

BLACKROCK MUNIHOLDINGS QUALITY FUND, INC.
 Form 4
 July 11, 2011

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549

OMB APPROVAL

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Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. See Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

(Print or Type Responses)

1. Name and Address of Reporting Person *
 BANK OF AMERICA CORP /DE/

2. Issuer Name and Ticker or Trading Symbol
 BLACKROCK MUNIHOLDINGS QUALITY FUND, INC. [MUS]

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

(Last) (First) (Middle)

3. Date of Earliest Transaction (Month/Day/Year)
 05/18/2011

___ Director ___X___ 10% Owner
 ___ Officer (give title below) ___ Other (specify below)

BANK OF AMERICA CORPORATE CENTER, 100 N. TRYON STREET

(Street)

4. If Amendment, Date Original Filed(Month/Day/Year)

6. Individual or Joint/Group Filing(Check Applicable Line)
 ___ Form filed by One Reporting Person
 X Form filed by More than One Reporting Person

CHARLOTTE, NC 28255

(City) (State) (Zip)

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1. Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)	4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)	5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
				(A) or (D)	Price		
				Code	V	Amount	
Common Stock	05/18/2011		P	A	\$ 474	I	By Subsidiary
Common Stock	05/18/2011		S	D	\$ 474	I	By Subsidiary

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(e.g., puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Price of Derivative Security (Instr. 5)	9. Number of Derivative Securities Owned Beneficially (Instr. 5)
				Code	V (A) (D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
BANK OF AMERICA CORP /DE/ BANK OF AMERICA CORPORATE CENTER 100 N. TRYON STREET CHARLOTTE, NC 28255		X		
MERRILL LYNCH, PIERCE, FENNER & SMITH INC. 4 WORLD FINANCIAL CENTER NORTH TOWER NEW YORK, NY 10080		X		

Signatures

Bank of America Corporation, By: /s/ Gary Whitman, Authorized Signatory

07/11/2011

__Signature of Reporting Person

Date

Merrill Lynch, Pierce, Fenner & Smith Incorporated, By: Lawrence Emerson, Title: Attorney-In-Fact

07/11/2011

__Signature of Reporting Person

Date

Explanation of Responses:

* If the form is filed by more than one reporting person, see Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. See 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Remarks:

The transactions reported on this Form 4 were effected by Merrill Lynch, Pierce, Fenner & Smith Incorporated, an indirect, wholly owned subsidiary of BlackRock Fund Advisors.

Disgorgement of profits, if applicable, based on transactions reported above is being made by the Reporting Persons to the Issuer.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, see Instruction 6 for procedure.

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You should rely only on the information incorporated by reference or provided in this Prospectus Supplement, any applicable Product Prospectus Supplement or the applicable Pricing Supplement (collectively, the applicable Supplements), and the accompanying Prospectus. We have not authorized anyone to provide you with different information. The aforementioned documents do not constitute an offer to sell or a solicitation of an offer to buy any securities other than the notes described in the applicable Supplements nor do they constitute an offer to sell or a solicitation of an offer to buy such notes in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. The delivery of the accompanying Prospectus and any applicable Supplements at any time does not imply that the information they contain is correct as of any time subsequent to their respective dates.

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About This Prospectus Supplement

This Prospectus Supplement and the accompanying Prospectus provide you with a general description of the notes we may offer. The applicable Pricing Supplement will provide specific information about the terms of the notes being offered. The applicable Pricing Supplement may include a discussion of any risk factors or other special considerations that apply to those notes and may also add, update or change the information in the accompanying Prospectus and the other applicable Supplements. If there is any inconsistency between the terms of the notes described in the accompanying Prospectus, this Prospectus Supplement, the applicable Product Prospectus Supplement and the applicable Pricing Supplement, the following hierarchy will govern: first, the applicable Pricing Supplement; second, the applicable Product Prospectus Supplement; third, this Prospectus Supplement; and last, the accompanying Prospectus.

Unless otherwise specified in the applicable Supplement:

- all dollar amounts are expressed in U.S. dollars;
- the Bank , we , us and our mean The Bank of Nova Scotia together, where the context requires, with its subsidiaries; and
- you , your and holder means a prospective purchaser or a purchaser of notes, or a beneficial or registered holder of notes, provided that a reference to registered holder means a registered holder of notes (see Legal Ownership and Book-Entry Issuance and Description of the Debt Securities We May Offer in the Prospectus and Global Notes under the heading Description of the Notes in this Prospectus Supplement).

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Risk Factors

Investing in the notes involves risks. You should understand the risks of investing in the notes and should reach an investment decision only after careful consideration with your advisors of the suitability of the notes in light of your particular financial circumstances, the following risk factors and the other information included or incorporated by reference in the accompanying Prospectus and the applicable Supplements. We have no control over a number of matters, including economic, financial, regulatory, geographic, judicial and political events, that are important in determining the existence, magnitude and longevity of these risks and their influence on the value of, or the payments made on or settlement of obligations with respect to, the notes. You should not purchase the notes unless you understand and can bear these investment risks.

An Investment in the Notes Is Subject to Our Credit Risk

An investment in any of the notes issued under our Senior Note Program is subject to our credit risk. Any payment to be made on the notes, including any repayment of principal, depends on the ability of the Bank to satisfy its obligations as they come due. Further, the existence of a trading market for, and the market value of, any of the notes may be impacted by market perception of our creditworthiness. If market perception of our creditworthiness were to decline for any reason, the market value of your notes and the availability of a trading market for the notes may be adversely affected.

Investors in Indexed Notes Could Lose Their Entire Investment

Indexed notes may present a high level of risk, and those who invest in indexed notes may lose their entire investment. We use the term "indexed notes" to mean notes with an amount of principal and/or interest payable that will be determined by reference to the price, value or level of one or more equity securities, exchange traded funds, indices, currencies, commodities, financial or economic measures, or indices or baskets of the aforementioned items or pursuant to a formula. We refer to each of these as an "index." The direction and magnitude of the change in the price, value or level of the relevant index will determine the amount of principal and/or any interest payable on the indexed note. The terms of a particular indexed note may or may not include a return of a percentage of the face amount at maturity or a minimum interest rate. Thus, if you purchase an indexed note, you may lose all or a portion of the principal or other amount you invest and may receive no interest on your investment.

Significant Aspects of the Tax Treatment of an Investment in Indexed Notes Are Uncertain

We do not plan to request a ruling from the Internal Revenue Service or from any Canadian authorities regarding the tax treatment of an investment in indexed notes, and the Internal Revenue Service, the Canada Revenue Agency or a court may not agree with the tax treatment described in the applicable Product Prospectus Supplement or Pricing Supplement.

Further, the treatment of indexed notes for U.S. federal income tax purposes is often unclear due to the absence of any authority specifically addressing the issues presented by any particular indexed note.

Thus, in addition to reading the applicable discussions herein under **Certain Income Tax Consequences** and the tax treatment described in the applicable Product Prospectus Supplement and Pricing Supplement, you should independently evaluate the federal income tax consequences of purchasing an indexed note that apply in your particular circumstances.

The Issuer of a Security or Currency That Serves as an Index Could Take Actions That May Adversely Affect an Indexed Note

The issuer of a security that serves as an index or part of an index for an indexed note will have no involvement in the offer and sale of the indexed note and no obligations to the holder of the indexed note. The issuer may take actions, such as a merger or sale of assets, without regard to the interests of the holder. Any of these actions could adversely affect the value of a note indexed to that security or to an index of which that security is a constituent.

