to have any interest in such shares, or in the surviving or new corporation. Such shares may be held and disposed of by the surviving or new corporation as it may see fit. Unless the dissenting shareholder shall file such petition within the time herein limited, such shareholder and all persons claiming under him shall be conclusively presumed to have approved and ratified the merger or consolidation, and shall be bound by the terms thereof.

4. The right of a dissenting shareholder to be paid the fair value of his shares as herein provided shall cease if and when the corporation shall abandon the merger or consolidation.

(6)

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 1985 — Commission file number 1-4881

Avon Products, Inc.

(Exact name of registrant as specified in its charter)

NEW YORK (State or other jurisdiction of incorporation or organization)	13-0544597 (I.R.S. Employer Identification No.)
9 WEST 57TH STREET, NEW YORK, NEW YORK (Address of principal executive offices)	10019 (Zip Code)
Registrant's telephone number, including area code	(212) 546-6015

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

Title of each class	Name of each exchange on which registered
Common Stock (par value $.50)	New York Stock Exchange
11¾% Guaranteed Notes Due 1990 of Avon Capital Corporation	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 ____

Aggregate market value of Common Stock (par value $.50) held by nonaffiliates at January 31, 1986—$2.0 billion.

Common Stock (par value $.50)—Shares outstanding January 31, 1986—77,562,351

Documents Incorporated by Reference

Parts I and II	—Portions of 1985 Financial Annual Report to Shareholders.
Part III	—Portions of Proxy Statement for the 1986 Annual Meeting of Shareholders.

PART I

ITEM 1. BUSINESS

Avon Products, Inc. (the "Company") is a diversified company which includes the Avon, Health Care and Direct Response Divisions. The Company's business is primarily composed of four industry segments. These segments are the manufacture and sale of cosmetics, fragrances and toiletries; the manufacture and sale of fashion jewelry and accessories; the rental and sale of home health care equipment and the sale of medical supplies; and the sale of apparel. Financial information relating to sales of classes of principal products, industry segments and geographic areas is incorporated by reference to "Net Sales of Principal Products" on page 2 and to the Business Segment Data note of "Notes to Consolidated Financial Statements" on pages 15 and 16 of the Company's 1985 Financial Annual Report to Shareholders.

Discontinued Operation

On February 28, 1986, the Company completed the sale of Mallinckrodt, Inc., a company that develops, manufactures and markets products used principally in the health care, chemical and food industries, to International Minerals & Chemical Corporation for $675 million in cash. All financial data and financial statement schedules have been restated to reflect Mallinckrodt's results as a discontinued operation.

Acquisition

In November 1985, Retirement Inns of America, Inc., an operator of retirement inns, was acquired for approximately $30 million in cash and notes.

Merger

On January 22, 1986, the Company, The Mediplex Group, Inc. ("Mediplex") and Abraham D. Gosman, the controlling stockholder of Mediplex, signed agreements under which Mediplex will become a wholly owned subsidiary of the Company. Under the agreements the Company will acquire all of the outstanding common stock of Mediplex for approximately $195 million in cash and $25 million in notes. The agreements also provide for contingent payments to Mr. Gosman of up to $52.6 million based on the annual pre-tax income of Mediplex over the next three years.

Avon Division

The Avon Division's ("Avon") two principal industry segments are the manufacture and sale of cosmetics, fragrances and toiletries, and of fashion jewelry and accessories. These products are sold directly to customers by independent representatives. More than 650 products are currently marketed in the United States. Although the products offered in Europe, Latin America and other parts of the world are not as varied as those sold in the United States, most are substantially the same as those marketed domestically.

Cosmetics, Fragrances and Toiletries

This segment includes the following classes of principal products:

Fragrance and Bath Products for Women—These include perfumes, colognes, fragrance candles, pomanders, lotions, bath oils, soaps and powders. They are marketed in a number of fragrance lines, each based on a particular scent and packaging theme.

Makeup, Skin Care and Other Products for Women—These include makeup items such as lipsticks, eye shadows and mascaras; skin care products; nail and hand care products; and such hair care products as shampoos, conditioners and brushes.

Men's Toiletry Products—These include colognes, after shave lotions, talcs, skin care products and soaps, in a number of fragrances that are based on a particular scent and packaging theme.

Personal Care, Children's and Teen Products—Personal care items include deodorants, antiperspirants and household products such as room sprays. Children's and teen products include cosmetics, fragrances and gift products.

Fashion Jewelry and Accessories

Fashion jewelry and accessories are sold in the United States and in several foreign markets. Jewelry for women, men and children is sold, with women's jewelry accounting for most of these sales.

Distribution

Avon's cosmetics, fragrances and toiletries, and fashion jewelry and accessories products are sold by a worldwide total of 1.3 million active representatives, 375,000 of whom are in the United States. Almost all representatives are women, most of whom are housewives selling on a part-time basis. In the United States and most other countries, representatives are generally independent contractors or independent dealers, and are not agents or employees of Avon. They purchase products directly from Avon and sell them directly to residents of their communities.

With some exceptions in urban markets, each representative has primary responsibility for a territory. The size of an average territory is 100 homes in the United States and from 100 to 150 homes in other countries. Representatives in the United States have the opportunity to take responsibility for sales in larger areas by selling to 200, 300 or more homes.

