COTY INC.
Form 10-K
August 28, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-K
(Mark One)
ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED JUNE 30, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER 001-35964

COTY INC.
(Exact name of registrant as specified in its charter)

Delaware	13-3823358
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
350 Fifth Avenue, New York, NY	10118
(Address of principal executive offices)	(Zip Code)

(212) 389-7300
Registrant's telephone number, including area code

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of each class	Name of each exchange on which registered
Class A Common Stock, $0.01 par value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or

information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨
(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No ý
As of December 31, 2013, the aggregate market value of the registrant’s Class A Common Stock and Class B Common Stock held by non-affiliates was $1,151,146,875 based on the number of shares held by non-affiliates as of December 31, 2013 and the last reported sale price of the registrant’s Class A Common Stock on December 31, 2013.
At August 26, 2014, 90,344,831 shares of the registrant’s Class A Common Stock, $0.01 par value, and 263,752,817 shares of the registrant’s Class B Common Stock, $0.01 par value, were outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Registrant's definitive proxy statement for the 2014 Annual Meeting of Stockholders are incorporated by reference into Part III of this Form 10K.

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Forward-looking Statements

This Annual Report on Form 10-K includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended ("Exchange Act"). These forward-looking statements reflect our current views with respect to, among other things, our operations and financial performance. All statements in this Annual Report on Form 10-K that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. We generally identify these statements by words or phrases such as "anticipate," "estimate," "plan," "project," "expect," "believe," "intend," "foresee," "forecast," "w "outlook," "target" or other similar words or phrases. These statements discuss, among other things, our strategy, integration, future financial or operational performance, outcome or impact of pending or threatened litigation, domestic or international developments, planned organizational changes and their effects, nature and allocation of future expenses, marketing and growth initiatives, inventory levels and returns, cost of goods, future financings, other goals and targets and statements of the assumptions underlying or relating to any such statements. The inclusion of this forward-looking information should not be regarded as a representation by us or any other person that the future plans, estimates or expectations that we contemplate will be achieved.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, events, favorable circumstances or conditions, levels of activity or performance. Actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements, and you are cautioned not to place undue reliance on these statements. Important factors that could cause actual results to differ materially from those in the forward-looking statements include those described under "Risk Factors." If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, actual results may vary materially from our projections. These factors should not be construed as exhaustive, and should be read in conjunction with the other cautionary statements included in this report.

We undertake no obligation to publicly update any forward-looking statements in light of new information, subsequent events or otherwise except as required by law.

Industry, Ranking and Market Data

Unless otherwise indicated, information contained in this Annual Report on Form 10-K concerning our industry and the market in which we operate, including our general expectations about our industry, market position, market opportunity and market size, is based on data from various sources including internal data and estimates as well as third party sources widely available to the public such as independent industry publications (including Euromonitor International Ltd, or "Euromonitor"), government publications, reports by market research firms or other published independent sources and on our assumptions based on that data and other similar sources. We did not fund and are not otherwise affiliated with the third party sources that we cite. Industry publications and other published sources generally state that the information contained therein has been obtained from third-party sources believed to be reliable. Internal data and estimates are based upon information obtained from trade and business organizations and other contacts in the markets in which we operate and management's understanding of industry conditions, and such information has not been verified by any independent sources. These data involve a number of assumptions and limitations, and you are cautioned not to give undue weight to such estimates. While we believe the market, industry and other information included in this Annual Report on Form 10-K to be the most recently available and to be generally reliable, such information is inherently imprecise and we have not independently verified any third-party information or verified that more recent information is not available.

We refer to North America, Western Europe and Japan as "developed markets," and all other markets as "emerging markets." We define North America as the United States of America ("U.S.") and Canada. Except as specifically indicated, all references to rankings are based on retail value market share.

Our fiscal year ends on June 30. Unless otherwise noted, any reference to a year preceded by the word "fiscal" refers to the fiscal year ended June 30 of that year. For example, references to "fiscal 2014" refer to the fiscal year ended June 30, 2014. Any reference to a year not preceded by "fiscal" refers to a calendar year.

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PART I

Item 1. Business.

We are a leading global beauty company. Founded in Paris in 1904, Coty is a pure play beauty company with a portfolio of well-known brands that compete in the three segments in which we operate: Fragrances, Color Cosmetics and Skin & Body Care. We hold the #2 global position in fragrances, the #5 global position in color cosmetics and have a strong regional presence in skin & body care. Our top 10 brands, which we refer to as our “power brands”, generated 72% of our net revenues in fiscal 2014 and comprise the following globally recognized brands: adidas, Calvin Klein, Chloé, Davidoff, Marc Jacobs, OPI, philosophy, Playboy, Rimmel and Sally Hansen. Our brands compete in all key distribution channels across both prestige and mass markets and in over 130 countries and territories.

Coty has transformed itself into a multi-segment beauty company with market leading positions in both North America and Europe through new product offerings, diversified sales channels and its global growth strategy. Today, our business has a diversified revenue base that generated net revenues in fiscal 2014 of 55%, 30% and 15% from Fragrances, Color Cosmetics and Skin & Body Care, respectively.

For segment and geographic area financial information and information about our long-lived foreign assets, see Note 3, “Segment Reporting” in the notes to our Consolidated Financial Statements, and for information about recent acquisitions or dispositions of any material amount of assets, see Note 4, “Business Combinations” in the notes to our Consolidated Financial Statements.

Our Brands

We grow organically through our focus on supporting and expanding global brands while consistently developing and seeking to acquire new brands and licenses. Brand innovation and new product development are critical components of our success.

Our “power brands”, each of which we describe in further detail below, are at the core of our accomplishments. We invest aggressively behind current and prospective power brands, which are our largest brands and those that we believe to have the greatest global potential, to enhance our scale in the three beauty segments in which we compete.

•adidas. adidas is one of the biggest licensed brands in the global mass skin & body care market and maintains a significant presence in deodorants and shower gels. Our adidas products for both men and women blend distinctive brand identity (through each fragrance and product design) and aspirations of performance (epitomized by the “developed with athletes” signature) to appeal to a broad range of consumers. The brand is sold and holds strong market positions in developed markets, such as Western Europe and North America, and in certain emerging markets.

•Calvin Klein. Calvin Klein is our largest brand by net revenues and one of the largest fragrance brands by net revenues in the world. It holds strong positions in most developed markets, including the U.S., the United Kingdom, Germany and Spain, and in emerging markets, such as China and the Middle East. The brand is also sold in the travel retail sales channel, including duty-free shops. The brand reaches a diverse consumer base through several strong product lines, including ck one, Eternity and Euphoria. In fiscal 2012, we launched ck one color, a new line of color cosmetics under the ck one product line sold in prestige distribution channels. We intend to increase the consumer reach and market share of our Calvin Klein brand in emerging markets.

•Chloé. Chloé is one of the fastest growing prestige fragrance brands for women over the past five years and is now one of the top 20 women’s fragrances in the global prestige market. Chloé’s sales results are particularly strong in travel retail and in the U.S., China, France, Germany, Italy, Spain and the Middle East. Notable launches for the brand include Chloé Signature, Love, Chloé and See by Chloé.

•Davidoff. Davidoff is the #10 men’s fragrance brand in the worldwide prestige market. Cool Water, Davidoff’s most successful line, is the #2 men’s fragrance brand in the German prestige market and the #7 men's prestige fragrance brand in the world. It has been one of the world’s leading prestige men’s fragrances since its initial launch in 1988. In 1996, we launched our Cool Water women’s fragrance, which has also enjoyed success. In fiscal 2013 we launched Game under the Davidoff brand, and in fiscal 2014 we launched Night Dive and Coral Reef under the Davidoff Cool

Water fragrance line, with sales from the latter benefiting the National Geographic Society's "Pristine Seas" program to protect the oceans.

•Marc Jacobs. Marc Jacobs is an iconic fragrance brand, with Daisy Marc Jacobs, Marc Jacobs Lola and Dot Marc Jacobs. In calendar year 2013, Marc Jacobs was the #6 women’s fragrance brand in the U.S. prestige market and

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the #4 women's fragrance brand in the U.K. prestige market. The brand has been particularly successful in certain Asian markets, including China, and has sold well in duty free shops.

•OPI. OPI is a leader in professional nail care. With its portfolio of over 400 creatively-named unique shades, OPI links fashion and entertainment with color cosmetics. OPI regularly creates limited-edition collections with celebrities and entertainment franchises and works with fashion houses and fashion publications to promote the brand. Our OPI brand product lines include OPI (which is sold through salons, travel retail and traditional retailers) and Nicole by OPI (which is sold through mass retailers). OPI also markets nail gels, nail care products and nail accessories through salons. OPI is sold in over 100 countries and territories.

•philosophy. philosophy enjoys strong market position in skin & body care in the U.S. prestige market and leverages multiple distribution channels, including direct television sales and e-commerce. philosophy's miracle worker line one of the most successful skin care launches in the U.S. prestige market the year it was launched. Building on the brand's existing skincare franchises, philosophy has had several new launches in fiscal 2014, including hope in a jar light-as-air hydrating fluid makeup SPF 20, miracle worker anti-aging liquid makeup SPF 30 and time in a bottle daily age-defying serum. In recent years, we commenced distribution of philosophy in certain international markets, including Canada, the Netherlands, the United Kingdom, Singapore and South Korea.

•Playboy. Playboy has quickly become a strong mass market brand with established positions in North America and Europe as well as an expanding presence in emerging markets. Playboy offers a variety of deodorant, shower gel and fragrance products in both men and women markets.

•Rimmel. The Rimmel brand comprises a broad line of color cosmetics products covering the entire range of women's color cosmetics needs, including eye, face, lip and nail products. Rimmel is sold in drugstores and other mass distribution channels. Rimmel is the #3 color cosmetics brand in the European retail mass market and has rapidly increased net sales in the Americas and Asia Pacific over the course of the past several years. Rimmel has been represented for more than ten years by Kate Moss, who has also recently developed and promoted her own signature line of Rimmel lipsticks.

•Sally Hansen. Sally Hansen is the #1 nail care product brand in North America. We believe that Sally Hansen has the most diversified and successful line of nail products in North America. Products in our Sally Hansen line include nail care products, nail color lacquers and nail and beauty implements. We also sell a broad range of depilatory and wax products through our Sally Hansen brand. Sally Hansen is sold in drugstores and other mass retailers. Although Sally Hansen is currently primarily a North American brand, we are expanding its presence in Europe, Asia and South America by focusing on nail care and color.

In addition to our power brands, we have a broad and deep portfolio of over 60 other brands, which accounted for 28% of our net revenues in fiscal 2014. These include regional brands such as Astor, Jil Sander, Lancaster and Manhattan, celebrity brands such as Beyoncé, David Beckham, Jennifer Lopez and Katy Perry and emerging brands such as Roberto Cavalli, Bottega Veneta and Balenciaga. A description of each of our brands is available at www.coty.com.

Our Strategic Vision

Our strategic vision is to strengthen Coty's position as a global leader in beauty, with brand building and creativity at its core. Our long-term financial targets are unchanged: growing our net revenues in line with or faster than the markets and segments in which we compete, expanding profitability and margins and generating strong cash flow. We believe our organic growth has outpaced the markets and segments in which we compete in two of the past three years and has been in line with the markets and segments in which we compete in the cumulative three-year period, according to Euromonitor data. To achieve our strategic vision and long-term financial targets, we have developed Coty 2020, our comprehensive plan which is based on the following five drivers:

- Developing our power brands, with a strong focus on superior innovation and increased investment in brand support.
- Strengthening our global positions in fragrances and color cosmetics and expanding our presence in skin & body care through organic growth and a well-targeted acquisition strategy. Our ambition is to become the undisputed number one global player in fragrances and to be among the top three global players in color cosmetics. We also plan to expand our presence in skin & body care with a particular focus on opportunities in emerging markets.

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- Progressing our emerging markets expansion strategy, with the objective of generating more than one third of our net revenues from emerging markets.
- Leveraging our multichannel distribution capabilities in order to seize growth opportunities across a broad consumer universe with product offerings spanning across price points.
- Gaining efficiency and simplification in our operating model through a global efficiency plan. We believe our global efficiency plan will address the different cost components of our business, and we anticipate that annual savings from the plan will be over $200 million by the end of fiscal 2017.

Fragrances

Our Fragrances segment net revenues represented 55%, 54% and 53% of our net revenues in fiscal 2014, 2013 and 2012, respectively. In fiscal 2014, 2013 and 2012, our Fragrances segment generated $2.498 billion, $2.491 billion and $2.453 billion in net revenues, respectively, and $355.6 million, $369.7 million and $340.5 million in operating income, respectively.

We hold the #2 global position in fragrances. We believe that our success in fragrances results from a combination of strong executive leadership, global expansion, innovation, organic growth, acquisitions, product line extensions and new licenses.

Our fragrance products include a variety of men’s and women’s products. The brands in our Fragrances segment include brands associated with fashion designers, lifestyle brands and brands associated with entertainment personalities. We sell our fragrance products in all distribution channels, from mass to prestige, including travel and retail, to target consumers across all incomes, ages and geographies that we consider important to our business.

We own certain of the trademarks associated with our fragrance products and license other trademarks from celebrities, fashion houses and other lifestyle brands. In fiscal 2014, we manufactured 75% of our fragrance products at our manufacturing facilities, and we market and distribute our fragrance products globally through local affiliates and third-party distributors. In fiscal 2014, 2013 and 2012, the Americas represented 30%, 33% and 32%, respectively, EMEA represented 54%, 52% and 54%, respectively, and Asia Pacific represented 16%, 15% and 14%, respectively, of our net revenues from our Fragrances segment.

Our top fragrance brands by percentage of net revenues are Calvin Klein, Marc Jacobs, Davidoff, Playboy and Chloé. We have launched several new fragrance brands since 2010, including Balenciaga, Beyoncé, Bottega Veneta, Guess?, Katy Perry and Roberto Cavalli.

Color Cosmetics

Net revenues from our Color Cosmetics segment represented 30%, 31% and 31% of our net revenues in fiscal 2014, 2013 and 2012, respectively. In fiscal 2014, 2013 and 2012, our Color Cosmetics segment generated $1.366 billion, $1.468 billion and $1.431 billion in net revenues, respectively, and $154.2 million, $208.8 million and $200.2 million in operating income, respectively.

We are an emerging leader in color cosmetics. We are ranked 5th globally and 3rd in the combined North American and European mass retail markets. Our color cosmetics products include lip, eye, nail and facial color products. We maintain a #2 position in nail care products globally.

We have ten brands in our Color Cosmetics segment. Our top color cosmetics brands by percentage of net revenues are Rimmel, Sally Hansen and OPI. Most of our color cosmetics products are sold within mass distribution channels, with OPI mostly sold in professional distribution channels. Our strength in color cosmetics is driven our OPI, Rimmel and Sally Hansen brands.

We own all the brands in our Color Cosmetics segment and their associated trademarks, except for Cutex, which we license. We associate celebrities’ images in the advertising of some of our color cosmetics brands such as Georgia May Jagger and Rita Ora for Rimmel, Demi Lovato for N.Y.C. New York Color and Gwen Stefani for OPI. In fiscal 2014, we manufactured 74% of our color cosmetics products at our manufacturing facilities. We market and distribute our color cosmetics products globally through our subsidiaries and our third-party distributors. In fiscal 2014, 2013 and 2012, the Americas represented 51%, 57% and 57%, respectively, EMEA represented 44%, 38% and 38%, respectively, and Asia Pacific represented 5%, 5% and 5%, respectively, of our net revenues from our Color Cosmetics segment.

Skin & Body Care

Our Skin & Body Care segment net revenues represented 15%, 15% and 16% of our net revenues in fiscal 2014, 2013 and 2012, respectively. In fiscal 2014, 2013 and 2012, our Skin & Body Care segment generated $687.2 million, $689.9 million and

$727.9 million in net revenues, respectively and $(351.7) million, $(5.7) million and $(577.8) million in operating (loss) income, respectively.

In our Skin & Body Care segment, we are continuing to develop our brands and product lines and expanding our product offerings. Our skin & body care products include shower gels, deodorants, skin care and sun treatment products. Our skin & body care brands are adidas, Lancaster and philosophy. Lancaster and philosophy are sold in prestige distribution channels, and adidas is sold in mass distribution channels.

We own Lancaster, philosophy and TJoy and their trademarks, and we license the trademarks associated with adidas. In fiscal 2014, we manufactured 62% of our skin & body care products at our manufacturing facilities. We market and distribute our skin & body care products globally through our subsidiaries and our third-party distributors. In fiscal 2014, 2013 and 2012, the Americas represented 38%, 38% and 37%, respectively, EMEA represented 50%, 48% and 49%, respectively, and Asia Pacific represented 12%, 14% and 14%, respectively, of our net revenues from our Skin & Body Care segment.

Research and Development

Research and development is a pillar of our innovation. It combines cutting-edge research and technology, new ingredients and precise market testing, enabling us to develop and support the development of new products while continuing to improve our existing products. Our key new product developments with significant product innovation components in fiscal 2014 included Sally Hansen Miracle Gel, the only two-step gel manicure that does not require light, philosophy time in a bottle daily age-defying serum, which helps defy the appearance of all major signs of aging with a breakthrough DNA renewal complex and high-potency vitamin c8 activator, and Lancaster Total Age Correction, featuring our exclusive infrared technology. Our products have received numerous awards, including awards from The Fragrance Foundation and CLIO.

We continuously seek to improve our products through research and development, and strive to provide the consumer with the best possible products. Our research and development teams work with our marketing and operations teams to identify recent trends and consumer needs and to bring products quickly to market. Additionally, our basic and applied research groups, which conduct longer-term research such as “blue sky” research, seek to develop proprietary new technologies for first-to-market products and for improving existing products. This research and development is done both internally and through affiliations with various universities, technical centers, supply partners, industry associations and technical associations. As of August 2014, we owned approximately 750 patents and patent applications globally.

