

UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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UNITED STATES OF AMERICA :  
- v. - : **INFORMATION**  
AVON PRODUCTS, INC., : 14 Cr.  
Defendant. :  
----- X

The United States Attorney charges:

**GENERAL ALLEGATIONS**

**Relevant Statutory Background**

1. The Foreign Corrupt Practices Act of 1977, as amended, Title 15, United States Code, Sections 78dd-1, *et seq.* ("FCPA"), prohibited certain classes of persons and entities from corruptly offering, paying, promising to pay, or authorizing the payment of any money or anything of value, directly or indirectly, to a foreign government official for the purposes of obtaining or retaining business for, or directing business to, any person.

2. In relevant part, the FCPA's anti-bribery provisions prohibited any issuer of publicly traded securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934, 15 U.S.C. § 78l, or required to file periodic reports with the United States Securities and Exchange Commission ("SEC") under Section 15(d) of the Securities Exchange Act, 15 U.S.C. § 78o(d) (hereinafter "issuer") from making use of the mails or any means or instrumentality of interstate commerce corruptly in furtherance of an offer, payment, promise to pay, or authorization of the payment of money or anything of value to any person while knowing that all

or a portion of such money or thing of value would be offered, given, or promised, directly or indirectly, to a foreign official for the purpose of assisting in obtaining or retaining business for or with, or directing business to, any person. 15 U.S.C. § 78dd-1(a)(3).

3. Pertinent to the charges herein, the FCPA's accounting provisions required that issuers, among other things, make and keep books, records, and accounts that accurately and fairly reflected the transactions and disposition of the company's assets and prohibited the knowing falsification of an issuer's books, records, or accounts. 15 U.S.C. §§ 78m(b)(2)(A), 78m(b)(5), and 78ff(a). The FCPA makes illegal the knowing failure by an issuer to maintain accurate books and records.

4. Additionally, the FCPA's accounting provisions required that issuers maintain a system of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions were executed in accordance with management's general or specific authorization; (ii) transactions were recorded as necessary (A) to permit preparation of financial statements in conformity with generally accepted accounting principles or any other criteria applicable to such statements, and (B) to maintain accountability for assets; (iii) access to assets was permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets was compared with the existing assets at reasonable intervals, and appropriate action was taken with respect to any differences. 15 U.S.C. § 78m(b)(2)(B). The FCPA also prohibited the knowing failure to implement such a system of internal accounting controls. 15 U.S.C. §§ 78m(b)(5) and 78ff(a).

#### **Relevant Corporate Entities and Individuals**

5. At all times relevant to this Information, AVON PRODUCTS, INC. ("AVON"), the defendant, was a global company that sold beauty products, home products, and health

products in more than 100 countries. AVON sold its products primarily through direct (door-to-door) sales and was one of the world's largest direct sellers. AVON's direct selling involved the use of independent sales representatives who sold products directly to consumers. AVON had approximately five to six million active sales representatives, who were independent contractors that purchased products from AVON at a discount and then sold them directly to customers. In addition to its five to six million independent sales representatives, AVON and its subsidiaries collectively had approximately 40,000 to 50,000 employees, over 6,000 of whom worked in the United States. AVON was incorporated and headquartered in New York, New York.

6. At all times relevant to this Information, AVON, the defendant, issued and maintained a class of publicly traded securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934 (15 U.S.C. § 78l) and was required to file periodic reports with the SEC under Section 13 of the Securities Exchange Act (15 U.S.C. § 78m). Accordingly, AVON was an "issuer" within the meaning of the FCPA, Title 15, United States Code, Section 78dd-1. AVON's shares traded on the New York Stock Exchange under the symbol "AVP."

7. At all times relevant to this Information, Avon Products (China) Co. Ltd. ("Avon China") was an indirect subsidiary of AVON, the defendant, incorporated in China. Avon China and its affiliates manufactured and sold beauty and healthcare products through direct sales, as well as through "beauty boutiques" that were independently owned and operated. In addition to its independent sales representatives, Avon China had between 1,000 and 2,000 employees. Avon China's books, records, and accounts were consolidated into AVON's books and records and reported by AVON in its financial statements.

8. "Avon China Executive 1," a Taiwanese citizen who resided in China, was a senior executive at Avon China from in or around 1999 through in or around April 2010.

9. “Avon China Executive 2,” a Chinese citizen who resided in China, was a senior executive in Avon China’s Corporate Affairs, State Government, and Media Relations group (“Corporate Affairs Group”) from in or around 1999 through in or around April 2010. The Corporate Affairs Group consisted of approximately 40 employees, whose duties included lobbying government officials on behalf Avon China.

10. At all times relevant to this Information, “Consulting Company A” was a Chinese company that purportedly provided government and public relations work for Avon China.

11. “Avon Executive 1,” a United States citizen, was a senior executive in the Asia Pacific Region (which included China) and the China Region (during times it was not part of the Asia Pacific Region) of AVON, the defendant, from in or around 2002 to in or around February 2011.

