

COTY INC.  
Form 424B4  
June 13, 2013

**PROSPECTUS**      **Filed Pursuant to Rule 424(b)(4)**  
**Registration No. 333-182420**  
**57,142,857 Shares**

**CLASS A COMMON STOCK**  
**\$17.50 per share**

The selling stockholders are offering 57,142,857 shares of Class A common stock. We will not receive any proceeds from the sale of shares of Class A common stock by the selling stockholders.

This is our initial public offering, and prior to this offering, there has been no public market for our Class A common stock. Our Class A common stock has been approved for listing on the New York Stock Exchange under the symbol COTY.

Upon consummation of this offering, we will have two classes of common stock: our Class A common stock and our Class B common stock. The rights of the holders of Class A common stock and Class B common stock will be identical, except with respect to voting, conversion and transfer restrictions applicable to the Class B common stock. Each share of Class A common stock will be entitled to one vote. Each share of Class B common stock will be entitled to ten votes and will be convertible at any time into one share of Class A common stock.

*See Risk Factors beginning on page 20 of this prospectus to read about factors you should consider before buying shares of the Class A common stock.*

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.**

	<b>Per Share</b>	<b>Total</b>
Initial public offering price	\$ 17.50	\$ 999,999,997.50
Underwriting discount <sup>(1)</sup>	\$ 0.6125	\$ 34,999,999.91
Proceeds, before expenses, to the selling stockholders	\$ 16.8875	\$ 964,999,997.59

(1) Please see the Underwriting section for information regarding additional compensation to the underwriters.

To the extent that the underwriters sell more than 57,142,857 shares of Class A common stock, the underwriters have the option to purchase an additional 8,571,428 shares from the selling stockholders at the initial offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on or about June 18, 2013.

*Joint Book-Running Managers*

**BofA Merrill Lynch**

**J.P. Morgan**

**Morgan Stanley**

**Barclays**

**Deutsche Bank Securities**

**Wells Fargo Securities**

*Lead Managers*

**Lazard Capital Markets**

**Piper Jaffray**

**RBC Capital Markets**

*Co-Managers*

**BNP PARIBAS**

**Credit Agricole CIB**

**HSBC**

**ING**

**Moelis & Company**

**RBS**

**Sanford C.  
Bernstein**

**Santander**

*Junior Co-Managers*

**Ramirez & Co., Inc.**

**Telsey Advisory Group**

**The Williams Capital Group, L.P.**

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Prospectus dated June 12, 2013

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Neither we nor the selling stockholders have authorized anyone to provide any information other than that contained in this prospectus or to which we have referred you. We and the selling stockholders take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. The selling stockholders and the underwriters are offering to sell, and seeking offers to buy, these securities only in jurisdictions where offers and sales are permitted. You should assume that the information in this prospectus is accurate only as of the date on the cover page, regardless of the time of delivery of this prospectus or of any sale of our Class A common stock. Our business, prospects, financial condition and results of operations may have changed since that date.

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## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This prospectus includes forward-looking statements. These forward-looking statements reflect our current views with respect to, among other things, our operations and financial performance. All statements herein that are not historical facts, including statements about our beliefs or expectations, are forward-looking statements. We generally identify these statements by words or phrases, such as anticipate, estimate, plan, project, expect, believe, intend, forecast, will, may, outlook, target or other similar words or phrases. These statements discuss, among other things, our strategy, integration, future financial or operational performance, outcome or impact of pending or threatened litigation, domestic or international developments, nature and allocation of future capital expenditures, growth initiatives, inventory levels, cost of goods, future financings and other goals and targets and statements of the assumptions underlying or relating to any such statements. The inclusion of this forward-looking information should not be regarded as a representation by us, the underwriters or any other person that the future plans, estimates or expectations that we contemplate will be achieved.

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

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

### **Industry, Ranking and Market Data**

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

In this prospectus, we refer to North America, Western Europe and Japan as developed markets, and all other markets as emerging markets. 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 2012 refer to the fiscal year ended June 30, 2012. Any reference to a year not preceded by fiscal refers to a calendar year.



## PROSPECTUS SUMMARY

*This summary highlights information contained elsewhere in this prospectus and does not contain all of the information you should consider in making your investment decision. Before investing in our Class A common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes and the information set forth under the headings Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operation. Except where the context requires otherwise, in this prospectus the terms Company, Coty, we, us or our refer to Coty Inc. and, where appropriate, its direct and indirect subsidiaries.*

### Coty Inc.

#### Our Company

We are a new emerging leader in beauty. Founded in Paris in 1904, Coty is a pure play beauty company with a portfolio of well-known brands that compete in the three segments in which we operate: Fragrances, Color Cosmetics and Skin & Body Care. We hold the #2 global position in fragrances, the #6 global position in color cosmetics and have a strong regional presence in skin & body care. Our top 10 brands, which we refer to as our power brands, generated approximately 70% of our net revenues in fiscal 2012 and comprise the following globally recognized brands: *adidas*, *Calvin Klein*, *Chloé*, *Davidoff*, *Marc Jacobs*, *OPI*, *philosophy*, *Playboy*, *Rimmel* and *Sally Hansen*. Our brands compete in all key distribution channels across both prestige and mass markets and in over 130 countries and territories.

Coty has transformed itself into a multi-segment beauty company with market leading positions in both North America and Europe through new product offerings, diversified sales channels and its global growth strategy. Our entrepreneurial culture, driven by our *Faster. Further. Freer.* credo, has enabled us to gain market share in the beauty industry and provided us with the agility to deliver superior innovation, brand building and execution. Our strong organic growth has been complemented and enabled by strategic acquisitions, such as the *Calvin Klein* fragrance business and *Sally Hansen* brand, and which recently include power brands *OPI* and *philosophy*. Today, our business has a diversified revenue base that generated net revenues for fiscal 2012 of 53%, 31% and 16% from Fragrances, Color Cosmetics and Skin & Body Care, respectively.

In fiscal 2012, we achieved net revenues of \$4.6 billion, which represents an average annual growth rate of 16% from our fiscal 2010 net revenues of \$3.5 billion, or 8% excluding the effects of recent acquisitions and foreign currency exchange translations. In fiscal 2012, we experienced \$210 million of operating loss and \$536 million of Adjusted Operating Income. For the same period, we experienced \$324 million of net loss and \$301 million of Adjusted Net Income. Adjusted Operating Income, Adjusted Net Income and our average annual growth rate excluding the effects of recent acquisitions and foreign currency exchange translations are non-GAAP financial measures. See Summary Consolidated Financial Data Non-GAAP Financial Measures for a discussion of such measures.

#### Our Market Opportunity

According to Euromonitor, the three segments of the beauty industry in which Coty competes generated worldwide retail sales of approximately \$282 billion in calendar year 2012. In fiscal 2012, Coty generated 77% of its net revenues in developed markets and 23% of its net revenues in emerging markets. The industry growth rate of the fragrances, color cosmetics and skin & body care segments in the geographic markets where Coty competes was 3.7% from 2011 to 2012, based on Euromonitor data.

The growth rate in the areas in which Coty competes is expected to be 3.0% to 4.0% between 2013 and 2016, based on Euromonitor data. We believe this growth will be driven primarily by innovation, changes in demographics, consumer preferences and fashion trends in developed markets,





and by a larger middle class, higher media and retail investment and increased accessibility of beauty products in emerging markets.

### **Our Competitive Strengths**

***A portfolio of strong, well recognized beauty brands anchored by our power brands across three key beauty segments.*** The strength of our brand portfolio provides the foundation of our success. We believe our brands are valued by consumers across geographies and distribution channels. We believe consumers appreciate the quality and innovation of our products across various price points and our ability to quickly and cost-effectively innovate and draw excitement to our products. Our power brands, *adidas, Calvin Klein, Chloé, Davidoff, Marc Jacobs, OPI, philosophy, Playboy, Rimmel* and *Sally Hansen*, are at the core of our accomplishments. We invest aggressively behind current and prospective power brands, which are our largest brands and those that we believe to have the greatest potential, to enhance our scale in the three beauty segments in which we compete. We have grown our power brands from three brands in fiscal 2002 to 10 brands in fiscal 2012, with the net revenue contribution from these brands increasing from 40% of \$1.4 billion to approximately 70% of \$4.6 billion during the same time period.

***Global leader in fragrances.*** Our #2 global position in fragrances is a result of the strength, scale and balance of our brands across all three key categories in the fragrances segment: Designer (including *Calvin Klein, Marc Jacobs, Chloé, Roberto Cavalli, Balenciaga, Bottega Veneta* and *Guess?*), Lifestyle (including *Playboy* and *Davidoff*) and Celebrity (including Jennifer Lopez and Beyoncé Knowles). Our Fragrances segment has been consistently profitable, with operating margins expanding in each of the last three fiscal years. We have been a key innovator in fragrances across prestige and mass markets. Our recent successful launches include *Roberto Cavalli* and launches within the *Chloé, Marc Jacobs* and *Playboy* brands. With the launch of *Glow by JLo* in 2002, we reinvigorated the modern celebrity fragrances segment and built on that success to launch many other celebrity fragrances, including the recent *Beyoncé Pulse* and *Lady Gaga Fame* launches.

***One of the fastest growing players in color cosmetics.*** We have achieved our #6 ranking globally in color cosmetics, as well as a #2 position in Europe and a #5 position in the U.S., by transforming *Rimmel* from a regional player into a power brand and by identifying and investing in the high growth potential of the nail care category. We continue to build on these foundations organically through new product innovations and strategically through acquisitions such as *OPI*. In nail care, we achieved a #1 position globally in the combined retail and professional channels with *Sally Hansen* and *OPI*. Our growth in the nail category is fueled by outstanding innovations. As an example, *Sally Hansen* had the best-selling launches in the U.S. color cosmetics market in 2010 with the launch of *Complete Salon Manicure* and in 2011 with the launch of *Salon Effects*.

***Licensee of choice.*** We believe our success in partnering with Designer, Lifestyle, and Celebrity brands is due to our track record as brand architects who capture and translate each brand's essence into successful products while respecting and preserving each licensor's brand identity. In addition, our global scale allows us to offer our licensed products in multiple points of distribution and in multiple geographies. *Marc Jacobs* and *Chloé* are examples of licensed designer brands that have organically grown from low revenue bases to be two of our most highly valued and fastest growing brands. Similarly, we grew *Playboy* from a low revenue base and expanded it globally. We will seek to replicate this success with high potential brands such as *Roberto Cavalli*. We continue to build on the success of *Glow by JLo*, one of the first modern celebrity fragrances, by partnering with highly sought-after celebrities. We believe our success and scale make us a preferred licensee for potential partners and create even greater opportunities for us to further develop existing brand licenses.

***Superior innovation driven by entrepreneurial culture.*** Our entrepreneurial culture is driven by our *Faster. Further. Freer.* credo that allows us to act faster and push marketing and creative boundaries further. Our past success demonstrates that we are poised to turn innovative ideas into realities with agility, decisiveness and calculated risk taking, all at a high level of execution. Over the last three fiscal years, sales from our new products accounted for approximately 17% of our



total net revenues, on average. Historically, our strong track record with new products has been a key driver of our organic net revenue growth in excess of industry growth.

**Product, channel and geographic diversity.** We have breadth across beauty segments with product offerings in fragrances, color cosmetics and skin & body care. We have a balanced multi-channel distribution strategy and market products across price points in prestige and mass channels of distribution, including department stores, specialty retailers, traditional food, drug and mass retailers, salons, travel retail, e-commerce and television sales, among others. We believe our commercial expertise enhances our capabilities when we enter new markets where products must suit local consumer preferences, incomes and demographics. In fiscal 2012 mass, prestige and travel retail represented 50%, 37% and 6% of our net revenues, respectively. Our beauty products are marketed, sold and distributed to consumers in over 130 countries and territories. We believe our diverse, globally recognized product portfolio positions us well to expand our leadership broadly into new geographies, in both developed and emerging markets.

**Compelling financial profile.** Our portfolio and superior execution have enabled us to achieve superior growth, profitability and cash flow generation. We have an exceptional track record of delivering strong and consistent net revenue growth ahead of average industry rates for the geographies in which we compete. From fiscal 2010 through fiscal 2012 we grew our net revenues by an average annual growth rate of 16%, or approximately 8% excluding the effects of acquisitions and foreign currency exchange translations. Due to our sales growth as well as optimization of our logistics infrastructure, supply chain and global procurement systems our gross profit grew from fiscal 2010 through fiscal 2012 by an average annual growth rate of 19%, while gross margin improved by 2.7 percentage points in the same period. For the three years ending fiscal 2012, our adjusted operating margin expanded by 3.4 percentage points, from 8.2% to 11.6%. During the same period, our operating margin declined by 9.8 percentage points, from 5.3% to (4.5%). See Summary Consolidated Financial Data Non-GAAP Financial Measures for a discussion of the differences between operating income and Adjusted Operating Income.

Our ability to generate organic revenue growth, deliver continued margin expansion and manage working capital effectively has resulted in a strong cash flow profile that allows us to invest in marketing, research and development and other growth opportunities while also successfully reducing debt levels incurred to finance acquisitions. In fiscal 2012, we generated cash flow from operating activities of \$589 million and from fiscal 2010 through fiscal 2012 we maintained an average operating income cash conversion ratio of over 100% of both operating income and Adjusted Operating Income.

**Successful integration of acquired brands and companies.** Since 2002, we have successfully completed a number of acquisitions to drive segment, geographic and distribution platform growth. In each acquisition we make, we seek to employ best practices and talent from both our organization and the acquired business to efficiently integrate these businesses to implement our strategy and maximize growth. Our track record of successful acquisitions reflects the strength of our entrepreneurial culture, our ability to attract and retain top management talent, our innovative approach to marketing and our focus on achieving supply chain and operational efficiencies.

We believe we are adept at identifying growth opportunities that complement our portfolio strategies and allow us to build on our core competencies. Following the acquisitions of the *Marc Jacobs* fragrance license and the *Calvin Klein* fragrance business, we developed these brands into power brands that expanded our global presence in fragrances. Under our ownership, the *Sally Hansen* brand has expanded our Color Cosmetics segment and developed a global reach. The OPI acquisition provided us with the leading professional nail care brand. The Philosophy acquisition enabled us to increase scale in skin & body care and enter new channels of distribution, like QVC and e-commerce. Additionally, we have selectively acquired businesses that bring us new platforms, such as TJoy, which provided us with a broad manufacturing and distribution platform for our existing portfolio of brands in China. We are applying our past experience and practices as we integrate our recent OPI, Philosophy and TJoy acquisitions.

***Experienced management team with proven industry track record.*** The majority of our Executive Committee has worked together for almost a decade, and has an average of almost two decades of industry experience. This team has been pivotal in institutionalizing our entrepreneurial culture and global strategic vision.

## **Our Strategy**

Coty targets net revenue growth that is in line with or outperforms the industry average, and we believe our organic growth has in fact outpaced the industry over the past three years based on Euromonitor data. At the same time, Coty strives to expand margins and improve cash flow generation. Our continued net revenue growth is centered on improving our competitive position in all our segments, including through further developing power brands and diversifying our geographic presence into emerging markets and across distribution channels.

### ***Continue to develop our power brands portfolio.***

We will seek to capitalize on our existing power brands through continued excellence in branding, innovation and execution.

Over the past three fiscal years, we have added power brands in each of our segments. Net revenues from our power brands grew 18% in fiscal 2012 compared to the prior year, or 10% assuming the acquisitions of Philosophy and OPI had occurred on July 1, 2010.

We see growth opportunities

for our existing power brands.

Additionally, we seek to identify and incubate new and existing brands that we believe have the potential to develop into power brands.

For example, we launched *Playboy* in fiscal 2009 and have since built it into a power brand by identifying a unique brand positioning and leveraging our strengths.

*Playboy* is now the #3 brand in the combined North American and European fragrance mass markets.

Similarly, we acquired *Chloé* in fiscal 2006 and converted it into one of the fastest growing prestige fragrance brands for women over the past four years. From its relaunch in fiscal 2008 through fiscal 2012, *Chloé*

has grown 1,184% as measured by net revenues. In the Color Cosmetics segment, we have grown the *Sally Hansen* brand 53% through fiscal 2012 as measured by net revenues from our acquisition of the brand in fiscal 2008.

***Leverage innovation to strengthen our position in each distribution channel.***

Innovation and new product development is essential to extending our global leadership position in fragrances, and to strengthening our global position in color cosmetics and skin & body care. Over the past three fiscal years, new product innovations represented approximately 17% of our annual net

revenues, on average. We intend to continue to develop and bring to market unique and innovative products across price points and in various geographies and distribution channels that we believe will be modern, appealing and accessible to the consumer. For example, our recently launched *Lady Gaga Fame* fragrance is the first-ever black *eau de parfum* and contains a proprietary new technology that causes it to become invisible once airborne. Further, we will continue to develop new brands and to seek partnerships with highly sought-after celebrities and designer and lifestyle brands, leveraging our track record of



successful  
licensing  
relationships.

***Diversify our  
geographic  
presence into  
new and  
emerging  
markets.*** We

seek to  
accelerate our  
sales growth  
by expanding  
and further  
diversifying  
our geographic  
footprint,  
including in  
emerging  
markets. In  
fiscal 2012,  
emerging  
markets  
represented  
23% of our  
total net  
revenues. Our  
target is to  
generate more  
than one third  
of our net  
revenues from  
emerging  
markets five  
years from  
now. From  
fiscal 2010 to  
fiscal 2012,  
our net  
revenues from  
emerging  
markets grew  
by an average  
annual growth  
rate of 18%, or  
14% excluding  
the effects of  
acquisitions  
and foreign  
currency

exchange translations. During the same period, our net revenues from developed markets grew by an average annual growth rate of 14%, or 6% excluding the effects of acquisitions and foreign currency exchange translations.

We seek to strengthen our go-to-market capabilities in certain areas in Asia and Latin America, to fully leverage the potential of our current brand portfolio and to develop tailor-made products to better serve local needs and tastes. We are also leveraging our strong relationships with top global customers such as Sephora and AS Watson to accelerate

penetration and establishment of certain brands in the emerging markets. We also intend to leverage our current distribution to build our business in existing geographies with products that we believe are well-suited to the local consumer preferences. For example, we will seek, among other initiatives, to expand distribution of our brands in China by leveraging TJoy's distribution network.

***Expand and strengthen our position in skin & body care.*** Our skin & body care presence has been anchored by *adidas*, a brand we have grown organically, and *Lancaster*, a brand with technically advanced products that

reflect our strong research and development capabilities.

We continue to expand our presence in skin & body care through acquisitions.

Through Philosophy, we have increased scale in skin & body care and entered new channels of distribution like direct television sales through QVC and e-commerce.

Furthermore, sales of the *adidas* brand are growing in China as a result of the expanded distribution platform acquired with the TJoy business in fiscal 2011.

***Leveraging our multi-channel distribution capabilities.***

We seek to continue to increase market presence, brand recognition and net

revenues by offering certain products through multiple distribution channels to reach a broad spectrum of consumers, with different needs and expectations, and to capture growth opportunities at varying price points and diverse retail environments. Our balanced distribution network allows us also to effectively manage risks related to any single distribution channel, and to exploit growth in whichever channel the growth materializes. For example, we are expanding the *OPI* brand globally primarily through the professional channel where the brand enjoys strong leadership. We also are offering *OPI*

through selective distribution channels as well as our growing travel retail business and offering *Nicole by OPI* through our mass distribution channels. We have also recently appointed Sephora as privileged retail partner for *OPI* in certain European and Middle Eastern countries and Russia. The development of branding and market execution strategies with our top global customers is an important component of our strategy to ensure our brands receive appropriate pricing and placement as we expand our distribution.

In addition to maintaining a strategic balance between prestige and mass distribution

channels, we are seeking to expand our presence through alternative distribution channels, including by leveraging the expertise of our *philosophy* brand (which sells products through its U.S. and U.K. websites, among other channels) in e-commerce and direct television sales by expanding the distribution of appropriate brands into these channels.

***Increase margins and continue to improve cash flow generation.***

We will remain focused on converting earnings into cash flow through effective working capital management.

We seek continued margin expansion through strong net revenue growth,

development of higher margin products, cost control, and supply chain integration and efficiency initiatives, such as optimization of our manufacturing footprint. In fiscal 2012, our adjusted operating margin improved as discussed above, and we generated cash flow from operating activities of \$589 million, compared to \$418 million in the prior year.

While acquisitions are not essential to achieve our growth objectives, we will continue to evaluate targets that fit with our strategy and add stockholder value. Our approach to acquisitions has resulted in a successful track record of identifying targets aligned with our strategic objectives, executing acquisitions quickly and efficiently, and integrating the businesses successfully to both accelerate top line growth and improve the financial performance of the overall business.

### **Summary Risk Factors**

Our business is subject to risks, as discussed more fully in the section entitled Risk Factors. You should carefully consider all of the risks discussed in the Risk Factors section before investing in our Class A common stock. The following risks, which are described more fully in the section



entitled Risk Factors, may have an adverse effect on our business, which could cause a decrease in the price of our Class A common stock and result in a loss of all or a portion of your investment:

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

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

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

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

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

Our operations and acquisitions in certain foreign areas expose us to political, regulatory,

economic and  
reputational  
risks;

We may incur  
penalties and  
experience other  
adverse effects  
on our business  
as a result of  
possible U.S.  
Export  
Administration  
Regulations  
( EAR ) violations;

Our business is  
dependent upon  
certain licenses;

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

Our success  
depends on our  
ability to operate  
our business  
without

infringing,  
misappropriating  
or otherwise  
violating the  
trademarks,  
patents,  
copyrights and  
proprietary rights  
of other parties;

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

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

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

A sudden  
disruption in  
business  
conditions or a  
general economic  
downturn may  
affect the

financial strength of our customers that are retailers, which could adversely affect our financial results;

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

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

We are subject to risks related to our international operations;

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

Our failure to protect our reputation, or the failure of our partners to

protect their reputations, could have a material adverse effect on our brand images;

Our business is subject to seasonal variability;

We sell our products in a continually changing retail environment;

A disruption in operations could adversely affect our business;

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

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

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

Our success depends, in part, on our employees;

Our success depends, in part, on the quality,

efficacy and safety of our products;

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

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

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

The illegal distribution and sale by third parties of counterfeit versions of our products could have a negative impact on our reputation and business;

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

Payment of dividends on our Class A common stock is entirely subject to the discretion of our Board of Directors. Our debt instruments and external factors beyond our control may limit our ability to pay dividends.

### **Our Corporate Information**

We were incorporated in Delaware in 1995. Our principal executive offices are located at 2 Park Avenue, New York, New York 10016 and our telephone number at this address is (212) 479-4300. Our website is [www.coty.com](http://www.coty.com). Information contained in, or accessible through, our website is not a part of, and is not incorporated into, this prospectus.

Coty is the trademark of Coty Inc. in the United States and other countries. This prospectus also includes other trademarks of Coty, our partners and other persons. All trademarks or trade names referred to in this prospectus are the property of their respective owners.



**THE OFFERING**

Class A common stock offered by the selling stockholders	57,142,857 shares
Class A common stock to be outstanding after this offering	72,219,007 shares (80,790,435 shares if the underwriters exercise their option in full)
Class B common stock to be outstanding after this offering	310,611,513 shares (302,040,085 shares if the underwriters exercise their option in full)
Total common stock to be outstanding after this offering	382,830,520 shares (plus an additional 1,195,000 shares of Class A common stock that will be issued at closing of this offering upon vesting and settlement of certain IPO Units)
Option to purchase additional shares	The selling stockholders have granted the underwriters a 30-day option to purchase up to 8,571,428 additional shares of our Class A common stock at the initial offering price.
Voting rights	<p>Upon consummation of this offering, the holders of our Class A common stock will be entitled to one vote per share, and the holders of our Class B common stock will be entitled to ten votes per share.</p> <p>Each share of Class B common stock may be converted into one share of Class A common stock at the option of the holder.</p> <p>If, on the record date for any meeting of the stockholders, the number of shares of Class B common stock then outstanding is less than 10% of the aggregate number of shares of Class A common stock and Class B common stock outstanding, then each share of Class B common stock will automatically convert into one share of Class A common stock.</p> <p>In addition, each share of Class B common stock will convert automatically into one share of Class A common stock upon any transfer, except for certain transfers to other holders of Class B common stock or their affiliates or to certain unrelated third parties as described under <b>Description of Capital Stock Conversion and Restrictions on Transfer</b>.</p> <p> Holders of Class A common stock and Class B common stock will vote together as a single class on all matters unless otherwise required by law.</p>

Upon consummation of this offering, assuming no exercise of the underwriters' option to purchase additional shares, (1) holders of Class A common stock will hold approximately 2.3% of the combined voting power of our outstanding common stock and approximately 18.9% of our total equity ownership and (2) holders of Class B common stock will hold approximately 97.7% of the combined voting power of our outstanding common stock and approximately 81.1% of our total equity ownership.

If the underwriters exercise their option to purchase additional shares in full, (1) holders of Class A common stock will hold approximately 2.6% of the combined voting power of our outstanding common stock and approximately 21.1% of our total equity ownership and (2) holders of Class B common stock will hold approximately 97.4% of the combined voting power of our outstanding common stock and approximately 78.9% of our total equity ownership. See "Description of Capital Stock - Voting Rights."

The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting, conversion and transfer restrictions applicable to the Class B common stock. See "Description of Capital Stock - Common Stock" for a description of the material terms of our common stock.

Use of  
proceeds

We will not receive any proceeds from the offering.

Reserved  
share program

At our request, the underwriters have reserved for sale, at the initial public offering price, up to 2% of the shares offered by this prospectus for sale to some of our employees. Any purchases of reserved shares by these persons would reduce the number of shares available for sale to the general public. Any reserved shares that are not so purchased will be offered by the underwriters to the general public on the same terms as the other shares offered by this prospectus.

Dividends

We intend to pay an annual cash dividend at a rate initially equal to \$0.15 per share of our Class A common stock, as well as our Class B common stock, in the second fiscal quarter of each fiscal year. Dividends will only be paid when, as and if declared by our Board of Directors. See "Dividend Policy" for additional information.

New York  
Stock  
Exchange  
symbol

COTY

Our outstanding common stock is currently all of the same class. In connection with this offering, we amended and restated provisions of our Certificate of Incorporation to create a dual class common stock structure consisting of our Class B common stock and Class A common stock. As a result of that amendment and restatement, our stockholders will receive 15,076,150 shares of Class A common stock, except that affiliates of JAB Holdings II B.V., Berkshire Partners LLC and Rhône Capital L.L.C., which are the selling stockholders, will receive 367,754,370 shares of Class B common stock, in each case in exchange for their current common stock holdings. When the

selling stockholders consummate sales of Class B common stock in this offering, their shares of Class B common stock will automatically convert into shares of Class A common stock on a one-for-one basis. As a result, purchasers of our common stock in this offering will only receive Class A common stock, and only Class A common stock is being offered by this prospectus. Shares of Class B common stock that are not sold by the selling stockholders will remain Class B common stock unless otherwise converted into shares of Class A common stock as described under Description of Capital Stock.

Unless we specifically state otherwise or the context otherwise requires, the share information in this prospectus is as of May 24, 2013, and reflects or assumes:

the  
conversion of  
the common  
stock owned  
by our  
existing  
stockholders,  
all of which  
shares are of  
the same  
class, into  
15,076,150  
shares of  
Class A  
common  
stock and  
367,754,370  
shares of  
Class B  
common  
stock  
immediately  
upon  
effectiveness  
of our  
restated  
certificate of  
incorporation  
filed in  
connection  
with our  
initial public  
offering;

the immediate  
conversion of  
57,142,857  
shares of our  
Class B  
common

stock owned  
by the selling  
stockholders  
into  
57,142,857  
shares of  
Class A  
common  
stock upon  
their sale in  
this offering;  
and

the  
underwriters  
option to  
purchase up  
to an  
additional  
8,571,428  
shares of  
Class A  
common  
stock from  
the selling  
stockholders  
is not  
exercised.

Unless we specifically state otherwise or the context otherwise requires, the share information in this prospectus does not give effect to or reflect the issuance of:

28,361,683 shares  
issuable upon the  
exercise of  
outstanding stock  
options under our  
Long-Term  
Incentive Plan,  
Executive  
Ownership Plan  
and Stock Plan for  
Non-Employee  
Directors, at a  
weighted-average  
exercise price of  
\$9.04 per share;

5,095,678 shares  
issuable upon  
settlement of

restricted stock  
units and IPO  
Units under our  
Executive  
Ownership Plan,  
Long-Term  
Incentive Plan,  
Equity and  
Long-Term  
Incentive Plan and  
2007 Stock Plan  
for Directors  
(including  
1,195,000 shares  
of Class A  
common stock  
that will be issued  
at closing of this  
offering upon  
vesting and  
settlement of  
certain IPO  
Units); or

18,622,418 shares  
reserved for future  
grants or for sale  
under our Equity  
and Long-Term  
Incentive Plan and  
2007 Stock Plan  
for Directors.

**SUMMARY CONSOLIDATED FINANCIAL DATA**

The following table summarizes our consolidated financial data. We have derived the summary Consolidated Statements of Operations Data and Consolidated Cash Flows Data for the years ended June 30, 2012, 2011 and 2010 and the Consolidated Balance Sheet Data as of June 30, 2012 and 2011 from our audited Consolidated Financial Statements included elsewhere in this prospectus. The Consolidated Statement of Operations Data and Consolidated Cash Flows Data for the nine months ended March 31, 2013 and 2012 and the Consolidated Balance Sheet Data as of March 31, 2013 have been derived from our unaudited Condensed Consolidated Financial Statements appearing elsewhere in this prospectus. The Consolidated Balance Sheet Data as of June 30, 2010 have been derived from our consolidated financial statements that are not included in this prospectus. Our historical results are not necessarily indicative of our results in any future period. The Summary Consolidated Financial Data below should be read in conjunction with Capitalization, Selected Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and our Consolidated Financial Statements and the related notes included elsewhere in this prospectus.

<b>(in millions, except per share data)</b>	<b>Nine Months Ended March 31,</b>		<b>Year Ended June 30,</b>		
	<b>2013</b>	<b>2012</b>	<b>2012</b>	<b>2011<sup>(a)</sup></b>	<b>2010</b>
<b>Consolidated Statements of Operations Data:</b>					
Net revenues	\$ 3,590.3	\$ 3,587.9	\$ 4,611.3	\$ 4,086.1	\$ 3,482.9
Gross profit	2,168.4	2,164.3	2,787.3	2,446.1	2,009.7
Asset impairment charges	1.5	102.0	575.9		5.3
Operating income (loss)	418.3	275.9	(209.5)	280.9	184.5
Interest expense related party				5.9	31.9
Interest expense, net	55.5	73.6	89.6	85.6	41.7
Other (income) expense, net	(0.6)	29.8	32.0	4.4	(8.8)
Income (loss) before income taxes	363.4	172.5	(331.1)	185.0	119.7
Provision (benefit) for income taxes	105.3	114.5	(37.8)	95.1	32.4
Net income (loss)	\$ 258.1	\$ 58.0	\$ (293.3)	\$ 89.9	\$ 87.3
Net income attributable to noncontrolling interests	\$ 12.8	\$ 11.4	\$ 13.7	\$ 12.5	\$ 11.9

Net income attributable to redeemable noncontrolling interests	\$ 15.0	\$ 13.7	\$ 17.4	\$ 15.7	\$ 13.7
Net income (loss) attributable to Coty Inc.	\$ 230.3	\$ 32.9	\$ (324.4)	\$ 61.7	\$ 61.7
<b>Per Share Data:</b>					
Weighted-average common shares					
Basic	381.2	371.5	373.0	329.4	280.2
Diluted	396.7	381.8	373.0	339.1	280.2
Cash dividends declared per common share	\$ 0.15	\$	\$	\$ 0.10	\$
Net income (loss) attributable to Coty Inc. per common share:					
Basic	\$ 0.60	\$ 0.09	\$ (0.87)	\$ 0.19	\$ 0.22
Diluted	0.58	0.09	(0.87)	0.18	0.22
<b>Consolidated Cash Flows Data:</b>					
Net cash provided by operating activities	\$ 362.5	\$ 406.7	\$ 589.3	\$ 417.5	\$ 494.0
Net cash used in investing activities	(184.7)	(293.5)	(333.9)	(2,252.5)	(149.9)
Net cash (used in) provided by financing activities	(3.6)	(69.2)	(97.7)	1,903.8	(7.0)
Cash paid for income taxes <sup>(b)</sup>	66.7	50.2	67.4	60.3	55.3

(a) Fiscal 2011 data includes results from the acquisitions of TJOY

Holdings Co.,  
Ltd. ( TJoy ),  
Dr. Scheller  
Cosmetics AG  
( Dr. Scheller ),  
OPI Products,  
Inc. ( OPI ),  
and  
Philosophy  
Acquisition  
Company, Inc.  
( Philosophy )  
(collectively,  
2011  
Acquisitions ).  
See Note 4,  
Acquisitions,  
in our notes to  
Consolidated  
Financial  
Statements,  
for additional  
disclosures  
related to the  
acquisitions  
results and pro  
forma  
financial data.



(b) As a result of U.S. losses that offset foreign income, we generated a pretax loss and a net tax benefit in our provision for income taxes in fiscal 2012. Cash paid for income taxes exceeded this amount, primarily due to taxes paid in profitable foreign jurisdictions that could not be offset against U.S. losses. Cash paid for income taxes was less than the provision for income taxes in fiscal 2011 and in the nine months ended March 31, 2013 and 2012, primarily as we obtain an ongoing annual tax benefit through fiscal 2022 of approximately \$23.8 million from the amortization of goodwill and other

intangible assets for tax purposes associated with the 2011 acquisitions of OPI and Philosophy and from the utilization of net operating losses in the United States and Germany. The benefits of \$138.5 million and \$26.1 million as of June 30, 2012 associated with net operating losses in the United States and Germany, respectively, will be realized as income is earned in such jurisdictions.

(in millions)	As of March 31, 2013	2012	As of June 30, 2011	2010
<b>Consolidated Balance Sheet Data:</b>				
Cash and cash equivalents <sup>(a)</sup>	\$ 782.9	\$ 609.4	\$ 510.8	\$ 387.5
Total assets	6,328.0	6,183.4	6,813.9	3,781.8
Total debt	2,533.6	2,460.3	2,622.4	1,416.0
Total Coty Inc. stockholders equity	1,100.9	857.2	1,361.9	419.7

(a) In May 2013, we paid \$113.8 million in cash related

to stock  
option  
exercises and  
common  
stock  
redemptions.  
See Note 16,  
Subsequent  
Events in our  
Condensed  
Consolidated  
Financial  
Statements  
for further  
information.

**Other Non-GAAP Financial Data:**

(in millions)	Nine Months Ended March 31,		Year Ended June 30,		
	2013	2012	2012	2011	2010
Adjusted Operating Income	\$ 527.4	\$ 524.3	\$ 535.9	\$ 432.4	\$ 284.4
Adjusted Net Income Attributable to Coty Inc.	313.3	303.0	300.7	235.0	153.4
Adjusted Net Income Attributable to Coty Inc. per Common Share:					
Basic	\$ 0.82	\$ 0.82	\$ 0.81	\$ 0.71	\$ 0.55
Diluted	0.79	0.79	0.78	0.69	0.55

***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:

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, which consists of (i) the difference between share-based compensation expense accounted for under equity plan accounting and

under liability plan accounting for the recurring nonqualified stock option awards and director-owned and employee-owned shares, restricted shares and restricted stock units and (ii) all costs associated with the special incentive awards granted in fiscal 2012 and 2011. Vesting of the special incentive awards is dependent upon the occurrence of (i) an initial public offering within five years of the grant date, or (ii) if an initial public offering has not occurred on the fifth anniversary of the grant date, upon achievement of a target fair value of our share price and the completion of five years of service subsequent to the grant date. During the nine months ended March 31, 2013, the target fair value of our share price was achieved. We currently use liability plan

accounting to measure share-based compensation expense in the Consolidated Statements of Operations to the extent the holders have not retained the risks and rewards of share ownership for a reasonable period of time, as determined under applicable accounting guidance. Once the holders have retained these risks and rewards for a reasonable period of time, generally deemed to be a period of six months from vesting and issuance, the liability recorded in our Consolidated Balance Sheets is reclassified as redeemable common stock at fair value. Subsequent changes in fair value of the shares classified as redeemable common stock are recognized in retained earnings or, in the absence of retained earnings, in additional paid-in capital. We currently use

equity plan  
accounting to  
measure the  
performance of  
the segments and  
we will use it to  
measure  
share-based  
compensation  
expense  
following  
completion of our  
initial public  
offering; 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.



**Reconciliation of Operating Income (Loss) to Adjusted Operating Income:**

(in millions)	Nine Months Ended March 31,		Year Ended June 30,		
	2013	2012	2012	2011	2010
<b>Reported Operating Income (Loss)</b>	<b>\$ 418.3</b>	<b>\$ 275.9</b>	<b>\$ (209.5 )</b>	<b>\$ 280.9</b>	<b>\$ 184.5</b>
<i>% of Net revenues</i>	<i>11.7 %</i>	<i>7.7 %</i>	<i>(4.5 %)</i>	<i>6.9 %</i>	<i>5.3 %</i>
Share-based compensation expense adjustment <sup>(a)</sup>	89.1	108.6	109.9	64.9	47.3
<b>Reported Operating Income (Loss) adjusted for share-based compensation adjustment</b>	<b>\$ 507.4</b>	<b>\$ 384.5</b>	<b>\$ (99.6 )</b>	<b>\$ 345.8</b>	<b>\$ 231.8</b>
<i>% of Net revenues</i>	<i>14.1 %</i>	<i>10.7 %</i>	<i>(2.2 %)</i>	<i>8.5 %</i>	<i>6.7 %</i>
Other adjustments:					
Asset impairment charges <sup>(b)</sup>	1.5	102.0	575.9		5.3
Acquisition-related costs <sup>(c)</sup>	9.4	16.6	18.7	46.8	5.2
Business structure realignment programs <sup>(d)</sup>	5.0	9.9	12.9	7.2	11.5
Real estate consolidation program <sup>(e)</sup>	16.1	6.8	12.4		
Restructuring costs <sup>(f)</sup>	3.1	3.9	11.1	30.5	30.6
Public entity preparedness costs <sup>(g)</sup>	4.2	0.6	4.5	2.1	
Gain on sale of asset <sup>(h)</sup>	(19.3 )				
Total other adjustments to Reported Operating Income	20.0	139.8	635.5	86.6	52.6

(Loss)

<b>Adjusted Operating Income</b>	<b>\$ 527.4</b>	<b>\$ 524.3</b>	<b>\$ 535.9</b>	<b>\$ 432.4</b>	<b>\$ 284.4</b>
<i>% of Net revenues</i>	<i>14.7 %</i>	<i>14.6 %</i>	<i>11.6 %</i>	<i>10.6 %</i>	<i>8.2 %</i>

- (a) Consists of (i) the difference between share-based compensation expense accounted for under equity plan accounting and under liability plan accounting for the recurring nonqualified stock option awards and director-owned and employee-owned shares, restricted shares and restricted stock units and (ii) all costs associated with the special incentive awards granted in fiscal 2012 and 2011. Vesting of the special incentive awards is dependent upon the occurrence of (i) an initial public offering within five years of the grant date, or (ii) if an initial public offering has not occurred on the fifth anniversary of the grant date, upon achievement of a target fair value of our share price and

the completion of five years of service subsequent to the grant date. During the nine months ended March 31, 2013, the target fair value of our share price was achieved. We currently use liability plan accounting to measure share-based compensation expense in the Consolidated Statements of Operations to the extent the holders have not retained the risks and rewards of share ownership for a reasonable period of time, as determined under applicable accounting guidance. Once the holders have retained these risks and rewards for a reasonable period of time, generally deemed to be a period of six months from vesting and issuance, the liability recorded in our Consolidated Balance Sheets is reclassified as redeemable common stock at fair value.

Subsequent changes in fair value of the shares classified as redeemable common stock are recognized in retained earnings or, in the absence of

retained earnings, in additional paid-in capital. We currently use equity plan accounting to measure the performance of the segments and we will use it to measure share-based compensation expense following the completion of our initial public offering. These amounts are included in selling, general and administrative expenses in the Consolidated Statements of Operations in Corporate. Refer to Adjusted Operating Income Share-Based Compensation Adjustment in Management's Discussion and Analysis of Financial Condition and Results of Operations for the nine months ended March 31, 2013 and 2012 and for fiscal 2012, 2011 and 2010.

