

COTY INC.  
Form 10-Q  
February 05, 2015  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Form 10-Q  
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT  
OF 1934

FOR THE QUARTERLY PERIOD ENDED DECEMBER 31, 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

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

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  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  No

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

At February 3, 2015, 80,180,719 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.

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COTY INC.

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## PART I. FINANCIAL INFORMATION

## Item 1. Condensed Consolidated Financial Statements

## COTY INC. &amp; SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Net revenues	\$1,259.6	\$1,323.2	\$2,441.9	\$2,501.4
Cost of sales	508.9	549.3	991.1	1,021.3
Gross profit	750.7	773.9	1,450.8	1,480.1
Selling, general and administrative expenses	536.5	603.0	1,057.1	1,119.4
Amortization expense	18.5	22.7	37.4	45.3
Restructuring costs	12.0	4.7	52.5	6.3
Operating income	183.7	143.5	303.8	309.1
Interest expense, net	19.1	16.7	38.7	34.1
Loss on early extinguishment of debt	—	—	88.8	—
Other expense (income), net	0.3	—	0.3	(0.2)
Income before income taxes	164.3	126.8	176.0	275.2
Provision for income taxes	29.4	33.7	24.4	79.9
Net income	134.9	93.1	151.6	195.3
Net income attributable to noncontrolling interests	6.1	6.8	11.1	11.1
Net income attributable to redeemable noncontrolling interests	3.4	3.8	4.5	8.2
Net income attributable to Coty Inc.	\$125.4	\$82.5	\$136.0	\$176.0
Net income attributable to Coty Inc. per common share:				
Basic	\$0.35	\$0.21	\$0.38	\$0.46
Diluted	0.35	0.21	0.37	0.45
Weighted-average common shares outstanding:				
Basic	353.4	384.4	353.8	384.2
Diluted	362.6	393.3	363.5	393.5

See notes to Condensed Consolidated Financial Statements.

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## COTY INC. &amp; SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In millions)

(Unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,		
	2014	2013	2014	2013	
Net income	\$134.9	\$93.1	\$151.6	\$195.3	
Other comprehensive (loss) income:					
Foreign currency translation adjustment	(54.1	) 15.8	(134.0	) 59.1	
Net unrealized derivative gains (losses) on cash flow hedges, net of taxes of \$(1.2) and \$0.2, and \$(2.4) and \$ 0.2 during the three months and six months ended, respectively	8.2	(1.4	) 14.6	(1.4	)
Pension and other post-employment benefits, net of tax of \$0.1 and \$0.3, and \$0.1 and \$0.2 during the three months and six months ended, respectively	(0.2	) (0.1	) (0.2	) 0.4	
Total other comprehensive (loss) income, net of tax	(46.1	) 14.3	(119.6	) 58.1	
Comprehensive income	88.8	107.4	32.0	253.4	
Comprehensive income attributable to noncontrolling interests:					
Net income	6.1	6.8	11.1	11.1	
Foreign currency translation adjustment	(0.6	) (0.2	) (0.6	) —	
Total comprehensive income attributable to noncontrolling interests	5.5	6.6	10.5	11.1	
Comprehensive income attributable to redeemable noncontrolling interests:					
Net income	3.4	3.8	4.5	8.2	
Foreign currency translation adjustment	(0.1	) (0.4	) (0.3	) (0.3	)
Total comprehensive income attributable to redeemable noncontrolling interests	3.3	3.4	4.2	7.9	
Comprehensive income attributable to Coty Inc.	\$80.0	\$97.4	\$17.3	\$234.4	

See notes to Condensed Consolidated Financial Statements.

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COTY INC. & SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In millions, except per share data)  
 (Unaudited)

	December 31, 2014	June 30, 2014	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$1,203.2	\$1,238.0	
Trade receivables—less allowances of \$19.0 and \$16.7, respectively	736.7	664.8	
Inventories	526.7	617.4	
Prepaid expenses and other current assets	193.9	201.2	
Deferred income taxes	60.4	63.4	
Total current assets	2,720.9	2,784.8	
Property and equipment, net	500.5	540.3	
Goodwill	1,313.7	1,342.8	
Other intangible assets, net	1,777.8	1,837.1	
Deferred income taxes	9.2	11.4	
Other noncurrent assets	67.2	76.1	
<b>TOTAL ASSETS</b>	<b>\$6,389.3</b>	<b>\$6,592.5</b>	
<b>LIABILITIES AND EQUITY</b>			
Current liabilities:			
Accounts payable	\$700.0	\$810.2	
Accrued expenses and other current liabilities	800.1	723.6	
Short-term debt and current portion of long-term debt	691.6	33.4	
Income and other taxes payable	31.7	29.4	
Deferred income taxes	2.1	0.7	
Total current liabilities	2,225.5	1,597.3	
Long-term debt	2,713.5	3,260.1	
Pension and other post-employment benefits	258.7	272.5	
Deferred income taxes	260.8	273.3	
Other noncurrent liabilities	181.7	228.7	
Total liabilities	5,640.2	5,631.9	
<b>COMMITMENTS AND CONTINGENCIES (Note 16)</b>			
<b>REDEEMABLE NONCONTROLLING INTERESTS</b>	<b>84.9</b>	<b>106.2</b>	
<b>EQUITY:</b>			
Preferred stock, \$0.01 par value; 20.0 shares authorized; none issued and outstanding at December 31, 2014 and June 30, 2014	—	—	
Class A Common Stock, \$0.01 par value; 800.0 shares authorized, 129.3 and 125.1 issued, respectively and 84.4 and 90.2 outstanding, respectively at December 31, 2014 and June 30, 2014	1.3	1.2	
Class B Common Stock, \$0.01 par value; 263.7 shares authorized, issued and outstanding at December 31, 2014 and June 30, 2014	2.6	2.6	
Additional paid-in capital	1,898.2	1,926.9	
Accumulated deficit	(290.4)	(426.4)	)
Accumulated other comprehensive loss	(203.8)	(85.1)	)
Treasury stock—at cost, shares: 44.9 at December 31, 2014 and 34.9 at June 30, 2014 (766.6)	(766.6)	(575.4)	)
Total Coty Inc. stockholders' equity	641.3	843.8	
Noncontrolling interests	22.9	10.6	

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Total equity	664.2	854.4
TOTAL LIABILITIES, REDEEMABLE NONCONTROLLING INTERESTS AND EQUITY	\$6,389.3	\$6,592.5

See notes to Condensed Consolidated Financial Statements.

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COTY INC. & SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND  
 REDEEMABLE NONCONTROLLING INTERESTS

For the Six Months Ended December 31, 2014

(In millions, except per share data)

(Unaudited)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive (Loss)	Treasury Stock	Total Coty Inc. Stockholders' Equity	Noncontrolling Interest	Other Equity	Redeemable Noncontrolling Interest			
	Shares	Amount	Shares	Amount	Capital	Deficit	(Loss)	Share	Amount	Equity	Interest	Equity	Interest
BALANCE—July 1, 2014	125.1	\$1.2	263.7	\$2.6	\$1,926.9	\$(426.4)	\$(85.1)	34.9	\$(575.4)	\$843.8	\$10.6	\$854.4	\$106.2
Purchase of Class A Common Stock					—			7.6	(149.2)	(149.2)		(149.2)	
Reclassification of common stock and stock options to liability					(29.5)					(29.5)		(29.5)	
Reclassification of Class A Common Stock from liability to APIC					29.5					29.5		29.5	
Exercise of former CEO stock options	1.4	—			12.5					12.5		12.5	
Purchase of Class A Common Stock from former CEO								2.4	(42.0)	(42.0)		(42.0)	
Exercise of employee stock options and restricted stock units	2.8	0.1			22.3					22.4		22.4	
Share-based compensation expense					8.1					8.1		8.1	
Dividends (\$0.20 per common share)					(71.8)					(71.8)		(71.8)	
Net income						136.0				136.0	11.1	147.1	4.5
Other comprehensive loss							(118.7)			(118.7)	(0.6)	(119.3)	(0.3)
Distribution to noncontrolling interests, net											1.8	1.8	(3.2)
Dividend payable to redeemable noncontrolling interest holder													(5.9)
Redeemable noncontrolling interest purchase													(16.2)



adjustment														
Adjustment of														
redeemable														
noncontrolling														
interests to														
redemption value														
BALANCE—December	129.3	\$1.3	263.7	\$2.6	\$1,898.2	\$(290.4)	\$(203.8)	44.9	\$(766.6)	\$641.3	\$22.9	\$664.2	\$84.9	
31, 2014														

See notes to Condensed Consolidated Financial Statements.

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COTY INC. & SUBSIDIARIES  
 CONDENSED CONSOLIDATED STATEMENTS OF EQUITY AND  
 REDEEMABLE NONCONTROLLING INTERESTS

For the Six Months Ended December 31, 2013

(In millions, except per share data)

(Unaudited)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Coty Inc. Stockholders' Equity	Noncontrolling Interests	Following Equity	Redeemable Noncontrolling Interests				
	Shares	Amount	Shares	Amount	Shares	Amount	Equity	Equity	Equity				
BALANCE—July 1, 2013	73.6	\$0.7	310.6	\$3.1	\$1,943.9	\$(329.0)	\$(118.6)	0.4	\$(6.1)	\$1,494.0	\$15.7	\$1,509.7	\$105.0
Conversion of Class B to Class A Common Stock	12.0	0.1	(12.0)	(0.1)						—		—	
Purchase of Class A Common Stock					0.3			—	(0.3)	—		—	
Exercise of employee stock options	0.7	—			3.8					3.8		3.8	
Share-based compensation expense					22.2					22.2		22.2	
Dividends (\$0.20 per common share)					(77.4)					(77.4)		(77.4)	
Net (loss) income						176.0				176.0	11.1	187.1	8.2
Other comprehensive income							58.4			58.4	—	58.4	(0.3)
Distribution to noncontrolling interests, net											(8.3)	(8.3)	(4.0)
Adjustment of redeemable noncontrolling interests to redemption value					5.6					5.6		5.6	(5.6)
BALANCE—December 31, 2013	86.3	\$0.8	298.6	\$3.0	\$1,898.4	\$(153.0)	\$(60.2)	0.4	\$(6.4)	\$1,682.6	\$18.5	\$1,701.1	\$104.0

See notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended December 31,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$151.6	\$195.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	116.7	126.6
Deferred income taxes	(10.3	) (5.8
Provision for bad debts	2.3	4.4
Provision for pension and other post-employment benefits	10.2	9.3
Share-based compensation	8.1	23.5
Loss on early extinguishment of debt	88.8	—
Other	10.5	10.0
Change in operating assets and liabilities, net of effects from purchase of acquired companies:		
Trade receivables	(130.7	) (142.5
Inventories	48.6	59.7
Prepaid expenses and other current assets	(3.3	) 8.6
Accounts payable	(29.0	) 30.2
Accrued expenses and other current liabilities	126.3	127.9
Tax accruals	(40.4	) 37.8
Other noncurrent assets	3.7	(27.9
Other noncurrent liabilities	1.9	(9.8
Net cash provided by operating activities	355.0	447.3
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(103.1	) (116.6
Payments for business combinations	(0.6	) (25.0
Proceeds from sale of asset	14.2	0.5
Net cash used in investing activities	(89.5	) (141.1
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from short-term debt, original maturity more than three months	625.6	14.7
Repayments of short-term debt, original maturity more than three months	(25.2	) (28.9
Net proceeds from short-term debt, original maturity less than three months	14.6	2.1
Proceeds from revolving loan facilities	495.0	355.0
Repayments of revolving loan facilities	(494.5	) (365.0
Proceeds from issuance of long-term debt	0.9	—
Repayment of Senior Notes	(584.6	) —
Dividend Payment	(71.0	) (76.9
Net proceeds from issuance of Common Stock	22.4	3.8
Net proceeds from issuance of Common Stock to former CEO	12.5	—
Purchase of Class A Common Stock from former CEO	(42.0	) —
Payments for purchases of Common Stock held as Treasury Stock	(149.2	) (0.3
Net proceeds from foreign currency contracts	6.8	1.1
Payment for business combinations – contingent consideration	(0.8	) (1.1
Proceeds from mandatorily redeemable noncontrolling interests	—	2.2

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Proceeds from noncontrolling interests	1.8	—	
Distributions to noncontrolling interests	—	(8.3	)
Purchase of additional noncontrolling interests	(14.9	)	—
Distributions to redeemable noncontrolling interests	(3.2	)	(4.0
Payment of deferred financing fees	(5.0	)	(0.5
Net cash used in financing activities	(210.8	)	(106.1
<b>EFFECT OF EXCHANGE RATES ON CASH AND CASH EQUIVALENTS</b>	<b>(89.5</b>	<b>)</b>	<b>33.5</b>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(34.8</b>	<b>)</b>	<b>233.6</b>
CASH AND CASH EQUIVALENTS—Beginning of period	1,238.0		920.4
CASH AND CASH EQUIVALENTS—End of period	\$1,203.2		\$1,154.0
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:</b>			
Cash paid during the year for interest	\$32.8		\$32.3
Cash paid during the year for income taxes, net of refunds received	70.0		49.7
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING AND INVESTING ACTIVITIES:</b>			
Accrued capital expenditure additions	\$27.6		\$36.4

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See notes to Condensed Consolidated Financial Statements.

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COTY INC. & SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(\$ in millions, except per share data)

(Unaudited)

1. DESCRIPTION OF BUSINESS

Coty Inc. and its subsidiaries (collectively, the “Company” or “Coty”) engage in the manufacturing, marketing and distribution of fragrances, color cosmetics and skin & body care related products in numerous countries throughout the world.

The Company operates on a fiscal year basis with a year-end of 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 2015” refer to the fiscal year ending June 30, 2015.

The Company’s revenues generally increase during the second fiscal quarter as a result of increased demand associated with the holiday season. Accordingly, the Company’s financial performance, working capital requirements, cash flow and borrowings experience seasonal variability during the three to six months preceding this season.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The unaudited interim Condensed Consolidated Financial Statements are presented in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and include wholly-owned domestic and international subsidiaries. Certain information and disclosures normally included in consolidated financial statements prepared in accordance with GAAP have been condensed or omitted. Accordingly, these unaudited interim Condensed Consolidated Financial Statements and accompanying footnotes should be read in conjunction with the Company’s Consolidated Financial Statements as of and for the year ended June 30, 2014. In the opinion of management, all adjustments, of a normal recurring nature, considered necessary for a fair presentation have been included in the Condensed Consolidated Financial Statements. The results of operations for the three and six months ended December 31, 2014 are not necessarily indicative of the results of operations to be expected for the full fiscal year ending June 30, 2015.

Related Parties

During the first quarter of fiscal 2015, JAB Holdings B.V. (“JAB”) transferred all of its Coty Inc. Class B shares to JAB Cosmetics B.V. (“JABC”). As of December 31, 2014, the Company is a majority-owned subsidiary of JABC. Lucreca SE, Agnaten SE and JAB indirectly control JABC and the shares of the Company held by JABC.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the period reported. Significant accounting policies that contain subjective management estimates and assumptions include those related to revenue recognition, the market value of inventory, the fair value of acquired assets and liabilities associated with acquisitions, the fair value of share-based compensation, pension and other post-employment benefit costs, the fair value of our reporting units, and the assessment of goodwill, other intangible assets and long-lived assets for impairment, income taxes, derivatives and redeemable noncontrolling interests when calculating the impact on Earnings Per Share (“EPS”). Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates and assumptions resulting from continuing changes in the economic environment will be reflected in the Consolidated Financial Statements in future periods.

Tax Information

The effective income tax rate for the three months ended December 31, 2014 and 2013 was 17.9% and 26.6%, and 13.9% and 29.0% for the six months ended December 31, 2014 and 2013, respectively. The variations in the effective

tax rates from the prior year periods to the current year periods were primarily due to the positive impacts associated with a decrease in the reserve for unrecognized tax benefits, the settlement of tax audits in multiple foreign jurisdictions approximating \$34.4 primarily during the six months ended December 31, 2014 and the accruals related to the expiration of foreign statutes of limitation, partially offset by the tax expense associated with the planned intercompany transfer of certain license agreements utilized substantially in our foreign operations and excess U.S. net deferred tax assets that cannot be recognized.

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The effective income tax rates vary from the U.S. federal statutory rate of 35% due to the effect of (i) jurisdictions with different statutory rates, (ii) adjustments to the Company's unrealized tax benefits ("UTBs") and accrued interest, (iii) non-deductible expenses and (iv) valuation allowance changes.