12. “Avon Executive 2,” a United States citizen, held a variety of positions at AVON, the defendant, from 1972 through April 2010, including a senior finance position in the Asia Pacific Region of AVON from in or around February 2005 to in or around May 2006. From in or around May 2006 through in or around February 2009, Avon Executive 2 was a senior executive in the internal audit group at AVON.

13. “Avon Executive 3,” a United States citizen, was a senior executive in the internal audit group at AVON, the defendant, from in or around June 2003 to in or around February 2006.

14. “Avon Attorney 1,” a United States citizen, was a senior executive in the Office of the General Counsel at AVON, the defendant, from in or around 2001 through in or around December 2007.

15. “Avon Attorney 2,” a United States citizen, was an executive in the Office of the

General Counsel at AVON, the defendant, from in or around 1993 to in or around August 2006. In that position, Avon Attorney 2 was responsible for providing legal advice to AVON's international subsidiaries.

16. "Avon Internal Auditor 1," a dual Chinese and Canadian citizen, was an internal auditor at AVON, the defendant, from in or around August 2005 to in or around July 2008.

#### **The Chinese Regulatory Regime for Direct Selling**

17. In or around 1998, the Chinese government outlawed direct selling in China for all companies.

18. In or around 2001, as a condition of its entry to the World Trade Organization, China agreed to lift its ban on direct selling. In or around 2005, in order to test its planned regulations for direct selling, the Chinese government decided to issue one company a temporary license to conduct direct sales (the "test license").

19. In or around March 2005, the Chinese government awarded the test license to Avon China.

20. In or around late 2005, China lifted its ban on direct selling and allowed companies to apply for licenses to conduct direct sales. Under China's newly promulgated direct selling regulations, to conduct direct sales, a company was required to obtain a national direct selling license and approvals from each province and municipality in which it sought to conduct direct sales. In order to obtain a license, a company was required to satisfy a number of conditions, including, in pertinent part, having "a good business reputation" and a record that demonstrated no material violations of Chinese law for the preceding five years.

21. In or around February 2006, Avon China obtained its national direct selling license.

22. Between in or around February 2006 and in or around July 2006, Avon China obtained all of its provincial and municipal approvals to conduct direct selling.

#### **AVON's Internal Controls**

23. At all times relevant to this Information, although AVON, the defendant, and certain of its subsidiaries, had policies in place relating to the review and approval of employee expenses, it lacked adequate controls to ensure compliance with those policies and thus, in practice, employee expenses were not adequately vetted to ensure that they were reasonable, bona fide, or properly documented.

24. At all times relevant to this Information, AVON, the defendant, lacked sufficient controls to ensure the integrity of its internal audit process, particularly with regard to its review of allegations of and testing for improper payments made to foreign government officials. AVON's internal audit group also failed to devote adequate funding, staffing, and resources to Avon China.

25. At all times relevant to this Information, AVON, the defendant, did not have adequate internal accounting and financial controls designed to detect and prevent, among other things, corruption-related violations, including FCPA violations. In particular, after senior AVON executives, including Avon Executives 1, 2, and 3 and Avon Attorneys 1 and 2, learned of specific corruption issues in China related to the provision of cash, meals, gifts, travel, and entertainment to government officials, AVON failed to take the necessary steps to implement appropriate controls to address such issues and prevent such risks in the future.

26. At all times relevant to this Information, AVON, the defendant, failed to implement accounting controls that would help ensure that transactions were executed and recorded in such a way as to maintain accountability for assets.

27. At all times relevant to this Information, AVON, the defendant, also had an inadequate compliance program. In fact, AVON did not have a dedicated compliance officer or compliance personnel. AVON's compliance program was particularly weak with regard to risks associated with foreign bribery. For example, even though AVON operated in over 100 countries, including many countries with high corruption risks, AVON did not have a specific anti-corruption policy, nor did it provide any stand alone FCPA-related training. Moreover, although AVON had a code of conduct that covered all of its employees and its subsidiaries' employees, which, among other things, prohibited paying bribes, many employees of AVON and its subsidiaries were unaware of its existence.

28. At all times relevant to this Information, AVON, the defendant, did not conduct corruption-related due diligence on appropriate third parties or have effective controls for the meaningful approval process of third parties. AVON also did not require adequate documentation supporting the retention of or payments to third parties.

29. Additionally, AVON, the defendant, did not undertake periodic risk assessments of its compliance program and lacked proper oversight of gifts, travel, and entertainment expenditures. AVON's failure to maintain an adequate compliance program significantly contributed to the company's failure to prevent the misconduct in China.

#### **Overview of the Scheme to Falsify Books and Records**

30. From at least in or around 2004 through in or around September 2008, AVON, the defendant, and Avon China, acting through certain executives and employees, together with others, conspired to falsify Avon China's and, thereby ultimately, AVON's books and records in order to disguise the things of value Avon China executives and employees provided to government officials in China.