- (b) Charges related to impairments of certain property and equipment and intangible assets. These amounts are included in asset impairment charges in the Consolidated Statements of Operations in the

Skin & Body Care  
and Color Cosmetics  
segments and in  
Corporate. In  
addition, in the  
fourth quarter of  
fiscal 2012, we  
recorded an  
impairment charge  
of \$473.9 million,  
primarily related to  
goodwill (\$384.4  
million) and certain  
trademarks (\$89.1  
million) resulting in  
total asset  
impairment charges  
of \$575.9 million in  
fiscal 2012. Refer to  
Adjusted Operating  
Income Asset  
Impairment Charges  
in Management's  
Discussion and  
Analysis of  
Financial Condition  
and

Results of Operations for the nine months ended March 31, 2013 and 2012 and for fiscal 2012, 2011 and 2010.

- (c) Charges related to transaction costs, integration costs and acquisition accounting impacts for the 2011 Acquisitions, certain due diligence and acquisition-related costs incurred in connection with certain completed and/or currently contemplated acquisition offers, contemplated acquisition offers that were withdrawn and the acquisition of the Russian distribution business in fiscal 2010. Transaction costs of \$8.7 million and \$8.4 million for the nine months ended March 31, 2013 and 2012, respectively and \$10.3 million, \$18.4 million and \$5.2 million for fiscal 2012, 2011 and 2010, respectively, were recorded as acquisition-related costs in the Consolidated Statements of Operations in Corporate. Integration costs of \$0.7 million and \$7.7 million for the nine months ended March 31, 2013 and 2012, respectively and \$7.9 million and \$8.1 million for fiscal 2012 and 2011, respectively, were recorded as acquisition-related costs, selling, general and administrative expenses and amortization expense in the Consolidated Statements of Operations in Corporate. Charges of \$0.5 million for the nine months ended

March 31, 2012 and \$0.5 million and \$20.3 million for fiscal 2012 and 2011, respectively, related to acquisition accounting impacts of revaluation of acquired inventory were recorded in cost of sales in the Consolidated Statements of Operations in Corporate. Acquisition-related costs include items in addition to what is recorded in acquisition-related costs in the Consolidated Statements of Operations. Additional items include internal integration costs and acquisition accounting impacts. Refer to Adjusted Operating Income Acquisition-Related Costs in Management's Discussion and Analysis of Financial Condition and Results of Operations for the nine months ended March 31, 2013 and 2012 and for fiscal 2012, 2011 and 2010.

- (d) Charges related to structural reorganization in Geneva, accelerated depreciation resulting from a change in the estimated useful life of a manufacturing facility, the buy-back of distribution rights for a brand in selected EMEA markets, position eliminations in certain administrative functions and certain other programs in North America. We incurred costs related to structural reorganization in Geneva of \$0.7 million and \$4.4 million for the nine months ended March 31, 2013 and 2012, respectively, and \$7.0

million, \$1.6 million and \$1.0 million for fiscal 2012, 2011 and 2010, respectively. We incurred accelerated depreciation charges of \$5.6 million and \$10.5 million for fiscal 2011 and 2010, respectively. We incurred \$4.5 million of costs in the nine months ended March 31, 2012 and \$4.5 million of costs in fiscal 2012 related to the buy-back of certain distribution rights in selected EMEA markets. We incurred \$2.2 million of costs in the nine months ended March 31, 2013 related to position eliminations in certain administrative functions. We incurred \$2.1 million and \$1.0 million of costs in the nine months ended March 31, 2013 and 2012, respectively, and \$1.4 million of costs in fiscal 2012 related to certain other programs in North America. These amounts are included in selling, general and administrative expenses in the Consolidated Statements of Operations in Corporate. Refer to Adjusted Operating Income Business Structure Realignment Programs in Management's Discussion and Analysis of Financial Condition and Results of Operations for the nine months ended March 31, 2013 and 2012 and for fiscal 2012, 2011 and 2010.

- (e) Charges related to the consolidation of real estate in New York. These amounts are included in selling, general and



administrative expenses in the Consolidated Statements of Operations in Corporate. Refer to Adjusted Operating Income Real Estate Consolidation Program in Management's Discussion and Analysis of Financial Condition and Results of Operations for the nine months ended March 31, 2013 and 2012 and for fiscal 2012, 2011 and 2010. We expect to continue to incur additional costs associated with the consolidation of real estate in New York during the remainder of fiscal 2013 and in fiscal 2014. We expect the real estate consolidation program to be completed in fiscal 2014.

- (f) Charges related to restructuring programs which primarily reflect employee-related costs, contract terminations and other exit charges. These amounts are included in restructuring costs in the Consolidated Statements of Operations in Corporate. Refer to Adjusted Operating Income Restructuring Costs in Management's Discussion and Analysis of Financial Condition and Results of Operations for the nine months ended March 31, 2013 and 2012 and for fiscal 2012, 2011 and 2010.

- (g) Charges related to public entity preparedness costs, which primarily consist of consulting, audit, legal, filing and printing costs associated with preparation and filing of the registration statement, preparation for public entity reporting requirements and Sarbanes-Oxley compliance. These amounts are included in selling, general and administrative expenses in the Consolidated Statements of Operations in Corporate. Refer to Adjusted Operating Income Public Entity Preparedness Costs in Management's Discussion and Analysis of Financial Condition and Results of Operations for the nine months ended March 31, 2013 and 2012 and for fiscal 2012,

2011 and 2010.

- (h) Gain related to the termination of one of our licenses by mutual agreement with the original licensor. This gain was recorded in gain on sale of asset in the Consolidated Statements of Operations and was included in Corporate. Refer to Adjusted Operating Income Gain on Sale of Asset in Management's Discussion and Analysis of Financial Condition and Results of Operations for the nine months ended March 31, 2013 and 2012.

**Reconciliation of Reported Income (Loss) Before Income Taxes to Adjusted Income Before Income Taxes and Effective Tax Rates:**

(in millions)	Nine Months Ended March 31, 2013			Nine Months Ended March 31, 2012		
	Income Before Income Taxes	Provision for Income Taxes	Effective Tax Rate	Income Before Income Taxes	Provision (Benefit) for Income Taxes	Effective Tax Rate
<b>Reported Income Before Income Taxes</b>	<b>\$ 363.4</b>	<b>\$ 105.3</b>	<b>29.0 %</b>	<b>\$ 172.5</b>	<b>\$ 114.5</b>	<b>66.4 %</b>
Share-based compensation expense	89.1	23.9		108.6	(20.1 )	

adjustment<sup>(a)</sup>

Other adjustments to Operating Income <sup>(a)</sup>	20.0	2.2		139.8	40.1	
Other adjustments <sup>(b)</sup>				45.9	13.2	
Tax impact on foreign income inclusion <sup>(c)</sup>					(9.0)	

**Adjusted****Income Before**

<b>Income Taxes<sup>(e)</sup></b>	<b>\$ 472.5</b>	<b>\$ 131.4</b>	<b>27.8 %</b>	<b>\$ 466.8</b>	<b>\$ 138.7</b>	<b>29.7 %</b>
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**Year Ended June 30, 2012****Year Ended June 30, 2011**

(in millions)	Year Ended June 30, 2012			Year Ended June 30, 2011		
	(Loss) Income Before Income Taxes	Provision (Benefit) for Income Taxes	Effective Tax Rate	Income Before Income Taxes	Provision (Benefit) for Income Taxes	Effective Tax Rate
<b>Reported (Loss) Income Before Income Taxes</b>	<b>\$ (331.1)</b>	<b>\$ (37.8)</b>	<b>11.4 %</b>	<b>\$ 185.0</b>	<b>\$ 95.1</b>	<b>51.4 %</b>
Share-based compensation expense adjustment <sup>(a)</sup>	109.9	12.0		64.9	14.4	
Other adjustments to Operating Income <sup>(a)</sup>	635.5	152.2		86.6	26.9	
Other adjustments <sup>(b)</sup>	44.4	15.4		9.1	1.9	
Tax impact on foreign income inclusion <sup>(c)</sup>		(14.9)			(41.9)	
Tax impact on intercompany borrowing <sup>(d)</sup>					(14.0)	
<b>Adjusted Income Before</b>	<b>\$ 458.7</b>	<b>\$ 126.9</b>	<b>27.7 %</b>	<b>\$ 345.6</b>	<b>\$ 82.4</b>	<b>23.8 %</b>

**Income  
Taxes<sup>(e)</sup>**

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- (a) See  
Reconciliation  
of Operating  
Income (Loss)  
to Adjusted  
Operating  
Income.
  
- (b) See  
Reconciliation  
of Net Income  
(Loss)  
Attributable to  
Coty Inc. to  
Adjusted Net  
Income  
Attributable to  
Coty Inc.
  
- (c) Reflects an  
adjustment to  
our tax  
provision  
equal to the tax  
expense  
associated with  
certain foreign  
income that  
was subject to  
tax in the U.S.  
during fiscal  
2011 under the  
provisions of  
Internal  
Revenue Code  
Sections 951  
through 954  
( Subpart F ),  
but that should  
no longer be

subject to Subpart F as a result of structural changes in our organization. This change is reflected in the provision for income taxes in the Consolidated Statements of Operations for periods following its implementation.

- (d) Reflects tax expense associated with short-term intercompany borrowing arrangements entered into between us and certain foreign subsidiaries during fiscal 2011 in connection with unanticipated acquisition and other opportunities. These amounts are included in provision for income taxes in the Consolidated Statements of Operations.
- (e) Cash paid and payable for income taxes for fiscal 2012 is less than the provision for income taxes for Adjusted Income

Before Income Taxes primarily due to tax benefits associated with the amortization of goodwill and other intangible assets for the 2011 acquisitions of OPI and Philosophy of \$23.8 million and utilization of net operating losses in the United States and Germany of \$16.6 million.

The annual current tax benefit associated with the amortization of goodwill and other intangible assets for OPI and Philosophy is approximately \$23.8 million through fiscal 2022. This tax benefit is not reflected in Adjusted Income Before Income Taxes. Under GAAP, the amortization of goodwill for tax purposes also creates a temporary difference that we must reflect as a deferred tax liability. However, this liability will

only become a tax payable in the event we divest of the OPI or Philosophy businesses. Management has no intention to divest these businesses in the foreseeable future. This tax benefit approximated 4% of our Adjusted Income Before Income Taxes for the nine months ended March 31, 2013 and 2012, and 5% for the year ended June 30, 2012. Tax benefits of \$138.5 million and \$26.1 million as of June 30, 2012, associated with net operating losses in the United States and Germany, respectively, will be realized as income is earned in such jurisdictions.

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

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

adjustment  
made to  
reconcile  
operating  
income to  
Adjusted



Operating  
Income, net  
of the income  
tax effect  
thereon (see  
Adjusted  
Operating  
Income);

certain  
interest and  
other  
(income)  
expense, net  
of the income  
tax effect  
thereon, that  
we do not  
consider  
indicative of  
our  
performance;  
and

certain tax  
effects that  
are not  
indicative of  
our  
performance.

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

Adjusted Net  
Income  
Attributable to  
Coty Inc. *divided*  
*by*

Adjusted  
weighted-average  
basic and diluted  
common shares  
using the treasury  
stock method.

**Reconciliation of Net Income (Loss) Attributable to Coty Inc. to Adjusted Net Income Attributable to Coty Inc.:**

(in millions)

**Year Ended June 30,**

**Nine Months  
Ended March 31,**

	<b>2013</b>	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>Reported Net Income (Loss) Attributable to Coty Inc.</b>	<b>\$ 230.3</b>	<b>\$ 32.9</b>	<b>\$ (324.4 )</b>	<b>\$ 61.7</b>	<b>\$ 61.7</b>
<i>% of Net revenues</i>	<i>6.4 %</i>	<i>0.9 %</i>	<i>(7.0 %)</i>	<i>1.5 %</i>	<i>1.8 %</i>
Share-based compensation expense adjustment <sup>(a)</sup>	89.1	108.6	109.9	64.9	47.3
Change in tax provision due to share-based compensation expense adjustment <sup>(b)</sup>	(23.9 )	20.1	(12.0 )	(14.4 )	(10.2 )
<b>Net Income (Loss) adjusted for share-based compensation expense adjustment</b>	<b>295.5</b>	<b>161.6</b>	<b>(226.5 )</b>	<b>112.2</b>	<b>98.8</b>
<i>% of Net revenues</i>	<i>8.2 %</i>	<i>4.5 %</i>	<i>(4.9 %)</i>	<i>2.7 %</i>	<i>2.8 %</i>
Other adjustments to Reported Net Income (Loss) Attributable to Coty Inc.:					
Other adjustments to Operating Income <sup>(a)</sup>	20.0	139.8	635.5	86.6	52.6
Loss on foreign currency contract <sup>(c)</sup>		37.4	37.4		
Acquisition-related interest expense <sup>(d)</sup>		8.5	7.0	9.1	

(in millions)	Nine Months Ended March 31,		Year Ended June 30,		
	2013	2012	2012	2011	2010
Total other adjustments to Reported Net Income (Loss) Attributable to Coty Inc.	20.0	185.7	679.9	95.7	52.6
Change in tax provision due to other adjustments to Reported Net Income Attributable to Coty Inc.	(2.2)	(53.3)	(167.6)	(28.8)	(18.8)
Tax impact on foreign income inclusion <sup>(e)</sup>		9.0	14.9	41.9	45.3
Tax impact on intercompany borrowing <sup>(f)</sup>				14.0	(24.5)
<b>Adjusted Net Income Attributable to Coty Inc.<sup>(h)</sup></b>	<b>\$ 313.3</b>	<b>\$ 303.0</b>	<b>\$ 300.7</b>	<b>\$ 235.0</b>	<b>\$ 153.4</b>
<i>% of Net revenues</i>	8.7 %	8.4 %	6.5 %	5.8 %	4.4 %
<b>Per Share Data:</b>					
Adjusted weighted-average common shares <sup>(g)</sup>					
Basic	381.2	371.5	373.0	329.4	280.2
Diluted	396.7	381.8	384.6	339.1	280.2
Adjusted Net Income Attributable to Coty Inc. per Common Share <sup>(h)</sup> :					
Basic	\$ 0.82	\$ 0.82	\$ 0.81	\$ 0.71	\$ 0.55
Diluted	0.79	0.79	0.78	0.69	0.55

- (a) See Reconciliation of Operating Income (Loss) to Adjusted Operating Income.
- (b) Reflects an adjustment to our tax provision equal to the net interim tax expense attributable to share based compensation in the nine months ended March 31, 2013 and 2012. In accordance with ASC 740 ( Accounting for Income Taxes ), we record our provision for income taxes using our annual effective tax rate ( AETR ), which is calculated utilizing the latest available information at each interim period. The tax adjustments reflected in this table apply a normalized AETR that has been recalculated to take into account the adjustments to operating income and determine what our rate would have been had

these items not occurred. The actual tax rate applicable to each individual adjustment to operating income is different than the normalized AETR presented herein.

- (c) Loss on foreign currency contract to hedge foreign currency exposure associated with a contemplated acquisition that was withdrawn. This amount is included in other expense, net in the Consolidated Statements of Operations.
- (d) Interest expense for the nine months ended March 31, 2012 and for fiscal 2012 associated with the obligations related to the purchase of TJoy. For fiscal 2011, interest expense associated with the obligations related to the purchase of TJoy and a one-time expense to secure

availability of funds under a \$700.0 million 90-day credit facility for the 2011

Acquisitions. These amounts are included in interest expense, net in the Consolidated Statements of Operations.

- (e) Reflects an adjustment to our tax provision equal to the tax expense associated with certain foreign income that was subject to tax in the U.S. during fiscal 2011 and 2010 under the provisions of Internal Revenue Code Sections 951 through 954 ( Subpart F ), but that should no longer be subject to Subpart F as a result of structural changes in our organization. Effective fiscal 2012, we created a fragrance Center of Excellence for research and development and also centralized global supply chain management in Geneva,

Switzerland. As a result of these changes to our organizational and management structure, Subpart F should no longer apply to income associated with our operations in Geneva and, accordingly, tax expense associated with certain foreign-based income will be reduced in the future. This change is reflected in the provision for income taxes in the Consolidated Statements of Operations for periods following its implementation.

- (f) Reflects tax expense associated with the short-term intercompany borrowing arrangements entered into between us and certain foreign subsidiaries during fiscal 2011 and 2009 in connection with unanticipated acquisition and other opportunities. Under the

provisions of Internal Revenue Code Sections 951 through 956, these short-term borrowings were considered a deemed dividend and resulted in a tax expense of \$14.0 million and \$35.2 million in fiscal 2011 and 2009,



respectively.  
In fiscal 2010,  
a portion of  
the 2009  
short-term  
borrowing was  
repaid,  
resulting in a  
tax benefit of  
\$24.5 million.  
Both fiscal  
2011 and 2009  
borrowings  
have been  
repaid in full.  
The 2011 tax  
expenses and  
2010 tax  
benefit are  
described in  
further detail  
in Note 14,  
Income Taxes  
to the  
Consolidated  
Financial  
Statements and  
are included in  
provision for  
income taxes  
in the  
Consolidated  
Statements of  
Operations.

- (g) For all periods presented the adjusted number of common shares used to calculate non-GAAP adjusted basic and diluted net income attributable to Coty Inc. per common share is identical to the number of

common and diluted shares used to calculate GAAP net income (loss) per common share, except for fiscal 2012. For fiscal 2012, using the treasury stock method, the number of adjusted diluted common shares to calculate non-GAAP adjusted diluted net income per common share was 11.6 million higher than the number of common shares used to calculate GAAP diluted net loss per common share, due to the potentially dilutive effect of certain securities issuable under our share-based compensation plans, which were considered anti-dilutive for calculating GAAP diluted net loss per common share.

- (h) The annual current tax benefit associated with the amortization of goodwill and other intangible assets for OPI and Philosophy is approximately \$23.8 million through fiscal 2022. This tax benefit is not reflected in Adjusted Net Income Attributable to Coty Inc. The impact of this tax benefit per share was \$0.05 for the nine months ended March 31, 2013 and 2012, and \$0.06 for the year ended June 30, 2012. Based on the number of outstanding shares at March 31, 2013, the impact will remain \$0.06 per share through 2022.

*Net Revenues at Constant Rates Excluding the Effects of Recent Acquisitions*

Management further believes that presenting our average annual growth rate excluding the effects of recent acquisitions and foreign currency exchange translations enhances an investor's understanding of our performance, and we have disclosed such measures herein. We believe this non-GAAP financial measure better enables management and investors to understand and analyze the underlying business results from period to period.

**Reconciliation of Reported Net Revenues to Net Revenues excluding Acquisitions at Constant Rates:**

(in millions)	Year Ended June 30,			Change %		Average Annual Growth Rate
	2012	2011	2010	2012/2011	2011/2010	
<b>Reported Net revenues</b>	\$ 4,611.3	\$ 4,086.1	\$ 3,482.9	13 %	17 %	16 %
Revenues generated from 2011 Acquisitions	600.7	339.7		77 %	N/A	N/A
<b>Net revenues (excluding revenues related to 2011 Acquisitions)</b>	\$ 4,010.6	\$ 3,746.4	\$ 3,482.9	7 %	8 %	8 %
<b>Net revenues at Constant Rates (excluding revenues related to 2011 Acquisitions)<sup>(a)</sup></b>	\$ 4,030.6	\$ 3,743.0	\$ 3,482.9	8 % <sup>(b)</sup>	7 %	8 %

(a) For all periods, results are translated at 2010 exchange rates. 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.

- (b) Excluding net revenues related to the 2011 Acquisitions, or \$308.3 million, from only the first half of fiscal 2012, our net revenues at constant rates

were  
\$4,331.1  
million  
compared to  
\$4,044.5  
million for  
the years  
ended June  
30, 2012 and  
2011,  
respectively,  
representing  
an annual  
growth rate  
of 7%.

## **RISK FACTORS**

*Investment in our Class A common stock involves a high degree of risk and uncertainty. You should carefully consider the following information about these risks together with the other information contained in this prospectus before making an investment decision. If any of the following risks occur, our business, financial condition, results of operations or future growth could suffer. In these circumstances, the market price of our Class A common stock could decline, and you may lose all or part of your investment. The risks described below are not the only risks facing the Company. Additional risks not currently known or deemed immaterial may also result in adverse results for the Company's business.*

### **Risks related to our business**

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

We face vigorous competition from companies throughout the world, including large multinational consumer products companies. Some of our competitors have greater resources than we do and may be able to respond more effectively to changing business and economic conditions than we can. Most of our products compete with other widely advertised brands within each product segment. Competition in the beauty business is based on pricing of products, quality of products and packaging, perceived value and quality of brands, innovation, in-store presence and visibility, promotional activities, advertising, editorials, e-commerce and mobile-commerce initiatives and other activities. It is difficult for us to predict the timing and scale of our competitors' actions in these areas or whether new competitors will emerge in the beauty business, including competitors who offer comparable products at more attractive prices. In particular, the fragrances segment in the United States is being influenced by the high volume of new product introductions by diverse companies across several different distribution channels, including private label brands and cheaper brands that have increased pricing pressure. In addition, further technological breakthroughs, new product offerings by competitors, and the strength and success of our competitors' marketing programs may impede our growth and the implementation of our business strategy. Our ability to compete also depends on the continued strength of our products, both power brands and other brands, including our continued leadership in fragrances, growth and innovation in color cosmetics and growth in skin & body care, the success of our branding, innovation and execution strategies, our ability to acquire or enter into new licenses and to continue to act as licensee of choice for various brands, the continued diversity of our product offerings to help us compete effectively, the successful management of new product introductions and innovations, our success in entering new markets and expanding our business in existing geographies, the success of any future acquisitions and our ability to protect our intellectual property. If we are unable to continue to compete effectively on a global basis, it could have an adverse impact on our business, results of operations and financial condition.

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

Our continued success depends on our ability to anticipate, gauge and react in a timely and cost-effective manner to industry trends and changes in consumer preferences for fragrances, color cosmetics and skin & body care products, consumer attitudes toward our industry and brands and in where and how consumers shop for those products. We must continually work to develop, produce and market new products, maintain and enhance the recognition of our brands, achieve a favorable mix of products and refine our approach as to how and where we market and sell our products. Net revenues and margins on beauty products tend to decline as they advance in their life cycles, so our net revenues and margins could suffer if we do not successfully and continuously develop new products. While we devote considerable effort and resources to shape, analyze and respond to consumer preferences, consumer tastes cannot be predicted with certainty and can change rapidly. Additionally, due to the increasing use of social and digital media by consumers and the speed by which information and opinions are shared, trends and tastes may continue to change even more





quickly. If we are unable to anticipate and respond to trends in the market for beauty and related products and changing consumer demands, our financial results may suffer.

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

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

develop our  
power brands  
portfolio  
through  
branding,  
innovation  
and  
execution;

identify and  
incubate new  
and existing  
brands with  
the potential  
to develop  
into global  
power  
brands;

innovate and  
develop new  
products that  
are appealing  
to the  
consumer;

extend our  
brands into  
the other  
segments of  
the beauty  
industry in  
which we  
compete and  
develop new  
brands;

acquire or  
enter into  
new licenses;

expand our geographic presence to take advantage of opportunities in developed and emerging markets;

continue to expand our distribution channels within existing geographies to increase market presence, brand recognition and sales;

expand our market presence through alternative distribution channels;

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

effectively manage capital investments and working

capital to  
improve the  
generation of  
cash flow;  
and

execute any  
acquisitions  
quickly and  
efficiently  
and integrate  
businesses  
successfully.

There can be no assurance that we can successfully achieve any or all of the above initiatives in the manner or time period that we expect. Further, achieving these objectives will require investments which may result in short-term costs without generating any current net revenues and, therefore, may be dilutive to our earnings, at least in the short term. In addition, we may decide to divest or discontinue certain brands or streamline operations and incur other costs or special charges in doing so. We cannot give any assurance that we will realize, in full or in part, the anticipated strategic benefits we expect our strategy will achieve. The failure to realize those benefits could have a material adverse effect on our business, financial condition and results of operations.

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

During the past several years, we have explored and undertaken opportunities to acquire other companies and assets as part of our growth strategy. The assets we have acquired in the past several years represent a significant portion of our net assets. In fiscal 2011 we acquired four businesses: Philosophy, OPI, Dr. Scheller and TJoy. We will continue to evaluate and anticipate engaging in additional selected acquisitions that would complement our current product offerings, expand our distribution channels, increase the size and geographic scope of our operations or otherwise offer operating efficiency opportunities and growth potential. There can be no assurance that we will be able to continue to identify suitable acquisition candidates in the future or consummate acquisitions on favorable terms or otherwise realize the full intended benefit of such transactions. For example, we recently experienced an unanticipated leadership change at TJoy after we acquired it which, combined with less favorable trade conditions in China, has resulted in TJoy performing below our expectations and impairments of trademarks. Similarly, Philosophy earned lower net revenues than expected in the first fiscal year after its acquisition primarily due to delays in planned international market product distribution expansion, which also resulted in impairments of trademarks. See Our goodwill and other assets have been subject to impairment and may continue to be subject

to impairment in the future and The purchase price of future acquisitions may not be representative of the operations acquired. Our failure to achieve intended benefits from any future acquisitions could cause a material adverse effect on our results, business or financial condition.

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

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

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

We currently have offices in more than 30 countries and market, sell and distribute our products in over 130 countries and territories. Our growth strategy depends in part on our ability to grow in emerging areas, including expanding our operations in China and Russia and building our business in Brazil. In addition, our acquisitions and operations in some developing countries may be subject to greater political and economic volatility and greater vulnerability to infrastructure and labor disruptions than are common in established areas.

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

The United States has imposed export controls and economic sanctions that prohibit export or re-export of products subject to U.S. jurisdiction to specified end users and destinations, and/or prohibit U.S. companies and other U.S. persons from engaging in business activities with certain persons, entities, countries or governments that it determines are adverse to U.S. foreign policy interests, including Iran and Syria. In 2012, we determined that our majority-owned subsidiary in the United Arab Emirates ( UAE ) had re-exported certain of our products manufactured in the U.S. to Syria, which may have been in violation of U.S. export control laws. We have taken remedial action to cease further sales to Syria. See Legal Proceedings for additional information regarding such sales and the status of the U.S. Department of Commerce's Bureau of Industry and Security's Office of Export Enforcement ( OEE ) investigation and We may incur penalties and experience other adverse effects on our business as a result of possible EAR violations for additional information regarding risks related to such sales. In addition, some of the affiliate's Syria sales were made to a party that was designated as a target of U.S. economic sanctions by the U.S. Treasury Department's Office of Foreign Assets Control ( OFAC ). We have also recently determined that



the same affiliate had re-exported some of our products to Iran through an intermediary UAE entity. We ceased all sales to the OFAC-designated party in January 2010 and have taken measures to cease all sales to Iran, Syria and OFAC-designated parties. We do not believe these sales constituted a violation of U.S. trade sanctions administered by OFAC. We may experience reputational harm and increased regulatory scrutiny as a result of our subsidiary's sales to Syria and Iran. In addition, the U.S. may impose additional sanctions at any time on other countries where we sell our products. If so, our existing activities may be adversely affected, or we may incur costs in order to come into compliance with future sanctions, depending on the nature of any further sanctions that may be imposed.

Under U.S. law, U.S. companies and their controlled-in-fact foreign subsidiaries and affiliates are prohibited from participating in unsanctioned foreign boycotts. Currently, the United States considers the Arab League boycott of Israel to constitute an unsanctioned foreign boycott. In the course of our internal investigation into compliance with U.S. export laws by our majority-owned subsidiary in the UAE, we determined that the subsidiary may have violated U.S. anti-boycott laws by certifying on invoices (including some that involved goods manufactured in the United States) that the orders did not contain any materials of Israeli origin. See [Item 19](#) We may incur penalties and experience other adverse effects on our business as a result of possible EAR violations for additional information regarding risks related to such certifications.

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

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

In 2012, we determined that our majority-owned subsidiary in the UAE had re-exported certain of our products to Syria in transactions that may constitute violations of the U.S. Export Administration Regulations (EAR) enforced by the OEE. We voluntarily reported the transactions to OEE in December 2012 and undertook remedial action to prevent any further such transactions, including auditing the subsidiary and notifying each of the subsidiary's employees and distributors of the current U.S. sanctions and export control laws and asking that each distributor acknowledge the same. We also notified OFAC of our voluntary disclosure to the OEE.

OEE is in receipt of our initial voluntary report. Our investigation is continuing and, once we complete our review, we will supplement the initial voluntary report by filing a final disclosure with OEE. The agency is still reviewing the possible violations. The OEE investigation may take many months to complete, and we do not know when OEE will make a final determination.

In the course of our internal investigation into compliance by our majority-owned subsidiary in the UAE with U.S. export control laws, we also determined that the subsidiary may have violated EAR anti-boycott laws by including a legend on invoices confirming that the corresponding goods did not contain materials of Israeli origin. A number of the invoices involved U.S.-origin goods. We made an initial voluntary disclosure of the potential violations to the U.S. Department of Commerce, Bureau of Industry and Security, Office of Antiboycott Compliance (OAC) in January 2013 and undertook remedial action to prevent any further inclusion of the legends on invoices. Our investigation is continuing and we intend to submit a final voluntary disclosure to OAC when our review is complete.

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. OEE and OAC each have wide discretion to settle claims for violations. We believe that a penalty or penalties that would result in a



material loss are reasonably possible. Irrespective of any penalty, we could suffer other adverse effects on our business as a result of any violations or the potential violations, including legal costs and harm to our reputation, and we also will incur costs associated with our efforts to improve our compliance procedures. We have not established a reserve for potential penalties. We do not know whether OEE or OAC will assess a penalty or what the amount of any penalty would be, if a penalty or penalties were assessed. See Note 15, Commitments and Contingencies in our notes to Condensed Consolidated Financial Statements for the nine months ended March 31, 2013.

***Our business is dependent upon certain licenses.***

Products covering a significant portion of our net revenues are marketed under exclusive license agreements which grant us and/or our subsidiaries the rights to use certain intellectual property (trademarks, trade dress, names and likeness, etc.) in certain fields on a worldwide and/or regional basis. As of June 30, 2012, we maintained 48 license agreements, which collectively accounted for 60% of our net revenues in fiscal 2012. In fiscal 2012, our top six licensed brands collectively accounted for 41% of our net revenues, and each represented between 3% and 17% of net revenues. The termination of one or more of our license agreements or the renewal of a license agreement on less favorable terms could have a material adverse effect on our business, financial condition and results of operations. While we may enter into additional license agreements in the future, the terms of such license agreements may be less favorable than the terms of our existing license agreements.

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

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

- maintaining the quality of the licensed product and the applicable trademarks;

- permitting the licensor s involvement in and, in some cases, approval of advertising, packaging and marketing plans;



paying royalties at minimum levels and/or maintaining minimum sales levels;

actively promoting the sales of the licensed product;

spending a certain amount of net sales on marketing and advertising for the licensed product;

maintaining the integrity of the specified distribution channel for the licensed product;

expanding the sales of the product and/or the jurisdictions in which the product is sold;

agreeing not to enter into licensing arrangements with competitors of certain of

our licensors;

indemnifying  
the licensor in  
the event of  
product  
liability or  
other claims  
related to our  
products;

limiting  
assignment  
and  
sub-licensing  
to third  
parties  
without the  
licensor's  
consent; and

in some  
cases,  
requiring  
notice to the  
licensor or its  
approval of  
certain  
changes in  
control.

If we breach any of these obligations or any other obligations set forth in any of our license agreements, our rights under the license agreements that we have breached could be terminated,

which could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

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

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

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

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

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

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

We are required, at least annually, or as facts and circumstances warrant, to test goodwill and other assets to determine if impairment has occurred. Impairment may result from any number of factors, including adverse changes in assumptions used for valuation purposes, such as actual or projected net revenue growth rates, profitability or discount rates, or other variables. If the testing indicates that impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill or other assets and the implied fair value of the goodwill or the fair value of other assets in the period the determination is made. We cannot always accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other assets become impaired, it would have an adverse effect on our financial condition and results of operations. For example, during fiscal 2012, the Company recorded a \$188.6 million asset impairment charge on the philosophy and TJoy trademarks due to lower than expected net revenues following their acquisition, as well as a related goodwill impairment charge of \$384.4 million, each as described under Management's Discussion and Analysis of Financial Condition and Results of Operations Fiscal 2012 as Compared to Fiscal 2011 and Fiscal 2011 as Compared to Fiscal 2010 Net Revenues Operating Income Adjusted Operating Income Asset Impairment Charges.

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

During the past several years, we have taken advantage of selected acquisition opportunities that we believed would complement our current product offerings, expand our distribution channels, increase the size and geographic scope of our operations or otherwise offer operating efficiency opportunities and growth potential. Among other acquisitions in fiscal 2011, we acquired 100% of Philosophy's stock for \$929.7 million cash, net of a \$4.4 million receivable from the seller, and acquired TJoy via a stock purchase, for a total cash purchase price of RMB 2,400.0 million (\$351.7 million at the January 14, 2011 date of purchase), subject to certain post-closing adjustments. Each of these acquisitions resulted in impairment charges in fiscal 2012. For Philosophy, where the trademark impairment charge was \$130.6 million in fiscal 2012, reductions in our projections were caused by lower than projected net revenues in the U.S. market, due to an innovation plan that was smaller in scope and less successful than expected, and a slowdown of brand sales momentum in certain key retailers. Furthermore, the expansion of the Philosophy business into certain international markets anticipated in fiscal 2012 was delayed due to a longer than expected product registration process in certain countries, contributing significantly to a reduction in current and long-term projected net revenues of the business and its resultant fair value. We also incurred a goodwill impairment charge of \$384.4 million in fiscal 2012, resulting from the events described above impacting Philosophy projections, coupled with a delay in anticipated cost savings associated with consolidating our worldwide research and development, manufacturing, distribution and marketing operations for the Philosophy business into our existing operations. For TJoy, where the trademark impairment charge was \$58.0 million in fiscal 2012, our business performance was impacted by the retirement of the TJoy CEO, announced in August 2011 and effective as of December 31, 2011, and the related transition to new leadership during our third quarter of fiscal 2012. In addition, during the second and third quarters of fiscal 2012, certain key sales representatives departed with the former TJoy CEO.

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

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

The general level of consumer spending is affected by a number of factors, including general economic conditions, inflation, interest rates, energy costs and consumer confidence, each of which is beyond our control. Consumer purchases of discretionary items tend to decline during recessionary periods, when disposable income is lower, and may impact sales of our products. For example, in the 2008-09 economic downturn, our net revenues declined. Global events beyond our control may impact our business, operating results and financial condition.

The ongoing eurozone debt crisis has caused, and is likely to continue to cause, disruptions both in local economies and in global financial markets, particularly if it leads to any future sovereign debt defaults or significant bank failures or defaults in the eurozone. Market disruptions in the eurozone could intensify or spread further, particularly if ongoing stabilization efforts prove insufficient. Concerns have been raised as to the financial, political and legal ineffectiveness of measures taken to date. The effects of the eurozone debt crisis could be even more significant if they lead to a partial or complete breakup of the European Monetary Union ( EMU ). The partial or complete break-up of the EMU would be unprecedented and its impact highly uncertain. The resulting uncertainty and market stress could cause, among other things, potential failure or default



of financial institutions, including those of systemic importance, a significant decrease in global liquidity, a freeze-up of global credit markets and worldwide recession.

Continuing or worsening recessionary environments in Europe and elsewhere could affect the demand for our products and may result in longer sales cycles, slower acceptance of new products and increased competition for sales. Calendar year 2012 and 2013 sales in Europe in fragrances and categories of the color cosmetics industry have declined due to the economic slowdown, although our performance in the segments in which we compete have historically outperformed the industry. Deterioration of economic conditions in Europe or elsewhere could also impair collections on accounts receivable. In addition, sudden disruptions in business conditions, for example, as a consequence of events such as a pandemic, or as a result of a terrorist attack, retaliation and the threat of further attacks or retaliation, or as a result of adverse weather conditions or climate changes, can have a short- and, sometimes, long-term impact on consumer spending. Events that impact consumers' willingness or ability to travel and/or purchase our products while traveling have impacted our travel retail business, and may continue to do so in the future. A downturn in the economies in which we sell our products or a sudden disruption of business conditions in those economies where our travel retail business is located could adversely affect our net revenues and profitability.

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

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

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

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

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

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

We remain dependent upon others for our financing needs, and our debt agreements contain restrictive covenants. Our principal credit facility, which we refinanced on April 2, 2013, and the agreement governing our private placement of notes each contain covenants requiring us to maintain specific financial ratios and contain certain restrictions on us with respect to guarantees, liens, sales of certain assets, consolidations and mergers, affiliate transactions, indebtedness, dividends and other distributions and changes of control. There is a risk that these covenants could constrain execution of our business strategy and growth plans, including acquisitions. Should we decide to pursue an acquisition that requires financing that would result in a violation of our existing debt covenants, refusal of our current lenders to permit waivers or amendments to our existing covenants could delay or prevent consummation of our plans. This principal credit facility will expire in April 2018 and the notes are due in 2017, 2020 and 2022. There is no assurance that alternative financing or financing on as favorable terms will be found when these agreements expire.

***We are subject to risks related to our international operations.***

We operate on a global basis, and the majority of our fiscal 2012 net revenues was generated outside the United States. We maintain offices in over 30 countries and have key operational facilities located outside the United States that manufacture, warehouse or distribute goods for sale throughout the world. As of June 30, 2012, approximately 67% of our total net revenues, and approximately 25% of our long-lived assets were attributable to our foreign operations. Non-U.S. operations are subject to many risks and uncertainties, including:

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



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

difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex domestic and international laws, treaties and regulations, including the FCPA, and different regulatory

structures and  
unexpected  
changes in  
regulatory  
environments;

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

adverse  
weather  
conditions,  
social,  
economic and  
geopolitical  
conditions,  
such as  
terrorist  
attacks, war or  
other military  
action or  
violent  
revolution.

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

Substantially all of our cash and cash equivalents that result from these earnings remain outside the United States. As of June 30, 2012, 2011 and 2010, cash and cash equivalents in foreign operations included \$605.0 million, \$505.0 million and \$382.6 million, or 99.2%, 98.9% and 98.7% of aggregate cash and cash equivalents, respectively.

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

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

Exchange rate fluctuations may affect the costs that we incur in our operations. The main currencies to which we are exposed are the euro, the British pound, the Swiss franc, the Russian ruble, the Polish zloty, the Australian dollar and the Canadian dollar. The exchange rates between these currencies and the U.S. dollar in recent years have fluctuated significantly and may continue to do so in the future. A depreciation of these currencies against the U.S. dollar will decrease the U.S. dollar equivalent of the amounts derived from foreign operations reported in our consolidated financial statements and an appreciation of these currencies will result in a corresponding increase in such amounts. The cost of certain items, such as raw materials, transportation and freight, required by our operations may be affected by changes in the value of the relevant currencies. To the extent that we are required to pay for goods or services in foreign currencies, the appreciation of such currencies against the U.S. dollar will tend to negatively impact our financial condition and results of operations. The financial difficulties experienced by Greece, Italy, Spain (where we operate a manufacturing facility) and Portugal have led to speculation that these or other countries could leave the EMU, or that the EMU could break up. Greece, Italy, Spain and Portugal collectively represented 7% of our net revenues in fiscal 2012. The partial or complete break-up of the EMU would be unprecedented and its impact highly uncertain. The exit of one or more countries from the EMU or the dissolution of the EMU could lead to redenomination of certain of our accounts receivable. Any such exit and redenomination could cause uncertainty with respect to outstanding amounts owed to us, amplify currency risks or have an adverse impact on our business.

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

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

***Our business is subject to seasonal variability.***

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

***We sell our products in a continually changing retail environment.***

The retail industry, particularly in the United States and Europe, has continued to experience consolidation and other ownership changes, and the business environment for selling fragrances, color cosmetics, and skin & body care products may change further. During the last several years, significant consolidation has occurred. The trend toward consolidation, particularly in developed markets such as the United States and Western Europe, has resulted in us becoming increasingly dependent on key retailers that control a higher percentage of retail locations, including large-format retailers and consolidated entities that own retail chains in both the mass and prestige distribution channels, who have increased their bargaining strength. Major retailers may, in the future, continue to consolidate, undergo restructuring or realign their affiliations, which could decrease the number of stores that sell our products or increase ownership concentration within the retail industry. Further business combinations among retailers may impede our growth and the implementation of our business strategy. In addition, the highly competitive U.S. discount and drug store environment has resulted in financial difficulties and store closings for a number of retailers, several of whom have liquidated or been acquired as a result. In addition, retailers, particularly in North America, have been reducing to a substantial extent their inventories of products, including our products. In fiscal 2012, no retailer accounted for more than 10% of our global net revenues; however, certain retailers accounted for more than 10% of net revenues within certain geographic markets, including the United States.