We perform extensive testing on our products, including testing for safety, packaging, toxicology, in vitro eye irritation, microbiology, quality and stability. We also have a robust internal and external testing program that includes sensory, consumer and clinical testing. We do not conduct animal testing on our products or ingredients, nor do we engage others to undertake such testing on our behalf, except when required by local country laws.

As of August 2014, we had approximately 250 employees engaged in research and development. Research and development expenditures totaled 1.0%, 1.0% and 0.9% of net revenues in fiscal 2014, 2013 and 2012, respectively. We maintain five research and development centers, which are located in the U.S., Europe and China.

Suppliers, Manufacturing and Related Operations

We manufacture approximately 72% of our products in eight facilities around the world. These facilities are located in the U.S., Europe and China. Several of these locations provide multi-segment manufacturing. Approximately 28% of our finished products are manufactured to our specifications by third parties.

We continue to streamline our manufacturing processes and identify sourcing opportunities to improve innovation, increase efficiencies and reduce costs. We have a dedicated worldwide procurement team that we believe follows industry best practices and that is making a concentrated effort to reduce costs associated with our third-party suppliers. While we believe that our manufacturing facilities are sufficient to meet current and reasonably anticipated manufacturing requirements, we continue to identify opportunities to make improvements in capacity and productivity. For example, we are streamlining our manufacturing facilities to make distribution more efficient. To capitalize on supply chain benefits, we will continue to utilize third parties on a global basis for finished goods production.

The principal raw materials used in the manufacture of our products are essential oils, alcohol and specialty chemicals. The essential oils in our fragrance products are generally sourced from fragrance houses. As a result, we realize material cost savings and benefits from the technology, innovation and resources provided by these fragrance houses. We purchase the raw materials for all our products from various third parties. We also purchase packaging components that are manufactured to our design specifications. We work in collaboration with our suppliers to meet our stringent design and creative criteria. In fiscal 2014, no single supplier accounted for more than 7% of the materials used in the manufacture of our products.

We regularly benchmark the performance of our supply chain and change suppliers and adjust our distribution networks and manufacturing footprint based upon the changing needs of our business. We are always considering new ways to improve our overall supply chain performance through better use of our production and sourcing capabilities. We believe that we currently have adequate sources of supply for all our products. We have not experienced disruptions in our supply chain in the past, and we believe we have robust practices in place to respond to any potential disruptions in our supply chain.

We have established a global distribution network designed to meet the changing demands of our customers while maintaining service levels. In calendar year 2013, we received a Frost & Sullivan Manufacturing Leadership 100 award for leadership in global value chain. We are continuing to evaluate and restructure our physical distribution network to increase efficiency and reduce our order lead times.

We also recognize the importance of our employees and have programs in place designed to ensure operating safety. We also have in place programs designed to ensure that our manufacturing and distribution facilities comply with applicable environmental rules and regulations, and these programs have improved our employee safety as benchmarked against industry levels.

Marketing and Sales

We have dedicated marketing and sales forces (including ancillary support services) in most of our significant markets. We believe that local teams dedicated to the commercialization of our brands give us the greatest opportunity to execute our business strategy. We are also developing branding and marketing execution strategies with our top customers.

Our marketing strategy creates a distinct image and personality for each brand. Many of our products are linked to recognized designers and design houses such as Balenciaga, Bottega Veneta, Calvin Klein, Chloé, Nautica, Guess? and Marc Jacobs, celebrities, such as Beyoncé Knowles, David Beckham, Jennifer Lopez and Enrique Iglesias, and lifestyle brands, such as adidas, Davidoff and Playboy. Each of our brands is promoted with consistent logos, packaging and advertising designed to enhance its image and the uniqueness of each brand. Our strategy is to promote these brands mostly in television, print, outdoor ads, in-store displays and online on brand sites and social networks. We also leverage our relationships with celebrities to endorse certain of our products. Recent campaigns include Kate Moss, Georgia May Jagger and Rita Ora for Rimmel, Gwen Stefani for OPI, Christy Turlington and Ed Burns for Calvin Klein Eternity and a television spot for Marc Jacobs Daisy Dream directed by long-time Marc Jacobs muse Sofia Coppola.

Our marketing efforts also benefit from cooperative advertising programs with retailers, often in connection with in-store marketing activities. Such activities are designed to attract consumers to our counters, displays and walls and make them try, or purchase, our products. We also engage in sampling and “gift-with-purchase” programs designed to stimulate product trials. We have more recently been expanding our digital marketing efforts, including through websites we do not control or operate, with a multi-pronged strategy that ranges from brand sites, social networking campaigns and blogs, to e-commerce. Forty-six of our brands currently have marketing sites, forty-three have social networking activities and fifteen are sold on branded e-commerce sites. We also partner with key “brick and mortar” retailers in their expansion into e-commerce.

Our consolidated expenses for advertising and promotional costs were $1.070 billion, $1.072 billion and $1.086 billion in fiscal 2014, 2013 and 2012, respectively. Our consolidated expenses for total marketing and advertising were $1.563 billion, $1.574 billion and $1.605 billion in fiscals 2014, 2013 and 2012, respectively.

Distribution Channels and Retail Sales

We currently have offices in more than 40 countries and market, sell and distribute our products in over 130 countries and territories.

We have a balanced multi-channel distribution strategy and market products across price points in prestige and mass channels of distribution. We offer certain products through multiple distribution channels to reach a broader range of customers. We sell products in each of our segments through retailers, including hypermarkets, supermarkets, independent and chain drug stores and pharmacies, upscale perfumeries, upscale and mid-tier department stores, nail salons, specialty retailers, duty-free shops and traditional food, drug and mass retailers. Our principal retailers in the mass distribution channel include CVS, Kmart, Target, Walgreens and Wal-Mart in the U.S. and Boots, DM, Carrefour and Watson’s in Europe. Our principal retailers in the prestige distribution channel include Macy’s, Neiman

Marcus, Nordstrom and Saks Fifth Avenue in the U.S., AS Watson and Douglas in Europe and Sephora in multiple geographic regions. In fiscal 2014, no retailer accounted for more than 10% of our global net revenues; however, certain retailers accounted for more than 10% of net revenues within certain geographic markets. In fiscal 2014, our top ten retailers combined accounted for 29% of our net revenues and Wal-Mart, our top retailer, accounted for 6% of our net revenues. We are pursuing our strategy of geographic expansion by selling through retailers, our subsidiaries or third-party distributors and our strategy of increasing our presence in e-commerce by selling through websites that support an e-commerce-only product distribution business, including our own branded websites. We believe our commercial expertise enhances our capabilities when we enter new markets where products must suit local consumer preferences, incomes and demographics.

We also sell a broad range of our products through travel retail sales channels, including duty-free shops, airlines, cruise lines and other tax-free zones. Travel retail sales channels represented 7% of our net revenues in fiscal 2014. In addition, we sell our products through the internet over our retail partners' e-commerce sites and through online retailers, and we sell our philosophy products through philosophy-branded websites and through direct marketing via television.

In countries and territories in which we sell our products but where we do not have a subsidiary, our products are sold through third-party distributors. Distributors in different countries or territories may sell to different types of customers, such as traditional retailers or via direct marketing. In some cases, we also outsource functions or parts of functions that can be performed more effectively by external service providers. For example, we have outsourced significant portions of our logistics management for our European prestige and mass distribution and our U.S. mass distribution, as well as certain technology-related functions, to third-party service providers. We direct our third-party service providers and distributors in the marketing, advertising and promotion of our products. Our third-party distributors contribute knowledge of the local market and dedicated sales personnel.

In accordance with accounting principles generally accepted in the U.S. ("GAAP"), we report revenues on a net basis, which reflects the amount of actual returns received and the amount established for anticipated returns. As a percentage of gross sales, returns accounted for approximately 3.9%, 3.7% and 3.5% in fiscal 2014, 2013 and 2012, respectively.

Competition

We compete against a number of manufacturers and marketers of fragrances, color cosmetics and personal care products. In addition to the established multinational brands against which we compete, small targeted niche brands continue to enter the market. Competition is also increasing from private label products sold by apparel retailers and mass distribution retailers.

We believe that we compete primarily on the basis of perceived value, including pricing and innovation, service to the consumer, promotional activities, advertising, special events, new product introductions, e-commerce and mobile-commerce initiatives, direct sales and other activities. It is difficult for us to predict the timing and scale of our competitors' actions in these areas. Refining product portfolios with more enhanced, newer and redesigned products has become a priority as we compete in the slower-growing developed markets.

Intellectual Property

Our success depends, at least in part, on our ability to protect our proprietary technology and intellectual property, and to operate without infringing the proprietary rights of others. We rely on a combination of trademarks, patents, copyrights, trade secrets and know-how, intellectual property licenses and other contractual rights (including confidentiality and invention assignment agreements) to establish and protect our proprietary rights.

We own the trademark rights in key sales countries in international Class 3 trademark class (cosmetics and cleaning preparations) for use in connection with the distribution of the following brands: Astor, Coty, Jovan, Joop!, Lancaster, Manhattan, N.Y.C. New York Color, OPI, philosophy, Rimmel and Sally Hansen. We license the trademarks for the balance of our material products, and we are generally the exclusive trademark licensee for all Class 3 trademarks used in connection with our products in certain fields. We or our licensors, as the case may be, actively protect the trademarks used in our principal products in the U.S. and significant markets worldwide. We consider the protection of our trademarks to be essential to our business.

A number of our products also incorporate patented, patent-pending or proprietary technology in their respective formulations and/or packaging, and in some cases our product packaging is subject to copyright, trade dress or community design protection. While we consider our patents and copyrights, and the protection thereof, to be important, no single patent or copyright, or group of patents or copyrights, is material to the conduct of our business. As of August 2014, we owned approximately 750 patents and patent applications globally.

Products representing a significant portion of our net revenues are manufactured and marketed under exclusive license agreements granted to us for use on a worldwide and/or regional basis. As of June 30, 2014, we maintained 34 brand licenses, two of which were entered into during fiscal 2014. In fiscal 2014, 60% of our net revenues were generated from licensed brands, with our licensed power brands (our top six licenses) representing between 4% and 17% of total

net revenues. In each of fiscals 2013 and 2012, 58% of our net revenues were generated from licensed brands.
Our existing licenses, including those for our power brands, impose obligations on us that we believe are common to many licensing relationships in the beauty industry. These obligations include:
•paying annual royalties on net sales of the licensed products;

- maintaining the quality of the licensed products and the applicable trademarks;
- permitting the licensor's involvement in and, in some cases, approval of advertising, packaging and marketing plans relating to the licensed products;
- maintaining minimum royalty payments and/or minimum sales levels for the licensed products;
- actively promoting the sales of the licensed products;
- spending a certain amount of net sales on marketing and advertising for the licensed products;
- maintaining the integrity of the specified distribution channel for the licensed products;
- expanding the sales of the licensed products and/or the markets in which it is sold;
- agreeing not to enter into licensing arrangements with competitors of certain of our licensors;
- indemnifying the licensor in the event of product liability or other claims related to our products;
- limiting assignment and sub-licensing to third parties without the licensor's consent; and
- in some cases, requiring notice to, or approval by, the licensor of certain changes in control as a condition to continuation of the license.

We are currently in compliance with all material terms of our brand license agreements.

Most brand licenses have renewal options for one or more terms, which can range from one to twenty years. Certain brand licenses provide for automatic extensions, so long as minimum annual royalty payments are made, while renewal of others is contingent upon attaining of specified sales levels. The next power brand license scheduled to expire that does not provide for automatic renewal or renewal at our option expires in fiscal 2022. Five of our brand licenses expire during fiscal 2015. We expect to renew four of these brand licenses, two of which provide for automatic renewal or renewal at our option. For additional risks associated with our licensing arrangements, see "—Risk Factors —Our business is dependent upon certain licenses."

We may be unable to obtain, maintain and protect the intellectual property rights necessary to conduct our business, and may be subject to claims that we infringe or otherwise violate the intellectual property rights of others, which could materially harm our business. For more information, see "—Risk Factors —Our business is dependent upon certain licenses," "—Risk Factors —If we are unable to obtain, maintain and protect our intellectual property rights, in particular trademarks, patents and copyrights, or if our brand partners and licensors are unable to maintain and protect their intellectual property rights that we use in connection with our products, our ability to compete could be negatively impacted," "—Risk Factors —Our success depends on our ability to operate our business without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights and proprietary rights of other parties" and "—Risk Factors —The illegal distribution and sale by third parties of counterfeit versions of our products could have a negative impact on our reputation and business."

Employees

As of August 2014, we had approximately 9,000 full-time employees in over 40 countries. In addition, we employ a large number of seasonal contractors during our peak manufacturing and promotional season, primarily at our manufacturing facility in Sanford, North Carolina. We recognize the importance of our employees to our business and believe our relationship with our employees is satisfactory.

Our employees in the U.S. are not covered by collective bargaining agreements. Our employees in certain countries in Europe are subject to works council arrangements. We have not experienced a material strike or work stoppage in the U.S. or any other country where we have a significant number of employees.

Government Regulation

We and our products are subject to regulation by various U.S. federal regulatory agencies as well as by various state and local regulatory authorities and by the applicable regulatory authorities in the countries in which our products are produced or sold. Such regulations principally relate to the ingredients, labeling, packaging, advertising and marketing of our products. Because we have commercial operations overseas, we are subject to the U.S. Foreign Corrupt Practices Act (the "FCPA") as well as other countries' anti-corruption and anti-bribery regimes, such as the U.K. Bribery Act.

Environmental, Health and Safety

We are subject to numerous foreign, federal, provincial, state, municipal and local environmental, health and safety laws and regulations relating to, among other matters, safe working conditions, product stewardship and environmental protection,

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including those relating to emissions to the air, discharges to land and surface waters, generation, handling, storage, transportation, treatment and disposal of hazardous substances and waste materials, and the registration and evaluation of chemicals. We maintain policies and procedures to monitor and control environmental, health and safety risks, and to monitor compliance with applicable environmental, health and safety requirements. Compliance with such laws and regulations pertaining to the discharge of materials into the environment, or otherwise relating to the protection of the environment, has not had a material effect upon our capital expenditures, earnings or competitive position. However, environmental laws and regulations have tended to become increasingly stringent and, to the extent regulatory changes occur in the future, they could result in, among other things, increased costs to us. For example, certain states, such as California, and the U.S. Congress have proposed legislation relating to chemical disclosure and other requirements related to the content of our products. For more information, see "—Risk Factors —We are subject to environmental, health and safety laws and regulations that could affect our business or financial results."

Seasonality

Our sales generally increase during our second fiscal quarter as a result of increased demand by retailers associated with the holiday season. Working capital requirements, sales, and cash flows generally experience variability during the three to six months preceding the holiday period due in part to product innovations and new product launches and the size and timing of certain orders from our customers. While we continue to attempt to reduce this seasonality, sales volume of holiday gift items is, by its nature, difficult to forecast.

We generally experience peak inventory levels from July to October and peak receivable balances from September to December. During the months of November, December and January of each year, cash is normally generated as customer payments for holiday season orders are received.

In response to this seasonality and other factors, management has implemented various working capital programs aimed at optimizing the effectiveness of our inventories, customer receivables and accounts payable. For example, to improve inventory productivity, we have enhanced our sales and operational planning forecasting processes. To improve accounts payable efficiency, we have commenced a harmonization of our vendor management practices across geographies to optimize our payments to vendors.

Availability of Reports

We make available financial information, news releases and other information on our website at www.coty.com. There is a direct link from the website to our Securities and Exchange Commission ("SEC") filings via the EDGAR database at www.sec.gov, where our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge as soon as reasonably practicable after we file such reports and amendments with, or furnish them to, the SEC. Stockholders may also contact Investor Relations at 350 Fifth Avenue, New York, New York 10118 or call 212-389-7300 to obtain hard copies of these reports without charge.

Item 1A. Risk Factors.

You should consider the following risks and all of the other information in this Annual Report in connection with evaluating our business and the forward-looking information contained in this Annual Report on Form 10-K. Our business may also be adversely affected by risks and uncertainties not presently known to us or that we currently believe to be immaterial. If any of the events contemplated by the following discussion of risks should occur or other risks arise or develop, our business, prospects, financial condition and results of operations, may be materially and adversely affected.

The beauty business is highly competitive, and if we are unable to compete effectively our results will suffer.

We face vigorous competition from companies throughout the world, including large multinational consumer products companies. Some of our competitors have greater resources than we do and may be able to respond more effectively to changing business and economic conditions than we can. Most of our products compete with other widely-advertised brands within each product segment. Competition in the beauty business is based on pricing of products, quality of products and packaging, perceived value and quality of brands, innovation, in-store presence and visibility, promotional activities, advertising, editorials, e-commerce and mobile-commerce initiatives and other activities. It is difficult for us to predict the timing and scale of our competitors' actions in these areas or whether new competitors will emerge in the beauty business, including competitors who offer comparable products at more attractive prices. In particular, the fragrances segment and nail category in the U.S. are being influenced by the high volume of new product introductions by diverse companies across several different distribution channels, including private label brands and lower cost brands that have increased pricing pressure. In

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addition, further technological breakthroughs, new product offerings by competitors, and the strength and success of our competitors' marketing programs may impede our growth and the implementation of our business strategy. Our ability to compete also depends on the continued strength of our products, both power brands and other brands, the success of our branding, innovation and execution strategies, our ability to acquire or enter into new licenses and to continue to act as licensee of choice for various brands, the continued diversity of our product offerings to help us compete effectively, the successful management of new product introductions and innovations, our success in entering new markets and expanding our business in existing geographies, the success of any future acquisitions and our ability to protect our intellectual property. If we are unable to continue to compete effectively on a global basis, it could have an adverse impact on our business, results of operations and financial condition.

Rapid changes in market trends and consumer preferences could adversely affect our financial results.