As of December 31, 2014 and June 30, 2014, the gross amount of UTBs was \$320.8 and \$400.5, respectively. As of December 31, 2014, the total amount of UTBs that, if recognized, would impact the effective income tax rate is \$83.9. As of December 31, 2014 and June 30, 2014, the liability associated with UTBs, including accrued interest and penalties, was \$97.7 and \$159.4, respectively, which was recorded in Income and other taxes payable and Other non-current liabilities in the Condensed Consolidated Balance Sheets. The total interest and penalties recorded in the Condensed Consolidated Statements of Operations related to UTBs for the three months ended December 31, 2014 and 2013 was \$(2.3) and \$0.8, and \$(3.2) and \$2.4 for the six months ended December 31, 2014 and 2013, respectively. The total gross accrued interest and penalties recorded in the Condensed Consolidated Balance Sheets as of December 31, 2014 and June 30, 2014 was \$19.0 and \$25.5, respectively. On the basis of the information available as of December 31, 2014, it is reasonably possible that a decrease of up to \$5.8 in UTBs may occur within 12 months as a result of projected resolutions of global tax examinations and a potential lapse of the applicable statutes of limitations.

### 3. SEGMENT REPORTING

Operating segments include components of the enterprise for which separate financial information is available and evaluated regularly by the chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. The Company has designated its Chief Executive Officer as the CODM.

During the first quarter of fiscal 2015, the Company evaluated the impact of the Organizational Redesign restructuring program (see Note 4) on the determination of its operating segments and reporting units. The Company concluded that its operating and reportable segments continue to be Fragrances, Color Cosmetics and Skin & Body Care (also referred to as "segments"). However, based on the organizational changes that result from the Organizational Redesign and the impact on the information used by the CODM, the Company reclassified the revenues and costs associated with one brand from the Fragrances to the Skin & Body Care operating segment. Revenue and cost relating to a brand that generates revenues from more than one of the Company's product categories are allocated in their entirety to one of the operating segments based on the information used by the CODM, its organizational structure, and the product category that is deemed to be the strategic priority for the brand.

SEGMENT DATA	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Net revenues:				
Fragrances	\$691.7	\$728.5	\$1,332.6	\$1,387.4
Color Cosmetics	340.5	334.2	684.6	645.7
Skin & Body Care	227.4	260.5	424.7	468.3
Total	\$1,259.6	\$1,323.2	\$2,441.9	\$2,501.4
Operating income (loss):				
Fragrances	\$145.5	\$133.4	\$266.0	\$279.2
Color Cosmetics	40.0	33.7	82.5	70.5
Skin & Body Care	15.1	16.2	18.8	19.7
Corporate	(16.9)	(39.8)	(63.5)	(60.3)
Total	\$183.7	\$143.5	\$303.8	\$309.1
Reconciliation:				
Operating income	\$183.7	\$143.5	\$303.8	\$309.1
Interest expense, net	19.1	16.7	38.7	34.1
Loss on early extinguishment of debt	—	—	88.8	—
Other expense (income), net	0.3	—	0.3	(0.2)
Income before income taxes	\$164.3	\$126.8	\$176.0	\$275.2



Within the Company's reportable segments, product categories exceeding 5% of consolidated net revenues are presented below:

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PRODUCT CATEGORY	Three Months Ended December 31,		Six Months Ended December 31,		
	2014	2013	2014	2013	
Fragrances:					
Designer	39.2	% 39.3	% 40.1	% 40.3	%
Lifestyle	9.2	8.4	8.1	7.9	
Celebrity	6.5	7.4	6.4	7.3	
Total	54.9	% 55.1	% 54.6	% 55.5	%
Color Cosmetics:					
Nail Care	11.7	% 10.5	% 12.7	% 11.7	%
Other Color Cosmetics	15.3	14.8	15.3	14.1	
Total	27.0	% 25.3	% 28.0	% 25.8	%
Skin & Body Care:					
Body Care	12.7	% 14.0	% 12.1	% 13.3	%
Skin Care	5.4	5.6	5.3	5.4	
Total	18.1	% 19.6	% 17.4	% 18.7	%
Total	100.0	% 100.0	% 100.0	% 100.0	%

## 4. RESTRUCTURING COSTS

Restructuring costs for the three and six months ended December 31, 2014 and 2013 are presented below:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
Organizational Redesign	\$11.8	\$—	\$52.6	\$—
China Optimization	—	—	(0.1)	) —
Productivity Program	0.2	4.7	—	6.3
Total	\$12.0	\$4.7	\$52.5	\$6.3

## Organizational Redesign

During the fourth quarter of fiscal 2014, the Company's Board of Directors ("the Board") approved a program associated with a new organizational structure ("Organizational Redesign") that aims to reinforce the Company's growth path and strengthen its position as a global leader in beauty. The Company anticipates that the Organizational Redesign will result in pre-tax restructuring and related costs of \$145.0 to \$180.0, all of which will result in cash payments. The Company anticipates substantial completion of all project activities by the end of fiscal 2017, with the remaining costs primarily charged to Corporate.

The Company incurred \$65.6 of restructuring costs as of December 31, 2014 in Corporate.

The related liability balance and activity for the restructuring costs are presented below:

	Severance and Employee Benefits	Other Exit Costs	Total Program Costs	
Balance—July 1, 2014	\$9.1	\$1.9	\$11.0	
Charges	52.9	1.1	54.0	
Payments	(8.8	) (2.2	) (11.0	)
Changes in estimates <sup>(a)</sup>	(1.4	) —	(1.4	)
Effect of exchange rates	(2.1	) —	(2.1	)
Payables	—	(0.8	) (0.8	)
Balance—December 31, 2014	\$49.7	\$—	\$49.7	



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(a) The decrease in severance and employee benefits is primarily attributable to employees who have voluntarily left positions that were later eliminated.

The Company currently estimates that the total remaining accrual of \$49.7 will result in cash expenditures of \$23.8, \$21.4, and \$4.5 in fiscal 2015, 2016 and 2017, respectively.

**China Optimization**

During the fourth quarter of fiscal 2014, the Company entered into a distribution agreement with a third-party distributor for certain of the Company's brands sold through the mass distribution channel in China and announced the discontinuation of the Company's TJoy brand. In conjunction with these events, the Company commenced implementation of restructuring of the Company's mass business in China ("China Optimization") that is expected to generate operating efficiencies. The Company anticipates that China Optimization will result in pre-tax restructuring costs of approximately \$10.0, all of which will result in cash payments. The Company incurred \$9.7 of restructuring costs as of December 31, 2014 in Corporate. The Company expects to complete all program activities during fiscal 2015, with the remaining costs primarily charged to Corporate.

The related liability balance and activity for the restructuring costs are presented below:

	Restructuring Costs		Total
	Severance and Employee Benefits	Other Exit Costs	Restructuring Costs
Initial provision	\$9.6	\$0.2	\$9.8
Restructuring charges	—	0.2	0.2
Payments	(7.8	) —	(7.8
Changes in estimates	(0.2	) (0.1	) (0.3
Foreign currency translation	(0.2	) (0.1	) (0.3
Balance—December 31, 2014	\$1.4	\$0.2	\$1.6

The Company currently estimates that the total remaining restructuring accrual of \$1.6 will result in cash expenditures in fiscal 2015.

In October 2014, the Company agreed to sell certain TJoy assets for cash of 86.0 million RMB (\$14.1) in conjunction with China Optimization. The agreement allowed the Company to continue using the facility through the completion of the sale in January 2015. A gain of approximately \$7.3 will be recognized in the Company's Condensed Consolidated Statement of Operations in the third quarter of fiscal 2015.

**Productivity Program**

During the fourth quarter of fiscal 2013, the Board approved a number of business integration and productivity initiatives aimed at enhancing long-term operating margins (the "Productivity Program"). Such activities primarily relate to integration of supply chain and selling activities within the Skin & Body Care segment, as well as certain commercial organization redesign activities, primarily in Europe and optimization of selected administrative support functions.

The Company anticipates implementing all project activities by fiscal 2016. The total charge associated with the Productivity Program is expected to be approximately \$70.0 to \$75.0, of which \$39.5 was incurred as of December 31, 2014.

The related liability balance and activity for the restructuring costs are presented below:

	Severance and Employee Benefits	Third-Party Contract Terminations	Other Exit Costs	Total Program Costs
Balance—July 1, 2014	\$15.8	\$0.2	\$0.2	\$16.2
Restructuring charges	0.2	—	0.2	0.4
Payments	(5.1	) —	(0.2	) (5.3
Changes in estimates	(0.4	) —	—	(0.4
Effect of exchange rates	(0.5	) (0.2	) (0.1	) (0.8

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Balance—December 31, 2014	\$10.0	\$—	\$0.1	\$10.1
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The Company currently estimates that the total remaining accrual of \$10.1 will result in cash expenditures of approximately \$6.9 and \$3.2 in fiscal 2015 and 2016, respectively.

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## 5. INVENTORIES

Inventories as of December 31, 2014 and June 30, 2014 are presented below:

	December 31, 2014	June 30, 2014
Raw materials	\$149.0	\$189.3
Work-in-process	6.9	12.3
Finished goods	370.8	415.8
Total inventories	\$526.7	\$617.4

## 6. GOODWILL, OTHER INTANGIBLE ASSETS, NET AND OTHER ASSETS

As discussed in Note 3, during the first quarter of fiscal 2015, the Company evaluated the impact of the Organizational Redesign (see Note 4) on the determination of its operating segments and its reporting units. Based on this evaluation, the Company concluded that its three reporting units are the same as its operating segments. It also reclassified the revenues and costs associated with one brand, along with its attributable goodwill of \$69.1, from the Fragrances to the Skin & Body Care operating segment.

## Goodwill

Goodwill as of December 31, 2014 and June 30, 2014 is presented below:

	Fragrances	Color Cosmetics	Skin & Body Care	Total
Gross Balance at June 30, 2014	\$751.9	\$538.2	\$693.5	\$1,983.6
Accumulated Impairments	—	—	(640.8)	(640.8)
Net Balance at June 30, 2014	\$751.9	\$538.2	\$52.7	\$1,342.8
Changes during the period ended December 31, 2014:				
Foreign currency translation	(17.5)	(11.4)	(0.2)	(29.1)
Reclassification <sup>(a)</sup>	(69.1)	—	69.1	—
Gross Balance at December 31, 2014	\$665.3	\$526.8	\$762.4	\$1,954.5
Accumulated Impairments	—	—	(640.8)	(640.8)
Net Balance at December 31, 2014	\$665.3	\$526.8	\$121.6	\$1,313.7

<sup>(a)</sup> As a result of the Company's Organizational Redesign program announced on July 9, 2014, a certain brand and its attributable goodwill of \$69.1 was reclassified from the Fragrances segment to the Skin & Body Care segment. The Company calculated the fair value of the brand relative to the reporting unit using the same methodology utilized in the annual impairment analysis as discussed in the Fiscal 2014 Form 10-K.

## Other Intangible Assets

Other intangible assets, net as of December 31, 2014 and June 30, 2014 are presented below:

	December 31, 2014	June 30, 2014
Indefinite-lived other intangible assets <sup>(a)</sup>	\$1,161.2	\$1,167.8
Finite-lived other intangible assets, net <sup>(b)</sup>	616.6	669.3
Total Other intangible assets, net	\$1,777.8	\$1,837.1

<sup>(a)</sup> Net of accumulated impairments of \$(188.6) as of December 31, 2014 and June 30, 2014.

<sup>(b)</sup> Net of accumulated impairments of \$(21.0) and \$(33.5) related to the TJoy trademark and customer relationships, respectively, recorded in fiscal 2014.

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The effect of foreign currency translation on the carrying amount of indefinite-lived intangible assets is \$(6.6) as of December 31, 2014.

Intangible assets subject to amortization are presented below:

	Cost	Accumulated Amortization	Accumulated Impairment	Net
June 30, 2014				
License agreements	\$835.0	\$(490.8)	\$—	\$344.2
Customer relationships	510.8	(169.4)	(33.5)	307.9
Trademarks	125.8	(90.1)	(21.0)	14.7
Product formulations	31.8	(29.3)	—	2.5
Total	\$1,503.4	\$(779.6)	\$(54.5)	\$669.3
December 31, 2014				
License agreements	\$814.1	\$(494.1)	\$—	\$320.0
Customer relationships	498.2	(182.8)	(33.5)	281.9
Trademarks	121.5	(87.9)	(21.0)	12.6
Product formulations	31.7	(29.6)	—	2.1
Total	\$1,465.5	\$(794.4)	\$(54.5)	\$616.6

Amortization expense totaled \$18.5 and \$22.7 for the three months ended December 31, 2014 and 2013 and \$37.4 and \$45.3 for the six months ended December 31, 2014 and 2013.

## 7. DEBT

	December 31, 2014	June 30, 2014
Short-term debt	\$28.9	\$18.8
Credit Agreement due September 2015	600.0	—
Coty Inc. Credit Facility due April 2018		
Term Loan	1,875.0	1,875.0
Revolving Loan Facility	900.0	899.5
Senior Notes		
5.12% Series A notes due June 2017	—	100.0
5.67% Series B notes due June 2020	—	225.0
5.82% Series C notes due June 2022	—	175.0
Other long-term debt and capital lease obligations	1.2	0.2
Total debt	3,405.1	3,293.5
Less: Short-term debt and current portion of long-term debt	(691.6)	(33.4)
Total Long-term debt	\$2,713.5	\$3,260.1
Short-Term Debt		

On September 29, 2014, the Company entered into a Credit Agreement (the “2014 Credit Agreement”) with JP Morgan Chase Bank, N.A. as administrative agent and Bank of America, N.A., Morgan Stanley MUFG Loan Partners, LLC and Wells Fargo Bank, N.A., as syndication agents. The 2014 Credit Agreement provides for a term loan of \$600.0 and expires on September 28, 2015 at which time it is payable in full. Rates of interest on amounts borrowed under the 2014 Credit Agreement are based on the London Interbank Offered Rate (“LIBOR”), a qualified Eurocurrency LIBOR, an alternative base rate, or a qualified local currency rate, as applicable to the borrowings, plus applicable spreads determined by the consolidated leverage ratio. Applicable spreads on the borrowings under the 2014 Credit Agreement may range from 0.0% to 1.75% based on the Company’s consolidated leverage ratio, as defined in the 2014 Credit Agreement. The applicable spread on the borrowings under the 2014 Credit Agreement in effect as of December 31, 2014 was 1.50%. The 2014 Credit Agreement also contains affirmative and negative covenants that are



substantially the same as those contained in the 2013 Credit Agreement, as amended, as disclosed below. The Company used the borrowings under the 2014 Credit Agreement to prepay the outstanding principal amount of the Senior Notes, prior to their maturity date (the “Note Repurchase”) as described below. Deferred

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financing fees of \$1.9 were recorded in Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheet.

## Coty Inc. Credit Facility

On September 29, 2014, the Company entered into an Amendment (the “2014 Amendment”) to its existing Credit Agreement, dated April 2, 2013, as amended (the “2013 Credit Agreement”). The 2014 Amendment permits the Company to maintain a consolidated leverage ratio equal to or less than 4.5 to 1.0 for the 12-month period following an acquisition, as defined in the 2013 Credit Agreement. As of September 30, 2014, the Company recorded deferred financing fees of \$3.1 in Other noncurrent assets in the Condensed Consolidated Balance Sheet in connection with the 2014 Amendment. As of December 31, 2014, the Company had \$350.0 available for borrowings under the 2013 Credit Agreement, as amended.

## Senior Notes

On September 29, 2014, the Company prepaid the Senior Notes. The prepayment included the principal amount of Senior Notes of \$500.0, accrued interest of \$8.0 and a make-whole amount of \$84.6. In connection with the prepayment, the Company incurred a loss on early extinguishment of debt of \$88.8, which included the make-whole amount and the write-off of \$4.2 of deferred financing fees related to the Senior Notes.