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If the index for an indexed note includes a non-U.S. dollar currency or other asset denominated in a non-U.S. dollar currency, the government that issues that currency will also have no involvement in the offer and sale of the indexed note and no obligations to the holder of the indexed note. That government may take actions that could adversely affect the value of the note. See Risks Relating to Notes Denominated or Payable in or Linked to a Non-U.S. Dollar Currency below for more information about these kinds of government actions.

An Indexed Note May Be Linked to a Volatile Index, Which Could Hurt the Value of Your Investment

Some indices are highly volatile, which means that their value may change significantly, up or down, over a short period of time. The amount of any principal and/or interest that can be expected to become payable on an indexed note may vary substantially from time to time. Because the amounts payable with respect to an indexed note are generally calculated based on the value or level of the relevant index on a specified date or over a limited period of time, volatility in the index increases the risk that the return on the indexed note may be adversely affected by a fluctuation in the level of the relevant index. The volatility of an index may be affected by political or economic events, including governmental actions, and/or by the activities of participants in the relevant markets. Any of these events or activities could adversely affect the value of an indexed note.

An Index to Which a Note Is Linked Could Be Changed or Become Unavailable

Some indices compiled by us, our affiliates or third parties may consist of or refer to several or many different index constituents. The sponsor of such an index typically reserves the right to alter the composition of the index and the manner in which the value or level of the index is calculated. An alteration may result in a decrease in the value of or return on an indexed note that is linked to the index. The indices for our indexed notes may include published indices of this kind or customized indices developed by us, our affiliates or third parties in connection with particular issues of indexed notes.

A published index may become unavailable, or a customized index may become impossible to calculate in the normal manner, due to events such as war, natural disasters, cessation of publication of the index or a suspension or disruption of trading in one or more index constituents on which the index is based. If an index becomes unavailable or impossible to calculate in the normal manner, the terms of a particular indexed note may allow us to delay determining the amount payable as principal or interest on an indexed note, or we may use an alternative method to determine the value of the unavailable index. Alternative methods of valuation are generally intended to produce a value similar to the value resulting from reference to the relevant index. However, it is unlikely that any alternative method of valuation we use will produce a value identical to the value that the actual index would have produced. If we use an alternative method of valuation for a note linked to an index of this kind, the value of the note and/or its rate of return may be lower than it otherwise would be.

Some indexed notes are linked to indices that are not commonly used or that have been developed only recently. The lack of a trading history may make it difficult to anticipate the volatility or other risks associated with an indexed note of this kind. In addition, trading in these indices or their index constituents, or options or futures contracts on these indices or index constituents, may be limited, which could increase their volatility and decrease the value of the related indexed notes and/or their rates of return.

Notes Linked to the CPI Are Subject to Additional Risks.

If the interest rate on your notes is linked to the CPI, as described further under *Description of the Notes* *Interest Rates* *Consumer Price Index* , the level of the CPI may decrease during periods of little or no inflation (and will decrease during periods of deflation). In such a case, depending on the terms of your notes specified in the applicable Pricing Supplement, the interest rate on your notes during any interest period may be small, and may even be equal to or less than 0.00%.

The CPI Itself and the Method by which the Bureau of Labor Statistics of the U.S. Bureau of Labor Statistics (BLS) Calculates the CPI May Change In the Future. If the interest rate on your notes is linked to the CPI, the BLS may change the method by which it calculates the CPI, which could affect the level of the CPI used to calculate the interest rate (or, if applicable, determine whether the CPI is within the reference rate range) applicable to your notes. In particular, changes in the way the CPI is calculated could reduce the level of the CPI, which, if the interest

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rate on your notes is a floating rate of interest linked to the CPI, will result in lower interest payments during the applicable interest period(s), and in turn reduce the market value of the notes.

Consumer Prices May Change Unpredictably, Affecting the Level of the CPI and the Market Value of the Notes in Unforeseeable Ways.

Market prices of the consumer items underlying the CPI may fluctuate based on numerous factors, including: changes in supply and demand relationships; weather; agriculture; trade; fiscal, monetary, and exchange control programs; domestic and foreign political and economic events and policies; disease; technological developments; and changes in interest rates. These factors may affect the level of the CPI and the market value of the notes in varying ways, and different factors may cause the level of the CPI to move in inconsistent directions at inconsistent rates.

Current Pricing Information About the Applicable Index and/or Index Constituents May Not Be Available Due to Time Zone Differences

Special risks may also be presented because of differences in time zones between the United States and the market for the applicable index and/or index constituents, such that the applicable index and/or index constituents are traded on a foreign exchange that is not open when the trading market for the notes in the United States, if any, is open or where trading occurs in the applicable index and/or index constituents during times when the trading market for the notes in the United States, if any, is closed. In such cases, holders of the notes may have to make investment decisions at a time when current pricing information regarding the applicable index and/or index constituents is not available.

We May Engage in Hedging Activities that Could Adversely Affect an Indexed Note

In order to hedge an exposure on a particular indexed note, we may, directly or through our affiliates or other agents, enter into transactions involving the applicable index and/or index constituents for the note, or involving derivative instruments, such as swaps, options or futures, on the applicable index and/or index constituents. To the extent that we enter into hedging arrangements with a non-affiliate, including a non-affiliated agent, such non-affiliate may enter into similar transactions. Engaging in transactions of this kind could adversely affect the value of an indexed note. It is possible that we or the hedging counterparty could achieve substantial returns from our hedging transactions while the value of the indexed note may decline.

We are under no obligation to hedge our exposure under a particular indexed note. There can be no assurance that any hedging transactions we may choose to undertake will be maintained over the term of the note or will be successful. Regardless of whether we engage in hedging transactions, you have no claim to or in respect of any particular asset which we hold and depend upon our creditworthiness for payment of any amounts due under a note.

Historical Information About Indices May Not Be Indicative of Future Performance

If we issue an indexed note, we may include historical information about the relevant index in the applicable Pricing Supplement. Any historical information about indices that we may provide will be furnished as a matter of information only, and you should not regard such information as indicative of future performance of the relevant index.

We May Have Conflicts of Interest Regarding an Indexed Note

SCUSA and our other affiliates and unaffiliated agents may have conflicts of interest with respect to some indexed notes. SCUSA and our other affiliates and unaffiliated agents may engage in trading, including trading for hedging purposes, for their proprietary accounts or for other accounts under their management, in indexed notes and in the applicable index and/or index constituents or in other derivative instruments related to the applicable index and/or index constituents. These trading activities could adversely affect the value of indexed notes. We and our affiliates and unaffiliated agents may also issue or underwrite securities or derivative instruments that are linked to the same index as one or more indexed notes. Introducing competing products into the marketplace in this manner could adversely affect the value of a particular indexed note.

We or our affiliates or an unaffiliated entity that provides us a hedge in respect of indexed notes may serve as calculation agent and/or exchange rate agent for the indexed notes and may have considerable discretion in

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calculating the amounts payable in respect of the notes. To the extent that we or another of our affiliates or such an unaffiliated entity calculates or compiles a particular index, it may also have considerable discretion in performing the calculation or compilation of the index. Exercising discretion in this manner could adversely affect the value of an indexed note based on the index or the rate of return on the security.

Floating Rates of Interest are Uncertain and Could be Equal to or Less Than 0.0%

If your notes are floating rate notes or otherwise directly linked to a floating rate for some portion of the notes' term, no interest will accrue on the notes with respect to any interest period for which the applicable floating rate specified in the applicable Pricing Supplement is zero on the related interest rate reset date. Floating interest rates, by their very nature, fluctuate, and may be equal to or less than 0.0%. Also, in certain economic environments, floating rates of interest may be less than fixed rates of interest for instruments with a similar credit quality and term. As a result, the return you receive on your notes may be less than that of a fixed rate security issued for a similar term by a comparable issuer.