In the United States, the representative calls on customers in her territory, selling primarily through the use of brochures highlighting new products and specially priced items for each two-week sales campaign. Product samples, demonstration products, makeup color charts and catalogs are also used. Usually the representative forwards her order every two weeks to a designated branch distribution center. The representative's order is processed and assembled at the branch distribution center and delivered to her home, generally by a local delivery service. The representative delivers the merchandise to the customer and collects payment from the customer for her own account. Payment from the representative to Avon is usually made when her next order is forwarded to the branch distribution center. The cost of merchandise to the representative is graduated from 50% to 65% of the recommended selling price according to their total order size for each two-week sales campaign.

Outside the United States each sales campaign is of a three-week duration. Although terms of payment and cost of merchandise to the representative vary from country to country, the basic method of direct selling 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 of representatives is the primary responsibility of nearly 6,500 district managers worldwide (including approximately 1,900 in the United States), most of whom are former representatives. In the United States, each district manager has responsibility for a market area covered by 200 to 250 representatives. District managers are employees of Avon and are paid a salary and a commission based on purchases 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. In the United States, a program is in effect to help recruit and retain more productive and permanent representatives. Under this program Avon pays the recruiting representative a 5% bonus on the purchases from Avon by each representative brought into the business for as long as both remain 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 established for employees. Although generally Avon has been able to deal with these questions in a satisfactory manner, the matter has not been finally resolved in all countries. If there should be a final judicial 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

Avon's sales promotion and sales development activities are directed toward giving selling assistance to the representatives by making available such sales aids 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, Avon has developed specially designed sales aids, promotional pieces and customer flyers. In addition, Avon seeks to motivate its representatives through the use of special prize programs that reward superior sales performance. Periodic sales meetings, to which representatives are invited, are conducted by the district manager. The meetings are designed to keep representatives abreast of the product line, explain sales techniques, and give recognition to sales performance.

Avon uses a number of merchandising techniques, including the introduction of new products, the use of combination offers, the use of trial sizes and the promotion of products packaged as gift items. 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. Special pricing at less than regular prices is one of Avon's primary merchandising techniques, and the bulk of its sales is made at special prices.

From time to time various federal and state regulations or laws have been proposed or adopted which would, in general, restrict or prohibit introductory offers of new products at special prices or restrict the frequency or duration of, or volume resulting from, special price offers. Such regulations or laws, if applicable to Avon, could require changes in its marketing and promotional techniques that utilize special pricing.

During 1985, Avon significantly expanded its television and print advertising programs with a campaign designed to emphasize the fragrance, makeup and skin care product lines and to strengthen its image as a fashionable beauty business that sells quality products.

Competitive Conditions

The cosmetics, fragrances and toiletries industry and the costume jewelry industry are, in general, highly competitive. Avon is one of the leading manufacturers and distributors of cosmetics and fragrances in the United States. Its principal competitors are the 10 to 20 large and well-known cosmetics and fragrances companies that manufacture and sell broad lines through various types of retail establishments. There are many other companies that compete with Avon in particular products or product lines sold through retail establishments. There are also a number of direct-selling cosmetics and fragrances companies that compete with Avon in the United States, although none has total sales or earnings comparable with Avon's.

Avon is the leading distributor of fashion jewelry for women in the United States. Its principal competition in the costume jewelry industry consists of three or four large companies and many small companies that manufacture and sell costume jewelry for women through retail establishments. There are also a number of direct-selling costume jewelry companies that compete with Avon in the United States, although none has total sales or earnings comparable with Avon's.

The number of competitors and degree of competition that Avon faces in its foreign cosmetics, fragrances and fashion jewelry markets vary widely from country to country. Avon is a significant factor in the cosmetics and fragrances industry in most of its foreign markets, and is also a significant factor in the costume jewelry industry in Europe.

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

Manufacturing

Avon manufactures and packages almost all of its cosmetics, fragrances and toiletries 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 Avon's own staff of artists and designers.

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

Avon has nineteen manufacturing laboratories around the world, three of which are principally devoted to the manufacture of fashion jewelry. In the United States, its cosmetics, fragrances and toiletries products are produced in three manufacturing laboratories for the five branch distribution centers located throughout the country. 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 laboratories in Puerto Rico and Ireland or by several independent manufacturers in the United States.

International Operations

Avon commenced its international operations in Canada in 1914. In 1954 it expanded into Puerto Rico and Venezuela. In 1959, Avon entered the European market and thereafter expanded in Europe, Latin America, the Far East and Africa. Avon currently sells in Argentina, Australia, Austria, Brazil, Canada, Chile, the Dominican Republic, France, Guatemala, Honduras, Ireland, Italy, Japan, Malaysia, Mexico, New Zealand, Nigeria, Peru, the Philippines, Portugal, Puerto Rico, Spain, Taiwan, Thailand, the United Kingdom, Venezuela and West Germany. Except for the Puerto Rico operation, which is a branch of Avon, its international operations are conducted through subsidiaries, all of which are wholly owned except for the Nigerian, Malaysian, Philippine and Spanish subsidiaries.

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

Trademarks and Patents

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

Although Avon owns several patents and has several more patent applications pending in the United States Patent Office, its business, both in the United States and abroad, is not materially dependent upon patents or patent protection. Avon has no material licenses, franchises or concessions.

Seasonal Nature of Business

Avon's sales and earnings have a marked seasonal pattern characteristic of many companies in the cosmetics, fragrances and toiletries industry, as well as the fashion jewelry industry. Significant Christmas sales cause a sales peak in the fourth quarter of the year. Over the past five years, fourth quarter net sales have averaged approximately 32% of full-year net sales, and fourth quarter operating profit has averaged approximately 42% of full-year operating profit.