## 8. INTEREST EXPENSE, NET

Interest expense, net for the three and six months ended December 31, 2014 and 2013 is presented below:

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2014	2013	2014	2013
Interest expense	\$17.4	\$17.5	\$36.8	\$34.9
Foreign exchange losses, net of derivative contracts	2.4	0.2	3.7	1.1
Interest income	(0.7	) (1.0	) (1.8	) (1.9
Total interest expense, net	\$19.1	\$16.7	\$38.7	\$34.1

## 9. EMPLOYEE BENEFIT PLANS

The components of net periodic benefit cost for pension plans and other post-employment benefit plans recognized in the Condensed Consolidated Statements of Operations are presented below for the three and six months ended December 31, 2014 and 2013:

	Three Months Ended December 31,							
	Pension Plans				Other Post-Employment Benefits			
	U.S.		International		Benefits		Total	
2014	2013	2014	2013	2014	2013	2014	2013	
Service cost	\$—	\$—	\$1.5	\$1.4	\$0.7	\$0.6	\$2.2	\$2.0
Interest cost	0.8	0.9	1.2	1.4	1.0	0.9	3.0	3.2
Expected return on plan assets	(0.7	) (0.6	) (0.4	) (0.2	) —	) —	(1.1	) (0.8
Amortization of prior service credit	—	—	—	—	(0.1	) (0.1	) (0.1	) (0.1
Amortization of net loss	0.5	0.2	0.9	0.5	—	—	1.4	0.7
Curtailment gain	—	—	(0.8	) —	—	—	(0.8	) —
Net periodic benefit cost	\$0.6	\$0.5	\$2.4	\$3.1	\$1.6	\$1.4	\$4.6	\$5.0

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	Six Months Ended December 31,							
	Pension Plans				Other Post-Employment Benefits			
	U.S.		International		Total		Total	
2014	2013	2014	2013	2014	2013	2014	2013	
Service cost	\$—	\$—	\$3.0	\$2.8	\$1.3	\$1.2	\$4.3	\$4.0
Interest cost	1.7	1.7	2.4	2.7	2.0	1.9	6.1	6.3
Expected return on plan assets	(1.5 )	(1.2 )	(0.7 )	(0.5 )	—	—	(2.2 )	(1.7 )
Amortization of prior service credit	—	—	0.1	—	(0.1 )	(0.1 )	—	(0.1 )
Amortization of net loss	1.0	0.4	1.8	1.0	—	—	2.8	1.4
Curtailment gain	—	—	(0.8 )	—	—	—	(0.8 )	—
Net periodic benefit cost	\$1.2	\$0.9	\$5.8	\$6.0	\$3.2	\$3.0	\$10.2	\$9.9

## 10. FAIR VALUE MEASUREMENT

The following fair value hierarchy is used in selecting inputs for those assets and liabilities measured at fair value and distinguishes between assumptions based on market data (observable inputs) and the Company's assumptions (unobservable inputs). The hierarchy consists of three levels:

Level 1—Valuation based on quoted market prices in active markets for identical assets or liabilities;

Level 2—Valuation based on inputs other than Level 1 inputs that are observable for the assets or liabilities either directly or indirectly;

Level 3—Valuation based on prices or valuation techniques that require inputs that are both significant to the fair value measurement and supported by little or no observable market activity.

The financial assets and liabilities that the Company measures at fair value on a recurring basis based on the fair value hierarchy, as of December 31, 2014 and June 30, 2014 are presented below:

	Level 1		Level 2		Level 3	
	December 31, 2014	June 30, 2014	December 31, 2014	June 30, 2014	December 31, 2014	June 30, 2014
Financial assets and liabilities						
Recurring fair value measurements						
Assets:						
Foreign exchange contracts	\$—	\$—	\$11.4	\$2.1	\$—	\$—
Liabilities:						
Foreign exchange contracts	\$—	\$—	\$1.4	\$11.5	\$—	\$—
Contingent consideration - business combination	—	—	—	—	0.9	1.1
Total Liabilities	\$—	\$—	\$1.4	\$11.5	\$0.9	\$1.1
Total recurring fair value measurements	\$—	\$—	\$10.0	\$(9.4 )	\$(0.9 )	\$(1.1 )

The fair values of the Company's financial instruments estimated as of December 31, 2014 and June 30, 2014 are presented below:

	December 31, 2014		June 30, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Coty Inc. Credit Facility	\$2,712.5	\$2,712.5	\$2,774.5	\$2,763.2
Dividends payable	1.7	1.3	0.9	0.7

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Senior Notes - Series A	—	—	100.0	109.7
Senior Notes - Series B	—	—	225.0	256.3
Senior Notes - Series C	—	—	175.0	199.9

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The Company has concluded that the carrying amounts of cash and cash equivalents, trade receivables, accounts payable, certain accrued expenses, short-term debt, and current portion of long-term debt approximate their fair values due to their short-term nature.

The following methods and assumptions were used to estimate the fair value of the Company's other financial instruments for which it is practicable to estimate that value:

Foreign exchange contracts—The Company uses currency spot and forward rates to value the foreign exchange contracts, which were obtained from an independent pricing service. Based on the assumptions used to value foreign exchange contracts at fair value, these assets and/or liabilities are categorized as Level 2 in the fair value hierarchy.

Contingent consideration - business combination — The Company uses an industry standard valuation model within the option pricing framework to value the contingent consideration. The inputs used to measure the fair value included weighted net sales projections through the settlement date of the contingent consideration, revenue volatility using comparable companies' historical performance and a present value calculation to discount the expected settlement. Based on the assumptions used to value the contingent consideration, these liabilities are categorized as Level 3 in the fair value hierarchy.

Coty Inc. Credit Facility and Senior Notes —The Company uses the income approach to value the each of the aforementioned debt instruments. The Company uses a present value calculation to discount interest payments and the final maturity payment on these liabilities using a discounted cash flow model based on observable inputs. The Company discounts these debt instruments based on what the current market rates would offer the Company as of the reporting date. Based on the assumptions used to value these liabilities at fair value, these debt instruments are categorized as Level 2 in the fair value hierarchy.

Dividends payable — The Company uses the income approach to value the long-term portion of dividends payable by utilizing a present value calculation to discount future payments using a discounted cash flow model based on observable inputs. The Company discounts the liability based on an internally developed discount rate as of the reporting date. Based on the assumptions used to value the long-term portion of dividends payable at fair value, this debt is categorized as Level 3 in the fair value hierarchy.

## 11. DERIVATIVE INSTRUMENTS

The Company is exposed to foreign currency exchange fluctuations through its global operations. The Company may reduce its exposure to fluctuations in the cash flows associated with changes in foreign exchange rates by creating offsetting positions through the use of derivative instruments. The Company expects that through hedging, any gain or loss on the derivative instruments would generally offset the expected increase or decrease in the value of the underlying forecasted transactions. During fiscal 2014, the Company launched a program to qualify derivatives for hedge accounting treatment. The Company began entering into derivatives for which hedge accounting treatment was applied in the second quarter of fiscal 2014 which the Company began realizing in the Condensed Consolidated Statement of Operations in fiscal 2015. The Company also continued to use certain derivatives as economic hedges of foreign currency exposure on firm commitments and forecasted transactions. Although these derivatives were not designated for hedge accounting, the overall objective of mitigating foreign currency exposure is the same for all derivative instruments. The Company does not enter into derivative financial instruments for trading or speculative purposes, nor is the Company a party to leveraged derivatives.

For derivatives accounted for as hedging instruments, the Company formally designates and documents, at inception, the financial instrument as a hedge of specific underlying forecasted transactions, the risk management objective and

the strategy for undertaking the hedge transaction. In addition, the Company formally assesses both at inception and at least quarterly thereafter, whether the financial instruments used in hedging transactions are effective at offsetting changes in either the fair values or cash flows of the related underlying exposures. Any ineffective portion of a financial instrument's change in fair value is immediately recognized into earnings. If it is determined that a derivative is not highly effective as a hedge, the Company will discontinue hedge accounting for the affected derivative in the related period. Additionally, all of the master agreements governing the Company's derivative contracts contain standard provisions that could trigger early termination of the contracts in certain circumstances which would require the Company to discontinue hedge accounting, including if the Company were to merge with another entity and the creditworthiness of the surviving entity were to be "materially weaker" than that of the Company prior to the merger. As of December 31, 2014, foreign exchange forward contracts in net liability positions that contained credit-risk-related features were \$1.4.

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The Company also attempts to minimize credit exposure to counterparties by entering into derivative contracts with counterparties that are major financial institutions and utilizing master netting arrangements. Exposure to credit risk in the event of nonperformance by any of the counterparties is limited to the fair value of contracts in net asset positions under master netting arrangements, which totaled \$11.4 at December 31, 2014. Accordingly, management of the Company believes risk of material loss under these hedging contracts is remote.

## Quantitative Information

Derivatives are recognized on the balance sheet at their fair values. The following table presents the fair value of derivative instruments outstanding at December 31, 2014 and June 30, 2014:

	Asset Balance Sheet Classification		Fair Value		Liability Balance Sheet Classification		Fair Value	
			December 31, 2014	June 30, 2014			December 31, 2014	June 30, 2014
Derivatives designated as hedges:								
Foreign exchange forward contracts	Prepaid expenses and other current assets		\$8.8	\$—	Accrued expenses and other current liabilities		\$1.1	\$10.5
Total derivatives designated as hedges			\$8.8	\$—			\$1.1	\$10.5
Derivatives not designated as hedges:								
Foreign exchange forward contracts	Prepaid expenses and other current assets		\$2.6	\$2.1	Accrued expenses and other current liabilities		\$0.3	\$1.0
Total derivatives not designated as hedges			\$2.6	\$2.1			\$0.3	\$1.0
Total derivatives			\$11.4	\$2.1			\$1.4	\$11.5

The table below presents the gross amount of foreign exchange contract hedges recorded as assets and liabilities in Prepaid expenses and other current assets and Accrued expenses and other current liabilities in the Condensed Consolidated Balance Sheet, respectively, as of December 31, 2014:

	Gross Amounts Recognized	Gross Amounts Offset in the Condensed Consolidated Statement of Operations	Net Amount Presented in the Condensed Consolidated Balance Sheets	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets		
				Financial Instruments	Cash Collateral Received	Net Amount
Assets	\$ 14.5	\$(3.1)	) \$ 11.4	\$—	\$—	\$ 11.4
Liabilities	\$(1.4)	\$—	) \$(1.4)	\$—	\$—	\$(1.4)

The table below presents the gross amount of foreign exchange contract hedges recorded as assets and liabilities in Prepaid expenses and other current assets and Accrued expenses and other current liabilities in the Consolidated Balance Sheet, respectively, as of June 30, 2014:

Gross Amounts Not  
Offset in the Condensed

	Consolidated Balance Sheets					
	Gross Amounts Recognized	Gross Amounts Offset in the Condensed Consolidated Statement of Operations	Net Amount Presented in the Condensed Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Net Amount
Assets	\$2.2	\$ (0.1 )	\$2.1	\$—	\$—	\$2.1
Liabilities	\$ (12.9 )	\$1.4	\$ (11.5 )	\$—	\$—	\$ (11.5 )

The amount of gains and losses related to the Company's derivative financial instruments not designated as hedging instruments and derivative financial instruments deemed ineffective during the three and six months ended December 31, 2014 and 2013 is presented below:



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Condensed Consolidated Statements of Operations Classification of Gain (Loss) Recognized in Operations	Gain (Loss) Recognized in Operations Three Months Ended December 31,		Gain (Loss) Recognized in Operations Six Months Ended December 31,	
	2014	2013	2014	2013
	Interest expense, net	\$5.5	\$1.4	\$7.3
Cost of sales	\$0.1	\$(0.6)	\$0.1	\$(2.2)
Selling, general and administrative	\$1.6	\$—	\$2.5	\$—

As of December 31, 2014 and June 30, 2014, the Company had foreign exchange forward contracts not designated as hedges with a notional value of \$224.3 and \$535.4, respectively, which mature at various dates through June 2015. The Company enters into foreign exchange forward contracts to hedge anticipated transactions for periods consistent with the Company's identified exposures to minimize the effect of foreign exchange rate movements on revenues and costs and on the cash flows that the Company receives from foreign subsidiaries and third parties where there is a high probability that anticipated exposures will materialize. The foreign exchange forward contracts used to hedge anticipated transactions have been designated as foreign exchange cash-flow hedges and have varying maturities through the end of June 2015. Hedge effectiveness of foreign exchange forward contracts is based on the forward-to-forward hypothetical derivative methodology and includes all changes in value.

The ineffective portion of foreign exchange forward contracts is recorded in current-period earnings. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses accumulated in Other comprehensive income (loss) ("OCI") are reclassified to earnings when the underlying forecasted transaction occurs. If it is no longer probable that the forecasted transaction will occur, then any gains or losses in accumulated OCI ("AOCI") are reclassified to current-period earnings. During the six months ended December 31, 2014, as a result of a change in forecast, the Company de-designated a portion of its hedges and reclassified a net loss of \$(0.2) from AOCI to the Condensed Consolidated Statement of Operations. As of December 31, 2014, all of the Company's remaining foreign exchange forward contracts designated as hedges were highly effective in all material respects. The accumulated gain (loss) on these derivative instruments in AOCI, net of tax, was \$5.7 and \$(8.9) as of December 31, 2014 and June 30, 2014, respectively. The estimated net gain related to these effective hedges that is expected to be reclassified from AOCI into earnings, net of tax, within the next twelve months is \$5.7.

The amount of gains and losses reclassified from AOCI to the Condensed Consolidated Statements of Operations related to the Company's derivative financial instruments which are designated as hedging instruments during the three and six months ended December 31, 2014 and 2013 is presented below:

Condensed Consolidated Statements of Operations Classification of Gain (Loss) Reclassified from AOCI/(L)	Gain (Loss) Recognized in Operations Three Months Ended December 31,		Gain (Loss) Recognized in Operations Six Months Ended December 31,	
	2014	2013	2014	2013
	Net revenue	\$1.5	\$—	\$1.9
Cost of Sales	\$(1.8)	\$—	\$(1.6)	\$—

As of December 31, 2014, the Company has foreign exchange forward contracts designated as effective hedges with a notional value of \$150.3, which mature at various dates through June 2015. The foreign currencies of the counterparties in the hedged foreign exchange forward contracts (notional value stated in U.S. dollars) are principally the British Pound (\$38.9), Euro (\$35.2), Australian Dollar (\$16.1), Canadian Dollar (\$19.9), U.S. Dollar (\$10.3), Russian Ruble (\$10.7), Polish Zloty (\$11.3), and Japanese Yen (\$1.1). As of June 30, 2014, the Company had a notional value of \$361.3 in foreign exchange forward contracts designated as effective hedges.

## 12. NONCONTROLLING INTERESTS AND REDEEMABLE NONCONTROLLING INTERESTS

Noncontrolling Interests

Effective December 28, 2014, the Company entered into an agreement through a majority-owned subsidiary and a third party to create a new subsidiary in Saudi Arabia. The Company contributed 20.25 million SAR (\$5.4) for a 75% ownership interest. The new subsidiary will engage in the sale, promotion and distribution of fragrances, color cosmetics, and skin & body care products.

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## Redeemable Noncontrolling Interests

The Company has the right to purchase the redeemable noncontrolling interests (“RNCI”) in certain subsidiaries from the RNCI holders (each such right, a “Call right”) at certain points in time. On September 20, 2013, the Company gave notice to purchase 7% of a certain Middle East (M.E.) subsidiary. The Company and the RNCI holder amended the M.E. subsidiary’s Shareholders’ Agreement resulting in the Company recording an additional 7% interest in the M.E. subsidiary as of July 1, 2014 and consummated the purchase during the three months ended September 30, 2014 for a purchase price of \$16.2. The \$16.2 is recorded as a reduction to Redeemable Noncontrolling interest in the Company’s Condensed Consolidated Statements of Equity and Redeemable Noncontrolling Interests as of December 31, 2014. Of the \$16.2, the Company has paid \$14.9 and recorded the remaining \$1.3 as Accrued expense and other current liabilities of the Condensed Consolidated Balance Sheet as of December 31, 2014. The Company also has the ability to exercise the Call right for the remaining noncontrolling interest of 33% on July 1, 2028, with such transaction to close on July 1, 2029.

## 13. EQUITY

## Common Stock

During the six months ended December 31, 2014, the Company issued 2.8 million shares of its Class A Common Stock and received \$22.4 in cash in connection with the exercise of employee stock options, the settlement of restricted stock units (“RSUs”) and the purchase of shares under the Platinum Program, which is an employee stock ownership program under the Omnibus Equity and Long-Term Incentive Plan. Additionally, the Company issued 1.4 million shares of its Class A Common Stock and recorded Additional Paid in Capital (“APIC”) of \$12.5 in relation to the exercise of stock options by Mr. Michele Scannavini (“Mr. Scannavini”), its former Chief Executive Officer.

As of December 31, 2014, the Company’s capital structure consisted of Class A Common Stock, Class B Common Stock and Preferred Stock, each with a par value of \$0.01. Class A and Class B Common Stock are identical in all respects except for voting rights, certain conversion rights, and transfer restrictions in respect to the shares of Class B Common Stock. The holders of Class A Common Stock are entitled to one vote per share and the holders of Class B Common Stock are entitled to ten votes per share. Holders of Class A and Class B Common Stock are entitled to pro rata distribution of dividends if and when declared by the Board. As of December 31, 2014, total authorized shares of Class A Common Stock, Class B Common Stock and Preferred Stock are 800.0 million, 263.7 million and 20.0 million, respectively, and total outstanding shares of Class A and Class B Common Stock are 84.4 million and 263.7 million, respectively. There was no Preferred Stock outstanding as of December 31, 2014.

## Accumulated Other Comprehensive Income (Loss)

	(Losses) Gains on Cash Flow Hedges	Pension and Other Post-Employment Benefit Plans	Foreign Currency Translation Adjustments	Total
Balance—July 1, 2014	\$ (8.9 )	\$ (54.7 )	\$ (21.5 )	\$ (85.1 )
Other comprehensive income (loss) before reclassifications	14.7	—	(133.1)	(118.4)
Less: Net amounts reclassified from AOCI	0.1	0.2	—	0.3
Net current-period other comprehensive income (loss)	14.6	(0.2 )	(133.1)	(118.7 )
Balance—December 31, 2014	\$ 5.7	\$ (54.9 )	\$ (154.6)	\$ (203.8 )

## Treasury Stock

In connection with the Company's Class A Common Stock repurchase program announced on February 14, 2014 and June 3, 2014 ("Repurchase Program"), the Company repurchased 7.6 million shares of its Class A Common Stock during the three months ended December 31, 2014. The shares were purchased in multiple transactions at prices ranging from \$18.30 to \$20.90. The fair value of all shares repurchased was \$149.2 and was reflected as an increase to Treasury stock in the Company's Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Equity and Redeemable Noncontrolling Interests.