Reform of LIBOR and EURIBOR and Proposed Regulation of These and Other Benchmarks

The London Interbank Offered Rate (LIBOR), the Euro Interbank Offered Rate (EURIBOR), and other indices which are deemed benchmarks are the subject of recent national, international, and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented. These reforms may cause such benchmarks to perform differently than in the past, or have other consequences which cannot be predicted.

In September 2012, the U.K. government published the results of its review of LIBOR (commonly referred to as the Wheatley Review). The Wheatley Review made a number of recommendations for changes with respect to LIBOR including the introduction of statutory regulation of LIBOR, the transfer of responsibility for LIBOR from the British Bankers' Association to an independent administrator, changes to the method of compilation of lending rates and new regulatory oversight and enforcement mechanisms for rate-setting and the corroboration of LIBOR, as far as possible, by transactional data. Based on the Wheatley Review, on March 25, 2013, final rules for the regulation and supervision of LIBOR by the U.K. Financial Conduct Authority (the FCA) were published and came into effect on April 2, 2013 (the FCA Rules). In particular, the FCA Rules include requirements that (1) an independent LIBOR administrator monitor and survey LIBOR submissions to identify breaches of practice standards and/or potentially manipulative behavior, and (2) firms submitting data to LIBOR establish and maintain a clear conflicts of interest policy and appropriate systems and controls. In addition, in response to the Wheatley Review recommendations, ICE Benchmark Administration Limited (the ICE Administration) has been appointed as the independent LIBOR administrator, effective February 1, 2014.

It is not possible to predict the further effect of the FCA Rules, any changes in the methods pursuant to which LIBOR rates are determined or any other reforms to LIBOR that may be enacted in the U.K., the European Union (the EU) and elsewhere, each of which may adversely affect the trading market for LIBOR-based securities. In addition, any changes announced by the FCA, the ICE Administration, or any other successor governance or oversight body, or future changes adopted by such body, in the method pursuant to which the LIBOR rates are determined may result in a sudden or prolonged decrease (or increase) in the reported LIBOR rates. If that were to occur, the level of interest payments on and the trading value of LIBOR-based notes may be adversely affected. Further, uncertainty as to the extent and manner in which the Wheatley Review recommendations and other proposed reforms will continue to be adopted and the timing of such changes may adversely affect the current trading market for LIBOR-based notes.

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At an international level, efforts to reform of benchmarks include (i) International Organization of Securities Commissions Principles for Financial Market Benchmarks (July 2013), (ii) European Securities and Markets Authority-European Banking Authority's Principles for the benchmark-setting process (June 2013), and (iii) the European Commission's regulation on indices used as benchmarks in certain financial instruments and financial contracts, or to measure the performance of investment funds (June 2016) (the Benchmark Regulation).

The Benchmark Regulation applies to the use of benchmarks in the European Union, and would, among other things, (i) require benchmark administrators to be authorized (or, if non-European Union-based, to be qualified for use) and to comply with extensive requirements in relation to the administration of benchmarks and (ii) ban the

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use of benchmarks of unauthorized administrators. The scope of the Benchmark Regulation is wide and, in addition to so-called critical benchmark indices such as LIBOR and EURIBOR, also applies to many interest rate and foreign exchange rate indices, equity indices, and other indices (including proprietary indices or strategies) where referenced in financial instruments, financial contracts, and investment funds.

The full impact of the Benchmark Regulation is presently unclear. However, it could potentially have a material impact on any securities based on or linked to a benchmark index in a range of circumstances including, without limitation, where:

- the administrator of an index which is a benchmark relating to a series of securities does not have or obtain or ceases to have the appropriate European Union authorizations in order to operate such a benchmark or is based in a non-European Union jurisdiction and does not qualify the benchmark for use in the European Union. In such an event, depending on the particular benchmark and the applicable terms of the securities, the securities may be adversely affected; and
- the methodology or other terms of the benchmark relating to a series of securities is changed in order to comply with the terms of the Benchmark Regulation, and such changes have the effect of reducing or increasing the published rate or level of the benchmark or of affecting the volatility of such published rate or level, or otherwise result in an adverse effect on the trading market for, return on or the value of the relevant securities.

More broadly, the FCA Rules, the Benchmark Regulation, and any of the other international, national, or other proposals for reform or general increased regulatory scrutiny of benchmarks could have a material adverse effect on the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or participate in certain benchmarks, trigger changes in the rules or methodologies used in the determination of certain benchmarks, or may even lead to the disappearance of certain benchmarks. The disappearance of, or uncertainty relating to the continued existence of, a benchmark or changes in the manner of determination of or administration of a benchmark may adversely affect the trading market for, return on, or value of benchmark-based securities.

In addition to the international proposals for the reform of benchmarks described above, there are numerous other proposals, initiatives, and investigations which may impact the use and regulation of benchmarks. For example, there are ongoing global investigations into the setting of foreign exchange rate benchmarks, which may result in further regulation around the setting of foreign exchange rates.

Any of the above changes or any other consequential changes to LIBOR, EURIBOR, or any other benchmark as a result of U.K., European Union, or other international, national, or other proposals for reform or other initiatives or investigations, or any further uncertainty in relation to the timing and manner of implementation of such changes could have a material adverse effect on the value of and return on any securities based on or linked to a benchmark.

Risks Relating to Notes Denominated or Payable in or Linked to a Non-U.S. Dollar Currency

If you intend to invest in a non-U.S. dollar note (e.g., a note whose principal and/or interest is payable in a currency other than U.S. dollars or that may be settled by delivery of or reference to a non-U.S. dollar currency or index denominated in or otherwise linked to a non-U.S. dollar currency) you should consult your own financial and legal advisors as to the currency risks entailed by your investment. Notes of this kind may not be an appropriate investment for investors who are unsophisticated with respect to non-U.S. dollar currency transactions.

An Investment in a Non-U.S. Dollar Note Involves Currency-Related Risks

An investment in a non-U.S. dollar note entails significant risks that are not associated with a similar investment in a note that is payable solely in U.S. dollars and where settlement value is not otherwise based on a non-U.S. dollar currency. These risks include the possibility of significant changes in rates of exchange between the U.S. dollar and the various non-U.S. dollar currencies or composite currencies and the possibility of the imposition or modification of foreign exchange controls or other conditions by either the United States or non-U.S. governments. These risks

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generally depend on factors over which we have no control, such as economic and political events and the supply of and demand for the relevant currencies in the global markets.

Changes in Currency Exchange Rates Can Be Volatile and Unpredictable

Rates of exchange between the U.S. dollar and many other currencies have been highly volatile, and this volatility may continue and perhaps spread to other currencies in the future. Fluctuations in currency exchange rates could adversely affect an investment in a note denominated in, or where value is otherwise linked to, a specified currency other than U.S. dollars. Depreciation of the specified currency against the U.S. dollar could result in a decrease in the U.S. dollar-equivalent value of payments on the note, including the principal payable at maturity. That in turn could cause the market value of the note to fall. Depreciation of the specified currency against the U.S. dollar could result in a loss to the investor on a U.S. dollar basis.

Government Policy Can Adversely Affect Foreign Currency Exchange Rates and an Investment in a Non-U.S. Dollar Note

Foreign currency exchange rates can either float or be fixed by sovereign governments. From time to time, governments use a variety of techniques, such as intervention by a country's central bank or imposition of regulatory controls or taxes, to affect the exchange rate of their currencies. Governments may also issue a new currency to replace an existing currency or alter the exchange rate or exchange characteristics by devaluation or revaluation of a currency. Thus, a special risk in purchasing non-U.S. dollar notes is that their yields or payouts could be significantly and unpredictably affected by governmental actions. Even in the absence of governmental action directly affecting currency exchange rates, political or economic developments in the country issuing the specified currency for a non-U.S. dollar note or elsewhere could lead to significant and sudden changes in the exchange rate between the U.S. dollar and the specified currency. These changes could affect the value of the note as participants in the global currency markets move to buy or sell the specified currency or U.S. dollars in reaction to these developments.