HEALTH CARE DIVISION

The Health Care Division was established as a result of the acquisition of Foster Medical Corporation ("Foster Medical") in May 1984. Foster Medical is the leading company in the field of home health care products and services. The home health care activities include the delivery, installation and servicing of medical equipment, respiratory equipment and medical supplies for patients in their homes. Foster Medical also distributes a broad line of medical supplies and equipment, principally to doctors' offices. The home health care business is conducted from more than 270 branches throughout the United States and the medical supply business is conducted from seven distribution centers in six eastern and midwestern states.

Home Health Care

Foster Medical supplies and services durable medical equipment, such as hospital beds and wheelchairs, and respiratory equipment, such as oxygen and inhalation therapy equipment to patients in their homes. During recent years, the product line has been expanded to include enteral nutrition systems for patients who cannot or will not eat, TENS Units (transcutaneous electrical nerve stimulators) for pain suppression and "Infusion Therapy" products for intravenous administration of nutrients and drugs.

During 1985, Foster Medical again experienced substantial growth, principally through acquisitions. Through the purchase of 57 companies plus internal expansion, approximately 150 branches were added to bring the total to more than 270 branches in 34 states.

Home health care products are rented on a month-to-month basis or sold, depending on the type of equipment and the contemplated length of use. As a result of changes in Medicare and Medicaid reimbursement practices, certain lower-cost items are now generally sold rather than rented. Foster Medical assists patients in the selection of the appropriate products and instructs patients in their use. Foster Medical delivers, installs and services these products and manages third-party insurance claims on behalf of patients. The cost of this equipment is usually reimbursable to the patient by third parties, such as private medical insurance carriers, Medicare and Medicaid. It is Foster Medical's general policy to accept assignments of Medicare and Medicaid claims on behalf of its customers whenever reimbursement is ensured at reasonable rates.

The home health care market depends on patient referrals from medical personnel associated with hospitals, doctors' offices and home health care agencies. Doctors are also important to the home health care business because Medicare and Medicaid reimbursements are made only if the equipment is prescribed by a physician.

Foster Medical employs a sales force which specializes in calling on doctors, Health Maintenance Organization staffs, employees of home health care agencies and hospital discharge planners who, in turn, refer patients or their families to suppliers of medical equipment. Customer service representatives consult with referral sources, patients or their families as to the most appropriate equipment and products for individual needs and educate the customer regarding the availability of reimbursement from government or private insurance sources. Foster Medical's home health care sales force is supported by product catalogs and media advertising directed to referral sources.

Foster Medical is the leading company in the home health care field. The market is highly fragmented with many participants operating in a single location. Major competitors include several national and multi-regional companies. Foster Medical believes it maintains its competitive position through service to its customers in the form of prompt delivery, training and education of the patient or his family in both the use of the products and the availability of third party reimbursement.

Medical Supplies

The principal markets for medical supplies are doctors' offices, freestanding clinics and nursing homes. Principal product lines include surgical instruments, diagnostic equipment, durable medical equipment and disposable medical supplies. These products are marketed by Foster Medical's sales force. Foster Medical has numerous competitors in the medical supply business, primarily from regional and local companies.

Direct Response

Avon Fashions markets fashionable, attractively priced women's apparel through direct-mail catalogs in the United States. The sportswear category accounts for about half of Avon Fashions' sales.

James River Traders, a direct-mail apparel line, primarily for men, includes both private label and brand name leisure and casual apparel.

Brights Creek, a direct-mail children's apparel line, completed its first full year in 1985.

Great American Magazines, the mail-order magazine subscription business, has been authorized to solicit subscriptions for all major consumer publishers.

Operations are conducted from a sales and distribution facility in Newport News, Virginia.

Research Activities

The amounts spent on research activities relating to the development of new products and the improvement of existing products were $30.4 million in 1985, $30.6 million in 1984 and $33.5 million in 1983. This research included the activities of product research and development, and package design and development. Most of these activities related to the development of cosmetics, fragrances and toiletry products.

Employees

At December 31, 1985, the Company employed approximately 38,400 persons. Of these, 18,900 were employed in the United States and 19,500 in other countries. The number of Avon employees tends to rise from a low point in January to a high point in November and falls off somewhat in December when Christmas shipments are completed.

Environmental Matters

Compliance in general with regulations governing the discharge of materials into the environment or otherwise relating to the protection of the environment has not had, and is not anticipated to have, any material effect upon the capital expenditures, earnings or competitive position of Avon.

ITEM 2. PROPERTIES

Avon's principal properties consist of manufacturing laboratories for the production of merchandise and distribution branches where offices are located and where finished merchandise is received from the manufacturing laboratories, warehoused and shipped to representatives in fulfillment of their orders.

Avon's domestic manufacturing laboratories are located in Morton Grove, Illinois; Springdale, Ohio and Suffern, New York; and its distribution branches are located in Atlanta, Georgia; Glenview, Illinois; Newark, Delaware; Pasadena, California and Springdale, Ohio. International properties include five manufacturing laboratories and six distribution branches in Europe, five manufacturing laboratories and ten distribution branches in Latin America and four manufacturing laboratories and eight distribution branches in other countries. Avon's research and development laboratories are located in Suffern, New York. Avon leases space for its executive and administrative offices in New York City, its European marketing center in London, England and its fashion jewelry manufacturing facilities in Puerto Rico.

Substantially all properties, except the facilities of Foster Medical, are owned by the Company or its subsidiaries.