Our continued success depends on our ability to anticipate, gauge and react in a timely and cost-effective manner to industry trends and to changes in consumer preferences for fragrances, color cosmetics and skin & body care products, consumer attitudes toward our industry and brands and changes in where and how consumers shop for those products. We must continually work to develop, produce and market new products, maintain and enhance the recognition of our brands, achieve a favorable mix of products and refine our approach as to how and where we market and sell our products. Net revenues and margins on beauty products tend to decline as they advance in their life cycles, so our net revenues and margins could suffer if we do not successfully and continuously develop new products. While we devote considerable effort and resources to shape, analyze and respond to consumer preferences, consumer tastes cannot be predicted with certainty and can change rapidly, which could impact demand for our products. Additionally, due to the increasing use of social and digital media by consumers and the speed by which information and opinions are shared, trends and tastes may continue to change even more quickly. If we are unable to anticipate and respond to trends in the market for beauty and related products and changing consumer demands, our brand names and brand images may be impaired. Even if we react appropriately to changing trends and consumer preferences, consumers may consider our brand images to be outdated or associate our brands with styles that are no longer popular or trend-setting. Any of these outcomes could have a material adverse effect on our brands, business, financial condition and operating results.

Our success depends on our ability to achieve our global business strategy.

Our future growth, profitability and cash flows depend upon our ability to successfully implement our global business strategy, which is dependent upon a number of factors, including our ability to:

- develop our power brands portfolio through branding, innovation and execution;
- identify and incubate new and existing brands with the potential to develop into global power brands;
- innovate and develop new products that are appealing to the consumer;
- extend our brands into the other segments of the beauty industry in which we compete and develop new brands;
- acquire or enter into new licenses;
- expand our geographic presence to take advantage of opportunities in developed and emerging markets;
- continue to expand our distribution channels within existing geographies to increase market presence, brand recognition and sales;
- expand our market presence through alternative distribution channels;

expand margins through sales growth, the development of higher margin products and supply chain integration and efficiency initiatives;

manage capital investments and working capital effectively to improve the generation of cash flow;

execute any acquisitions quickly and efficiently and integrate businesses successfully; and

implement our recently announced new organizational structure as planned.

There can be no assurance that we can successfully achieve any or all of the above initiatives in the manner or time period that we expect. Further, achieving these objectives will require investments which may result in short-term costs without generating any current net revenues and, therefore, may be dilutive to our earnings, at least in the short term. In addition, we may decide to divest or discontinue certain brands or streamline operations and incur other costs or special charges in doing so.

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We cannot give any assurance that we will realize, in full or in part, the anticipated strategic benefits we expect our strategy will achieve. The failure to realize those benefits could have a material adverse effect on our business, financial condition and results of operations.

We may not realize the benefits that we expect from our new organizational structure.

On July 9, 2014, we announced a new organizational structure aimed at reinforcing our growth path and strengthening our position as a global leader in beauty. We anticipate that our new organizational structure ("Organizational Redesign") will result in annual savings as well as material restructuring and other special charges as it is implemented.

The successful implementation of our Organizational Redesign presents significant organizational challenges and uncertainties and may also require successful negotiations with third parties, including labor organizations, suppliers and other business partners. As a result, we may not be able to realize, in full or in part, the anticipated benefits from Organizational Redesign. Events and circumstances such as financial or strategic difficulties, unexpected employee turnover, delays and unexpected costs may occur that could result in us not realizing all or any of the anticipated benefits or us not realizing the anticipated benefits on our expected timetable. If we are unable to realize the anticipated savings of our Organizational Redesign, our ability to fund other initiatives may be adversely affected. Any failure to implement our Organizational Redesign in accordance with our expectations could adversely affect our business, results of operations and financial condition.

We may not be able to identify suitable acquisition targets or realize the full intended benefit of acquisitions we undertake.

During the past several years, we have explored and undertaken opportunities to acquire other companies and assets as part of our growth strategy. The assets we have acquired in the past several years represent a significant portion of our net assets. We continue to seek financially accretive acquisitions that strengthen our competitive position in our key segments or accelerate our ability to grow our emerging markets presence. There can be no assurance that we will be able to continue to identify suitable acquisition candidates in the future or consummate acquisitions on favorable terms or otherwise realize the full intended benefit of such transactions. For example, this fiscal year, despite efforts to organize the management team and introduce new product innovation, the execution of the brand revamp plan by the management team for TJoy did not gain expected results, resulting in TJoy performing below our expectations and impairments of trademarks. In June 2014, we made the decision to discontinue the TJoy brand at this time. Similarly, Philosophy earned lower net revenues than expected in the first fiscal year after its acquisition primarily due to delays in planned international distribution expansion, an innovation plan that was less successful than expected and a slowdown of brand sales momentum in certain key retailers, all of which also resulted in impairments of trademarks. See "—Our goodwill and other assets have been subject to impairment and may continue to be subject to impairment in the future" and "—The purchase price of future acquisitions may not be representative of the operations acquired." Our failure to achieve intended benefits from any future acquisitions could cause a material adverse effect on our results, business or financial condition.

Our acquisition activities may present managerial, integration, operational and financial risks.

Our acquisition activities expose us to certain risks, including diversion of management attention from existing core businesses and potential loss of customers or key employees of acquired businesses. If required, the financing for an acquisition could increase our indebtedness, dilute the interests of our stockholders or both. The assumptions we use to evaluate acquisition opportunities may not prove to be accurate, and intended benefits may not be realized. In addition, acquisitions of foreign businesses entail certain particular risks, including difficulties in markets and environments where we lack a significant presence, including inability to seize opportunities available in those markets in comparison to our global or local competitors. For example, our growth strategy may require us to seek market penetration through sales channels with which we are not familiar, which may be the dominant sales channels in the relevant geographies. To the extent we acquire businesses located in countries or jurisdictions with currencies other than the U.S. dollar, the U.S. dollar equivalent cost of the acquisition, as well as future profits and revenues, may be adversely impacted should exchange rates vary in unexpected ways. We may experience difficulties in integrating newly acquired businesses, such as the difficulties we experienced in our acquisition of TJoy relating to the earlier than expected departure of key employees and transition to new leadership. Even if we are able to integrate our acquired businesses, such transactions involve the risk of unanticipated or unknown liabilities, including with respect to environmental and regulatory matters. Our failure to successfully integrate any acquired business could have a material adverse effect on our business, financial condition and operating results.

Our operations and acquisitions in certain foreign areas expose us to political, regulatory, economic and reputational risks.

We currently have offices in more than 40 countries and market, sell and distribute our products in over 130 countries and territories. Our growth strategy depends in part on our ability to grow in emerging markets including expanding our operations

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in China and Russia and building our business in Brazil and South East Asia. In addition, our acquisitions and operations in some emerging markets may be subject to greater political and economic volatility and greater vulnerability to infrastructure and labor disruptions than are common in established areas.

Although we have implemented policies, procedures and trainings designed to ensure compliance with anti-bribery laws, trade controls and economic sanctions, and similar regulations, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. We may incur costs or other penalties in the event that any such violations occur, which could have an adverse effect on our business and reputation.

The U.S. has imposed export controls and economic sanctions that prohibit export or re-export of products subject to U.S. jurisdiction to specified end users and destinations, and/or prohibit U.S. companies and other U.S. persons from engaging in business activities with certain persons, entities, countries or governments that it determines are adverse to U.S. foreign policy interests, including Iran and Syria. In 2012, we determined that our majority-owned subsidiary in the United Arab Emirates (“UAE”) had re-exported certain of our products manufactured in the U.S. to Syria, which may have been in violation of U.S. export control laws. We have taken remedial action to cease further sales to Syria. After voluntarily reporting these re-exports to the U.S. Department of Commerce’s Bureau of Industry and Security’s Office of Export Enforcement (the "OEE"), we received a warning letter from the OEE on January 6, 2014 stating that the OEE had closed its investigation. No financial penalties were imposed. In addition, we voluntarily reported to the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC") that some of the affiliate’s Syria sales were made to a party that was designated as a target of U.S. economic sanctions by OFAC. We also determined that the same affiliate had re-exported some of our products to Iran through an intermediary UAE entity. We ceased all sales to the OFAC-designated party in January 2010 and have ceased all sales to Iran, Syria and OFAC-designated parties. We do not believe these sales constituted a violation of U.S. trade sanctions administered by OFAC. We may experience reputational harm and increased regulatory scrutiny as a result of our subsidiary’s sales to Syria and Iran. In addition, the U.S. may impose additional sanctions at any time on other countries where we sell our products. If so, our existing activities may be adversely affected, or we may incur costs in order to come into compliance with future sanctions, depending on the nature of any further sanctions that may be imposed.

Under U.S. law, U.S. companies and their controlled-in-fact foreign subsidiaries and affiliates are prohibited from participating in unsanctioned foreign boycotts. Currently, the U.S. considers the Arab League boycott of Israel to constitute an unsanctioned foreign boycott. In the course of our internal investigation into compliance with U.S. export laws by our majority-owned subsidiary in the UAE, we determined that the subsidiary may have violated EAR anti-boycott laws by certifying on invoices (including some that involved goods manufactured in the U.S.) that the orders did not contain any materials of Israeli origin. See “—We may incur penalties and experience other adverse effects on our business as a result of possible EAR violations” for additional information regarding risks related to such certifications.

In addition, some of our recent acquisitions have required us to integrate non-U.S. companies which had not, until our acquisition, been subject to U.S. law. In many countries outside of the U.S., particularly in those with developing economies, it may be common for persons to engage in business practices prohibited by laws and regulations applicable to us, such as the FCPA or similar local anti-bribery laws. These laws generally prohibit companies and their employees, contractors or agents from making improper payments to government officials for the purpose of obtaining or retaining business. Failure by us and our subsidiaries to comply with these laws could subject us to civil and criminal penalties that could materially and adversely affect our business, financial condition, cash flows and results of operations.

We may incur penalties and experience other adverse effects on our business as a result of possible EAR violations.

In 2012, we determined that our majority-owned subsidiary in the UAE had re-exported certain of our products to Syria, and we voluntarily reported these transactions to OEE. We also undertook remedial action to prevent any further such transactions, including auditing the subsidiary and notifying each of the subsidiary's employees and distributors of the current U.S. sanctions and export control laws and asking that each distributor acknowledge the same. We also notified OFAC of our voluntary disclosure to the OEE. We received a warning letter from the OEE on January 6, 2014 stating that the OEE had closed its investigation, and that the OEE imposed no financial penalties. However, in the course of our internal investigation into compliance by our majority-owned subsidiary in the UAE with U.S. export control laws, we also determined that the subsidiary may have violated EAR anti-boycott laws by including a legend on invoices confirming that the corresponding goods did not contain materials of Israeli origin. A number of the invoices involved U.S.-origin goods. We voluntarily disclosed the potential violations to the U.S. Department of Commerce, Bureau of Industry and Security, Office of Antiboycott Compliance ("OAC") and undertook remedial action to prevent any further inclusion of the legends on invoices.

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Penalties for EAR violations can be significant and civil penalties can be imposed on a strict liability basis, without any showing of knowledge or willfulness. OFAC and OAC each have wide discretion to settle claims for violations. We believe that a penalty or penalties that would result in a material loss are reasonably possible. Irrespective of any penalty, we could suffer other adverse effects on our business as a result of any violations or the potential violations, including legal costs and harm to our reputation, and we also will incur costs associated with our efforts to improve our compliance procedures. We have not established a reserve for potential penalties. We do not know whether OFAC or OAC will assess a penalty or what the amount of any penalty would be, if a penalty or penalties were assessed. See Note 24, “Commitments and Contingencies” in our notes to Consolidated Financial Statements.

Our business is dependent upon certain licenses.

Products covering a significant portion of our net revenues are marketed under exclusive license agreements which grant us and/or our subsidiaries the rights to use certain intellectual property (trademarks, trade dress, names and likeness, etc.) in certain fields on a worldwide and/or regional basis. As of June 30, 2014, we maintained 34 brand license agreements, which collectively accounted for 60% of our net revenues in fiscal 2014. In addition to our brand licenses, we also have other arrangements in place granting us rights to use trademarks and certain other intellectual property in products marketed under both our licensed and owned brands. In fiscal 2014, our top six licensed brands collectively accounted for 43% of our net revenues, and each represented between 4% and 17% of net revenues. The termination of one or more of our brand license agreements or the renewal of a brand license agreement on less favorable terms could have a material adverse effect on our business, financial condition and results of operations. While we may enter into additional brand license agreements in the future, the terms of such brand license agreements may be less favorable than the terms of our existing brand license agreements.

We rely on our brand licensors to manage and maintain their brands. Many of our brand licenses are with celebrities whose public personae we believe are in line with our business strategy. Since we do not maintain control over such celebrities’ brand and image, however, they are subject to change at any time without notice, and there can be no assurance that these celebrity licensors will maintain the appropriate celebrity status or positive association among the consumer public to maintain sales of products bearing their names and likeness at the projected sales levels. Similarly, since we are not responsible for the brand or image of our designer licensors, sales of related products or projected sales of related products could suffer if the designer suffers a general decline in the popularity of its brands due to mismanagement, changes in fashion or consumer preferences, or other factors beyond our control.

Our existing brand licenses run for varying periods with varying renewal options and may be terminated if certain conditions, such as royalty payments, are not met. These brand licenses impose various obligations on us which we believe are common to many licensing relationships in the beauty industry. These obligations include:

- maintaining the quality of the licensed product and the applicable trademarks;
- permitting the licensor’s involvement in and, in some cases, approval of advertising, packaging and marketing plans;
- paying royalties at minimum levels and/or maintaining minimum sales levels;
- promoting the sales of the licensed product actively;
- spending a certain amount of net sales on marketing and advertising for the licensed product;
- maintaining the integrity of the specified distribution channel for the licensed product;
- expanding the sales of the product and/or the jurisdictions in which the product is sold;

- agreeing not to enter into licensing arrangements with competitors of certain of our licensors;
- indemnifying the licensor in the event of product liability or other claims related to our products;
- limiting assignment and sub-licensing to third parties without the licensor's consent; and
- requiring, in some cases, notice to the licensor or its approval of certain changes in control.

If we breach any of these obligations or any other obligations set forth in any of our brand license agreements, our rights under the brand license agreements that we have breached could be terminated, which could have a material adverse effect on our business, financial condition and results of operations.

Our success is also partially dependent on the reputation of our brand licensors and the goodwill associated with their intellectual property. Our licensors’ reputation or goodwill may be harmed due to factors outside our control, which could have a material adverse effect on our business, financial condition and results of operations. In addition, in the event that any of our licensors were to enter bankruptcy proceedings, we could lose our rights to use the intellectual property that the applicable licensors license us to use.

If we are unable to obtain, maintain and protect our intellectual property rights, in particular trademarks, patents and copyrights, or if our brand partners and licensors are unable to maintain and protect their intellectual property rights that we use in connection with our products, our ability to compete could be negatively impacted.

Our intellectual property is a valuable asset of our business. For example, the market for our products depends to a significant extent upon the value associated with our product innovations and our owned and licensed brands. Although certain of our intellectual property is registered in the U.S. and in several of the foreign countries in which we operate, there can be no assurances with respect to the rights associated with such intellectual property in those countries, including our ability to register, use or defend key trademarks. We rely on a combination of trademark, trade dress, patent, copyright, unfair competition and trade secret laws, as well as confidentiality procedures and contractual restrictions, to establish and protect our proprietary rights. However, these laws, procedures and restrictions provide only limited and uncertain protection and any of our intellectual property rights may be challenged, invalidated, circumvented, infringed or misappropriated, including by counterfeiters as discussed under “—The illegal distribution and sale by third parties of counterfeit versions of our products could have a negative impact on our reputation and business,” which could adversely affect our competitive position or ability to sell our products. In addition, our intellectual property portfolio in many foreign countries is less extensive than our portfolio in the U.S., and the laws of foreign countries, including many emerging markets in which we operate, such as China, may not protect our intellectual property rights to the same extent as the laws of the U.S. The costs required to protect our trademarks and patents may be substantial.

In addition, we may fail to apply for, or be unable to obtain, intellectual property protection for certain aspects of our business. For example, we cannot provide assurance that our applications for patents, trademarks and other intellectual property rights will be granted, or, if granted, will provide meaningful protection. In addition, third parties have in the past and could in the future bring infringement, invalidity, co-inventorship, re-examination, opposition or similar claims with respect to any of our current trademarks, patents and copyrights, or any trademarks, patents or copyrights that we may seek to obtain in the future. Any such claims, whether or not successful, could be extremely costly to defend, divert management’s attention and resources, damage our reputation and brands, and substantially harm our business and results of operations. Even if we have an agreement to indemnify us against such costs, the indemnifying party may be unable to uphold its contractual obligations. Furthermore, patent expirations may affect our business and operating results. As patents expire, competitors may be able to legally produce and market products similar to ours, which could have a material adverse effect on our sales and results of operations.

In order to protect or enforce our intellectual property and other proprietary rights, or to determine the enforceability, scope or validity of the intellectual or proprietary rights of others, we may initiate litigation or other proceedings against third parties, such as infringement suits, opposition proceedings or interference proceedings. Any lawsuits or proceedings that we initiate could be expensive, take significant time and divert management’s attention from other business concerns. Litigation and other proceedings also put our intellectual property at risk of being invalidated or interpreted narrowly. Additionally, we may provoke third parties to assert claims against us. We may not prevail in any lawsuits or other proceedings that we initiate and the damages or other remedies awarded, if any, may not be commercially valuable. The occurrence of any of these events may have a material adverse effect on our business, financial condition and results of operations.

In addition, many of our products bear, and the value of our brands is affected by, the trademarks and other intellectual property rights of our brand partners and licensors. Our brand partners' and licensors' ability to maintain and protect their trademark and other intellectual property rights is subject to risks similar to those described above with respect to our intellectual property. We do not control the protection of the trademarks and other intellectual property rights of our brand partners and licensors and cannot ensure that our brand partners and licensors will be able to secure or protect their trademarks and other intellectual property rights. The loss of any of our significant owned or licensed trademarks, patents, copyrights or other intellectual property in any jurisdiction where we conduct a material portion of our business or where we plan geographic expansion could have a material adverse effect on our business, financial condition and results of operations.