31. From at least in or around 2004 through in or around September 2008, due to the failure of AVON, the defendant, to implement effective internal accounting controls, Avon China executives and employees were able to – and did – falsely or misleadingly describe the nature and purpose of certain transactions on Avon China’s books and records, and thereby ultimately AVON’s books and records, in order to disguise things of value Avon China executives and employees had given to government officials in China.

32. Specifically, from at least in or around 2004 through in or around September 2008, Avon China, acting through certain executives and employees, disguised on its books and records over \$8 million in things of value, including gifts, cash, and non-business travel, meals, and entertainment, which it gave to Chinese government officials in order to obtain and retain business benefits for Avon China.

33. Avon China executives and employees falsely and misleadingly described the nature and purpose of certain transactions on Avon China’s books and records, in part, because they believed that Chinese government officials did not want a paper trail reflecting their acceptance of money, gifts, travel, entertainment and other things of value from Avon China executives and employees. The executives and employees also knew that, contrary to how the expenses were being described in Avon China’s books and records, the expenses were not incurred for legitimate business purposes.

34. In order to conceal its executives’ and employees’ practice of giving things of value to Chinese government officials, from at least in or around 2004 through in or around September 2008, Avon China executives and employees intentionally falsified certain transactions on Avon China’s books and records by, among other things, falsely describing expenses related to government officials as employee-related or falsely or misleadingly



describing the nature or purpose of, or participants associated with, such expenses in order to conceal that the expenses related to government officials or that there were expectations of benefits from government officials. Additionally, Avon China executives and employees intentionally falsified Avon China's books and records by falsely recording payments to Consulting Company A as payments for legitimate services, notwithstanding the fact that Avon China Executive 2 knew that Consulting Company A's invoices were often false and no Avon China executives or employees knew of any legitimate services being provided by Consulting Company A.

35. Executives and employees of AVON, the defendant, including high-level executives, attorneys, and internal auditors, learned that executives and employees of Avon China had in the past routinely provided things of value to Chinese government officials and failed to properly document it. Instead of ensuring the practice was halted, disciplining the culpable individuals, and implementing appropriate controls at AVON and Avon China to address this problem, AVON executives and employees, in conjunction with Avon China executives and employees, took steps to conceal the significant concerns raised about the accuracy of Avon China's books and records and its practice of giving things of value to government officials. These AVON and Avon China executives and employees, knowing that Avon China's books and records would continue to be inaccurate if steps were not taken to correct Avon China's executives' and employees' conduct, failed to take steps to correct such actions, despite knowing that Avon China's books and records were consolidated into AVON's books and records.

*Gifts for Government Officials*

36. From in or around 2004 through in or around September 2008, Avon China

executives and employees intentionally falsified Avon China's books and records related to gifts given to Chinese government officials, including products of AVON, the defendant, and personal luxury items like designer wallets, bags, or watches, to obtain benefits from government officials, such as obtaining and retaining the direct selling license and requisite provincial and local approvals, avoiding fines, avoiding negative media reports, obtaining favorable judicial treatment, and obtaining government approval to sell nutritional supplements and healthcare apparel products, via direct selling, that did not meet or had yet to meet government standards. At various times, Avon China executives and employees concealed in the books and records the actual purposes of the gifts, the identity of the recipients, or the price per gift. Also, Avon China executives and employees, at various times, falsely or misleadingly described the gifts, including describing them as employee travel and entertainment, "samples," or "public relations business entertainment." Avon China executives and employees falsely or misleadingly described such expenses in order to conceal that gifts were given to government officials with an expectation of receiving a business benefit.

#### Meals and Entertainment

37. From in or around 2004 through in or around September 2008, Avon China executives and employees routinely entertained government officials in order to obtain specific business benefits, such as obtaining and retaining the direct selling license and requisite provincial and local approvals, avoiding fines, avoiding negative media reports, obtaining favorable judicial treatment, and obtaining government approval to sell nutritional supplements and healthcare apparel products, via direct selling, that did not meet or had yet to meet government standards.

38. Avon China executives and employees intentionally concealed these improper

meal and entertainment expenses in Avon China's books and records by (1) intentionally omitting reference to the participation of government officials in order to conceal their participation, using descriptions like "business entertainment," "public relation entertainment," or no description at all; or (2) revealing the participation of government officials but intentionally describing the event inaccurately by omitting the identity or number of officials, the cost of the event, or the true purpose of the event.

39. As a result, meal and entertainment expenses for government officials were falsely or misleadingly described on the books of Avon China.

Travel for Government Officials

40. From in or around 2004 through in or around September 2008, Avon China executives and employees caused Avon China to pay for travel expenses for government officials, and sometimes their families, in order to obtain improper business benefits, including obtaining and retaining the direct selling license and requisite provincial and local approvals, avoiding fines, avoiding negative media reports, obtaining favorable judicial treatment, and obtaining government approval to sell nutritional supplements and healthcare apparel products, via direct selling, that did not meet or had yet to meet government standards. To conceal the true nature of these expenses, these executives and employees intentionally omitted from or concealed in Avon China's records the names of the government officials, the fact that the travelers were government officials or relatives of government officials, and, at times, the number of travelers.