Governments have imposed from time to time and may in the future impose exchange controls or other conditions, including taxes, with respect to the exchange or transfer of a specified currency that could affect exchange rates as well as the availability of a specified currency for a note at its maturity or on any other payment date. In addition, the ability of a holder to move currency freely out of the country in which payment in the currency is received or to convert the currency at a freely determined market rate could be limited by governmental actions.

Historical Information About Exchange Rates May Not Be Indicative of Future Performance

If we issue a non-U.S. dollar note, we may include in the applicable Pricing Supplement a currency supplement that provides information about historical exchange rates for the relevant non-U.S. dollar currency or currencies. Any historical information about exchange rates that we may provide will be furnished as a matter of information only, and you should not regard such information as indicative of future performance in currency exchange rates. That rate will likely differ from the exchange rate used under the terms that apply to a particular note.

Non-U.S. Investors May Be Subject to Certain Additional Risks

Explanation of Responses:

If we issue a U.S. dollar note and you are a non-U.S. investor who purchased such notes with a currency other than U.S. dollars, changes in rates of exchange may have an adverse effect on the value, price or income of your investment.

The applicable Product Prospectus Supplement contains a general description of certain U.S. and Canadian tax consequences. If you are a non-U.S. investor, you should consult your tax advisors as to the consequences, under the tax laws of the country where you are resident for tax purposes, of acquiring, holding and disposing of notes and receiving payments of principal or other amounts under the notes.

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Use of Proceeds

Unless otherwise specified in the applicable Pricing Supplement, the net proceeds to the Bank from the sale of the notes will be added to the general funds of the Bank and utilized for general banking purposes.

Description of the Notes

You should carefully read the description of the terms and provisions of our senior debt securities and our senior debt securities indenture under **Description of the Debt Securities We May Offer** in the accompanying Prospectus. That section, together with the applicable Supplements, summarizes all the material terms of our senior debt securities indenture and your note. They do not, however, describe every aspect of our senior debt securities indenture and your note. For example, in this section entitled **Description of the Notes**, we use terms that have been given special meanings in our senior debt securities indenture, but we describe the meanings of only the more important of those terms. The specific terms of any series of notes will be described in the applicable Supplement. As you read this section and the applicable Supplement, please remember that the specific terms of your note as described in the applicable Supplement will supplement and, if applicable, may modify or replace the general terms described in this section and/or the applicable Product Prospectus Supplement. If there is any inconsistency between the terms of the notes described in the accompanying Prospectus, this Prospectus Supplement, the applicable Product Prospectus Supplement and the applicable Pricing Supplement, the following hierarchy will govern: first, the applicable Pricing Supplement; second, the product prospectus supplement (if any); third, this Prospectus Supplement; and last, the accompanying Prospectus.

General

The notes will be limited to an aggregate offering price of notes specified in the accompanying Prospectus, at the Bank's option if so specified in the applicable Pricing Supplement, the equivalent of this amount in any currency or currency unit other than U.S. dollars. The Bank may issue notes pursuant to one or more other prospectus supplements under the Prospectus and the aggregate amount of the notes that may be offered under this Prospectus Supplement may be subject to reduction as a result of the sale by the Bank of other securities (including notes and unsecured subordinated notes of the Bank) pursuant to one or more other prospectus supplements under the Prospectus.

Notes may be issued at various times and in different series, any series of which may be comprised of one or more tranches of notes. The Bank may issue as many distinct series of notes as it wishes.

The notes will constitute the Bank's unsecured and unsubordinated obligations and will constitute deposit liabilities of the Bank for purposes of the Bank Act and will rank on a parity with all of the Bank's other senior unsecured debt including deposit liabilities, other than certain governmental claims in accordance with applicable law, and prior to all of the Bank's subordinated debt. The notes will not constitute deposits that are insured under the Canada Deposit Insurance Corporation Act (Canada) or by the United States Federal Deposit Insurance Corporation or any other Canadian or U.S. government agency or instrumentality.

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The notes will be issued under a senior debt securities indenture among the Bank, Computershare Trust Company, National Association, as United States trustee, and Computershare Trust Company of Canada, as Canadian trustee, which is more fully described in the Prospectus under the heading "Description of the Debt Securities We May Offer". The indenture is subject to, and governed by, the Trust Indenture Act of 1939, as amended. Whenever we refer to specific provisions or defined terms in the indenture, those provisions or defined terms are incorporated in this prospectus supplement by reference. Section references used in this discussion are references to the indenture. Capitalized terms which are not otherwise defined shall have the meanings given to them in the indenture.

Subject to regulatory capital requirements applicable to the Bank, there is no limit on the amount of indebtedness that the Bank may issue. The Bank has other unsubordinated debt outstanding and may issue additional unsubordinated debt at any time and without notifying you.

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The Bank will offer notes under the Senior Note Program on a continuous basis through one or more agents. See Supplemental Plan of Distribution (Conflicts of Interest) .

The indenture does not limit the aggregate principal amount of senior notes that we may issue. We may, from time to time, without the consent of the holders of the notes, provide for the issuance of notes or other debt securities under the indenture in addition to the aggregate securities. Each note issued under this Prospectus Supplement will have a stated maturity that will be specified in the applicable Pricing Supplement and may be subject to redemption or repayment before its stated maturity. Notes may be issued at significant discounts from their principal amount due on the stated maturity (or on any prior date on which the principal or an installment of principal of a note becomes due and payable, whether by the declaration of acceleration, call for redemption at our option, repayment at the option of the holder or otherwise), and some notes may not bear interest. We may from time to time, without the consent of the existing holders of the relevant notes, create and issue further notes having the same terms and conditions as such notes in all respects, except for the issue date, issue price and, if applicable, the first payment of interest thereon.

Unless we specify otherwise in the other applicable Supplements, currency amounts in this Prospectus Supplement are expressed in U.S. dollars, the notes will be denominated in U.S. dollars and payments of any principal, premium or interest on the notes will be made in U.S. dollars. If any note is to be denominated other than exclusively in U.S. dollars, or if any principal, premium or interest on the note is to be paid in one or more currencies (or currency units or in amounts determined by reference to an index or indices) other than that in which that note is denominated, additional information (including authorized denominations and related exchange rate information) will be provided in the applicable Supplement. Unless we specify otherwise in the applicable Supplement, notes denominated in U.S. dollars will be issued in minimum denominations of US\$1,000 and integral multiples of US\$1,000 in excess thereof (except that non-U.S. investors may be subject to higher minimums).

Interest rates that we offer on the notes may differ depending upon, among other factors, the aggregate principal amount of notes purchased in any single transaction. Notes with different variable terms other than interest rates may also be offered concurrently to different investors. We may change interest rates or formulas and other terms of notes from time to time, but no change of terms will affect any note we have previously issued or as to which we have accepted an offer to purchase.

Global Notes

Unless otherwise specified in the applicable Pricing Supplement, each note issued under the Senior Note Program will be issued as a book-entry note in fully registered form and will be represented by a global note that the Bank deposits with and registers in the name of a financial institution or its nominee called a depository. Unless otherwise specified in the applicable Pricing Supplement, The Depository Trust Company, New York, New York, will be the depository for all notes in global form. See Legal Ownership and Book-Entry Issuance in the Prospectus.