Our success depends on our ability to operate our business without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights and proprietary rights of other parties.

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Our commercial success depends at least in part on our ability to operate without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights and other proprietary rights of others. However, we cannot be certain that the conduct of our business does not and will not infringe, misappropriate or otherwise violate such rights. Many companies have employed intellectual property litigation as a way to gain a competitive advantage, and to the extent we gain greater visibility and market exposure as a public company, we may also face a greater risk of being the subject of such litigation. For these and other reasons, third parties may allege that our products, services or activities infringe, misappropriate or otherwise violate their trademark, patent, copyright or other proprietary rights. Defending against allegations and litigation could be expensive, take significant time, divert management's attention from other business concerns, and delay getting our products to market. In addition, if we are found to be infringing, misappropriating or otherwise violating third party trademark, patent, copyright or other proprietary rights, we may need to obtain a license, which may not be available on commercially reasonable terms or at all, or redesign or rebrand our products, which may not be possible. We may also be required to pay substantial damages or be subject to a court order prohibiting us and our customers from selling certain products or engaging in certain activities. Our inability to operate our business without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights and proprietary rights of others could therefore have a material adverse effect on our business, financial condition and results of operations.

Our goodwill and other assets have been subject to impairment and may continue to be subject to impairment in the future.

We are required, at least annually, or as facts and circumstances warrant, to test goodwill and other assets to determine if impairment has occurred. Impairment may result from any number of factors, including adverse changes in assumptions used for valuation purposes, such as actual or projected net revenue growth rates, profitability or discount rates, or other variables. If the testing indicates that impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill or other assets and the implied fair value of the goodwill or the fair value of other assets in the period the determination is made. We cannot always accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other assets become impaired, it would have an adverse effect on our financial condition and results of operations. During fiscal 2014 and fiscal 2012 we recorded asset impairment charges of $316.9 million and $575.9 million, respectively. The fiscal 2014 impairment charge of $60.5 million primarily related to TJoy's trademark, customer relationships and manufacturing facility. The fiscal 2012 impairment charges primarily included trademark impairment charges of $58.0 million on TJoy's tradenames and $130.6 million on Philosophy's tradenames. Additionally, goodwill impairment charges of $256.4 on our Beauty - Skin & Body Care reporting unit were included in the fiscal 2014 impairment charges and goodwill impairment charges of $384.4 million on our Prestige - Skin & Body Care reporting unit were included in the fiscal 2012 impairment charges. These asset impairment charges are described under Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations —Results of Operations —Operating Income —Adjusted Operating Income —Asset Impairment Charges."

The purchase price of future acquisitions may not be representative of the operations acquired.

During the past several years, we have taken advantage of selected acquisition opportunities that we believed would complement our current product offerings, expand our distribution channels, increase the size and geographic scope of our operations or otherwise offer operating efficiency opportunities and growth potential. Among other acquisitions in fiscal 2011, we acquired 100% of TJoy for a total cash purchase price of $351.7 million and 100% of Philosophy for $929.7 million cash, each via a stock purchase. Both of these acquisitions resulted in impairment charges. In fiscal 2014, we incurred asset impairment charges of $316.9 million, representing the write-off of goodwill, identifiable intangible assets and certain tangible assets with respect to our Beauty - Skin & Body Care reporting unit. These impairment charges were driven by TJoy, where cash outflows significantly exceeded management expectations notwithstanding the reorganization of the management team and distribution network and the launch of new product offerings. TJoy also incurred a trademark impairment charge of $58.0 million in fiscal 2012, resulting from business performance that was impacted by the departure of key employees and the related transition to new leadership. In fiscal 2012, we also incurred a trademark impairment charge of $130.6 on Philosophy's tradenames and a goodwill impairment charge of $384.4 million on our Prestige - Skin & Body Care reporting unit. These charges were both related to our Philosophy acquisition and were caused by lower than projected net revenues from philosophy in the U.S. market due to an innovation plan that was less successful than expected and a slowdown of brand sales momentum in certain key retailers, delays in planned expansion of the Philosophy business in certain international markets and a delay in anticipated cost savings associated with consolidating Philosophy's operations into our existing operations.

We are not aware of any other impairments at this time, and we cannot accurately predict the amount and timing of any other such impairments, if any. We may experience subsequent impairment charges with respect to goodwill, intangible assets or other items, as we did in fiscal years 2014 and 2012. It is possible that future acquisitions may result in acquisition of additional goodwill and/or other intangible assets. Any such goodwill or assets acquired may become subject to impairment, which would reflect that the purchase price paid or owed with respect to such acquisitions is not representative of the operations or business acquired, which could have an adverse effect on our financial condition and results of operations.

A general economic downturn, the debt crisis and economic environment in Europe or a sudden disruption in business conditions may affect consumer purchases of our products, which could adversely affect our financial results.

The general level of consumer spending is affected by a number of factors, including general economic conditions, inflation, interest rates, energy costs and consumer confidence, each of which is beyond our control. Consumer purchases of discretionary items tend to decline during recessionary periods and otherwise weak economic environments, when disposable income is lower, and may impact sales of our products. For example, our net revenues declined in the 2008-09 economic downturn, and our fiscal 2014 net revenues were affected by a slowdown in the U.S. beauty market in the segments in which we compete, particularly in the mass channel. Global events beyond our control may impact our business, operating results and financial condition.

Weak economic environments in Europe, the U.S. and elsewhere could affect the demand for our products and may result in longer sales cycles, slower acceptance of new products and increased competition for sales. For example, the weak economic environment in the U.S. and Europe has contributed to declines in the fragrances segment and nail category in the combined region. Deterioration of economic conditions in Europe or elsewhere could also impair collections on accounts receivable. In addition, sudden disruptions in business conditions, for example, as a consequence of events such as a pandemic, or as a result of a terrorist attack, retaliation or the threat of further attacks or retaliation, or as a result of adverse weather conditions or climate changes, can have a short- and, sometimes, long-term impact on consumer spending. Events that impact consumers' willingness or ability to travel and/or purchase our products while traveling have impacted our travel retail business, and may continue to do so in the future. A downturn in the economies in which we sell our products or a sudden disruption of business conditions in those economies where our travel retail business is located could adversely affect our net revenues and profitability.

If consumer purchases decrease, we may not be able to generate enough cash flow to meet our obligations and commitments. If we cannot generate sufficient cash flow from operations to service our debt, we may need to refinance our debt, dispose of assets or issue equity to raise necessary funds. We cannot predict whether we would be able to undertake any of these actions to raise funds on a timely basis or on satisfactory terms.

A sudden disruption in business conditions or a general economic downturn may affect the financial strength of our customers that are retailers, which could adversely affect our financial results.

A decline in consumer purchases tends to impact our retailer customers. The financial difficulties of a retailer could cause us to curtail or eliminate business with that customer. We may also decide to assume more credit risk relating to the receivables from that retailer. Our inability to collect receivables from one of our largest customers that is a retailer, or from a group of these customers, could have a material adverse effect on our business, results of operations and financial condition. If a retailer were to go into liquidation, we could incur additional costs if we choose to purchase the retailer's inventory of our products to protect brand equity.

Volatility in the financial markets could have a material adverse effect on our business.

While we currently generate significant cash flows from our ongoing operations and have access to global credit markets through our various financing activities, credit markets may experience significant disruptions. Deterioration in global financial markets could make future financing difficult or more expensive. If any financial institutions that are parties to our credit facility or other financing arrangements, such as interest rate or foreign currency exchange hedging instruments, were to declare bankruptcy or become insolvent, they may be unable to perform under their agreements with us. This could leave us with reduced borrowing capacity or could leave us unhedged against certain interest rate or foreign currency exposures, which could have an adverse impact on our business, financial condition and results of operations. In addition, the cost of certain items required by our operations, such as raw materials, transportation and freight, may be affected by changes in the value of the relevant currencies in which their price or cost is quoted or analyzed. We hedge certain exposures to foreign currency exchange rates arising in the ordinary course of business in order to mitigate the effect of such fluctuations.

Our debt facilities require us to comply with specified financial covenants that may restrict our current and future operations and limit our flexibility and ability to respond to changes or take certain actions.

We remain dependent upon others for our financing needs, and our debt agreements contain restrictive covenants. Our principal credit facility and the agreement governing our private placement of notes each contains covenants requiring us to

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maintain specific financial ratios and contain certain restrictions on us with respect to guarantees, liens, sales of certain assets, consolidations and mergers, affiliate transactions, indebtedness, dividends and other distributions and changes of control. There is a risk that these covenants could constrain execution of our business strategy and growth plans, including acquisitions. Should we decide to pursue an acquisition that requires financing that would result in a violation of our existing debt covenants, refusal of our current lenders to permit waivers or amendments to our existing covenants could delay or prevent consummation of our plans. This principal credit facility will expire in April 2018 and the notes are due in 2017, 2020 and 2022. There is no assurance that alternative financing or financing on as favorable terms will be found when these agreements expire.

We are subject to risks related to our international operations.

We operate on a global basis, and the majority of our fiscal 2014 net revenues was generated outside the U.S. We maintain offices in over 40 countries and have key operational facilities located outside the U.S. that manufacture, warehouse or distribute goods for sale throughout the world. As of June 30, 2014, approximately 71% of our total net revenues, and approximately 21% of our long-lived assets were attributable to our foreign operations. Non-U.S. operations are subject to many risks and uncertainties, including:

- fluctuations in foreign currency exchange rates, which have affected and may in the future affect our results of operations, reported earnings, the value of our foreign assets, the relative prices at which we and foreign competitors sell products in the same markets and the cost of certain inventory and non-inventory items required by our operations;

- changes in foreign laws, regulations and policies, including restrictions on foreign investment, trade, import and export license requirements, quotas, trade barriers and other protection measures imposed by foreign countries, and tariffs and taxes, as well as changes in U.S. laws and regulations relating to foreign trade and investment;

- difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex domestic and international laws, treaties and regulations, including the FCPA, and different regulatory structures and unexpected changes in regulatory environments;

- lack of well-established or reliable legal and administrative systems;

- failure to effectively and immediately implement processes and policies across our diverse operations and employee base; and

- adverse weather conditions, social and economic conditions, terrorist attacks, war or other military action or violent revolution, such as recent events in Ukraine and Russia and the Middle East, and other geopolitical conditions.

We intend to reinvest undistributed earnings and profits from our foreign operations indefinitely, except where we are able to repatriate these earnings to the U.S. without material incremental tax expenditures. Any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates. In addition, there have been proposals to change U.S. tax laws that would significantly impact how U.S. multinational corporations are taxed on foreign earnings. We cannot predict whether or in what form this proposed legislation may pass. If enacted, such legislation could have a material adverse impact on our tax expense and cash flow. Further, certain U.S. tax provisions are due to expire within the next year that, if not extended, could materially and adversely affect the tax positions of many U.S. multinationals, including ourselves.

Substantially all of our cash and cash equivalents that result from these earnings remain outside the U.S. As of June 30, 2014, 2013 and 2012, cash and cash equivalents in foreign operations included $1.233 billion, $914.2 million and $605.0 million, or 99.6%, 99.3% and 99.2% of aggregate cash and cash equivalents, respectively.

We are also subject to the interpretation and enforcement by governmental agencies of other foreign laws, rules, regulations or policies, including any changes thereto, such as restrictions on trade, import and export license requirements, privacy and data protection laws, and tariffs and taxes, which may require us to adjust our operations in certain markets where we do business. We face legal and regulatory risks in the U.S. and, in particular, cannot predict with certainty the outcome of various contingencies or the impact that pending or future legislative and regulatory changes may have on our business. It is not possible to gauge what any final regulation may provide, its effective date or its impact at this time. These risks could have a material adverse effect on our business, prospects, financial condition and results of operations.

Fluctuations in currency exchange rates may negatively impact our financial condition and results of operations.

Exchange rate fluctuations may affect the costs that we incur in our operations. The main currencies to which we are exposed are the euro, the British pound, the Swiss franc, the Russian ruble, the Polish zloty, the Australian dollar and the Canadian dollar. The exchange rates between these currencies and the U.S. dollar in recent years have fluctuated significantly

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and may continue to do so in the future. A depreciation of these currencies against the U.S. dollar will decrease the U.S. dollar equivalent of the amounts derived from foreign operations reported in our consolidated financial statements and an appreciation of these currencies will result in a corresponding increase in such amounts. The cost of certain items, such as raw materials, transportation and freight, required by our operations may be affected by changes in the value of the relevant currencies. To the extent that we are required to pay for goods or services in foreign currencies, the appreciation of such currencies against the U.S. dollar will tend to negatively impact our financial condition and results of operations.

Our failure to protect our reputation, or the failure of our partners to protect their reputations, could have a material adverse effect on our brand images.

Our ability to maintain our reputation is critical to our various brand images. Our reputation could be jeopardized if we fail to maintain high standards for product quality and integrity or if we, or the third parties with whom we do business, do not comply with regulations or accepted practices. Any negative publicity about these types of concerns may reduce demand for our products. Failure to comply with ethical, social, product, labor and environmental standards, or related political considerations, such as animal testing, could also jeopardize our reputation and potentially lead to various adverse consumer actions, including boycotts. Failure to comply with local laws and regulations, including applicable U.S. trade sanctions, to maintain an effective system of internal controls or to provide accurate and timely financial statement information could also hurt our reputation. See "—Our operations and acquisitions in certain foreign areas expose us to political, regulatory, economic and reputational risks" and "—We may incur penalties and experience other adverse effects on our business as a result of possible EAR violations." We are also dependent on the reputations of our brand partners and licensors, which can be affected by matters outside of our control. Damage to our reputation or the reputations of our brand partners or licensors or loss of consumer confidence for any of these or other reasons could have a material adverse effect on our results of operations, financial condition and cash flows, as well as require additional resources to rebuild our reputation.

Our business is subject to seasonal variability.

Our sales generally increase during our second fiscal quarter as a result of increased demand by retailers associated with the holiday season. Accordingly, our financial performance, sales, working capital requirements, cash flow and borrowings generally experience variability during the three to six months preceding the holiday period. Any substantial decrease in net revenues, in particular during periods of increased sales due to seasonality, could have a material adverse effect on our financial condition, results of operations and cash flows.

We sell our products in a continually changing retail environment.

The retail industry, particularly in the U.S. and Europe, has continued to experience consolidation and other ownership changes, and the business environment for selling fragrances, color cosmetics, and skin & body care products may change further. During the last several years, significant consolidation has occurred. The trend toward consolidation, particularly in developed markets such as the U.S. and Western Europe, has resulted in us becoming increasingly dependent on key retailers that control a higher percentage of retail locations, including large-format retailers and consolidated entities that own retail chains in both the mass and prestige distribution channels, which have increased their bargaining strength. Major retailers may, in the future, continue to consolidate, undergo restructuring or realign their affiliations, which could decrease the number of stores that sell our products or increase ownership concentration within the retail industry. Further business combinations among retailers may impede our growth and the implementation of our business strategy. In addition, the highly competitive U.S. discount and drug store environment has resulted in financial difficulties and store closings for a number of retailers, several of whom have liquidated or been acquired as a result. In addition, during the first half of fiscal 2014, retailers, particularly in North America, reduced to a substantial extent their inventories of products, including our products. In fiscal 2014, no retailer accounted for more than 10% of our global net revenues; however, certain retailers accounted for more than 10% of net revenues within certain geographic markets, including the U.S.

This trend towards consolidation has also resulted in an increased risk related to the concentration of our customers with respect to which we do not have long-term sales agreements or other contractual assurances as to future sales. Accordingly, these customers could reduce their purchasing levels or cease buying products from us at any time and for any reason, which, in addition to a general deterioration of our customers' business operations, could have a corresponding material adverse effect on our business.

As the retail industry changes, consumers may prefer to purchase their fragrances and cosmetics from other distribution channels than those we use, and we may not be as successful in penetrating those channels as we currently are in other channels, or as successful as our competitors are. For example, we have historically not sold products through the direct sales channel in the markets where it is significant, and we are less experienced in e-commerce, direct response and door-to-door

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than in our more traditional distribution channels. Assuming e-commerce, direct response and door-to-door sales continue to grow worldwide, we will need to continue to develop strategies for these channels in order to remain competitive. If we are not successful in the direct sales channel, we may experience lower than expected revenues or be required to recognize impairments, as we did in the first year after our Philosophy acquisition. See "—Our goodwill and other assets have been subject to impairment and may continue to be subject to impairment in the future."

In addition, as we expand into new markets, other distribution channels that we do not utilize may be more significant. Although we have been able to recognize and adjust to many such changes in the retail industry to date, we can make no assurance as to our ability to make such adjustments in the future or the future effect of any such changes, including any potential material adverse effect such changes could have on our business, results of operations and financial condition. This concern is also valid with respect to new markets with which we are less familiar.

A disruption in operations could adversely affect our business.

As a company engaged in manufacturing and distribution on a global scale, we are subject to the risks inherent in such activities, including industrial accidents, environmental events, strikes and other labor disputes, disruptions in supply chain or information systems, loss or impairment of key manufacturing sites, product quality control, safety, licensing requirements and other regulatory issues, as well as natural disasters, pandemics, border disputes, acts of terrorism, and other external factors over which we have no control. The loss of, or damage to, any of our manufacturing facilities or distribution centers could have a material adverse effect on our business, results of operations and financial condition.

Our decision to outsource certain functions means that we are dependent on the entities performing those functions.

As part of our long-term strategy, we are continually looking for opportunities to provide essential business services in a more cost-effective manner. In some cases, this requires the outsourcing of functions or parts of functions that can be performed more effectively by external service providers. We have outsourced significant portions of our logistics management for our European prestige and mass businesses and our U.S. mass business, as well as certain technology-related functions, to third-party service providers. The dependence on a third party could lessen our control over deliveries to our customers. For example, in the third quarter of fiscal 2013 we transitioned to a new third-party logistics provider in Europe, which negatively impacted our sales. While we believe we conduct appropriate due diligence before entering into agreements with outsourcing entities, the failure of one or more such entities to provide the expected services, provide them on a timely basis or provide them at the prices we expect, or the costs incurred in returning these outsourced functions to being performed under our management and direct control, may have a material adverse effect on our results of operations or financial condition.