41. Avon China executives and employees also intentionally falsified in Avon China's books and records the purpose of the travel, which often was for personal, not legitimate business, purposes. For example, Avon China employees described personal trips for

government officials (and occasionally their spouses and children) as “study trips” or “site visits” when the officials were instead sightseeing or taking a beach vacation.

42. As a result, non-business travel expenses for government officials were falsely or misleadingly described on the books of Avon China.

Cash for Government Officials

43. From in or around 2004 through in or around September 2008, Avon China executives and employees gave cash to government officials in order to obtain benefits for Avon China and falsified Avon China’s records to conceal the true recipient of and purpose for the money.

44. In large part, these employees accomplished this by submitting for reimbursement meal or entertainment receipts given to them by government officials and falsely claiming that the receipts reflected employee business expenses. In truth, the employees had no such expenses, and the receipts were used to obtain cash to make payments to government officials. On occasion, employees would falsely submit receipts for multiple meals on the same date, none of which the employees had actually attended.

45. In other instances, Corporate Affairs Group employees and other Avon China executives and employees gave cash to government officials in order to obtain business benefits and falsely reported the payments as fine payments. Avon China executives and employees also made payments to organizations designated by government officials in order to obtain benefits for Avon China and intentionally omitted from Avon China’s records the true purpose of the payments.

46. Due to these practices, from in or around 2004 through in or around September 2008, cash given to government officials was falsely or misleadingly described on the books and

records of Avon China.

Payments to Consulting Company A

47. In or around October 2003, Avon China Executive 2 retained Consulting Company A purportedly to “provide the following services upon [Avon China’s] request: (1) crisis management; (2) government relations; and (3) coordinate with public security authorities.” In exchange for these services, which were memorialized in a scant two-page contract with Avon China, Avon China contracted to pay Consulting Company A \$2,000 to \$7,000 per month plus expenses.

48. Avon China executives and employees did not conduct any due diligence on Consulting Company A, nor did they require Consulting Company A to comply with the Code of Conduct of AVON, the defendant (in particular, the provisions related to payments to government officials), even though Consulting Company A was retained specifically to interact with government officials on behalf of Avon China.

49. From in or around October 2003 through in or around September 2008, Avon China executives and employees caused Avon China to pay Consulting Company A additional monies for purportedly legitimate, though ambiguously described, services even though Avon China Executive 2 knew Consulting Company A’s invoices were often false, and no Avon China executives or employees knew of any legitimate services being provided by Consulting Company A.

50. On many occasions from in or around October 2003 through in or around October 2005, Avon China Executive 2 delivered cash to Consulting Company A and then sought reimbursement from Avon China by submitting, or instructing the executive’s assistant to submit, Consulting Company A’s vague invoices that falsely described the expenses identified

therein as related to legitimate travel, entertainment, or public relations expenses.

*Discovery of the Falsification and Resulting Cover-Up*

51. On or about June 2, 2005, a senior audit manager in the internal audit group at AVON, the defendant, reported to AVON's Compliance Committee, which was comprised of several senior AVON executives, that Avon China executives and employees were not maintaining proper records of entertainment for government officials and that Avon China Executive 2 had explained that the practice was intentional because information regarding that entertainment was "quite sensitive."

52. In or around September 2005, internal auditors at AVON, the defendant, audited the Corporate Affairs Group's travel and entertainment and discretionary expenses and issued a draft report documenting their findings (referred to herein as the "Draft Audit Report").

53. On or about September 29, 2005, Avon China Executive 2 told the internal audit team that Avon China executives and employees could not record the names of government officials who were given gifts or entertained or the purpose of the gifts or entertainment because government officials did not want their participation in these activities recorded and that if Avon China maintained such records, government officials would sever their ties with Avon China, which would harm Avon China's business prospects.

54. The Draft Audit Report, which was reviewed by Avon China Executives 1 and 2; Avon Executives 1, 2, and 3; Avon Attorneys 1 and 2; and others at AVON, the defendant, and Avon China contained conclusions regarding the Corporate Affairs Group's expenses including: (1) high value gifts and meals were offered to government officials on an ongoing basis; (2) the majority of the expenses related to gifts, meals, sponsorships, and travel of substantial monetary value for Chinese government officials to maintain relationships with the officials; (3) a third

party consultant was paid a substantial sum of money to interact with the government but was not contractually required to follow the FCPA, was not actively monitored by Avon China, and was paid for vague and unknown services; and (4) the payments, and the lack of accurate, detailed records, may violate the FCPA or other anti-corruption laws.

55. On or about September 29, 2005, Avon China's management team, including Avon China Executives 1 and 2, insisted that the internal audit team remove the discussion of providing things of value to government officials and potential FCPA violations from the Draft Audit Report for fear that the report would be seen by Chinese government officials, other employees of AVON, the defendant, or Avon China, or Avon China's competitors.