Types of Notes

We may issue the following three types of notes:

- **Fixed Rate Notes.** A note of this type will bear interest at a fixed rate described in the applicable Pricing Supplement. This type includes zero-coupon notes, which bear no interest and are instead issued at a price lower than the principal amount.

- **Floating Rate Notes.** A note of this type will bear interest at rates that are determined by reference to an interest rate formula. In some cases, the rates may also be adjusted by adding or subtracting a spread or multiplying by a spread multiplier and may be subject to a minimum rate or a maximum rate. The various interest rate formulas and these other features are described below in Interest Rates Floating Rate Notes. If your note is a floating rate note, the formula and any adjustments that apply to the interest rate will be specified in the applicable Pricing Supplement.

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- **Indexed Notes.** A note of this type provides that the principal amount payable at its maturity, and/or the amount of interest payable on an interest payment date, will be determined:
 - by reference to one or more equity securities, exchange traded funds, indices, currencies, commodities, financial or economic measures;
 - by reference to indices or baskets of the aforementioned items; or
 - pursuant to a formula.

If you are a holder of an indexed note, you may receive a principal amount at maturity that is greater than, less than or equal to the face amount of your note depending upon the value of the applicable index at maturity. That value may fluctuate over time. If you purchase an indexed note, the applicable Product Prospectus Supplement and applicable Pricing Supplement will include information about the relevant index and how amounts that are to become payable will be determined by reference to that index. Before you purchase any indexed note, you should read carefully the section entitled "Risk Factors - Risks Relating to Indexed Notes" below.

Original Issue Discount Notes

A fixed rate note, a floating rate note or an indexed note may be an original issue discount note. A note of this type is issued at a price lower than its principal amount and provides that, upon redemption or acceleration of its maturity, an amount less than its principal amount will be payable. An original issue discount note may be a zero-coupon note. A note issued at a discount to its principal may be considered an original issue discount note for U.S. federal income tax purposes, regardless of the amount payable upon redemption or acceleration of maturity. Please see the tax discussion in the applicable Product Prospectus Supplement and applicable Pricing Supplement for U.S. federal income tax consequences of owning original discount notes.

Information in the Pricing Supplement

The applicable Pricing Supplement will describe one or more of the following terms of your note:

- the stated maturity;

- the specified currency or currencies for principal and interest, if not U.S. dollars;
- the price at which we originally issue your note, expressed as a percentage of the principal amount, and the original issue date;
- whether your note is a fixed rate note, a floating rate note or an indexed note;
- if your note is a fixed rate note, the per annum rate at which your note will bear interest, if any, and the interest payment dates;
- if your note is a floating rate note, the interest rate basis, which may be one of the interest rate bases described in [Interest Rates Floating Rate Notes](#) below; any applicable index currency or maturity, spread or spread multiplier or initial, maximum or minimum rate; and the interest reset, determination, calculation and payment dates, all of which we describe under [Interest Rates Floating Rate Notes](#) below;
- if your note is an indexed note, the principal amount, if any, we will pay you at maturity, the amount of interest, if any, we will pay you on an interest payment date or the formula we will use to calculate these amounts, if any;
- if your note is an original issue discount note, the yield to maturity;
- if applicable, the circumstances under which your note may be redeemed at our option before the stated maturity, including any redemption commencement date, redemption price(s) and redemption period(s);

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- if applicable, the circumstances under which you may demand repayment of your note before the stated maturity, including any repayment commencement date, repayment price(s) and repayment period(s);
- any special Canadian or United States federal income tax consequences of the purchase, ownership or disposition of a particular issuance of notes;
- the use of proceeds, if materially different than those discussed in this Prospectus Supplement; and
- any other terms of your note, which could be different from those described in this Prospectus Supplement.

Market-Making Transactions

If you purchase your note in a market-making transaction, you will receive information about the price you pay and your trade and settlement dates in a separate confirmation of sale. A market-making transaction is one in which an agent or other person resells a note that it has previously acquired from another holder. A market-making transaction in a particular note occurs after the original sale of the note.

Redemption at the Option of the Bank; No Sinking Fund

If an initial redemption date is specified in the applicable Pricing Supplement, we may redeem the particular notes prior to their stated maturity date at our option on any date on or after that initial redemption date in whole or from time to time in part in increments of US\$1,000 or any other integral multiple of an authorized denomination specified in the applicable Pricing Supplement (provided that any remaining principal amount thereof shall be at least US\$1,000 or other minimum authorized denomination applicable thereto), at the redemption price or prices specified in that Pricing Supplement, together with unpaid interest accrued thereon to the date of redemption. Unless otherwise specified in the applicable Pricing Supplement, we must give written notice to registered holders of the particular notes to be redeemed at our option not more than 45 nor less than 30 calendar days prior to the date of redemption.

The notes will not be subject to, or entitled to the benefit of, any sinking fund.

Repayment at the Option of the Holder

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If one or more optional repayment dates are specified in the applicable Pricing Supplement, registered holders of the particular notes may require us to repay those notes prior to their stated maturity date on any optional repayment date in whole or from time to time in part in increments of US\$1,000 or any other integral multiple of an authorized denomination specified in the applicable Pricing Supplement (provided that any remaining principal amount thereof shall be at least US\$1,000 or other minimum authorized denomination applicable thereto), at the repayment price or prices specified in that Pricing Supplement, together with unpaid interest accrued thereon to the date of repayment. A registered holder's exercise of the repayment option will be irrevocable.

For any note to be repaid, the applicable trustee must receive, at its corporate trust office in the Borough of Manhattan, The City of New York, not more than 45 nor less than 30 calendar days prior to the date of repayment, the particular notes to be repaid and, in the case of a book-entry note, repayment instructions from the applicable beneficial owner to the depositary and forwarded by the depositary. Only the depositary may exercise the repayment option in respect of global notes representing book-entry notes. Accordingly, beneficial owners of global notes that desire to have all or any portion of the book-entry notes represented thereby repaid must instruct the participant through which they own their interest to direct the depositary to exercise the repayment option on their behalf by forwarding the repayment instructions to the applicable trustee as aforesaid. In order to ensure that these instructions are received by the applicable trustee on a particular day, the applicable beneficial owner must so instruct the participant through which it owns its interest before that participant's deadline for accepting instructions for that day. Different firms may have different deadlines for accepting instructions from their customers. Accordingly, beneficial owners should consult their participants for the respective deadlines. In addition, at the time repayment instructions are given, each beneficial owner shall cause the participant through which it owns its interest to transfer the beneficial owner's interest in the global note representing the related book-entry notes, on the depositary's records, to the applicable trustee.

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We will comply with the applicable requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and the rules promulgated thereunder, and any other securities laws or regulations in connection with any repayment of notes at the option of the registered holders thereof.

We may at any time purchase notes at any price or prices in the open market or otherwise. Notes so purchased by us may, at our discretion, be held, resold or surrendered to the applicable trustee for cancellation.

Interest

Each interest-bearing note will bear interest from its date of issue at the rate per annum, in the case of a fixed rate note, or pursuant to the interest rate formula, in the case of a floating rate note, in each case as specified in the applicable Pricing Supplement, until the principal thereof is paid. We will make interest payments in respect of fixed rate notes and floating rate notes in an amount equal to the interest accrued from and including the immediately preceding interest payment date in respect of which interest has been paid or from and including the date of issue, if no interest has been paid, to but excluding the applicable interest payment date or the maturity date, as the case may be (each, an interest period).