On September 29, 2014, the Company entered into an agreement with Mr. Scannavini in connection with his resignation. The agreement required the Company to purchase on or before January 27, 2015 all Class A Common Stock Mr. Scannavini

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held directly or indirectly, including shares of Class A Common Stock obtained upon the exercise of certain stock options, for a share price of \$17.21, which is the average closing value of the Class A Common Stock on the New York Stock Exchange over five business days immediately preceding September 29, 2014. As a result of the agreement, the Company purchased 2.4 million shares of its Class A Common Stock for \$42.0 and reflected as an increase to Treasury stock in the Company's Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Equity and Redeemable Noncontrolling Interests during the three months ended December 31, 2014. The Company made a net payment to Mr. Scannavini of \$29.5, which is the purchase amount of \$42.0 net of the aggregate exercise price of his vested stock options of \$12.5.

**Dividends**

On September 16, 2014, the Company announced a cash dividend of \$0.20 per share, or \$71.9 on its Class A and Class B Common Stock. Of the \$71.9, \$71.0 was paid on October 15, 2014 to holders of record of Class A and Class B Common Stock on October 1, 2014 and was recorded as a decrease to APIC in the Condensed Consolidated Balance Sheet as of December 31, 2014. The remaining \$0.9 is payable upon settlement of the RSUs outstanding as of October 1, 2014, and is recorded as Other noncurrent liabilities in the Condensed Consolidated Balance Sheet. Additionally, the Company reduced the dividend accrual recorded in a prior period by \$0.1 to adjust for accrued dividends on RSUs no longer expected to vest, which was recorded as an increase to APIC in the Condensed Consolidated Balance Sheet as of December 31, 2014. Total accrued dividends on unvested RSUs of \$1.7 are included in Other noncurrent liabilities in the Condensed Consolidated Balance Sheet as of December 31, 2014.

**14. SHARE-BASED COMPENSATION PLANS**

The Company has various share-based compensation programs (the "Plans") under which awards, including non-qualified stock options, RSUs and other share-based awards, may be granted or shares of Class A Common Stock may be purchased. As of December 31, 2014, approximately 15.0 million shares of the Company's Class A Common Stock were reserved and available to be granted pursuant to these Plans.

Total share-based compensation expense of \$9.6 and \$9.3 for the three months ended December 31, 2014 and 2013, and \$10.9 and \$23.5 for the six months ended December 31, 2014 and 2013, respectively, is included in Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations. The share-based compensation expense for the six months ended December 2014 of \$10.9 includes \$15.9 expense for the period offset by \$5.0 income for the period due to forfeitures of share-based compensation instruments as a result of Mr. Scannavini's resignation on September 29, 2014.

As of December 31, 2014, the total unrecognized share-based compensation expense related to unvested stock options and restricted and other share awards is \$18.1 and \$42.8, respectively. The unrecognized share-based compensation expense related to unvested stock options and restricted and other share awards is expected to be recognized over a weighted-average period of 1.47 and 3.69 years, respectively.

**Nonqualified Stock Options**

Nonqualified stock options generally become exercisable 5 years from the date of the grant and have a 5-year exercise period from the date the grant becomes fully vested for a total contractual life of 10 years.

The Company's outstanding nonqualified stock options as of December 31, 2014 and activity during the six months then ended are presented below:

Shares (in millions)	Weighted Average Exercise	Aggregate Intrinsic Value	Weighted Average Remaining
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		Price		Contractual Term
Outstanding at July 1, 2014	23.2	\$9.32		
Exercised	(4.1	) 8.13		
Forfeited	(1.9	) 10.09		
Outstanding at December 31, 2014	17.2	\$9.51		
Vested and expected to vest at December 31, 2014	15.1	\$9.41	\$170.3	4.85
Exercisable at December 31, 2014	6.5	\$8.77	\$77.4	3.27

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There were no options granted in the current year. The grant prices of the outstanding options as of December 31, 2014 ranged from \$5.10 to \$11.60. The grant prices for exercisable options ranged from \$5.10 to \$10.50.

A summary of the total intrinsic value of stock options exercised for the six months ended December 31, 2014 and 2013 is presented below:

	December 31,	
	2014	2013
Intrinsic value of options exercised	\$38.5	\$4.8

The Company's non-vested nonqualified stock options as of December 31, 2014 and activity during the six months then ended are presented below:

	Shares (in millions)	Weighted Average Grant Date Fair Value
Non-vested at July 1, 2014	16.2	\$3.81
Vested	(3.6)	) 3.57
Forfeited	(1.9)	) 3.94
Non-vested at December 31, 2014	10.7	\$3.86

The share-based compensation expense recognized on the nonqualified stock options was \$5.4 and \$4.9 for the three months ended December 31, 2014 and 2013, and was \$7.4 and \$14.5 for the six months ended December 31, 2014 and 2013, respectively.

## Restricted Share Units

During the six months ended December 31, 2014, 1.7 million RSUs were granted under the Omnibus LTIP. During the six months ended December 31, 2013, the Company granted 1.8 million RSUs under the LTIP.

The Company's outstanding RSUs as of December 31, 2014 and activity during the six months then ended are presented below:

	Shares (in millions)	Aggregate Intrinsic Value	Weighted Average Remaining Contractual Term
Outstanding at July 1, 2014	4.4		
Granted	1.7		
Settled	(0.1)	)	
Canceled	(0.8)	)	
Outstanding at December 31, 2014	5.2		
Vested and expected to vest at December 31, 2014	3.8	\$78.6	3.55

The share-based compensation expense recorded in connection with the RSUs was \$3.2 and \$2.8 for the three months ended December 31, 2014 and 2013, and was \$3.0 and \$4.9 for the six months ended December 31, 2014 and 2013, respectively.

The Company's outstanding and non-vested RSUs as of December 31, 2014 and activity during the six months then ended are presented below:





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	Shares (in millions)	Weighted Average Grant Date Fair Value
Outstanding and nonvested at July 1, 2014	4.0	\$15.77
Granted	1.7	17.34
Vested	(0.1)	) 15.66
Canceled	(0.8)	) 15.80
Outstanding and nonvested at December 31, 2014	4.8	\$16.05

## Phantom Units

On December 1, 2014, the Board granted Lambertus J.H. Becht (“Mr. Becht”), the Company’s Chairman of the Board and interim Chief Executive Officer, an award of 49,432 phantom units, in consideration of Mr. Becht’s increased responsibilities as interim Chief Executive Officer of the Company. At the time of grant, the phantom units had a value of \$1.0 based on the closing price of the Company’s Class A Common Stock on December 1, 2014, and each phantom unit has an economic value equivalent to one share of the Company’s Class A Common Stock. Mr. Becht elected to receive payment of the phantom units in the form of shares of Class A Common Stock. As a result the phantom units will be settled in shares of Class A Common Stock on the fifth anniversary of the grant date or, in the event of a change of control or Mr. Becht’s death or disability, immediately.

The Company recognized \$1.0 of share-based compensation expense during the three and six months ended December 31, 2014 as there are no service or performance conditions with respect to the phantom units.

## Restricted Shares

Share-based compensation (income) expense recorded in connection with restricted shares was nil for the three months ended December 31, 2014 and 2013, and was \$(0.5) and nil for the six months ended December 31, 2014 and 2013, respectively. During the first quarter of fiscal 2015, the Mr. Scannavini forfeited less than 0.1 million restricted shares.

## Special Incentive Award

Share-based compensation expense recorded in connection with special incentive awards was nil for the three and six months ended December 31, 2014 and was \$1.6 and \$4.1 for the three and six months ended December 31, 2013, respectively. As of December 31, 2014, there were no special incentive awards outstanding as all special incentive awards vested as of June 13, 2014. As of December 31, 2013, 1.2 million special incentive awards were outstanding with a weighted average grant date fair value of \$6.82. There was no vesting or forfeiture activity during the three and six months ended December 31, 2014 and 2013.

## 15. NET INCOME ATTRIBUTABLE TO COTY INC. PER COMMON SHARE

Reconciliation between the numerators and denominators of the basic and diluted EPS computations is presented below:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2014	2013	2014	2013
	(in millions, except per share data)			
Net income attributable to Coty Inc.	\$125.4	\$82.5	\$136.0	\$176.0

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Weighted-average common shares outstanding—Basic	353.4	384.4	353.8	384.2
Effect of dilutive stock options <sup>(a)</sup>	7.4	7.2	7.9	7.6
Effect of restricted stock and RSUs <sup>(b)</sup>	1.8	1.7	1.8	1.7
Weighted-average common shares outstanding—Diluted	\$362.6	\$393.3	\$363.5	\$393.5
Net income attributable to Coty Inc. per common share:				
Basic	\$0.35	\$0.21	\$0.38	\$0.46
Diluted	0.35	0.21	0.37	0.45

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- For the three and six months ended December 31, 2014, no options were excluded from the computation of diluted
- (a) EPS. For the three and six months ended December 31, 2013, outstanding options to purchase 1.2 million shares of Common Stock are excluded from the computation of diluted EPS as their inclusion would be anti-dilutive. For the three and six months ended December 31, 2014, 0.1 million and 0.8 million RSUs outstanding,
- (b) respectively, are excluded from the computation of diluted EPS as their inclusion would be anti-dilutive. For the three and six months ended December 31, 2013, there are no anti-dilutive RSUs excluded from the computation of diluted EPS.

## 16. COMMITMENTS AND CONTINGENCIES

### Noncontrolling Interests

The Company has the right to purchase the noncontrolling interests in certain subsidiaries from the noncontrolling interest holders (each such right, a “Call right”) at certain points in time. In December 2014, the Company gave notice to exercise its Call right for 14% of a certain Singapore subsidiary from the noncontrolling interest. The Company estimates it will pay approximately \$12.8 for this 14%.

### Business Combinations

On October 7, 2014, the Company announced its binding offer to acquire the Bourjois cosmetics brand from its parent company, CHANEL, in order to further grow its existing portfolio and strengthen its position in Western Europe, the Middle East and Asia. The Company intends to issue to CHANEL, as consideration for Bourjois, 15.0 million shares of the Company’s Class A Common Stock. The number of shares is subject to adjustment based on the price of the Company’s Class A Common Stock at closing and certain closing adjustments. The Company anticipates closing the transaction before the end of fiscal 2015.

### Legal Matters

The Company is involved, from time to time, in litigation, other regulatory actions and other legal proceedings incidental to the business. However, management’s assessment of the Company’s 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 the Company not presently known to the Company 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.

During fiscal 2014, two putative class action complaints were filed in the United States Southern District of New York against the Company, its directors and certain of its executive officers alleging violations of the federal securities laws in connection with the Company’s 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 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 (“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 plaintiffs were permitted to further amend the Securities Complaint in October 2014.

The Securities Complaint asserts claims against the Company, its directors and certain of its executive officers under Sections 11 and 15 of the Securities Act of 1933, as amended (the “Securities Act”), and seeks, on behalf of persons who purchased the Company’s Class A Common Stock in the IPO, rescission, damages of an unspecified amount and

equitable or injunctive relief. The Securities Complaint alleges, inter alia, a failure to disclose a negative trend in color cosmetics and nail products sales, the end of a partnership with a retailer, and destocking activity by U.S. mass retailers.

In September 2014, the Company filed a motion to dismiss the Securities Complaint. At the court's discretion, the parties continued to brief that motion following the October 2014 amendment of that complaint, and briefing was completed in December 2014. The motion to dismiss remains under judicial consideration. The Company believes the lawsuit is without merit and intends to vigorously defend it.

On December 21, 2012, the Company voluntarily disclosed to the U.S. Commerce Department's Bureau of Industry and Security's Office of Export Enforcement ("OEE") results of the Company's internal due diligence review conducted with the advice of outside counsel regarding certain export transactions from January 2008 through March 2012. In particular, the

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Company disclosed information relating to overall compliance with U.S. Export Administration Regulations (“EAR”). In its submission, the Company has provided OEE with an explanation of the activities that led to the sales of its products in Syria. In addition, the Company disclosed that prior to January 2010 some of its 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”). The Company does not believe these sales constituted a violation of U.S. trade sanctions administered by OFAC. The Company also notified the Office of Foreign Assets Control of its voluntary disclosure to the OEE.

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

On January 14, 2013, the Company voluntarily disclosed to the U.S. Department of Commerce’s Bureau of Industry and Security’s Office of Antiboycott Compliance (“OAC”) additional results of the Company’s internal due diligence review. In particular, the Company disclosed information relating to overall compliance with U.S. antiboycott laws by a 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. The Company believes inclusions of this legend may constitute violations of U.S. antiboycott laws. On June 28, 2013, the Company voluntarily disclosed to the OAC the final results of the Company’s internal due diligence review. The disclosure addressed the above described findings and the remedial actions the Company has taken to date. The Company cannot predict when the OAC will complete its review.

In July 2014, the Company entered into a tolling agreement with the OAC, extending the statute of limitations on the OAC’s investigation until December 31, 2014. In December 2014, the Company entered into a second tolling agreement with the OAC to further extend the statute of limitations of the investigation through and including June 30, 2015.

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. As previously disclosed, the Company believes that a penalty or penalties could be imposed from its voluntary disclosures, and that such penalty or penalties would result in a material loss is reasonably possible. Irrespective of any penalty, the Company could suffer other adverse effects on its business as a result of any violations or the potential violations, including legal costs and harm to its reputation, and the Company also will incur costs associated with its efforts to improve its compliance procedures. The Company has not established a reserve for potential penalties and does 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.

## 17. SUBSEQUENT EVENTS

In connection with the Repurchase Program, the Company repurchased 5.3 million shares of our Class A Common Stock in multiple transactions from January 1, 2015 through February 4, 2015 at prices ranging from \$18.65 to \$20.89 per share. The total fair value of all shares repurchased during this period was \$103.4. As a result, \$47.4 remains for additional repurchases under the current authorization.



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### Item 2. 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 Condensed Consolidated Financial Statements and related notes included elsewhere in this document, and in our other public filings with the Securities and Exchange Commission ("SEC"), including our Annual Report on Form 10-K for the fiscal year ended June 30, 2014 ("Fiscal 2014 Form 10-K"). 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 Part II — Item 1A. Risk Factors of our Fiscal 2014 Form 10-K 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 in Western Europe and the U.S. We are focused on growing our ten power brands around the world through innovation, strong support levels and excellence in market execution. With respect to our non-power brands, we expect to see a gradual decline of those brands which are later in their lifecycle. We are also focused on expanding our geographic footprint into emerging markets and diversifying 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."), United Arab Emirates ("U.A.E."), and Saudi Arabia during fiscal 2014 and 2015 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.

We have determined that our operating and reportable segments are Fragrances, Color Cosmetics and Skin & Body Care (also referred to as "segments"). The reportable segments also represent our product groupings. During the three months ended September 30, 2014, in conjunction with the Organizational Redesign restructuring program (see Note 4, "Restructuring Costs" in Item 1, "Condensed Consolidated Financial Statements"), we reclassified revenues and costs associated with a brand from Fragrances to Skin & Body Care operating segment. This change has been reflected in each reporting period presented, both in the segment results below and in Note 6, "Goodwill, Other Intangible Assets, Net and Other Assets" in Item 1, "Condensed Consolidated Financial Statements".

#### 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 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:



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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:

Following 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 \$7, \$4, \$1, and \$0 for the fiscal years ended June 30, 2015, 2016, 2017, and 2018 respectively. Refer to "—Critical Accounting Policies and Estimates" in our Fiscal 2014 Form 10-K 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, other (income) expense and other adjustments, 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 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.

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## Marketing and Advertising Costs

Marketing and advertising costs include the aggregate of 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 three and six months ended December 31, 2014 and 2013 are presented below:

	Three Months Ended December 31,		Six Months Ended December 31,		
	2014	2013	2014	2013	
Trade marketing spend activities	\$ 139.0	\$ 149.7	\$ 259.7	\$ 269.7	
% of Net revenues	11.0	% 11.3	% 10.6	% 10.8	%
Advertising and consumer promotional costs	270.1	293.7	530.2	538.7	
% of Net revenues	21.5	% 22.2	% 21.7	% 21.5	%
Total marketing and advertising costs	\$ 409.1	\$ 443.4	\$ 789.9	\$ 808.4	
% of Net revenues	32.5	% 33.5	% 32.3	% 32.3	%

## THREE MONTHS ENDED DECEMBER 31, 2014 AS COMPARED TO THREE MONTHS ENDED DECEMBER 31, 2013

## NET REVENUES

In the three months ended December 31, 2014, net revenues decreased 5%, or \$63.6, to \$1,259.6 from \$1,323.2 in the three months ended December 31, 2013. The decrease was primarily the result of a negative foreign currency exchange translations impact of 5% and a decrease in unit volume of 1%, partially offset by a positive price and mix impact of 1%. In fiscal 2014, we announced the discontinuation of our TJoy brand and the reorganization of our mass business in China (“China Optimization”). The discontinuation of TJoy and China Optimization had an immaterial impact on our consolidated net revenues, however negatively affected the Skin & Body Care segment in Asia Pacific. Excluding the negative impact of foreign currency exchange translations and the discontinuation of TJoy and China Optimization, total net revenues and unit volume in the three months ended December 31, 2014 were consistent with total net revenues and unit volume in the three months ended December 31, 2013 and the price and mix impact was immaterial.