ITEM 3. LEGAL PROCEEDINGS

In January 1983, two lawsuits *Maryland Heights Leasing v. Mallinckrodt, Inc.*, and *Bennett et al. v. Mallinckrodt, Inc.*, were filed in the St. Louis County Circuit Court by a neighboring property owner, and by eight individuals requesting class action status, seeking damages allegedly resulting from emissions from Mallinckrodt's radiopharmaceutical facility in Maryland Heights, Missouri. The plaintiffs sought approximately $510 million in compensatory damages, $505 million in punitive damages, an injunction against the alleged activities and other relief. The *Maryland Heights* suit was dismissed in its entirety by the trial court. The Plaintiff has appealed the dismissal and the appeal is currently pending in the Missouri Court of Appeals. The *Bennett* case is at the trial court level.

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

None.

EXECUTIVE OFFICERS OF THE REGISTRANT

Officers are elected by the Board of Directors at its first meeting following the Annual Meeting of Shareholders, and they 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.

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

Title	Name	Age	Elected Officer
Chairman of the Board, Chief Executive Officer and Director	Hicks B. Waldron	62	1983(1)
President, Chief Operating Officer and Director	John S. Chamberlin	57	1985(2)
Executive Vice President and Director	James E. Preston	52	1971
Executive Vice Presidents	Stephan F. Nagy	41	1985(3)
	William H. Willett	49	1980
Group Vice President, General Counsel and Secretary	W. Thomas Knight	48	1979
Group Vice President—Finance	Jules Zimmerman	51	1976
Group Vice Presidents	John F. Cox	56	1984(4)
	William R. Henn	57	1985(5)
	Cam Hoak	36	1985(6)
Vice President and Controller	Norman H. Werthwein	41	1982(7)
Vice President and Treasurer	John E. Donaldson, Jr.	40	1984(8)
Vice Presidents	Philip J. Davis	50	1984(9)
	Helmuth R. Fandl	59	1966
	Robert H. Hansen	50	1972
	Margro R. Long	48	1977
	Paul B. Markovits	42	1979
	Siri S. Marshall	37	1985
	Rainer F. Paul	42	1981
	Robert W. Pratt, Jr.	55	1983(10)
	Virginia L. Trump	41	1984

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(1) Hicks B. Waldron was elected Chairman of the Board and Chief Executive Officer of the Company in 1984. He joined the Company in 1983 as President and Chief Executive Officer after serving as a member of the Board of Directors since his election in 1980. Prior to joining the Company, Mr. Waldron was a Director and Executive Vice President of R. J. Reynolds Industries, Inc., and Chairman of the Board and Chief Executive Officer of its wholly owned subsidiary Heublein, Inc. Mr. Waldron joined Heublein in 1973 as President and Chief Operating Officer. Prior to joining Heublein,

(Footnotes continued on next page)

Mr. Waldron was with General Electric Company, where he was elected Vice President in 1970 and Group Executive for Consumer Products in 1971.

(2) John S. Chamberlin was elected President and Chief Operating Officer and a Director of the Company in 1985. Prior to joining the Company, he was a Director and a member of the Executive Committee of Brown-Forman Corporation, and Chairman of the Board and Chief Executive Officer of its wholly owned subsidiary, Lenox, Incorporated. Mr. Chamberlin was with the General Electric Company from 1954 until he joined Lenox in 1970 as Executive Vice President and a Director. In 1971 he rejoined General Electric as Vice President and General Manager of the Housewares and Audio Business Division. He returned to Lenox in 1976, where he served as President and Chief Executive Officer until April 1985.

(3) Stephen F. Nagy was elected Executive Vice President of the Company and President and Chief Executive Officer of the Foster Medical Division of the Company in 1985. He joined Foster Medical as President and Chief Operating Officer in 1982. Prior to joining Foster Medical, Mr. Nagy was vice president of Foster Management Company from 1980 through 1982. Prior to joining Foster Management, he was with Booz, Allen and Hamilton, Inc. from 1971 and was elected Vice President in 1976.

(4) John F. Cox joined the Company and was elected Group Vice President in 1984. Prior to joining the Company, he was Group Director of Public Relations of R. J. Reynolds Industries, Inc. and Corporate Vice President of its wholly owned subsidiary Heublein, Inc. Mr. Cox joined Heublein in 1981 and was elected Corporate Vice President in 1982. Prior to joining Heublein, he was with Kentucky Fried Chicken Corporation from 1972 and was elected Vice President in 1974.

(5) William R. Henn joined the Company and was elected Group Vice President in 1985. Prior to joining the Company, he was Executive Vice President of Heublein, Inc., a wholly owned subsidiary of R. J. Reynolds Industries, Inc. Mr. Henn joined Heublein in 1981 and was elected Senior Vice President in 1983. Prior to joining Heublein he was with General Electric Company from 1954 through 1981.

(6) Cam Hoak joined the Company and was elected Group Vice President in 1985. Prior to joining the Company she was Senior Vice President of Filene's, a division of Federated Department Stores. Ms. Hoak joined Filene's in 1974 and was elected Vice President in 1981.

(7) Norman H. Werthwein was elected Vice President and Controller of the Company in September 1982. He joined Tiffany & Co., then a wholly owned subsidiary of the Company, in February 1982 as Vice President—Finance. Prior to joining Tiffany, he was with KMG Main Hurdman (Certified Public Accountants) and was elected a partner in 1978.

(8) John E. Donaldson, Jr. was elected Vice President and Treasurer in 1984. He joined the Company and was appointed Assistant Treasurer in 1983. Prior to joining the Company, Mr. Donaldson was with Chemical Bank from 1971 and was elected Vice President in 1975.