Interest on fixed rate notes and floating rate notes will be payable in arrears on each interest payment date and on the maturity date. The first payment of interest on any note originally issued between a regular record date and the related interest payment date will be made on the interest payment date immediately following the next succeeding record date to the registered holder on the next succeeding record date. Unless otherwise specified in the applicable Pricing Supplement, the regular record date shall be the fifteenth calendar day, whether or not a business day, immediately preceding the related interest payment date. Business day is defined below in Schedule 1 to this Prospectus Supplement. For the purpose of determining the holder at the close of business on a regular record date when business is not being conducted, the close of business will mean 5:00 P.M. Eastern Standard Time, on that day.

Interest Rates

This subsection describes the different kinds of interest rates that may apply to your note, if it bears interest.

Fixed Rate Notes

The applicable Pricing Supplement will specify the interest payment dates for a fixed rate note as well as the maturity date. Interest on fixed rate notes will be computed on the basis of a 360-day year consisting of twelve 30-day months or such other day count fraction set forth in the applicable Pricing Supplement.

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If any interest payment date, redemption date, repayment date or maturity date of a fixed rate note falls on a day that is not a business day, we will make the required payment of principal, premium, if any, and/or interest on the next succeeding business day, and no additional interest will accrue in respect of the payment made on that next succeeding business day.

Floating Rate Notes

In this subsection, we use several specialized terms relating to the manner in which floating interest rates are calculated. These terms are defined in Schedule 1 to this Prospectus Supplement.

Unless otherwise specified in the applicable Pricing Supplement, the following will apply to floating rate notes:

Net increase in cash and equivalents

55.8 110.5

Cash and equivalents at beginning of year

1,058.7 769.6

Cash and equivalents at end of period

\$1,114.5 \$880.1

* Non-cash financing activities in 2006 and 2005 included the change in fair market value of interest rate swap agreements of (\$19.6) and \$2.4, respectively.

The accompanying notes are an integral part of these statements.

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AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

1. ACCOUNTING POLICIES

Basis of Presentation

We prepare our unaudited interim consolidated financial statements in conformity with accounting principles generally accepted in the United States. We consistently applied the accounting policies described in our 2005 Annual Report on Form 10-K (2005 Form 10-K) in preparing these unaudited financial statements. In our opinion, we made all adjustments of a normal recurring nature that are necessary for a fair statement of the results for the interim periods. Results for interim periods are not necessarily indicative of results for a full year. You should read these unaudited interim consolidated financial statements in conjunction with our consolidated financial statements contained in our 2005 Form 10-K. When used in these notes, the terms Avon, Company, we or us mean Avon Products, Inc.

For interim consolidated financial statement purposes, we compute our tax provision on the basis of our estimated annual effective income tax rate, and provide for accruals under our various employee benefit plans for each quarter based on one quarter of the estimated annual expense.

We have reclassified some prior year amounts in the consolidated financial statements and accompanying notes for comparative purposes.

New Accounting Pronouncements

Prior to January 1, 2006, we applied the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). In accordance with the provisions of SFAS 123, we applied APB 25, *Accounting for Stock Issued to Employees* (APB 25) and related interpretations in accounting for our stock-based compensation plans and, accordingly, did not recognize compensation expense for stock options because we issued options at exercise prices equal to the market value at date of grant.

Effective January 1, 2006, we adopted SFAS 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which revises SFAS 123 and supersedes APB 25. SFAS 123R requires all share-based payments to employees to be recognized in the financial statements based on their fair values using an option-pricing model at the date of grant. We have elected to use the modified prospective method for adoption, which requires compensation expense to be recorded for all unvested stock options and restricted shares beginning in the first quarter of adoption, based on the fair value at the original grant date. Prior year financial statements have not been restated.

The impact from the adoption of FAS 123R during 2006, including restricted stock units granted in connection with changes to share-based compensation plan design related to the adoption, decreased income before taxes and minority interest for the three and six months ended June 30, 2006 by \$14.7 and \$26.8, respectively, net income for the three and six months by \$9.7 and \$17.8, respectively, diluted earnings per share for the three and six months ended June 30, 2006 by \$.02 and \$.04, respectively, and net cash provided by operating activities for the six month period by \$1.9, while it increased net cash provided by financing activities for the six month period by \$1.9.

Table of Contents**AVON PRODUCTS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Dollars in millions, except per share data)**

The effects on net income and earnings per share if we had applied the fair value recognition provisions of SFAS 123 to stock-based compensation for the three and six months ended June 30, 2005 were as follows:

	Three Months	Six Months
	Ended	Ended
	June 2005	June 2005
Net income, as reported	\$ 328.6	\$ 500.6
Add: Compensation expense recognized for restricted stock, net of taxes	1.8	3.7
Less: Stock-based compensation expense determined under FAS No. 123, net of taxes	(10.1)	(19.0)
Pro forma net income	\$ 320.3	\$ 485.3
Earnings per share:		
Basic - as reported	\$.70	\$ 1.06
Basic - pro forma	\$.68	\$ 1.03
Diluted - as reported	\$.69	\$ 1.05
Diluted - pro forma	\$.67	\$ 1.02

We recognized compensation cost of \$17.8 and \$33.3 for stock options, restricted stock and stock appreciation rights during the three and six months ended June 30, 2006, respectively. The total income tax benefit recognized for share-based arrangements was \$6.1 and \$11.4 for the three and six months ended June 30, 2006, respectively.

See Note 4, Share-Based Payments, for further information on stock-based compensation plans.

Inventory

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs* (SFAS 151), which requires certain inventory-related costs to be expensed as incurred. FAS 151 was effective January 1, 2006. The adoption of SFAS 151 had no impact on the Consolidated Financial Statements.

Income Taxes

In June 2006, the FASB issued an interpretation of SFAS No. 109, *Accounting for Income Taxes* (FIN 48). The interpretation prescribes a consistent recognition threshold and measurement attribute, as well as criteria for subsequently recognizing, derecognizing and measuring such tax positions for financial statement purposes. The interpretation also requires expanded disclosure with respect to the uncertainty in income taxes. The interpretation is effective January 1, 2007 for Avon. We are currently evaluating the impact of this interpretation on our Consolidated Financial Statements.

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AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

2. EARNINGS PER SHARE

	Three Months Ended		Six Months Ended	
	June 30		June 30	
Components of Basic and Diluted Earnings per Share				
(shares in millions)	2006	2005	2006	2005
Numerator:				
Net income	\$ 150.9	\$ 328.6	\$ 207.1	\$ 500.6
Denominator:				
Basic EPS weighted-average shares outstanding	449.36	471.45	450.05	471.70
Diluted effect of assumed conversion of stock-based awards	2.51	4.12	2.19	4.58
Dilutive EPS adjusted weighted-average shares outstanding	451.87	475.57	452.24	476.28
Earnings per Share:				
Basic EPS	\$.34	\$.70	\$.46	\$ 1.06
Diluted EPS	\$.33	\$.69	\$.46	\$ 1.05

At June 30, 2006 and 2005, we did not include stock options to purchase 14.7 million shares and 7.0 million shares of Avon common stock, respectively, in the calculations of diluted earnings per share because their inclusion would be anti-dilutive.

We purchased approximately 4.5 million shares of Avon common stock for \$137.9 during the first six months of 2006, as compared to approximately 3.4 million shares of Avon common stock for \$135.3 during the first six months of 2005 under our previously announced share repurchase program. At June 30, 2006, purchases of approximately 274,000 shares for \$8.3 were not settled until July 2006. At June 30, 2005, purchases of approximately 148,000 shares for \$5.6 were not settled until July 2005.