56. On or about September 29, 2005, Avon Executives 2 and 3 agreed with executives of Avon China, including Avon China Executives 1 and 2, to delete the discussion of the Corporate Affairs Group's conduct from the Draft Audit Report. Avon Executive 3 then directed the internal audit team to remove the language from the Draft Audit Report. Avon Executive 2 thereafter directed the internal audit team to either (1) retrieve every copy of the Draft Audit Report and destroy them or (2) instruct the individuals who possessed copies of the Draft Audit Report to destroy them.

57. In or around October and November 2005, Avon Executives 1, 2, and 3, Avon Attorneys 1 and 2, and others gathered additional information regarding Avon China executives' and employees' practice of giving things of value to Chinese government officials. They also collected information showing a lack of FCPA controls.

58. In part, this information was gathered by Avon Internal Auditor 1, who was sent to China to obtain additional information regarding things of value being provided to government officials and was instructed by Avon Executive 2 not to create any electronic records

or send any emails when gathering this information, and not to use “FCPA” in any documents or emails. Avon Internal Auditor 1 gathered the requested information, which further documented the Corporate Affairs Group’s practice of giving things of value to government officials, and gave it to Avon Executive 2 on two handwritten sheets of paper. Avon Executive 2 then hand-carried the handwritten papers to the headquarters of AVON, the defendant, in New York.

59. In or around December 2005, in light of the issues identified in the Draft Audit Report, Avon Executive 2 and Avon China Executive 2 discussed hiding at Avon China Executive 2’s house an off-book record with the names of recipients and details of the things of value provided to government officials. However, Avon China Executive 2 ultimately did not do so. Additionally, an attorney with responsibility for the China region for AVON, the defendant, provided to Avon China Executive 2 FCPA compliance language to add to future contracts with Consulting Company A but that language was never added to the contract. However, AVON executives did not instruct any Avon China executives or employees to stop the conduct identified in the Draft Audit Report. Moreover, neither AVON nor Avon China executives or employees put in place controls to prevent the conduct or ensure the accuracy of Avon China’s books and records.

60. In or around December 2006, internal auditors at AVON, the defendant, again reviewed the Corporate Affairs Group’s travel and entertainment and discretionary expenses and found that Corporate Affairs Group executives and employees were continuing their practice of giving things of value to government officials, were not accurately documenting the expenses (on or off site), and had still not incorporated FCPA compliance language in Consulting Company A’s contracts. Notwithstanding learning that the conduct was continuing and that Avon China’s books and records were still being falsified, no AVON or Avon China executives



or employees took steps to stop or prevent the conduct from recurring, and Avon China executives and employees continued operating in the same improper manner.

61. In or around January 2007, Avon Executive 2 reported to the Compliance Committee for AVON, the defendant, that the matter reported in 2005 regarding potential FCPA violations by Avon China executives and employees had been closed as “unsubstantiated,” even though Avon Executive 2 and other AVON executives, attorneys, and employees knew of Avon China’s previous – and continuing – practice of giving things of value to government officials and the ongoing failure of Avon China’s books and records to reflect accurately and fairly the nature and purpose of certain transactions, as well as AVON’s and Avon China’s ongoing failure to implement internal controls to prevent such conduct from continuing in the future.

62. From in or around 2004 through in or around September 2008, to ensure the consolidation of Avon China’s false books and records into the books and records of AVON, the defendant, Avon China executives, including Avon China Executive 1, signed false management representation letters to Avon China’s external auditor stating that Avon China’s books and records were fair and accurate.

**COUNT ONE**  
**(Conspiracy to Violate the FCPA – Books and Records)**

63. Paragraphs 5 through 62 of this Information are realleged and incorporated by reference as if fully set forth herein.

64. From in or around 2004 through in or around late 2008, in the Southern District of New York and elsewhere, AVON, the defendant, together with others known and unknown, willfully and knowingly did combine, conspire, confederate and agree together and with each other to commit offenses against the United States, to wit, violations of Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5), and 78ff(a).

65. It was a part and object of the conspiracy that AVON, the defendant, together with others known and unknown, willfully and knowingly would and did falsify and cause to be falsified books, records, and accounts required to, in reasonable detail, accurately and fairly reflect the transactions and dispositions of AVON, in violation of Title 15, United States Code, Sections 78m(b)(2)(A), 78m(b)(5), and 78ff(a).

#### **Object of the Conspiracy**

66. The object of the conspiracy was to falsify the books and records of AVON, the defendant, to conceal and disguise things of value given to Chinese government officials, including cash, gifts, and non-business meals, entertainment, and travel, in order to obtain and retain a national license and requisite provincial and local approvals to conduct direct sales in China; avoid anticipated government fines and negative media reports; obtain favorable judicial treatment; and obtain government approval to sell nutritional supplements and healthcare apparel products, via direct selling, that did not meet or had yet to meet government standards.