(9) Philip J. Davis joined the Company and was elected Vice President in 1984. Prior to joining the Company, he was Vice President of Norton Simon, Inc. Mr. Davis joined Norton Simon in 1975 and was elected Vice President in 1977. Prior to joining Norton Simon, Mr. Davis was with the U.S. Department of Labor, where he was appointed Deputy Assistant Secretary, Employment Standards, Director, Office of Federal Compliance Programs in 1972.

(10) Dr. Robert W. Pratt, Jr. joined the Company and was elected Group Vice President in 1983. Prior to joining the Company, he was Vice President of R. J. Reynolds Industries, Inc. and Corporate Vice President of its wholly owned subsidiary Heublein, Inc. Dr. Pratt joined Heublein in 1976 and was elected Vice President in 1978. Prior to joining Heublein, Dr. Pratt was with General Electric Company from 1963 through 1976.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

This information is incorporated by reference to "Stock Market and Dividend Data" on page 2 of the Company's 1985 Financial Annual Report to Shareholders.

ITEM 6. SELECTED FINANCIAL DATA

This information is incorporated by reference to the "Ten-Year Review" on pages 18 and 19 of the Company's 1985 Financial Annual Report to Shareholders.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This information is incorporated by reference to the "Discussion of Liquidity and Capital Resources", the "Discussion of 1985 and 1984", the "Discussion of 1984 and 1983" and "Information on Inflation and Changing Prices" on pages 2 through 5 of the Company's 1985 Financial Annual Report to Shareholders.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

This information is incorporated by reference to the "Consolidated Financial Statements and Notes", together with the report thereon of KMG Main Hurdman, on pages 6 through 17, "Quarterly Financial Data" on page 2 and "Information on Inflation and Changing Prices" on pages 4 and 5 of the Company's 1985 Financial Annual Report to Shareholders.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information regarding directors is incorporated by reference to the "Election of Directors" section of the Company's Proxy Statement for the 1986 Annual Meeting of Shareholders. Information regarding executive officers is presented in Part I of this Report on pages 7 and 8.

ITEM 11. EXECUTIVE COMPENSATION

This information is incorporated by reference to the "Board of Directors and Committees", "Executive Compensation", "Retirement Benefits", "Stock Options", "Executive Contracts" "Performance Unit Plan", "Employee Stock Ownership Plan", "Avon Employees' Savings Plan" and "Avon Employees' Stock Grant Plan" sections of the Company's Proxy Statement for the 1986 Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

This information is incorporated by reference to the "Election of Directors" section of the Company's Proxy Statement for the 1986 Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

This information is incorporated by reference to the last three full paragraphs of the "Board of Directors and Committees" section and the "Executive Contracts" section of the Company's Proxy Statement for the 1986 Annual Meeting of Shareholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Documents filed as part of this report.

1. Financial statements

The consolidated financial statements and notes to be included in Part II, Item 8 are incorporated by referece to the Company's 1985 Annual Report to Shareholders which is filed as an exhibit to this report.

2. Financial statement schedules

Schedule Number	Description	Page Number
	Report and consent of independent certified public accountants	S-1
II	—Amounts receivable from employees, December 31, 1985, 1984 and 1983	S-2
V	—Property, plant and equipment, December 31, 1985, 1984 and 1983	S-3
VI	—Accumulated depreciation and amortization of property, plant and equipment, December 31, 1985, 1984 and 1983	S-4
VIII	—Valuation and qualifying accounts, December 31, 1985, 1984 and 1983	S-5
IX	—Short-term borrowings, December 31, 1985, 1984 and 1983	S-5

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.

3. Exhibits

Exhibit Number	Description
3.1	—Restated Certificate of Incorporation of the Company, filed with the Secretary of State of the State of New York on May 24, 1984, (incorporated herein by reference to Exhibit 4.1 to Post-Effective Amendment No. 1 on Form S-8 to the Company's Registration Statement on Form S-14, Registration No. 2-90865, filed June 27, 1984)
3.2	—Certificate of Amendment to the Restated Certificate of Incorporation of the Company, filed with the Secretary of State of the State of New York on May 24, 1984, (incorporated herein by reference to Exhibit 4.2 to Post-Effective Amendment No. 1 on Form S-8 to the Company's Registration Statement on Form S-14, Registration No. 290865, filed June 27, 1984).
3.3	—By-laws, as amended to November 1, 1984, of the Company, (incorporated by reference to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1984).
4.1	—Revolving Credit Agreement, dated as of December 16, 1983, among the Company and a group of banks (incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 1983).