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

As the retail industry changes, consumers may prefer to purchase their fragrances and cosmetics from other distribution channels than those we use, and we may not continue to be as successful in penetrating those channels as we currently are in other channels, or as successful as our competitors are. For example, we have not sold products through the direct sales channel in the markets where it is significant, and we are less experienced in e-commerce, direct response and door-to-door than in our more traditional distribution channels. Assuming e-commerce, direct response and door-to-door sales continue to grow worldwide, we will need to continue to develop related strategies in order to remain competitive. If we are not successful in the direct sales channel, we may experience lower than expected revenues or be required to recognize goodwill impairments, as we have recently done with respect to our Philosophy acquisition. See Our goodwill and other assets have been subject to impairment and may continue to be subject to impairment in the future.

In addition, as we expand into new markets, other distribution channels that we do not utilize may be more significant. Although we have been able to recognize and adjust to many such changes in the retail industry to date, we can make no assurance as to our ability to make such adjustments in the future or the future effect of any such changes, including any potential material adverse effect such changes could have on our business, results of operations and financial condition. This concern is also valid with respect to new markets with which we are less familiar. See Our acquisition activities may present managerial, integration, operational and financial risks. While many fragrance brands are distributed in either the prestige or mass-market, over the past several years prestige brands have become increasingly available in other outlets through unauthorized means. While we



have taken actions and expended considerable resources to confront such diversion of our products and the unauthorized introduction of other prestige products into the mass-market sales channels, there can be no assurance that such actions will be successful or that diversion of our products will not have an adverse impact on our business, prospects, financial condition and results of operations.

***A disruption in operations could adversely affect our business.***

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

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

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

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

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

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

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic and financial information, to manage a variety of business processes



and activities, and to comply with regulatory, legal and tax requirements. We also depend on our information technology infrastructure for digital marketing activities and for electronic communications among our locations, personnel, customers and suppliers around the world. These information technology systems, some of which are managed by third parties, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors or catastrophic events. If our information technology systems suffer severe damage, disruption or shutdown and our business continuity plans do not effectively resolve the issues in a timely manner, our product sales, financial condition and results of operations may be materially and adversely affected, and we could experience delays in reporting our financial results.

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

***Our success depends, in part, on our employees.***

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

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

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

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

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

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





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

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

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

We have a rigorous process for the continuous development and evaluation of new product concepts, led by executives in marketing, sales, research and development, product development, operations, law and finance. Each new product launch, including those resulting from this new product development process, carries risks, as well as the possibility of unexpected consequences, including:

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

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

we may  
experience  
out-of-stocks  
and/or product  
returns  
exceeding our  
expectations as a  
result of our new  
product launches  
or retailer space

reconfigurations  
or our net  
revenues may be  
impacted by  
retailer  
inventory  
management or  
changes in  
retailer pricing  
or promotional  
strategies;

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

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

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

Third parties may illegally distribute and sell counterfeit versions of our products, which may be inferior or pose safety risks. Consumers could confuse our products with these counterfeit products, which could cause them to refrain from purchasing our brands in the future and in turn could adversely affect our business. The presence of counterfeit versions of our products in the market could also dilute the value of our brands or otherwise have a negative impact on

our reputation and business.

We believe our trademarks, copyrights, patents, and other intellectual property rights are extremely important to our success and our competitive position. While we devote significant resources to the registration and protection of our intellectual property and are aggressive in pursuing entities involved in the trafficking and sale of counterfeit products, we have not been able to prevent, and may in the future be unable to prevent, the imitation and counterfeiting of our products or the infringement of our trademarks. In particular, in recent years, there has been an increase in the availability of counterfeit goods, including fragrances, in various markets by street vendors and small retailers, as well as on the internet.

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

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

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

#### **Risks Related to the Securities Markets and Ownership of Our Class A Common Stock**

***JAB and certain other stockholders will continue to have significant influence over us after this offering, including control over decisions that require the approval of stockholders, which could limit your ability to influence the outcome of key transactions, including deterring a change of control.***

We are controlled by, and after this offering is completed will continue to be controlled by, JAB Holdings II B.V. ( JAB ). Donata Holding SE ( Donata ), Parentes Holding SE ( Parentes ) and JAB Holdings B.V. indirectly share voting and investment control over the shares held by JAB. After the completion of this offering, JAB will not hold any of our Class A common stock, but will hold 86.9% of our Class B common stock and, consequently, 84.9% of the combined voting power of our common stock. Each share of our Class B common stock will have ten votes per share, and our Class A common stock, which is the stock the selling stockholders are selling in this offering, will have one vote per share. As a result, JAB will have control over decisions requiring stockholder approval, including the election of directors, amendments to our Certificate of Incorporation and significant corporate transactions, such as a merger or other sale of the Company or its assets, subject to JAB's obligations under a stockholders agreement with other significant holders: affiliates of Berkshire Partners LLC (which affiliates we refer to as Berkshire ) and affiliates of Rhône Capital L.L.C. (which affiliates we refer to as Rhône ). See Certain Relationships and Related Party Transactions Stockholders Agreement. JAB will be able to make these decisions regardless of whether others believe that such change or transaction is in our best interests. So long as JAB, or affiliates of JAB, continues to beneficially own a sufficient number of shares of Class B common stock, even if they own significantly less than 50% of the shares of our outstanding common stock, they will continue to be able to effectively control our decisions, subject to JAB's obligations under the stockholders agreement. In addition, pursuant to the stockholders agreement, Berkshire and Rhône each has the right to nominate a director to our Board of Directors, and each of the parties has agreed to vote for the other parties' nominees. Berkshire and Rhône each hold this right so long as they continue to own at least 13,586,957 shares of either class of our common stock in the aggregate, respectively, adjusted for any stock split, dividend or combination, or any reclassification, recapitalization, merger, consolidation, exchange or other similar reorganization. In addition, the Class B common stock held by Berkshire and Rhône may be transferred to an unrelated third party



if the holders of a majority of the shares of Class B common stock held by JAB and its affiliates have consented to that transfer in writing in advance.

The concentration of ownership may have the effect of delaying, preventing or deterring a change of control of the Company, could deprive stockholders of an opportunity to receive a premium for their Class A common stock as part of a sale of the Company and may ultimately affect the market price of our Class A common stock. See [Description of Capital Stock Common Stock](#) and [Description of Capital Stock Voting Rights](#) for a more detailed discussion of the relative rights of the Class A and Class B common stock.

JAB, Berkshire and Rhône are also in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete indirectly with us. JAB, Berkshire and Rhône or their respective affiliates may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us.

***An active, liquid trading market for our Class A common stock may not develop.***

Prior to this offering, there has not been a public market for our Class A common stock. Although our Class A common stock has been approved for listing on the New York Stock Exchange, we cannot predict whether an active public market for our Class A common stock will develop or be sustained after this offering. If an active and liquid trading market does not develop, you may have difficulty selling or may not be able to sell at all some or any of the shares of our Class A common stock that you purchase.

***We cannot assure you that our stock price will not decline or not be subject to significant volatility after this offering.***

The market price of our Class A common stock could be subject to significant fluctuations after this offering. The price of our stock may change in response to fluctuations in our operating results in future periods and also may change in response to other factors, including factors specific to companies in our industry, many of which are beyond our control. As a result, our share price may experience significant volatility and may not necessarily reflect the value of our expected performance. Among other factors that could affect our stock price are:

the financial  
projections that  
we may provide  
to the public,  
any changes in  
these  
projections or  
any failure for  
any reason to  
meet these  
projections;

the  
development  
and  
sustainability of  
an active  
trading market  
for our Class A

common stock;

success of  
competitive  
products or  
services;

the public's  
response to  
press releases or  
other public  
announcements  
by us or others,  
including our  
filings with the  
Securities and  
Exchange  
Commission  
(the SEC),  
announcements  
relating to  
litigation,  
significant  
changes to our  
management or  
to our license or  
brand portfolio;

the  
effectiveness of  
our internal  
controls over  
financial  
reporting;

speculation  
about our  
business in the  
press or the  
investment  
community;

future sales of  
our common  
stock by our  
significant  
stockholders,  
officers and  
directors;



changes in our capital structure, such as future issuances of debt or equity securities;

our entry into new markets;

regulatory and tax developments in the United States, Europe or other markets;

strategic actions by us or our competitors, such as acquisitions or restructurings; and

changes in accounting principles.

In particular, we cannot assure you that you will be able to resell any of your shares of our Class A common stock at or above the initial public offering price. The initial public offering price

will be determined by negotiations between us, the selling stockholders and the representatives of the underwriters and may not be indicative of prices that will prevail in the trading market, if a trading market develops, after this offering.

***The price of our Class A common stock could decline if securities analysts do not publish research or if securities analysts or other third parties publish inaccurate or unfavorable research about us.***

The trading of our Class A common stock is influenced by the reports and research that industry or securities analysts publish about us or our business. The trading price of our stock would likely decrease if analysts stop covering us or if too few analysts cover us. If one or more of the analysts who cover us downgrade our stock, our stock price will likely decline. If one or more of these analysts cease coverage of the Company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

***If we are unable to implement and maintain effective internal control over financial reporting in the future, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Class A common stock may be negatively affected.***

As a public company, we will be required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. In addition, beginning with our second Annual Report on Form 10-K, we will be required to furnish a report by management on the effectiveness of our internal control over financial reporting, pursuant to Section 404 of the Sarbanes-Oxley Act. Our independent registered public accounting firm is required to express an opinion as to the effectiveness of our internal control over financial reporting beginning with our second Annual Report on Form 10-K. We are in the process of designing, implementing, and testing the internal control over financial reporting required to comply with this obligation, which process is time consuming, costly, and complicated. If we identify material weaknesses in our internal control over financial reporting, if we are unable to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner or to assert that our internal control over financial reporting is effective, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal control over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Class A common stock could be negatively affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

***The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members.***

We will face increased legal, accounting, administrative and other costs and expenses as a public company that, other than in relation to preparing this prospectus, we have not incurred as a private company. The Sarbanes-Oxley Act of 2002, as well as new rules and regulations subsequently implemented by the SEC, the Financial Industry Regulatory Authority, the Public Company Accounting Oversight Board and the New York Stock Exchange, as applicable, impose additional reporting and other obligations on public companies. We expect that compliance with these public company requirements will increase our costs and make some activities more time-consuming. As a result, management's attention may be diverted from other business concerns, which could harm our business and operating results. Although we have hired additional employees to comply with these requirements, we may need to hire more employees in the future, which will increase our costs and expenses.

***If we or our existing investors sell additional shares of our common stock after this offering, the market price of our Class A common stock could decline.***

The market price of our Class A common stock could decline as a result of sales of a large number of shares of our common stock in the market after this offering, or the perception that such sales could occur. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate. After the completion of this offering, assuming the underwriters do not exercise their option to purchase additional shares, we will have outstanding 72,219,007 shares of Class A common stock and 310,611,513 shares of our Class B common stock that are convertible by the holders thereof at any time into an equal amount of shares of our Class A common stock. This number includes 57,142,857 shares of Class A common stock being sold in this offering, including any shares sold under our reserved share program, which may be resold immediately in the public market. We, our directors and officers, and substantially all of our stockholders have agreed not to offer, sell, dispose of or hedge, directly or indirectly, any common stock without the prior written consent of the representatives of the underwriters for a period of 180 days from the date of the public offering, subject to certain exceptions and automatic extension in certain circumstances.

As of May 24, 2013, 382,830,520 shares of our common stock were outstanding, all of which (other than the shares sold in this offering) are subject to restrictions on transfer, and 33,457,361 shares were issuable upon conversion of outstanding RSUs and IPO Units and exercise of outstanding options. Subject to the lapse of applicable transfer restrictions and the lock-up agreements, these shares will first become eligible for resale 180 days after the date of this prospectus except for 287,425 shares that may be sold during this 180-day restricted period pursuant to Rule 144 under the Securities Act. Sales of a substantial number of shares of our common stock could cause the market price of our Class A common stock to decline. Pursuant to a registration rights agreement, we have granted certain stockholders the right to cause us, in certain instances, at our expense, to file registration statements under the Securities Act of 1933, as amended (the Securities Act ) covering resales of our common stock held by them or to piggyback on a registration statement in certain circumstances. The stockholders will agree pursuant to contractual lock-ups not to exercise any of their rights under the registration rights agreement during the 180-day restricted period described above. The shares subject to the registration rights agreement will represent approximately 81.1% of our common stock after this offering (and 95.4% of all shares not sold in this offering) or 78.9% if the underwriters exercise their option to purchase additional shares in full. These shares may also be sold pursuant to Rule 144 under the Securities Act, depending on their holding period and subject to restrictions in the case of shares held by persons deemed to be our affiliates. As restrictions on resale end or if these stockholders exercise their registration rights, the market price of our Class A common stock could decline if the holders of restricted shares sell them or are perceived by the market as intending to sell them. See Certain Relationships and Related Party Transactions Registration Rights Agreement, Shares Eligible for Future Sale and Underwriting.

***Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.***

Provisions in our Certificate of Incorporation and By-laws, as amended and restated in connection with the closing of this offering, may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

We have a  
dual class  
common  
stock  
structure,  
which  
currently

provides the holders of our Class B common stock with the ability to control the outcome of matters requiring stockholder approval, so long as they continue to beneficially own a sufficient number of shares of Class B common stock, even if they own significantly less than 50% of the shares of our outstanding common stock.

Special meetings of our stockholders may be called only by our Chairman, our Chief Executive Officer, our Board of Directors or by our Secretary upon the request of holders of not less than a majority of

the  
combined  
voting power  
of our issued  
and  
outstanding  
capital

38

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stock. This limits the ability of noncontrolling stockholders to take certain actions other than at an annual meeting of stockholders.

Our Certificate of Incorporation prohibits cumulative voting in the election of directors. This limits the ability of noncontrolling stockholders to elect director candidates.

Stockholders must provide timely notice to nominate individuals for election to our Board of Directors or to propose matters that can be acted upon at an annual meeting of stockholders. These provisions may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect

the acquiror s  
own slate of  
directors or  
otherwise  
attempting to  
obtain control  
of the  
Company.

Our Board of  
Directors may  
issue, without  
stockholder  
approval,  
shares of  
undesignated  
preferred  
stock. The  
ability to  
authorize  
undesignated  
preferred stock  
makes it  
possible for  
our Board of  
Directors to  
issue preferred  
stock with  
voting or other  
rights or  
preferences  
that could  
impede the  
success of any  
attempt to  
acquire us.

In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in a broad range of business combinations with any interested stockholder for a period of three years following the date on which the stockholder becomes an interested stockholder. For a description of our capital stock, see Description of Capital Stock.

***We are a controlled company within the meaning of the New York Stock Exchange rules and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements. You will not have the same protections afforded to stockholders of companies that are subject to such requirements.***

After completion of this offering, JAB will continue to control a majority of the voting power of our outstanding common stock. As a result, we are a controlled company within the meaning of the New York Stock Exchange corporate governance standards. Under these rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a controlled company and may elect not to comply with certain corporate governance requirements, including the requirements that:

a majority of the  
Board of Directors  
consist of  
independent directors;

the company has a  
nominating/corporate  
governance  
committee that is  
composed entirely of  
independent directors  
with a written charter  
addressing the  
committee's purpose  
and responsibilities;  
and

the company has a  
compensation  
committee that is  
composed entirely of  
independent directors  
with a written charter  
addressing the  
committee's purpose  
and responsibilities.

We intend to utilize certain of these exemptions following the offering, and may utilize any of these exemptions for so long as we are a controlled company. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the corporate governance requirements of the New York Stock Exchange.

***Payment of dividends on our Class A common stock is entirely subject to the discretion of our Board of Directors. Our debt instruments and external factors beyond our control may limit our ability to pay dividends.***

Our dividend policy has certain risks and limitations, and we cannot assure you that any dividends will be paid in the anticipated amounts and frequency set forth in this prospectus, or at all. We are not legally or contractually required to pay dividends. The declaration and payment of all future dividends, if any, will be at the sole discretion of our Board of Directors, which retains the right to change our dividend policy at any time. Our Board of Directors may never declare a dividend, may decrease the level of dividends or may discontinue entirely the payment of dividends. Dividend payments are not mandatory or guaranteed.



In determining the amount of any future dividends, our Board of Directors may consider, among other factors it may deem relevant: (i) our financial condition and results of operations, (ii) our available cash and cash flows from operating activities, as well as anticipated cash requirements (including debt servicing), (iii) our capital requirements and the capital requirements of our subsidiaries, (iv) contractual, legal, tax and regulatory restrictions, including restrictions imposed by our outstanding indebtedness, if any, (v) general economic and business conditions and (vi) priority of preferred stock dividends, if any. In particular, the financial and restricted payment covenants in our credit agreement and the note purchase agreement governing our Senior Notes effectively limit our ability to pay dividends. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Long-Term Debt. Our operating cash flow and ability to pay dividends in compliance with these restricted payment covenants will depend on our future performance, which will be subject to prevailing economic conditions and to financial, business and other factors beyond our control. Future agreements governing our indebtedness may also limit or eliminate our ability to pay dividends.

As a result, your decision whether to purchase shares of our Class A common stock should allow for the possibility that no dividends will be paid. Any change in the level of our dividends or the suspension of the payment thereof could adversely affect the market price of our Class A common stock. There can be no assurance that shares of our Class A common stock will appreciate in value or even maintain the initial public offering price.

## USE OF PROCEEDS

The selling stockholders are selling all the shares of Class A common stock being sold in this offering, including any shares sold upon exercise of the underwriters' option to purchase additional shares. Accordingly, we will not receive any proceeds from the sale of shares of our common stock by the selling stockholders in this offering.

## DIVIDEND POLICY

Subject to legally available funds, we intend to pay an annual cash dividend at a rate initially equal to \$0.15 per share of our Class A common stock, as well as our Class B common stock, in the second fiscal quarter of each fiscal year. Our dividend policy has certain risks and limitations, and we cannot assure you that any dividends will be paid in the anticipated amounts and frequency set forth in this prospectus, or at all. Our Board of Directors retains the right to change our dividend policy at any time.

The declaration and payment of all future dividends, if any, will be at the sole discretion of our Board of Directors. In determining the amount of any future dividends, our Board of Directors may consider, among other factors it may deem relevant: (i) our financial condition and results of operations, (ii) our available cash and cash flows from operating activities, as well as anticipated cash requirements (including debt servicing), (iii) our capital requirements and the capital requirements of our subsidiaries, (iv) contractual, legal, tax and regulatory restrictions, including restrictions imposed by our outstanding indebtedness, if any, (v) general economic and business conditions and (vi) priority of preferred stock dividends, if any. In particular, the restricted payment covenants in our credit agreement and the note purchase agreement governing our Senior Notes effectively limit our ability to pay dividends. See Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Long-Term Debt. Based on the 382,830,520 shares of common stock expected to be outstanding after the offering, an annual cash dividend at a rate equal to \$0.15 per share would require approximately \$57.4 million in cash per year.

On June 14, 2011, our Board of Directors declared a cash dividend of €25.0 million, or approximately \$35.7 million, on our common stock, of which \$35.3 million was paid on June 28, 2011. The remaining \$0.4 million was paid or is payable, as applicable, upon vesting of shares of restricted stock and settlement of restricted stock units that had not vested as of June 28, 2011.

On November 8, 2012, our Board of Directors declared a cash dividend of 15 cents per share, or approximately \$7.8 million, on our common stock, of which \$7.4 million was paid on December 10, 2012. The remaining \$0.4 million is payable upon vesting of shares of restricted stock and settlement of restricted stock units that had not vested as of December 10, 2012.

**CAPITALIZATION**

The following table sets forth our cash and cash equivalents, and our total capitalization as of March 31, 2013:

on an *actual*  
basis; and

on an *as  
adjusted*  
basis to give  
effect to the  
impact of the  
initial public  
offering on  
our  
share-based  
plan award  
and other  
stock-related  
activities as  
follows:

an increase in  
accumulated  
deficit of \$31.1  
million, net of  
tax, relating to  
the share-based  
award expense  
that we expect  
to record prior  
to the  
completion of  
our initial  
public offering  
to reflect  
changes in the  
fair value of the  
share-based  
awards and  
other  
share-based  
compensation  
activity as  
discussed in  
note (a) to the  
table below;

an increase in  
additional

paid-in capital of \$465.3 million as a result of the reclassification of the share based compensation liability of \$245.3 million (reflected in Accrued expenses and other current liabilities and Other noncurrent liabilities on our Consolidated Balance Sheets) and redeemable common stock of \$220.0 million, to reflect the transition from liability plan accounting to equity plan accounting for our share-based plans upon completion of our initial public offering as discussed in note (a) to the table below;

a reduction in cash and cash equivalents of \$113.8 million, reflecting stock option exercises and common stock redemptions that occurred in

May 2013 (see Note 16, Subsequent Events in our Condensed Consolidated Financial Statements for further information), as well as a corresponding reduction in accrued expenses and other current liabilities not reflected in total capitalization;

a retirement of our treasury stock that occurred in April 2013 (see Note 16, Subsequent Events in our Condensed Consolidated Financial Statements for further information) that resulted in a reduction of our common stock and additional paid-in capital of \$106.9 million; and

a decrease in common stock and increase in Class A and B common stock to reflect an automatic

conversion at closing of the initial public offering of our common stock held immediately prior to the offering into shares of Class A and B common stock as discussed in note (c) to the table below.

The *as adjusted* information below is illustrative only and will be adjusted based on the actual initial public offering price and other terms of our initial public offering determined at pricing. You should read the information in this table together with our Consolidated Financial Statements and related notes and the information set forth under the captions

Selected Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus.

	<b>As of March 31, 2013</b>	
	<b>Actual</b>	<b>As adjusted<sup>(a)</sup></b>
	<b>(in millions, except per share data)</b>	
<b><u>Cash and cash equivalents</u></b>	\$ 782.9	\$ 669.1
<b><u>Debt:</u><sup>(b)</sup></b>		
Short-term debt	\$ 42.2	\$ 42.2
Credit Facility	1,991.3	1,991.3
Senior Notes	500.0	500.0
Capital Lease Obligations	0.1	0.1
Total Debt	2,533.6	2,533.6
<b>Redeemable common stock</b>	220.0	
<b><u>Redeemable noncontrolling interests</u></b>	114.6	114.6

	<b>As of March 31, 2013</b>	
	<b>Actual</b>	<b>As adjusted<sup>(a)</sup></b>
	<b>(in millions, except per share data)</b>	
<b><u>Equity:</u></b>		
Common stock, \$0.01 par value, 800.0 shares authorized, 400.4 shares issued and 382.8 outstanding, <i>actual</i> <sup>(c)</sup> ; nil, <i>as adjusted</i>	4.0	
Class A common stock, \$0.01 par value, 800.0 shares authorized, 72.2 shares issued and outstanding, <i>as adjusted</i> <sup>(c)</sup>		0.7
Class B common stock, \$0.01 par value, 367.8 shares authorized, 310.6 shares issued and outstanding, <i>as adjusted</i> <sup>(c)</sup>		3.1
Preferred stock \$0.01 par value, 20 shares authorized, nil shares issued and outstanding, <i>actual</i> and <i>as adjusted</i>		
Additional paid-in capital	1,475.3	1,833.9
Accumulated deficit	(160.0 )	(191.1 )
Accumulated other comprehensive loss	(129.4 )	(129.4 )
Treasury stock	(106.9 )	
Total Coty Inc. stockholders' equity	1,083.0	1,517.2
Noncontrolling interests	17.9	17.9
Total equity	1,100.9	1,535.1
<b><u>Total Capitalization</u></b>	<b>\$ 3,969.1</b>	<b>\$ 4,183.3</b>

(a) The *as adjusted* data as of March 31, 2013 presents our cash and cash equivalents and total capitalization, and gives effect to the transition from liability plan accounting to equity plan accounting for our share-based plans. The effect includes the recognition of (1) share-based compensation expense of \$31.1 million, net of tax, which will be

recognized as an expense between April 1, 2013 and the completion of our initial public offering under liability plan accounting, which reflects the change in the estimated fair value of outstanding share-based awards based on the initial public offering price and other share-based compensation activity, and (2) an increase to additional paid-in capital of \$465.3 million as a result of the reclassification of the share-based compensation liability of \$245.3 million and redeemable common stock of \$220.0 million to reflect the transition from liability plan accounting to equity plan accounting for our share-based plans upon completion of our initial public offering. Refer to Management's Discussion and Analysis of Financial Condition and Results of Operations, Critical Accounting Policies and Estimates, Share-based Compensation.

- (b) In April 2013, we refinanced our existing Credit Agreement that was scheduled to expire on August 22, 2015. This refinancing had no



impact on our outstanding debt balances reflected in the table above. See Note 16, Subsequent Events in our Condensed Consolidated Financial Statements for further information.

- (c) Our certificate of incorporation was amended in connection with our initial public offering to provide that shares of our common stock held immediately prior to the offering will convert automatically at the initial public offering into shares of Class B common stock, in the case of shares held by JAB, Berkshire and Rhône, and into shares of Class A common stock, in the case of shares held by other stockholders, in each case on a one-for-one basis. All shares of Class B common stock sold in the offering by the selling stockholders will convert automatically into shares of Class A common stock on a one-for-one basis upon their sale in the offering.

**SELECTED CONSOLIDATED FINANCIAL DATA**

The following table sets forth selected consolidated financial data for Coty Inc. and its consolidated subsidiaries for the periods presented below. We have derived the Consolidated Statements of Operations Data and Consolidated Cash Flows Data for the years ended June 30, 2012, 2011 and 2010 and the Consolidated Balance Sheet Data as of June 30, 2012 and 2011 from our audited Consolidated Financial Statements included elsewhere in this prospectus. The Consolidated Statement of Operations Data and Consolidated Cash Flows Data for the nine months ended March 31, 2013 and 2012 and the Consolidated Balance Sheet Data as of March 31, 2013 have been derived from our unaudited Condensed Consolidated Financial Statements appearing elsewhere in this prospectus. The Consolidated Statements of Operations Data and Consolidated Cash Flows Data for the years ended June 30, 2009 and 2008 and the Consolidated Balance Sheet Data as of June 30, 2010, 2009 and 2008 have been derived from our consolidated financial statements that are not included in this prospectus.

The selected consolidated financial data below should be read in conjunction with Capitalization, Management's Discussion and Analysis of Financial Condition and Results of Operations and our audited Consolidated Financial Statements and the related notes included elsewhere in this prospectus. The Consolidated Selected Financial Data included in this section are not intended to act as a substitute for the Consolidated Financial Statements and the related notes included elsewhere in this prospectus.

(in millions, except per share data)	Nine Months Ended March 31,		Year Ended June 30,			
	2013	2012	2012	2011 <sup>(a)</sup>	2010	2009
<b>Consolidated Statements of Operations Data:</b>						
Net revenues	\$ 3,590.3	\$ 3,587.9	\$ 4,611.3	\$ 4,086.1	\$ 3,482.9	\$ 3,311.1
Gross profit	2,168.4	2,164.3	2,787.3	2,446.1	2,009.7	1,811.1
Asset impairment charges	1.5	102.0	575.9		5.3	
Operating income (loss)	418.3	275.9	(209.5 )	280.9	184.5	200.0
Interest expense related party				5.9	31.9	
Interest expense, net	55.5	73.6	89.6	85.6	41.7	
Other (income) expense, net	(0.6 )	29.8	32.0	4.4	(8.8 )	
Income (loss) before income taxes	363.4	172.5	(331.1 )	185.0	119.7	199.0
Provision (benefit) for income taxes	105.3	114.5	(37.8 )	95.1	32.4	100.0

Income (loss) before discontinued operations and cumulative effect of change in accounting principle	258.1	58.0	(293.3 )	89.9	87.3	
Discontinued operations (net of \$7.0 tax provision) <sup>(b)</sup>						
Net income (loss)	\$ 258.1	\$ 58.0	\$ (293.3 )	\$ 89.9	\$ 87.3	\$
Net income attributable to noncontrolling interests	\$ 12.8	\$ 11.4	\$ 13.7	\$ 12.5	\$ 11.9	\$
Net income attributable to redeemable noncontrolling interests	\$ 15.0	\$ 13.7	\$ 17.4	\$ 15.7	\$ 13.7	\$
Net income (loss) attributable to Coty Inc.	\$ 230.3	\$ 32.9	\$ (324.4 )	\$ 61.7	\$ 61.7	\$
<b>Per Share Data:</b>						
Weighted-average common shares						
Basic	381.2	371.5	373.0	329.4	280.2	
Diluted	396.7	381.8	373.0	339.1	280.2	
Cash dividends declared per common share	\$ 0.15	\$	\$	\$ 0.10	\$	\$
Net income (loss) attributable to Coty Inc. per common share:						
Basic	\$ 0.60	\$ 0.09	\$ (0.87 )	\$ 0.19	\$ 0.22	\$
Diluted	0.58	0.09	(0.87 )	0.18	0.22	
Net income from discontinued operations and cumulative effect of change in accounting principle per common share:						

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Basic	\$	\$	\$	\$	\$	\$
Diluted	\$	\$	\$	\$	\$	\$

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(in millions)	Nine Months Ended March 31,			Year Ended June 30,		
	2013	2012	2012	2011 <sup>(a)</sup>	2010	2009
<b>Consolidated Cash Flows Data:</b>						
Net cash provided by operating activities	\$ 362.5	\$ 406.7	\$ 589.3	\$ 417.5	\$ 494.0	\$ 177.0
Net cash (used in) provided by investing activities	(184.7)	(293.5)	(333.9)	(2,252.5)	(149.9)	200.0
Net cash (used in) provided by financing activities	(3.6)	(69.2)	(97.7)	1,903.8	(7.0)	(376.0)
Cash paid for income taxes <sup>(c)</sup>	66.7	50.2	67.4	60.3	55.3	33.0

(in millions)	As of March 31,			As of June 30,		
	2013	2012	2011	2010	2009	2008
<b>Consolidated Balance Sheet Data:</b>						
Cash and cash equivalents <sup>(d)</sup>	\$ 782.9	\$ 609.4	\$ 510.8	\$ 387.5	\$ 91.1	\$ 93.1
Total assets	6,328.0	6,183.4	6,813.9	3,781.8	3,701.9	4,573.8
Total debt	2,533.6	2,460.3	2,622.4	1,416.0	1,402.2	1,797.1
Total Coty Inc. stockholders equity	1,100.9	857.2	1,361.9	419.7	473.6	457.9

(a) Fiscal 2011 data includes results from the

acquisitions of  
TJoy, Dr.  
Scheller, OPI  
and Philosophy.  
See Note 4,

Acquisitions, in  
the notes to  
Consolidated  
Financial  
Statements for  
additional  
disclosures  
related to the  
acquisitions  
results and pro  
forma financial  
data.

- (b) On December 31, 2007, we purchased DLI Holdings LLC, consisting of Del Laboratories and Del Pharmaceuticals ( Del Pharma ). On July 7, 2008, we sold certain assets of the Del Pharma business. Fiscal 2008 results are reflected as discontinued operations in accordance with U.S. GAAP.
- (c) As a result of U.S. losses that offset foreign income, we have generated a pretax loss and a net tax benefit in our provision for income taxes in 2012. Cash paid for income taxes exceeded this

amount,  
however,  
primarily due to  
taxes paid in  
profitable  
foreign  
jurisdictions that  
could not be  
offset against  
U.S. losses.  
Cash paid for  
income taxes is  
less than the  
provision for  
income taxes in  
the nine months  
ended March 31,  
2013 and 2012  
and fiscal 2011,  
primarily as we  
obtain benefits  
from the  
amortization of  
goodwill and  
other intangible  
assets for tax  
purposes  
(primarily  
associated with  
the OPI and  
Philosophy  
acquisitions in  
fiscal 2011),  
from the  
carryforward of  
net operating  
losses in  
Germany and  
from the change  
in unrecognized  
tax benefits. In  
fiscal 2010, prior  
to those  
acquisitions,  
cash paid for  
income taxes  
exceeded the  
provision for  
income taxes  
due to  
accelerated

payment of  
estimated taxes.  
In fiscal 2009,  
cash paid for  
income taxes  
was less than the  
provision for  
income taxes as  
we benefitted  
from the  
carryforward of  
net operating  
losses in the  
U.S. and  
Germany and the  
change in  
unrecognized tax  
benefits.

- (d) In May 2013, we  
paid \$113.8  
million in cash  
for stock option  
exercises and  
common stock  
redemptions. See  
Note 16,  
Subsequent  
Events in our  
Condensed  
Consolidated  
Financial  
Statements for  
further  
information.



## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### OVERVIEW

We are a new emerging leader in beauty. Founded in Paris in 1904, Coty is a pure play beauty company with a portfolio of well-known brands that compete in the three segments in which we operate: Fragrances, Color Cosmetics and Skin & Body Care. We hold the #2 global position in fragrances, the #6 global position in color cosmetics and have a strong regional presence in skin & body care. Our top 10 brands, which we refer to as our power brands, generated approximately 70% of our net revenues in fiscal 2012 and comprise the following globally recognized brands: *adidas*, *Calvin Klein*, *Chloé*, *Davidoff*, *Marc Jacobs*, *OPI*, *philosophy*, *Playboy*, *Rimmel* and *Sally Hansen*. Our brands compete in all key distribution channels across both prestige and mass markets and in over 130 countries and territories.

### *Factors Affecting Our Performance*

#### *Product Innovations*

Our innovation and new product development remain essential components of maintaining and increasing our global leadership position in fragrances and to strengthening our global position in color cosmetics and skin & body care. We intend to continue to develop and bring to market unique and innovative products that we believe will be modern, appealing and accessible to the consumer. For example, our recently-launched *Lady Gaga Fame* fragrance is the first-ever black *eau de parfum* and contains a proprietary new technology that causes it to become invisible once airborne. We, therefore, need to maintain a sufficient level of research and development activities to enable the introduction of new products.

#### *Product Promotion*

We need to maintain a sufficient level of marketing activities, since we operate in highly competitive consumer markets where net revenues are sensitive to the level of promotional support. Advertising and promotion spending fluctuates based on the type, timing and level of activities related to product launches and rollouts, as well as the markets being emphasized. As a result, we have experienced, and expect to continue to experience, fluctuations in selling, general and administrative expenses as a percentage of net revenues. Since certain promotional activities are a component of sales and the timing and level of promotions vary with our promotional calendar, we have experienced, and expect to continue to experience, fluctuations in the cost of sales as a percentage of net revenues. In addition, future costs of sales may be impacted by the inclusion of potential new brands or channels of distribution (or a change in mix of existing products) which have margin and product cost structures different from those of our current mix of business.



### *Economic Environment*

A significant portion of our products is impacted by the general level of consumer spending, since consumer purchases of discretionary items tend to decline during recessionary periods.

### *Business Development and Acquisitions*

We seek to accelerate our sales growth by expanding and further diversifying our geographic footprint. In addition, we will seek to continue to diversify our distribution channels within existing geographies to increase market presence, brand recognition and sales. Our acquisitions may affect our future financial results due to factors such as the amortization of acquired intangible assets or other potential charges such as restructuring costs or impairment charges and may affect comparability of results across periods on a GAAP basis.

### *Share-Based Compensation*

We have implemented various share-based compensation plans for our employees and members of our Board of Directors. Prior to our initial public offering, our share-based compensation is highly impacted by the changes in the estimated value of our common stock. See [Critical Accounting Policies and Estimates](#) [Share-Based Compensation](#) for more detail regarding share-based compensation.

### *Components of Results of Operations*

#### *Net Revenues*

We generate revenues from the sale of our products in our Fragrances, Color Cosmetics and Skin & Body Care segments to retailers, distributors and direct sales to end users through e-commerce and other forms of direct marketing. Net revenues consist of gross revenues less customer discounts and allowances, actual and expected returns (estimated based on returns history and position in product life cycle) and various trade spending activities. Trade spending activities primarily relate to advertising, product promotions and demonstrations, some of which involve cooperative relationships with retailers and distributors.

#### *Cost of Sales*

Cost of sales includes all of the costs to manufacture our products. For products manufactured in our own facilities, such costs include raw materials and supplies, direct labor and factory overhead. For products manufactured for us by third-party contractors, such costs represent the amounts invoiced by the contractors. Cost of sales also includes royalty expense associated with license agreements. Additionally, shipping costs and depreciation expense related to manufacturing equipment and facilities are included in cost of sales.

In order to provide essential business services in a cost-effective manner, in some cases we outsource functions or parts of functions that can be performed more effectively by external service providers. For example, we have outsourced significant portions of our logistics management for our European business and for a component of our U.S. business, as well as certain technology-related functions, to third-party service providers.

#### *Selling, General and Administrative Expenses*

Selling, general and administrative expenses include advertising and consumer promotion costs, fixed costs (i.e., personnel and related expenses, research and development costs, certain warehousing fees, non-manufacturing overhead, rent on operating leases and professional fees), share-based compensation and other operating expenses.

Selling, general and administrative expenses include the expense or benefit relating to our share-based compensation plans that are accounted for as liability plans. Accordingly, share-based compensation expense is measured at the end of each reporting period based on the fair value of

the award on each reporting date and is recognized as an expense to the extent vested until the award is settled. Based on the terms of the share-based compensation plans, they are accounted for as liability plans through our initial public offering and as equity plans after our initial public offering. As a result, we will record share-based compensation expense of \$31.1, net of tax, which will be recognized as an expense between April 1, 2013 and the completion of our initial public offering under liability plan accounting, which reflects the change in the estimated fair value of outstanding share-based awards based on the initial public offering price and other share-based compensation activity. After our initial public offering, share-based compensation will be based on the amortization over the vesting period of the grant date fair value of share-based instruments at the date of our initial public offering, or grant date fair value for share-based instruments issued after our initial public offering. See Critical Accounting Policies and Estimates Share-Based Compensation.

### *Income Taxes*

The provision for income taxes represents federal, foreign, state and local income taxes. The effective rate differs from statutory rates due to the effect of state and local income taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate will change from quarter to quarter based on recurring and nonrecurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local income taxes, tax audit settlements and the interaction of various global tax strategies. Changes in judgment from the evaluation of new information resulting in the recognition, derecognition or remeasurement of a tax position taken in a prior annual period are recognized separately in the quarter of the change.

## **RESULTS OF OPERATIONS**

The following table is a comparative summary of operating results for the nine months ended March 31, 2013 and 2012 and fiscal 2012, 2011 and 2010, and reflects the basis of presentation described in Note 2, Summary of Significant Accounting Policies and Note 3, Segment Reporting in our notes to Consolidated Financial Statements for the nine months ended March 31, 2013 and 2012 and for fiscal 2012, 2011 and 2010 included elsewhere in this prospectus.

(in millions)	Nine Months Ended March 31,		Year Ended June 30,		
	2013	2012	2012	2011	2010
<b>NET REVENUES</b>					
<b>By Segment:</b>					
Fragrances	\$ 2,000.3	\$ 1,988.2	\$ 2,452.8	\$ 2,325.3	\$ 2,113.3
Color Cosmetics	1,083.4	1,044.3	1,430.6	1,143.2	891.0
Skin & Body Care	506.6	555.4	727.9	617.6	478.6
Total	\$ 3,590.3	\$ 3,587.9	\$ 4,611.3	\$ 4,086.1	\$ 3,482.9
<b>OPERATING INCOME (LOSS)<sup>(a)</sup></b>					
<b>By Segment:</b>					

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Fragrances	\$	350.3	\$	343.1	\$	340.5	\$	286.9	\$	192.8
Color Cosmetics		180.7		170.0		200.2		115.7		68.9
Skin & Body Care <sup>(b)</sup>		(3.6)		(88.3)		(577.8)		30.2		17.7
Corporate		(109.1)		(148.9)		(172.4)		(151.9)		(94.9)
Total	\$	418.3	\$	275.9	\$	(209.5)	\$	280.9	\$	184.5

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(a) During the fourth quarter of fiscal 2012, we implemented a more precise methodology to estimate the allocation of certain shared costs and corporate overhead expenses to calculate operating income (loss) for our segments. Instead of estimating the allocation of such costs at a country level, the new methodology uses estimates at an operating activities level, which was deemed to be more precise. The new methodology was not retrospectively

applied and  
had an  
immaterial  
impact on  
segment  
operating  
income for  
periods prior to  
2012. The new  
methodology  
was applied to  
segment  
operating  
income (loss)  
reported for  
fiscal 2012 and  
the  
comparative  
segment

operating  
income (loss)  
for the nine  
months ended  
March 31,  
2012  
presented  
above was  
revised to  
present such  
information  
consistent  
with the new  
methodology  
used to  
determine  
segment  
operating  
income (loss)  
for fiscal  
2012 and for  
the nine  
months ended  
March 31,  
2013.  
Compared to  
the  
previously  
reported  
segment  
operating  
income (loss)  
for the nine  
months ended  
March 31,  
2012,  
operating  
income  
increased by  
\$20.9 for  
Fragrances,  
decreased by  
\$6.0 for  
Color  
Cosmetics  
and the  
operating loss  
for Skin &  
Body Care  
increased by  
\$14.9.