Third-party suppliers provide, among other things, the raw materials used to manufacture our products, and the loss of these suppliers, damage to our third-party suppliers' reputations or a disruption or interruption in the supply chain may adversely affect our business.

We manufacture and package a majority of our products. Raw materials, consisting chiefly of essential oils, chemicals, containers and packaging components, are purchased from various third-party suppliers. The loss of multiple suppliers or a significant disruption or interruption in the supply chain could have a material adverse effect on the manufacturing and packaging of our products. Increases in the costs of raw materials or other commodities may adversely affect our profit margins if we are unable to pass along any higher costs in the form of price increases or otherwise achieve cost efficiencies in manufacturing and distribution. In addition, failure by our third-party suppliers to comply with ethical, social, product, labor and environmental laws, regulations or standards, such as conflict minerals requirements, or their engagement in politically or socially controversial conduct, such as animal testing, could negatively impact their reputations. Any of these failures or behaviors could lead to various adverse consequences, including damage to our reputation, decreased sales and consumer boycotts.

We are increasingly dependent on information technology, and if we are unable to protect against service interruptions, data corruption, cyber-based attacks or network security breaches, our operations could be disrupted.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic and financial information, to manage a variety of business processes and activities, and to comply with regulatory, legal and tax requirements. We also depend on our information technology infrastructure for digital marketing activities and for electronic communications among our locations, personnel, customers and suppliers around the world. These information technology systems, some of which are managed by third parties that we do not control, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors or

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catastrophic events. If our information technology systems suffer severe damage, disruption or shutdown and our business continuity plans do not effectively resolve the issues in a timely manner, our product sales, financial condition and results of operations may be materially and adversely affected, and we could experience delays in reporting our financial results.

In addition, if we are unable to prevent security breaches, we may suffer financial and reputational damage or penalties because of the unauthorized disclosure of confidential information belonging to us or to our partners, customers or suppliers. In addition, the unauthorized disclosure of nonpublic sensitive information could lead to the loss of intellectual property or damage our reputation and brand image or otherwise adversely affect our ability to compete.

Our success depends, in part, on our employees.

Our success depends, in part, on our ability to retain our employees, including our key personnel, such as our executive officers and senior management team and our research and development and marketing personnel. The unexpected loss of one or more of our key employees could adversely affect our business. Our success also depends, in part, on our continuing ability to identify, hire, train and retain other highly qualified personnel. Competition for these employees can be intense, and although our key personnel have signed non-compete agreements, it is possible that these agreements would be unenforceable in some jurisdictions, permitting employees in those jurisdictions to transfer their skills and knowledge to the benefit of our competitors with little or no restriction. We may not be able to attract, assimilate or retain qualified personnel in the future, and our failure to do so could adversely affect our business. These risks may be exacerbated by the stresses associated with the implementation of our strategic plan, our recently announced reorganization, recent changes in our senior management team and other initiatives.

Our success depends, in part, on the quality, efficacy and safety of our products.

Product safety or quality failures, actual or perceived, or allegations of product contamination, even when false or unfounded, or inclusion of regulated ingredients could tarnish the image of our brands and could cause consumers to choose other products. Allegations of contamination or other adverse effects on product safety or suitability for use by a particular consumer, even if untrue, may require us from time to time to recall a product from all of the markets in which the affected production was distributed. Such issues or recalls could negatively affect our profitability and brand image.

If our products are perceived to be defective or unsafe, or if they otherwise fail to meet our consumers’ standards, our relationships with customers or consumers could suffer, the appeal of one or more of our brands could be diminished, and we could lose sales or become subject to liability claims. In addition, safety or other defects in our competitors’ products could reduce consumer demand for our own products if consumers view them to be similar. Any of these outcomes could result in a material adverse effect on our business, financial condition and results of operations.

Our success depends, in part, on our ability to successfully manage our inventories.

We currently engage in a program seeking to improve control over our inventories. This program has identified, and may continue to identify, inventories that are not saleable in the ordinary course, and that may have an adverse effect on our financial results. Moreover, there is no assurance that any inventory management program will be successful. If we misjudge consumer preferences or demands or future sales do not reach forecasted levels, we could have excess inventory that we may need to hold for a long period of time, write down, sell at prices lower than expected or discard. If we are not successful in managing our inventory, our business, financial condition and results of operations could be adversely affected.

Changes in laws, regulations and policies that affect our business or products could adversely affect our financial results.

Our business is subject to numerous laws, regulations and policies. Changes in the laws, regulations and policies, including the interpretation or enforcement thereof, that affect, or will affect, our business or products, including changes in accounting standards, tax laws and regulations, environmental or climate change laws, restrictions or requirements related to product content, labeling and packaging, regulations or accords, trade rules and customs regulations, and the outcome and expense of legal or regulatory proceedings, and any action we may take as a result, could adversely affect our financial results.

Our new product introductions may not be as successful as we anticipate, which could have a material adverse effect on our business, financial condition and/or results of operations.

We have a rigorous process for the continuous development and evaluation of new product concepts, led by executives in marketing, sales, research and development, product development, operations, law and finance. Each new product launch,

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including those resulting from this new product development process, carries risks, as well as the possibility of unexpected consequences, including:

- our advertising, promotional and marketing strategies for our new products may be less effective than planned and may fail to effectively reach the targeted consumer base or engender the desired consumption;

- product purchases by our consumers may not be as high as we anticipate;

- we may experience out-of-stocks and/or product returns exceeding our expectations as a result of our new product launches or retailer space reconfigurations or our net revenues may be impacted by retailer inventory management or changes in retailer pricing or promotional strategies;

- we may incur costs exceeding our expectations as a result of the continued development and launch of new products, including, for example, advertising, promotional and marketing expenses, sales return expenses or other costs related to launching new products;

- we may experience a decrease in sales of certain of our existing products as a result of newly-launched products; and

- our product pricing strategies for new product launches may not be accepted by our retail customers or their consumers, which may result in our sales being less than anticipated.

The illegal distribution and sale by third parties of counterfeit versions of our products or the unauthorized diversion by third parties of our products could have a negative impact on our reputation and business.

Third parties may illegally distribute and sell counterfeit versions of our products, which may be inferior or pose safety risks. Consumers could confuse our products with these counterfeit products, which could cause them to refrain from purchasing our brands in the future and in turn could adversely affect our business. While many fragrance brands are distributed in either the prestige or mass market, over the past several years “prestige” brands have become increasingly available in other outlets through unauthorized means. The presence of counterfeit versions of our products in the market and of prestige products in mass distribution channels could also dilute the value of our brands or otherwise have a negative impact on our reputation and business.

We believe our trademarks, copyrights, patents, and other intellectual property rights are extremely important to our success and our competitive position. While we devote significant resources to the registration and protection of our intellectual property and the protection of our brand image and are aggressive in pursuing entities involved in the trafficking and sale of counterfeit products and the unauthorized diversion of our products, we have not been able to prevent, and may in the future be unable to prevent, the imitation and counterfeiting of our products, the infringement of our trademarks or the unauthorized diversion of our products. In recent years, there has been an increase in the availability of counterfeit goods, including fragrances, in various markets by street vendors and small retailers, as well as on the internet. There can be no assurance that counterfeiting of our products and the unauthorized diversion of our prestige products into mass distribution channels will not have an adverse impact on our business, prospects, financial condition or results of operations.

We are subject to environmental, health and safety laws and regulations that could affect our business or financial results.

We are subject to various foreign, federal, provincial, state, municipal and local environmental, health and safety laws and regulations relating to or imposing liability with respect to, among other things, the use, storage, handling, transportation and disposal of hazardous substances and wastes as well as the emission and discharge of such into the ground, air or water at our facilities or off-site, and the registration and evaluation of chemicals. Certain environmental laws and regulations also may impose liability for the costs of cleaning up contamination, without regard to fault, on current or previous owners or operators of real property and any person who arranges for the disposal or treatment of hazardous substances, regardless of whether the affected site is owned or operated by such person. We are currently involved in investigation or removal and/or remediation activities at certain sites. For example, prior to its acquisition by us, Del Labs sold its LaCross facility in Newark, New Jersey. The buyer gave Del Labs certain indemnities and agreed to remediate the property. Recently, Coty received a demand from the New Jersey Department of Environmental Protection (the “NJDEP”) to complete the remediation of the property. We are currently in discussions with the NJDEP. While there can be no assurances as to remediation costs, we do not expect the remediation to result in material expenditures. Third parties may also make claims for personal injuries and property damage associated with releases of hazardous substances from these or other sites in the future.

Environmental laws and regulations are complex, change frequently and have tended to become increasingly stringent and, as a result, environmental liabilities, costs or expenditures could adversely affect our financial results or results of operations.

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We are involved in a class action lawsuit and other litigation matters that are expensive and time consuming, and, if resolved adversely, could harm our business, financial condition, or results of operations.

We are currently the subject of a stockholder class action suit in connection with our initial public offering. While we believe this lawsuit is without merit and intend to vigorously defend against it, there can be no assurances that a favorable final outcome will be obtained and defending any lawsuit is costly and can impose a significant burden on management and employees.

In addition to the class action lawsuit, we are involved in other lawsuits in the ordinary course of our business. Any litigation to which we are a party may result in an onerous or unfavorable judgment that may not be reversed upon appeal or in payments of substantial monetary damages or fines, or we may decide to settle lawsuits on similarly unfavorable terms, either of which could adversely affect our business, financial conditions, or results of operations.

Our stock repurchase program could affect our stock price and increase stock price volatility.

Any repurchases pursuant to our stock repurchase program initially announced on February 14, 2014 could affect our stock price and increase volatility. The existence of a stock repurchase program could potentially reduce the market liquidity for our stock. Additionally, we are permitted to and could discontinue our stock repurchase program at any time and any such discontinuation could cause the market price of our stock to decline.

We are controlled by JAB Holdings B.V. (“JAB”), Lucresca SE (formerly known as Donata Holdings SE, “Lucresca”), and Agnaten SE (formerly known as Parentes Holding SE, “Agnaten”). As a result of their control of us, they have the ability to prevent or cause a change in control or approve, prevent or influence certain actions by us.

As of August 28, 2014, we are controlled by JAB. Lucresca and Agnaten indirectly share voting and investment control over the shares held by JAB. JAB does not hold any of our Class A Common Stock, but holds 100% of our outstanding Class B Common Stock and 97% of the combined voting power of our outstanding common stock. Each share of our Class B common stock has ten votes per share, and our Class A Common Stock has one vote per share. As a result, JAB, Lucresca and Agnaten have the ability to exercise control over decisions requiring stockholder approval, including the election of directors, amendments to our Certificate of Incorporation and significant corporate transactions, such as a merger or other sale of the Company or its assets. JAB, Lucresca and Agnaten have the ability to make these decisions regardless of whether others believe that such change or transaction is in our best interests. So long as JAB or affiliates of JAB continue to beneficially own a sufficient number of shares of Class B Common Stock, even if they own significantly less than 50% of the shares of our outstanding common stock, they will continue to be able to effectively control stockholder decisions.

This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of the Company, could deprive stockholders of an opportunity to receive a premium for their Class A Common Stock as part of a sale of the Company and may negatively affect the market price of our Class A Common Stock. Also, JAB and its affiliates are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete indirectly with us. JAB or its affiliates may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us.

We are a “controlled company” within the meaning of the New York Stock Exchange rules and, as a result, are relying on exemptions from certain corporate governance requirements that are designed to provide protection to stockholders of companies that are not “controlled companies”.

JAB, Lucresca and Agnaten collectively own more than 50% of the total voting power of our common shares and, as a result, we are a “controlled company” under the New York Stock Exchange (“NYSE”) corporate governance standards. As a controlled company, we are exempt under the NYSE standards from the obligation to comply with certain NYSE corporate governance requirements, including the requirements:

- that a majority of our board of directors consists of independent directors;
- that we have a nominating committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities.

While we have voluntarily caused our Board to have a majority of independent directors, our Remuneration and Nomination Committee is not comprised solely of independent directors. As a result of our use of the "controlled company"

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exemptions, investors will not have the same protection afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

Item 2. Properties.

We occupy numerous offices, manufacturing and distribution facilities in the U.S. and abroad. Our principal executive office is located in New York, New York. We have five research and development facilities worldwide, located in the United States, Europe and China. We also operate manufacturing facilities in the United States, England, France, Spain and China. Effective fiscal 2012, we created a fragrance "Center of Excellence" for research and development and centralized global supply chain management in Geneva, Switzerland.

We consider our properties to be generally in good condition and believe that our facilities are adequate for our operations and provide sufficient capacity to meet anticipated requirements. The following table sets forth our principal owned and leased corporate, manufacturing and research and development facilities as of August 28, 2014. The leases expire at various times subject to certain renewal options at our option.

Location/Facility	Use
New York, New York (leased)	Corporate/Commercial
Phoenix, Arizona (multiple locations) (leased)	Manufacturing
North Hollywood, California (multiple locations) (leased)	Manufacturing/Commercial/R&D
Morris Plains, New Jersey (leased)	R&D
Sanford, North Carolina (owned)	Manufacturing
Ashford, England (land leased, building owned)	Manufacturing
Chartres, France (owned)	Manufacturing
Paris, France (2 locations) (leased)	Corporate/Commercial
Geneva, Switzerland (leased)	Corporate/Commercial/R&D
Monaco (2 locations) (leased)	Manufacturing/R&D
Granollers, Spain (owned)	Manufacturing
Jiangsu Province, China (land leased, building owned)	Manufacturing/Commercial/R&D

Item 3. Legal Proceedings.

On June 28, 2013, we submitted our final voluntary disclosure to the U.S. Commerce Department's Bureau of Industry and Security's Office of Export Enforcement ("OEE") which disclosed the results of our internal due diligence review conducted with the advice of outside counsel regarding certain export transactions from January 2008 through March 2012. In particular, we disclosed information relating to overall compliance with U.S. export control laws by our majority-owned subsidiary in the UAE, and the nature and quantity of its re-exports to Syria that we believe may constitute violations of the U.S. Export Administration Regulations ("EAR"). The disclosure addressed the above described findings and the remedial actions we have taken to date. On January 6, 2014, we received a warning letter from the OEE stating that the bureau has closed its investigation of our final voluntary disclosure and determined not to pursue administrative or criminal prosecution even though the transactions violated EAR. The OEE imposed no financial penalties.

Our June 28, 2013 letter to OEE also disclosed that prior to January 2010 some of our subsidiary's sales to Syria were made to a party that was designated as a target of U.S. economic sanctions by the U.S. Treasury Department's Office of Foreign Assets Control ("OFAC"). We do not believe these sales constituted a violation of U.S. trade sanctions administered by OFAC, however, we also notified OFAC of our final voluntary disclosure to the OEE. We are working with OFAC to provide responses to any questions posed by to us by OFAC. OFAC continues to review our final voluntary disclosure. We cannot predict when OFAC will complete its review.

On June 28, 2013, we also voluntarily disclosed to the U.S. Department of Commerce's Bureau of Industry and Security's Office of Antiboycott Compliance ("OAC") the final results of our internal due diligence review. In particular, we disclosed information relating to overall compliance with U.S. antiboycott laws by our majority-owned subsidiary in the UAE, including with respect to the former inclusion of a legend on invoices, confirming that the corresponding goods did not contain materials of Israeli origin. A number of the invoices involved U.S. origin goods. We believe the inclusion of this legend may constitute

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violations of U.S. antiboycott laws. The disclosure addressed the above described findings and the remedial actions we have taken to date. OAC continues to review our voluntary disclosure. We cannot predict when OAC will complete its review.

Penalties for EAR violations can be significant and civil penalties can be imposed on a strict liability basis, without any showing of knowledge or willfulness. OFAC and OAC each have wide discretion to settle claims for violations. We believe that a penalty or penalties that would result in a material loss are reasonably possible. Irrespective of any penalty, we could suffer other adverse effects on our business as a result of any violations or the potential violations, including legal costs and harm to our reputation, and we also will incur costs associated with our efforts to improve our compliance procedures. We have not established a reserve for potential penalties. We do not know whether OFAC or OAC will assess a penalty or what the amount of any penalty would be, if a penalty or penalties were assessed. See "Risk Factors-We may incur penalties and experience other adverse effects on our business as a result of possible EAR violations" and Note 24, "Commitments and Contingencies" in our notes to Consolidated Financial Statements in fiscal 2014.

Earlier this year, two putative class action complaints were filed in the United States Southern District of New York against the Company, our directors and certain of our executive officers alleging violations of the federal securities laws in connection with our initial public offering ("IPO"). The first complaint, filed on February 13, 2014, was captioned Eugene Stricker vs. Coty Inc., et al. (the "Stricker Action"), while the second complaint, filed on February 21, 2014, was captioned Norman C. Carey vs. Coty Inc., et al. (the "Carey Action").

The Stricker Action and the Carey Action have been consolidated under the caption In re Coty Inc. Securities Litigation, and following the court's appointment of lead plaintiffs and lead counsel, a consolidated and amended complaint (the "Securities Complaint") was filed on July 7, 2014. The Securities Complaint asserts claims against Coty Inc., its directors, certain of its executive officers, and the underwriters of the IPO under Sections 11, 12 and 15 of the Securities Act of 1933, as amended (the "Securities Act"), and seeks, on behalf of persons who purchased our Class A Common Stock in the IPO, damages of an unspecified amount and equitable or injunctive relief.

Our motion to dismiss is due on September 23, 2014. We believe the Securities Complaint is without merit and intend to vigorously defend it.