Exhibit Number	Description
4.2	—Placement Agreement, dated as of August 31, 1983, among Avon Capital Corporation, the Company and Lehman Brothers Kuhn Loeb Incorporated (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1983).
4.3	—Dealer Agreement, dated as of April 17, 1984, between Avon Capital Corporation and Morgan Stanley & Co. Incorporated (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-14, Registration No. 2-90865, filed May 2, 1984).
4.4	—Form of Purchase Agreement, dated as of May 30, 1984, between the Company and holders of its Preferred Stock (incorporated by reference to Exhibit 4.4 to Post-Effective Amendment No. 1 on Form S-8 to the Company's Registration Statement on Form S-14, Registration No. 2-90865, filed June 27, 1984).
4.5	—The Company agrees to provide the Commission, upon request, copies of instruments defining the rights of holders of long-term debt of the Company and all its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed with the Commission.
10.1	—Avon Products, Inc. 1970 Stock Option Incentive Plan, as amended through May 3, 1985, (incorporated by reference to Exhibit 28.1 to the Company's Registration Statement on Form S-8, Registration No. 2-98907, filed July 10, 1985).
10.2	—Mallinckrodt, Inc. 1978 Stock Option Plan, as amended (incorporated herein by reference to Exhibit 10 (iii)-2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1982).
10.3	—Foster Medical Corporation 1982 Stock Option Plan (incorporated herein by reference to Exhibit 28.1 to Post-Effective Amendment No. 1 on Form S-8 to the Company's Registration Statement on Form S-14, Registration No. 2-90865, filed June 27, 1984).
10.4	—Agreement, dated as of January 26, 1984, between the Company and Hicks B. Waldron (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 1983).
10.5	—Description of Retirement Benefits Agreement between the Company and Robert W. Pratt, Jr. (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 1983).
10.6	—Employment agreement, dated as of March 27, 1984, among Foster Medical Corporation, the Company and John H. Foster (incorporated by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-14, Registration No. 2-90865, filed May 2, 1984).
10.7	—Letter Agreement, dated as of March 27, 1984, between John H. Foster and Foster Medical Corporation (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-14, Registration No. 2-90865, filed May 2, 1984).
10.8	—Letter Agreement, dated as of January 7, 1985, among the Company, Foster Medical Corporation and John H. Foster (incorporated by reference to Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 1984).
10.9	—Employment Agreement, dated as of March 27, 1984, among Foster Medical Corporation, the Company and Stephen F. Nagy (Incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 1984).

Exhibit Number	Description
10.10	—10% Convertible Subordinated Debenture due May 30, 1994, of the Company sold to John H. Foster (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K for the year ended December 31, 1984).
10.11	—Purchase Agreement, dated as of May 30, 1984, between the Company, Foster Medical Corporation and John H. Foster (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K for the year ended December 31, 1984).
10.12	—Promissory Note, dated as of May 30, 1984, between Foster Medical Corporation and John H. Foster (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K for the year ended December 31, 1984).
10.13	—Agreement, dated as of January 7, 1985, among the Company, Foster Medical Corporation and John H. Foster (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 1984).
10.14	—10% Convertible Subordinated Debenture due May 30, 1994, of the Company sold to Stephen F. Nagy (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1984).
10.15	—Purchase Agreement, dated as of May 30, 1984, between the Company, Foster Medical Corporation and Stephen F. Nagy (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1984).
10.16	—Promissory Note, dated as of May 30, 1984, between Foster Medical Corporation and Stephen F. Nagy (incorporated by reference to Exhibit 10.16 to the Company's Annual Report on Form 10-K for the year ended December 31, 1984).
10.17	—Agreement, dated as of January 25, 1985, among the Company, Foster Medical Corporation and Stephen F. Nagy (incorporated by reference to Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 1984).
10.18	—Form of Employment Agreement, between the Company and each of the members of its Corporate Management Committee (incorporated by reference to Exhibit 10.18 to the Company's Annual Report on Form 10-K for the year ended December 31, 1984).
10.19	—Letter Agreement, dated as of May 1, 1984, between the Company and John F. Cox.
10.20	—Supplemental Executive Retirement Plan and Supplemental Life Plan of the Company, effective as of January 1, 1982.
10.21	—Avon Products, Inc. Performance Unit Plan (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K for the year ended December 31, 1983).
10.22	—Letter Agreement, dated as of January 17, 1985, among the Company, Foster Medical Corporation and Stephen F. Nagy.
10.23	—Stock Option Agreement, dated as of March 27, 1984, between the Company and Foster Medical Corporation (incorporated herein by reference to Exhibit C to the Company's Schedule 13D dated April 5, 1984 relating to Foster Medical Corporation).

Exhibit Number	Description
10.24	—Voting Agreements, dated as of March 27, 1984, with Limited Irrevocable Proxies attached thereto (incorporated herein by reference to Exhibits E and F to the Company's Schedule 13D dated April 5, 1984, relating to Foster Medical Corporation).
10.25	—Agreement and Plan of Merger among the Company, Avon Subsidiary I, Inc. and Foster Medical Corporation, dated as of March 27, 1984, (incorporated by reference to Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 1983).
10.26	—Stock Purchase Agreement between the Company and Tiffco, Inc. and 727 Holdings, Inc., dated as of September 12, 1984, and amendment thereto dated as of September 25, 1984.
10.27	—Share Purchase and Option Contract dated as of October 10, 1985, between Merrill Lynch, Pierce, Fenner & Smith Incorporated and the Company.
10.28	—Letter Agreement, dated as of October 15, 1985, between the Company and Jeffrey H. Tamkin, Inc.
10.29	—Amendment and Confirmation Agreement, dated as of November 19, 1985, between Safeco Properties, Inc. and RIA Acquisition Corp.
10.30	—Employment Agreement, dated as of November 20, 1985, between RIA Acquisition Corp. and Jeffrey H. Tamkin.
10.31	—Development Services Agreement, dated as of November 20, 1985, between Jeffrey H. Tamkin, Inc. and RIA Acquisition Corp.
10.32	—Stock Sale Option Agreement, dated as of Novemer 20, 1985, among the Company, Jeffrey H. Tamkin, Inc., Jeffrey H. Tamkin and RIA Acquisition Corp.
10.33	—Stock Purchase Agreement, dated as of November 20, 1985, among the Company, RIA Acquisition Corp., Jeffrey H. Tamkin and Jeffrey H. Tamkin, Inc.
10.34	—Agreement and Plan of Merger among The Mediplex Group, Inc., the Company and Avon 1986-I Sub, Inc., dated as of January 22, 1986.
10.35	—Stock and Note Purchase Agreement between the Company and Abraham D. Gosman, dated as of January 22, 1986.
10.36	—Employment Agreement between The Mediplex Group, Inc. and Abraham D. Gosman, dated as of January 22, 1986.
10.37	—Letter Agreement among the Company, Abraham D. Gosman and The Mediplex Group, Inc., dated as of January 22, 1986.
10.38	—Purchase Agreement among the Company, Avon Capital Corporation, Avon International Operations, Inc. and Mallinckrodt, Inc. and International Minerals & Chemical Corporation, dated as of December 19, 1985, and amendments thereto dated as of February 28, 1986.
10.39	—Manufacturing Contract, dated as of February 28, 1986, between the Company and Mallinckrodt, Inc.
10.40	—Extension of Expiration Date of Stock Options, dated as of November 13, 1985.
10.41	—Employment Agreement, dated as of May 1, 1985, between the Company and John S. Chamberlin.
10.42	—Joint Venture Agreement, dated as of December 20, 1985, among LHISG, Inc., Chateauguay, Inc., Liz Claiborne, Inc. and the Company.
10.43	—Services Agreement, dated as of December 20, 1985, between Liz Claiborne Cosmetics and the Company.