- (b) In the nine months ended March 31, 2012, we recorded an impairment charge of \$102.0, primarily related to certain trademarks. In addition, in the fourth quarter of fiscal 2012, we recorded an impairment charge of \$473.9, primarily related to goodwill of \$384.4 and certain trademarks of \$89.1, resulting in total asset impairment charges of \$575.9 in fiscal 2012.

The following table presents our Statements of Operations, expressed as a percentage of net revenues:

	Nine Months Ended March 31,		Year Ended June 30,		
	2013	2012	2012	2011	2010
<b>Net revenues</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>	<b>100.0 %</b>
Cost of sales	39.6	39.7	39.6	40.1	42.3
<b>Gross Profit</b>	<b>60.4</b>	<b>60.3</b>	<b>60.4</b>	<b>59.9</b>	<b>57.7</b>
Selling, general and administrative expenses	47.1	47.3	49.8	49.8	49.5
Amortization expense	1.8	2.1	2.2	1.9	1.8

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Restructuring costs	0.1	0.1	0.2	0.8	0.9
Acquisition-related costs	0.2	0.2	0.2	0.5	0.1
Asset impairment charges <sup>(a)</sup>		2.9	12.5		0.1
Gain on sale of asset	(0.5 )				
<b>Operating Income (Loss)</b>	<b>11.7</b>	<b>7.7</b>	<b>(4.5 )</b>	<b>6.9</b>	<b>5.3</b>
Interest expense-related party				0.2	0.9
Interest expense, net	1.6	2.1	1.9	2.1	1.2
Other (income) expense, net		0.8	0.8	0.1	(0.2 )
<b>Income (Loss) Before Income Taxes</b>	<b>10.1</b>	<b>4.8</b>	<b>(7.2 )</b>	<b>4.5</b>	<b>3.4</b>
Provision (benefit) for income taxes	2.9	3.2	(0.8 )	2.3	0.9
<b>Net Income (Loss)</b>	<b>7.2</b>	<b>1.6</b>	<b>(6.4 )</b>	<b>2.2</b>	<b>2.5</b>
Net income attributable to noncontrolling interests	0.4	0.3	0.2	0.3	0.3
Net income attributable to redeemable noncontrolling interests	0.4	0.4	0.4	0.4	0.4
<b>Net Income (Loss) Attributable to Coty Inc.</b>	<b>6.4 %</b>	<b>0.9 %</b>	<b>(7.0 %)</b>	<b>1.5 %</b>	<b>1.8 %</b>

(a) In the nine months ended March 31, 2012, we recorded an impairment charge of \$102.0, primarily related to certain trademarks. In addition,

in the fourth quarter of fiscal 2012, we recorded an impairment charge of \$473.9, primarily related to goodwill of \$384.4 and certain trademarks of \$89.1, resulting in total asset impairment charges of \$575.9 in fiscal 2012.

Discussed below are our consolidated results of operations and the results of operations for each reportable segment.

We made four acquisitions in fiscal 2011 (the 2011 Acquisitions ). We strengthened our position in color cosmetics through our acquisitions of OPI Products, Inc. ( OPI ) and Dr. Scheller Cosmetics AG ( Dr. Scheller ), the owner of the *Manhattan* brand. We increased our presence in skin & body care through our acquisitions of the Philosophy Acquisition Company, Inc. ( Philosophy ), owner of the *philosophy* brand, and TJOY Holdings Co., Ltd. ( TJoy ), the owner of a Chinese skin care company that has provided us with a broad distribution platform for our existing portfolio of brands in China. In order to enhance an investor's understanding of our performance, certain fiscal 2012 and 2011 financial measures are presented excluding the impact of the consolidation of the 2011 Acquisitions: OPI and Dr. Scheller, operating in the Color Cosmetics

segment, and Philosophy and TJoy, operating in the Skin & Body Care segment. See Note 3, Segment Reporting in our notes to Consolidated Financial Statements for the nine months ended March 31, 2013 and 2012 and for fiscal 2012, 2011 and 2010. Our Consolidated Statements of Operations include the results of the 2011 Acquisitions from the date they were acquired, which was January 14, 2011 for TJoy, January 3, 2011 for Dr. Scheller, December 20, 2010 for OPI and December 17, 2010 for Philosophy. See Note 4, Acquisitions in our notes to Consolidated Financial Statements for fiscal 2012, 2011 and 2010.

We acquired 100% of Dr. Scheller's stock for €40.3 million (\$53.9) cash, and acquired 100% of the net assets of OPI for \$948.8 cash, net of a \$2.3 receivable from the seller. We acquired 100% of Philosophy's stock for \$929.7 cash, net of a \$4.4 receivable from the seller, and acquired TJoy via a stock purchase, for a total purchase price of RMB 2,400.0 million (\$351.7 at the January 14, 2011 date of purchase) cash, subject to certain post-closing adjustments.

## NINE MONTHS ENDED MARCH 31, 2013 AS COMPARED TO NINE MONTHS ENDED MARCH 31, 2012

### NET REVENUES

In the nine months ended March 31, 2013, net revenues increased \$2.4, to \$3,590.3 from \$3,587.9 in the nine months ended March 31, 2012. By segment, higher net revenues in Color Cosmetics and Fragrances offset lower net revenues in Skin & Body Care. By geographic region, higher net revenues in Americas and Asia Pacific were partially offset by lower net revenues in EMEA. Excluding the negative impact of foreign currency exchange translations, net revenues increased 2%. The negative impact of foreign currency exchange translations primarily reflects the weakening of the Euro in the nine months ended March 31, 2013 compared to the nine months ended March 31, 2012.

In addition to foreign currency exchange translations, net revenues were negatively impacted by continued economic weakness in our Southern European markets and the impact of cancelled and unshipped orders due to certain issues arising during the quarter ended March 31, 2013 as a result of the transition to a new third-party logistics provider. These logistics issues negatively impacted total net revenues by approximately 1% and impacted the Fragrances and Skin & Body Care segments in EMEA and Asia Pacific in the nine months ended March 31, 2013. This situation with the logistics provider is steadily improving and we expect to resolve these logistics issues in the three months ended June 30, 2013.

### *Net Revenues by Segment*

(in millions)	Nine Months Ended		Change %
	2013	2012	
<b>NET REVENUES</b>			
Fragrances	\$ 2,000.3	\$ 1,988.2	1 %
Color Cosmetics	1,083.4	1,044.3	4 %
Skin & Body Care	506.6	555.4	(9 %)
<b>Total</b>	<b>\$ 3,590.3</b>	<b>\$ 3,587.9</b>	<b>0 %</b>

### *Fragrances*

In the nine months ended March 31, 2013, net revenues of Fragrances increased 1%, or \$12.1, to \$2,000.3 from \$1,988.2 in the nine months ended March 31, 2012. The increase was primarily the result of unit volume growth of

5%, partially offset by a price and mix impact of 3% and an impact of foreign currency exchange translations of 2%. Excluding the negative impact of foreign currency exchange translations, net revenues of Fragrances increased 2% reflecting our continued focus on introducing new products into the market. Segment growth was primarily driven by net revenues from newly established brand *Lady Gaga Fame*, the strengthening of the *Roberto Cavalli* brand through new launches *Just Cavalli*, *Roberto Cavalli Acqua* and our special edition fragrance for the

Middle East, *Roberto Cavalli Oud*, and growth in our power brands *Marc Jacobs* and *Chloé*, driven by the successful new launches *DOT Marc Jacobs* and *See by Chloé*. The segment also benefitted from the acquisition of licensing rights to distribute *Katy Perry*'s existing fragrance portfolio. Partially offsetting this growth were lower net revenues from brands such as *Calvin Klein* and *Davidoff*, primarily due to challenging market conditions in Southern Europe and in our travel retail business, a lower level of new launch activity in the nine months ended March 31, 2013 compared to the nine months ended March 31, 2012, the expiration of the *Kenneth Cole* license and existing celebrity brands that are later in their life cycles. The segment was also impacted by the logistics issues with a certain provider, as previously discussed. The negative price and mix impact primarily reflects higher relative volumes of lower-priced products for select brands and an overall increase in customer discounts and allowances in the segment.

#### *Color Cosmetics*

In the nine months ended March 31, 2013, net revenues of Color Cosmetics increased 4%, or \$39.1, to \$1,083.4 from \$1,044.3 in the nine months ended March 31, 2012. The increase was primarily the result of a positive price and mix impact of 3% and unit volume growth of 2%, partially offset by a negative impact of foreign currency exchange translations of 1%. Excluding the negative impact of foreign currency exchange translations, net revenues of Color Cosmetics increased 5%, primarily driven by strong growth in *Rimmel* and *Sally Hansen*. *Rimmel* brand growth reflects the success of new launch *Rimmel Scandal eyes* mascara along with higher net revenues in *Rimmel Match Perfection* foundation and *Rimmel Kate* lipstick. Higher net revenues in *Rimmel* also reflect expanded distribution in one of our key retailers in the U.S., expanded distribution in France and expansion in the pharmacy and grocery retail channels in Australia. Growth in *Sally Hansen* was primarily driven by higher net revenues from new launches *Sally Hansen Insta Gel*, *Sally Hansen Salon Pro Gel* and the re-launch of *Sally Hansen Complete Salon Manicure*. Partially offsetting these increases were lower net revenues of *Sally Hansen Salon Effects* and *Sally Hansen Crackle Overcoat*, which generated strong net revenues in the nine months ended March 31, 2012 as new launches. The *Sally Hansen* brand also benefitted from its introduction into the German market along with strong net revenues growth in Mexico and Argentina primarily driven by new launches and expanded distribution. Higher net revenues in *N.Y.C. New York Color* and *OPI* also contributed to growth in the Color Cosmetics segment. Higher net revenues in *N.Y.C. New York Color* was primarily driven by strong growth in the U.S. along with increased net revenues in Canada and certain EMEA markets. Increased net revenues in *OPI* primarily reflect expanded distribution in Europe and in our travel retail businesses in all three geographic regions, partially offset by lower net revenues of *OPI Shatter* and *OPI GelColor*, which generated strong net revenues in the nine months ended March 31, 2012 as new launches. Partially offsetting segment growth was a decline in *Astor*, primarily due to lower net revenues in Spain which primarily reflected difficult economic conditions, and in Germany as results in the nine months ended March 31, 2012 reflected the rollout of the brand in one of our key customers in Germany. The positive price and mix impact for the segment was primarily driven by the growth of higher than segment average priced *Sally Hansen* and *OPI* products.

#### *Skin & Body Care*

In the nine months ended March 31, 2013, net revenues of Skin & Body Care decreased 9%, or \$48.8, to \$506.6 from \$555.4 in the nine months ended March 31, 2012. The decrease was primarily the result of a decline in unit volume of 9% and a negative impact of foreign currency exchange translations of 2%, partially offset by a positive price and mix impact of 1%. Excluding the negative impact of foreign currency exchange translations, net revenues of Skin & Body Care decreased 7%. Lower net revenues in *adidas* primarily reflected decreases in EMEA, in part due to the negative impact of foreign currency exchange translations, the challenging market conditions in Southern Europe and the lack of mega promotions related to major sports events compared to the nine months ended March 31, 2012, which benefitted from UEFA European Football Championship promotional activities. Partially offsetting these declines were double digit growth in the U.S., primarily due to the reintroduction of shower gels, body sprays and deodorants with a key customer in the market in January 2012, expansion in China through the TJoy distribution channel and strong



growth in Russia. The decline in *philosophy* was primarily due to lower net revenues from one of our key customers in the U.S., inventory control programs from selected customer accounts and *philosophy*'s e-commerce website *philosophy.com*. These decreases in *philosophy* were partially offset by increased net revenues from several existing customers in the U.S. and expanded international distribution. The decline in *TJoy* partially reflects the impact of a sales force reorganization which has been completed as of December 30, 2012 and reduced customer orders. The positive price and mix impact for the segment was primarily driven by positive product mix in *philosophy* and lower returns on *Lancaster* products compared to the nine months ended March 31, 2012 when there were higher returns due to a difficult summer season.

### *Net Revenues by Geographic Regions*

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

(in millions)	Nine Months Ended March 31,		Change %
	2013	2012	
<b>NET REVENUES</b>			
Americas	\$ 1,485.1	\$ 1,444.0	3 %
EMEA	1,690.7	1,744.7	(3 %)
Asia Pacific	414.5	399.2	4 %
<b>Total</b>	<b>\$ 3,590.3</b>	<b>\$ 3,587.9</b>	<b>0 %</b>

#### *Americas*

In the nine months ended March 31, 2013, net revenues in the Americas increased 3%, or \$41.1, to \$1,485.1 from \$1,444.0 in the nine months ended March 31, 2012. Foreign currency exchange translations had an immaterial impact on net revenues in the Americas. The increase in net revenues reflects growth in virtually all countries in the region, with the largest increase in our U.S. operating subsidiary, primarily reflecting strong growth in the Fragrances and Color Cosmetics segments. Higher net revenues in Fragrances in the U.S. were primarily driven by new launches *DOT Marc Jacobs*, *Lady Gaga Fame*, *Encounter Calvin Klein* and *Calvin Klein Eternity Aqua for Her*, partially offset by lower net revenues due to the expiration of the *Kenneth Cole* license and lower net revenues from existing celebrity brands that are later in their life cycles. The increase in Color Cosmetics in the U.S. is primarily due to growth in *Rimmel*, *Sally Hansen* and *N.Y.C. New York Color* partially offset by lower net revenues of *OPI*. The decline in *OPI* primarily reflects lower net revenues of *OPI Shatter* and *OPI GelColor*, which generated strong net revenues in the nine months ended March 31, 2012 as new launches. Partially offsetting this growth in the U.S. were lower net revenues in Skin & Body Care in the U.S. reflecting a decline in *philosophy* partially offset by higher net revenues in *adidas*. Growth in *adidas* reflects the successful reintroduction of shower gels, body sprays and deodorants with a key customer in the U.S. market in January 2012. Partially offsetting growth in the Americas were lower net revenues in our travel retail business in the region primarily due to stock reductions by key customers and lower reorders in the six months ended December 31, 2012, partially offset by improved trends in the three months ended March 31, 2013.

#### *EMEA*

In the nine months ended March 31, 2013, net revenues in EMEA decreased 3%, or \$54.0, to \$1,690.7 from \$1,744.7



in the nine months ended March 31, 2012. Excluding the negative impact of foreign currency exchange translations, net revenues in EMEA remained flat compared to the nine months ended March 31, 2012. Results in the region primarily reflect lower net revenues in our Southern European markets, particularly in Spain and Italy, and in our travel retail business in the region along with the negative impact of foreign currency exchange translations and the impact of

the logistics issues with a certain provider, as previously discussed. The decline in Southern Europe primarily reflects difficult economic conditions and lower levels of new launch activity in Fragrances in the nine months ended March 31, 2013 compared to the nine months ended March 31, 2012. The decrease in our travel retail business primarily reflects the negative impact of foreign currency exchange transactions, a slowdown in growth of airport traffic, stock reductions by key customers, difficult economic conditions, particularly in Southern Europe, and the negative impact of the logistics issues with a certain provider, as previously discussed. Partially offsetting these decreases in EMEA were higher net revenues in the Middle East, the U.K. and Russia. Higher net revenues in the Middle East primarily reflect strong growth from new launches within the *Roberto Cavalli* brand and double digit growth in Color Cosmetics. The increase in net revenues in the U.K. was primarily driven by new fragrance launches *DOT Marc Jacobs*, *Lady Gaga* and *Roberto Cavalli*, and growth in *Rimmel*. Higher net revenues in Russia primarily reflect the introduction of *OPI* in the Russian market, growth in *adidas* and new fragrance launch *Roberto Cavalli*. Net revenues in Germany were negatively impacted by the logistics issues with a certain provider, as previously discussed, and foreign currency translations. Excluding the impact of foreign currency translations, net revenues growth in Germany was strong, primarily reflecting higher net revenues in Fragrances and Color Cosmetics.

#### *Asia Pacific*

In the nine months ended March 31, 2013, net revenues in Asia Pacific increased 4%, or \$15.3, to \$414.5 from \$399.2 in the nine months ended March 31, 2012. Foreign currency exchange translations had an immaterial impact on net revenues in Asia Pacific. The increase in the region was primarily driven by higher net revenues in Australia, primarily reflecting growth due to higher net revenues from new launch *Lady Gaga Fame* and expanded distribution of certain fragrances into the pharmacy retail channel and *Rimmel* color cosmetics products into the pharmacy and grocery retail channels. Higher net revenues in Singapore, Hong Kong and our travel retail business also contributed to growth in Asia Pacific. The increase in net revenues in Singapore and Hong Kong primarily reflect growth in *Calvin Klein*. Our travel retail business in the region primarily reflects higher net revenues from new launch *Lady Gaga Fame* and the introduction of *OPI*, partially offset by the negative impact of the logistics issues with a certain provider, as previously discussed. Partially offsetting these increases were lower net revenues in Japan, primarily driven by difficult economic conditions, and in China, driven by a decline in net revenues from *TJoy*.

#### COST OF SALES

In the nine months ended March 31, 2013, cost of sales decreased \$1.7, to \$1,421.9 from \$1,423.6 in the nine months ended March 31, 2012. Cost of sales as a percentage of net revenues decreased to 39.6% in the nine months ended March 31, 2013 from 39.7% in the nine months ended March 31, 2012, resulting in a gross margin improvement of approximately 10 basis points. This improvement primarily reflects continued success of our supply chain savings program and a positive impact from a change in the mix of products sold, partially offset by higher customer discounts and allowances necessary to compete in the difficult market environment. Since its implementation in fiscal 2010, the supply chain savings program has contributed to improvements in manufacturing costs resulting from more streamlined manufacturing processes, procurement savings programs with suppliers, and supply chain redesign, including improved management of third-party contractors.

#### SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In the nine months ended March 31, 2013, selling, general and administrative expenses decreased \$7.7, to \$1,689.7 from \$1,697.4 in the nine months ended March 31, 2012. Selling, general and administrative expenses as a percentage of net revenues decreased to 47.1% in the nine months ended March 31, 2013 from 47.3% in the nine months ended March 31, 2012. This decrease of approximately 20 basis points primarily reflects lower share-based compensation expense, partially offset by an increase in advertising consumer and promotion spending and other operating expenses. The decrease in share-based compensation expense primarily reflects the impact of fewer shares



subject to fair value adjustment on common stock purchased by directors in the nine months ended March 31, 2013 as compared to the nine months ended March 31, 2012, partially offset by a larger increase in the value of common stock in the nine months ended March 31, 2013, as compared to the increase in the value of common stock in the nine months ended March 31, 2012 and a charge recorded in the nine months ended March 31, 2013 resulting from an amendment to the Executive Ownership Plan ( EOP ), which governs certain share-based compensation instruments. See Critical Accounting Policies and Estimates Common Stock Valuations for a description of the factors that impact the valuation of our common stock and Note 12, Common, Redeemable Common and Preferred Stock in our Condensed Consolidated Financial Statements for a description of factors that impact the shares subject to fair value adjustment.

## OPERATING INCOME

In the nine months ended March 31, 2013, operating income increased 52%, or \$142.4, to \$418.3 from \$275.9 in the nine months ended March 31, 2012. Operating margin, or operating income as a percentage of net revenues, increased to 11.7% of net revenues in the nine months ended March 31, 2013 as compared to 7.7% in the nine months ended March 31, 2012. This increase primarily reflects margin improvement of 280 basis points driven by lower asset impairment charges and 120 basis points of margin improvement primarily driven by the gain on sale of assets, lower amortization expense, lower selling, general and administrative expenses and improvement in cost of sales.

### *Operating Income by Segments*

(in millions)	Nine Months Ended March 31,		Change %
	2013	2012 <sup>(a)</sup>	
<b>OPERATING INCOME</b>			
Fragrances	\$ 350.3	\$ 343.1	2 %
Color Cosmetics	180.7	170.0	6 %
Skin & Body Care	(3.6)	(88.3)	96 %
Corporate	(109.1)	(148.9)	27 %
<b>Total</b>	<b>\$ 418.3</b>	<b>\$ 275.9</b>	<b>52 %</b>

(a) During the fourth quarter of fiscal 2012, we implemented a more precise methodology to estimate the allocation of certain

shared costs and corporate overhead expenses to calculate operating income (loss) for our segments. Instead of estimating the allocation of such costs at a country level, the new methodology uses estimates at an operating activities level, which was deemed to be more precise. The comparative segment operating income for the nine months ended March 31, 2012 presented above was revised to present such information consistent with the new methodology used to determine segment operating income (loss) for the nine months ended March 31, 2013. Compared to the

previously  
reported  
segment  
operating  
income (loss)  
for the nine  
months ended  
March 31,  
2012,  
operating  
income  
increased by  
\$20.9 for  
Fragrances,  
decreased by  
\$6.0 for  
Color  
Cosmetics  
and the  
operating loss  
for Skin &  
Body Care  
increased by  
\$14.9.

*Fragrances*

In the nine months ended March 31, 2013, operating income for Fragrances increased 2%, or \$7.2, to \$350.3 from \$343.1 in the nine months ended March 31, 2012. The increase in operating income reflects higher net revenues and improved operating margin. Operating margin increased to 17.5% of net revenues in the nine months ended March 31, 2013 as compared to 17.3% in the nine months ended March 31, 2012, primarily driven by lower amortization expense as a percentage of net revenues reflecting the end of the amortization period for a certain license, partially offset by higher cost of sales as a percentage of net revenues.

*Color Cosmetics*

In the nine months ended March 31, 2013, operating income for Color Cosmetics increased 6%, or \$10.7, to \$180.7 from \$170.0 in the nine months ended March 31, 2012. The increase in operating income reflects higher net revenues and improved operating margin. Operating margin increased to 16.7% of net revenues in the nine months ended March 31, 2013 as compared to 16.3% in the nine months ended March 31, 2012, primarily driven by lower selling, general and administrative expenses as a percentage of net revenues, partially offset by higher cost of sales as a percentage of net revenues.

*Skin & Body Care*

In the nine months ended March 31, 2013, operating loss for Skin & Body Care decreased 96%, or \$84.7 to \$3.6 from \$88.3 in the nine months ended March 31, 2012. Despite lower net revenues, operating loss decreased, primarily due to improvement in operating margin. Operating margin increased to (0.7%) of net revenues in the nine months ended March 31, 2013 as compared to (15.9%) in the nine months ended March 31, 2012, primarily due to lower asset impairment charges as a percentage of net revenues. No asset impairment charges were recorded in the nine months ended March 31, 2013, compared to asset impairment charges of certain trademarks related to the TJoy and Philosophy acquisitions of \$58.0 and \$41.5, respectively, recorded in the nine months ended March 31, 2012.

*Corporate*

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

Corporate includes share-based compensation expense adjustment included in the calculation of Adjusted Operating Income of \$89.1 and \$108.6 in the nine months ended March 31, 2013 and 2012, respectively, relating to (i) the difference between share-based compensation expense accounted for under equity plan accounting, and under liability plan accounting for the recurring nonqualified stock option awards and director-owned and employee-owned shares, restricted shares and restricted stock units and (ii) all costs associated with the special incentive awards granted in fiscal 2012 and 2011. Vesting of the special incentive awards is dependent upon the occurrence of (i) an initial public offering within five years of the grant date, or (ii) if an initial public offering has not occurred on the fifth anniversary of the grant date, upon achievement of a target fair value of our share price and the completion of five years of service subsequent to the grant date. During the nine months ended March 31, 2013, the target fair value of our share price was achieved.

***Adjusted Operating Income***

We believe that Adjusted Operating Income further enhances the investors' understanding of our operating performance. See [Summary Consolidated Financial Data](#) [Non-GAAP Financial Measures](#).

## Reconciliation of reported operating income to Adjusted Operating Income:

(in millions)	Nine Months Ended March 31,		Change %
	2013	2012	
<b>Reported Operating Income</b>	<b>\$ 418.3</b>	<b>\$ 275.9</b>	<b>52 %</b>
<i>% of Net revenues</i>	<i>11.7 %</i>	<i>7.7 %</i>	
Share-based compensation expense adjustment	89.1	108.6	(18 %)
<b>Reported Operating Income adjusted for share-based compensation adjustment</b>	<b>\$ 507.4</b>	<b>\$ 384.5</b>	<b>32 %</b>
<i>% of Net revenues</i>	<i>14.1 %</i>	<i>10.7 %</i>	
Other adjustments:			
Real estate consolidation program	16.1	6.8	>100 %
Acquisition-related costs <sup>(a)</sup>	9.4	16.6	(43 %)
Business structure realignment programs	5.0	9.9	(49 %)
Public entity preparedness costs	4.2	0.6	>100 %
Restructuring costs	3.1	3.9	(21 %)
Asset impairment charges	1.5	102.0	(99 %)
Gain on sale of asset	(19.3 )		N/A
Total other adjustments to Reported Operating Income	20.0	139.8	(86 %)
<b>Adjusted Operating Income</b>	<b>\$ 527.4</b>	<b>\$ 524.3</b>	<b>1 %</b>
<i>% of Net revenues</i>	<i>14.7 %</i>	<i>14.6 %</i>	

(a) Acquisition-related costs include items in addition to amounts recorded in the acquisition-related costs line item in the Condensed Consolidated Statements of Operations of \$8.7 and \$8.4 for the nine months ended March 31, 2013 and



2012, respectively.  
Additional items  
include internal  
integration costs and  
acquisition  
accounting  
adjustments. See  
Acquisition-Related  
Costs.

In the nine months ended March 31, 2013, Adjusted Operating Income increased 1%, or \$3.1, to \$527.4 from \$524.3 in the nine months ended March 31, 2012. Adjusted operating margin increased to 14.7% of net revenues in the nine months ended March 31, 2013 as compared to 14.6% in the nine months ended March 31, 2012. This margin improvement reflects approximately 20 basis points lower amortization expense and cost of sales, partially offset by approximately 10 basis points of higher selling, general and administrative expenses.

#### *Share-Based Compensation Adjustment*

Share-based compensation expense, as currently calculated under liability plan accounting, was \$106.7 and \$132.9 in the nine months ended March 31, 2013 and 2012, respectively, and was included in selling, general and administrative expenses in the Consolidated Statements of Operations. The decrease in the share-based compensation expense in the nine months ended March 31, 2013 compared to the nine months ended March 31, 2012 primarily reflects the impact of fewer shares subject to fair value adjustment on common stock purchased by directors in the nine months ended March 31, 2013 as compared to the nine months ended March 31, 2012, partially offset by a larger increase in the value of common stock in the nine months ended March 31, 2013, as compared to the increase in the value of common stock in the nine months ended March 31, 2012 and a charge of \$4.2 recorded in the nine months ended March 31, 2013 resulting from an amendment to the EOP, which governs certain share-based compensation instruments. See Critical Accounting Policies and Estimates Common Stock Valuations for a description of the factors that impact the valuation of our common stock and Note 12, Common, Redeemable Common and Preferred Stock in our Condensed Consolidated Financial Statements for a description of factors that impact the shares subject to fair value adjustment.

Share-based compensation expense adjustment included in the calculation of the Adjusted Operating Income was \$89.1 and \$108.6 in the nine months ended March 31, 2013 and 2012, respectively. Share-based compensation expense adjustment consists of (i) the difference between

share-based compensation expense accounted for under equity plan accounting and under liability plan accounting for the recurring nonqualified stock option awards and director-owned and employee-owned shares, restricted shares and restricted stock units and (ii) all costs associated with the special incentive awards granted in fiscal 2012 and 2011.

Vesting of the special incentive awards is dependent upon the occurrence of (i) an initial public offering within five years of the grant date, or (ii) if an initial public offering has not occurred on the fifth anniversary of the grant date, upon achievement of a target fair value of our share price and the completion of five years of service subsequent to the grant date. During the nine months ended March 31, 2013, the target fair value of our share price was achieved. See

Critical Accounting Policies and Estimates Share-Based Compensation. 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 Summary Consolidated Financial Data 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 restricted stock units 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.

Upon completion of our initial public offering, we will account for share-based compensation under equity plan accounting. See Critical Accounting Policies and Estimates Share-Based Compensation. To improve consistency of results before and after our initial public offering, as well as to improve comparability with other publicly traded companies, we only include share-based compensation under equity plan accounting on the recurring awards in Adjusted Operating Income.

#### *Real Estate Consolidation Program*

In the nine months ended March 31, 2013, we incurred \$16.1 of costs in connection with the consolidation of real estate in New York. The real estate consolidation program costs primarily consist of \$12.1 of accelerated depreciation and \$3.1 of duplicative rent expense. We expect to continue to incur additional costs associated with the consolidation of real estate in New York during the remainder of fiscal 2013 and in fiscal 2014. We expect the real estate consolidation program to be completed in fiscal 2014.

In the nine months ended March 31, 2012, we incurred \$6.8 of costs in connection with the consolidation of real estate in New York which primarily consists of \$5.0 of lease loss expenses and \$1.5 of accelerated depreciation.

In all reported periods, all real estate consolidation costs were recorded in selling, general and administrative expenses in the Consolidated Statements of Operations and were included in Corporate.

#### *Acquisition-Related Costs*

In the nine months ended March 31, 2013, we incurred acquisition-related costs of \$9.4. These costs include \$6.7 of costs related to an additional charge related to the revised estimated arbitration settlement amount based on the progress of the proceedings between us and the seller of TJoy (see Note 15, Commitments and Contingencies in our notes to the Condensed Consolidated Financial Statements) and \$2.0 of external costs directly related to contemplated business combinations which are included in acquisition-related costs in the Consolidated Statements of Operations. Also included are internal integration costs of \$0.7 which are included in selling, general and administrative expenses in the Consolidated Statements of Operations. All acquisition-related costs were reported in Corporate.

In the nine months ended March 31, 2012, we incurred acquisition-related costs of \$16.6 in connection with the 2011 Acquisitions as well as certain due diligence and acquisition-related costs incurred in connection with certain contemplated acquisitions that were withdrawn. These costs



include transaction-related costs of \$8.4, internal integration costs of \$7.7, and acquisition accounting impacts of \$0.5. Transaction-related costs represent external costs directly related to acquiring a company, for both completed and contemplated business combinations and can include expenditures for finder's fees, legal, accounting, valuation and other professional or consulting fees which are included in acquisition-related costs in the Consolidated Statements of Operations. The internal integration costs include \$6.8 of expense related to amortization of a deferred brand growth charge in connection with the TJoy acquisition that was included in amortization expense in the Consolidated Statements of Operations and \$0.9 of costs related to consulting, legal services and travel included in selling, general and administrative expenses in the Consolidated Statements of Operations. In connection with the 2011 Acquisitions, we recorded acquired net assets at fair value, including a fair value increase of inventories acquired of \$0.5. This fair value increase of inventory resulted in an increase in cost of sales in the Consolidated Statements of Operations as the inventory was sold following the acquisition. All acquisition-related costs were reported in Corporate.

#### *Business Structure Realignment Programs*

In the nine months ended March 31, 2013, we incurred business structure realignment program costs of \$5.0 which consist of costs related to position eliminations in certain administrative functions of \$2.2, costs related to structural reorganization in Geneva related to the creation of a fragrance Center of Excellence for research and development and the centralization of global supply chain management in Geneva of \$0.7 and costs related to certain other programs in North America of \$2.1, of which \$0.8 consisted of accelerated depreciation.

In the nine months ended March 31, 2012, we incurred business structure realignment program costs of \$9.9 which consist of costs incurred in connection with the buy-back of certain distribution rights in selected EMEA markets of \$4.5, costs related to structural reorganization in Geneva, as discussed above, of \$4.4, of which \$0.5 consisted of accelerated depreciation, and costs related to certain other programs in North America of \$1.0.

In all reported periods, all business structure realignment program costs were recorded in selling, general and administrative expenses in the Consolidated Statements of Operations and were included in Corporate.

#### *Public Entity Preparedness Costs*

In the nine months ended March 31, 2013, we incurred public entity preparedness costs of \$4.2 primarily consisting of consulting and legal fees associated with preparation and filing of the registration statement.

In the nine months ended March 31, 2012, we incurred public entity preparedness costs of \$0.6 primarily consisting of consulting fees associated with Sarbanes-Oxley compliance.

In all reported periods, all public entity preparedness costs were recorded in selling, general and administrative expenses in the Consolidated Statements of Operations and were included in Corporate.

#### *Restructuring Costs*

In the nine months ended March 31, 2013, we incurred restructuring costs of \$3.1 primarily reflecting a mutual agreement to end a long-term service agreement with another fragrance company, where we provided selected selling, distribution and administrative services in return for a commission based fee. As a result of the service agreement termination, we eliminated several positions and rationalized certain other support activities to reflect this change.

In the nine months ended March 31, 2012, we incurred restructuring costs of \$3.9 primarily reflecting employee-related costs and third-party contract terminations associated with the 2011 Acquisitions and a multi-faceted cost savings program designed to reduce ongoing costs and improve our operating margins.



In all reported periods, all restructuring costs were recorded in restructuring costs in the Consolidated Statements of Operations and were included in Corporate.

#### *Asset Impairment Charges*

In the nine months ended March 31, 2013, we sold a manufacturing facility for \$2.0, which had a net book value of \$3.5 resulting in an asset impairment charge of \$1.5. These costs were recorded in asset impairment charges in the Consolidated Statements of Operations and were included in Corporate.

In the nine months ended March 31, 2012, asset impairment charges of \$102.0 were recorded in the Consolidated Statements of Operations and were included in the Skin & Body Care segment and Corporate of \$99.5 and \$2.5, respectively. The impairment in the Skin & Body Care segment represents a reduction in the carrying value of certain trademarks with indefinite lives. This impairment was primarily attributable to reductions in both actual and projected revenues, reflecting weaker volumes of selected Skin & Body Care products related to the TJoy and Philosophy acquisitions. For TJoy, which recognized a trademark impairment charge of \$58.0, our business performance was impacted by unanticipated leadership changes and less favorable trade conditions than anticipated in the projections at the time of the acquisition. For Philosophy, which recognized a trademark impairment charge of \$41.5, reductions in our projections were caused by lower sales growth during the first nine months of fiscal 2012, relative to the projections used at the time of the acquisition, primarily due to lower than expected levels of new product introductions, and delays in the timing for distribution expansion into certain international markets. In addition, in the fourth quarter of fiscal 2012, we recorded an impairment charge of \$473.9, primarily in the Skin & Body Care segment related to goodwill of \$384.4 and certain trademarks of \$89.1.

#### *Gain on Sale of Asset*

In the nine months ended March 31, 2013, we received \$25.0 related to the termination of one of our licenses by mutual agreement with the original licensor. The license had a net book value of \$5.7 and, therefore, we recorded a gain of \$19.3 in the Consolidated Statements of Operations and included in Corporate.

#### INTEREST EXPENSE

In the nine months ended March 31, 2013, net interest expense was \$55.5 as compared with \$73.6 in the nine months ended March 31, 2012. The decrease primarily reflects lower accretion of the obligations related to the purchase of TJoy of \$8.3, lower expense of \$4.9 due to the maturity of interest rate swaps, lower interest expense on our debt instruments of \$2.1, lower losses of \$1.9 related to foreign exchange contracts and lower expense related to amortization of deferred financing fees due to the write off of \$1.4 in the nine months ended March 31, 2012 that did not reoccur during the nine months ended March 31, 2013.

#### OTHER EXPENSE, NET

In the nine months ended March 31, 2013, other (income) expense, net was \$(0.6) as compared with \$29.8 in the nine months ended March 31, 2012. The expense in the nine months ended March 31, 2012 primarily reflects a loss of \$37.4 on a foreign currency contract to hedge foreign currency exposure associated with an acquisition opportunity that was withdrawn, partially offset by a gain of \$3.8 related to other foreign currency exchange contracts.

#### INCOME TAXES

The effective rate for income taxes for the nine months ended March 31, 2013 was 29.0% as compared with 66.4% in the nine months ended March 31, 2012. The difference in the effective tax rates reflects a decrease in the accrual for unrecognized tax benefits as a result of the completion of the restructuring of our international business in Geneva, Switzerland, the expiration of certain



statutes of limitations, a decrease of certain nondeductible expenses, and a decrease of expenses incurred during 2012, primarily related to impairments and a foreign currency contract to hedge foreign currency exposure associated with an acquisition opportunity that was withdrawn, offset by the negative tax consequences associated with ongoing operating losses at our subsidiaries in China and a gain on sale of asset.

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.

#### NET INCOME ATTRIBUTABLE TO COTY INC.

In the nine months ended March 31, 2013, net income attributable to Coty Inc. increased almost sevenfold, or \$197.4, to \$230.3, from \$32.9 in the nine months ended March 31, 2012. This increase primarily reflects higher operating income and lower other expense, net, interest expense and tax expense (as discussed above).

We believe that Adjusted Net Income Attributable to Coty Inc. provides an enhanced understanding of our performance. See Summary Consolidated Financial Data Non-GAAP Financial Measures.

(in millions)	Nine Months Ended March 31,		Change % 2013/2012
	2013	2012	
<b>Reported Net Income Attributable to Coty Inc.</b>	<b>\$ 230.3</b>	<b>\$ 32.9</b>	<b>&gt;100 %</b>
<i>% of Net revenues</i>	6.4 %	0.9 %	
Share-based compensation expense adjustment <sup>(a)</sup>	89.1	108.6	(18 %)
Change in tax provision due to share-based compensation expense adjustment <sup>(b)</sup>	(23.9)	20.1	<(100 %)
<b>Net Income adjusted for share-based compensation adjustment</b>	<b>295.5</b>	<b>161.6</b>	<b>83 %</b>
<i>% of Net revenues</i>	8.2 %	4.5 %	
Other adjustments to Reported Net Income Attributable to Coty Inc.:			
Other adjustments to Operating Income <sup>(a)</sup>	20.0	139.8	(86 %)
Loss on foreign currency contract <sup>(c)</sup>		37.4	(100 %)
Acquisition-related interest expense <sup>(d)</sup>		8.5	(100 %)
Total other adjustments to Reported Net Income Attributable to Coty Inc.	20.0	185.7	(89 %)
Change in tax provision due to other adjustments to Reported Net Income Attributable to Coty Inc.	(2.2)	(53.3)	96 %
Tax impact on foreign income inclusion <sup>(e)</sup>		9.0	(100 %)
<b>Adjusted Net Income Attributable to Coty Inc.</b>	<b>\$ 313.3</b>	<b>\$ 303.0</b>	<b>3 %</b>
<i>% of Net revenues</i>	8.7 %	8.4 %	



- (a) See Reconciliation of Operating Income to Adjusted Operating Income in Management's Discussion and Analysis of Financial Condition and Results of Operations.
- (b) Reflects an adjustment to our tax provision equal to the net interim tax expense attributable to share based compensation in the nine months ended March 31, 2013 and March 31, 2012. In accordance with ASC 740 ( Accounting for Income Taxes ), we record our provision for income taxes using our annual effective tax rate ( AETR ), which is calculated utilizing the latest available

information at each interim period. The tax adjustments reflected in this table apply a normalized AETR that has been recalculated to take into account the adjustments to operating income and determine what our rate would have been had these items not occurred. The actual tax rate applicable to each individual adjustment to operating income is different than the normalized AETR presented herein.

- (c) Loss on foreign currency contract to hedge foreign currency exposure associated with a contemplated acquisition opportunity that was withdrawn. This amount is included in other expense, net in the Condensed Consolidated Statements of Operations.
- (d) Interest expense associated with the obligations related to the purchase of TJoy. This amount is included in interest expense, net in the Condensed Consolidated Statements of Operations.
- (e) Reflects an adjustment to our tax provision equal to the tax expense associated with certain foreign income that was subject to tax in the U.S. during fiscal 2011 and 2010 under the provisions of Internal Revenue Code Sections 951 through 954

( Subpart F ), but that should no longer be subject to Subpart F as a result of structural changes in our organization. Effective fiscal 2012, we created a fragrance Center of Excellence for research and development and centralized global supply chain management in Geneva, Switzerland. As a result of these changes to our organizational and management structure, Subpart F should no longer apply to income associated with our operations in Geneva and, accordingly, tax expense associated with certain foreign-based income will be reduced in the future. This change is reflected in the provision for income taxes in the Consolidated Statements of Operations for periods following its implementation.