## Net Revenues by Segment

(in millions)	Three Months Ended December 31,		Change	%
	2014	2013		
NET REVENUES				
Fragrances	\$ 691.7	\$ 728.5	(5	%)
Color Cosmetics	340.5	334.2	2	%)
Skin & Body Care	227.4	260.5	(13	%)
Total	\$ 1,259.6	\$ 1,323.2	(5	%)

## Fragrances

In the three months ended December 31, 2014, net revenues of Fragrances decreased 5%, or \$36.8, to \$691.7 from \$728.5 in the three months ended December 31, 2013. The decrease was primarily the result of a negative price and mix impact of 9% and a negative foreign currency exchange translations impact of 4%, partially offset by an increase in unit volume of 8%. Excluding the negative impact of foreign currency exchange translations, net revenues of Fragrances decreased 1%. The decrease in the segment reflects lower net revenues from existing celebrity brands that

are later in their lifecycles, in part reflecting pressure in the mass fragrance market, and a decline in Roberto Cavalli, primarily reflecting a lower level of new launch activity in the three months ended December 31, 2014 relative to the strong contribution from new launches in the three months ended December 31, 2013. Also contributing to the decline in the segment were lower net revenues from power brands Calvin Klein, Davidoff and Marc Jacobs, as incremental net revenues from new launches could not offset the decline from existing product lines. Partially offsetting the decrease in the segment were higher net revenues from Chloé, Jil Sander and Bottega Veneta in part due to new launches Chloé Love Story, Jil Sander Simply and Bottega Veneta Knot, along with incremental net revenues from recently launched Enrique Iglesias Adrenaline, Vespa and Love2Love. The negative price and

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mix impact primarily reflects higher relative volumes of lower-priced products sold in the mass retail channel in a certain emerging market, driven by a change in our distribution model. Also contributing to the negative price and mix was an ongoing increased level of promotional and discounted pricing activity, reflecting a competitive retail environment.

### Color Cosmetics

In the three months ended December 31, 2014, net revenues of Color Cosmetics increased 2%, or \$6.3, to \$340.5 from \$334.2 in the three months ended December 31, 2013. The increase in the segment was primarily the result of a positive price and mix impact of 9%, partially offset by a negative foreign currency exchange translations impact of 5% and a decrease in unit volume of 2%. Excluding the negative impact of foreign currency exchange translations, net revenues of Color Cosmetics increased 7%, primarily driven by strong growth in Sally Hansen, Rimmel and OPI. The increase in Sally Hansen was primarily driven by the success of new launch Sally Hansen Miracle Gel. Higher net revenues from Rimmel primarily reflect incremental net revenues from new launches such as Rimmel Wonder'full mascara and Rimmel Provocalips liquid lipstick along with growth from existing brands, such as Rimmel Lasting Finish foundation. The increase in OPI primarily reflects higher net revenues in the U.S. professional channel in part due to the launch of OPI Infinite Shine and an increase in net revenues from international subsidiaries, in part reflecting incremental net revenues following the acquisition of a U.K. distributor and higher net revenues in Australia. The positive price and mix impact for the segment primarily reflects the new launch of Sally Hansen Miracle Gel and a change in the OPI international distribution model in the U.K. and Australia, all of which positively contributed to the segment average price point.

### Skin & Body Care

In the three months ended December 31, 2014, net revenues of Skin & Body Care decreased 13%, or \$33.1, to \$227.4 from \$260.5 in the three months ended December 31, 2013. The decrease in the segment was primarily the result of a negative foreign currency exchange translations impact of 6%, a decrease in unit volume of 4% and a negative price and mix impact of 3%. The discontinuation of TJoy and China Optimization negatively impacted net revenues by 1%, contributing 2% to the unit volume decline while positively impacting price and mix by 1%. Excluding the impact to net revenues from the discontinuation of TJoy and China Optimization and the impact of foreign currency exchange translations, net revenues of Skin & Body Care decreased 6%, primarily driven by lower net revenues from adidas and Playboy. Lower net revenues from adidas primarily reflect a change in our distribution model in China, lower holiday orders in the three months ended December 31, 2014 compared to the three months ended December 31, 2013 and lower net revenues in the U.S. related to reduced shelf space at select retailers, partially offset by incremental net revenues from new launch adidas UEFA Champions League Edition and a special World Cup edition product line. The decrease in Playboy was primarily driven by declining net revenues in existing product lines and lower net revenues in the U.S. related to reduced shelf space at select retailers and lower holiday orders in the three months ended December 31, 2014 compared to the three months ended December 31, 2013, partially offset by incremental net revenues from new launches Playboy #Generation for Him and Playboy #Generation for Her and growth in Brazil due to the new commercial partnership with Avon. Also contributing to the decline in the segment were lower net revenues from philosophy due to different phasing of orders from a select U.S. retailer in the three months ended December 31, 2014 compared to the three months ended December 31, 2013. The negative price and mix impact for the segment primarily reflects a change in our distribution model in China, partially offset by higher relative volumes of higher-priced philosophy and Lancaster products compared to lower-priced adidas and Playboy 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

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Middle East and Africa) and Asia Pacific (comprising Asia and Australia).

(in millions)	Three Months Ended		Change %
	December 31,		
	2014	2013	
NET REVENUES			
Americas	\$448.9	\$461.3	(3 %)
EMEA	655.5	700.8	(6 %)
Asia Pacific	155.2	161.1	(4 %)
Total	\$1,259.6	\$1,323.2	(5 %)

Americas

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In the three months ended December 31, 2014, net revenues in the Americas decreased 3%, or \$12.4, to \$448.9 from \$461.3 in the three months ended December 31, 2013. Excluding the negative impact of foreign currency exchange translations of 2%, net revenues in the Americas decreased 1% primarily driven by lower net revenues in the U.S. and Canada. The decline in the U.S. was primarily driven by lower net revenues from Fragrances and Skin & Body Care. The decline in Fragrances in the U.S. reflects lower net revenues from existing celebrity brands that are later in their lifecycles, in part reflecting pressure in the mass fragrance market, as well as lower net revenues from Davidoff and Vera Wang. The decline in Skin & Body Care in the U.S. reflects lower net revenues of philosophy as described under “Net Revenues by Segment—Skin & Body Care” above, and lower net revenues in Playboy and adidas, in part due to reduced shelf space at select retailers in the U.S. and lower holiday orders in the three months ended December 31, 2014 compared to the three months ended December 31, 2013. Also contributing to the decline in the U.S. were lower net revenues from OPI, as growth in the professional channel was more than offset by the transfer of business to international subsidiaries, and from N.Y.C. New York Color in part due to loss of shelf space. Partially offsetting the decline in the U.S. were higher net revenues of power brands Sally Hansen and Chloé, in part reflecting the success of new launches. Lower net revenues in Canada were primarily driven by a decline in the Fragrances segment and in Sally Hansen as incremental net revenues from the launch of Sally Hansen Miracle Gel could not offset the decline from existing and discontinued product lines. Partially offsetting the decline in the region was strong growth in Brazil, due to incremental net revenues resulting from the new commercial partnership with Avon, and in our travel retail business, primarily due to strong growth in Calvin Klein and Chloé. Net revenues in Argentina were negatively impacted by foreign currency exchange translations. Excluding the impact of foreign currency exchange translations, net revenues growth in Argentina was strong, primarily reflecting higher net revenues of Rimmel.

## EMEA

In the three months ended December 31, 2014, net revenues in EMEA decreased 6%, or \$45.3, to \$655.5 from \$700.8 in the three months ended December 31, 2013. Excluding the negative impact of foreign currency exchange translations of 6%, net revenues in EMEA were consistent with the prior year period. Net revenues in Southern Europe declined, primarily reflecting the negative impact of foreign currency exchange translations, along with lower net revenues of body care products and Roberto Cavalli. Generating growth in the region was the Middle East, where we have benefited from our new U.A.E. joint venture, and our new subsidiary in South Africa. Net revenues in Russia, Eastern Europe, Germany and the U.K. declined due to the negative impact of foreign currency exchange translations, however excluding this impact these countries generated growth.

## Asia Pacific

In the three months ended December 31, 2014, net revenues in Asia Pacific decreased 4%, or \$5.9, to \$155.2 from \$161.1 in the three months ended December 31, 2013. Excluding the negative impact of foreign currency exchange translations of 4% and the impact to net revenues from the TJoy discontinuation and China Optimization of 1%, net revenues in Asia Pacific increased 1% primarily driven by growth in Australia, Hong Kong and Southeast Asia. Net revenues in Australia were affected by the negative impact of foreign currency exchange translations, however excluding this impact, net revenues increased primarily due to growth in OPI and Rimmel. Growth in Hong Kong and Southeast Asia primarily reflect higher net revenues from Calvin Klein. Results in the region were adversely impacted by lower net revenues in China. The decline in China was primarily driven by lower net revenues from adidas in part due to the change in our distribution model, lower net revenues of Calvin Klein and the discontinuation of TJoy.

## COST OF SALES

In the three months ended December 31, 2014, cost of sales decreased 7%, or \$40.4, to \$508.9 from \$549.3 in the three months ended December 31, 2013. Cost of sales as a percentage of net revenues decreased to 40.4% in the three

months ended December 31, 2014 from 41.5% in the three months ended December 31, 2013, resulting in a gross margin improvement of approximately 110 basis points. The increase in gross margin includes the positive impact from the refinement of estimates of the revaluation of inventory buyback associated with the conversion from a distributor to subsidiary distribution model in a select emerging market. Excluding this impact, gross margin improved approximately 80 basis points primarily reflecting continued contribution from our supply chain savings program, reported in cost of sales, partially offset by the negative impact of higher customer discounts and allowances necessary to compete in the difficult market environment, reported in net revenues.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES



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In the three months ended December 31, 2014, selling, general and administrative expenses decreased 11%, or \$66.5, to \$536.5 from \$603.0 in the three months ended December 31, 2013. Selling, general and administrative expenses as a percentage of net revenues decreased to 42.6% in the three months ended December 31, 2014 from 45.6% in the three months ended December 31, 2013. This decrease of approximately 300 basis points includes a reduction of approximately 200 basis points related to lower real estate consolidation program costs, acquisition-related costs and share-based compensation expense adjustment, partially offset by higher business structure realignment costs. See “Adjusted Operating Income.” Excluding the items described above, selling, general and administrative expenses decreased 7%, or \$40.0, to \$530.1 from \$570.1 in the three months ended December 31, 2013 and decreased as a percentage of net revenues to 42.1% from 43.1%. This decrease of approximately 100 basis points primarily reflects lower advertising and consumer promotion spending, in part due to a focus on improving spend efficiency behind our non-power brands. Advertising and consumer promotion spending on our power brands increased compared to the prior year period. Administrative costs in the three months ended December 31, 2014 decreased compared to the three months ended December 31, 2013 reflecting costs savings resulting from our Organizational Redesign and China Optimization programs, along with the positive impact of foreign currency exchange translations.

**OPERATING INCOME**

In the three months ended December 31, 2014, operating income increased 28%, or \$40.2, to \$183.7 from \$143.5 in the three months ended December 31, 2013. Operating margin, or operating income as a percentage of net revenues, increased to 14.6% of net revenues in the three months ended December 31, 2014 as compared to 10.8% in the three months ended December 31, 2013. This margin improvement reflects approximately 300 basis points related to lower selling, general and administrative expenses, approximately 110 basis points related to lower cost of sales and approximately 20 basis points related to lower amortization expense primarily due to the impairment of the TJoy trademark and customer relationships, partially offset by approximately 60 basis points related to higher restructuring costs.

**Operating Income by Segment**

(in millions)	Three Months Ended		Change	%
	December 31, 2014	December 31, 2013		
<b>OPERATING INCOME (LOSS)</b>				
Fragrances	\$ 145.5	\$ 133.4	9	%
Color Cosmetics	40.0	33.7	19	%
Skin & Body Care	15.1	16.2	(7)	(%)
Corporate	(16.9	) (39.8	) 58	%
Total	\$ 183.7	\$ 143.5	28	%

**Fragrances**

In the three months ended December 31, 2014, operating income for Fragrances increased 9%, or \$12.1, to \$145.5 from \$133.4 in the three months ended December 31, 2013. Operating margin increased to 21.0% of net revenues in the three months ended December 31, 2014 as compared to 18.3% in the three months ended December 31, 2013, primarily driven by lower selling, general and administrative expenses.

**Color Cosmetics**

In the three months ended December 31, 2014, operating income for Color Cosmetics increased 19%, or \$6.3, to \$40.0 from \$33.7 in the three months ended December 31, 2013. The increase in operating income primarily reflects higher net revenues and improvement in operating margin. Operating margin increased to 11.7% of net revenues in

the three months ended December 31, 2014 as compared to 10.1% in the three months ended December 31, 2013, primarily reflecting lower cost of sales as a percentage of net revenues, partially offset by higher selling, general and administrative expenses as a percentage of net revenues.

#### Skin & Body Care

In the three months ended December 31, 2014, operating income for Skin & Body Care decreased 7%, or \$1.1, to \$15.1 from \$16.2 in the three months ended December 31, 2013. The decrease in operating income primarily reflects lower net revenues, partially offset by an improvement in operating margin. Operating margin increased to 6.6% of net revenues in the three months ended December 31, 2014 as compared to 6.2% in the three months ended December 31, 2013, primarily driven

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by lower selling, general and administrative expenses and amortization expense as percentages of net revenues, partially offset by higher cost of sales as a percentage of net revenues.

## Corporate

Corporate primarily includes corporate expenses not directly related 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.

In the three months ended December 31, 2014, operating loss for Corporate was \$16.9 compared to \$39.8 in the three months ended December 31, 2013, as described under “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:

(in millions)	Three Months Ended			Change	%
	December 31,				
	2014	2013			
Reported Operating Income	\$183.7	\$143.5	28		%
% of Net revenues	14.6	% 10.8	%		
Restructuring and other business realignment costs	15.1	6.4	>100%		
Share-based compensation expense adjustment	2.2	3.5	(37		%)
Acquisition-related costs	0.3	17.3	(98		%)
China Optimization	0.3	—	N/A		
Public entity preparedness costs	—	0.3	(100		%)
Real estate consolidation program costs	(0.7	) 12.3	<(100%)		
Total adjustments to Reported Operating Income	17.2	39.8	(57		%)
Adjusted Operating Income	\$200.9	\$183.3	10		%
% of Net revenues	15.9	% 13.9	%		

In the three months ended December 31, 2014, Adjusted Operating Income increased 10%, or \$17.6, to \$200.9 from \$183.3 in the three months ended December 31, 2013. Adjusted operating margin increased to 15.9% of net revenues in the three months ended December 31, 2014 as compared to 13.9% in the three months ended December 31, 2013, reflecting lower selling, general and administrative expenses, as described under “Selling, General and Administrative Expenses” above, cost of sales and amortization expense. Excluding the impact of foreign currency exchange translations, Adjusted Operating Income increased 12%.

## Restructuring and Other Business Realignment Costs

In the three months ended December 31, 2014, we incurred restructuring and other business structure realignment costs of \$15.1.

- We incurred restructuring costs of \$12.0, included in restructuring costs in the Condensed Consolidated Statements of Operations, which primarily relates to the Organizational Redesign.

We incurred business structure realignment costs of \$3.1 primarily related to our Organizational Redesign and certain other programs, included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

In the three months ended December 31, 2013, we incurred restructuring and other business structure realignment costs of \$6.4.

We incurred restructuring costs of \$4.7, included in restructuring costs in the Condensed Consolidated Statements of Operations, primarily related to the Productivity Program which targeted the integration of supply chain and selling activities within the Skin & Body Care segment, as well as certain commercial

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organization re-design activities, primarily in Europe, productivity programs across our supply chain and optimization of selected administrative support functions.

We incurred business structure realignment costs of \$1.7. These costs include \$1.4 related to certain other programs in North America, of which \$0.2 consisted of accelerated depreciation, included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and \$0.3 of costs related to integration expenses included in cost of sales in the Condensed Consolidated Statements of Operations.

In all reported periods, all restructuring and other business realignment costs were reported in Corporate.

### Share-Based Compensation Adjustment

Share-based compensation expense adjustment included in the calculation of Adjusted Operating Income was \$2.2 and \$3.5 in the three months ended December 31, 2014 and 2013, respectively. The decrease in the share-based compensation expense adjustment primarily reflects an increase in the expected forfeiture rate reflecting the impact of our recent Organizational Redesign and the impact of the vesting of special incentive awards associated with our initial public offering.