Exhibit Number	Description
10.44	—License Agreement, dated as of December 20, 1985, between Liz Claiborne Licensing, Inc. and Liz Claiborne Cosmetics.
11	—Statement re computation of per share earnings.
13	—Annual report to shareholders for the year ended December 31, 1985. Such report, except for those portions which are expressly incorporated by reference in this filing, is furnished for the information of the Commission and is not to be deemed "filed" as part of this filing.
22	—Subsidiaries of the registrant.
24	—Consent of KMG Main Hurdman (set forth on page S-1 of this report on Form 10-K).
25	—Power of Attorney.

(b) None.

(c) The Company's Annual Report on Form 10-K for the year ended December 31, 1985, 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.

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, on the 13th day of March, 1986.

AVON PRODUCTS, INC.

By W. THOMAS KNIGHT
W. Thomas Knight
Group Vice President, General Counsel and Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
* Hicks B. Waldron	Chairman of the Board and Chief Executive Officer—Principal Executive Officer	March 13, 1986
* Jules Zimmerman	Group Vice President, Finance—Principal Financial Officer	March 13, 1986
* Norman H. Werthwein	Vice President and Controller—Principal Accounting Officer	March 13, 1986
RUTH BLOCK JOHN S. CHAMBERLIN HAYS CLARK DONALD S. FREDRICKSON STANLEY C. GAULT DAVID W. MITCHELL EMIL MOSBACHER, JR. MERLIN E. NELSON JAMES E. PRESTON ERNESTA G. PROCOPE JOSEPH A. RICE CECILY C. SELBY	* Directors	March 13, 1986
*By W. THOMAS KNIGHT W. Thomas Knight, Attorney-in-fact		March 13, 1986

REPORT AND CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Shareholders and Board of Directors of
Avon Products, Inc.

We hereby consent to the incorporation by reference of our report dated January 29, 1986, which appears on page 17 of the financial annual report to shareholders for the year ended December 31, 1985, in the following Registration Statements of Avon Products, Inc.: Post-Effective Amendment No. 1 to Form S-3 (Reg. No. 2-79952), Form S-8 (Reg. No. 2-37955), Form S-8 (Reg. No. 2-48080), Form S-8 (Reg. No. 2-61285), Form S-8 (Reg. No. 2-83235), Form S-8 (Reg. No. 2-94959), Form S-8 (Reg. No. 2-98907), Post-Effective Amendment No. 1 on Form S-8 to Form S-14 (Reg. No. 2-75969), Post-Effective Amendment No. 1 on Form S-8 to Form S-14 (Reg. No. 2-90865).

The examination referred to in the abovementioned report also included the related financial statement schedules for the three years ended December 31, 1985 listed in the accompanying index. In our opinion, such financial statement schedules present fairly the information required to be set forth therein.

KMG MAIN HURDMAN

New York, New York
March 13, 1986

AVON PRODUCTS, INC. AND SUBSIDIARIES

SCHEDULE II—AMOUNTS RECEIVABLE FROM EMPLOYEES

(In Thousands)

	Balance at beginning of period	Additions	Deductions: Amounts collected	Deductions: Amounts written off	Balance at end of period: Current	Balance at end of period: Not current
Year Ended December 31, 1985						
Fritz Walber(a)	$ 157	$ —	$ 157	$—	$ —	$ —
John H. Foster(b)	4,549	—	4,472	—	77	—
Stephen F. Nagy(b)	3,480	—	3,440	—	—	40
Jeffrey S. Levitt(b)	2,422	—	2,422	—	—	—
Edward D. Arioli(b)	1,311	—	1,311	—	—	—
Gary Goltz(c)	79	42	8	—	63	50
	$11,998	$ 42	$11,810	$—	$ 140	$ 90
Year Ended December 31, 1984						
Fritz Walber(a)	$ —	$ 157	$ —	$—	$ 157	$ —
John H. Foster(b)	—	4,549	—	—	4,472	77
Stephen F. Nagy(b)	40	3,440	—	—	2,250	1,230
Jeffrey S. Levitt(b)	—	2,422	—	—	—	2,422
Edward D. Arioli(b)	—	1,311	—	—	—	1,311
	$ 40	$11,879	$ —	$—	$6,879	$5,040
Year Ended December 31, 1983						
Eduardo Rafael Mendez Rubello(d)	$ 208	$ 14	$ 222	$—	—	—

(a) The loan bears no interest.