**FISCAL 2012 AS COMPARED TO FISCAL 2011 AND FISCAL 2011 AS COMPARED TO FISCAL 2010**

## NET REVENUES

(in millions)	Year Ended June 30,			Change %	
	2012	2011	2010	2012/2011	2011/2010
Net revenues (excluding revenues related to 2011 Acquisitions)	\$ 4,010.6	\$ 3,746.4	\$ 3,482.9	7 %	8 %
Revenues generated from 2011 Acquisitions	600.7	339.7		77 %	N/A
<b>Net revenues</b>	<b>\$ 4,611.3</b>	<b>\$ 4,086.1</b>	<b>\$ 3,482.9</b>	<b>13 %</b>	<b>17 %</b>

In fiscal 2012, net revenues increased 13%, or \$525.2, to \$4,611.3 from \$4,086.1 in fiscal 2011, which includes the negative impact of foreign currency exchange translations of approximately 1%. The 2011 Acquisitions contributed \$261.0 to this increase. The increase for the 2011 Acquisitions was primarily due to the inclusion of the 2011 Acquisitions for full fiscal 2012. In fiscal 2011, the 2011 Acquisitions were only included in net revenues from the respective dates of acquisition.

Excluding net revenues from the 2011 Acquisitions, net revenues increased 7% to \$4,010.6 in fiscal 2012. Color Cosmetics drove organic growth among segments followed by Fragrances. The increase also reflects growth across all three geographic regions. New launches represented approximately 17% of our net revenues for fiscal 2012. The contribution from new launches was partially offset by an approximate 11% decline in net revenues from existing products that are later in their life cycles.

In fiscal 2011, net revenues increased 17%, or \$603.2, to \$4,086.1 from \$3,482.9 in fiscal 2010. The 2011 Acquisitions contributed 9%, or \$339.7, to the increase.

Excluding incremental net revenues from the 2011 Acquisitions, net revenues increased 8% to \$3,746.4 in fiscal 2011. Fragrances drove organic growth among segments followed by Color Cosmetics reflecting new product launches in both segments. The increase also reflects growth across all three geographic regions, with the largest increase in EMEA. New launches represented approximately 18% of our net revenues for fiscal 2011. The contribution from new launches was partially offset by an approximate 12% decline in net revenues from existing products that are later in their life cycles.

*Net Revenues by Segment*

(in millions)	Year Ended June 30,			Change %	
	2012	2011	2010	2012/2011	2011/2010
<b>NET REVENUES</b>					
<b>Fragrances</b>	\$ 2,452.8	\$ 2,325.3	\$ 2,113.3	5 %	10 %
Color Cosmetics (excluding revenues related to 2011 Acquisitions)	\$ 1,080.2	\$ 948.0	\$ 891.0	14 %	6 %
Revenues generated from 2011 Acquisitions	350.4	195.2		80 %	N/A
<b>Color Cosmetics</b>	\$ 1,430.6	\$ 1,143.2	\$ 891.0	25 %	28 %
Skin & Body Care (excluding revenues related to 2011 Acquisitions)	\$ 477.6	\$ 473.1	\$ 478.6	1 %	(1 %)
Revenues generated from 2011 Acquisitions	250.3	144.5		73 %	N/A
<b>Skin &amp; Body Care</b>	\$ 727.9	\$ 617.6	\$ 478.6	18 %	29 %
<b>Total</b>	\$ 4,611.3	\$ 4,086.1	\$ 3,482.9	13 %	17 %

*Fragrances*

In fiscal 2012, net revenues of Fragrances increased 5%, or \$127.5, to \$2,452.8 from \$2,325.3 in fiscal 2011. The increase was primarily due to strong growth of our products in the prestige market primarily resulting from new product launches. Higher net revenues from *Calvin Klein*, *Marc Jacobs*, *Chloé* and new launches *Roberto Cavalli*, *Bottega Veneta* and *Truth or Dare by Madonna* contributed to that increase. The incremental growth in *Calvin Klein* was driven by the launches of *ck one Shock* and *Forbidden Euphoria*. Growth in *Marc Jacobs* was driven by new launch *Oh Lola!*, a full year of sales of *Daisy Marc Jacobs Eau So Fresh*, the effect of which was only partially observed in fiscal 2011 as a result of a mid-year launch, and higher net revenues in the existing brand *Daisy Marc Jacobs*. Higher net revenues of *Chloé* were driven by new launch *Eau de Chloé*. In the mass market, higher net revenues from *Playboy*, *Beyoncé*, *Guess?* and new launch *Shine by Heidi Klum* also contributed to segment growth. Improved results from *Playboy* primarily reflected the success of recent launches of *Playboy London* and *Play it Rock*. Growth in *Beyoncé* was primarily due to the new launch of *Beyoncé Pulse*, and the increase in *Guess?* was driven by *Guess? Seductive Homme* and *Guess? Seductive Intense Love*. These increases in net revenues were partially offset by lower net revenues from existing celebrity brands that are later in their life cycles and a decline in *Davidoff* due to strong innovation in fiscal 2011 that was not replicated in fiscal 2012. Net revenues growth for the segment reflects unit volume growth of 10%, partially offset by a negative price and mix impact of 4%, primarily reflecting an increase in the proportion of the segment's net revenues from lower than segment average priced *Playboy* products.

In fiscal 2011, net revenues of Fragrances increased 10%, or \$212.0, to \$2,325.3 from \$2,113.3 in fiscal 2010 on unit volume growth of 11% partially offset by a negative price and mix impact of 1%. Increased net revenues from *Calvin*

*Klein, Chloé, Davidoff and Marc Jacobs* in the prestige market contributed to the total increase in the segment, in part due to the launches of *Calvin Klein Beauty, Love, Chloé, Davidoff Champion, Marc Jacobs Bang* and *Daisy Marc Jacobs Eau So Fresh*. Products in the mass market also contributed to segment growth with higher net revenues from the *Playboy, Guess?* and *Beyoncé* brands, including recent launches of *Playboy Female, Playboy New York, Guess? Seductive* and *Beyoncé Heat Rush*. The segment also benefitted from the global roll-out of *Beyoncé Heat* and a full year of sales of that product, the effect of which was only partially observed in fiscal 2010 as a result of a mid-year launch. These increases in net revenues were partially offset by lower net revenues from existing products with the largest declines contributed by *Gwen Stefani, David Beckham, Stetson* and *Kate Moss*.

*Color Cosmetics*

In fiscal 2012, net revenues of Color Cosmetics increased 25%, or \$287.4, to \$1,430.6 from \$1,143.2 in fiscal 2011, which includes the negative impact of foreign currency exchange translations of approximately 1%. The increase in this segment includes an increase in net revenues related to the acquisitions of OPI and Dr. Scheller of \$155.2. The increase for the 2011 Acquisitions in Color Cosmetics was primarily due to the inclusion of OPI and Dr. Scheller in net revenues for the full fiscal year of 2012. In fiscal 2011, OPI and Dr. Scheller were only included in net revenues from the respective dates of acquisition. Fiscal 2011 net revenues attributable to the 2011 Acquisitions include \$25.0 of third party product distribution by Dr. Scheller that did not reoccur in fiscal 2012. On a pro forma basis, assuming that the net revenues for the 2011 Acquisitions had been included from the beginning of fiscal 2011, net revenues for the 2011 Acquisitions in Color Cosmetics increased 18% in fiscal 2012 compared to fiscal 2011, driven by 21% growth in OPI and 4% growth in Dr. Scheller.

Excluding incremental net revenues from the 2011 Acquisitions, the Color Cosmetics segment grew 14%, which includes the negative impact of foreign currency exchange translations of approximately 1%. The increase was driven by unit volume growth of 14% and a positive price and mix impact of 1%. *Sally Hansen* drove growth for the segment with the U.S. generating approximately 70% of the brand's growth. Higher net revenues in the U.S. reflect a full year of sales of *Sally Hansen Salon Effects* and *Sally Hansen Crackle Overcoat*, the effect of which was only partially observed in fiscal 2011 as a result of mid-year launches, as well as higher net revenues of *Sally Hansen Xtreme Wear* and new launch *Sally Hansen Magnetic Nail Color*. The *Sally Hansen* brand also benefitted from expanded distribution in Russia and Australia. Increased net revenues in *Rimmel* reflect the success of new launches *Rimmel Kate*, *Rimmel Wake Me Up* and *Rimmel Scandal eyes* along with growth in *Rimmel Volume Flash*. Higher net revenues in the *Rimmel* brand were also due to expanded distribution in Australia and France and growth in the U.K. as a result of strong promotional activity to keep in line with competitor activity and achieve share growth. Also contributing to segment growth were higher net revenues in *Astor*, following its rollout in one of our key retailers in Germany, and *N.Y.C. New York Color*, primarily driven by higher net revenues in the U.S. Partially offsetting growth in the segment were lower net revenues of *Esprit Color* due to the termination of the license.

In fiscal 2011, net revenues of Color Cosmetics increased 28%, or \$252.2, to \$1,143.2 from \$891.0 in fiscal 2010, which includes the positive impact of foreign currency exchange translations of approximately 1%. The increase was primarily due to net revenues earned from the acquisitions of OPI and Dr. Scheller of \$195.2 in fiscal 2011. Excluding these incremental net revenues, the Color Cosmetics segment grew 6%, which includes the positive impact of foreign currency exchange translations of approximately 1%, and with all key brands contributing to growth. *Rimmel* drove growth for the segment with increased net revenues reflecting the success of the *Rimmel Lash Accelerator* mascara launch and higher net revenues from the continued success of *Rimmel Match Perfection*. Strong net revenues in the U.S. made up half of the *Rimmel* brand's increase in fiscal 2011 driven by successful product launches. Also contributing to segment growth were higher net revenues of *Sally Hansen*, reflecting new launches and expansion into international markets, primarily Russia and Australia. *N.Y.C. New York Color*, *Astor*, *Miss Sporty* and *Cutex* brands also contributed to the segment growth. Net revenues growth for the segment reflects unit volume growth of 1% and a positive price and mix impact of 5% primarily driven by the launches of higher than segment average priced products, such as *Rimmel Lash Accelerator* and *Sally Hansen Salon Effects*. Partially offsetting growth in the segment were lower net revenues of *Esprit Color*.

*Skin & Body Care*

In fiscal 2012, net revenues of Skin & Body Care increased 18%, or \$110.3, to \$727.9 from \$617.6 in fiscal 2011, which includes the negative impact of foreign currency exchange translations of approximately 1%. The increase in this segment includes an increase as a result of the acquisitions of Philosophy and TJoy, which contributed incremental net revenues to the segment of \$105.8. The increase for the 2011 Acquisitions in Skin & Body Care was primarily due to the inclusion of TJoy and Philosophy in net revenues for the full fiscal year of 2012. In fiscal 2011, TJoy and Philosophy





were only included in net revenues from the respective dates of acquisition. On a pro forma basis, assuming that the net revenues for the 2011 Acquisitions had been included from the beginning of fiscal 2011, net revenues for the 2011 Acquisitions in Skin & Body Care decreased 16% in fiscal 2012 compared to 2011, driven by a decline of 52% in TJoy, partially offset by 1% growth in Philosophy.

Excluding the impact of the 2011 Acquisitions, Skin & Body Care net revenues increased 1%, or \$4.5, which includes the negative impact of foreign currency exchange translations of approximately 2%. Unit volume growth of 13% was almost entirely offset by a negative price and mix impact of 10%. This unit volume growth was driven by *adidas* as the brand benefitted from expansion in China through the TJoy distribution channel. Expanded distribution and an increase in media spending helped drive growth for the *adidas* brand in Russia and our travel retail and export business in Asia Pacific. *adidas* growth also reflected the reintroduction of shower gels, body sprays and deodorants in a key customer in the U.S. in January 2012, the positive impact of UEFA European Football Championship promotional activities and the re-launch of shower gels in EMEA. Offsetting growth from *adidas* were declines in shipment volumes for the *Lancaster* brand primarily reflecting lower sales of European Prestige sun care products due to generally adverse weather conditions during the summer season. Difficult economic conditions in key *Lancaster* brand countries, such as Spain, Italy and Greece, and an inventory reduction program by one of our key customers in Russia also contributed to the decline in net revenues for the brand. A negative price and mix impact for the segment primarily reflects an increase in the proportion of the segment's net revenues from *adidas*, which has a lower price point than *Lancaster*, and higher promotional activity for both brands compared to fiscal 2011.

In fiscal 2011, net revenues of Skin & Body Care increased 29%, or \$139.0, to \$617.6 from \$478.6 in fiscal 2010. The acquisitions of Philosophy and TJoy contributed incremental net revenues to the segment of \$144.5 in fiscal 2011. Excluding the impact of the 2011 Acquisitions, the Skin & Body Care segment experienced a decline of 1% in net revenues primarily driven by a negative price and mix impact of 1%. The decline in the segment was driven primarily by lower net revenues from the *adidas* brand, partially offset by growth of the *Lancaster* brand. Unfavorable trends in net revenues for *adidas* reflected the impact of market pressures in developed markets. In fiscal 2010, we initiated a strategically focused re-launch program in developed markets aimed at increased investment spending for the *adidas* brand. While the program had some success, it was not sufficient to reverse the negative trends affecting the *adidas* brand in fiscal 2011 in those markets. The *adidas* brand continued to benefit from expansion in Russia. Net revenues attributable to the *Lancaster* brand increased 5% reflecting solid performance of sun care products.

### ***Net Revenues by Geographic Regions***

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

(in millions)	Year Ended June 30,			Change %	
	2012	2011	2010	2012/2011	2011/2010
<b>NET REVENUES</b>					
Americas (excluding revenues related to 2011 Acquisitions)	\$ 1,403.9	\$ 1,288.9	\$ 1,244.3	9 %	4 %
Revenues generated from 2011 Acquisitions	470.6	233.0		>100 %	N/A
<b>Americas</b>	<b>\$ 1,874.5</b>	<b>\$ 1,521.9</b>	<b>\$ 1,244.3</b>	<b>23 %</b>	<b>22 %</b>
EMEA (excluding revenues related to 2011 Acquisitions)	\$ 2,143.8	\$ 2,069.1	\$ 1,917.3	4 %	8 %
Revenues generated from 2011 Acquisitions	74.2	59.9		24 %	N/A
<b>EMEA</b>	<b>\$ 2,218.0</b>	<b>\$ 2,129.0</b>	<b>\$ 1,917.3</b>	<b>4 %</b>	<b>11 %</b>
Asia Pacific (excluding revenues related to 2011 Acquisitions)	\$ 462.9	\$ 388.4	\$ 321.3	19 %	21 %
Revenues generated from 2011 Acquisitions	55.9	46.8		19 %	N/A
<b>Asia Pacific</b>	<b>\$ 518.8</b>	<b>\$ 435.2</b>	<b>\$ 321.3</b>	<b>19 %</b>	<b>35 %</b>
<b>Total</b>	<b>\$ 4,611.3</b>	<b>\$ 4,086.1</b>	<b>\$ 3,482.9</b>	<b>13 %</b>	<b>17 %</b>

#### Americas

In fiscal 2012, net revenues in the Americas increased 23%, or \$352.6, to \$1,874.5 from \$1,521.9 in fiscal 2011. OPI and Philosophy contributed \$237.6 to the increase. The increase for OPI and Philosophy was primarily due to the inclusion of these acquisitions in net revenues for the full fiscal year of 2012. In fiscal 2011, these acquisitions were only included in net revenues from the respective dates of acquisition.

Excluding incremental revenues from OPI and Philosophy, net revenues increased 9% primarily driven by higher net revenues in our U.S. operating subsidiary. Canada and our travel retail and export business in the region also contributed to growth in the Americas. In the U.S., net revenues were up 9%, or \$84.5, to \$1,041.8 from \$957.3 in fiscal 2011. This improvement reflects growth in each product segment with the strongest net revenues growth generated in Color Cosmetics, primarily due to new launch activity in *Sally Hansen* brand nail products. Increased net revenues in Fragrances in the U.S. were due to strong growth in the prestige market primarily driven by the *Calvin Klein* brand, while in the mass market, incremental revenues from the *Playboy* brand and new launch *Shine by Heidi Klum* could not offset lower net revenues from existing brands that are later in their life cycles. Higher net revenues in Skin & Body Care in the U.S. from *adidas* reflect the successful reintroduction of shower gels, body sprays and

deodorants in a key customer in the market in January 2012. Growth in Canada primarily reflects higher net revenues in the Color Cosmetics segment, driven by *Sally Hansen* and *Rimmel*, followed by higher net revenues in Fragrances, led by brands in our prestige market. Net revenues in our travel retail and export business in the region also increased, primarily reflecting increased net revenues in *Marc Jacobs* and recent *Calvin Klein* fragrance launches.

In fiscal 2011, net revenues in the Americas increased 22%, or \$277.6, to \$1,521.9 from \$1,244.3 in fiscal 2010, which includes the positive impact of foreign currency exchange translations of approximately 1%. OPI and Philosophy contributed \$233.0 to this increase compared to fiscal 2010. Excluding incremental net revenues from OPI and Philosophy, growth in the region of 4% was driven by higher net revenues in our travel retail and export business in the region and our U.S. operating subsidiaries, reflecting an improved retail environment and successful launches in the Fragrances and Color Cosmetics segments. Net revenues in travel retail and export in the Americas grew approximately 24% compared to the prior fiscal year, as the business benefitted from increased airport passenger traffic and strong growth from *Calvin Klein*. Higher net revenues of recent fragrance launches in the prestige market also contributed to the growth in travel retail and export in the Americas. In the U.S., net revenues were up 2%, or \$23.2, to \$957.3 from \$934.1 in fiscal

2010, driven primarily by growth of our mass market products. Full-year sales of *Guess?* and *Beyoncé* brand products, the effect of which was only partially observed in fiscal 2010 as a result of a mid-year launch, combined with new launches for these brands in fiscal 2011, contributed to growth in the U.S., along with incremental net revenues of *Rimmel* driven by new product launches. These increases were partially offset by lower net revenues of existing brands *Beckham*, *Stetson*, *Jovan* and *adidas*. Higher fragrances net revenues in the prestige market reflected an improved retail environment in U.S. department stores compared to prior year. Contributing to the increase were incremental net revenues from the launches of *Calvin Klein Beauty* and *Love, Chloé* along with higher net revenues from existing brands *Vera Wang* and *Davidoff Cool Water*. These increased net revenues in the U.S. were partially offset by declining net revenues of *Harajuku Lovers by Gwen Stefani*.

#### EMEA

In fiscal 2012, net revenues in EMEA increased 4%, or \$89.0, to \$2,218.0 from \$2,129.0 in fiscal 2011, which includes the negative impact of foreign currency exchange translations of approximately 2%. Dr. Scheller, Philosophy and OPI contributed \$14.3 to the increase. The increase for Dr. Scheller, Philosophy and OPI was primarily due to the inclusion of these acquisitions in net revenues for the full fiscal year of 2012. In fiscal 2011, these acquisitions were only included in net revenues from the respective dates of acquisition. Fiscal 2011 net revenues attributable to the applicable 2011 Acquisitions include \$25.0 of third party product distribution by Dr. Scheller that did not reoccur in fiscal 2012.

Excluding incremental net revenues related to the applicable 2011 Acquisitions, net revenues increased 4% reflecting growth in most key markets in the region, with the largest increases in the U.K. and Germany. Net revenues growth in the U.K. reflected growth in each of our segments with the largest increases primarily driven by the *Calvin Klein* and *Rimmel* brands. Improvement in Germany reflected higher net revenues in the Fragrances and Color Cosmetics segments, partially offset by the negative impact of foreign currency exchange translations. Higher net revenues in the Fragrances segment in Germany were primarily driven by recent launches in *Heidi Klum*, *Playboy*, *Chloé*, and *Marc Jacobs*, as well as the reintegration of the *Jovan* brand in the portfolio as a result of the termination of a third party distributor, which caused us to produce and distribute brand products directly. Higher net revenues in the Color Cosmetics segment in Germany were largely attributable to the successful rollout of *Astor* in one of our key retailers.

In fiscal 2011, net revenues in EMEA increased 11%, or \$211.7, to \$2,129.0 from \$1,917.3 in fiscal 2010, which includes the negative impact of foreign currency exchange translations of 1%. Excluding incremental net revenues from the acquisition of Dr. Scheller of \$59.9, net revenues increased 8%, driven by travel retail and export in the region and Russia. Higher net revenues in our travel retail and export business in EMEA reflected continued net revenues growth in upscale designer fragrances and increased airport travel. The opening of our Russian subsidiary in fiscal 2010 contributed to our results driven by the launch of the *Sally Hansen* brand and net revenues growth in *adidas*, *Rimmel*, *Calvin Klein* and *Chloé*. Strong growth in the U.K., the Middle East, Spain, Italy and the Netherlands also generated incremental net revenues for the region. These increases were partially offset by declines in Greece and Portugal where the economic conditions remained difficult, as well as lower net revenues in Romania and Hungary. Despite the unfavorable impact of foreign currency exchange translations resulting from the decline of the euro exchange rate, eurozone countries still contributed strong growth to the region.

#### Asia Pacific

In fiscal 2012, net revenues in Asia Pacific increased 19%, or \$83.6, to \$518.8 from \$435.2 in fiscal 2011, which includes the positive impact of foreign currency exchange translations of approximately 3%. The increase reflects the implementation of our strategy to strengthen existing distribution channels and expand our geographic presence in Asia, particularly in China. The increase for TJoy and OPI by \$9.1 was primarily due to the inclusion of these acquisitions in net



revenues for the full fiscal year of 2012. In fiscal 2011, these acquisitions were only included in net revenues from the respective dates of acquisition.

Excluding incremental net revenues related to the applicable 2011 Acquisitions, net revenues in the region increased 19%, reflecting growth in virtually all countries and in each product segment. Higher net revenues in our travel retail and export business in the region reflected strong growth in the Fragrances segment primarily due to *Marc Jacobs* and *Calvin Klein*, and higher net revenues in the *adidas* brand primarily resulting from growth in Southeast Asia and India. Higher net revenues in Australia reflected expanded distribution of *Rimmel*, *Sally Hansen* and *Playboy*, growth in *Calvin Klein* and *Marc Jacobs*, and the favorable impact from foreign currency exchange translations. Net revenues in China continue to grow, primarily due to the expansion of the *adidas* brand through the TJoy distribution channel. Higher net revenues from *Marc Jacobs* and *Calvin Klein* also contributed to growth in China.

In fiscal 2011, net revenues in Asia Pacific increased 35%, or \$113.9, to \$435.2 from \$321.3 in fiscal 2010, which includes the positive impact of foreign currency exchange translations of approximately 6%. The increase reflected our strategy to strengthen and expand our geographical presence in Asia. TJoy and OPI contributed \$46.8 to the increase. Excluding incremental net revenues related to the applicable 2011 Acquisitions, growth in the region was driven by strong performance in travel retail and export in the region and in Australia. Our travel retail and export business in Asia Pacific contributed to the increase, driven by continued demand for upscale designer fragrances. Strong performance in travel retail and export in Korea, Taiwan and China outpaced declining net revenues in Japan after the March 2011 earthquake. Net revenues growth in Australia reflected strong performance of *Rimmel*, *Sally Hansen*, *Calvin Klein* and *Marc Jacobs* as well as a significant benefit from foreign currency exchange translations.

#### COST OF SALES

(in millions)	Year Ended June 30,			Change %	
	2012	2011	2010	2012/2011	2011/2010
Cost of sales (excluding 2011 Acquisitions)	\$ 1,579.4	\$ 1,480.1	\$ 1,473.2	7 %	0 %
% of Net revenues	39.4 %	39.5 %	42.3 %		
2011 Acquisitions	244.6	159.9		53 %	N/A
<b>Reported Cost of sales</b>	<b>\$ 1,824.0</b>	<b>\$ 1,640.0</b>	<b>\$ 1,473.2</b>	<b>11 %</b>	<b>11 %</b>
% of Net revenues	39.6 %	40.1 %	42.3 %		

In fiscal 2012, cost of sales increased 11%, or \$184.0, to \$1,824.0 from \$1,640.0 in fiscal 2011. Cost of sales as a percentage of total net revenues decreased to 39.6% in fiscal 2012 from 40.1% in fiscal 2011, resulting in a gross margin improvement of 0.5 percentage points as a percentage of net revenues. The increase in cost of sales relating to the 2011 Acquisitions was primarily due to the inclusion of these acquisitions in cost of sales for full fiscal 2012. In fiscal 2011, these acquisitions were only included in cost of sales from the respective dates of acquisition. Excluding the 2011 Acquisitions, gross margin improved 0.1 percentage points, primarily reflecting lower obsolescence and freight expense as a percentage of net revenues along with savings due to the continued implementation of our supply chain savings program. These improvements were partially offset by a negative mix impact due to higher growth in products with lower than average gross margins, such as *Playboy*, *adidas* and Color Cosmetics. Since its implementation in fiscal 2010, the supply chain savings program has contributed to significant improvements in manufacturing costs resulting from more streamlined manufacturing processes, procurement savings programs with

suppliers, and supply chain redesign, including improved management of third-party contractors.

In fiscal 2011, cost of sales as a percentage of total net revenues decreased to 40.1% from 42.3% in fiscal 2010, resulting in a gross profit improvement of 2.2 points as a percentage of net revenues. Excluding the 2011 Acquisitions, cost of sales remained flat despite an 8% increase in net revenues which resulted in gross margin improving by 2.8 percentage points. This improvement reflected continued success of our supply chain savings program. The supply chain savings program contributed to significant improvements in manufacturing costs resulting from more streamlined



manufacturing processes, procurement savings programs with suppliers, and supply chain redesign, including improved management of third-party contractors.

## SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

(in millions)	Year Ended June 30,			Change %	
	2012	2011	2010	2012/2011	2011/2010
Selling, general and administrative expenses (excluding 2011 Acquisitions)	\$ 2,088.9	\$ 1,928.6	\$ 1,723.0	8 %	12 %
<i>% of Net revenues</i>	52.1 %	51.5 %	49.5 %		
2011 Acquisitions	210.5	105.6		99 %	N/A
<b>Reported Selling, general and administrative expenses<sup>(a)</sup></b>	<b>\$ 2,299.4</b>	<b>\$ 2,034.2</b>	<b>\$ 1,723.0</b>	<b>13 %</b>	<b>18 %</b>
<i>% of Net revenues</i>	49.8 %	49.8 %	49.5 %		

- (a) Selling, general and administrative expenses and operating income for the 2011 Acquisitions do not include any allocation of our central overhead costs, which are instead reflected on an aggregate and segment basis in our selling, general and administrative expenses and operating income

excluding the  
impact of the  
2011

Acquisitions.

In fiscal 2012, selling, general and administrative expenses as a percentage of net revenues were flat compared to fiscal 2011. The increase in selling, general and administrative expenses for the 2011 Acquisitions was primarily due to the inclusion of these acquisitions in full fiscal 2012. In fiscal 2011, these acquisitions were only included in selling, general and administrative expenses from the respective dates of acquisition. Excluding the 2011 Acquisitions, selling, general and administrative expenses increased 0.6 points as a percentage of net revenues, primarily reflecting higher share-based compensation expense as a percentage of net revenues partially offset by lower fixed costs and advertising and consumer promotion spend as percentages of net revenues. The increase in share-based compensation expense primarily reflects the impact of an increase in the estimated value of our common stock, with most of the change attributable to the fair value adjustment on common stock purchased by directors as part of a share purchase program introduced in September 2011. See [Critical Accounting Policies and Estimates Common Stock Valuations](#) for a description of the factors that impact the valuation of our common stock. The reduction in fixed costs as a percentage of net revenues reflects lower accruals related to the management incentive programs and our focus on cost containment. The reduction in advertising and consumer promotion spend as a percentage of net revenues primarily reflects a shift in promotional spend between spending recorded in selling, general and administrative expense and spending recorded as a reduction to net revenues. In total, promotional spend increased 0.5 points as a percentage of net revenues, reflecting our commitment to invest behind our brands.

In fiscal 2011, selling, general and administrative expenses as a percentage of net revenues increased to 49.8% as compared with 49.5% in fiscal 2010. Excluding the 2011 Acquisitions, selling, general and administrative expenses increased 2.0 points as a percentage of net revenues primarily reflecting higher advertising and consumer promotion spending and share-based compensation expense. The increase in advertising and consumer promotion spending of 1.6 percentage points reflects our strategy to support our brands by investing in media spending as well as other advertising and promotional activities. Share-based compensation expense increased 0.5 points as a percentage of net revenues compared to fiscal 2010 reflecting the impact of a higher value of common stock primarily resulting from strong operating results. See [Critical Accounting Policies and Estimates Common Stock Valuations](#) for a description of the factors that impact the valuation of our common stock. Fixed costs and other operating expenses did not have a material impact on the increase in selling, general and administrative expenses in fiscal 2011.

## OPERATING INCOME

In fiscal 2012, operating income (loss) decreased \$490.4, to \$(209.5) from \$280.9 in fiscal 2011. Operating margin, or operating income as a percentage of net revenues, decreased by 11.4

percentage points to (4.5%) of net revenues in fiscal 2012 as compared to 6.9% in fiscal 2011. This margin decline primarily reflects the impact of fiscal 2012 asset impairment charges, which contributed 12.5 percentage points to the decrease. Also contributing to margin decline were higher selling, general and administrative expenses and amortization expense as percentages of net revenues, which together contributed an additional 0.3 percentage points to lower margin. Partially offsetting this decline was 1.4 percentage points of margin improvement driven by lower cost of sales, restructuring expenses and acquisition-related costs as percentages of net revenues.

In fiscal 2011, operating income increased 52%, or \$96.4, to \$280.9, from \$184.5 in fiscal 2010. Operating margin, or operating income as a percentage of net revenues, increased to 6.9% compared to 5.3% in fiscal 2010, reflecting strong savings in cost of sales, partially offset by an increase in selling, general and administrative expenses discussed above.

### *Operating Income by Segment*

(in millions)	Year Ended June 30,			Change %	
	2012	2011	2010	2012/2011	2011/2010
OPERATING INCOME (LOSS)					
Fragrances	\$ 340.5	\$ 286.9	\$ 192.8	19 %	49 %
Color Cosmetics	200.2	115.7	68.9	73 %	68 %
Skin & Body Care	(577.8 )	30.2	17.7	<(100 %)	71 %
Corporate	(172.4 )	(151.9 )	(94.9 )	13 %	60 %
<b>Total</b>	<b>\$ (209.5 )</b>	<b>\$ 280.9</b>	<b>\$ 184.5</b>	<b>&lt;(100 %)</b>	<b>52 %</b>

#### *Fragrances*

In fiscal 2012, operating income for Fragrances increased 19%, or \$53.6, to \$340.5 from \$286.9 in fiscal 2011. The increase in operating income reflects higher net revenues and improved operating margin. Operating margin increased by 1.6 percentage points to 13.9% of net revenues in fiscal 2012 as compared to 12.3% in fiscal 2011, primarily driven by improvements in selling, general and administrative expenses as a percentage of net revenues.

In fiscal 2011, operating income for Fragrances increased 49%, or \$94.1, to \$286.9, from \$192.8 in fiscal 2010. The increase in operating income reflects higher net revenues and improved operating margin. Operating margin excluding acquisitions increased by 3.2 percentage points to 12.3% of net revenues in fiscal 2011 as compared to 9.1% in fiscal 2010, primarily driven by improved cost of sales as a percentage of net revenues.

#### *Color Cosmetics*

In fiscal 2012, operating income for Color Cosmetics increased 73%, or \$84.5, to \$200.2 from \$115.7 in fiscal 2011. Operating margin increased by 3.9 percentage points to 14.0% of net revenues in fiscal 2012 as compared to 10.1% in fiscal 2011. Excluding results from OPI and Dr. Scheller, operating income for the segment increased 46%. The increase in operating income reflects higher net revenues and improved operating margin. Operating margin excluding acquisitions increased by 1.7 percentage points to 7.9% of net revenues in fiscal 2012 as compared to 6.2% in fiscal 2011, primarily driven by improvement in cost of sales as a percentage of net revenues.

In fiscal 2011, Color Cosmetics operating income increased 68%, or \$46.8, to \$115.7 from \$68.9 in fiscal 2010. Operating margin increased by 2.4 percentage points to 10.1% of net revenues in fiscal 2011 as compared to 7.7% in fiscal 2010. Excluding results from OPI and Dr. Scheller of \$57.0, operating income for the segment decreased 15% compared to fiscal 2010. Despite higher net revenues, there was a decrease in operating income primarily driven by a decline in operating margin. Operating margin excluding acquisitions decreased by 1.5 percentage points to 6.2% of net revenues in fiscal 2011 as compared to 7.7% in fiscal 2010, primarily due to higher selling, general and administrative expenses as a percentage of net revenues more than offsetting improvement in cost of sales as a percentage of net revenues. Higher selling, general and administrative expenses as

a percentage of net revenues primarily reflects increased investment in *Sally Hansen* and *Rimmel* through advertising and consumer promotion spending.

#### *Skin & Body Care*

In fiscal 2012, operating income for Skin & Body Care decreased \$608.0 to \$(577.8) from \$30.2 in fiscal 2011, primarily reflecting current year asset impairment charges. The impairment in the Skin & Body Care segment represents a reduction in the carrying value of certain indefinite-lived trademarks acquired with the TJoy and Philosophy acquisitions of \$58.0 and \$130.6, respectively, and goodwill of \$384.4. These impairments were primarily attributable to reductions in both actual and projected cash flows of Skin & Body Care products related to our *TJoy* and *philosophy* product lines from what was originally anticipated at their acquisitions. At TJoy, these lower than projected cash flows were primarily caused by the early retirement of the TJoy CEO announced in August 2011 and effective as of December 31, 2011, and the related transition to new leadership during our third quarter fiscal 2012. In addition, during the second and third quarters of fiscal 2012, certain key sales representatives departed with the former TJoy CEO. At Philosophy, these lower than projected cash flows were primarily caused by a more modest contribution from new product launches in fiscal 2012 in the U.S. market, due to an innovation plan that was smaller in scope and less successful than expected, and a slowdown of brand sales momentum in certain key retailers. Furthermore, the expansion of the Philosophy business into certain international markets in fiscal 2012 was delayed due to a longer than expected product registration process in certain countries. See also Asset Impairment Charges.

Excluding asset impairment charges, operating income decreased \$35.0 to \$(4.8) from \$30.2, primarily reflecting a decline in TJoy's operating income. Excluding results from Philosophy and TJoy, operating income for the segment decreased \$8.6, or 96%. Despite higher net revenues, there was a decrease in operating income primarily driven by a decline in operating margin. Operating margin excluding acquisitions decreased by 1.8 percentage points to 0.1% of net revenues in fiscal 2012 as compared to 1.9% in fiscal 2011, primarily due to higher cost of sales as a percentage of net revenues more than offsetting improvement in selling, general and administrative expenses as a percentage of net revenues.

In fiscal 2011, operating income for Skin & Body Care increased 71%, or \$12.5, to \$30.2 from \$17.7 in fiscal 2010. Operating margin increased by 1.2 percentage points to 4.9% of net revenues in fiscal 2011 as compared to 3.7% in fiscal 2010. Excluding results from Philosophy and TJoy of \$21.2, operating income for the segment decreased 49% compared to fiscal 2010. The decrease in operating income reflects lower net revenues and a decline in operating margin. Operating margin excluding acquisitions decreased by 1.8 percentage points to 1.9% of net revenues in fiscal 2011 as compared to 3.7% in fiscal 2010, primarily driven by higher selling, general and administrative expenses as a percentage of net revenues, partially offset by improvement in cost of sales and asset impairment charges as percentages of net revenues.

#### *Corporate*

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

Corporate includes share-based compensation expense adjustment included in the calculation of Adjusted Operating Income of \$109.9, \$64.9 and \$47.3 in fiscal 2012, 2011 and 2010, respectively, relating to (i) the difference between share-based compensation expense accounted for under equity plan accounting, and under liability plan accounting for the recurring nonqualified stock option awards and director-owned and employee-owned shares, restricted shares and restricted stock units and (ii) all costs associated with the special incentive awards granted in fiscal 2012 and 2011. Vesting of the special incentive awards is dependent upon the occurrence of (i) an initial public offering within five years of the grant date, or (ii) if an initial public offering has not occurred on the fifth



anniversary of the grant date, upon achievement of a target fair value of our share price and the completion of five years of service subsequent to the grant date.

### *Adjusted Operating Income*

We believe that Adjusted Operating Income further enhances the investor's understanding of our performance. See Summary Consolidated Financial Data Non-GAAP Financial Measures. Reconciliation of reported operating income to Adjusted Operating Income:

(in millions)	Year Ended June 30,			Change %	
	2012	2011	2010	2012/2011	2011/2010
<b>Reported Operating (Loss) Income</b>	\$ (209.5)	\$ 280.9	\$ 184.5	<(100 %)	52 %
<i>% of Net revenues</i>	(4.5 %)	6.9 %	5.3 %		
Share-based compensation expense adjustment	109.9	64.9	47.3	69 %	37 %
<b>Reported Operating (Loss) Income adjusted for share-based compensation adjustment</b>	\$ (99.6)	\$ 345.8	\$ 231.8	<(100 %)	49 %
<i>% of Net revenues</i>	(2.2 %)	8.5 %	6.7 %		
Other adjustments:					
Asset impairment charges	575.9		5.3	N/A	N/A
Acquisition-related costs <sup>(a)</sup>	18.7	46.8	5.2	(60 %)	>100 %
Business structure realignment programs	12.9	7.2	11.5	79 %	(37 %)
Real estate consolidation program	12.4			N/A	N/A
Restructuring costs	11.1	30.5	30.6	(64 %)	0 %
Public entity preparedness costs	4.5	2.1		>100 %	N/A
Total other adjustments to Reported Operating (Loss) Income	635.5	86.6	52.6	>100 %	65 %

<b>Adjusted Operating Income</b>	<b>\$ 535.9</b>	<b>\$ 432.4</b>	<b>\$ 284.4</b>	<b>24 %</b>	<b>52 %</b>
<i>% of Net revenues</i>	<i>11.6 %</i>	<i>10.6 %</i>	<i>8.2 %</i>		

- (a) Acquisition-related costs include items in addition to what is recorded in acquisition-related costs of \$10.3, \$20.9 and \$5.2 for fiscal 2012, 2011 and 2010, respectively, in the Consolidated Statements of Operations. Additional items include internal integration costs and acquisition accounting impacts. See Acquisition-Related Costs.

In fiscal 2012, Adjusted Operating Income increased 24%, or \$103.5, to \$535.9 from \$432.4 in fiscal 2011. Adjusted operating margin improved 1.0 point as a percentage of net revenues to 11.6% of net revenues in fiscal 2012 as compared to 10.6% in fiscal 2011. Excluding operating income attributable to the 2011 Acquisitions, Adjusted Operating Income increased 20%, or \$72.4, to \$426.6 in fiscal 2012 from \$354.2 in fiscal 2011. This increase reflects strong net revenues growth and improvement in operating margin of 1.1 points as a percentage of net revenues primarily reflecting lower selling, general and administrative expenses as a percentage of net revenues.

In fiscal 2011, Adjusted Operating Income increased 52%, or \$148.0, to \$432.4, from \$284.4 in fiscal 2010. Adjusted operating margin improved 2.4 points as a percentage of net revenues to 10.6% of net revenues as compared to 8.2% in fiscal 2010. Excluding the \$78.2 of operating income attributable to the 2011 Acquisitions, Adjusted Operating Income increased 25%, or \$69.8, to \$354.2. This increase reflects strong net revenues growth and 1.3 points as a percentage of net revenues of operating margin improvement. Savings in cost of sales as a percentage of net revenues partially offset by higher advertising and consumer promotion spending as discussed above, contributed to the improvement.

#### *Share-Based Compensation Adjustment*

Share-based compensation expense, as currently calculated under liability plan accounting, was \$142.6, \$88.5 and \$65.9 in fiscal 2012, 2011 and 2010, respectively, and was included in selling, general and administrative expenses in the Consolidated Statements of Operations. The increase in the share-based compensation expense in fiscal 2012 compared to fiscal 2011 primarily reflects the





impact of an increase in the underlying value of common stock on the share-based awards, with most of the change attributable to the fair value adjustment on common stock purchased by the members of the Board of Directors as part of a share purchase program introduced in September 2011. The increase in the share-based compensation expense in fiscal 2011 compared to fiscal 2010 primarily reflects an increase in our share price. See *Critical Accounting Policies and Estimates Common Stock Valuations* for a description of the factors that impact the valuation of our common stock.