3. INVENTORIES

	June 30	December 31
Components of Inventories	2006	2005
Raw materials	\$ 239.8	\$ 208.3
Finished goods	657.6	593.4
Total	\$ 897.4	\$ 801.7

Table of Contents**AVON PRODUCTS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(Dollars in millions, except per share data)

4. SHARE-BASED PAYMENTS

The Avon Products, Inc. 2005 Stock Incentive Plan (the "2005 Plan"), which is shareholder approved, provides for several types of equity-based incentive compensation awards including stock options, stock appreciation rights, restricted stock, restricted stock units and performance unit awards. Under the 2005 Plan, the maximum number of shares that may be awarded is 31,000,000 shares, of which no more than 8,000,000 shares may be used for restricted stock awards and restricted stock unit awards. Shares issued as a result of stock option exercises will be primarily funded with issuance of new shares.

We have issued stock options, restricted stock, restricted stock units and stock appreciation rights under share-based compensation plans. Stock option awards are granted with an exercise price equal to the market price of Avon's stock at the date of grant; those option awards generally vest in thirds over the three-year period following each option grant date and have ten-year contractual terms. Restricted stock or restricted stock units generally vest after three years.

We recognized compensation cost of \$17.8 and \$33.3 for stock options, restricted stock and stock appreciation rights during the three and six months ended June 30, 2006, respectively. The total income tax benefit recognized for share-based arrangements was \$6.1 and \$11.4 for the three and six months ended June 30, 2006, respectively.

Stock Options

The fair value of each option award is estimated on the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for options granted during the following periods:

	Six Months Ended	
	June 30	
	2006	2005
Risk-free rate (a)	4.8%	4.1%
Expected term (b)	4 years	4 years
Expected volatility (c)	26%	24%
Expected dividends (d)	2.4%	1.4%

- (a) The risk-free rate is based upon the rate on a zero coupon U.S. Treasury bill, for periods within the contractual life of the option, in effect at the time of grant.
- (b) The expected term of the option is based on historical employee exercise behavior, the vesting terms of the respective option and a contractual life of ten years.
- (c) Expected volatility is based on the weekly historical volatility of our stock price, over the expected life of the option.
- (d) Assumes the current cash dividends of \$.175 per share each quarter on Avon's common stock for options granted during 2006 and \$.165 per share for options granted during 2005.

The weighted-average grant-date fair values per share of options granted during the six months ended June 30, 2006 and 2005 were \$6.75 and \$9.24, respectively.

Table of Contents**AVON PRODUCTS, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Dollars in millions, except per share data)**

A summary of stock options as of June 30, 2006, and changes during the six months ended June 30, 2006, is as follows:

	Shares	Weighted- Average Exercise Price	Weighted- Average Contractual Term	Aggregate Intrinsic Value
	(in 000 s)	\$	Years	\$
Outstanding at January 1, 2006	24,044	31.66		
Granted	3,031	30.92		
Exercised	(717)	23.00		
Forfeited or expired	(512)	36.71		
Outstanding at June 30, 2006	25,846	31.71	7.2	78.6
Exercisable at June 30, 2006	16,390	28.65	6.2	79.7

As of June 30, 2006, there was approximately \$42.7 of unrecognized compensation cost related to stock options outstanding. That cost is expected to be recognized over a weighted-average period of 1.5 years. We recognize expense on stock options using a graded vesting method, which recognizes the associated expense based on the timing of option vesting dates.

Cash proceeds, tax benefits, and intrinsic value related to total stock options exercised during the six months ended June 30, 2006 and 2005, was as follows:

	2006	2005
Cash proceeds from stock options exercised	\$ 14.6	\$ 55.2
Tax benefit realized for stock options exercised	1.9	
Intrinsic value of stock options exercised	5.6	54.4

Restricted Stock and Restricted Stock Units

The fair value of restricted stock and restricted stock units was determined based on the average of the high and low market prices of our common stock on the grant date.

A summary of restricted stock and restricted stock units as of June 30, 2006, and changes during the six months ended June 30, 2006, is as follows:

Restricted Stock	Weighted- Average
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	and Units	Grant-Date
	(in 000 s)	Fair Value
Nonvested at January 1, 2006	1,037	\$ 33.53
Granted	1,141	30.79
Vested	(228)	28.55
Forfeited	(25)	33.46
Nonvested at June 30, 2006	1,925	\$ 32.50

The total fair value of restricted stock and restricted stock units that vested during the six months ended June 30, 2006 was \$6.6, based upon market prices on the vesting dates. As of June 30, 2006, there was approximately \$42.5 of unrecognized compensation cost related to restricted stock and restricted stock unit compensation arrangements. That cost is expected to be recognized over a weighted-average period of 2.5 years.

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AVON PRODUCTS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions, except per share data)

5. EMPLOYEE BENEFIT PLANS

Net Periodic Benefit Costs	Three Months Ended June 30					
	Pension Benefits				Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans		2006	2005
	2006	2005	2006	2005	2006	2005
Service cost	\$ 6.1	\$ 7.3	\$ 4.7	\$ 5.4	\$ 1.0	\$.5
Interest cost	11.6	12.2	7.3	9.1	2.8	1.9
Assumed return on plan assets	(13.5)	(13.3)	(6.4)	(7.2)		
Amortization of prior service cost	(.6)	(.6)	.1	.4	(1.7)	(1.2)
Amortization of actuarial losses	8.3	9.9	2.7	2.7	.7	.1
Settlements/Curtailments	3.6		2.5		(2.1)	
Special termination benefits	.2		.1		3.3	
Net periodic benefit costs	\$ 15.7	\$ 15.5	\$ 11.0	\$ 10.4	\$ 4.0	\$ 1.3

Net Periodic Benefit Costs	Six Months Ended June 30					
	Pension Benefits				Postretirement Benefits	
	U.S. Plans		Non-U.S. Plans		2006	2005
	2006	2005	2006	2005	2006	2005
Service cost	\$ 14.9	\$ 14.9	\$ 9.8	\$ 10.9	\$ 1.7	\$ 1.2
Interest cost	24.5	24.5	15.3	18.3	5.0	4.3
Assumed return on plan assets	(27.2)	(25.9)	(13.4)	(14.5)		
Amortization of transition liability				.1		
Amortization of prior service cost	(1.2)	(1.1)	.3	.7	(3.3)	(2.5)
Amortization of actuarial losses	18.7	19.0	5.7	5.4	1.2	.4
Settlements/Curtailments	4.7		1.7		(2.1)	
Special termination benefits	3.0		2.8		3.3	
Net periodic benefit costs	\$ 37.4	\$ 31.4	\$ 22.2	\$ 20.9	\$ 5.8	\$ 3.4

We previously disclosed in our financial statements for the year ended December 31, 2005, that we expected to contribute approximately \$89.0 and \$42.0 to our U.S. and non-U.S. pension plans, respectively, in 2006. As of June 30, 2006, we made approximately \$46.0 and \$26.0 of contributions to the U.S. and non-U.S. plans, respectively. In 2006, we anticipate contributing an additional \$7.0 and \$17.0 to fund our U.S. and non-U.S. pension plans.

6. CONTINGENCIES

We are a defendant in an action commenced in 1975 in the Supreme Court of the State of New York by Sheldon Solow d/b/a Solow Building Company (Solow), the landlord of our former headquarters in New York City. Solow alleges that we misappropriated the name of our former headquarters building and seeks damages based on a purported value of one dollar per square foot of leased space over the term of the lease. A trial of this action took place in May 2005 and, in January 2006, the judge issued a decision in our favor. The plaintiff has appealed that decision. While it is not possible to predict the outcome of litigation, management believes that there are meritorious defenses to the claims asserted and that this action should not have a material adverse effect on our consolidated financial position, results of operations or cash flows. This action is being vigorously contested.