#### **Means and Methods of the Conspiracy**

67. Among the means and methods by which AVON, the defendant, and others, known and unknown, would and did carry out the conspiracy were the following:

a. Avon China would and did create and maintain a Corporate Affairs Group whose duties included maintaining “guanxi” (good relationships) with government officials and lobbying those officials on behalf of Avon China.

b. Avon China, primarily through Avon China Executives 1 and 2, would and did task its Corporate Affairs Group with lobbying government officials to enable Avon China to: (1) obtain a national license and requisite provincial and local approvals to conduct direct sales in China; (2) avoid government fines, the imposition of which Avon China

executives and employees believed could cause Avon China to lose its direct selling license; (3) avoid negative media reports that could hurt Avon China's image or cause it to be fined, thus endangering its direct selling license; (4) obtain favorable judicial treatment; and (5) obtain government approval to sell nutritional supplements and healthcare apparel products, via direct selling, that did not meet or had yet to meet government standards.

c. Avon China's Corporate Affairs Group would and did engage in a routine practice of giving things of value to Chinese government officials in order to carry out its assigned tasks.

d. Other Avon China executives and employees would and did provide things of value to government officials to obtain business benefits for Avon China.

e. Avon China Executive 2 would and did instruct Corporate Affairs Group employees not to maintain accurate, detailed records of things of value, including cash, gifts, and non-business meals, entertainment, and travel, they gave to government officials in the course of carrying out their assigned tasks.

f. Avon China's Corporate Affairs Group, and other Avon China executives and employees, would and did intentionally falsify records and intentionally omit information from records so as to conceal the things of value they provided to government officials.

g. Executives and employees of AVON and Avon China would and did knowingly conceal from other AVON executives and others that Avon China's books and records failed to reflect accurately and fairly the nature and purpose of certain transactions, knowing that Avon China's books and records would be consolidated into AVON's books and records.

### Overt Acts

68. In furtherance of the conspiracy and to effect the illegal object thereof, the following overt acts, among others, were committed in the Southern District of New York and elsewhere:

#### False Records Related to Gifts

- a. In or around October 2006, Avon China employees falsely described approximately \$890 of “gifts” for government officials as an “entertainment” expense, and omitted from the records the recipient of the gifts and the purpose of the gifts.
- b. In or around March 2008, Avon China employees inaccurately described an approximately \$960 gift purchased from Louis Vuitton for a government official as a “public relations entertainment” expense, and omitted from the records the recipient of the gift and the purpose of the gift.
- c. In or around July 2008, Avon China employees falsely described an approximately \$800 Gucci bag given to a government official as a “business entertainment” expense, and omitted from the records the recipient of the bag and the purpose of the gift.
- d. In or around July 2008, Avon China employees falsely described an approximately \$460 gift from Louis Vuitton for a government official as a “Public Relation Business Entertainment” expense, and omitted from the records the recipient of the gift and the purpose of the gift.

#### False Records Related to Meals and Entertainment

- e. In or around August 2005, Avon China Executives 1 and 2 created a “Direct Selling Special Task Force,” which was comprised primarily of employees from the Corporate Affairs Group, whose task was to obtain provincial and local direct selling approvals

for Avon China through “relations,” which was a term Avon China executives and employees used to refer to things of value provided to government officials or goodwill that had been obtained by giving such things, including non-business meals and entertainment.

f. In or around 2006, Avon China employees falsely described as “sales-business entertainment” approximately \$8,100 an Avon China executive spent on meals and entertainment provided to government officials in order to obtain government approval to sell a healthcare apparel product that did not meet government standards.

g. In or around January 2008, Avon China employees falsely described as “business entertainment” and employee “accommodation” expenses, approximately \$3,206 spent on meals, entertainment, and lodging for government officials.

*False Records Related to Non-Business Travel Given to Government Officials*

h. In or around December 2005, Corporate Affairs Group employees sought approval to take six officials from the Guangdong Food and Drug Administration with responsibility for approving Avon China’s healthcare products for sale, to the United States, purportedly for a “site visit/study visit” to the headquarters of AVON in New York City and its research and development facility in upstate New York.

i. In or around September 2006, Avon China employees falsely described the approximately \$90,000 Avon China spent on a trip for four of the officials referenced in Overt Act (h) in Avon China’s books and records as a business-related site visit and study trip for Chinese government officials, notwithstanding the fact that the officials never visited the headquarters of AVON only spent one morning at AVON’s research and development facility, and spent the rest of the 18-day trip sightseeing and being entertained by an Avon China employee in New York, Vancouver, Montreal, Ottawa, Toronto, Philadelphia, Seattle, Las

Vegas, Los Angeles, Hawaii, and Washington, DC.

j. In or around January 2008, Avon China employees falsely described in Avon China's books and records as a "site visit to Guangzhou" for "3 aic [Administration of Industry and Commerce] officials," approximately \$1,200 worth of expenses associated with a personal trip Avon China provided to a government official and the official's spouse and child to Guangzhou and Macau.

k. In or around January 2008, Avon China employees falsely described in Avon China's books and records as "site visit/inspection" expenses approximately \$15,400 Avon China paid for government officials to travel to Guangzhou, Shenzhen, and Sanya, notwithstanding the fact that the underlying records include charges for a tour guide, sightseeing van, and items purchased at the beach.

l. In or around February 2008, Avon China employees falsely described in Avon China's books and records as "business entertainment" approximately \$11,000 Avon China paid for separate trips for two government officials who oversaw Avon China's activities in the Shaanxi Province (and no Avon China employees) to take personal trips to celebrate the Chinese New Year; one, a 9-day personal trip to Hainan Island and the other, a 12-day personal trip that included stays in Hong Kong and Macau.