Share-based compensation expense adjustment included in the calculation of the Adjusted Operating Income was \$109.9, \$64.9 and \$47.3 in fiscal 2012, 2011 and 2010, respectively. Share-based compensation expense adjustment consists of (i) the difference between share-based compensation expense accounted for under equity plan accounting and under liability plan accounting for the recurring nonqualified stock option awards and director-owned and employee-owned shares, restricted shares and restricted stock units and (ii) all costs associated with the special incentive awards granted in fiscal 2012 and 2011. Vesting of the special incentive awards is dependent upon the occurrence of (i) an initial public offering within five years of the grant date, or (ii) if an initial public offering has not occurred on the fifth anniversary of the grant date, upon achievement of a target fair value of our share price and the completion of five years of service subsequent to the grant date. See *Critical Accounting Policies and Estimates Share-Based Compensation*. 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 *Summary Consolidated Financial Data 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 restricted stock units 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 Consolidated Financial Statements.

Upon completion of our initial public offering, we will account for share-based compensation under equity plan accounting. See *Critical Accounting Policies and Estimates Share-Based Compensation*. To improve consistency of results before and after our initial public offering, as well as to improve comparability with other publicly traded companies, we only include share-based compensation under equity plan accounting on the recurring awards in Adjusted Operating Income.

#### *Asset Impairment Charges*

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

For TJoy, where the trademark impairment charge was \$58.0, our business performance was impacted by the retirement of the TJoy CEO, announced in August 2011 and effective as of December 31, 2011, and the related transition to new leadership during our third quarter of fiscal 2012. In addition, during the second and third quarters of fiscal 2012, certain key sales representatives departed with the former TJoy CEO.

For Philosophy, where the trademark impairment charge was \$130.6, reductions in our projections were caused by lower than projected net revenues in the U.S. market, due to an innovation plan that was smaller in scope and less successful than expected, and a slowdown of brand sales momentum in certain key retailers. Furthermore, the expansion of the Philosophy business into certain international markets anticipated in fiscal 2012 was delayed due to a longer than expected product registration process in certain countries, contributing significantly to a



reduction in current and long-term projected net revenues of the business and its resultant fair value. In spite of the above issues, Philosophy sales in fiscal 2012 were marginally ahead of the prior year. We are working intensely to address the above issues by focusing on product innovation and expansion into new geographies.

The Prestige Skin & Body Care reporting unit also incurred a goodwill impairment charge of \$384.4, resulting from the events described above impacting Philosophy projections, coupled with a delay in anticipated cost savings associated with consolidating our worldwide research and development, manufacturing, distribution and marketing operations for the Philosophy business into our existing operations. We still anticipate completing the costs savings initiatives associated with the Philosophy business integration; however, the initiatives have been delayed while we focus resources on global technology initiatives that are required before completing this integration.

In fiscal 2010, asset impairment charges of \$5.3 were reported in the Consolidated Statements of Operations, \$5.0 of which were included in the Skin & Body Care segment and \$0.3 of which were included in the Color Cosmetics segment. The impairment charges were recorded as a result of management's decision to discontinue the use of certain machinery based on economic conditions.

#### *Acquisition-Related Costs*

In fiscal 2012, we incurred acquisition-related costs of \$18.7 in connection with the 2011 Acquisitions as well as certain due diligence and acquisition-related costs incurred in connection with certain contemplated acquisitions that were withdrawn. These costs include internal integration costs of \$7.9, transaction-related costs of \$10.3, and \$0.5 related to acquisition accounting impacts of revaluation of acquired inventory. The internal integration costs include \$6.8 of expense related to amortization of a deferred brand growth charge in connection with the TJoy acquisition that was included in amortization expense in the Consolidated Statements of Operations and \$1.1 of costs related to consulting, legal services and travel included in selling, general and administrative expenses in the Consolidated Statements of Operations. Transaction-related costs represent external costs directly related to acquiring a company, for both completed and contemplated business combinations and can include expenditures for finder's fees, legal, accounting, valuation and other professional or consulting fees which are included in acquisition-related costs in the Consolidated Statements of Operations. In connection with the acquisitions, we recorded acquired net assets at fair value, including a fair value increase of inventories acquired of \$0.5. This fair value increase of inventory resulted in an increase in cost of sales in the Consolidated Statements of Operations as the inventory was sold following the acquisition.

In fiscal 2011, we incurred acquisition related costs of \$46.8 in connection with the 2011 Acquisitions. These costs include \$20.3 related to acquisition accounting impacts of revaluation of acquired inventory, transaction-related costs of \$18.4 and integration costs of \$8.1. In connection with the 2011 Acquisitions, we recorded acquired net assets at fair value, including a fair value increase of inventories acquired of \$20.3. This fair value increase of inventory resulted in an increase in cost of sales in the Consolidated Statements of Operations as the inventory was sold following the acquisition. Transaction-related costs represent external costs directly related to the acquisitions and primarily include expenditures for banking, legal, accounting and other similar services which are included in acquisition-related costs in the Consolidated Statements of Operations. The integration costs include \$2.5 of external costs related to consulting, system integrations and other professional services that are included in acquisition-related costs in the Consolidated Statements of Operations, \$2.2 of costs related to travel and consulting included in selling, general and administrative expenses in the Consolidated Statements of Operations, and \$3.4 of expense related to amortization of a deferred brand growth charge in connection with the TJoy acquisition which is included in amortization expense in the Consolidated Statements of Operations.

In fiscal 2010, we incurred professional fees and expenses associated with the acquisitions of TJoy and the Russian distribution business of \$4.9 and \$0.3, respectively, which were recorded in acquisition-related costs in the Consolidated Statements of Operations.

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

*Business Structure Realignment Programs*

In fiscal 2012, we incurred business structure realignment program costs of \$12.9 which consist of costs related to structural reorganization in Geneva related to the creation of a fragrance Center of Excellence for research and development and the centralization of global supply chain management in Geneva of \$7.0, of which \$0.5 consisted of accelerated depreciation, costs incurred in connection with the buy-back of distribution rights for a brand in selected EMEA markets of \$4.5 and costs related to certain other programs in North America of \$1.4, of which \$0.4 consisted of accelerated depreciation.

In fiscal 2011, we incurred business structure realignment program costs of \$7.2 which consist of accelerated asset depreciation resulting from a change in the estimated useful life of a manufacturing facility of \$5.6 and costs related to structural reorganization in Geneva, as discussed above, of \$1.6.

In fiscal 2010, we incurred business structure realignment program costs of \$11.5 which consist of accelerated asset depreciation resulting from a change in the estimated useful life of a manufacturing facility of \$10.5 and costs related to structural reorganization in Geneva, as discussed above, of \$1.0.

In all reported periods, all business structure realignment program costs were recorded in selling, general and administrative expenses in the Consolidated Statements of Operations and were included in Corporate.

*Real Estate Consolidation Program*

In fiscal 2012, we incurred \$12.4 of costs in connection with the consolidation of real estate in New York. The real estate consolidation program costs primarily consist of \$6.1 of accelerated depreciation and \$5.0 of lease loss expenses. These costs were recorded in selling, general and administrative expenses in the Consolidated Statements of Operations and were included in Corporate. We expect to incur additional costs associated with the consolidation of real estate in New York in fiscal 2013 and 2014 and we anticipate these costs to be larger than those expensed in the current fiscal year. We expect the real estate consolidation program to be completed in fiscal 2014.

*Restructuring Costs*

Restructuring costs for fiscal 2012, 2011 and 2010 are presented below:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
Acquisition Integration Programs	\$ 3.8	\$ 18.5	\$
2009 Cost Savings Program	7.3	12.0	30.6
	\$ 11.1	\$ 30.5	\$ 30.6

Acquisition Integration Programs

In connection with the acquisition of Dr. Scheller, we initiated an Acquisition Integration Program in fiscal 2011. Actions and cash payments associated with the program were initiated after the acquisition of Dr. Scheller and were completed in fiscal 2012 with cash payments expected to continue through 2013. The program aggregated restructuring charges of \$13.5 before taxes. Charges of \$0.4 and \$8.2, relating to the elimination of approximately 90 positions, were incurred in fiscal 2012 and 2011, respectively. Charges of \$1.1 and \$3.8, relating to the termination of third-party contracts and other exit costs, were incurred in fiscal 2012 and 2011, respectively.

In connection with the TJoy, OPI and Philosophy acquisitions, we terminated manufacturing and distribution agreements with several third parties. These terminations resulted in \$2.3 and \$6.5 in third-party contract termination fees incurred in fiscal 2012 and 2011, respectively.

Total charges of \$3.8 and \$18.5 were recorded in restructuring costs in fiscal 2012 and 2011, respectively, in the Consolidated Statements of Operations. These charges were included in Corporate. The aggregate restructuring charges for the program are presented below:

	<b>Severance and Employee Benefits</b>	<b>Third-Party Contract Terminations</b>	<b>Other Exit Costs</b>	<b>Total Integration Costs</b>
2011	\$ 8.2	\$ 10.0	\$ 0.3	\$ 18.5
2012	0.4	3.5	(0.1 )	3.8
Charges recorded through June 30, 2012	\$ 8.6	\$ 13.5	\$ 0.2	\$ 22.3

### 2009 Cost Savings Program

During fiscal 2009, our Board of Directors approved the 2009 Cost Savings Program (the Program), designed to reduce ongoing costs and improve our operating profit margins. The Program aggregated restructuring charges of \$89.0 before taxes. The Program includes organizational headcount reductions, workforce realignments and outsourcing of certain North American manufacturing and distribution operations. The Program, which reflects a workforce reduction of approximately 900 employees, commenced in fiscal 2009. The Program was completed in fiscal 2012 with cash payments expected to continue through fiscal 2015.

Total charges of \$7.3, \$12.0 and \$30.6 were recorded in restructuring costs in fiscal 2012, 2011 and 2010, respectively, in the Consolidated Statements of Operations. These charges were included in Corporate. The aggregate restructuring charges for the Program are presented below:

	<b>Severance and Employee Benefits</b>	<b>Third-Party Contract Terminations</b>	<b>Other Exit Costs</b>	<b>Total Integration Costs</b>
2009	\$ 35.3	\$ 2.4	\$ 1.4	\$ 39.1
2010	26.5	1.6	2.5	30.6
2011	5.8	0.6	5.6	12.0
2012	6.4	0.5	0.4	7.3
Charges recorded through June 30, 2012	\$ 74.0	\$ 5.1	\$ 9.9	\$ 89.0

In addition to the Program charges reflected above, we recorded accelerated depreciation of \$5.6 and \$10.5 in fiscal 2011 and 2010, respectively, resulting from a change in the estimated useful life of a manufacturing facility.

### *Public Entity Preparedness Costs*

In fiscal 2012, we incurred public entity preparedness costs of \$4.5 primarily consisting of consulting, audit, legal, filing and printing costs associated with preparation and filing of the registration statement and consulting costs related to Sarbanes-Oxley compliance.

In fiscal 2011, we incurred public entity preparedness costs of \$2.1 primarily consisting of consulting fees associated with preparation for public entity reporting requirements and Sarbanes-Oxley compliance.

In all reported periods, all public entity preparedness costs were recorded in selling, general and administrative expenses in the Consolidated Statements of Operations and were included in Corporate.



INTEREST EXPENSE

Interest expense includes interest expense-related party and interest expense, net.

In fiscal 2012, net interest expense was \$89.6 as compared with \$91.5 in fiscal 2011. Interest expense decreased primarily due to lower debt balances and higher interest income on higher cash and cash equivalents. Interest expense in fiscal 2012 includes \$7.0 primarily related to the accretion of the obligations related to the purchase of TJoy that we do not expect to reoccur in the future.

In fiscal 2011, net interest expense was \$91.5 as compared with \$73.6 in fiscal 2010. Interest expense increased primarily due to the increase of debt balances related to the funding of acquisitions and nonrecurring acquisition-related activities, including \$3.6 related to securing the

availability of funds and \$5.5 primarily related to the accretion of the obligations related to the purchase of TJoy.

#### OTHER EXPENSE, NET

In fiscal 2012, other expense (income), net was \$32.0 as compared with \$4.4 in fiscal 2011. The increase in expense primarily reflects a loss in fiscal 2012 of \$37.4 on a foreign currency contract to hedge foreign currency exposure associated with an acquisition opportunity that was withdrawn. Partially offsetting this loss was a \$7.6 change, from a loss of \$3.8 in fiscal 2011 to a gain of \$3.8 in fiscal 2012 related to other foreign currency exchange contracts.

In fiscal 2011, other expense (income), net was \$4.4 as compared with \$(8.8) in fiscal 2010. The change primarily reflects foreign currency exchange transaction losses in fiscal 2011 compared to foreign currency exchange transaction gains in fiscal 2010.

#### INCOME TAXES

The following table presents our provision for income taxes, and effective tax rates for the periods presented:

	<b>2012</b>	<b>2011</b>	<b>2010</b>
(Benefit) provision for income taxes	\$ (37.8 )	\$ 95.1	\$ 32.4
Effective income tax rate	11.4 %	51.4 %	27.1 %

The effective income tax rate for fiscal 2012 was 11.4% as compared with 51.4% in fiscal 2011 and 27.1% in fiscal 2010. The effective income tax rate in fiscal 2012 reflects tax expense of \$14.9 associated with the inclusion in U.S. income of the activities of certain foreign subsidiaries, \$80.1 associated with asset impairment charges and \$27.9 associated with the non-deductibility of certain share-based compensation. The effective income tax rate in fiscal 2011 reflects tax expense of \$14.0 associated with the movement of cash from certain international subsidiaries and \$41.9 associated with the inclusion in U.S. income of the activities of certain foreign subsidiaries. The effective income tax rate in fiscal 2010 reflects benefits of \$24.5 related to the reversal of tax expense recorded in the prior period associated with the movement of cash from certain international subsidiaries and tax expense of \$45.3 associated with the inclusion in U.S. of the activities of certain foreign subsidiaries.

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.

#### NET INCOME ATTRIBUTABLE TO COTY INC.

In fiscal 2012, net income attributable to Coty Inc. decreased \$386.1, to \$(324.4), from \$61.7 in fiscal 2011. This decrease primarily reflects lower operating income partially offset by lower income tax expense (as discussed above).

In fiscal 2011, net income attributable to Coty Inc. remained flat compared to fiscal 2010, primarily reflecting increased interest expense, other expense, net, and tax expense (as discussed above), offset by the improvement in operating income.

We believe that Adjusted Net Income Attributable to Coty Inc. provides an enhanced understanding of our performance. See Summary Consolidated Financial Data Non-GAAP Financial Measures.



(in millions)	Year Ended June 30,			Change %	
	2012	2011	2010	2012/2011	2011/2010
<b>Reported Net (Loss) Income Attributable to Coty Inc.</b>	<b>\$ (324.4)</b>	<b>\$ 61.7</b>	<b>\$ 61.7</b>	<b>&lt;(100 %)</b>	<b>0 %</b>
<i>% of Net revenues</i>	<i>(7.0 %)</i>	<i>1.5 %</i>	<i>1.8 %</i>		
Share-based compensation expense adjustment <sup>(a)</sup>	109.9	64.9	47.3	69 %	37 %
Change in tax provision due to share-based compensation expense adjustment	(12.0)	(14.4)	(10.2)	17 %	(41 %)
<b>Net (Loss) Income adjusted for share-based compensation expense adjustment</b>	<b>(226.5)</b>	<b>112.2</b>	<b>98.8</b>	<b>&lt;(100 %)</b>	<b>14 %</b>
<i>% of Net revenues</i>	<i>(4.9 %)</i>	<i>2.7 %</i>	<i>2.8 %</i>		
Other adjustments to Reported Net (Loss) Income Attributable to Coty Inc.:					
Other adjustments to Operating (Loss) Income <sup>(a)</sup>	635.5	86.6	52.6	>100 %	65 %
Loss on foreign currency contract <sup>(b)</sup>	37.4			N/A	N/A
Acquisition-related interest expense <sup>(c)</sup>	7.0	9.1		(23 %)	N/A
Total other adjustments to Reported Net (Loss) Income Attributable to Coty Inc.	679.9	95.7	52.6	>100 %	82 %
Change in tax provision due to other adjustments to	(167.6)	(28.8)	(18.8)	<(100 %)	(54 %)

Reported Net (Loss) Income Attributable to Coty Inc.					
Tax impact on foreign income inclusion <sup>(d)</sup>	14.9	41.9	45.3	(64 %)	(8 %)
Tax impact on intercompany borrowing <sup>(e)</sup>		14.0	(24.5 )	(100 %)	>100 %
<b>Adjusted Net Income Attributable to Coty Inc.</b>	<b>\$ 300.7</b>	<b>\$ 235.0</b>	<b>\$ 153.4</b>	<b>28 %</b>	<b>53 %</b>
<i>% of Net revenues</i>	<i>6.5 %</i>	<i>5.8 %</i>	<i>4.4 %</i>		

(a) See Reconciliation of Operating Income to Adjusted Operating Income in Management's Discussion and Analysis of Financial Condition and Results of Operations.

(b) Loss on foreign currency contract to hedge foreign currency exposure associated with a contemplated acquisition opportunity that was withdrawn. This amount is included in other

expense, net in the Consolidated Statements of Operations.

(c) Interest expense for fiscal 2012 associated with the obligations related to the purchase of TJoy. For fiscal 2011, interest expense associated with the obligations related to the purchase of TJoy and a one-time expense to secure availability of funds under a \$700.0 90-day credit facility for the 2011 Acquisitions. These amounts are included in interest expense, net in the Consolidated Statements of Operations.

(d) Reflects an adjustment to our tax provision equal to the tax expense associated with certain foreign income that was subject to tax in the U.S. during fiscal 2011 and 2010 under the provisions of Internal Revenue Code Sections

951 through 954  
( Subpart F ), but  
that should no  
longer be subject  
to Subpart F as a  
result of  
structural  
changes in our  
organization.  
Effective fiscal  
2012, we created  
a fragrance  
Center of  
Excellence for  
research and  
development and  
centralized  
global supply  
chain  
management in  
Geneva,  
Switzerland. As  
a result of these  
changes to our  
organizational  
and management  
structure,  
Subpart F should  
no longer apply  
to income  
associated with  
our operations in  
Geneva and,  
accordingly, tax  
expense  
associated with  
certain  
foreign-based  
income will be  
reduced in the  
future. This  
change is  
reflected in the  
provision for  
income taxes in  
the Consolidated  
Statements of  
Operations for  
periods  
following its  
implementation.

- (e) Reflects tax expense associated with the short-term intercompany borrowing arrangements entered into between us and certain foreign subsidiaries during fiscal 2011 and 2009 in connection with unanticipated acquisition and other opportunities. Under the provisions of Internal Revenue Code Sections 951 through 956, these short-term borrowings were considered a deemed dividend and resulted in a tax expense of \$14.0 and \$35.2 in fiscal 2011 and 2009, respectively. In fiscal 2010, a portion of the 2009 short-term borrowing was repaid, resulting in a tax benefit of \$24.5.



Both fiscal  
2011 and  
2009  
borrowings  
have been  
repaid in full.  
The 2011 tax  
expenses and  
2010 tax  
benefit are  
described in  
further detail  
in Note 14,  
Income  
Taxes to the  
Consolidated  
Financial  
Statements  
and are  
included in  
provision for  
income taxes  
in the  
Consolidated  
Statements of  
Operations.

## **FINANCIAL CONDITION**

### **LIQUIDITY AND CAPITAL RESOURCES**

#### ***Overview***

Our primary sources of funds are 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 March 31, 2013, we had cash and cash equivalents of \$782.9 compared with \$609.4 and \$510.8 at June 30, 2012 and 2011, respectively. It is our intention to permanently reinvest undistributed earnings and profits from our foreign operations that have been generated through March 31, 2013, and our future plans do not demonstrate a need to repatriate the foreign amounts to fund U.S. operations. Our cash and cash equivalents balance at March 31, 2013 includes approximately \$767.2 of cash held by foreign operations compared with \$605.0 and \$505.0 as of June 30, 2012 and 2011, respectively, associated with our permanent reinvestment strategy. We do not believe the reinvestment of these funds impairs our ability to meet our domestic debt or working capital obligations. All foreign cash is readily convertible into other foreign currencies, including U.S. dollars. If the foreign cash is needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds.

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 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 our Consolidated Balance Sheets, 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. Our principal stockholders have also been available as an additional source of capital in support of our liquidity needs, but they are under no obligation to provide any additional capital.

**Debt**

	<b>March 31, 2013</b>	<b>June 30, 2012</b>	<b>2011</b>
Short-term debt	\$ 42.2	\$ 56.7	\$ 32.2
Coty Inc. Credit Facility due August 2015 <sup>(a)</sup>			
Term Loan	1,156.3	1,250.0	1,150.0
Revolving Loan Facility	835.0	653.5	
Global Revolving Loan Facility			680.0
Domestic Revolving Loan Facility			260.0
Senior Notes			
5.12% Series A notes due June 2017	100.0	100.0	100.0
5.67% Series B notes due June 2020	225.0	225.0	225.0
5.82% Series C notes due June 2022	175.0	175.0	175.0
Capital lease obligations	0.1	0.1	0.2
<b>Total debt</b>	<b>2,533.6</b>	<b>2,460.3</b>	<b>2,622.4</b>
Less: Short-term debt and current portion of long-term debt	(42.2 )	(190.1 )	(47.3 )
<b>Total Long-term debt</b>	<b>\$ 2,491.4</b>	<b>\$ 2,270.2</b>	<b>\$ 2,575.1</b>

(a) We refinanced our Credit Facility due August 2015 in April 2013, as described below.

**Short-Term Debt**

As of March 31, 2013, we had short-term lines of credit available of \$197.6 of which \$42.2 was outstanding. Interest rates on amounts borrowed under these short-term lines varied between 0.5% and 6.3% during the nine months ended March 31, 2013. In addition, we had undrawn letters of credit of \$3.3 as of March 31, 2013.

As of June 30, 2012, we had short-term lines of credit available of \$178.0 of which \$56.7 was outstanding. As of June 30, 2011, we had short-term lines of credit available of \$203.7 of which \$32.2 was outstanding. Interest rates on amounts borrowed under these short-term lines varied between 0.7% and 9.3% during fiscal 2012 and between 1.0% and 7.1% for fiscal 2011. In addition, we had undrawn letters of credit of \$3.0 and \$2.8 as of June 30, 2012 and 2011, respectively.

**Long-Term Debt**

On April 2, 2013, we refinanced our then-existing credit facility, entering into our current credit agreement with JP Morgan Chase Bank, N.A. as administrative agent and Bank of America, N.A., BNP Paribas, Crédit Agricole Corporate & Investment Bank, Deutsche Bank Securities Inc., ING Bank N.V., Morgan Stanley MUFG Loan Partners, LLC and Wells Fargo Bank, N.A., as syndication agents. The new credit agreement (the 2013 Credit Agreement ) expires on April 2, 2018 and provides (i) a term loan of \$1,250.0 (the 2013 Term Loan ) and (ii) a revolving loan facility of \$1,250.0 (the 2013 Revolving Loan Facility ). Rates of interest on amounts borrowed under the 2013 Credit Agreement are based on the London Interbank Offer 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 our consolidated leverage ratio. Applicable spreads on our borrowings under the 2013 Credit Agreement may range from 0.0% to 1.5%. In addition to interest on amounts borrowed under the 2013 Credit Agreement, we will pay a quarterly commitment fee, as defined in the 2013 Credit Agreement, on the 2013 Revolving Loan Facility that can range from 0.15% to 0.225%. Quarterly repayments of the 2013 Term Loan will commence on July 1, 2015 and will total 10% in fiscal 2016, 20% in fiscal 2017 and 70% in fiscal 2018. The 2013 Revolving Loan Facility is payable in full in fiscal 2018. We used the proceeds from the 2013 Credit Agreement to repay amounts outstanding under the 2011 Credit Agreement described below and for general corporate purposes.

On August 22, 2011, we refinanced our then-existing credit facility, entering into a credit agreement with JP Morgan Chase Bank, N.A. as administrative agent and Bank of America, N.A. and Wells Fargo Bank, N.A. as co-syndication agents (the 2011 Credit Agreement ). By its terms, the 2011 Credit Agreement would have expired on August 22, 2015. The 2011 Credit Agreement provided a term loan of \$1,250.0 (the 2011 Term Loan ) and a revolving loan facility of \$1,250.0 (the 2011 Revolving Loan Facility ). Rates of interest on amounts borrowed under the 2011 Credit Agreement were based on either 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 our consolidated leverage ratio or, if applicable, our credit rating by Moody's or S&P. Applicable spreads on our borrowings under the 2011 Credit Agreement could have ranged from 0.05% to 2.5%. In addition to interest on amounts borrowed under the 2011 Credit Agreement, we paid a quarterly commitment fee, as defined in the 2011 Credit Agreement, on the 2011 Revolving Loan Facility that could have ranged from 0.2% to 0.4%. The weighted-average effective interest rate for our borrowings under the 2011 Credit Agreement was 1.8% as of March 31, 2013 compared with 1.9% as of June 30, 2012. The 2011 Credit Agreement required us to repay the 2011 Term Loan in quarterly installments beginning on September 30, 2012. These quarterly installments would have been equivalent to 10.0% of the 2011 Term Loan in fiscal 2013, 20.0% in fiscal 2014, 52.5% in fiscal 2015 and 17.5% in fiscal 2016. The 2011 Revolving Loan Facility would have been payable in full in fiscal 2016. The proceeds from the 2011 Credit Agreement were used to repay existing debt and for general corporate purposes. In August 2011, we wrote-off \$1.4 of deferred financing fees associated with the refinancing, which was included in interest expense, net in the Consolidated Statements of Operations for fiscal 2012. As of March 31, 2013, we had \$1,156.3 outstanding on the 2011 Term Loan and \$835.0 outstanding on the 2011



Revolving Loan Facility compared with \$1,250.0 outstanding on the 2011 Term Loan and \$653.5 outstanding on the 2011 Revolving Loan Facility from the 2011 Credit Agreement as of June 30, 2012. As of March 31, 2013, we had \$415.0 available for borrowings compared with \$596.5 as of June 30, 2012.

On June 16, 2010, we issued \$500.0 of Senior Secured Notes (the "Senior Notes") in three series in a private placement transaction pursuant to a Note Purchase Agreement (the "NPA"): (i) \$100.0 in aggregate principal amount of 5.12% Series A Senior Secured Notes due June 16, 2017, (ii) \$225.0 in aggregate principal amount of 5.67% Series B Senior Secured Notes due June 16, 2020 and (iii) \$175.0 in aggregate principal amount of 5.82% Series C Senior Secured Notes due June 16, 2022. Interest payments are payable semi-annually in December and June. In connection with the refinancing of our credit facility in August 2011, the liens that secured the Senior Notes were released as provided in the NPA.

The 2011 Credit Agreement contained, and the 2013 Credit Agreement and the NPA contain, customary representations and warranties and customary affirmative and negative covenants, including, among other things, restrictions on incurrence of additional debt, liens, dividends and other restricted payments, asset sales, investments, mergers, acquisitions and affiliate transactions. Events of default permitting acceleration under the 2011 Credit Agreement included, and under the 2013 Credit Agreement and NPA include, among others, nonpayment of principal or interest, covenant defaults, material breaches of representations and warranties, bankruptcy and insolvency events and certain cross defaults. In addition, a change of control was a default under the 2011 Credit Agreement, is a default under the 2013 Credit Agreement and requires a prepayment offer under the NPA. Financial covenants in the 2011 Credit Agreement required us to maintain, and in the 2013 Credit Agreement and the NPA require us to maintain, at the end of each fiscal quarter, a consolidated leverage ratio of consolidated total debt to consolidated EBITDA, as these terms are defined in the 2013 Credit Agreement, the 2011 Credit Agreement and the NPA, equal to or less than 3.5 to 1.0 for the previous 12-month period and a consolidated interest coverage ratio equal to or greater than 3.0 to 1.0 for the previous 12-month period, except that the 2013 Credit Agreement permits us to maintain a consolidated leverage ratio equal to or less than 4.0 to 1.0 for the 12-month period following a material acquisition, as defined in the 2013 Credit Agreement.

We entered into an amendment to our then-existing credit facility (the "Former Credit Agreement") in December 2010, and a waiver to our NPA in March 2011, for purposes of calculating our compliance with our financial covenants for the four quarterly periods from the quarter ended March 31, 2011 through the quarter ended December 31, 2011. The amendment and the waiver both amended the definition of "Consolidated EBITDA" to exclude restructuring and reorganization charges, including post-closing restructuring, reorganization and integration charges or costs related to the 2011 Acquisitions.

The waiver to the NPA expired after calculation of the December 31, 2011 financial covenants, at which time we were in compliance with all NPA financial covenants, and, as disclosed above, we refinanced the Former Credit Agreement in August 2011. The 2011 Credit Agreement amended the definition of "Consolidated EBITDA" to include add-backs similar to those contained in the amendment to the Former Credit Agreement and the waiver to the NPA to the extent such charges do not exceed 10% of "Consolidated EBITDA" in any rolling four quarter period. Upon expiration of the waiver, "Consolidated EBITDA" for the NPA has been automatically computed under its pre-waiver formulation, which includes an add-back for restructuring and reorganization charges, to the extent those charges are added back under our credit facility and the charges do not exceed \$25 million in any rolling four quarter period.

We do not expect transaction and integration related costs from the 2011 Acquisitions, or the termination of the incurrence of these costs, to affect the financial covenants contained in the NPA or the 2013 Credit Agreement.

We were in compliance with all 2011 Credit Agreement and NPA financial covenants as of March 31, 2013 and June 30, 2012 and all Former Credit Agreement and NPA financial covenants, as they had been amended, as of June 30, 2011. Our consolidated leverage ratio was 2.3, 2.7 and 3.3 as of March 31, 2013, June 30, 2012 and 2011, respectively. Our consolidated interest coverage ratio



was 11.9, 8.5 and 8.1 as of March 31, 2013, June 30, 2012 and 2011, respectively. For a more detailed description of the covenants contained in our debt agreements, see Note 12, Debt in our notes to Consolidated Financial Statements.

Failure to comply with the financial and other covenants under the 2013 Credit Agreement and NPA may constitute a default and may allow the lenders to accelerate the maturity of all indebtedness under these agreements, in certain instances after an applicable cure period. If such acceleration were to occur, we may not have sufficient liquidity available to repay the indebtedness. We would likely have to seek amendments under these agreements for relief from the financial covenants or repay the debt with proceeds from the issuance of new debt or equity, and/or asset sales, if necessary.

We generally do not expect our current debt covenants to prevent us from undertaking additional debt or equity financing. However, should we decide to pursue an acquisition that requires financing that would result in a violation of our existing debt covenants, refusal of our current lenders to permit waivers or amendments to our existing covenants could delay or prevent consummation of our plans.

For additional details, see Description of Indebtedness.

#### **Notes Payable Related Party JAB Holdings B.V. ( JAB BV )**

As of June 30, 2010, we had \$455.5 in notes outstanding from JAB BV, a related party, comprising €160.0 million (\$195.5) and \$260.0. In July and September 2010, we repaid €160.0 million in the amounts of \$100.5 and \$104.5, respectively. Additionally, in September 2010, we repaid the remaining balance of \$260.0 of JAB BV notes outstanding. There were no JAB BV notes outstanding as of March 31, 2013, June 30, 2012 and 2011. The notes payable had variable interest rates ranging from 4.64% to 6.50%, during fiscal 2011. See Note 2, Summary of Significant Accounting Policies in our notes to Consolidated Financial Statements for related party disclosure.

#### **Cash Flows**

<b><u>Consolidated Statements of Cash Flows Data:</u></b>	<b>Nine Months Ended</b>	
	<b>March 31,</b>	
<b><u>(in millions)</u></b>	<b>2013</b>	<b>2012</b>
Net cash provided by operating activities	\$ 362.5	\$ 406.7
Net cash used in investing activities	(184.7 )	(293.5 )
Net cash used in financing activities	(3.6 )	(69.2 )
<i>Net cash provided by operating activities</i>		

Net cash provided by operating activities was \$362.5 and \$406.7 for the nine months ended March 31, 2013 and 2012, respectively. The decrease in operating cash inflow in the nine months ended March 31, 2013 is due primarily to a decrease in accounts payable of \$84.3 as a result of payments made during fiscal 2013 for higher inventory purchases and advertising and promotional expenses made through June of fiscal 2012, accrued expenses of \$114.7 mainly due to timing of payments to vendors. These decreases were offset by improved cash collections on our trade receivables of \$95.9 during the nine months ended March 31, 2013 compared to the nine months ended March 31, 2012 driven by a corporate program to identify and implement steps to improve trade receivables collections in countries with historically longer outstanding trade receivables and continue to improve trade receivables collections in our key markets, decrease in inventory of \$10.8, decrease in prepaid expenses of \$28.3 and increase in net income adjusted for non-cash items and related tax accruals of \$19.8. The increase in trade receivables between June 30, 2012 and March 31, 2013 is the result of the seasonality in our business and the decrease in trade receivables between March 31, 2012

and March 31, 2013 is primarily due to improvements in trade receivables collections.



*Net cash used in investing activities*

Net cash used in investing activities was \$184.7 and \$293.5 for the nine months ended March 31, 2013 and 2012, respectively. The decrease in investing cash outflows in the nine months ended March 31, 2013 is due to lower payments for acquisitions of \$102.9. Cash flows from investing activities for the nine months ended March 31, 2013 include \$18.2 paid for 8% of TJoy shares and the deferred brand growth liability and \$8.0 for license rights to distribute a celebrity's existing fragrance portfolio and develop new fragrances compared to \$129.1 paid during the nine months ended March 31, 2012 for 32% of TJoy shares. Additionally, the decrease in investing cash outflows is due to the proceeds from a sale of an asset of \$25.0 related to the termination of one of our licenses by mutual agreement with the original licensor. This decrease is offset by higher capital expenditures of \$19.3.

*Net cash used in financing activities*

Net cash used in financing activities was \$3.6 and \$69.2 for the nine months ended March 31, 2013 and 2012, respectively. The decrease in financing cash outflows in the nine months ended March 31, 2013 is primarily due to an increase in net proceeds from our debt instruments of \$217.5. Cash flows from financing activities for the nine months ended March 31, 2012 includes a payment of \$16.3 for deferred financing fees associated with the credit agreement refinancing that did not reoccur in the nine months ended March 31, 2013. Additionally, the decrease in financing cash outflows is due to lower proceeds from issuance of common stock of \$122.3 related primarily to share purchase plan for Directors and lower disbursements to noncontrolling interests of \$8.2, which includes \$8.0 related to a purchase of the remaining outstanding common stock of our majority-owned subsidiary in Greece from our noncontrolling interest partner in the nine months ended March 31, 2012 that did not reoccur during the nine months ended March 31, 2013. This decrease is offset by a fiscal 2013 dividend payment of \$57.4.

<b><u>Consolidated Statements of Cash Flows Data:</u></b>	<b>Year Ended June 30,</b>		
	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b><u>(in millions)</u></b>			
Net cash provided by operating activities	\$ 589.3	\$ 417.5	\$ 494.0
Net cash used in investing activities	(333.9 )	(2,252.5 )	(149.9 )
Net cash (used in) provided by financing activities	(97.7 )	1,903.8	(7.0 )
<i>Net cash provided by operating activities</i>			

Net cash provided by operating activities was \$589.3, \$417.5 and \$494.0 for fiscal 2012, 2011 and 2010, respectively. The increase in operating cash inflows in fiscal 2012 compared with fiscal 2011 was a result of an increase in net revenue and net income adjusted for non-cash items, primarily asset impairment charges and share-based compensation, in addition to working capital improvement. The improvement in working capital was driven primarily by cash inflows due to the increase in accounts payable, tax accruals, and accrued expenses and other liabilities. The overall increase in cash inflows was partially offset by cash outflows caused by the increase in trade receivables, inventories, and prepaid expenses and other assets.

The decrease in operating cash inflows in fiscal 2011 compared with fiscal 2010 was a result of an increase in net revenue and net income adjusted for non-cash items (primarily depreciation and amortization, deferred income taxes, share-based compensation and foreign currency exchange mark to market changes), which were more than offset by an increase in working capital. The increase in working capital was mainly driven by an increase in inventories reflecting 2011 Acquisitions and the buildup of safety stock in preparation for the transition of the logistics management from our facilities in North Carolina to a third-party provider. Working capital deterioration compared to prior period also reflected an increase in prepaid expenses due to higher prepaid advertising and marketing expenses.



*Net cash used in investing activities*

Net cash used in investing activities was \$333.9, \$2,252.5 and \$149.9 for fiscal 2012, 2011 and 2010, respectively. The decrease in investing cash outflows in fiscal 2012 compared with fiscal 2011 was primarily due to lower payments for acquisitions offset by an increase in cash used for capital expenditures. Net cash used in investing activities for fiscal 2012 includes a payment of RMB 816 million (\$129.1) for 32% of TJoy shares, pursuant to the terms of the TJoy acquisition.

The increase in investing cash outflows in fiscal 2011 compared to the prior year period was primarily due to the acquisitions of Philosophy, OPI, Dr. Scheller and TJoy.

*Net cash (used in) provided by financing activities*

Net cash (used in) provided by financing activities was \$(97.7), \$1,903.8 and \$(7.0) for fiscal 2012, 2011 and 2010, respectively. The increase in financing cash outflow in fiscal 2012 as compared with fiscal 2011 was primarily due to current year increase in net repayments of the global and domestic revolvers and term loans, payment of deferred financing fees, acquisition of noncontrolling interest, and the equity infusion from JAB BV received in fiscal 2011. Cash outflows were partially offset by cash received from the issuance of common stock in the current year and debt repayment to JAB BV in the prior year.

The increase in financing cash inflows in fiscal 2011 as compared with fiscal 2010 was primarily due to the increase in debt and equity financing for the acquisitions of Philosophy, OPI, Dr. Scheller and TJoy partially offset by repayments of debt to JAB BV. Cash used in financing activities in fiscal 2010 primarily reflected the scheduled debt repayments to JAB BV, repayments of the loans under the credit facility offset by the issuance of Senior Notes.

***Pension and Post-Employment Plan Funding***

Our investment policies and strategies for plan assets are to achieve the greatest return consistent with the fiduciary character of the plan and to maintain a level of liquidity that is sufficient to meet the need for timely payment of benefits. The goals of the investment managers include minimizing risk and achieving growth in principal value so that the purchasing power of such value is maintained with respect to the rate of inflation.

The pension plan's return on assets is based on management's expectations of long-term average rates of return to be achieved by the underlying investment portfolios. In establishing this assumption, management considers historical and expected returns for the assets in which the plan is invested, as well as current economic and market conditions.

The asset allocation decision includes consideration of future retirements, lump-sum elections, growth in the number of participants, company contributions, and cash flow. These actual characteristics of the plan place certain demands upon the level, risk and required growth of trust assets. Actual asset allocation is regularly reviewed and periodically rebalanced to the strategic allocation when considered appropriate.

During the nine months ended March 31, 2013, we contributed approximately \$2.6 and \$6.8 to our U.S. and international pension plans, respectively, and \$1.2 to our other post-employment benefit plans. We expect to contribute approximately \$1.5 and \$2.3 to our U.S. and international pension plans, respectively and \$0.8 to our other post-employment benefit plans during the remainder of the fiscal year.

***Share-Based Compensation***

Our share-based compensation plans are accounted for as liability plans as they allow for cash settlement or contain put features to sell shares back to us for cash. Accordingly, share-based compensation expense is measured at the end of each reporting period based on the fair value of the award on each reporting date and is recognized as an expense to

the extent vested until the award is settled.

If the award is settled for shares, the shares are included in the number of shares of common stock outstanding. However, as the share-based compensation plans contain put features, the fair value of the shares is classified as either a liability, and included in accrued expenses and other current liabilities, or classified as redeemable common stock, provided that holders have retained the risks and rewards of share ownership for a reasonable period of time. The fair value of the shares is re-measured each reporting period date through selling, general and administrative expense as share-based compensation expense if the shares are classified as Accrued expenses and other current liabilities, or through additional paid-in capital if the shares are classified as redeemable common stock.

Our employee and director held common stock recorded as Redeemable common stock and Accrued expenses and other current liabilities were classified as follows:

	<b>March 31, 2013</b>	<b>June 30, 2012</b>	<b>2011</b>
Redeemable common stock	\$ 220.0	\$ 172.4	\$
Accrued expenses and other current liabilities	35.6	99.6	94.7
<b>Total employee and director held common stock</b>	<b>\$ 255.6</b>	<b>\$ 272.0</b>	<b>\$ 94.7</b>

### *Dividends*

On November 8, 2012, our Board of Directors declared a cash dividend of 15 cents per share, or approximately \$57.8, on our common stock, of which \$57.4 was paid on December 10, 2012. The remaining \$0.4 is payable upon vesting of shares of restricted stock and settlement of restricted stock units that had not vested as of December 10, 2012. There were no dividends paid or declared in fiscal 2012.