In addition, we are involved, from time to time, in litigation, other regulatory actions and other legal proceedings incidental to our business. Prior to its acquisition by Coty, Del Labs sold its LaCross facility in Newark, New Jersey. The buyer gave Del Labs certain indemnities and agreed to remediate the property. In May 2013, we received a demand from the New Jersey Department of Environmental Protection to complete the remediation of the property. We are currently in discussions with the NJDEP. While we cannot predict the outcome of the Newark matter, management believes that the outcome of this matter and other current litigation, regulatory actions and legal proceedings will not have a material effect upon our business, results of operations, financial condition or cash flows. However, management's assessment of our current litigation, regulatory actions and other legal proceedings could change in light of the discovery of facts with respect to litigation, regulatory actions or other proceedings pending against us not presently known to us or determinations by judges, juries or other finders of fact which are not in accord with management's evaluation of the possible liability or outcome of such litigation, regulatory actions and legal proceedings.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Information

Our Class A Common Stock is listed and publicly traded on the New York Stock Exchange ("NYSE") under the symbol "COTY" as of June 13, 2013.

	High	Low	Cash Dividends
July 1 – September 30, 2013	$17.74	$14.46	$—
October 1 – December 31, 2013	16.68	14.63	0.20
January 1 – March 31, 2014	15.92	12.83	—
April 1 – June 30, 2014	18.95	14.85	—

Our Common Stock was not listed on the New York Stock Exchange or any other exchange prior to June 13, 2013.
Our Class B Common Stock is not listed or publicly traded on any exchange.
Stockholders of Record

As of June 30, 2014 there were 27 stockholders of record of our Class A Common Stock and one stockholder of record of our Class B Common Stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

Subject to legally available funds, we intend to pay an annual cash dividend on our Class A Common Stock and Class B Common Stock in the second quarter of each fiscal year. Our ability to pay dividends has certain risks and limitations, and we cannot assure you that any dividends will be paid in the anticipated amounts and frequency, or at all. Our Board of Directors retains the right to change our intention to pay dividends at any time. The declaration and payment of all future dividends, if any, will be at the sole discretion of our Board of Directors.

In the second quarter of fiscal 2013, we declared a cash dividend of $0.15 per share, or approximately $57.8 million, on our then existing common stock, of which $57.4 million was paid in the second quarter of fiscal 2013. The remaining $0.4 million is paid as shares of restricted stock and restricted stock units vest or settle, as applicable.

In the first quarter of fiscal 2014, we declared a cash dividend of $0.20 per share, or approximately $77.6 million, on our Class A Common Stock and Class B Common Stock, of which $76.9 million was paid in the second quarter of fiscal 2014 to holders of record on October 11, 2013. The remaining $0.7 million is paid as shares of restricted stock and restricted stock units vest or settle, as applicable.

Market Performance Graph

Comparison of Cumulative 5 Year Total Return [a]

Coty Inc., The S&P 500 Index, and Fiscal 2014 Peer Group [b]

[a] Total return assumes reinvestment of dividends at the closing price at the end of each quarter.

[b] The Peer Group includes L'Oréal S.A., Avon Products, Inc., Estee Lauder Companies, Inc., Revlon, Inc., and Elizabeth Arden, Inc.

The Market Performance Graph above assumes a $100.00 investment on June 13, 2013, in Coty Inc.’s common stock (on the date the of the IPO), the S&P 500 Index and the Peer Group. The dollar amounts indicated in the graph above and in the chart below are as of the last trading day in the quarter.

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Equity Compensation Plan Information

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
Equity compensation plans approved by security holders			
Options	18,416,694	$9.17	
Restricted Stock Units	4,374,461	n/a	
Subtotal	22,791,155	—	16,494,303
Equity compensation plans not approved by security holders			
Options [(a)]	4,756,022	$9.89	—
Subtotal	4,756,022	—	—
Total	27,547,177		16,494,303

n/a is not applicable

(a) Executive Ownership Plan
From fiscal 2008 until December 2012, we invited certain key executives to purchase shares of our common stock, and receive stock options to match such purchases, through our Executive Ownership Plan. The Executive Ownership Plan was replaced by the Platinum Program in December 2012. Executives who participated in the Executive Ownership Plan could purchase an amount of restricted shares of our common stock, equal to their APP award for the prior fiscal year. If an executive purchased restricted shares under the Executive Ownership Plan, such executive would receive matching stock options. All matching stock options have five-year cliff vesting tied to continued employment with us and continued ownership of the restricted shares that the matching stock options match.

Issuer Purchases of Equity Securities

The table below provides information with respect to repurchases of shares of our Class A Common Stock during the fiscal quarter ended June 30, 2014. No shares of Class A Common Stock were repurchased during the month of May.

Period	Total Number of Shares Purchased[(a)]	Average Price Paid per Share[(b)]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plans or Programs[(c)]
April 1 - April 30, 2014	2,123,983[(d)]	$15.23	2,123,983[(d)]	$300.0 million
June 1 - June 30, 2014	27,952,604[(e)]	$16.78	N/A	N/A [(e)]

(a) During the three months ended June 30, 2014, we repurchased 30,076,587 shares of Class A Common Stock for approximately $501.4 million.

(b) Includes fees and commissions.

(c) Excludes fees and commissions.

(d) These shares of Class A Common Stock were purchased for approximately $32.4 million under our publicly announced share repurchase program (the “Repurchase Program”) authorized by our Board of Directors on February 12, 2014. In the third quarter of fiscal 2014, the Company repurchased under the Repurchase Program 4,484,963 shares of Class A Common Stock for approximately $67.6 million. Our Board of Directors initially authorized our repurchase of shares of Class A Common Stock having an aggregate market value not exceeding $200.0 million, which was subsequently increased to $400.0 million on June 3, 2014. No time has been set for the completion of the Repurchase Program, and the Repurchase Program may be suspended or discontinued at any time. The timing and exact amount of any repurchases will depend on various factors, including ongoing assessments of the capital needs of our business, the market price of our Class A Common Stock, and general market conditions. The Repurchase Program may be executed through open market purchases or privately negotiated transactions, including pursuant to Rule 10b5-1 trading plans. As of June 30, 2014, approximately $300.0 million of authorized purchases remained under the Repurchase Program.

(e) These shares of Class A Common Stock were purchased pursuant to a Stock Purchase Agreement, entered into on June 5, 2014 among the Company, Worldwide Beauty Offshore L.P. and Worldwide Beauty Onshore L.P., (together, "Rhône"), Berkshire Fund

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VII, L.P., Berkshire Fund VII-A L.P., Berkshire Investors III LLC and Berkshire Investors IV LLC (together, "Berkshire"), M. Steven Langman and Bradley M. Bloom, under which we agreed to purchase all Class B Common Stock held by Rhône and Berkshire and all Class A Common Stock received by Mr. Langman and Mr. Bloom in their capacities as members of our board of directors (the "Purchased Shares") for $16.78 per share, which was determined by calculating the volume weighted average price of the Company's Class A Common Stock from May 30, 2014 through June 5, 2014, inclusive. The fair value of Class B Common Stock and Class A Common Stock repurchased was $468.0 million and $1.0 million, respectively. The Purchased Shares that were shares of Class B Common Stock converted to shares of Class A Common Stock upon transfer.

Item 6. Selected Financial Data.

(in millions, except per share data)	Year Ended June 30, 2014	2013	2012	2011(a)	2010
Consolidated Statements of Operations Data:					
Net revenues	$4,551.6	$4,649.1	$4,611.3	$4,086.1	$3,482.9
Gross profit	2,685.9	2,788.8	2,787.3	2,446.1	2,009.7
Asset impairment charges	316.9	1.5	575.9	—	5.3
Operating income (loss)	25.7	394.4	(209.5)	280.9	184.5
Interest expense—related party	—	—	—	5.9	31.9
Interest expense, net	68.5	76.5	89.6	85.6	41.7
Other expense (income), net	1.3	(0.8)	32.0	4.4	(8.8)
(Loss) Income before income taxes	(44.1)	318.7	(331.1)	185.0	119.7
Provision (benefit) for income taxes	20.1	116.8	(37.8)	95.1	32.4
Net (loss) income	(64.2)	201.9	(293.3)	89.9	87.3
Net income attributable to noncontrolling interests	17.8	15.7	13.7	12.5	11.9
Net income attributable to redeemable noncontrolling interests	15.4	18.2	17.4	15.7	13.7
Net (loss) income attributable to Coty Inc.	(97.4)	168.0	(324.4)	61.7	61.7
Per Share Data:					
Weighted-average common shares					
Basic	381.7	381.7	373.0	329.4	280.2
Diluted	381.7	396.4	373.0	339.1	280.2
Cash dividends declared per common share	$—	$0.15	$—	$0.10	$—
Net (loss) income attributable to Coty Inc. per common share:					
Basic	$(0.26)	$0.44	$(0.87)	$0.19	$0.22
Diluted	(0.26)	0.42	(0.87)	0.18	0.22

(in millions)	Year Ended June 30, 2014	2013	2012	2011[(a)]	2010
Consolidated Cash Flows Data:					
Net cash provided by operating activities	$536.5	$463.9	$589.3	$417.5	$494.0
Net cash (used in) investing activities	(257.6)	(229.9)	(333.9)	(2,252.5)	(149.9)
Net cash (used in) provided by financing activities	(5.7)	69.0	(97.7)	1,903.8	(7.0)

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(in millions)	As of June 30, 2014	2013	2012	2011[(a)]	2010
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$1,238.0	$920.4	$609.4	$510.8	$387.5
Total assets	6,592.5	6,470.0	6,183.4	6,813.9	3,781.8
Total debt	3,293.5	2,630.2	2,460.3	2,622.4	1,416.0
Total Coty Inc. stockholders' equity	843.8	1,494.0	857.2	1,361.9	419.7

(a) Fiscal 2011 data includes results from the acquisitions of TJOY Holdings Co., Ltd. ("TJoy"), Dr. Scheller Cosmetics AG, OPI Products, Inc., and Philosophy Acquisition Company, Inc. ("Philosophy") as of the date of their respective acquisition during fiscal 2011.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of the financial condition and results of operations of Coty Inc. and its majority and wholly-owned subsidiaries, should be read in conjunction with the information contained in the Consolidated Financial Statements and related notes included elsewhere in this document. When used in this discussion, the terms "Coty," the "Company," "we," "our," or "us" mean, unless the context otherwise indicates, Coty Inc. and its majority and wholly-owned subsidiaries. The following discussion contains forward-looking statements. See "Special Note Regarding Forward-Looking Statements" and "Risk Factors" for a discussion on the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those contained in any forward-looking statements. The following discussion includes certain non-GAAP financial measures. See "Overview—Non-GAAP Financial Measures" for a discussion of non-GAAP financial measures and how they are calculated.

All dollar amounts in the following discussion are in millions of United States ("U.S.") dollars, unless otherwise indicated.

OVERVIEW

We are a leading global beauty company. We manufacture and market beauty products in the Fragrances, Color Cosmetics and Skin & Body Care segments with distribution in over 130 countries and territories across both prestige and mass markets. We continue to operate in a challenging market environment particularly in mass fragrance and color cosmetics with heightened promotional activities in mass retail in Western Europe and the U.S. A significant part of our strategy is to expand our geographic footprint into emerging markets and diversify our distribution channels within existing geographies to increase market presence. As part of our expansion efforts, we entered into agreements to broaden distribution in Asia, South Africa, Brazil, the United Kingdom ("U.K."), and the United Arab Emirates ("U.A.E.") during fiscal 2014 and our results from certain of these efforts reflect incremental net revenues from joint venture consolidations and conversion from third party to direct distribution in these geographies.

Non-GAAP Financial Measures

Adjusted Operating Income, Adjusted Income Before Income Taxes, Adjusted Net Income Attributable to Coty Inc. and Adjusted Net Income Attributable to Coty Inc. per Common Share are non-GAAP financial measures which we believe better enable management and investors to analyze and compare the underlying business results from period to period.

These non-GAAP financial measures should not be considered in isolation, or as a substitute for or superior to, financial measures calculated in accordance with GAAP. Moreover, these non-GAAP financial measures have limitations in that they do not reflect all the items associated with the operations of our business as determined in accordance with GAAP. We compensate for these limitations by analyzing current and future results on a GAAP basis as well as a non-GAAP basis, and we provide reconciliations from the most directly comparable GAAP financial measures to the non-GAAP financial measures. Our non-GAAP financial measures may not be comparable to similarly titled measures of other companies. Other companies, including companies in our industry, may calculate similarly titled non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes.

Adjusted Operating Income, Adjusted Income Before Income Taxes, Adjusted Net Income Attributable to Coty Inc. and Adjusted Net Income Attributable to Coty Inc. per Common Share provide an alternative view of performance used by management and we believe that an investor's understanding of our performance is enhanced by disclosing these adjusted

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performance measures. In addition, our financial covenant compliance calculations under our debt agreements are substantially derived from these adjusted performance measures. The following are examples of how these adjusted performance measures are utilized by management:

- senior management receives a monthly analysis of our operating results that are prepared on an adjusted performance basis;
- strategic plans and annual budgets are prepared on an adjusted performance basis; and
- senior management's annual compensation is calculated, in part, using adjusted performance measures.

Adjusted Operating Income

We define Adjusted Operating Income as operating income adjusted for the following:

- Share-based compensation adjustment:
- As of June 12, 2013, the effective date of the share-based compensation plan amendments, the share-based compensation expense adjustment represents the difference between equity plan accounting using the grant date fair value and equity plan accounting using the June 12, 2013 fair value. Prior to June 12, 2013, the share-based compensation expense adjustment represents the difference between share-based compensation expense accounted for under equity plan accounting based on grant date fair value, and under liability plan accounting based on reporting date fair value.
- Future adjustments for share-based compensation will consist of the difference between expense under equity plan accounting based on the grant date fair value and total estimated share-based compensation expense, which is based on (i) the fair value on June 12, 2013 for nonqualified stock option awards and restricted stock units ("RSUs") and (ii) all costs associated with the special incentive awards granted in fiscal 2012 and 2011. The estimated aggregate expense is approximately $12, $7, $2, and $0 for the fiscal years ended June 30, 2015, 2016, 2017, and 2018 respectively. Refer to "Management Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Estimates" for a full discussion of the share-based compensation adjustment; and

- Other adjustments, which include:
- asset impairment charges;
- restructuring costs and business structure realignment programs;
- acquisition-related costs and certain acquisition accounting impacts; and
- other adjustments that we believe investors may find useful.

Adjusted Net Income and Net Income per Common Share Attributable to Coty Inc.

We define Adjusted Net Income Attributable to Coty Inc. as net income attributable to Coty Inc. adjusted for the following:

- adjustment made to reconcile operating income to Adjusted Operating Income, net of the income tax effect thereon (see Adjusted Operating Income);
- certain interest and other (income) expense, net of the income tax effect thereon, that we do not consider indicative of our performance; and
- certain tax effects that are not indicative of our performance.

Adjusted basic and diluted Net Income Attributable to Coty Inc. per Common Share is calculated as:

- Adjusted Net Income Attributable to Coty Inc. divided by
- Adjusted weighted-average basic and diluted common shares using the treasury stock method.

Constant Currency

We operate on a global basis, with the majority of our net revenues generated outside of the U.S. Accordingly, fluctuations in foreign currency exchange rates can affect our results of operations. Therefore, to supplement financial results presented in accordance with GAAP, certain financial information is presented excluding the impact of foreign currency exchange translations to provide a framework for assessing how our underlying businesses performed excluding the impact of foreign currency exchange translations (“constant currency”). Constant currency information compares results between periods as if exchange rates had remained constant period-over-period. We calculate constant currency information by translating current and prior-period results for entities reporting in currencies other than U.S. dollars into U.S. dollars using constant foreign

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currency exchange rates. The constant currency calculations do not adjust for the impact of revaluing specific transactions denominated in a currency that is different to the functional currency of that entity when exchange rates fluctuate. The constant currency information we present may not be comparable to similarly titled measures reported by other companies.

Marketing and Advertising Costs

Management reviews marketing and advertising costs on an aggregated basis, including trade marketing spend activities and advertising and consumer promotional costs, which are included as a reduction to gross revenue and in selling, general and administrative expenses, respectively, based on the counterparty. Marketing and advertising costs for the year ended June 30, 2014, 2013 and 2012 are presented below:

	Year Ended June 30,					
	2014		2013		2012	
Trade marketing spend activities	$492.9		$502.1		$519.5	
% of Net revenues	10.8	%	10.8	%	11.3	%
Advertising and consumer promotional costs	1,070.0		1,072.3		1,085.8	
% of Net revenues	23.5	%	23.1	%	23.5	%
Total marketing and advertising costs	$1,562.9		$1,574.4		$1,605.3	
% of Net revenues	34.3	%	33.9	%	34.8	%

NET REVENUES

In fiscal 2014, net revenues decreased 2%, or $97.5, to $4,551.6 from $4,649.1 in fiscal 2013. Foreign currency exchange translations had an immaterial impact on total net revenues. The decrease was primarily the result of a decline in unit volume of 3% partially offset by a positive price and mix impact of 1%. In fiscal 2013, one of our licenses was divested and a certain North American service agreement expired and was not renewed (“2013 Ceased Activities”). The 2013 Ceased Activities had an immaterial impact on our consolidated results, however negatively affected the Fragrances segment, particularly in the Americas and EMEA. In the quarter ended June 30, 2014, we announced the discontinuation of our TJoy brand and the reorganization of our mass business in China, which resulted in a one-time charge related to product returns. This one-time charge had an immaterial impact on our consolidated results, however it negatively affected primarily our Skin & Body Care segment in Asia Pacific. New launches represented approximately 15% of our net revenues for fiscal 2014. The contribution from new launches was partially offset by an approximate 16% decline in net revenues from existing products that are later in their life cycles.

In fiscal 2013, net revenues increased 1%, or $37.8, to $4,649.1 from $4,611.3 in fiscal 2012. Excluding the negative impact of foreign currency exchange translations, net revenues increased 2%. The negative impact of foreign currency exchange translations primarily reflected the weakening of the Euro in fiscal 2013 compared to fiscal 2012. New launches represented approximately 16% of our net revenues for fiscal 2013. The contribution from new launches was partially offset by an approximate 15% decline in net revenues from existing products that are later in their life cycles.