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Blakemore, et al. v. Avon Products, Inc., et al. is a purported class action pending in the Superior Court of the State of California on behalf of Avon Sales Representatives who since March 24, 1999, received products from Avon they did not order, thereafter returned the unordered products to Avon, and did not receive credit for those returned products. The complaint seeks unspecified compensatory and punitive damages, restitution and injunctive relief for alleged unjust enrichment and violation of the California Business and Professions Code. This action was commenced in March 2003. In January 2006, we filed a motion to strike the plaintiffs' asserted nationwide class. In

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February 2006, the trial court declined to grant our motion but instead certified the issue to the Court of Appeal on an interlocutory basis. In April 2006, the Court of Appeal denied our motion and instructed the trial court to consider the issue at a subsequent point in the proceedings. We believe that this action is a dispute over purported customer service issues and is an inappropriate subject for consideration as a class action. While it is not possible to predict the outcome of litigation, management believes that there are meritorious defenses to the claims asserted and that this action should not have a material adverse effect on our consolidated financial position, results of operations or cash flows. This action is being vigorously contested.

In December 2002, our Brazilian subsidiary received a series of excise and income tax assessments from the Brazilian tax authorities asserting that the establishment in 1995 of separate manufacturing and distribution companies in that country was done without a valid business purpose. The assessments assert tax deficiencies during portions of the years 1997 and 1998 of approximately \$93.0 at the exchange rate on June 30, 2006, plus penalties and accruing interest totaling approximately \$173.0 at the exchange rate on June 30, 2006. In July 2003, a first-level appellate body rejected the basis for income tax assessments representing approximately 77% of the total assessment, or \$205.0 (including interest). In March 2004, that rejection was confirmed in a mandatory second-level appellate review. The remaining assessments relating to excise taxes (approximately \$61.0) were not affected. In December 2003, an additional assessment was received in respect of excise taxes for the balance of 1998, totaling approximately \$114.0 at the exchange rate on June 30, 2006, and asserting a different theory of liability based on purported market sales data. In January 2005, an unfavorable first administrative level decision was received with respect to the appeal of that assessment and a further appeal has been taken. In December 2004, an additional assessment was received in respect of excise taxes for the period from January 1999 to December 2001, totaling approximately \$245.0 at the exchange rate on June 30, 2006, and asserting the same theory of liability as in the December 2003 assessment. We appealed that assessment. In September 2005, an unfavorable first administrative level decision was received with respect to the appeal of the December 2004 assessment, and a further appeal is being taken. In the event that assessments are upheld in the earlier stages of review, it may be necessary for us to provide security to pursue further appeals, which, depending on the circumstances, may result in a charge to income. It is not possible to make a reasonable estimate of the amount or range of expense that could result from an unfavorable outcome in respect of these or any additional assessments that may be issued for subsequent periods. The structure adopted in 1995 is comparable to that used by many companies in Brazil, and we believe that it is appropriate, both operationally and legally, and that the assessments are unfounded. This matter is being vigorously contested and in the opinion of our outside counsel the likelihood that the assessments ultimately will be upheld is remote. Management believes that the likelihood that the assessments will have a material impact on our consolidated financial position, results of operations or cash flows is correspondingly remote.

Roqueta v. Avon Products, Inc., et al. is a purported class action commenced in April 2005 in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida. The action seeks general damages, special damages and punitive damages for alleged violations of the Florida Deceptive and Unfair Trade Practices Act and Florida statutes regarding misleading advertisements, and for negligent and fraudulent misrepresentation. The purported class includes all persons who have purchased skin care products from the Defendant that have been falsely advertised to have an anti-cellulite or cellulite reducing effect. We removed the action to the United States District Court for the Southern District of Florida and moved to dismiss the complaint for failure to state a claim upon which relief can be granted. In August 2005 the court dismissed plaintiff's claims for negligent and fraudulent misrepresentation, with prejudice. The court also dismissed plaintiff's remaining claims but granted plaintiff leave to amend her complaint, which she has done. In July 2006, the court issued an order denying a motion by the plaintiff to certify this action as a class action. Plaintiff has not yet indicated whether she will seek to appeal the court's order. While it is not possible to predict the outcome of litigation, management believes that there are meritorious defenses to the claims asserted and that this action should not have a material adverse effect on our consolidated financial position, results of operations or cash flows. This action is being vigorously contested.

In August 2005, we reported the filing of class action complaints for alleged violations of the federal securities laws in actions entitled *Nilesh Patel v. Avon Products, Inc. et al.* and *Michael Cascio v. Avon Products, Inc. et al.*, respectively, which subsequently have been consolidated. A consolidated amended class action complaint for alleged violations of the federal securities laws was filed in the consolidated action in December 2005 in the United States District Court for the Southern District of New York (Master File Number 05-CV-06803) under the caption *In re Avon Products, Inc. Securities Litigation* naming Avon, an officer and two officer/directors. The consolidated action, brought on behalf of purchasers of our common stock between February 3, 2004 and September 20, 2005,

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AVON PRODUCTS, INC.

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(Dollars in millions, except per share data)

seeks damages for alleged false and misleading statements concerning Avon's operations and performance in China, the United States . . . and Mexico. The consolidated amended complaint also asserts that during the class period certain officers and directors sold shares of our common stock. In February 2006, we filed a motion to dismiss the consolidated amended class action complaint, asserting, among other things, that it failed to state a claim upon which relief may be granted, and the plaintiffs have opposed that motion.

In August 2005, we reported the filing of a complaint in a shareholder derivative action purportedly brought on behalf of Avon entitled *Robert L. Garber, derivatively on behalf of Avon Products, Inc. v. Andrea Jung et al. as defendants, and Avon Products, Inc. as nominal defendant*. An amended complaint was filed in this action in December 2005 in the United States District Court for the Southern District of New York (Master File Number 05-CV-06803) under the caption *In re Avon Products, Inc. Securities Litigation* naming certain of our officers and directors. The amended complaint alleges that defendants' violations of state law, including breaches of fiduciary duties, abuse of control, gross mismanagement, waste of corporate assets and unjust enrichment, between February 2004 and the present, have caused losses to Avon. In February 2006, we filed a motion to dismiss the amended complaint, asserting, among other things, that it failed to state a claim upon which relief may be granted, and the plaintiffs have opposed that motion.

In October 2005, we reported the filing of class action complaints for alleged violations of the Employee Retirement Income Security Act (ERISA) in actions entitled *John Rogati v. Andrea Jung, et al.* and *Carolyn Jane Perry v. Andrea Jung, et al.*, respectively, which subsequently have been consolidated. A consolidated class action complaint for alleged violations of ERISA was filed in the consolidated action in December 2005 in the United States District Court for the Southern District of New York (Master File Number 05-CV-06803) under the caption *In re Avon Products, Inc. ERISA Litigation* naming Avon, certain officers, Avon's Retirement Board and others. The consolidated action purports to be brought on behalf of the Avon Products, Inc. Personal Savings Account Plan and the Avon Products, Inc. Personal Retirement Account Plan (collectively the Plan) and on behalf of participants and beneficiaries of the Plan for whose individual accounts the Plan purchased or held an interest in Avon Products, Inc. . . . common stock from February 20, 2004 to the present. The consolidated complaint asserts breaches of fiduciary duties and prohibited transactions in violation of ERISA arising out of, inter alia, alleged false and misleading public statements regarding Avon's business made during the class period and investments in Avon stock by the Plan and Plan participants. In February 2006, we filed a motion to dismiss the consolidated complaint, asserting that it faile