On June 14, 2011, our Board of Directors declared a cash dividend of €25.0 million, or approximately \$35.7 in aggregate or 10 cents per share of common stock. \$35.3 of the dividend was paid on outstanding common stock on June 28, 2011. The remaining \$0.4 was paid upon vesting of shares of restricted stock during the nine months ended March 31, 2013.

### *Contractual Obligations and Commitments*

Our principal contractual obligations and commitments as of June 30, 2012 are presented below:

<b>(in millions)</b>	<b>Total</b>	<b>Payments Due in Fiscal</b>					<b>Thereafter</b>
		<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	
Long-term debt obligations <sup>(a)</sup>	\$ 2,403.5	\$ 133.5	\$ 250.0	\$ 656.2	\$ 863.8	\$ 100.0	\$
Interest on long-term debt obligations <sup>(a)(b)</sup>	360.0	86.0	77.0	48.0	32.0	28.0	
Operating lease obligations	484.5	64.9	59.0	53.5	35.5	31.5	
License agreements: <sup>(c)</sup>							

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Royalty payments	292.9	33.3	29.0	26.5	20.0	18.7
Advertising and promotional spend obligations	304.3	83.1	63.8	46.9	27.6	19.4
Other contractual obligations <sup>(d)</sup>	171.2	86.2	11.6	9.4	9.2	9.1
TJoy acquisition-related liability <sup>(e)</sup>	38.8		38.8			
Other long-term obligations:						
Pension obligations (mandated) <sup>(f)</sup>	5.6	5.6				
Restructuring costs	12.0	11.5	0.4	0.1		
Total	\$ 4,072.8	\$ 504.1	\$ 529.6	\$ 840.6	\$ 988.1	\$ 206.7

- (a) As noted in Long-Term Debt, we refinanced our credit agreement in April 2013. Reflecting the refinancing, our payments on the long-term debt obligations and interest were updated and are presented below:

(in millions)	Total	Payments Due in Fiscal					Thereafter
		2013	2014	2015	2016	2017	
Long-term debt obligations	\$ 2,491.3	\$	\$	\$	\$ 125.0	\$ 350.0	\$ 2,016.3
Interest on long-term debt obligations <sup>(b)</sup>	429.0	26.0	67.0	65.0	72.0	73.0	126.0

- (b) Interest costs on our variable rate debt are determined based on an interest rate forecast using the forward interest rate curve and assumptions of the amount of debt outstanding. A 25 basis-point increase in our variable interest

rate debt would have increased our interest costs by \$7.0 over the term of our long-term debt. A 25 basis-point increase in our variable interest rate debt, reflecting the refinancing of our credit agreement, would increase our interest costs by \$23.3 over the term of our long-term debt.

- (c) Obligations under license agreements relate to royalty payments and required advertising and promotional spending levels for our products bearing the licensed trademark. Royalty payments are typically made based on contractually defined net sales. However, certain licenses require minimum guaranteed royalty payments regardless of sales levels. Minimum guaranteed royalty payments and required minimums for advertising and promotional spending have been included in the table above. Actual royalty payments and advertising and promotional spending are expected to be higher. Furthermore, early termination of any of these license agreements could result in potential cash outflows that have not been reflected above.



During the nine months ended March 31, 2013, we acquired an additional license for which we are obligated to make future payments of \$7.9 in total through fiscal 2017 and \$10.2 in total thereafter. Amounts for this additional license are not included in the table above.

- (d) Other contractual obligations primarily represent advertising/marketing, logistics and capital improvements commitments. We also maintain several distribution agreements for which early termination could result in potential future cash outflows that have not been reflected above.
- (e) During fiscal 2012, we commenced arbitration proceedings in Hong Kong to resolve claims with respect to the final amounts due under the Share Purchase Agreement between us and the seller of TJoy. On December 14, 2012, we paid \$18.2 of the TJoy acquisition-related liability, including the remaining 8% of the TJoy shares and deferred brand growth liability. On the same day we also deposited

\$21.0 into escrow accounts, to be held until resolution of arbitration proceedings, to cover claims with respect to final amounts due to and from the seller, if any, resulting from purchase price adjustments as well as other costs for which we are seeking indemnification under the Share Purchase Agreement. Based on the progress made in the arbitration proceedings during the third quarter of fiscal 2013 we revised our estimated settlement amount. During the fourth quarter of fiscal 2013, we settled the TJoy-related arbitration and subsequently received \$9.5 of cash from the escrow accounts. Payments of \$18.2 and \$21.0 and receipts of \$9.5 are not included in the table above.

- (f) Represents future contributions to our pension plans mandated by local regulations or statutes. See Note 17, Employee Benefit Plans in our notes to Consolidated Financial Statements for additional information on our benefit plans investment strategies and expected contributions and for information regarding

our total underfunded  
pension and  
post-employment  
benefit plans of \$253.8  
at June 30, 2012.

The table above excludes obligations for uncertain tax benefits as we are unable to predict when, or if, any payments would be made.

Under the agreement relating to our fiscal 2006 acquisition of Unilever Cosmetics International, we are subject to contingent purchase price consideration payments of up to \$30.0 per calendar year through 2014, depending on contractually agreed upon sales targets. In March 2013, we made the

contingent purchase price consideration payment of \$30.0 and currently expect to pay the full \$30.0 for calendar year 2014.

We have a 40% and 45% redeemable noncontrolling interest in our consolidated subsidiaries in the UAE and Hong Kong, respectively. We have the right to purchase the noncontrolling interests in these subsidiaries from the noncontrolling interest holders ( call right ) and the noncontrolling interest holders have the right to sell their noncontrolling interests ( put right ) to us at certain points in time. Given the provisions of the put and call rights, the entire noncontrolling interests are redeemable outside of our control and are recorded in temporary equity at the estimated redemption value of \$107.2 and \$95.9 as of March 31, 2013 and June 30, 2012, respectively. See Note 20, Noncontrolling Interests and Redeemable Noncontrolling Interests in our notes to Consolidated Financial Statements for fiscal 2012, 2011 and 2010 for further discussion related to the calculation of the redemption value for each of these noncontrolling interests.

Prior to the completion of our initial public offering, our share-based compensation plans allow participants to exercise and sell their vested common shares outstanding, nonqualified stock options, restricted shares, special incentive awards and restricted stock units to us for cash at any time. The total value of vested and unvested awards as of March 31, 2013 and June 30, 2012 was \$539.0 and \$527.2, respectively. The timing and amount of the exercises is outside of our control. In May 2013, we paid \$113.8 in cash related to stock option exercises and common stock redemptions. See Note 16, Subsequent Events in the Condensed Consolidated Financial Statements for further information. Upon the completion of our initial public offering the ability of participants to exercise and sell their vested common shares outstanding, nonqualified stock options, restricted shares, special incentive awards and restricted stock units to us for cash will no longer be available. See Critical Accounting Policies and Estimates Share-Based Compensation for further discussion of our share-based compensation.

### ***Restructuring Activities***

During the fourth quarter of fiscal 2013, we expect to complete the planning and approval of a number of business integration and productivity initiatives aimed at enhancing long-term operating margins. Such activities primarily relate to integration of supply chain and selling activities within our 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 anticipate completing the implementation of all project activities by fiscal 2016. The total charge associated with the program is expected to be approximately \$70.0 to \$75.0, including \$20.0 to \$25.0 expected to be recorded during the fourth quarter of fiscal 2013. Savings associated with the program are expected to gradually increase to an annualized level of \$40.0 to \$45.0 once completed. We do not anticipate this charge to have a negative impact on our 2013 Credit Agreement or NPA financial covenants.

### ***Derivative Financial Instruments and Hedging Activities***

We are exposed to foreign currency exchange fluctuations and interest rate volatility through our global operations. We utilize natural offsets to the fullest extent possible in order to identify net exposures. In the normal course of business, established policies and procedures are employed to manage these net exposures using a variety of financial instruments. We do not enter into derivative financial instruments for trading or speculative purposes.

### ***Foreign Currency Exchange Risk Management***

We operate in multiple functional currencies and are exposed to the impact of foreign currency fluctuations. For foreign currency exposures, primarily relating to receivables, inventories, payables and intercompany loans, derivatives are used to better manage the earnings and cash flow volatility arising from foreign currency exchange rate fluctuations. We recorded foreign currency gains (losses) of \$1.8 and \$(2.4) for the nine months ended March 31,

2013 and 2012, respectively, compared with

\$(1.9) and \$15.9 in fiscal 2012 and 2011, respectively, resulting from non-financing foreign currency exchange transactions which are included in their associated expense type and reflected within operating income. In addition, we recorded foreign currency gains (losses) of \$1.2 and \$(37.5) for the nine months ended March 31, 2013 and 2012, respectively, compared with \$39.7 and \$12.4 in fiscal 2012 and 2011, respectively, resulting from financing foreign currency exchange transactions that have been included within interest expense, net and other (income) expense, net.

We may also enter into foreign currency option contracts to hedge anticipated transactions where there is a high probability that anticipated exposures will materialize. We do not use hedge accounting for these contracts. As of March 31, 2013, we had foreign currency forward contracts with notional value of \$178.2, which mature at various dates through June 2014, compared with \$40.7 as of June 30, 2012. As of June 30, 2011, we had foreign currency forward contracts of \$140.5, which included contracts with notional amounts of €83.1 million (\$120.6) and other forward contracts for lesser amounts relating to other currencies. These contracts matured at various dates through June 2012.

We also utilize derivative contracts to hedge exposures relating to foreign currency denominated debt to align with the functional currency of the borrowing entity. As of June 30, 2010, we had a foreign currency forward contract for €109.0 million (\$133.2), which matured on July 9, 2010, to hedge the net exposure related to the principal repayment of the JAB BV loan of €160.0 million (\$195.5).

We have experienced and will continue to experience fluctuations in our net income as a result of balance sheet transactional exposures. As of March 31, 2013, a 10% unfavorable change in the exchange rate of the U.S. dollar against the prevailing market rates of foreign currencies involving balance sheet transactional exposures are estimated to result in a pretax loss of approximately \$3.3. In the view of management, these hypothetical losses resulting from an assumed change in foreign currency exchange rates are not material to our consolidated financial statement position or results of operations.

### ***Interest Rate Risk Management***

We are exposed to interest rate risk that relates primarily to our indebtedness, which is affected by changes in the general level of the interest rates in the United States. We periodically enter into interest rate swap agreements to facilitate our interest rate management activities. In some instances, we have designated some of these agreements as cash flow hedges and, accordingly, applied hedge accounting. The effective changes in fair value of these agreements are recorded in accumulated other comprehensive income (loss) ( AOCI/(L) ), net of tax, and ineffective portions are recorded in current- period earnings. Amounts in AOCI/(L) are subsequently reclassified to earnings as interest expense when the hedged transactions are settled. For interest rate swap agreements not designated as hedge accounting instruments, the changes in fair value from period to period are recorded in current-period earnings in the Consolidated Statements of Operations.

As of March 31, 2013 and June 30, 2012, there were no interest rate swap agreements outstanding. On June 16, 2010, we entered into a pay-floating interest rate swap agreement for the notional amount of \$250.0 which matured on October 16, 2011. The swap agreement required us to pay the floating rate interest of three month USD LIBOR and receive the fixed rate of 0.95%. We did not use hedge accounting for this interest rate swap agreement. The amount of gain or loss was recorded in the Consolidated Statements of Operations in fiscal 2012.

On October 16, 2008, we entered into pay-fixed interest rate swap agreements having total notional amounts of \$283.3, which matured on October 16, 2011. The swap agreements effectively fixed the interest rate exposure on a portion of our outstanding borrowings under the credit agreement at approximately 3.7% plus applicable borrowing margins. We used hedge accounting for this pay-fixed interest rate swap. The hedged instrument is designated as a cash flow hedge. The agreements were not held for trading purposes.

We expect that both at the inception and on an ongoing basis, the hedging relationship between any designated interest rate hedges and underlying variable rate debt will be highly effective in

achieving offsetting cash flows attributable to the hedged risk during the term of the hedge. If it is determined that a derivative is not highly effective, or that it has ceased to be a highly effective hedge, we will be required to discontinue hedge accounting with respect to that derivative prospectively. The corresponding gain or loss position of the ineffective hedge recorded to AOCI/(L) will be reclassified to current-period earnings.

If interest rates had been 10% higher/lower and all other variables were held constant, gross profit for the period ended March 31, 2013 and fiscal 2012 and 2011 would decrease/increase by \$3.6, \$3.9 and \$3.8, respectively.

### ***Credit Risk Management***

We attempt to minimize credit exposure to counterparties by generally entering into derivative contracts with counterparties that have an A (or equivalent) credit rating. The counterparties to these contracts are major financial institutions. Exposure to credit risk in the event of nonperformance by any of the counterparties is limited to the gross fair value of contracts in asset positions, which totaled \$0.8, \$0.2 and \$2.8 as of March 31, 2013, June 30, 2012 and 2011, respectively. Accordingly, management believes risk of loss under these hedging contracts is remote.

### ***Inflation Risk***

To date, we do not believe inflation has had a material effect on our business, financial condition or results of operations. However, if our costs were to become subject to significant inflationary pressures in the future, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

### ***Off-Balance Sheet Arrangements***

We had undrawn letters of credit of \$3.3, \$3.0 and \$2.8 as of March 31, 2013, June 30, 2012 and 2011, respectively.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We prepare our Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles. The preparation of these Consolidated Financial Statements requires us to make estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenues and expenses related disclosures. These estimates and assumptions can be subjective and complex and, consequently, actual results may differ from those estimates that would result in material changes to our operating results and financial condition. We evaluate our estimates and assumptions on an ongoing basis. Our estimates are based on historical experience and various other assumptions that we believe to be reasonable under the circumstances. Our most critical accounting policies relate to revenue recognition, goodwill, other intangible and long-lived assets, pension and other post-employment benefit costs, share-based compensation, common stock valuations and income taxes.

Our management has discussed the selection of significant accounting policies and the effect of estimates with the Audit and Finance Committee of our Board of Directors.

### ***Revenue Recognition***

Revenue is recognized when realized or realizable and earned. Our policy is to recognize revenue when risk of loss and title to the product transfers to the customer, which usually occurs upon delivery. Net revenues comprise gross revenues less customer discounts and allowances, actual and expected returns (estimated based on returns history and position in product life cycle) and various trade spending activities. Trade spending activities relate to advertising, product promotions and demonstrations, some of which involve cooperative relationships with customers. Reflected in net revenues are returns and trade spending activities of \$532.3 and \$554.3 for the nine months





ended March 31, 2013 and 2012, respectively, compared with \$706.5, \$590.4 and \$521.0 for fiscal 2012, 2011 and 2010, respectively. Returns represent 3.6% of gross revenue after customer discounts and allowances for each of the nine months ended March 31, 2013 and 2012, compared with 3.5%, 3.6% and 4.0% of gross revenue after customer discounts and allowances for fiscal 2012, 2011 and 2010, respectively. Trade spending activities represent 9.4% and 9.8% for the nine months ended March 31, 2013 and 2012, respectively compared with 9.8%, 9.0% and 9.0% for fiscal 2012, 2011 and 2010, respectively.

Our sales return accrual, which primarily relates to our Fragrances and Skin & Body Care segments, reflects seasonal fluctuations, including those related to the holiday season in our second quarter. This accrual is a subjective critical estimate that has a direct impact on reported net revenues, and is calculated based on history of actual returns, estimated future returns and information provided by retailers regarding their inventory levels. In addition, as necessary, specific accruals may be established for significant future known or anticipated events. The types of known or anticipated events that we have considered, and will continue to consider, include, but are not limited to, the financial condition of our customers, store closings by retailers, changes in the retail environment, and our decision to continue to support new and existing brands.

### ***Goodwill, Other Intangible Assets and Long-Lived Assets***

Goodwill is calculated as the excess of the cost of purchased businesses over the fair value of their underlying net assets. Other indefinite-lived intangible assets consist of trademarks. Goodwill and other indefinite-lived intangible assets are not amortized.

#### *Goodwill*

We assess goodwill at least annually for impairment, or more frequently, if certain events or circumstances warrant. Effective for fiscal 2012, we changed our annual impairment testing date for goodwill from January 1 to May 1. We test goodwill for impairment at the reporting unit level, which is one level below our reportable segments. We identify our reporting units by assessing whether the components of our reportable segments constitute businesses for which discrete financial information is available and management of each reporting unit regularly reviews the operating results of those components. We have identified five reporting units. Color Cosmetics is considered an operating segment and a reporting unit and our Fragrances and Skin & Body Care operating segments each includes two reporting units.

Impairment testing for goodwill is performed in two steps: (i) the determination of possible impairment, based upon the fair value of a reporting unit as compared to its carrying value; and (ii) if there is a possible impairment indicated, this step measures the amount of impairment loss, if any, by comparing the implied fair value of goodwill with the carrying amount of that goodwill. We make certain judgments and assumptions in allocating assets and liabilities to determine carrying values for our reporting units.

Testing goodwill for impairment requires us to estimate fair values of reporting units using significant estimates and assumptions. The assumptions made will impact the outcome and ultimate results of the testing. We use industry accepted valuation models and set criteria that are reviewed and approved by various levels of management and, in certain instances, we engage independent third-party valuation specialists for advice. To determine fair value of the reporting unit, we use the income approach.

Under the income approach, we determine fair value using a discounted cash flow method, projecting future cash flows of each reporting unit, as well as a terminal value, and discounting such cash flows at a rate of return that reflects the relative risk of the cash flows.

The key estimates and factors used in this approach include, but are not limited to, revenue growth rates and profit margins based on our internal forecasts, our specific weighted-average cost of capital used to discount future cash

flows, and a review with comparable market multiples for the industry segment as well as our historical operating trends.

Certain future events and circumstances, including deterioration of market conditions, higher cost of capital, a decline in actual and expected consumer consumption and demands, could result in changes to these assumptions and judgments. A downward revision of these assumptions could cause the fair values of the reporting units to fall below their respective carrying values. We would then perform the second step of the goodwill impairment test to determine the amount of any non-cash impairment charge. Such charge could have a material effect on the Consolidated Statements of Operations and Balance Sheets.

During the nine months ended March 31, 2013, we did not record any impairment for goodwill.

Based on the May 1, 2012 and January 1, 2012 annual impairment tests, the fair value of each of our reporting units significantly exceeded their respective carrying values at those dates, except for the Prestige Skin & Body Care reporting unit. For the Prestige Skin & Body Care reporting unit, the fair value only exceeded its carrying value as of May 1, 2012 by 8%. After the completion of the May 1, 2012 impairment test, management reconsidered the projected cash flows within the Prestige Skin & Body Care reporting unit. Actual cash flows for the last two months of fiscal 2012 and the first quarter of fiscal 2013 were approximately 66% and 37%, respectively, less than the projections used for the May 1, 2012 impairment test for the Prestige Skin & Body Care reporting unit. These lower than projected cash flows were primarily caused by delays in a new product launch and expansion into certain international locations that were scheduled, as well as slower than expected sales to certain key retailers in the fourth quarter of fiscal 2012. In addition, upon completion of the final assessment stage of our cost savings programs in late June of fiscal 2012, we concluded that we had to delay implementing the cost savings programs associated with integrating Philosophy's business operations into our existing business structure as we identified additional innovation that needed to be completed before the initiatives in the Prestige Skin & Body Care reporting unit could be started. This delay, combined with some reduction in scope of the project, reduced fair value of the Prestige Skin & Body Care reporting unit by 12% of the May 1, 2012 fair value. The significant shortfall in revenues and delay in costs savings lead us to reevaluate the risks and assumptions underlining our projections. Key assumptions include the revenue growth rate, operating margins, and the discount rate. The main differences in the assumptions between the May 1 impairment and the June 30 impairment test related to a reduction in average revenue growth rates over the projection period and reduction in average operating margins, resulting in a decline of 39% of the May 1, 2012 fair value, before considering the impact of the delayed cost savings program.

The changes in these assumptions resulted in a total reduction of the fair value of the Prestige Skin & Body Care reporting unit by 50% as of June 30, 2012 compared to the May 1, 2012 fair value, such that fair value dropped below carrying value during the current fiscal year. As a result, we performed the second step of the goodwill impairment test to calculate the implied fair value of goodwill, by allocating the calculated fair value to the assets and liabilities (other than goodwill) of the Prestige Skin & Body Care reporting unit. Based on this impairment test, we recorded a pre-tax non-cash impairment of goodwill at the Prestige Skin & Body Care reporting unit of \$384.4 in asset impairment charges in the Consolidated Statements of Operations, reducing goodwill at this reporting unit from \$437.1 to \$52.7.

There were no impairments of goodwill in other reporting units during fiscal 2012. Based on the impairment tests performed, we determined that the fair values of our other reporting units significantly exceeded their respective carrying values, ranging from approximately 25% to greater than 100%, depending on the respective reporting unit. To determine the fair value of other reporting units, we have used expected growth rates that are in line with expected market growth rates for the respective product categories and include a discount rate range of 10.5% to 11.0%.

We have completed sensitivity analyses for the other reporting units. Assuming no changes to other factors, the estimated fair value of our reporting units will continue to exceed their respective carrying values unless any of the following occurred as applicable for each reporting unit: declines in expected growth rates of approximately 25% to greater than 100% of current projected average growth; a decrease in projected operating margins of approximately 15% to 50%; or an increase in our reporting unit discount rates of approximately 140 basis points to greater than 1,000 basis points.



We believe the assumptions used in calculating the estimated fair value of the reporting units are reasonable and attainable. However, we can provide no assurances that we will achieve such projected results. Further, we can provide no assurances that we will not have to recognize additional impairment of goodwill in the future due to other market conditions or changes in our interest rates. Recognition of additional impairment of a significant portion of our goodwill would negatively affect our reported results of our operations and total capitalization.

#### *Other Intangible Assets*

We assess other indefinite-lived intangible assets at least annually for impairment, or more frequently if certain events occur or circumstances change that would more likely than not reduce the fair value of an indefinite-lived intangible asset below its carrying value. Effective for fiscal 2012, we changed our annual impairment testing date for other indefinite-lived intangible assets from January 1 to May 1. Trademarks are tested for impairment on a brand level basis.

The trademarks' fair values are based upon the income approach, primarily utilizing the relief from royalty methodology. This methodology assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to obtain the rights to use the comparable asset. An impairment loss is recognized when the estimated fair value of the intangible asset is less than the carrying value. Fair value calculation requires significant judgments in determining both the assets' estimated cash flows as well as the appropriate discount and royalty rates applied to those cash flows to determine fair value. Variations in the economic conditions or a change in general consumer demands, operating results estimates or the application of alternative assumptions could produce significantly different results.

During the nine months ended March 31, 2013, we did not record any impairment for other intangible assets.

Based on the January 1, 2012 annual impairment test, except for certain trademarks in our Skin & Body Care segment, fair values of our other trademarks significantly exceeded their respective carrying values. As a result of the January 1, 2012 impairment test and ongoing monitoring of the business performance during the third quarter, we recorded a pre-tax non-cash impairment charge for trademarks of \$99.5 in our third quarter of fiscal 2012 in asset impairment charges in the Consolidated Statements of Operations, relating to trademarks in the Skin & Body Care segment. During fiscal 2012, we changed our impairment testing date for indefinite-lived intangible assets to May 1. We performed another impairment test as of that date and did not record an additional impairment based on the estimated fair values as of that date. However, due to an ongoing assessment of business performance during the remainder of the fiscal year, we updated our impairment test as of June 30, 2012 for trademarks in the Skin & Body Care segment and recorded an additional impairment charge of \$89.1.

As a result of the aforementioned impairment tests during fiscal 2012, we recorded a total pre-tax non-cash impairment charge of \$188.6 in asset impairment charges in the Consolidated Statements of Operations to reduce the carrying value of the TJoy and Philosophy trademarks as discussed in more detail below.

The trademark impairment charge recorded in the third quarter with respect to TJoy was \$58.0, reducing the trademark's remaining carrying value to \$27.4 as of March 31, 2012. The impairment charge was primarily the result of sales volume and net revenues that were lower than projected at the time of acquisition of the TJoy business principally attributable to the early retirement of the TJoy CEO announced in August 2011 and effective at December 31, 2011, and the related transition to new leadership during our third quarter of fiscal 2012. The reductions in our net revenues during the quarter ended March 31, 2012 had an impact on actual and projected cash flows of TJoy and the resultant impact on fair value and impairment charge. In valuing the TJoy trademark we assumed certain growth rates over the projection period, royalty rates of 4% and a discount rate of 14%.

In addition, during the second and third quarters of fiscal 2012, certain key sales representatives departed with the former TJoy CEO. Subsequent to the impairment of the TJoy trademark in our third quarter, we revised our assessment of the estimated useful life of the TJoy trademark. We



have begun amortizing the trademark over eight years, resulting in annual amortization expense of approximately \$3.5 per year. This estimate is based on the estimated remaining life of the customer relationships, since we believe that sales through existing customer relationships are the main drivers for the value of the *TJoy* brand. This trademark is recorded in the Beauty Skin & Body Care reporting unit. Despite the impairment of this trademark, the reporting unit fair value significantly exceeded its carrying value, since the reporting unit also generates net revenues from certain other trademarks that have significantly exceeded expectations.

The trademarks impairment charge recorded in the third quarter with respect to Philosophy was \$41.5, reducing the carrying value to \$354.4 as of March 31, 2012. This impairment charge was the result of lower than projected sales growth in the U.S. market, due to an innovation plan that was smaller in scope and less successful than expected, and a slowdown of brand sales momentum with certain key retailers. Furthermore, the expansion of the Philosophy business into certain international markets anticipated in fiscal 2012 was delayed due to a longer than expected product registration process in certain countries, compounded by the adverse impact of foreign currency fluctuations, which contributed significantly to a delay in current and long-term projected net revenues of Philosophy and the resultant impact on fair value. The main assumptions in valuing the Philosophy trademarks are the assumed revenue and profitability rates. We reduced the assumed growth rates in the earliest period, which had a significant impact on future years in the projection period.

After completing the May 1, 2012 impairment test that did not result in an impairment, management reconsidered the projected cash flows within the Prestige Skin & Body Care reporting unit due to the lower than expected actual net revenues in the last two months of fiscal 2012 and the beginning of fiscal 2013, as well as a delay in anticipated cost savings programs associated with integrating Philosophy's business operations into our existing business structure, as explained above under Goodwill. Consequently, we performed another impairment test of the Philosophy trademarks as of June 30, 2012 that identified an excess of the carrying values over the fair values of these trademarks based on revised assumptions. Compared to the May 1, 2012 impairment test, we further reduced growth rates in the earliest period and reduced certain royalty rates from 5% to 2.5% for certain trademarks that showed a reduction in their profit margin. The discount rate used in the calculation decreased from 11.5% to 11% due to a decline in risk free rates, which is determined by reference to the 20-year U.S. Treasury Bill rate.

As a result, in the fourth quarter, we recorded an additional pre-tax non-cash impairment of trademarks at the Prestige Skin & Body Care reporting unit of \$89.1 in asset impairment charges in the Consolidated Statements of Operations, further reducing the carrying value of trademarks in this reporting unit from \$354.4 to \$265.3. In spite of the above issues, Philosophy sales in fiscal 2012 were marginally ahead of the prior year. We are working intensely to address the above issues by focusing on product innovation and expansion into new geographies. We anticipate that the Philosophy trademarks will continue to provide value for an indefinite period of time considering the current position of the brand, our continued commitments to develop this brand, the growth prospects in this market and the absence of legal, regulatory or contractual provisions for us to use *the philosophy* trademark. These trademarks are recorded in the Prestige Skin & Body Care reporting unit.

The carrying value of our other indefinite-lived trademarks was \$904.3 as of June 30, 2012, which includes *OPI* of \$660.0 and *Sally Hansen* of \$182.2. As of May 1, 2012, we determined that the fair values of other indefinite-lived trademarks significantly exceeded their carrying values, ranging from 55% to greater than 1,700%. Significant assumptions included using growth rates that are in line with expected market growth rates for the respective product categories, a discount rate of 11.5% and royalty rates that are similar to market participant rates for the respective product categories. Assuming no changes to other factors, the estimated fair value of the other indefinite-lived trademarks will continue to exceed their carrying values unless there is a decline in the expected growth rate of more than 75% or an increase in the discount rate of greater than 3,000 basis points.



We believe the assumptions used in calculating the estimated fair value of the trademarks are reasonable and attainable. However, we can provide no assurances that we will not have to recognize additional impairment of indefinite-lived intangible assets in the future due to other market conditions or changes in our interest rates. Recognition of additional impairment of a significant portion of our indefinite-lived intangible assets would negatively affect our reported results of operations and total capitalization.

In fiscal 2011 and 2010, we performed our annual impairment testing of indefinite-lived intangible assets and no adjustments to carrying values were needed.

#### *Long-Lived Assets*

Long-lived assets, including tangible and intangible assets with finite lives, are amortized over their respective lives to their estimated residual values and are also reviewed for impairment whenever certain triggering events may indicate impairment. When such events or changes in circumstances occur, a recoverability test is performed comparing projected undiscounted cash flows from the use and eventual disposition of an asset or asset group to its carrying value. If the projected undiscounted cash flows are less than the carrying value, an impairment would be recorded for the excess of the carrying value over the fair value, which is determined by discounting future cash flows.

During the nine months ended March 31, 2013, we sold a manufacturing facility for \$2.0. The manufacturing facility had a net book value of \$3.5, resulting in an asset impairment charge of \$1.5, which was included in Corporate. During fiscal 2012, we recorded an asset impairment charge for a manufacturing facility totaling \$2.9, which was included in Corporate. There were no impairments of long-lived assets in fiscal 2011. In fiscal 2010, we recorded impairment charges of \$5.3, related to certain property and equipment, included in the Skin & Body Care segment.

#### *Pension and Other Post-Employment Benefit Costs*

We sponsor both funded and unfunded pension and other post-employment plans in various forms covering employees who meet the applicable eligibility requirements. We use several statistical and other factors in an attempt to estimate future events in calculating the liability and expense related to these plans. Certain significant variables require us to make assumptions that are within our control such as anticipated discount rate, expected rate of return on plan assets and future compensation levels. We evaluate these assumptions with our actuarial advisors and select assumptions that we believe reflect the economics underlying our pension and post-employment obligations. While we believe these assumptions are within accepted industry ranges, an increase or decrease in the assumptions or economic events outside our control could have a direct impact on reported net income.

The discount rates used to measure the benefit obligations at the measurement date and the net periodic benefit cost for the subsequent fiscal year are reset annually using data available at the measurement date.

The long-term rates of return on our pension plan assets are based on management's expectations of long-term average rates of return to be achieved by the underlying investment portfolios. In establishing this assumption, management considers historical and expected returns for the assets in which the plan is invested, as well as current economic and market conditions. The difference between actual and expected return on plan assets is reported as a component of accumulated other comprehensive income. Those gains or losses that are subject to amortization over future periods will be recognized as a component of the net periodic benefit cost in such future periods. For fiscal 2012 our pension plans had actual returns on assets of \$2.4 as compared with expected return on assets of \$3.2, which resulted in a net deferred loss of \$0.8, substantially all of which is currently subject to be amortized over periods ranging from approximately eight to 36 years. The actual return on assets was primarily related to the performance of equity markets during the past fiscal year.

The rate of future compensation increases is another assumption used by our third-party actuarial consultants for pension accounting.

The weighted-average assumptions used to determine our projected benefit obligation above were as follows:

	Pension Plans				Other Post-Employment Benefits					
	U.S.		International		2012	2011				
	2012	2011	2012	2011						
Discount rates	3.4%	4.6%	4.3%	5.6%	2.2%	4.4%	2.7%	6.1%	4.9%	5.9%
Future compensation growth rates	N/A	N/A	2.5%	3.0%	2.0%	3.0%	N/A	N/A		

The weighted-average assumptions used to determine our net periodic benefit cost during the fiscal year were as follows:

	Pension Plans				Other Post-Employment Benefits					
	U.S.		International		2012	2011				
	2012	2011	2012	2011						
Discount rates	4.3%	5.6%	4.4%	5.4%	2.7%	6.1%	1.8%	5.2%	5.9%	5.6%
Future compensation growth rates	N/A	N/A	2.0%	3.0%	2.0%	3.0%	N/A	N/A		
Expected long-term rates of return on plan assets	6.5%	6.5%	3.3%	5.5%	3.2%	4.5%	N/A	N/A		

Our post-employment plans comprise health care plans that could be impacted by health care cost trend rates, which may have a significant effect on the amounts reported. A one-percentage point change in assumed health care cost trend rates would have the following effects:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on total service cost and interest cost	\$ 1.5	\$ (1.2)
Effect on post-employment benefit obligation	16.9	(13.3)

In addition, our actuarial consultants use other factors such as withdrawal and mortality rates. The actuarial assumptions used by us may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants, among other things. Differences from these assumptions could significantly impact the actual amount of net periodic benefit cost and liability recorded by us.

### *Share-Based Compensation*

Our share-based compensation plans are accounted for as liability plans as they allow for cash settlement or contain put features to sell shares back to us for cash. Accordingly, share-based compensation expense is measured at the end of each reporting period based on the fair value of the award on each reporting date and is recognized as an expense to the extent vested until the award is settled.

If the award is settled for shares, the shares are included in the number of shares of common stock outstanding. However, as the share-based compensation plans contain put features, the fair value of the shares is classified as either a liability, and included in accrued expenses and other current liabilities, or classified as redeemable common stock, provided that holders have retained the risks and rewards of share ownership for a reasonable period of time. The fair value of the shares is re-measured each reporting period date through selling, general and administrative expense as share-based compensation expense if the shares are classified as Accrued expenses and other current liabilities, or through Additional paid-in capital if the shares are classified between liability and equity as redeemable common stock.

At the end of each reporting period, the fair value of stock options and special incentive awards is determined using the Black-Scholes or Monte Carlo valuation model and using the following

weighted-average assumptions, in addition to the estimated value of our common stock at each reporting date, as discussed in Common Stock Valuations :

	Nine Months Ended March 31,		Year Ended June 30,		
	2013 <sup>(a)</sup>	2012	2012	2011	2010
Expected life of option	3.18 yrs	4.54 yrs	4.32 yrs	6.38 yrs	5.89 yrs
Expected life of awards	5.00 yrs	5.00 yrs	5.00 yrs	5.00 yrs	N/A
Risk-free interest rate	0.49 %	0.97 %	0.72% 1.77%	2.26% 2.99%	2.00 %
Expected volatility	32.68 %	32.59 %	32.80 %	29.98 %	30.30 %
Expected dividend yield	0.88 %	0.00 %	0.00 %	0.00 %	0.00 %

(a) During the nine months ended March 31, 2013, the target fair value of our share price was achieved and the use of the Monte Carlo valuation model is no longer required for the special incentive award.

Share-based compensation expense totaled \$106.7 and \$132.9 for the nine months ended March 31, 2013 and 2012, compared with \$142.6, \$88.5 and \$65.9 in fiscal 2012, 2011 and 2010, respectively. Share-based compensation expense is recorded in selling, general and administrative expenses in the Consolidated Statements of Operations.

Management evaluates the impact of share-based compensation on operating income by comparing the expense that is recorded under liability plan accounting to the expense that would have been recorded if the plans had been accounted for as equity plans. This evaluation is relevant to management for the following reasons:

several of our  
main  
competitors  
account for  
their  
share-based  
compensation  
plans as  
equity plans;

our  
share-based  
compensation  
plans will be  
accounted for  
as equity  
plans upon the  
completion of  
this initial  
public  
offering,  
because the  
participants  
will no longer  
be able to  
settle the  
awards under  
the plan in  
cash or sell  
the shares  
back to us for  
cash. See the  
table below  
for additional  
disclosures;  
and

certain  
financial  
covenant  
calculations  
for our debt  
agreements  
are derived  
from  
calculations

including  
share-based  
compensation  
expenses  
based on the  
equity method  
of accounting.

If the share-based compensation plans are accounted for as equity plans, the share-based payments to employees are measured based on the grant-date fair value of the awards and amortized over the requisite service periods for the individual awards, which generally equal the vesting periods. The share-based compensation expense is recorded net of estimated forfeitures and as such is recorded for only those share-based awards that are expected to vest.

The following table compares the impact on share-based compensation expense between liability and equity plan accounting:

	<b>Nine Months Ended March 31,</b>		<b>Year Ended June 30,</b>		
	<b>2013</b>	<b>2012</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
Share-based compensation expense:					
Expense under liability plan accounting currently applied by the Company <sup>(a)</sup>	\$ 106.7	\$ 132.9	\$ 142.6	\$ 88.5	\$ 65.9
Expense under equity plan accounting <sup>(b)</sup>	17.6	24.3	32.7	23.6	18.6
Share-based compensation expense adjustment <sup>(c)</sup>	\$ 89.1	\$ 108.6	\$ 109.9	\$ 64.9	\$ 47.3

(a) See Note 13,  
Share-Based  
Compensation  
Plans, in our  
notes to the  
Condensed  
Consolidated  
Financial  
Statements and  
Note 22,  
Share-Based  
Compensation  
Plans, in our  
notes to the  
Consolidated  
Financial

Statements.

(b) Share-based compensation expense calculated as if we had applied equity plan accounting since the grant date of the award for our recurring nonqualified stock option awards and director-owned and employee-owned shares, restricted shares, and restricted stock units.

(c) Share-based compensation expense adjustment consists of (i) the difference between share-based compensation expense accounted for under the equity plan accounting and under liability plan accounting for the recurring nonqualified stock option awards and director-owned and employee-owned shares, restricted shares and restricted stock units and (ii) all costs associated with the special



incentive awards granted in fiscal 2012 and 2011. Vesting of the special incentive awards is dependent upon the occurrence of (i) an initial public offering within five years of the grant date, or (ii) if an initial public offering has not occurred on the fifth anniversary of the grant date, upon achievement of a target fair value of our share price and the completion of five years of service subsequent to the grant date. During the nine months ended March 31, 2013, the target fair value of our share price was achieved. We currently use liability plan accounting to measure share-based compensation expense in the Consolidated Statements of Operations to the extent the holders have not retained the risks and rewards of share ownership for a reasonable period of time, as

determined under applicable accounting guidance. Once the holders have retained these risks and rewards for a reasonable period of time, generally deemed to be a period of six months from vesting and issuance, the liability recorded in our Consolidated Balance Sheets is reclassified as redeemable common stock at fair value. Subsequent changes in fair value of the shares classified as redeemable common stock are recognized in retained earnings or, in the absence of retained earnings, in additional paid-in capital. We currently use equity plan accounting to measure the performance of the segments and we will use it to measure share-based compensation expense following completion of our initial public offering.

Our share-based compensation plans are accounted for as liability plans as they allow for cash settlement or contain put features to sell shares back to us for cash to the extent the holders have not retained the risks and rewards of share ownership for a reasonable period of time, as determined under applicable accounting guidance. The terms of the plans provide that upon completion of an initial public offering the ability to settle the awards for cash and the put features to sell the shares back to us for cash will no longer be available. The share-based compensation plans will provide only a share settlement option, as such the plans will be accounted for as equity plans.

As a result of the transition from liability plan accounting to equity plan accounting for our share-based awards, a final mark to market of the liability related to such awards will be required, which will result in share-based compensation expense of \$31.1, net of tax, recognized as an expense between April 1, 2013 and the completion of our initial public offering under liability plan accounting, which reflects the change in the estimated fair value of outstanding share-based awards and other share-based compensation activity. This expense will be recorded as an increase in share-based compensation expense and included in selling, general and administrative expenses in the Consolidated Statements of Operations. Upon the completion of the initial public offering, we will also record (based on the initial public offering price) an increase to additional paid-in capital of \$465.3 as a result of the reclassification of the share-based compensation liability of \$245.3 and redeemable common stock of \$220.0 to reflect the transition from liability plan accounting to equity plan accounting for our share-based plans. The tabular disclosure included in the section *Capitalization* elsewhere herein illustrates the as adjusted impacts of this expense and subsequent reclassification of the liability and redeemable common stock to equity.

### *Common Stock Valuations*

We perform a valuation of our common stock at the end of each quarter. As of March 31, 2013, December 31, 2012, September 30, 2012, June 30, 2012, March 31, 2012, December 31, 2011 and September 30, 2011 we estimated that the value of our common stock was \$17.00, \$15.25, \$15.50, \$14.25, \$14.00, \$11.25, and \$10.50, respectively. As of June 30, 2012, 2011 and 2010, we estimated the fair value to be \$14.25, \$11.60 and \$9.20, respectively.

The valuation methodology that we utilized was based on a number of assumptions, including expectations of our future performance and industry, general economic, market and other conditions that could be reasonably evaluated at the time of the valuations. Our Board of Directors has historically determined an estimated fair value range for the outstanding shares of our common stock using a selected public companies market trading valuation prepared with the assistance of a third-party investment bank on a quarterly basis. The estimated fair value range intended all common stock issued and options granted to be issued or exercisable at a price per share not less than the per share fair value of our common stock. This method is known as the Guideline Public Company Method ( GPCM ) in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation.