*False Records Related to Cash for Government Officials or Organizations Designated by Officials*

Cash to Avoid a Fine

m. On or about August 16, 2006, Avon China Executive 2 approved a request from a Corporate Affairs Group employee to send RMB 100,000 (approximately \$12,000) to a government official's bank account to avoid a fine for violating China's direct selling regulations.

n. On or about August 17, 2006, to support the request for a RMB 100,000 payment to a government official, the requesting Corporate Affairs Group employee submitted a handwritten certificate, purportedly from a Chinese government agency, falsely stating that the official would give the funds to the government bureau.

o. On or about August 17, 2006, an Avon China employee caused RMB 100,000 to be wired in three separate wires to the government official's personal bank account.

p. In or around late August 2006, an Avon China finance employee sent an email to an Avon China employee, who forwarded it to Avon China Executive 2, stating that "the company paid RMB 100,000 to [the Chinese government official] as compensation payment and now we need to enter it into the book."

q. In or around late August 2006, notwithstanding that the Avon China finance employees knew the payment to the government official was "compensation," they recorded the payment in the "management expenses – government relations expenses" account as a legitimate payment related to "issue of aic [Administration of Industry and Commerce] in [] county of [] province."

#### Sponsorship to Avoid a Negative Media Article

r. In or around December 2006, Avon China Executive 2 expressed concern to the Corporate Affairs Group that an article a leading government-owned newspaper intended to run about Avon China improperly recruiting sales associates could cause Avon China to lose its direct selling license.

s. In or around December 2006, in order to convince the newspaper not to run the article referenced in Overt Act (r), a Corporate Affairs Group employee caused Avon China to pay approximately RMB 620,000 (approximately \$77,500) to become a "sponsor" of

the paper at the request of a government official at the paper who was in charge of determining whether the potential article would run and who may have received a commission on monies received from sponsors.

t. In or around December 2006, a Corporate Affairs Group employee sent an internal email regarding the potential article, noting that the “the story alerted us to re-consider to invest more time and efforts on building key medium’s relationship. [The paper] is the one with responsibility to submit confidential memo to the State Counsel and release media story to public as well.”

*False Records Related to Consulting Company A*

u. On or about June 1, 2005, Avon China employees falsely described approximately \$43,000 that Avon China paid Consulting Company A as “PR Fees” and “sponsorship” in connection with a purported art exhibition, even though the exhibition never occurred.

v. In or around January 2008, Avon China employees falsely described as a legitimate government relations expense approximately \$25,900 paid to Consulting Company A purportedly for “communication service fee; business entertainment; transportation; hotel/lodging; telecommunications; material preparation” in connection with a threatened RMB 500,000 (approximately \$66,000) fine for violating the direct selling regulations, even though no Avon China executives or employees knew of any legitimate services actually being performed by Consulting Company A.

*Discovery of the Falsification and Resulting Cover-Up*

w. On or about September 29, 2005, in response to conclusions contained in the Draft Audit Report (of Avon China’s Corporate Affairs Group’s discretionary payments and



travel and entertainment expenses), Avon China Executive 2 told the internal audit team that Avon China executives and employees could not record the names of government officials who were given gifts or entertained or the purpose of the gifts or entertainment because government officials did not want their participation in these activities recorded and that if Avon China maintained such records, government officials would sever their ties with Avon China, which would harm Avon China's business prospects.

x. On or about September 29, 2005, Avon China's management team, including Avon China Executives 1 and 2, insisted that the internal audit team remove the discussion of providing things of value to government officials and potential FCPA violations from the Draft Audit Report for fear that the report would be seen by Chinese government officials, other employees of AVON or Avon China, or Avon China's competitors.

y. On or about September 29, 2005, Avon Executive 3 directed the internal audit team to remove the discussion of the Corporate Affairs Group's conduct from the Draft Audit Report.

z. On or about September 29, 2005, Avon Executive 2 directed the internal audit team to either (1) retrieve every copy of the Draft Audit Report and destroy them or (2) instruct the individuals who possessed copies of the Draft Audit Report to destroy them.

aa. On or about November 1, 2005, Avon Internal Auditor 1 went to Avon China to obtain additional information regarding things of value being provided by Avon China employees and executives to government officials.

bb. On or about November 1, 2005, Avon Executive 2 instructed Avon Internal Auditor 1 not to create any electronic records or send any emails when gathering the information referenced in Overt Act (aa), and not to use "FCPA" in any documents or emails.

cc. On or about November 10, 2005, Avon Internal Auditor 1 gave Avon Executive 2 two handwritten sheets of paper containing the information referenced in Overt Act (aa), which further documented the Corporate Affairs Group's practice of giving things of value to government officials.