Senior management evaluates operating performance of our segments based on the share-based expense calculated under equity plan accounting for the recurring stock option awards, share-based awards, and director-owned and employee-owned shares, and we follow the same treatment of the share-based compensation for the financial covenant compliance calculations under our debt agreements. See “Overview—Non-GAAP Financial Measures.” Share-based compensation expense calculated under equity plan accounting for the recurring nonqualified stock option awards and director-owned and employee-owned shares, restricted shares, and RSUs is reflected in the operating results of the segments. Share-based compensation adjustment is included in Corporate. See Note 3, “Segment Reporting” in our notes to the Condensed Consolidated Financial Statements.

### Acquisition-Related Costs

In the three months ended December 31, 2014, we incurred acquisition-related costs of \$0.3. These costs include \$1.6 of transaction-related costs associated with a contemplated acquisition, included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and income of \$1.3 due to the refinement in estimates related to the revaluation of inventory buyback associated with the conversion from distributor to subsidiary distribution model in a select emerging market, included in cost of sales in the Condensed Consolidated Statements of Operations.

In the three months ended December 31, 2013, we incurred acquisition-related costs of \$17.3. These costs include \$15.4 of fees primarily related to the termination of a pre-existing manufacturing and distribution contract in South Africa after forming our wholly owned subsidiary in South Africa, included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and \$1.9 of costs related to acquisition accounting impacts of revaluation of acquired inventory, included in cost of sales in the Condensed Consolidated Statements of Operations.

In all reported periods, all acquisition-related costs were reported in Corporate.

### China Optimization

In the three months ended December 31, 2014, we incurred China Optimization costs of \$0.3 related to the Color Cosmetics segment. China Optimization costs primarily reflect refinement in estimates and miscellaneous costs associated with the program.

#### Public Entity Preparedness Costs

In the three months ended December 31, 2013, we incurred public entity preparedness costs of \$0.3 consisting of remaining miscellaneous costs associated with our initial public offering, recorded in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and included in Corporate.

#### Real Estate Consolidation Program Costs

In the three months ended December 31, 2014, we incurred \$0.7 of income related to the refinement of lease loss expense estimates in connection with the consolidation of real estate in New York, recorded in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

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In the three months ended December 31, 2013, we incurred \$12.3 of costs in connection with the consolidation of real estate in New York. The real estate consolidation program costs primarily consist of \$8.9 of lease loss expense, \$1.5 of duplicative rent expense and \$1.2 of depreciation recorded in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

In all reported periods, all real estate consolidation program costs were reported in Corporate.

## INTEREST EXPENSE, NET

In the three months ended December 31, 2014, interest expense, net was \$19.1 as compared with \$16.7 in the three months ended December 31, 2013. This increase is primarily due to an increase in foreign exchange expense of \$2.2, net of derivative foreign exchange contracts.

## INCOME TAXES

The effective income tax rate for the three months ended December 31, 2014 and 2013 is 17.9% and 26.6%, respectively. The variations in the effective tax rates from the prior year period to the current year period were primarily due to the positive impacts associated with decrease in the reserve for unrecognized tax benefits, the settlement of a tax audit in a foreign jurisdiction for approximately \$32.5 during the three months ended December 31, 2014 and the expiration of foreign statutes of limitation, partially offset by the negative impact associated with the tax expense associated with the planned intercompany transfer of certain license agreements utilized substantially in our foreign operations and excess U.S. net deferred tax assets that cannot be recognized.

The effective rates vary from the U.S. federal statutory rate of 35% due to the effect of (1) jurisdictions with different statutory rates, (2) adjustments to our unrecognized tax benefits and accrued interest, (3) non-deductible expenses and (4) valuation allowance changes. Our effective tax rate could fluctuate significantly and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates.

## Reconciliation of Reported Income Before Income Taxes to Adjusted Income Before Income Taxes and Effective Tax Rates:

(in millions)	Three Months Ended December 31, 2014			Three Months Ended December 31, 2013		
	Income Before Income Taxes	Provision for Income Taxes	Effective Tax Rate	Income Before Income Taxes	Provision for Income Taxes	Effective Tax Rate
Reported Income Before Income Taxes	\$164.3	\$29.4	17.9 %	\$126.8	\$33.7	26.6 %
Adjustments to Reported Operating Income <sup>(a)</sup>	17.2	(20.2 )		39.8	11.0	
Adjusted Income Before Income Taxes	\$181.5	\$9.2	5.1 %	\$166.6	\$44.7	26.8 %

<sup>(a)</sup> See “Reconciliation of Operating Income to Adjusted Operating Income” in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The adjusted effective tax rate was 5.1% compared to 26.8% in the prior-year period. The differences were primarily due to the positive impacts associated with a decrease in the accrual for unrecognized tax benefits, the settlement of tax audits in multiple foreign jurisdictions approximating \$32.5 and the expiration of foreign statutes of limitation, partially offset by the negative impact associated with the tax expense associated with the planned intercompany transfer of certain license agreements utilized substantially in our foreign operations and excess U.S. net deferred tax assets that cannot be recognized. Cash paid during the quarter for income taxes of \$43.4 and \$32.0, represents 23.9%

and 19.2% of Adjusted income before income taxes for the three months ended December 31, 2014 and 2013, respectively.

NET INCOME ATTRIBUTABLE TO COTY INC.

In the three months ended December 31, 2014, net income attributable to Coty Inc. increased 52%, or \$42.9, to \$125.4, from \$82.5 in the three months ended December 31, 2013. This increase primarily reflects higher operating income and lower tax expense, partially offset by higher interest expense, net as described above.



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We believe that Adjusted Net Income Attributable to Coty Inc. provides an enhanced understanding of our performance. See “Overview—Non-GAAP Financial Measures.”

(in millions)	Three Months Ended			Change %	
	December 31,				
	2014	2013			
Reported Net Income Attributable to Coty Inc.	\$125.4	\$82.5	52	%	
% of Net revenues	10.0	% 6.2	%		
Adjustments to Reported Operating Income <sup>(a)</sup>	17.2	39.8	(57	%)	
Adjustments to noncontrolling interest expense <sup>(b)</sup>	0.4	—	N/A		
Change in tax provision due to adjustments to Reported Net Income Attributable to Coty Inc.	20.2	(11.0	)	>100%	
Adjusted Net Income Attributable to Coty Inc.	\$163.2	\$111.3	47	%	
% of Net revenues	13.0	% 8.4	%		
Per Share Data					
Adjusted weighted-average common shares					
Basic	353.4	384.4			
Diluted	362.6	393.3			
Adjusted net income attributable to Coty Inc. per common share					
Basic	\$0.46	\$0.29			
Diluted	0.45	0.28			

(a) See “Reconciliation of Operating Income to Adjusted Operating Income” in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

(b) Noncontrolling interest expense associated with the refinement of estimates related to the revaluation of inventory buyback associated with the conversion from a distributor to subsidiary distribution model in a select emerging market. Included in net income attributable to noncontrolling interests in the Condensed Consolidated Statements of Operations.

## SIX MONTHS ENDED DECEMBER 31, 2014 AS COMPARED TO SIX MONTHS ENDED DECEMBER 31, 2013

## NET REVENUES

In the six months ended December 31, 2014, net revenues decreased 2%, or \$59.5, to \$2,441.9 from \$2,501.4 in the six months ended December 31, 2013. The decrease was primarily the result of a negative foreign currency exchange translations impact of 2%. Unit volume in the six months ended December 31, 2014 was consistent with unit volume in the six months ended December 31, 2013, and price and mix impact was immaterial. In fiscal 2014, we announced the discontinuation of our TJoy brand and the reorganization of our mass business in China (“China Optimization”). Excluding the negative impact of foreign currency exchange translations and the discontinuation of TJoy and China Optimization, total net revenues in the six months ended December 31, 2014 were consistent with total net revenues in the six months ended December 31, 2013, reflecting a unit volume increase of 1% and a negative price and mix impact of 1%. The impact to net revenues from the discontinuation of TJoy and China Optimization negatively affected primarily our Skin & Body Care segment in Asia Pacific.

## Net Revenues by Segment

(in millions)	Six Months Ended			Change %
	December 31,			
	2014	2013		
NET REVENUES				

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Fragrances	\$1,332.6	\$1,387.4	(4	%)
Color Cosmetics	684.6	645.7	6	%)
Skin & Body Care	424.7	468.3	(9	%)
Total	\$2,441.9	\$2,501.4	(2	%)

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## Fragrances

In the six months ended December 31, 2014, net revenues of Fragrances decreased 4%, or \$54.8, to \$1,332.6 from \$1,387.4 in the six months ended December 31, 2013. The decrease was primarily the result of a negative price and mix impact of 9% and a negative foreign currency exchange translations impact of 2%, partially offset by an increase in unit volume of 7%. Excluding the negative impact of foreign currency exchange translations, net revenues of Fragrances decreased 2%. The decrease in the segment reflects lower net revenues from existing celebrity brands that are later in their lifecycles, in part reflecting pressure in the mass fragrance market, and a decline in Roberto Cavalli, reflecting lower new launch activity in the six months ended December 31, 2014 relative to the strong contribution from new launches in the six months ended December 31, 2013. Also contributing to the decline in the segment were lower net revenues from Vera Wang and Davidoff. Partially offsetting the decrease in the segment were higher net revenues from power brands Chloé and Marc Jacobs in part due to the new launches of Chloé Love Story and Marc Jacobs Daisy Dream, along with incremental net revenues from recently launched Enrique Iglesias Adrenaline and Vespa. Results for Calvin Klein were negatively impacted by foreign currency exchange translations. Excluding the impact of foreign currency exchange translations, net revenues for Calvin Klein increased in part due to incremental net revenues from new launches Calvin Klein Reveal and Calvin Klein Endless Euphoria. The negative price and mix impact primarily reflects higher relative volumes of lower-priced products sold in the mass retail channel in a certain emerging market, driven by a change in our distribution model. Also contributing to the negative price and mix was an ongoing increased level of promotional and discounted pricing activity, reflecting a competitive retail environment.

## Color Cosmetics

In the six months ended December 31, 2014, net revenues of Color Cosmetics increased 6%, or \$38.9, to \$684.6 from \$645.7 in the six months ended December 31, 2013. The increase in the segment was primarily the result of a positive price and mix impact of 6% and an increase in unit volume of 2%, partially offset by a negative foreign currency exchange translations impact of 2%. Excluding the negative impact of foreign currency exchange translations, net revenues of Color Cosmetics increased 8%. Higher net revenues were primarily driven by strong growth in Rimmel and Sally Hansen. The increase in Rimmel primarily reflects incremental net revenues from new launches such as Rimmel Wonder'full mascara and Rimmel Provocalips liquid lipstick along with growth from existing brands, such as Rimmel Lasting Finish foundation. Higher net revenues from Sally Hansen were primarily driven by the success of new launch Sally Hansen Miracle Gel. Results for OPI were consistent with the prior year period as an increase in net revenues from international subsidiaries, in part reflecting incremental net revenues following the acquisition of a U.K. distributor and higher net revenues in Australia, were offset by a decline in the U.S. retail channel driven by lower net revenues of Nicole by OPI. The positive price and mix impact for the segment primarily reflects the new launch of Sally Hansen Miracle Gel and a change in the OPI international distribution model in the U.K. and Australia, all of which positively contributed to the segment average price point.

## Skin &amp; Body Care

In the six months ended December 31, 2014, net revenues of Skin & Body Care decreased 9%, or \$43.6, to \$424.7 from \$468.3 in the six months ended December 31, 2013. The decrease in the segment was primarily the result of a decline in unit volume of 6% and a negative foreign currency exchange translations impact of 3%. The discontinuation of TJoy and China Optimization negatively impacted net revenues growth by 1%, contributing 2% to the unit volume decline and positively impacted price and mix by 1%. Excluding the negative impact of foreign currency exchange translations and the impact to net revenues from the discontinuation of TJoy and China Optimization, net revenues of Skin & Body Care decreased 5%. The decrease in the segment was primarily driven by lower net revenues from adidas and Playboy. Lower net revenues from adidas primarily reflect a change in our distribution model in China, a decline in the U.S. primarily related to lower holiday orders and reduced shelf space at a key retailer in the six months ended December 31, 2014 compared to the six months ended December 31, 2013,

difficult trading conditions in Africa and declining net revenues in existing product lines. Partially offsetting these declines in adidas were incremental net revenues in Brazil, due to the new commercial partnership with Avon, and incremental net revenues from new launch adidas UEFA Champions League Edition and a special World Cup edition product line. The decline in Playboy was primarily driven by declining net revenues in existing product lines and lower net revenues in the U.S. related to reduced shelf space at select retailers and lower holiday orders in the six months ended December 31, 2014 compared to the six months ended December 31, 2013, partially offset by incremental net revenues from new launches Playboy #Generation for Him, Playboy #Generation for Her, Playboy Play It Pin Up and Playboy VIP for Him Black and growth in Brazil, due to the new commercial partnership with Avon. Partially offsetting the decrease in the segment were higher net revenues from philosophy primarily reflecting strong growth in Asia Pacific, in part due to expanded distribution, and higher net revenues in the U.S. retail channel.

Net Revenues by Geographic Regions

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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).

(in millions)	Six Months Ended		Change %
	December 31,		
	2014	2013	
NET REVENUES			
Americas	\$896.2	\$929.9	(4 %)
EMEA	1,249.4	1,269.7	(2 %)
Asia Pacific	296.3	301.8	(2 %)
Total	\$2,441.9	\$2,501.4	(2 %)

## Americas

In the six months ended December 31, 2014, net revenues in the Americas decreased 4%, or \$33.7, to \$896.2 from \$929.9 in the six months ended December 31, 2013. Excluding the negative impact of foreign currency exchange translations of 1%, net revenues in the Americas decreased 3% primarily driven by lower net revenues in the U.S. and Canada, partially offset by strong growth in Brazil due to incremental net revenues resulting from the new commercial partnership with Avon. The decline in the U.S. was primarily driven by lower net revenues of Fragrances, in part due to lower net revenues from existing celebrity brands that are later in their lifecycles, Vera Wang, Davidoff and Nautica, along with lower net revenues of OPI, as described under “Net Revenues by Segment—Color Cosmetics” above, and of adidas and Playboy, in part due to reduced shelf space at select retailers in the U.S and lower holiday orders in the six months ended December 31, 2014 compared to the six months ended December 31, 2013. Partially offsetting the decline in the U.S. were higher net revenues of power brands Sally Hansen, Rimmel and Marc Jacobs, in part reflecting the success of new launches. Lower net revenues in Canada were primarily driven by a decline in the Fragrances segment.

## EMEA

In the six months ended December 31, 2014, net revenues in EMEA decreased 2%, or \$20.3, to \$1,249.4 from \$1,269.7 in the six months ended December 31, 2013. Excluding the negative impact of foreign currency exchange translations of 4%, net revenues in EMEA increased 2%. Generating growth in the region was the U.K., our new subsidiary in South Africa and the Middle East, where we have benefited from our new U.A.E. joint venture. Growth in the U.K. primarily reflects a strong increase in Color Cosmetics, driven by incremental net revenues from OPI due to the acquisition of a U.K. distributor and increased net revenues from Rimmel, along with the positive impact of foreign currency translations resulting from the improvement of the British Pound exchange rate. Net revenues in Russia, Southern Europe and Germany declined due to the negative impact of foreign currency exchange translations, however excluding the impact of foreign currency exchange translations, these countries generated growth. Net revenues in Eastern Europe were consistent with the prior year, primarily reflecting the negative impact of foreign currency exchange translations. Excluding the impact of foreign currency exchange translations, net revenues growth in Eastern Europe was strong.

## Asia Pacific

In the six months ended December 31, 2014, net revenues in Asia Pacific decreased 2%, or \$5.5, to \$296.3 from \$301.8 in the six months ended December 31, 2013. Excluding the negative impact of foreign currency exchange translations of 2% and the impact to net revenues from the discontinuation of TJoy and China Optimization of 2%, net revenues in Asia Pacific increased 2% primarily driven by growth in Australia, Hong Kong, Southeast Asia and our

travel retail business. Net revenues in Australia, our largest market in the region, were driven by growth in Color Cosmetics reflecting incremental net revenues from OPI and growth in Sally Hansen and Rimmel, partially offset by the negative impact of foreign currency exchange translations. Growth in Hong Kong, Southeast Asia and our travel retail business primarily reflect higher net revenues from Fragrances sold through the prestige distribution channel and strong growth in philosophy, in part due to expanded distribution. Results in the region were adversely impacted by lower net revenues in China. The decline in China was primarily driven by lower net revenues from adidas, in part due to the change in our distribution model, and by the discontinuation of TJoy.