(b) 11% and 15% notes receivable.

(c) Current portion bears no interest; non-current portion is 6% note receivable.

(d) 16% note receivable.

AVON PRODUCTS, INC. AND SUBSIDIARIES

SCHEDULE V—PROPERTY, PLANT AND EQUIPMENT(a)

(In Millions)

	Balance at beginning of period	Additions at cost	Retirements	Other changes(b)	Balance at end of period
Year Ended December 31, 1985					
Land	$ 32.5	$ 3.7	$ .9	$ 1.1	$ 36.4
Buildings and improvements	401.1	17.8	9.9	30.4	439.4
Equipment	385.4	73.9	13.2	38.1	484.2
Construction in progress	36.1	30.8	2.9	(34.6)	29.4
	$ 855.1	$126.2(c)	$26.9	$ 35.0	$ 989.4
Year Ended December 31, 1984					
Land	$ 35.8	$ .8	$ 3.2	$ (.9)	$ 32.5
Buildings and improvements	397.4	44.2	24.7	(15.8)	401.1
Equipment	340.7	85.9	30.9	(10.3)	385.4
Construction in progress	53.0	(10.6)	5.9	(.4)	36.1
	$ 826.9	$120.3(c)	$64.7(d)	$(27.4)	$ 855.1
Year Ended December 31, 1983					
Land	$ 37.7	$ 1.7	$ .6	$ (3.0)	$ 35.8
Buildings and improvements	386.7	40.6	2.9	(27.0)	397.4
Equipment	306.2	61.6	15.8	(11.3)	340.7
Construction in progress	47.2	6.4	1.0	.4	53.0
	$ 777.8	$110.3	$20.3	$(40.9)	$ 826.9

(a) All amounts have been restated to reflect Mallinckrodt, Inc. as a discontinued operation.

(b) Translation adjustments, transfers and reclassifications.

(c) Includes approximately $35.0 million and $16.1 million related to the acquisition of businesses in 1985 and 1984, respectively.

(d) Includes approximately $32.8 million related to the sale of Tiffany & Co.

Depreciation over the estimated useful lives is determined on the straight-line basis for the majority of property in the United States and Canada, and all property in other countries.

The estimated useful lives are generally as follows:

Buildings and improvements	20-45 years
Equipment	5-15 years

AVON PRODUCTS, INC. AND SUBSIDIARIES

SCHEDULE VI—ACCUMULATED DEPRECIATION AND AMORTIZATION PROPERTY, PLANT AND EQUIPMENT(a)

(In Millions)

	Balance at beginning of period	Additions charged to costs and expenses	Retirements	Other changes(b)	Balance at end of period
Year Ended December 31, 1985					
Buildings and improvements	$118.0	$14.3	$ 5.3	$ 6.6	$133.6
Equipment	152.9	41.0	3.6	4.1	189.4
	$270.9	$55.3	$13.9	$ 10.7	$323.0
Year Ended December 31, 1984					
Buildings and improvements	$115.1	$15.3	$ 7.3	$ (5.1)	$118.0
Equipment	135.5	36.9	13.9	(5.6)	152.9
	$250.6	$52.2	$21.2	$(10.7)	$270.9
Year Ended December 31, 1983					
Buildings and improvements	$107.6	$13.7	$ 1.7	$ (4.5)	$115.1
Equipment	121.3	27.5	8.6	(4.7)	135.5
	$228.9	$41.2	$10.3	$ (9.2)	$250.6

(a) All amounts have been restated to reflect Mallinckrodt, Inc. as a discontinued operation.

(b) Translation adjustments, transfers and reclassifications.

AVON PRODUCTS, INC. AND SUBSIDIARIES

SCHEDULE VIII—VALUATION AND QUALIFYING ACCOUNTS(a)

(In Millions)

Allowance for doubtful accounts receivable (deducted from accounts receivable):

	Year ended December 31		
	1985	1984	1983
Balance at beginning of period	$28.6	$20.0	$20.1
Additions:			
Charged to earnings	47.4	48.7	42.9
Recoveries on accounts written off	8.4	8.0	7.8
Accounts written off	(45.8)	(48.1)	(50.8)
Balance at end of period	$38.6	$28.6	$20.0

(a) All amounts have been restated to reflect Mallinckrodt, Inc. as a discontinued operation.

SCHEDULE IX—SHORT-TERM BORROWINGS(a)

(In Millions)

Category of aggregate short-term borrowings(b)	Balance at end of period	Weighted average interest rate	Maximum amount outstanding during the period	Average amount outstanding during the period(c)	Weighted average interest rate during the period(c)
Year Ended December 31, 1985					
Payable to banks	$58.8	10%	$78.5	$65.3	24%
Year Ended December 31, 1984					
Payable to banks	$67.8	23%	$86.4	$79.4	21%
Year Ended December 31, 1983					
Payable to banks	$64.8	17%	$89.8	$76.6	22%

(a) All amounts have been restated to reflect Mallinckrodt, Inc. as a discontinued operation.

(b) Most short-term borrowings are notes payable to banks of foreign subsidiaries payable in local currency and guaranteed by Avon Products, Inc.

(c) The average short-term borrowings and the weighted average interest rate were calculated on borrowings outstanding at the end of each month.