dd. On or about November 11, 2005, Avon Executive 2 hand-carried the handwritten papers to the headquarters of AVON in New York, New York.

ee. On or about November 14, 2005, Avon Executive 2 met with Avon Attorneys 1 and 2 and others to discuss the problems that had been discovered in China.

ff. In or around November 2005, Avon China Executive 2 sent a letter to Avon China Executive 1, with a copy to Avon Executive 1 (Avon China Executive 2 also later forwarded the letter to Avon Attorney 2), stating:

no job security is very much disturbing due to the recent unrealistic questioning by GIA [global internal audit]. I am not against [...] auditing our expenses, but company's policy should be reasonably flexible for us to work. We are not working for our interest, but for creating a favorable business environment for the company. CA department is like a fighting brigade, we are most of the time have to fight in a muddy field, if we get on our hands some dirt, it is not our fault! We should be much protected.

gg. In or around November 2005, Avon China Executive 2 sent another letter to Avon China Executive 1 expressing concern about Avon China Executive 2's job because Avon China Executive 2 had to "work through some grey areas for the company's best interest." Avon China Executive 2 also stated concern that the Corporate Affairs Group would lose all of its "guanxi" (good relationships) if it was required to follow the rules of AVON regarding gifts and entertainment and maintain detailed records of the gifts and entertainment.

hh. In or around December 2005, Avon Executive 2 and Avon China Executive 2 discussed hiding at Avon China Executive 2's house an off-book record with the

names of recipients and details of the things of value provided to government officials.

ii. On or about December 14, 2006, Avon Internal Auditor 1 and others again reviewed the Corporate Affairs Group's expenses.

jj. In or around mid December 2006, Avon Internal Auditor 1 and others found that Corporate Affairs Group executives and employees were continuing their practice of giving things of value to government officials, were not accurately documenting the expenses (on or off site), and had not incorporated FCPA compliance language in Consulting Company A's contracts.

kk. In or around January 2007, Avon Executive 2 reported to the Compliance Committee of AVON that the matter regarding the potential FCPA violations by Avon China executives and employees had been closed as "unsubstantiated," which terminated AVON's investigation into Avon China's corrupt conduct.

(Title 18, United States Code, Section 371.)

**COUNT TWO**  
**(Violation of the FCPA – Internal Controls)**

69. Paragraphs 5 through 62 and 66 through 68 of this Information are realleged and incorporated by reference as if fully set forth herein.

70. From in or around at least 2004 through in or around September 2008, in the Southern District of New York, and elsewhere, AVON, the defendant knowingly failed to implement a system of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions were executed in accordance with management's general and specific authorization; (ii) transactions were recorded as necessary (A) to permit preparation of financial statements in conformity with generally accepted accounting principles and any other criteria applicable to such statements, and (B) to maintain accountability for assets; (iii) access to assets

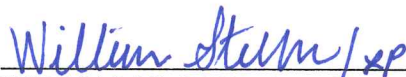
was permitted only in accordance with management's general and specific authorization; and (iv) the recorded accountability for assets was compared with the existing assets at reasonable intervals and appropriate action was taken with respect to any differences, to wit: AVON knowingly: (a) failed to establish effective internal accounting controls designed to detect and prevent corruption-related violations, including FCPA violations; (b) failed to implement controls sufficient to ensure the integrity of its internal audit process, particularly with regard to its review of allegations of and testing for improper payments made to foreign government officials; (c) failed to implement controls to ensure that employee expenses were adequately vetted to make certain that they were reasonable, bona fide, or properly documented; (d) failed to implement effective controls for the meaningful approval process of the retention of third parties or of payments to third parties; (e) failed to monitor and control the financial transactions of its subsidiaries in a manner that provided reasonable assurances that its subsidiaries' transactions were executed and recorded in such a way as to maintain accountability for assets; and (f) failed to implement an effective compliance program or anti-corruption policy, adequately staff and provide resources for its compliance function, or provide stand-alone FCPA training so as to

provide reasonable assurances that transactions would be executed in accordance with management's general and specific authorization.

(Title 15, United States Code, Sections 78m(b)(2)(B), 78m(b)(5), and 78ff(a).)

Handwritten signature of Preet Bharara in black ink, written over a horizontal line.

PREET BHARARA  
United States Attorney

Handwritten signature of William J. Stellmach in blue ink, written over a horizontal line.

WILLIAM J. STELLMACH  
Acting Chief, Fraud Section  
Criminal Division  
U.S. Department of Justice

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UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF NEW YORK

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UNITED STATES OF AMERICA

-v.-

AVON PRODUCTS, INC.

Defendant.

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INFORMATION

14 Cr. \_\_\_\_ ( )

(18 U.S.C. § 371, 15 U.S.C. §§ 78m(b)(2)(B), 78m(b)(5), and 78ff(a))

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PREET BHARARA  
United States Attorney.

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WILLIAM J. STELLMACH  
Acting Chief, Fraud Section, Criminal Division,  
Department of Justice.