#### COST OF SALES

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In the six months ended December 31, 2014, cost of sales decreased 3%, or \$30.2, to \$991.1 from \$1,021.3 in the six months ended December 31, 2013. Cost of sales as a percentage of net revenues decreased to 40.6% in the six months ended December 31, 2014 from 40.8% in the six months ended December 31, 2013, resulting in a gross margin improvement of approximately 20 basis points. The increase in gross margin includes the impact of the revaluation of inventory buyback associated with the conversion from distributor to subsidiary distribution model in a select emerging market. Excluding this impact, gross margin improved approximately 30 basis points primarily reflecting continued contribution from our supply chain savings program, reported in cost of sales, partially offset by the negative impact of higher customer discounts and allowances necessary to compete in the difficult market environment, reported in net revenues.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In the six months ended December 31, 2014, selling, general and administrative expenses decreased 6%, or \$62.3, to \$1,057.1 from \$1,119.4 in the six months ended December 31, 2013. Selling, general and administrative expenses as a percentage of net revenues decreased to 43.3% in the six months ended December 31, 2014 from 44.7% in the six months ended December 31, 2013. This decrease of approximately 140 basis points includes a reduction of approximately 170 basis points primarily related to lower real estate consolidation program costs, acquisition-related costs and share-based compensation expense adjustment. See "Adjusted Operating Income." Excluding the items described above, selling, general and administrative expenses decreased 2%, or \$18.6, to \$1,049.0 from \$1,067.6 in the six months ended December 31, 2013 and increased as a percentage of net revenues to 43.0% from 42.7%. This increase of 30 basis points primarily reflects higher advertising and consumer promotion spending as a percentage of net revenues, reflecting our commitment to invest behind our power brands. Administrative costs in the six months ended December 31, 2014 decreased compared to the six months ended December 31, 2013, reflecting costs savings resulting from our Organizational Redesign and China Optimization programs, lower discretionary costs reflecting our focus on cost containment in developed markets and the positive impact of foreign currency exchange translations, partially offset by higher accruals related to the management incentive program.

## OPERATING INCOME

In the six months ended December 31, 2014, operating income decreased 2%, or \$5.3, to \$303.8 from \$309.1 in the six months ended December 31, 2013. Operating margin, or operating income as a percentage of net revenues, of 12.4% in the six months ended December 31, 2014 was consistent with 12.4% in the six months ended December 31, 2013 and reflects approximately 140 basis points related to lower selling, general and administrative expenses, approximately 30 basis points related to lower amortization expense primarily due to the impairment of the TJoy trademark and customer relationships and approximately 20 basis points related to lower cost of sales, partially offset by higher restructuring costs of approximately 190 basis points.

## Operating Income by Segment

(in millions)	Six Months Ended		Change %
	December 31, 2014	2013	
OPERATING INCOME (LOSS)			
Fragrances	\$266.0	\$279.2	(5 %)
Color Cosmetics	82.5	70.5	17 %
Skin & Body Care	18.8	19.7	(5 %)
Corporate	(63.5)	(60.3)	(5 %)
Total	\$303.8	\$309.1	(2 %)

Fragrances

In the six months ended December 31, 2014, operating income for Fragrances decreased 5%, or \$13.2, to \$266.0 from \$279.2 in the six months ended December 31, 2013. The decrease in operating income reflects lower net revenues. Operating margin decreased to 20.0% of net revenues in the six months ended December 31, 2014 as compared to 20.1% in the six months ended December 31, 2013, primarily driven by higher cost of sales as a percentage of net revenues partially offset by lower selling, general and administrative expenses as a percentage of net revenues.

Color Cosmetics



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In the six months ended December 31, 2014, operating income for Color Cosmetics increased 17%, or \$12.0, to \$82.5 from \$70.5 in the six months ended December 31, 2013. The increase in operating income primarily reflects higher net revenues and improvement in operating margin. Operating margin increased to 12.1% of net revenues in the six months ended December 31, 2014 as compared to 10.9% in the six months ended December 31, 2013, primarily reflecting lower cost of sales as a percentage of net revenues, partially offset by higher selling, general and administrative expenses as a percentage of net revenues.

## Skin &amp; Body Care

In the six months ended December 31, 2014, operating income for Skin & Body Care decreased 5%, or \$0.9, to \$18.8 from \$19.7 in the six months ended December 31, 2013. Operating margin increased to 4.4% of net revenues in the six months ended December 31, 2014 as compared to 4.2% in the six months ended December 31, 2013, and includes charges related to China Optimization.

Excluding charges related to China Optimization, operating income increased 4%, or \$0.8, to \$20.5 from \$19.7 in the six months ended December 31, 2013. Operating margin increased to 4.8% of net revenues in the six months ended December 31, 2014 as compared to 4.2% in the six months ended December 31, 2013, primarily driven by lower amortization expense and selling, general and administrative expenses as percentages of net revenues, partially offset by higher cost of sales as a percentage of net revenues.

## Corporate

Corporate primarily includes corporate expenses not directly related 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.

In the six months ended December 31, 2014, operating loss for Corporate was \$63.5 compared to \$60.3 in the six months ended December 31, 2013, as described under “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:

(in millions)	Six Months Ended			Change %
	December 31,			
	2014	2013		
Reported Operating Income	\$ 303.8	\$ 309.1	(2	%)
% of Net revenues	12.4	% 12.4	%	
Restructuring and other business realignment costs	56.4	9.2	>100%	
Acquisition-related costs	5.0	17.5	(71	%)
Share-based compensation expense adjustment	2.8	13.4	(79	%)
China Optimization	0.7	—	N/A	
Public entity preparedness costs	—	1.2	(100	%)
Real estate consolidation program costs	(0.7	) 19.0	<(100%)	
Total adjustments to Reported Operating Income	64.2	60.3	6	%
Adjusted Operating Income	\$368.0	\$369.4	—	%
% of Net revenues	15.1	% 14.8	%	

In the six months ended December 31, 2014, Adjusted Operating Income decreased \$1.4, to \$368.0 from \$369.4 in the six months ended December 31, 2013. Adjusted operating margin increased to 15.1% of net revenues in the six months ended December 31, 2014 as compared to 14.8% in the six months ended December 31, 2013, driven by lower cost of sales and amortization expense, partially offset by higher selling, general and administrative expenses, as described under “Selling,

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General and Administrative Expenses” above. Excluding the impact of foreign currency exchange translations, Adjusted Operating Income increased 1%.

### Restructuring and Other Business Realignment Costs

In the six months ended December 31, 2014, we incurred restructuring and other business structure realignment costs of \$56.4.

- We incurred restructuring costs of \$52.5, included in restructuring costs in the Condensed Consolidated Statements of Operations, which primarily relates to the Organizational Redesign.

We incurred business structure realignment costs of \$3.9 primarily related to our Organizational Redesign and certain other programs, included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

In the six months ended December 31, 2013, we incurred restructuring and other business structure realignment costs of \$9.2.

We incurred restructuring costs of \$6.3, included in restructuring costs in the Condensed Consolidated Statements of Operations, primarily related to the Productivity Program which targeted the integration of supply chain and selling activities within the Skin & Body Care segment, as well as certain commercial organization re-design activities, primarily in Europe, productivity programs across our supply chain and optimization of selected administrative support functions.

We incurred business structure realignment costs of \$2.9. These costs include \$2.6 related to certain other programs in North America, of which \$0.4 consisted of accelerated depreciation, included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations. Also included were \$0.3 of costs related to integration expenses included in cost of sales in the Condensed Consolidated Statements of Operations.

In all reported periods, all restructuring and other business realignment costs were reported in Corporate.

### Acquisition-Related Costs

In the six months ended December 31, 2014, we incurred costs of \$5.0 related to the revaluation of inventory buyback associated with the conversion from distributor to subsidiary distribution model in a select emerging market of \$3.4, included in cost of sales in the Condensed Consolidated Statements of Operations and transaction-related costs incurred in connection with a contemplated acquisition of \$1.6, included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

In the six months ended December 31, 2013, we incurred acquisition-related costs of \$17.5. These costs include \$15.6 of fees primarily related to the termination of a pre-existing manufacturing and distribution contract in South Africa after forming our wholly owned subsidiary in South Africa, included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations, and \$1.9 of costs related to acquisition accounting impacts of revaluation of acquired inventory, included in cost of sales in the Condensed Consolidated Statements of Operations.

In all reported periods, all acquisition-related costs were reported in Corporate.

### Share-Based Compensation Adjustment

Share-based compensation expense adjustment included in the calculation of Adjusted Operating Income was \$2.8 and \$13.4 in the six months ended December 31, 2014 and 2013, respectively. The decrease in the share-based compensation expense adjustment primarily reflects an increase in the expected forfeiture rate reflecting the impact of our recent Organizational Redesign and the impact of the vesting of special incentive awards associated with our

initial public offering.

Senior management evaluates operating performance of our segments based on the share-based expense calculated under equity plan accounting for the recurring stock option awards, share-based awards, and director-owned and employee-owned shares, and we follow the same treatment of the share-based compensation for the financial covenant compliance calculations under our debt agreements. See “Overview—Non-GAAP Financial Measures.” Share-based compensation expense calculated under equity plan accounting for the recurring nonqualified stock option awards and director-owned and employee-owned shares, restricted shares, and RSUs is reflected in the operating results of the segments. Share-based compensation adjustment is included in Corporate. See Note 3, “Segment Reporting” in our notes to the Condensed Consolidated Financial Statements.

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### China Optimization

In the six months ended December 31, 2014, we incurred costs of \$0.7 related to China Optimization, which consisted of costs of \$1.7 in the Skin & Body Care segment and income of \$1.0 in the Color Cosmetics segment. China Optimization costs primarily reflect refinement in estimates and miscellaneous costs associated with the program.

### Public Entity Preparedness Costs

In the six months ended December 31, 2013, we incurred public entity preparedness costs of \$1.2 primarily consisting of a third party expense reimbursement to JAB Holdings II B.V., Berkshire Partners LLC and Rhône Capital L.L.C. as described in “Certain Relationships and Related Transaction, and Director Independence - Third Party Expenses” in Part III - Item 13 of our Annual Report on Form 10-K for the year ended June 30, 2013 and remaining miscellaneous costs associated with our initial public offering. Public entity preparedness costs were recorded in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and were included in Corporate.

### Real Estate Consolidation Program Costs

In the six months ended December 31, 2014, we incurred \$0.7 of income related to the refinement of lease loss expense estimates in connection with the consolidation of real estate in New York, recorded in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

In the six months ended December 31, 2013, we incurred \$19.0 of costs in connection with the consolidation of real estate in New York. The real estate consolidation program costs primarily consist of \$8.9 of lease loss expense, \$4.6 of depreciation and \$4.2 of duplicative rent expense, recorded in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations and were included in Corporate.

In all reported periods, all real estate consolidation program costs were reported in Corporate.

### INTEREST EXPENSE, NET

In the six months ended December 31, 2014, interest expense, net was \$38.7 as compared with \$34.1 in the six months ended December 31, 2013. This increase is primarily due to an increase in foreign exchange expense of \$2.7, net of derivative foreign exchange contracts, higher year-over-year average debt balances for which we incurred an additional \$0.9 in interest expense, and an increase in amortization of deferred financing costs of \$0.6 due to the credit facility amendment completed during the first quarter of fiscal 2015.

### LOSS ON EARLY EXTINGUISHMENT OF DEBT

In the three months ended September 30, 2014, we incurred \$88.8 in losses on the early extinguishment of debt in conjunction with the repurchase of our Senior Notes as described in “—Financial Condition—Liquidity and Capital Resources” below.

### INCOME TAXES

The effective income tax rate for the six months ended December 31, 2014 and 2013 was 13.9% and 29.0%, respectively. The variations in the effective tax rates from the prior year period to the current year period were primarily due to the positive impacts associated with decrease in the reserve for unrecognized tax benefits, the settlement of tax audits in multiple foreign jurisdictions for approximately \$34.4 during the six months ended December 31, 2014 and the expiration of foreign statutes of limitation, partially offset by the negative impact

associated with the tax expense associated with the planned intercompany transfer of certain license agreements utilized substantially in our foreign operations and excess U.S. net deferred tax assets that cannot be recognized.

The effective rates vary from the U.S. federal statutory rate of 35% due to the effect of (1) jurisdictions with different statutory rates, (2) adjustments to our unrecognized tax benefits and accrued interest, (3) non-deductible expenses and (4) valuation allowance changes. Our effective tax rate could fluctuate significantly and could be adversely affected to the extent earnings are lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates.

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## Reconciliation of Reported Income Before Income Taxes to Adjusted Income Before Income Taxes and Effective Tax Rates:

(in millions)	Six Months Ended December 31, 2014				Six Months Ended December 31, 2013			
	Income Before Income Taxes	Provision for Income Taxes	Effective Tax Rate		Income Before Income Taxes	Provision for Income Taxes	Effective Tax Rate	
Reported Income Before Income Taxes	\$176.0	\$24.4	13.9	%	\$275.2	\$79.9	29.0	%
Adjustments to Reported Operating Income <sup>(a)</sup>	64.2	9.1			60.3	16.7		
Other adjustments <sup>(b)</sup>	88.8	12.5			—	—		
Adjusted Income Before Income Taxes	\$329.0	\$46.0	14.0	%	\$335.5	\$96.6	28.8	%

<sup>(a)</sup> See “Overview—Non-GAAP Financial Measures” for further information.

<sup>(b)</sup> See “Reconciliation of Net Income Attributable to Coty Inc. to Adjusted Net Income Attributable to Coty Inc.” in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

The adjusted effective tax rate was 14.0% compared to 28.8% in the prior-year period. The differences were primarily due to the positive impacts associated with a decrease in the accrual for unrecognized tax benefits, the settlement of tax audits in multiple foreign jurisdictions approximating \$34.4 and the expiration of foreign statutes of limitation, partially offset by the negative impact associated with the tax expense associated with the planned intercompany transfer of certain license agreements utilized substantially in our foreign operations and excess U.S. net deferred tax assets that cannot be recognized. Cash paid during the six months ended December 31, 2014 and 2013, for income taxes of \$70.0 and \$49.7, represents 21.3% and 14.8% of Adjusted income before income taxes for the nine months ended, respectively.

## NET INCOME ATTRIBUTABLE TO COTY INC.

In the six months ended December 31, 2014, net income attributable to Coty Inc. decreased 23%, or \$40.0, to \$136.0, from \$176.0 in the six months ended December 31, 2013. This decrease primarily reflects lower operating income, higher interest expense, net and loss on early extinguishment of debt, partially offset by lower tax expense as described above.

We believe that Adjusted Net Income Attributable to Coty Inc. provides an enhanced understanding of our performance. See “Overview—Non-GAAP Financial Measures.”

(in millions)	Six Months Ended December 31,			Change %	
	2014	2013			
Reported Net Income Attributable to Coty Inc.	\$136.0	\$176.0	(23	%)	
% of Net revenues	5.6	% 7.0	%		
Adjustments to Reported Operating Income <sup>(a)</sup>	64.2	60.3	6	%	
Loss on early extinguishment of debt <sup>(b)</sup>	88.8	—	N/A		
Adjustments to noncontrolling interest expense <sup>(c)</sup>	(1.2	) —	N/A		
Change in tax provision due to adjustments to Reported Net Income Attributable to Coty Inc.	(21.6	) (16.7	) (29	%)	
Adjusted Net Income Attributable to Coty Inc.	\$266.2	\$219.6	21	%	
% of Net revenues	10.9	% 8.8	%		
Per Share Data					
Adjusted weighted-average common shares					

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Basic	353.8	384.2
Diluted	363.5	393.5
Adjusted net income attributable to Coty Inc. per common share		
Basic	\$0.75	\$0.57
Diluted	0.73	0.56



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- (a) See “Reconciliation of Operating Income to Adjusted Operating Income” in Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”
- (b) Loss on early extinguishment of debt associated with repurchase of our Senior Notes. Included in loss on early extinguishment of debt in the Condensed Consolidated Statements of Operations.  
Noncontrolling interest expense related to the revaluation of inventory buyback associated with the conversion
- (c) from a distributor to subsidiary distribution model in a select emerging market. Included in net income attributable to noncontrolling interests in the Condensed Consolidated Statements of Operations.

## FINANCIAL CONDITION

## LIQUIDITY AND CAPITAL RESOURCES

## Overview

Our primary sources of funds include cash generated from operations, borrowings from issuance of debt and committed and uncommitted lines of credit provided by banks and lenders in the U.S. and abroad. As of December 31, 2014, we had cash and cash equivalents of \$1,203.2 compared with \$1,238.0 at June 30, 2014.

Our cash flows are subject to seasonal variation throughout the year, including demands on cash made during our first fiscal quarter in anticipation of higher global sales during the second quarter and strong cash generation in the second fiscal quarter as a result of increased demand by retailers associated with the holiday season. Our principal uses of cash are to fund planned operating expenditures, capital expenditures, interest payments, acquisitions, dividends, share repurchases and any principal payments on debt. The working capital movements are based on the sourcing of materials related to the production of our Fragrances, Color Cosmetics, and Skin & Body Care products.