Net Revenues by Segment

	Year Ended June 30,			Change %			
(in millions)	2014	2013	2012	2014/2013		2013/2012	
NET REVENUES							
Fragrances	$2,498.2	$2,490.7	$2,452.8	—		2	%
Color Cosmetics	1,366.2	1,468.5	1,430.6	(7	%)	3	%
Skin & Body Care	687.2	689.9	727.9	—		(5	%)
Total	$4,551.6	$4,649.1	$4,611.3	(2	%)	1	%

Fragrances

In fiscal 2014, net revenues of Fragrances increased $7.5 to $2,498.2 from $2,490.7 in fiscal 2013. Foreign currency exchange translations had an immaterial impact on net revenues in Fragrances. An increase in unit volume of 2%, which includes a negative impact on net revenues related to the 2013 Ceased Activities of 1%, was offset by a negative price and mix impact of 2%. Excluding the impact to net revenues from the 2013 Ceased Activities of 1%, net revenues of Fragrances

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increased 1%. Segment growth was primarily driven by incremental net revenues from the newly established brand Katy Perry Killer Queen and higher net revenues from Calvin Klein, Davidoff and Roberto Cavalli in part due to the launches of Calvin Klein Downtown, Calvin Klein Endless Euphoria, Davidoff Cool Water Night Dive, Davidoff Cool Water Woman Sea Rose, Davidoff the Game, Roberto Cavalli Nero Assoluto and Just Cavalli for Him. Power brands Marc Jacobs and Chloé also positively impacted segment results in part due to the launches of Marc Jacobs Honey, Roses de Chloé and continued growth of Marc Jacobs Daisy. Also contributing to segment growth were higher net revenues from David Beckham, Jil Sander, Guess, Botega Venetta and Nautica. Partially offsetting the increase in the segment was a decline in net revenues from Lady Gaga, Beyoncé and Vera Wang in part due to a lower level of new launch activity for these brands in fiscal 2014 compared to fiscal 2013, the expiration of certain licenses and lower net revenues from existing celebrity brands that are later in their lifecycles. Power brand, Playboy, also negatively impacted segment results primarily due lower holiday customer orders in fiscal 2014 compared to fiscal 2013. Segment growth reflects weak market conditions in developed markets that we expect to continue. The negative price and mix impact primarily reflects an increased level of promotional and discounted pricing activity in select developed markets, reflecting a competitive retail environment. Also contributing to lower price and mix was lower prices for select brands as we cascade them into different distribution channels in accordance with our strategy.

In fiscal 2013, net revenues of Fragrances increased 2%, or $37.9, to $2,490.7 from $2,452.8 in fiscal 2012. The increase was primarily the result of unit volume growth of 8%, partially offset by a negative price and mix impact of 5% and a negative impact of foreign currency exchange translations of 1%. Excluding the negative impact of foreign currency exchange translations, net revenues of Fragrances increased 3% reflecting our continued focus on introducing new products into the market. Segment growth was primarily driven by net revenues from newly-established brand Lady Gaga Fame, the strengthening of the Roberto Cavalli brand through new launches Just Cavalli, Roberto Cavalli Acqua and our special edition fragrance for the Middle East, Roberto Cavalli Oud, and growth in our power brands Marc Jacobs, Chloé, and Playboy driven by the successful new launches DOT Marc Jacobs, See by Chloé and Playboy VIP. The segment also benefited from the acquisition of licensing rights to distribute Katy Perry's existing fragrance portfolio. Partially offsetting this growth were lower net revenues from brands such as Calvin Klein and Davidoff, primarily due to challenging market conditions in Southern Europe and a lower level of new launch activity in fiscal 2013 compared to fiscal 2012, the expiration of the Kenneth Cole license and lower net revenues from existing celebrity brands that are later in their life cycles. The negative price and mix impact primarily reflects higher relative volumes of lower-priced products for select brands and an overall increase in customer discounts and allowances in the segment.

Color Cosmetics

In fiscal 2014, net revenues of Color Cosmetics decreased 7%, or $102.3, to $1,366.2 from $1,468.5 in fiscal 2013. Foreign currency exchange translations had an immaterial impact on net revenues in Color Cosmetics. The decrease was primarily the result of a decline in unit volume of 5% and a negative price and mix impact of 2%. The decline in the segment was primarily driven by lower net revenues from nail products, in part reflecting continued declines since the first quarter of fiscal 2014 in the U.S. retail nail market. The Sally Hansen brand was the largest contributor to the segment decline, in part due to lower net revenues from Sally Hansen Insta Gel and Sally Hansen Salon Effects nail products that generated stronger net revenues in fiscal 2013, partially offset by higher net revenues from new launches Sally Hansen Triple Shine, Sally Hansen Miracle Gel and Sally Hansen I Heart Nail Art in fiscal 2014. Also contributing to the decline in Sally Hansen was the impact of several key U.S. mass retailers significantly reducing their inventory on hand, particularly in the first quarter of fiscal 2014 in response to the sudden decline in consumer demand for nail products, resulting in lower replenishment orders in fiscal 2014 compared to fiscal 2013. Net revenues for Sally Hansen were also negatively affected by an increasingly competitive retail environment, decline in market share and the aforementioned weaker demand in the nail category in the U.S. We expect weakness in the color cosmetics market in the U.S. to continue, including further reduction of inventory on hand by retailers. Lower net revenues from OPI also contributed to the decline in the Color Cosmetics segment, reflecting a decline in the U.S.

retail channel driven by lower net revenues of Nicole by OPI and the discontinuation of a particular product line sold exclusively by a large retailer. These decreases in OPI were partially offset by incremental net revenues attributable to new distribution through a professional salon chain in the U.S., incremental net revenues in the U.K. following the acquisition of a U.K. distributor and expanded distribution in Australia and our travel retail business. Partially offsetting the decline in the segment was an increase in Rimmel primarily reflecting strong growth of Rimmel Scandal’eyes mascara and Rimmel Stay Matte foundation. The negative price and mix impact for the segment was primarily driven by unit price declines in most key brands within the segment primarily driven by an increased level of highly promotional and discounted pricing activity, reflecting a competitive retail environment.

In fiscal 2013, net revenues of Color Cosmetics increased 3%, or $37.9, to $1,468.5 from $1,430.6 in fiscal 2012. The increase was primarily the result of unit volume growth of 4%, partially offset by a negative impact of foreign currency exchange translations of 1%. Excluding the negative impact of foreign currency exchange translations, net revenues of Color Cosmetics increased 4%, primarily driven by strong growth in Rimmel. Rimmel brand growth reflects the success of new launches Rimmel Scandal’eyes mascara and Rimmel Apocalips lip lacquer along with higher net revenues of Rimmel Match

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Perfection foundation and Rimmel Kate lipstick. Higher net revenues in Rimmel also reflect expanded distribution in one of our key retailers in the U.S., expanded distribution in France and expansion in the pharmacy and discount department store retail channels in Australia. Growth in N.Y.C. New York Color and Manhattan also contributed to the increase in the Color Cosmetics segment. Higher net revenues in N.Y.C. New York Color were primarily driven by strong growth in the U.S. along with increased net revenues in Canada and certain EMEA markets, while the increase in Manhattan was driven by strong growth in Germany. OPI net revenues were in line with fiscal 2012 as higher net revenues from expanded distribution in Europe
and in our travel retail businesses in all three geographic regions was offset by a decline in the U.S. The decline in OPI in the U.S. reflects lower net revenues of Nicole by OPI and the discontinuation of a particular product line sold exclusively by a large retailer, along with lower net revenues of OPI Shatter and OPI GelColor which generated strong net revenues in fiscal 2012 as new launches. Sally Hansen net revenues were in line with fiscal 2012 as higher net revenues from the brand's introduction into the German market along with strong net revenues growth in Mexico, Argentina and the U.K., primarily driven by new launches and expanded distribution, were offset by a decline in the U.S. Despite growth from our entry into the gel nail color category where Sally Hansen earned a market share lead, the brand declined in the U.S. in part due to an intensified competitive environment. Partially offsetting segment growth was a decline in Astor primarily driven by lower net revenues in Spain, reflecting difficult economic conditions, and in Germany, as results in fiscal 2012 reflected the rollout of the brand in one of our key customers.

Skin & Body Care

In fiscal 2014, net revenues of Skin & Body Care decreased $2.7, to $687.2 from $689.9 in fiscal 2013. Results were primarily driven by a positive price and mix impact of 7% and a positive foreign currency exchange translations impact of 1%, offset by a decline in unit volume of 6% and a decline related to product returns associated with reorganization of our mass business in China of 2%. Excluding the impact to net revenues associated with the reorganization of our mass business in China and the positive impact of foreign currency exchange translations, net revenues of Skin & Body Care increased 1% driven by higher net revenues from philosophy, Lancaster and adidas. Net revenues from philosophy increased primarily due to higher net revenues in key distribution channels in the U.S., in part due to expanded distribution and new launches, and strong growth in Asia Pacific in part due to expanded distribution. Net revenues from Lancaster reflected strong growth primarily due to strong growth in sun care products and new launch Lancaster Total Age Correction, along with expanded distribution in China. Net revenues from adidas increased reflecting strong growth in emerging markets such as Southeast Asia, Brazil, China, and South Africa, partially offset by lower net revenues in developed markets such as the U.S., Germany, the Netherlands and Southern Europe in part due to an increased level of highly promotional and discounted pricing activity. Partially offsetting these increases in the segment were declines in TJoy reflecting weak demand for the products which led to our decision to discontinue the brand along with the one-time impact to net revenues associated with the discontinuation of the brand. The positive price and mix impact for the segment was primarily driven by lower relative volumes of lower-priced TJoy products and higher relative volumes of higher-priced philosophy and Lancaster products.

In fiscal 2013, net revenues of Skin & Body Care decreased 5%, or $38.0, to $689.9 from $727.9 in fiscal 2012. The decrease was primarily the result of a decline in unit volume of 5% and a negative impact of foreign currency exchange translations of 1%, partially offset by a positive price and mix impact of 1%. Excluding the negative impact of foreign currency exchange translations, net revenues of Skin & Body Care decreased 4%. Lower net revenues in TJoy partially reflect the impact of a sales force reorganization that occurred in the first half of fiscal 2013 as well as reduced customer orders. Lower net revenues in adidas primarily reflected decreases in EMEA, in part due to the negative impact of foreign currency exchange translations, the challenging market conditions in Southern and Eastern Europe and the lack of mega promotions related to major sports events compared to fiscal 2012, which benefited from UEFA European Football Championship
promotional activities. Partially offsetting these declines was growth in the U.S., primarily due to the reintroduction of shower gels, body sprays and deodorants with a key customer in the market in January 2012, expansion in China,

through the TJoy distribution channel and market-specific product introduction, and strong growth in Russia. The slight decline in philosophy was primarily due to lower net revenues in the U.S. from one of our key customers and the direct-to-consumer business, partially offset by increased net revenues from expanded international distribution. The philosophy brand gained some momentum in the fourth quarter of fiscal 2013 generating strong net revenues growth. Higher net revenues of Lancaster were driven by growth in sun care and skin care products primarily due to new launches and our efforts to develop a presence in China. The positive price and mix impact for the segment was primarily driven by positive product mix in philosophy, reflecting an increase in higher priced products.

Net Revenues by Geographic Regions

In addition to our reporting segments, management also analyzes our net revenues by geographic region. We define our geographic regions as Americas (comprising North, Central and South America), EMEA (comprising Europe, the Middle East and Africa) and Asia Pacific (comprising Asia and Australia).

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(in millions)	Year Ended June 30, 2014	2013	2012	Change % 2014/2013	2013/2012
NET REVENUES					
Americas	$1,703.8	$1,914.8	$1,874.5	(11%)	2%
EMEA	2,302.9	2,188.9	2,218.0	5%	(1%)
Asia Pacific	544.9	545.4	518.8	—	5%
Total	$4,551.6	$4,649.1	$4,611.3	(2%)	1%

Americas

In fiscal 2014, net revenues in the Americas decreased 11%, or $211.0, to $1,703.8 from $1,914.8 in fiscal 2013. Excluding the negative impact of foreign currency exchange translations of 1% and the impact of net revenues related to the 2013 Ceased Activities of 1%, net revenues in the Americas decreased 9% primarily driven by lower net revenues in the U.S. The decline in the U.S. was largely driven by lower net revenues in Color Cosmetics, primarily due to a decline in Sally Hansen and OPI as described under “Net Revenues by Segment—Color Cosmetics” above, and Fragrances. The decline in Fragrances in the U.S. primarily reflects lower net revenues from Lady Gaga, Beyoncé and Vera Wang, in part due to a lower level of new launch activity in fiscal 2014 compared to fiscal 2013, the expiration of certain licenses, lower net revenues from existing celebrity brands that are later in their lifecycles and a decline in mature products in our power brands Playboy, Chloé, Calvin Klein and Davidoff. Results in the U.S. reflect weak market conditions and reduction of inventory on hand by retailers, which we expect to continue. Lower net revenues from Canada also contributed to the decline in the region, in part reflecting a decrease in Sally Hansen, Lady Gaga, due to a lower level of new launch activity in fiscal 2014 compared to fiscal 2013, and lower net revenues from fragrances in the prestige market. Slightly offsetting the decline in the Americas were higher net revenues in Brazil, primarily reflecting the impact of our joint venture and commercial partnership established in fiscal 2013, and our travel retail business in the region, primarily due to growth from fragrances in the prestige market.

In fiscal 2013, net revenues in the Americas increased 2%, or $40.3, to $1,914.8 from $1,874.5 in fiscal 2012. Foreign currency exchange translations had an immaterial impact on net revenues in the Americas. The increase in net revenues reflects growth in virtually all countries in the region, with the largest increase in the U.S., followed by Latin America and Canada. Growth in the U.S. was primarily driven by higher net revenues in Fragrances and Color Cosmetics. Although the U.S. mass fragrance market continued to decline, our net revenues in the Fragrances segment in the mass distribution channel increased reflecting the new launch of Lady Gaga Fame along with incremental net revenues from the acquisition of licensing rights to distribute Katy Perry’s existing fragrance portfolio. Higher net revenues in the prestige distribution channel primarily reflect new launches DOT Marc Jacobs, Encounter Calvin Klein, Calvin Klein Eternity Aqua for Her, Calvin Klein Dark Obsession, and See by Chloé. Partially offsetting this increase in Fragrances in the U.S. were lower net revenues due to the expiration of the Kenneth Cole license and lower net revenues from existing celebrity brands that are later in their life cycles. Higher net revenues in Color Cosmetics in the U.S. were primarily due to growth in Rimmel, in part due to increased distribution in one of our key retailers, and N.Y.C. New York Color, as the brand has benefited from its positioning in the growing entry level price point category. Partially offsetting this growth in Color Cosmetics were lower net revenues of OPI and Sally Hansen. Higher net revenues in Latin America reflect our strategy of accelerated growth in emerging markets. Increases in Mexico, Chile, Brazil and Argentina contributed to this growth. Growth in Canada is driven by higher net revenues in Rimmel, primarily due to successful new launches, and strong growth in Fragrances. Partially offsetting growth in the Americas were lower net revenues in our travel retail business in the region primarily due to stock reductions by key customers as a result of a slowdown in retail sales.

EMEA

In fiscal 2014, net revenues in EMEA increased 5%, or $114.0, to $2,302.9 from $2,188.9 in fiscal 2013. Excluding the positive impact of foreign currency exchange translations of 3% and the impact of net revenues related to the 2013 Ceased Activities of 1%, net revenues in EMEA increased 3%. Growth in EMEA was primarily driven by the U.K., Eastern Europe, the Middle East, where we have transitioned to a new U.A.E. joint venture, and our new subsidiary in South Africa, reflecting our strategy of expanding our geographic footprint into emerging markets. Higher net revenues in the U.K. reflected incremental net revenues from OPI resulting from the acquisition of a U.K. distributor and from newly-established brand Katy Perry Killer Queen, strong growth from David Beckham and Rimmel, along with the positive impact of foreign currency translations resulting from the improvement of the British Pound exchange rate. Higher net revenues in Eastern Europe primarily reflect strong growth in our power brands, Calvin Klein, Rimmel, Davidoff, and adidas, in addition to the positive impact of foreign currency exchange translations. Also generating strong growth were higher net revenues in our travel retail business in the region driven by growth in Fragrances from new launches within the Calvin Klein, Marc Jacobs, Davidoff, Jil Sander and Chloé brands, along with higher net revenues due to expanded distribution of OPI. Net revenues in Germany and Southern Europe increased reflecting the positive impact from foreign currency exchange translations. Excluding the impact of foreign currency exchange translations and the net revenues related to the 2013 Ceased Activities, net revenues in Germany declined primarily due to lower net revenues from Color Cosmetics, in part due to a shift in the market towards value brands and the planned withdrawal of the Rimmel brand from the market, along with a decline in adidas. Excluding the impact of foreign currency exchange translations, net revenues in Southern Europe declined primarily due to lower net revenues in part reflecting weak market trends. We do not anticipate the Southern European market conditions to improve in the foreseeable future. Partially offsetting growth in the region were lower net revenues in Russia, in part reflecting the negative impact of the devaluation of the Russian Ruble and a more challenging retail environment.

In fiscal 2013, net revenues in EMEA decreased 1%, or $29.1, to $2,188.9 from $2,218.0 in fiscal 2012. Excluding the negative impact of foreign currency exchange translations, net revenues in EMEA increased 1%. The U.K., the Middle East and Russia generated growth primarily reflecting new launches within the Roberto Cavalli brand, new launches Lady Gaga Fame and DOT Marc Jacobs and continued growth in Rimmel, partly offset by lower net revenues in Calvin Klein. Growth in Russia also reflects the introduction of OPI in the Russian retail market and growth in adidas. Results in the region were impacted by lower net revenues in our Southern European markets, particularly in Spain and Italy. The decline in Southern Europe primarily reflects difficult economic conditions, lower levels of new launch activity in Fragrances in fiscal 2013 compared to fiscal 2012 and declines in adidas and Astor. Net revenues in Germany, our largest market in the region, were negatively impacted by foreign currency translations. Excluding the impact of foreign currency translations, net revenues growth in Germany was strong, primarily reflecting higher net revenues in Fragrances and Color Cosmetics.

Asia Pacific

In fiscal 2014, net revenues in Asia Pacific decreased $0.5, to $544.9 from $545.4 in fiscal 2013. The negative impact of foreign currency exchange translations of approximately 4% was predominantly driven by the devaluation of the Australian Dollar and Japanese Yen. Excluding the impact to net revenues associated with the reorganization of our mass business in China of 3% and the negative impact of foreign currency exchange translations, net revenues in Asia Pacific increased 7%. New subsidiaries in Taiwan, Korea and Southeast Asia contributed incremental net revenue growth to the region. Higher net revenues in Hong Kong, Australia, Singapore and our travel retail business in the region also positively impacted results. Growth in Hong Kong and Singapore primarily reflected higher net revenues in Fragrances while the increase in our travel retail business was primarily due to expanded distribution of OPI. Higher net revenues from Australia also positively impacted the region primarily reflecting strong growth in Fragrances, Rimmel and incremental net revenues from the introduction of OPI, partially offset by the negative impact of foreign currency exchange translations. Results in the region were adversely impacted by lower net revenues in Japan and China. Lower net revenues in Japan primarily reflected the negative impact of foreign currency exchange translations as mentioned above. The decline in China was primarily driven by lower net revenues from TJoy, partially offset by growth in Fragrances, adidas and Lancaster. Excluding the impact associated with the reorganization of our mass business in China, net revenues in China increased primarily due to growth in Fragrances and adidas, despite overall deceleration in consumer demand particularly in the prestige distribution channel.

In fiscal 2013, net revenues in Asia Pacific increased 5%, or $26.6, to $545.4 from $518.8 in fiscal 2012. Foreign currency exchange translations had an immaterial impact on net revenues in Asia Pacific. Growth in Asia Pacific was driven by all countries in the region, with the exception of Japan and China. Higher net revenues in Australia led growth in the region primarily reflecting higher net revenues from the launch of Lady Gaga Fame and expanded distribution of certain fragrances into the pharmacy retail channel and Rimmel color cosmetics products into the pharmacy retail channel and discount department stores. Higher net revenues in Singapore and our travel retail business also contributed to growth in Asia Pacific. The increase in net revenues in Singapore primarily reflects growth in Calvin Klein along with expanded distribution of philosophy. Our travel retail business in the region primarily reflects higher net revenues from new launch Lady Gaga Fame, the introduction of OPI and philosophy, and higher net revenues of Davidoff and Roberto Cavalli, partially offset by lower net revenues of Calvin Klein. Lower net revenues in Japan were primarily driven by difficult economic conditions. The decline in China was primarily driven by lower net revenues of TJoy. Excluding net revenues of TJoy, net revenues growth in China was strong, primarily driven by adidas, Lancaster and Calvin Klein.

COST OF SALES

In fiscal 2014, cost of sales increased $5.4, to $1,865.7 from $1,860.3 in fiscal 2013. Cost of sales as a percentage of net revenues increased to 41.0% in fiscal 2014 from 40.0% in fiscal 2013, resulting in a gross margin decline of approximately 100 basis points. The decline in gross margin includes the impact of product returns and inventory obsolescence associated with the reorganization of our mass business in China and the revaluation of inventory acquired through business acquisitions.

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Excluding the impact of these items on net revenues and cost of sales, gross margin declined approximately 40 basis points primarily reflecting the negative impact of higher customer discounts and allowances necessary to compete in the difficult market environment, reported in net revenues, and the negative impact of foreign currency exchange transactions, partially offset by continued contribution from our supply chain savings program, reported in cost of sales, and positive product mix. We expect a higher level of customer discounts and allowances to continue until there is improvement in the overall economic environment.

In fiscal 2013, cost of sales increased $36.3, to $1,860.3 from $1,824.0 in fiscal 2012. Cost of sales as a percentage of net revenues increased to 40.0% in fiscal 2013 from 39.6% in fiscal 2012, resulting in a gross margin decline of approximately 40 basis points. This decline in gross margin primarily reflects the negative impact of higher customer discounts and allowances necessary to compete in the difficult market environment, partially offset by continued contribution from our supply chain savings program. Since its implementation in fiscal 2010, the supply chain savings program has contributed to improvements in manufacturing costs resulting from more streamlined manufacturing processes, procurement savings programs with suppliers, and supply chain redesign, including improved management of third-party contractors.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In fiscal 2014, selling, general and administrative expenses decreased 3%, or $72.3, to $2,220.3 from $2,292.6 in fiscal 2013. Selling, general and administrative expenses as a percentage of net revenues decreased to 48.8% in fiscal 2014 from 49.3% in fiscal 2013. This decrease of 50 basis points includes approximately 170 basis points related to lower share-based compensation expense adjustment and public entity preparedness costs partially offset by higher real estate consolidation program costs and acquisition-related costs. See “Operating Income —Adjusted Operating Income.” Excluding the items described above and the impact to net revenues associated with the reorganization of our mass business in China, selling, general and administrative expenses increased $8.3, to $2,134.1, in fiscal 2014 from $2,125.8 in fiscal 2013 and increased as a percentage of net revenues to 46.7% from 45.7%. This increase of 100 basis points primarily reflects our investment in new subsidiaries in emerging markets, higher advertising and consumer promotion spending as a percentage of net revenues and the negative impact from foreign currency exchange translations, partially offset by lower discretionary costs reflecting our focus on cost containment in developed markets.

In fiscal 2013, selling, general and administrative expenses decreased $17.1, to $2,292.6 from $2,309.7 in fiscal 2012. Selling, general and administrative expenses as a percentage of net revenues decreased to 49.3% in fiscal 2013 from 50.0% in fiscal 2012. This decrease of approximately 70 basis points primarily reflects lower advertising consumer and promotion spending primarily due to savings achieved through vendor negotiations and a shift in promotional spend towards customer discounts and allowances driven by our mass retail business, specifically in Southern Europe where it is necessary to compete in the difficult market environment, and in the U.K. where there has been a significant slowdown in the market segments in which we compete, as well as, lower administrative costs and efficiencies in indirect spending.

OPERATING INCOME

In fiscal 2014, operating income decreased 93%, or $368.7, to $25.7 from $394.4 in fiscal 2013. Operating margin, or operating income as a percentage of net revenues, decreased to 0.6% of net revenues in fiscal 2014 as compared to 8.5% in fiscal 2013. This margin decline primarily reflects the impact of asset impairment charges in our Skin & Body Care segment of approximately 700 basis points. Also contributing to margin decline was approximately 100 basis points driven by higher cost of sales, approximately 40 basis points due to a gain on sale of assets in fiscal 2013 not repeated in fiscal 2014 and approximately 20 basis points related to higher restructuring expense, partially offset by approximately 50 basis points of lower selling, general and administrative expenses and approximately 10 basis points related lower amortization expense.

In fiscal 2013, operating income increased $603.9, to $394.4 from $(209.5) in fiscal 2012. Operating margin, or operating income as a percentage of net revenues, increased approximately 1,300 basis points to 8.5% of net revenues in fiscal 2013 as compared to (4.5%) in fiscal 2012. This increase primarily reflects margin improvement of approximately 1,250 basis points driven by lower asset impairment charges and approximately 130 basis points of margin improvement primarily driven by lower selling, general and administrative expenses, the gain on sale of assets and lower amortization expense. This margin improvement was slightly offset by approximately 80 basis points related to higher cost of sales and restructuring expense.

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Operating Income by Segment

(in millions)	Year Ended June 30, 2014	2013	2012	Change % 2014/2013	2013/2012
OPERATING INCOME (LOSS)					
Fragrances	$355.6	$369.7	$340.5	(4%)	9%
Color Cosmetics	154.2	208.8	200.2	(26%)	4%
Skin & Body Care [a]	(351.7)	(5.7)	(577.8)	<(100%)	99%
Corporate	(132.4)	(178.4)	(172.4)	26%	(3%)
Total	$25.7	$394.4	$(209.5)	(93%)	>100%

[a] In fiscal 2014, we recorded an impairment charge of $316.9, of which $256.4 related to goodwill and $60.5 to other long lived assets, reported in the Skin & Body Care segment. In fiscal 2012, we recorded an impairment charge of $575.9, primarily related to goodwill of $384.4 and certain trademarks of $188.6 reported in the Skin & Body Care segment.

Fragrances

In fiscal 2014, operating income for Fragrances decreased 4%, or $14.1, to $355.6 from $369.7 in fiscal 2013. Operating margin decreased to 14.2% of net revenues in fiscal 2014 as compared to 14.8% in fiscal 2013, primarily driven by higher cost of sales as a percentage of net revenues.

In fiscal 2013, operating income for Fragrances increased 9%, or $29.2, to $369.7 from $340.5 in fiscal 2012. The increase in operating income reflects higher net revenues and improved operating margin. Operating margin increased to 14.8% of net revenues in fiscal 2013 as compared to 13.9% in fiscal 2012, driven by lower selling, general and administrative expenses as a percentage of net revenues and lower amortization expense as a percentage of net revenues, reflecting the end of the amortization period for a certain license, partially offset by higher cost of sales as a percentage of net revenues.

Color Cosmetics

In fiscal 2014, operating income for Color Cosmetics decreased 26%, or $54.6, to $154.2 from $208.8 in fiscal 2013. The decrease in operating income reflects lower net revenues and a decline in operating margin. Operating margin decreased to 11.3% of net revenues in fiscal 2014 as compared to 14.2% in fiscal 2013, primarily driven by higher selling, general and administrative expenses and cost of sales as percentages of net revenues.

In fiscal 2013, operating income for Color Cosmetics increased 4%, or $8.6, to $208.8 from $200.2 in fiscal 2012. The increase in operating income reflects higher net revenues and improved operating margin. Operating margin increased to 14.2% of net revenues in fiscal 2013 as compared to 14.0% in fiscal 2012, driven by lower selling, general and administrative expenses as a percentage of net revenues, partially offset by higher cost of sales as a percentage of net revenues.

Skin & Body Care

In fiscal 2014, operating loss for Skin & Body Care increased $346.0, to $(351.7) from $(5.7) in fiscal 2013, primarily reflecting asset impairment charges of $316.9 and the impact of the reorganization of our mass business in China of $23.0. The impairment represents the write-off of goodwill, identifiable intangible assets and certain tangible assets associated with the Beauty - Skin & Body Care reporting unit which is included in the Skin & Body Care segment. One-time charges related to the reorganization of our mass business in China primarily include product returns, inventory obsolescence, the write-off of marketing material and accelerated depreciation of building furniture.

Excluding asset impairment charges and the one-time charge related to the reorganization of our mass business in China, operating loss increased $6.1, to $(11.8) in fiscal 2014 from $(5.7) in fiscal 2013. Operating margin decreased to (1.7%) of net revenues in fiscal 2014 as compared to (0.8%) in fiscal 2013, primarily driven by higher selling, general and administrative expenses primarily due to higher advertising and consumer promotion spending partially offset by lower cost of sales and amortization expense as percentages of net revenues.

In fiscal 2013, operating loss for Skin & Body Care decreased 99%, or $572.1, to $(5.7) from $(577.8) in fiscal 2012. Operating margin increased to (0.8%) of net revenues in fiscal 2013 as compared to (79.4%) in fiscal 2012, primarily due to asset impairment charges as a percentage of net revenues. No asset impairment charges were recorded in fiscal 2013, compared to asset impairment charges of certain trademarks related to the TJoy and Philosophy acquisitions of $58.0 and $130.6, respectively, and a goodwill impairment charge incurred by the Prestige-Skin & Body Care reporting unit of $384.4, recorded in fiscal 2012. Excluding the impact of asset impairment charges, operating margin declined to (0.8%) of net revenues in fiscal 2013 as compared to (0.7%) in fiscal 2012, primarily driven by higher cost of sales and amortization expense as percentages of net revenues, partially offset by lower selling, general and administrative expenses as a percentage of net revenues.

Corporate

Corporate primarily includes corporate expenses not directly relating to our operating activities. These items are included in Corporate since we consider them to be Corporate responsibilities, and these items are not used by our management to measure the underlying performance of the segments.

Operating loss for Corporate was $132.4, $178.4 and $172.4 in fiscal 2014, 2013 and 2012, respectively, as described unde “Adjusted Operating Income” below.

Adjusted Operating Income

We believe that Adjusted Operating Income further enhances an investor’s understanding of our performance. See “Overview—Non-GAAP Financial Measures.” Reconciliation of reported operating income to Adjusted Operating Income is presented below:

	Year Ended June 30,			Change %	
(in millions)	2014	2013	2012	2014/2013	2013/2012
Reported Operating Income (Loss)	$25.7	$394.4	$(209.5)	(93%)	>100%
% of Net revenues	0.6%	8.5%	(4.5%)		
Asset impairment charges	316.9	1.5	575.9	>100%	(100%)
China Optimization	35.9	—	—	N/A	N/A
Restructuring and other business realignment costs	34.1	36.1	24.0	(6%)	50%
Real estate consolidation program costs	32.3	22.5	12.4	44%	81%
Share-based compensation expense adjustment	27.6	120.3	109.9	(77%)	9%
Acquisition-related costs	26.9	9.6	18.7	>100%	(49%)
Public entity preparedness costs	1.2	7.7	4.5	(84%)	71%
Gain on sale of asset	—	(19.3)	—	100%	N/A
Total adjustments to Reported Operating Income (Loss)	474.9	178.4	745.4	>100%	(76%)
Adjusted Operating Income	$500.6	$572.8	$535.9	(13%)	7%
% of Net revenues	11.0%	12.3%	11.6%		

In fiscal 2014, Adjusted Operating Income decreased 13%, or $72.2, to $500.6 from $572.8 in fiscal 2013. Adjusted operating margin decreased to 11.0% of net revenues in fiscal 2014 as compared to 12.3% in fiscal 2013, primarily driven by higher selling, general and administrative expenses and cost of sales as a percentage of net revenues. Excluding the impact of foreign currency exchange translations, Adjusted Operating Income decreased 12.0%.

In fiscal 2013, Adjusted Operating Income increased 7%, or $36.9, to $572.8 from $535.9 in fiscal 2012. Adjusted operating margin increased to 12.3% of net revenues in fiscal 2013 as compared to 11.6% in fiscal 2012. This margin improvement reflects approximately 110 basis points of lower selling, general and administrative expenses and amortization expense, partially offset by approximately 40 basis points of higher cost of sales. Excluding the negative impact of foreign currency exchange translations, Adjusted Operating Income increased 8.0%.

Asset Impairment Charges

In fiscal 2014, asset impairment charges of $316.9 were reported in the Consolidated Statements of Operations. The impairment represents the write-off of goodwill, identifiable intangible assets and certain tangible assets associated with the Beauty - Skin & Body Care reporting unit which is included in the Skin & Body Care segment. In fiscal 2014, we had anticipated realizing significant improvements in cash flows in our Beauty - Skin & Body Care Reporting Units China operations beginning in the third quarter due to the reorganization of the management team and distribution network in China and the launch of new product offerings. In the course of evaluating the results for the third quarter and the preparation of third quarter financial statements, we noted the net cash outflows associated with the TJoy mass channel business in China were significantly in excess of previous expectations and management concluded that the results in China represented an indicator of impairment that warranted an interim impairment test for goodwill and certain other intangible assets in the Beauty - Skin & Body Care Reporting Unit.

In fiscal 2013, we sold a manufacturing facility for $2.0, which had a net book value of $3.5 resulting in an asset impairment charge of $1.5. These costs were recorded in asset impairment charges in the Consolidated Statements of Operations and were included in Corporate.

In fiscal 2012, asset impairment charges of $575.9 were reported in the Consolidated Statements of Operations, $573.0 of which were included in the Skin & Body Care segment and $2.9 of which were included in Corporate. The impairment in the Skin & Body Care segment represents a reduction in carrying value of certain trademarks with indefinite lives of $188.6 and goodwill of $384.4. These impairments were primarily attributable to reductions in both actual and projected cash flows of selected Skin & Body Care products related to the TJoy and Philosophy acquisitions.

China Optimization Costs

During the fourth quarter of fiscal 2014, we entered into a distribution agreement with a third-party distributor for some of our brands sold through the mass distribution channel in China and announced that we are discontinuing our TJoy brand. In conjunction with these events, we commenced implementation of restructuring and product rationalization activities of our mass business in China (“China Optimization”) that are expected to generate operating efficiencies. The China Optimization pre-tax restructuring costs and related charges are expected to be approximately $35.0 to $45.0, of which $20.0 to $30.0 will result in net cash payments in fiscal 2015. We anticipate that annual savings expected from China Optimization will be approximately $20.0 by the end of fiscal 2015.

In fiscal 2014, we incurred costs associated with the reorganization of our mass business in China of $35.9 which consist of the one-time charge of $25.6 (as explained below), restructuring costs of $9.8 included in restructuring costs in the Consolidated Statements of Operations in Corporate and consulting costs of $0.5 included in selling, general and administrative expenses in the Consolidated Statements of Operations in Corporate. The one-time charge consists of the following: $15.4 of costs related to product returns included in net revenues in the Consolidated Statements of Operations of which $14.4 is reported in the Skin & Body Care segment and $1.0 is reported in the Color Cosmetics segment, $8.5 of costs related to inventory obsolescence included in cost of sales in the Consolidated Statements of Operations of which $6.9 is reported in the Skin & Body Care segment and $1.6 is reported in the Color Cosmetics segment, and $1.7 of costs primarily related to the write-off of marketing material and accelerated depreciation of building furniture included in selling, general and administrative expenses in the Consolidated Statements of Operations reported in the Skin & Body Care segment.

Restructuring and Other Business Realignment Costs

During the fourth quarter of fiscal 2014, our Board of Directors approved a program associated with a new organizational structure (“Organizational Redesign”) that