As a result of the cash on hand, our ability to generate cash from operations and through access to our revolving credit facility and other lending sources, we believe we have sufficient liquidity to meet our ongoing needs on both a near term and long-term basis.

## Debt

	December 31, 2014	June 30, 2014
Short-term debt	\$28.9	\$18.8
Credit Agreement due September 2015	600.0	—
Coty Inc. Credit Facility due April 2018		
Term Loan	1,875.0	1,875.0
Revolving Loan Facility	900.0	899.5
Senior Notes		
5.12% Series A notes due June 2017	—	100.0
5.67% Series B notes due June 2020	—	225.0
5.82% Series C notes due June 2022	—	175.0
Other long-term debt and long-term capital lease obligations	1.2	0.2
Total debt	3,405.1	3,293.5
Less: Short-term debt and current portion of long-term debt	(691.6	) (33.4
Total Long-term debt	\$2,713.5	\$3,260.1

## Short-Term Debt

On September 29, 2014, we entered into a Credit Agreement (the “2014 Credit Agreement”) with JP Morgan Chase Bank, N.A. as administrative agent and Bank of America, N.A., Morgan Stanley MUFG Loan Partners, LLC and Wells Fargo Bank, N.A., as syndication agents. The 2014 Credit Agreement provides for a term loan of \$600.0 and expires on September 28, 2015 at which time it is payable in full. Rates of interest on amounts borrowed under the 2014 Credit Agreement are based on the London Interbank Offered Rate (“LIBOR”), a qualified Eurocurrency LIBOR, an alternative base rate, or a qualified local currency rate, as applicable to the borrowings, plus applicable spreads determined by the consolidated leverage ratio. Applicable spreads on the borrowings under the 2014 Credit Agreement may range from 0.0% to 1.75% based on the

Company's consolidated leverage ratio, as defined in the 2014 Credit Agreement. The applicable spread on the borrowings under the 2014 Credit Agreement in effect as of December 31, 2014 was 1.50%. The 2014 Credit Agreement also contains affirmative and negative covenants that are substantially the same as those contained in the 2013 Credit Agreement, as amended, as disclosed below. We used the borrowings under the 2014 Credit Agreement to prepay the outstanding principal amount of the Senior Notes, prior to their maturity date (the "Note Repurchase") as described below. Deferred financing fees of \$1.9 were recorded in Prepaid expenses and other current assets in the Condensed Consolidated Balance Sheet.

#### Coty Inc. Credit Facility

On September 29, 2014, we entered into an Amendment (the "2014 Amendment") to our existing Credit Agreement, dated April 2, 2013, as amended (the "2013 Credit Agreement"). The 2014 Amendment permits us to maintain a consolidated leverage ratio equal to or less than 4.5 to 1.0 for the 12-month period following an acquisition, as defined in the 2013 Credit Agreement. During the three months ended September 30, 2014, we recorded deferred financing fees of \$3.1 in Other noncurrent assets in the Condensed Consolidated Balance Sheet in connection with the 2014 Amendment. As of December 31, 2014, we had \$350.0 available for borrowings under the 2013 Credit Agreement, as amended.

#### Senior Notes

On September 29, 2014, we prepaid the Senior Notes. The prepayment included the principal amount of Senior Notes of \$500.0, accrued interest of \$8.0 and a make-whole amount of \$84.6. In connection with the prepayment, we incurred a loss on early extinguishment of debt of \$88.8 in the three months ended September 30, 2014, which included the make-whole amount and the write-off of \$4.2 of deferred financing fees related to the Senior Notes.

#### Cash Flows

Condensed Consolidated Statements of Cash Flows Data: (in millions)	Six Months Ended December 31,	
	2014	2013
Net cash provided by operating activities	\$355.0	\$447.3
Net cash used in investing activities	(89.5)	(141.1)
Net cash used in financing activities	(210.8)	(106.1)

#### Net cash provided by operating activities

Net cash provided by operating activities was \$355.0 and \$447.3 for the six months ended December 31, 2014 and 2013, respectively. The decrease in operating cash inflows of \$92.3 is primarily due to lower cash related net income of \$63.6 and an increase in net working capital of \$72.0, partially offset by a decrease in cash outflows from noncurrent assets of \$31.6 primarily driven by a one-time prepayment made to a licensor in the six months ended December 31, 2013.

#### Net cash used in investing activities

Net cash used in investing activities was \$89.5 and \$141.1 for the six months ended December 31, 2014 and 2013, respectively. The decrease in cash outflows is primarily driven by the prior year payment of \$25.0 related to business combinations during the six months ended December 31, 2013 compared to \$0.6 in the current year, the cash receipt of \$14.1 from the sale of TJoy assets during the six months ended December 31, 2014 and lower capital expenditures of \$13.5 during the six months ended December 31, 2014.

Net cash used in financing activities

Net cash used in financing activities was \$210.8 and \$106.1 for the six months ended December 31, 2014 and 2013, respectively. The increase in financing cash outflows of \$104.7 during the six months ended December 31, 2014 is primarily attributable to the repurchase of Senior Notes and related make-whole payments of \$584.6, the repurchase of common stock of \$149.2, the repurchase of common stock from Mr. Scannavini of \$42.0 and payment of \$14.9 for the purchase of additional redeemable noncontrolling interests, partially offset by short term debt borrowings of \$600.0, higher inflows of \$18.6 from the issuance of common stock and \$12.5 from the issuance common stock to Mr. Scannavini and lower distributions to noncontrolling interest of \$10.1 due to proceeds from noncontrolling interest of \$1.8 in fiscal 2015 and distribution to noncontrolling interest of \$8.3 in fiscal 2014.

## Dividends

On September 16, 2014, we announced a cash dividend of \$0.20 per share, or \$71.9 on our Class A and Class B Common Stock. Of the \$71.9, \$71.0 was paid on October 15, 2014 to holders of record of Class A and Class B Common Stock on October 1, 2014 and was recorded as a decrease to APIC in the Condensed Consolidated Balance Sheet as of December 31, 2014. The remaining \$0.9 is payable upon settlement of RSUs outstanding as of October 1, 2014, and is recorded as Other noncurrent liabilities in the Condensed Consolidated Balance Sheet.

Additionally, we reduced the dividend accrual recorded in a prior period by \$0.1 to adjust for accrued dividends on RSUs no longer expected to vest, which was recorded as an increase to APIC in the Condensed Consolidated Balance Sheet as of December 31, 2014. Total accrued dividends on unvested RSUs of \$1.7 are included in Other noncurrent liabilities in the Condensed Consolidated Balance Sheet as of December 31, 2014.

## Share Repurchase

In connection with our Class A Common Stock repurchase program announced on February 14, 2014 and June 3, 2014, we repurchased 7.6 million shares of our Class A Common Stock during the three months ended December 31, 2014. The shares were purchased in multiple transactions at prices ranging from \$18.30 to \$20.90. The fair value of all shares repurchased was \$149.2 and was reflected as an increase to Treasury stock in our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Equity and Redeemable Noncontrolling Interests.

On September 29, 2014, we entered into an agreement with Mr. Scannavini, our former Chief Executive Officer in connection with his resignation. The agreement required that we purchase on or before January 27, 2015 all Class A Common Stock Mr. Scannavini held directly or indirectly, including shares of Class A Common Stock obtained upon the exercise of certain stock options, for a share price of \$17.21, which is the average closing value of the Class A Common Stock on the New York Stock Exchange over five business days immediately preceding September 29, 2014. As a result of the agreement, we purchased 2.4 million shares of its Class A Common Stock for \$42.0 and reflected as an increase to Treasury stock in our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Equity and Redeemable Noncontrolling Interests during the three months ended December 31, 2014.

## Commitments and Contingencies

We have the right to purchase the noncontrolling interests in certain subsidiaries from the noncontrolling interest holders (each such right, a "Call right") at certain points in time. In December 2014, we exercised our Call right for 14% of a certain Singapore subsidiary from the noncontrolling interest, which we intend to consummate on June 30, 2015. We estimate that we will pay approximately \$12.8 for this 14%.

On October 7, 2014, we announced our binding offer to acquire the Bourjois cosmetics brand from its parent company, CHANEL, in order to further grow our existing portfolio and strengthen our position in Western Europe, the Middle East, Russia and Asia. We intend to issue to CHANEL, as consideration for Bourjois, 15.0 million shares of our Class A Common Stock. The number of shares is subject to adjustment based on the price of our Class A Common Stock at closing and certain closing adjustments. We anticipate closing the transaction by the end of Fiscal 2015.

## Off-Balance Sheet Arrangements

We had undrawn letters of credit of \$4.1 and \$3.6 as of December 31, 2014 and June 30, 2014, respectively.

## Critical Accounting Policies

We believe that the critical accounting policies listed below involve our more significant judgments, assumptions and estimates and, therefore, could have the greatest potential impact on our condensed consolidated financial statements.

Revenue Recognition

Goodwill, Other Intangible Assets and Long-Lived Assets

Pension and Other Post-Employment Benefit Costs

Share-Based Compensation

Income Taxes

As of December 31, 2014, there have been no material changes to the items disclosed as critical accounting policies and estimates in “Management Discussion and Analysis of Financial Condition and Results of Operations” in Part II—Item 7 of our Fiscal 2014 Form 10-K, aside from the changes in our Segments as discussed in Note 3, “Segment Reporting” in our notes to Condensed Consolidated Financial Statements.

#### Forward Looking Statements

Certain statements in this Quarterly Report on Form 10-Q are forward-looking statements. These forward-looking statements reflect our current views with respect to, among other things, our future operations and financial performance; expected growth; our ability to support our planned business operation on a near- and long-term basis. These forward-looking statements are generally identified by words or phrases, such as “anticipate”, “estimate”, “plan”, “project”, “expect”, “believe”, “intend”, “foresee”, “forecast”, “will”, “may”, “should”, “outlook”, “continue”, “target”, “aim” or phrases.

Reported results should not be considered an indication of future performance, and actual results may differ materially from the results predicted due to risks and uncertainties including:

- our ability to achieve our global business strategy and compete effectively in the beauty industry;
- our ability to anticipate, gauge and respond to market trends and consumer preferences, which may change rapidly, and the market acceptance of new products;
- our ability to identify suitable acquisition targets and managerial, integration, operational and financial risks associated with those acquisitions, including our recently announced offer to purchase Bourjois;
- risks related to our international operations, including reputational, regulatory, economic and foreign political risks, such as the political instability in Eastern Europe and the Middle East, the debt crisis and the economic environment in Europe and fluctuations in currency exchange rates;
- dependence on certain licenses, entities performing outsourced functions and third-party suppliers;
- our and our brand partners’ and licensors’ ability to obtain, maintain and protect the intellectual property rights used in our products and our abilities to protect our respective reputations;
- our ability to implement the Organizational Redesign restructuring program as planned and the success of the program in delivering anticipated improvements and efficiencies;
- administrative, development and other difficulties in meeting the expected timing of market expansions, product launches and marketing efforts;
- global political and/or economic uncertainties or disruptions, including a general economic downturn, a sudden disruption in business conditions affecting consumer purchases of our products and volatility in the financial markets;
- our ability to manage seasonal variability;
- consolidation among retailers, shifts in consumers’ preferred distribution channels, and other changes in the retail environment in which we sell our products;
- disruptions in operations;
- increasing dependency on information technology and our ability to protect against service interruptions, data corruption, cyber-based attacks or network security breaches;
- changes in laws, regulations and policies that affect our business or products;
- market acceptance of new product introductions; and
- the illegal distribution and sale by third parties of counterfeit versions of our products.

More information about potential risks and uncertainties that could affect our business and financial results is included under Item 1A. Risk Factors in our Fiscal 2014 Form 10-K.

We assume no responsibility to update forward-looking statements made herein or otherwise.

#### Industry, Ranking and Market Data

Unless otherwise indicated, information contained in this Quarterly Report on Form 10-Q 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), 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 Quarterly Report on Form 10-Q 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 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 2015” refer to the fiscal year ended June 30, 2015. Any reference to a year not preceded by “fiscal” refers to a calendar year.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information provided in Item 7A. Quantitative and Qualitative Disclosures About Market Risk of our Fiscal 2014 Form 10-K.

### Item 4. Controls and Procedures.

#### Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as defined in Rules 13a-15(e) under the Exchange Act, that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to our management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Our management, with the participation of our interim Chief Executive Officer (the “interim CEO”) and our Chief Financial Officer (“CFO”), evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2014. Based on the evaluation of our disclosure controls and procedures as of December 31, 2014, our interim CEO and CFO concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

#### Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(f) of the Exchange Act during the second fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### Inherent Limitations on Effectiveness of Controls

Our management, including our interim CEO and CFO, believes that our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving our objectives and are effective at the reasonable assurance level. However, our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of

the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

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## Part II. OTHER INFORMATION

## Item 1. Legal Proceedings.

We have disclosed information about certain legal proceedings in the section entitled “Legal Proceedings” of our Annual Report on Form 10-K for the fiscal year ended June 30, 2014 (the “Fiscal 2014 Form 10-K”). Other than as disclosed below, there have been no subsequent material developments to these matters.

In July 2014, we entered into a tolling agreement with the Office of Antiboycott Compliance, Bureau of Industry and Security, United States Department of Commerce (“OAC”) extending the statute of limitations on the OAC’s investigation until December 31, 2014. In December 2014, we entered into a second tolling agreement with the OAC to further extend the statute of limitations of the investigation through and including June 30, 2015.

In September 2014, we filed a motion to dismiss the consolidated class action complaint captioned *In re Coty Inc. Securities Litigation* (the “Securities Complaint”). The plaintiffs were permitted to further amend the Securities Complaint in October 2014. At the court’s direction, the parties continued to brief the motion to dismiss following the October 2014 amendment of that complaint, and briefing was completed in December 2014. The motion to dismiss remains under judicial consideration.

We are involved, from time to time, in litigation, other regulatory actions and other legal proceedings incidental to our business. Other than as previously disclosed above and in the Fiscal 2014 Form 10-K, management believes that 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.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The table below provides information with respect to repurchases of shares of our Class A Common Stock that settled during the fiscal quarter ended December 31, 2014. No Class B Common Stock shares were repurchased during this period.

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)
October 1, 2014 - October 31, 2014	774,825 (e)	\$17.2140	—	300,000,000
November 1, 2014 - November 30, 2014	4,800,875 (e)	\$18.5967	3,134,000 (d)	239,413,229.55
December 1, 2014 - December 31, 2014	4,432,027	\$20.0018	4,432,027 (d)	150,764,667.23
Total	10,007,727	\$19.1119	7,566,027	\$150,764,667.23

(a) During the three months ended December 31, 2014, we repurchased 10,007,727 shares of Class A Common Stock for approximately \$191.3 million.

(b) Includes fees and commissions.

(c) Excludes fees and commissions.

(d) These shares of Class A Common Stock were purchased for approximately \$149.2 million under our \$400.0 million share repurchase program (the "Repurchase Program") publicly announced on February 14, 2014 and June 3, 2014. All repurchases were made using cash resources. 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 through Rule 10b5-1 trading plans. As of December 31, 2014, approximately \$150.8 million of authorized purchases remained under the Repurchase Program.

(e) 2,441,700 shares of Class A Common Stock were purchased pursuant to the Settlement and Release Agreement, dated September 29, 2014, among Coty Italia S.p.A., Coty Inc. and Michele Scannavini at a price equal to \$17.2140 per share, which is the average

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closing value of the Class A Common Stock on the New York Stock Exchange over the five business days immediately preceding September 29, 2014.

Item 6. Exhibits, Financial Statement Schedules.

The exhibits listed below are filed as part of this Quarterly Report on Form 10-Q:

Exhibit Number	Document
10.48	Release and Settlement Agreement, dated December 17, 2014, between Coty Geneva S.A. Versoix and Catia Cesari
21.1	List of significant subsidiaries
31.1	Certification of Chief Executive Officer, pursuant to Rules 13a-14(a)
31.2	Certification of Chief Financial Officer, pursuant to Rules 13a-14(a)
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S. C. Section 1350
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S. C. Section 1350
101.INS *	XBRL Instance Document.
101.SCH *	XBRL Taxonomy Extension Schema Document
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB *	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document

\* Pursuant to applicable securities laws and regulations, we are deemed to have complied with the reporting obligation relating to the submission of interactive data files in such exhibits and are not subject to liability under any anti-fraud provisions of the federal securities laws as long as we have made a good faith attempt to comply with the submission requirements and promptly amend the interactive data files after becoming aware that the interactive data files fail to comply with the submission requirements. Users of this data are advised that, pursuant to Rule 406T, these interactive data files are deemed not filed and otherwise are not subject to liability.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

COTY INC.

Date: February 5, 2015

By: /s/Lambertus J.H. Becht  
Name: Lambertus J.H. Becht  
Title: Interim Chief Executive Officer and  
Chairman of the Board of Directors  
(Principal Executive Officer)

/s/Patrice de Talhouët  
Name: Patrice de Talhouët  
Title: Chief Financial Officer  
(Principal Financial Officer)