The GPCM or market approach is based on the average of certain trading multiple benchmarks for a specified group of selected public companies whose primary business activities are similar in certain material respects to those of ours, which is then applied to our financial forecasts. The assumptions we used in the market valuation model were based on future expectations combined with management judgment. As there has been no public market for our common stock, our Board of Directors with input from management exercised significant judgment and considered numerous objective and subjective factors to determine the best estimate of the fair value of our common stock as of the date of each option grant, including, but not limited to, the following factors:

the prices of  
our common  
stock sold to  
outside  
investors in  
arms length  
transactions;

our operating  
and financial  
performance;

current  
business  
conditions  
and  
projections;

the history of  
the Company  
and the  
introduction  
of new  
products and  
services;

the likelihood  
of achieving a  
liquidity  
event for the  
common  
stock

underlying  
these stock  
options, such  
as an initial  
public  
offering,  
given  
prevailing  
market  
conditions;

any  
adjustments  
necessary to  
recognize a  
lack of  
marketability  
and liquidity  
for our  
common  
stock;

the average of  
certain  
benchmarks  
for a specified  
group of  
selected  
public  
companies  
whose  
primary  
business  
activities are  
similar in  
certain  
material  
respects to  
ours;

the U.S. and  
global capital  
market  
conditions;

the economic  
and  
competitive  
environment,  
including the  
industry in

which we  
operate;

independent  
third-party  
valuations  
completed as  
of the end of  
each quarter;  
and

discussions  
with  
underwriters  
relating to our  
contemplated  
initial public  
offering.

Management and the Board of Directors have assumed that the fair value of our common stock remained stable during a quarter, unless significant events during such quarter occurred that would have caused a material change in fair value.

No single event caused the fair value of our common stock to increase or decrease. A combination of the following changes in our business and external market environment have contributed to the changes in the fair values of our common stock during the following periods:

*Third quarter fiscal 2013 valuation*

We determined the fair value of our common stock to be \$17.00 per share. We used a combination of the market and income approaches, giving heavier weighting to the market approach. The increase in fair value of our common stock relative to the prior quarter is primarily due to a 14.1% increase in the average share price of our peer group. This positive impact was partially offset by a slight decrease in our projections.

*Second quarter fiscal 2013 valuation*

We determined the fair value of our common stock to be \$15.25 per share. We used a combination of the market and income approaches, giving a heavier weighting to the market approach. The decrease in the fair value of our common stock relative to prior quarter is primarily due to a decrease in our projections considered in the market and income approaches slightly offset by an increase in market multiples of the peer group companies used in the valuation model.

*First quarter fiscal 2013 valuation*

We determined the fair value of our common stock to be \$15.50 per share. We used a combination of the market and income approaches, giving a heavier weighting to the market approach. The increase in the fair value of our common stock relative to prior quarter is primarily due to the increase in market multiples of the peer group companies used in the valuation model.

*Fiscal 2012 year-end valuation*

We determined the fair value of our common stock to be \$14.25 per share. We used a combination of the market and income approaches, giving a heavier weighting to the market approach. The slight increase in the fair value of our common stock relative to the prior quarter is primarily due to additional consideration of the income approach partially offset by a decrease in the value from the income approach due to revised projections for our Skin & Body Care segment resulting from impairment analyses in the fourth quarter of fiscal 2012 and a decrease in the performance of a group of peer companies selected for comparison purposes leading to a decrease in the market multiples used in our valuation model.

*Third quarter fiscal 2012 valuation*

We determined the fair value of our common stock to be \$14.00 per share. We used a combination of the market and income approaches, and given prevailing market conditions and the nature and history of our business we believed a heavier weighting to the market approach was appropriate. The income approach or discounted cash flow approach involves applying appropriate risk-adjusted discount rates to estimated debt-free cash flows, based on our forecasted revenues and costs. Significant factors influencing the increase in the fair value of our common stock relative to the prior quarter include the consideration of the income approach in our valuation, the strong performance of the group of peer companies leading to an increase in the market multiples used in our valuation model and updating the valuation with our performance projections for calendar years ending December 31, 2012 and 2013 as compared to calendar years ending December 31, 2011 and 2012 used in the previous valuation. These improvements in the share value were partially offset by a reduction in performance projections due to the weaker than anticipated performance of TJoy and Philosophy.

*Second quarter fiscal 2012 valuation*

We determined the fair value of our common stock to be \$11.25 per share. A significant factor influencing the increase in the fair value of our common stock relative to the prior quarter included an increase in the market multiples of the group of peer companies used in the valuation model. In addition, based on our performance in first and second quarters of fiscal 2012, we slightly increased our performance projections.

*First quarter fiscal 2012 valuation*

We determined the fair value of our common stock to be \$10.50 per share. Our performance projections used in the valuation were relatively consistent with those used in the fiscal 2011 year-end valuation. However, due to the contraction in the market, the valuation multiples of the group of peer companies used in the valuation model decreased relative to those used in fiscal 2011 year-end valuation.





*Fiscal 2011 year-end valuation*

We determined the fair value of our common stock to be \$11.60 per share. The valuation was based on our performance projections for calendar years ending December 31, 2011 and 2012 using the market approach as described above. Our projections reflected the increase in our operating results due to our acquisitions of TJoy, Dr. Scheller, OPI and Philosophy during fiscal 2011.

We granted the following share-based payment awards beginning September 22, 2011 through the most recent balance sheet date of March 31, 2013:

<b>Grant Date</b>	<b>Shares underlying awards</b>	<b>Exercise price per Share of Common Stock</b>	<b>Fair Value of Underlying Share of Common Stock</b>	<b>Grant Date Fair Value per Award</b>
09/22/2011	9,561,000	\$ 10.50	\$ 10.50	\$ 3.93
11/15/2011	95,000	\$ 10.50	\$ 10.50	\$ 10.50 (a)
1/10/2012	3,584,258	\$ 10.50	\$ 11.25	\$ 4.60
1/10/2012	1,123,320	\$ 10.50	\$ 11.25	\$ 11.25 (a)
2/1/2012	70,000	\$ 11.25	\$ 11.25	\$ 9.37
2/1/2012	30,000	\$ 11.25	\$ 11.25	\$ 11.25 (a)
9/25/2012	2,168,300	\$ 15.50	\$ 15.50	\$ 15.50 (a)
11/15/2012	109,166	\$ 15.50	\$ 15.50	\$ 15.50 (a)
12/1/2012	5,000	\$ 15.50	\$ 15.50	\$ 15.50 (a)
1/2/2013	19,672	\$ 15.25	\$ 15.25	\$ 15.25 (a)
1/15/2013	10,000	\$ 15.25	\$ 15.25	\$ 15.25 (a)
1/17/2013	27,404	\$ 15.25	\$ 15.25	\$ 15.25 (a)

- (a) The awards granted on 11/15/2011, 1/10/2012, 2/1/2012, 9/25/2012, 11/15/2012, 12/1/2012, 1/2/2013, 1/15/2013 and 1/17/2013 of \$10.50, \$11.25, \$11.25,

\$15.50,  
\$15.50,  
\$15.50,  
\$15.25,  
\$15.25 and  
\$15.25,  
respectively,  
above were  
restricted  
share and/or  
restricted  
stock unit  
awards  
which the  
grant date  
fair value of  
the awards  
are  
equivalent to  
the fair value  
of the  
Common  
Stock on the  
grant date.

There have been no issuances of Coty Inc. share-based awards during the quarter ended March 31, 2013 subsequent to January 17, 2013.

### ***Income Taxes***

We are subject to income taxes in the United States and various foreign jurisdictions. We account for income taxes under the asset and liability method. Therefore, income tax expense is based on reported income before income taxes, and deferred income taxes reflect the effect of temporary differences between the amounts of assets and liabilities that are recognized for financial reporting purposes and the amounts that are recognized for income tax purposes. Deferred taxes are recorded at currently enacted statutory tax rates and are adjusted as enacted tax rates change.

Classification of deferred tax assets and liabilities corresponds with the classification of the underlying assets and liabilities, giving rise to the temporary differences or the period of expected reversal, as applicable. A valuation allowance is established, when necessary, to reduce deferred tax assets to the amount that is more likely than not to be realized based on currently available evidence. We consider how to recognize, measure, present and disclose in financial statements uncertain tax positions taken or expected to be taken on a tax return.

We are subject to tax audits in various jurisdictions. We regularly assess the likely outcomes of such audits in order to determine the appropriateness of liabilities for unrecognized tax benefits. We classify interest and penalties related to unrecognized tax benefits as a component of the provision for income taxes.

For unrecognized tax benefits, we first determine whether it is more-likely-than-not (defined as a likelihood of more than fifty percent) that a tax position will be sustained based on its technical merits as of the reporting date, assuming that taxing authorities will examine the position and have full knowledge of all relevant information. A tax position that meets this more-likely-than-not threshold is then measured and recognized at the largest amount of benefit that is greater than fifty



percent likely to be realized upon effective settlement with a taxing authority. As the determination of liabilities related to unrecognized tax benefits, associated interest and penalties requires significant estimates to be made by us, there can be no assurance that we will accurately predict the outcomes of these audits, and thus the eventual outcomes could have a material impact on our operating results or financial condition.

Unrecognized tax benefits are reviewed on an ongoing basis and are adjusted in light of changing facts and circumstances, including progress of examinations by tax authorities, developments in case law and closing of statute of limitations. Such adjustments are reflected in the provision for income taxes as appropriate. In addition, we are present in over 35 tax jurisdictions and we are subject to the continuous examination of our income tax returns by the Internal Revenue Service (IRS) and other tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes.

It is our intention to permanently reinvest undistributed earnings and profits from our foreign operations that have been generated through June 30, 2012 and future plans do not demonstrate a need to repatriate the foreign amounts to fund U.S. operations. Accordingly, no provision has been made for U.S. income taxes on undistributed earnings of foreign subsidiaries as of June 30, 2012. It is not possible for us to determine the amount of additional income and withholding taxes that may be payable in the event the remaining undistributed earnings are repatriated.

Earnings and profits of \$40.0 were deemed repatriated from current year earnings during fiscal 2011. These amounts represent that portion of short-term intercompany loans made to us by certain foreign subsidiaries in connection with unanticipated acquisition and other opportunities that were deemed a dividend and therefore subject to tax under the provisions of Internal Revenue Code Sections 951 through 956. These borrowings have been repaid in full. Because the borrowings had become subject to tax as a deemed dividend, we decided to repatriate an amount equal to the net deemed dividend to the U.S. These distributions were from current earnings and not determined to be essentially permanent in duration.

The balance of cumulative undistributed earnings of non-U.S. subsidiaries was \$1,632.1 and \$1,474.7 as of March 31, 2013 and 2012, respectively, compared with \$1,283.6 and \$1,296.1 as of June 30, 2012 and 2011, respectively. Our cash and cash equivalents balance at March 31, 2013 includes approximately \$767.2 of cash held by foreign operations compared with approximately \$605.0 and \$505.0 as of June 30, 2012 and 2011, respectively, associated with our permanent reinvestment strategy.

#### ***Recently Adopted and Recently Issued Accounting Standards***

See Note 2, *Summary of Significant Accounting Policies* in our notes to Consolidated Financial Statements for discussion regarding the impact of recently adopted accounting standards, as well as the impact of accounting standards that were recently issued but not yet effective, on our Consolidated Financial Statements.

#### ***Quantitative and Qualitative Disclosures About Market Risk***

We have operations both within the United States and internationally, and we are exposed to market risks in the ordinary course of our business, including the effect of foreign currency fluctuations, interest rate changes and inflation. Information relating to quantitative and qualitative disclosures about these market risks is set forth in under the captions *Foreign Currency Exchange Risk Management*, *Interest Rate Risk Management* and *Credit Risk* within *Management's Discussion and Analysis of Financial Condition and Results of Operations* *Liquidity and Capital Resources* included elsewhere in this prospectus.

## BUSINESS

### Our Company

We are a new emerging leader in beauty. Founded in Paris in 1904, Coty is a pure play beauty company with a portfolio of well-known brands that compete in the three segments in which we operate: Fragrances, Color Cosmetics and Skin & Body Care. We hold the #2 global position in fragrances, the #6 global position in color cosmetics and have a strong regional presence in skin & body care. Our top 10 brands, which we refer to as our power brands, generated approximately 70% of our net revenues in fiscal 2012 and comprise the following globally recognized brands: *adidas*, *Calvin Klein*, *Chloé*, *Davidoff*, *Marc Jacobs*, *OPI*, *philosophy*, *Playboy*, *Rimmel* and *Sally Hansen*. Our brands compete in all key distribution channels across both prestige and mass markets and in over 130 countries and territories.

Coty has transformed itself into a multi-segment beauty company with market leading positions in both North America and Europe through new product offerings, diversified sales channels and its global growth strategy. Our entrepreneurial culture, driven by our *Faster. Further. Freer.* credo, has enabled us to gain market share in the beauty industry and provided us with the agility to deliver superior innovation, brand building and execution. Our strong organic growth has been complemented and enabled by strategic acquisitions, such as the *Calvin Klein* fragrance business and *Sally Hansen* brand, and which recently include power brands *OPI* and *philosophy*. Today, our business has a diversified revenue base that generated net revenues for fiscal 2012 of 53%, 31% and 16% from Fragrances, Color Cosmetics and Skin & Body Care, respectively. In fiscal 2012, 2011 and 2010, our net revenues in the Americas totaled \$1.9 billion, \$1.5 billion and \$1.2 billion, respectively, our net revenues in EMEA totaled \$2.2 billion, \$2.1 billion and \$1.9 billion, respectively, and our net revenues in Asia Pacific totaled \$519 million, \$435 million and \$321 million, respectively, and in each case including revenues related to the 2011 Acquisitions. In fiscal 2012, 2011 and 2010, our long-lived assets in the United States totaled \$2.9 billion, \$3.5 billion and \$1.6 billion, respectively. Our long-lived assets in all other countries totaled \$1.1 billion, \$1.2 billion and \$665 million in fiscal 2012, 2011 and 2010, respectively, including \$326 million and \$385 million in China in fiscal 2012 and 2011, respectively.

In fiscal 2012, we achieved net revenues of \$4.6 billion, which represents an average annual growth rate of 16% from our fiscal 2010 net revenues of \$3.5 billion, or 8% excluding the effects of recent acquisitions and foreign currency exchange translations. In fiscal 2012, we experienced \$210 million of operating loss and \$536 million of Adjusted Operating Income. For the same period, we experienced \$324 million of net loss and \$301 million of Adjusted Net Income. Adjusted Operating Income, Adjusted Net Income and our average annual growth rate excluding the effects of recent acquisitions and foreign currency exchange translations are non-GAAP financial measures. See Prospectus Summary Summary Consolidated Financial Data Non-GAAP Financial Measures for a discussion of such measures.

### Our Market Opportunity

According to Euromonitor, the three segments of the beauty industry in which Coty competes generated worldwide retail sales of approximately \$282 billion in calendar year 2012. In fiscal 2012, Coty generated 77% of its net revenues in developed markets and 23% of its net revenues in emerging markets. The industry growth rate of the fragrances, color cosmetics and skin & body care segments in the geographic markets where Coty competes was 3.7% from 2011 to 2012, based on Euromonitor data.

The growth rate in the areas in which Coty competes is expected to be 3.0% to 4.0% between 2013 and 2016, based on Euromonitor data. We believe this growth will be driven primarily by innovation, changes in demographics, consumer preferences and fashion trends in developed markets, and by a larger middle class, higher media and retail investment and increased accessibility of beauty products in emerging markets.



Products in the beauty industry are sold through multiple and diverse distribution channels. These channels complement the images and goodwill associated with any given brand. Brands in the prestige market have traditionally been sold through upscale department stores, specialty retailers, upscale perfumeries, pharmacies, beauty salons and duty-free shops. Brands in the mass market have traditionally been sold through mass retail stores, independent or chain grocery stores, drug stores and supermarkets. The direct sales distribution channel consists of house-to-house, catalog, direct response television sales, social media and the internet, including e-commerce. Consumer preferences are driving the trend towards multi-channel distribution for beauty products, and we intend to continue to develop and expand our multi-channel distribution strategies in response to and in anticipation of consumer demand trends.

Fragrances, color cosmetics and skin & body care are complementary product segments. Quality, performance and price have a significant influence on consumers' choices between competing brands. Advertising, promotion, merchandising, the timing of new product introductions and the quality of in-store sales staff also have a significant impact on consumer buying decisions.

## **Our History**

We were founded in 1904 by François Coty. He revolutionized the fragrance market with new ingredients and mass appeal. Over the years, we experienced a number of ownership changes. In 1992, we were purchased by Benckiser, a former affiliate of our controlling stockholder, who had entered the beauty industry two years earlier with its acquisition of the European cosmetics interests of Beecham Plc. These interests included the *adidas* and *Davidoff* brands and included fragrances, color cosmetics and skin treatment products in both the mass and prestige markets. Benckiser combined these interests with the Coty assets it purchased from Pfizer. In 1996, we became a stand-alone company and entered into the mass color market with our acquisition of the *Rimmel* brand.

In fiscal 2001, following the appointment of our former chief executive officer, we began implementing a new strategic vision to transform the Company through product offering diversification and a new global-branding strategy. We have more than tripled our net revenues from approximately \$1.4 billion in fiscal 2002 to \$4.6 billion in fiscal 2012. We have grown through a combination of organic growth, acquisitions and development of new brands.

In fiscal 2003, we launched our first celebrity fragrance, *Glow by JLo*, which generated \$87 million in net revenues in its first year and helped to establish us as a leader in celebrity beauty products. We built on that success over the years to launch fragrances linked to other celebrities, such as Beyoncé Knowles, Halle Berry, David and Victoria Beckham and Celine Dion. Also in fiscal 2003, we acquired the *Kenneth Cole* and *Marc Jacobs* fragrance licenses from a division of LVMH Moët Hennessy Louis Vuitton, enabling us to become a key competitor in the prestige fragrance market in U.S. department stores. In fiscal 2006, we acquired Unilever Cosmetics International ( UCI ), whose prestige fragrance portfolio included the *Calvin Klein* and *Chloé* fragrance licenses. The acquisition transformed us into one of the largest fragrance companies in the world. We extended our presence in the Color Cosmetics segment in fiscal 2008 with our acquisition of *Sally Hansen* and *N.Y.C. New York Color*. In fiscal 2009 and 2010, we extended our fragrance sales by launching *Balenciaga*, *Beyoncé*, *Guess?*, *Halle Berry* and *Playboy*.

We made four acquisitions in fiscal 2011. We strengthened our position in color cosmetics through our acquisitions of Dr. Scheller, the owner of the *Manhattan* brand, and OPI. *Manhattan* is one of the leading brands in the German and Eastern European mass color cosmetics markets as measured by unit volume of sales, and the OPI acquisition provided us with the leading professional nail care brand. In skin & body care, the Philosophy acquisition enabled us to increase scale and enter new channels of distribution, like QVC and e-commerce. Additionally, TJoy has provided us with a broad distribution platform for our existing portfolio of brands in China. We are applying our past experience and practices as we integrate our recent OPI, Philosophy and TJoy acquisitions.

Since the beginning of fiscal 2011, we have launched seven new fragrance brands, including *Bottega Veneta*, *Lady Gaga Fame* and *Roberto Cavalli*. In fiscal 2012, we also launched *ck one color* under our *Calvin Klein* brand. In fiscal

2013, we have launched our new fragrance *Lady Gaga Fame*



and signed licenses to distribute Katy Perry's existing fragrance portfolio and develop new *Katy Perry* fragrances.

## Our Competitive Strengths

***A portfolio of strong, well recognized beauty brands anchored by our power brands across three key beauty segments.*** The strength of our brand portfolio provides the foundation of our success. We believe our brands are valued by consumers across geographies and distribution channels. We believe consumers appreciate the quality and innovation of our products across various price points and our ability to quickly and cost-effectively innovate and draw excitement to our products. Our power brands, *adidas*, *Calvin Klein*, *Chloé*, *Davidoff*, *Marc Jacobs*, *OPI*, *philosophy*, *Playboy*, *Rimmel* and *Sally Hansen*, are at the core of our accomplishments. We invest aggressively behind current and prospective power brands, which are our largest brands and those that we believe to have the greatest potential, to enhance our scale in the three beauty segments in which we compete. We have grown our power brands from three brands in fiscal 2002 to 10 brands in fiscal 2012, with the net revenue contribution from these brands increasing from 40% of \$1.4 billion to approximately 70% of \$4.6 billion during the same time period.

***Global leader in fragrances.*** Our #2 global position in fragrances is a result of the strength, scale and balance of our brands across all three key categories in the fragrances segment: Designer (including *Calvin Klein*, *Marc Jacobs*, *Chloé*, *Roberto Cavalli*, *Balenciaga*, *Bottega Veneta* and *Guess?*), Lifestyle (including *Playboy* and *Davidoff*) and Celebrity (including Jennifer Lopez and Beyoncé Knowles). Our Fragrances segment has been consistently profitable, with operating margins expanding in each of the last three fiscal years. We have been a key innovator in fragrances across prestige and mass markets. Our recent successful launches include *Roberto Cavalli* and launches within the *Chloé*, *Marc Jacobs* and *Playboy* brands. With the launch of *Glow by JLo* in 2002, we reinvigorated the modern celebrity fragrances segment and built on that success to launch many other celebrity fragrances, including the recent *Beyoncé Pulse* and *Lady Gaga Fame* launches.

***One of the fastest growing players in color cosmetics.*** We have achieved our #6 ranking globally in color cosmetics, as well as a #2 position in Europe and a #5 position in the U.S., by transforming *Rimmel* from a regional player into a power brand and by identifying and investing in the high growth potential of the nail care category. We continue to build on these foundations organically through new product innovations and strategically through acquisitions such as *OPI*. In nail care, we achieved a #1 position globally in the combined retail and professional channels with *Sally Hansen* and *OPI*. Our growth in the nail category is fueled by outstanding innovations. As an example, *Sally Hansen* had the best-selling launches in the U.S. color cosmetics market in 2010 with the launch of *Complete Salon Manicure* and in 2011 with the launch of *Salon Effects*.

***Licensee of choice.*** We believe our success in partnering with Designer, Lifestyle, and Celebrity brands is due to our track record as brand architects who capture and translate each brand's essence into successful products while respecting and preserving each licensor's brand identity. In addition, our global scale allows us to offer our licensed products in multiple points of distribution and in multiple geographies. *Marc Jacobs* and *Chloé* are examples of licensed designer brands that have organically grown from low revenue bases to be two of our most highly valued and fastest growing brands. Similarly, we grew *Playboy* from a low revenue base and expanded it globally. We will seek to replicate this success with high potential brands such as *Roberto Cavalli*. We continue to build on the success of *Glow by JLo*, one of the first modern celebrity fragrances, by partnering with highly sought-after celebrities. We believe our success and scale make us a preferred licensee for potential partners and create even greater opportunities for us to further develop existing brand licenses.

***Superior innovation driven by entrepreneurial culture.*** Our entrepreneurial culture is driven by our *Faster. Further. Freer.* credo that allows us to act faster and push marketing and creative boundaries further. Our past success demonstrates that we are poised to turn innovative ideas into realities with agility, decisiveness and calculated risk taking, all at a high level of execution. Over the last three fiscal years, sales from our new products accounted for approximately 17% of our total net revenues, on average. Historically, our strong track record with new products has been a key driver of our organic net revenue growth in excess of industry growth.



**Product, channel and geographic diversity.** We have breadth across beauty segments with product offerings in fragrances, color cosmetics and skin & body care. We have a balanced multi-channel distribution strategy and market products across price points in prestige and mass channels of distribution, including department stores, specialty retailers, traditional food, drug and mass retailers, salons, travel retail, e-commerce and television sales, among others. We believe our commercial expertise enhances our capabilities when we enter new markets where products must suit local consumer preferences, incomes and demographics. In fiscal 2012 mass, prestige and travel retail represented 50%, 37% and 6% of our net revenues, respectively. Our beauty products are marketed, sold and distributed to consumers in over 130 countries and territories. We believe our diverse, globally recognized product portfolio positions us well to expand our leadership broadly into new geographies, in both developed and emerging markets.

**Compelling financial profile.** Our portfolio and superior execution have enabled us to achieve superior growth, profitability and cash flow generation. We have an exceptional track record of delivering strong and consistent net revenue growth ahead of average industry rates for the geographies in which we compete. From fiscal 2010 through fiscal 2012 we grew our net revenues by an average annual growth rate of 16%, or approximately 8% excluding the effects of acquisitions and foreign currency exchange translations. Due to our sales growth as well as optimization of our logistics infrastructure, supply chain and global procurement systems our gross profit grew from fiscal 2010 through fiscal 2012 by an average annual growth rate of 19%, while gross margin improved by 2.7 percentage points in the same period. For the three years ending fiscal 2012, our adjusted operating margin expanded by 3.4 percentage points, from 8.2% to 11.6%. During the same period, our operating margin declined by 9.8 percentage points, from 5.3% to (4.5%). See Summary Consolidated Financial Data Non-GAAP Financial Measures for a discussion of the differences between operating income and Adjusted Operating Income.

Our ability to generate organic revenue growth, deliver continued margin expansion and manage working capital effectively has resulted in a strong cash flow profile that allows us to invest in marketing, research and development and other growth opportunities while also successfully reducing debt levels incurred to finance acquisitions. In fiscal 2012, we generated cash flow from operating activities of \$589 million and from fiscal 2010 through fiscal 2012 we maintained an average operating income cash conversion ratio of over 100% of both operating income and Adjusted Operating Income.

**Successful integration of acquired brands and companies.** Since 2002, we have successfully completed a number of acquisitions to drive segment, geographic and distribution platform growth. In each acquisition we make, we seek to employ best practices and talent from both our organization and the acquired business to efficiently integrate these businesses to implement our strategy and maximize growth. Our track record of successful acquisitions reflects the strength of our entrepreneurial culture, our ability to attract and retain top management talent, our innovative approach to marketing and our focus on achieving supply chain and operational efficiencies.

We believe we are adept at identifying growth opportunities that complement our portfolio strategies and allow us to build on our core competencies. Following the acquisitions of the *Marc Jacobs* fragrance license and the *Calvin Klein* fragrance business, we developed these brands into power brands that expanded our global presence in fragrances. Under our ownership, the *Sally Hansen* brand has expanded our Color Cosmetics segment and developed a global reach. The OPI acquisition provided us with the leading professional nail care brand. The Philosophy acquisition enabled us to increase scale in skin & body care and enter new channels of distribution, like QVC and e-commerce. Additionally, we have selectively acquired businesses that bring us new platforms, such as TJoy, which provided us with a broad manufacturing and distribution platform for our existing portfolio of brands in China. We are applying our past experience and practices as we integrate our recent OPI, Philosophy and TJoy acquisitions.

**Experienced management team with proven industry track record.** The majority of our Executive Committee has worked together for almost a decade, and has an average of almost two decades of industry experience. This team has been pivotal in institutionalizing our entrepreneurial culture and global strategic vision.



## Our Strategy

Coty targets net revenue growth that is in line with or outperforms the industry average, and we believe our organic growth has in fact outpaced the industry over the past three years based on Euromonitor data. At the same time, Coty strives to expand margins and improve cash flow generation. Our continued net revenue growth is centered on improving our competitive position in all our segments, including through further developing power brands and diversifying our geographic presence into emerging markets and across distribution channels.

***Continue to develop our power brands portfolio.*** We will seek to capitalize on our existing power brands through continued excellence in branding, innovation and execution. Over the past three fiscal years, we have added power brands in each of our segments. Net revenues from our power brands grew 18% in fiscal 2012 compared to the prior year, or 10% assuming the acquisitions of Philosophy and OPI had occurred on July 1, 2010.

We see growth opportunities for our existing power brands. Additionally, we seek to identify and incubate new and existing brands that we believe have the potential to develop into power brands. For example, we launched *Playboy* in fiscal 2009 and have since built it into a power brand by identifying a unique brand positioning and leveraging our strengths. *Playboy* is now the #3 brand in the combined North American and European fragrance mass markets. Similarly, we acquired *Chloé* in fiscal 2006 and converted it into one of the fastest growing prestige fragrance brands for women over the past four years. From its relaunch in fiscal 2008 through fiscal 2012, *Chloé* has grown 1,184% as measured by net revenues. In the Color Cosmetics segment, we have grown the *Sally Hansen* brand 53% through fiscal 2012 as measured by net revenues from our acquisition of the brand in fiscal 2008.

***Leverage innovation to strengthen our position in each distribution channel.*** Innovation and new product development is essential to extending our global leadership position in fragrances, and to strengthening our global position in color cosmetics and skin & body care. Over the past three fiscal years, new product innovations represented approximately 17% of our annual net revenues, on average. We intend to continue to develop and bring to market unique and innovative products across price points and in various geographies and distribution channels that we believe will be modern, appealing and accessible to the consumer. For example, our recently launched *Lady Gaga Fame* fragrance is the first-ever black *eau de parfum* and contains a proprietary new technology that causes it to become invisible once airborne. Further, we will continue to develop new brands and to seek partnerships with highly sought-after celebrities and designer and lifestyle brands, leveraging our track record of successful licensing relationships.

***Diversify our geographic presence into new and emerging markets.*** We seek to accelerate our sales growth by expanding and further diversifying our geographic footprint, including in emerging markets. In fiscal 2012, emerging markets represented 23% of our total net revenues. Our target is to generate more than one third of our net revenues from emerging markets five years from now. From fiscal 2010 to fiscal 2012, our net revenues from emerging markets grew by an average annual growth rate of 18%, or 14% excluding the effects of acquisitions and foreign currency exchange translations. During the same period, our net revenues from developed markets grew by an average annual growth rate of 14%, or 6% excluding the effects of acquisitions and foreign currency exchange translations.

We seek to strengthen our go-to-market capabilities in certain areas in Asia and Latin America, to fully leverage the potential of our current brand portfolio and to develop tailor-made products to better serve local needs and tastes. We are also leveraging our strong relationships with top global customers such as Sephora and AS Watson to accelerate penetration and establishment of certain brands in the emerging markets. We also intend to leverage our current distribution to build our business in existing geographies with products that we believe are well-suited to the local consumer preferences. For example, we will seek, among other initiatives, to expand distribution of our brands in China by leveraging *TJoy*'s distribution network.

***Expand and strengthen our position in skin & body care.*** Our skin & body care presence has been anchored by *adidas*, a brand we have grown organically, and Lancaster, a brand with technically advanced products that reflect our

strong research and development capabilities. We

continue to expand our presence in skin & body care through acquisitions. Through Philosophy, we have increased scale in skin & body care and entered new channels of distribution like direct television sales through QVC and e-commerce. Furthermore, sales of the adidas brand are growing in China as a result of the expanded distribution platform acquired with the TJoy business in fiscal 2011.

***Leveraging our multi-channel distribution capabilities.*** We seek to continue to increase market presence, brand recognition and net revenues by offering certain products through multiple distribution channels to reach a broad spectrum of consumers, with different needs and expectations, and to capture growth opportunities at varying price points and diverse retail environments. Our balanced distribution network allows us also to effectively manage risks related to any single distribution channel, and to exploit growth in whichever channel the growth materializes. For example, we are expanding the *OPI* brand globally primarily through the professional channel where the brand enjoys strong leadership. We also are offering *OPI* through selective distribution channels as well as our growing travel retail business and offering *Nicole* by *OPI* through our mass distribution channels. We have also recently appointed Sephora as privileged retail partner for *OPI* in certain European and Middle Eastern countries and Russia. The development of branding and market execution strategies with our top global customers is an important component of our strategy to ensure our brands receive appropriate pricing and placement as we expand our distribution.

In addition to maintaining a strategic balance between prestige and mass distribution channels, we are seeking to expand our presence through alternative distribution channels, including by leveraging the expertise of our philosophy brand (which sells products through its U.S. and U.K. websites, among other channels) in e-commerce and direct television sales by expanding the distribution of appropriate brands into these channels.

***Increase margins and continue to improve cash flow generation.*** We will remain focused on converting earnings into cash flow through effective working capital management. We seek continued margin expansion through strong net revenue growth, development of higher margin products, cost control, and supply chain integration and efficiency initiatives, such as optimization of our manufacturing footprint. In fiscal 2012, our adjusted operating margin improved as discussed above, and we generated cash flow from operating activities of \$589 million, compared to \$418 million in the prior year.

While acquisitions are not essential to achieve our growth objectives, we will continue to evaluate targets that fit with our strategy and add stockholder value. Our approach to acquisitions has resulted in a successful track record of identifying targets aligned with our strategic objectives, executing acquisitions quickly and efficiently, and integrating the businesses successfully to both accelerate top line growth and improve the financial performance of the overall business.

## Our Brands

The following chart displays some of our key brands by segment.

			<b>Skin &amp;</b>
	<b>Fragrances</b>	<b>Color Cosmetics</b>	<b>Body Care</b>
<b>Designer</b>	<b>Celebrity</b>	<b>Lifestyle</b>	

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

Our power brands, each of which we describe in further detail below, are at the core of our accomplishments. We invest aggressively behind current and prospective power brands, which are our largest brands and those that we believe to have the greatest global potential, to enhance our scale in the three beauty segments in which we compete. We have grown our power brands from three brands in fiscal 2002 to 10 brands in fiscal 2012, with the net revenue contribution from these brands increasing from 40% of \$1.4 billion to approximately 70% of \$4.6 billion during the same time period.

*adidas*. We acquired the *adidas* license as part of a combination of assets prior to the incorporation of Coty Inc. *adidas* has since become the biggest licensed brand in the global mass skin & body care market, including its significant presence in deodorants and shower gels, and also



enjoys leading positions in the mass fragrances market. The brand has grown 73% as measured by net revenues from fiscal 2002 through fiscal 2012.

Our *adidas* products for both men and women blend distinctive brand identity (through the fragrance and product design) and aspirations of performance (epitomized by the

developed with athletes signature) to appeal to a broad range of consumers.

The brand is present and has enjoyed years of successful revenue generation in developed markets, such as Western Europe and North America, and emerging markets, such as Brazil, China, India and Russia.

*Calvin Klein.*

We acquired the *Calvin Klein* fragrance business, including the *Calvin Klein* fragrance license, as part of the acquisition of UCI in fiscal 2006. From the acquisition through fiscal 2012, we grew the brand 57% as measured by net revenues.

*Calvin Klein* is our largest brand by net revenues and one of the largest fragrance brands by net revenues in the world. It has strong positions in most developed markets, including the United States, the United Kingdom, Germany and Spain, and in emerging markets, such as China, the Middle East and Russia. The brand also sells in

travel retail,  
including  
duty-free  
shops. The  
brand reaches  
a diverse  
consumer  
base through  
several strong  
product lines,  
including *ck*  
*one*, *Eternity*  
and *Euphoria*.

In fiscal  
2012, we  
launched *ck*  
*one color*, a  
new line of  
color  
cosmetics

under the *ck one* product line sold in prestige distribution channels. We intend to increase the consumer reach and market share of our *Calvin Klein* brand, particularly in Asian markets.

*Chloé*. We also acquired our *Chloé* license in the fiscal 2006 acquisition of UCI. After a storied past in fragrances, *Chloé* had almost disappeared from the prestige market at the time of our acquisition. In fiscal 2008, we successfully relaunched the brand, growing it 1,184% through fiscal 2012, as measured by net revenues and converting *Chloé* into one of the fastest growing prestige fragrance brands for women over the past four

years. *Chloé*'s sales results are particularly strong in the United States, China, France, Germany, Italy, Japan and Spain.

*Davidoff*. We acquired the *Davidoff* license, including the *Cool Water* line, as part of a combination of assets prior to the incorporation of Coty Inc. *Cool Water* has since proven to be *Davidoff*'s most successful line. In 1996, we launched our *Cool Water* women's fragrance, which has enjoyed similar success. The #2 men's fragrance brand in the German prestige market, *Cool Water* remains one of the world's leading prestige fragrances. Our more recent launches under the *Davidoff* brand were *Game* in fiscal

2013 and  
*Davidoff*  
*Champion* in  
fiscal 2011.  
*Davidoff* is the  
#10 men's  
fragrance  
brand in the  
worldwide  
prestige  
market.

*Marc Jacobs*.  
We acquired  
our *Marc*  
*Jacobs* license  
from a division  
of LVMH  
Moët Hennessy  
Louis Vuitton  
in fiscal 2003.  
Since our  
acquisition, we  
have grown  
*Marc Jacobs*  
into an iconic  
fragrance  
brand through  
our launch of  
*Daisy Marc*  
*Jacobs* in fiscal  
2008 and *Marc*  
*Jacobs Lola* in  
fiscal 2009.  
We have  
grown the  
brand 769% as  
measured by  
net revenues  
since our first  
Coty-launched  
*Marc Jacobs*  
fragrance  
through fiscal  
2012. In  
calendar year  
2012, *Marc*  
*Jacobs* was the  
#7 women's  
fragrance  
brand in the

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

*OPI.* We have owned the *OPI* brand since acquiring *OPI* in fiscal 2011. Founded in 1981, *OPI* is the leader in professional nail care. With its portfolio of over 400 creatively named unique shades, *OPI* links fashion and entertainment with color cosmetics. *OPI* regularly creates limited-edition collections with celebrities and entertainment franchises and works with fashion houses and fashion publications to promote the

brand. Our *OPI* brand product lines include *OPI* (which is sold through salons, travel retail and traditional retailers) and *Nicole by OPI* (which is sold through mass retailers). *OPI* also markets nail gels, nail care products and nail accessories through salons. *OPI* is sold in over 100 countries and territories.

*philosophy*. We have owned the *philosophy* brand since acquiring Philosophy in fiscal 2011. The brand enjoys strong market position in skin & body care in the U.S. prestige market and leverages multiple distribution channels, including direct television sales, such as QVC, and e-commerce. *philosophy s miracle worker* line, launched in calendar



year 2010, was reported to be one of the most successful skin care launches in the U.S. prestige market in the past few years. We began distributing *philosophy* in certain international markets, including Canada, the Netherlands, the United Kingdom and Singapore in fiscal 2012 and South Korea in the first quarter of fiscal 2013.

*Playboy*. We entered into our license with Playboy in fiscal 2007. In fiscal 2009, we launched a line of men's fragrances and body sprays under the *Playboy* brand. The line quickly became one of the top-ranked brands in the European mass market, and *Playboy* is now the #2 fragrance brand in the combined North

American and European mass markets. Since we entered into the license through fiscal 2012, *Playboy* has increased in size more than 20 times, as measured by net revenues. In fiscal 2011, we launched a women's *Playboy* fragrance line. The line enjoyed similarly strong success as our men's line. *Playboy* is one of the top fragrance brands in the global mass market.

*Rimmel*. We acquired the *Rimmel* brand in 1996. The brand comprises a broad line of color cosmetics products covering the entire range of women's color cosmetics needs, including eye, face, lip and nail products. *Rimmel* is sold in drugstores and other mass distribution channels.

*Rimmel* is the #3 color cosmetics brand in the European mass market and is rapidly increasing net sales in the Americas and Asia. The brand has grown approximately 168%, as measured by net revenues, from fiscal 2002 through fiscal 2012. *Rimmel* has been represented

for more  
than ten  
years by  
Kate Moss,  
who has also  
developed  
and  
promoted her  
own  
signature  
line of  
*Rimmel*  
lipsticks.

*Sally  
Hansen*. We  
have owned  
the *Sally  
Hansen*  
brand since  
acquiring  
Del  
Laboratories  
in fiscal  
2008. *Sally  
Hansen* is  
the #1 nail  
care product  
brand in  
North  
America. We  
believe that  
*Sally Hansen*  
has the most  
diversified  
and  
successful  
line of nail  
products in  
the U.S.  
Products in  
our *Sally  
Hansen* line  
include nail  
care  
products,  
nail color  
lacquers and  
nail and  
beauty  
implements.

We also sell lip products, eye tools and a broad range of lotions, depilatory and wax products through our *Sally Hansen* brand. *Sally Hansen* is sold in drugstores and other mass retailers. Although *Sally Hansen* is currently primarily a North American brand, we have begun successfully expanding its presence in Europe, Asia and South America by focusing on nail care and color.

In addition to our power brands, we have a broad and deep portfolio of over 50 other brands, which accounted for approximately 30% of our net revenues in fiscal 2012. These include regional brands such as *Joop!*, *Jil Sander*, *Lancaster* and *Manhattan*, celebrity brands such as *Beyoncé* and *Jennifer Lopez* and emerging brands such as *Roberto Cavalli*.

### ***Fragrances***

Our Fragrances segment net revenues represented 53%, 57% and 61% of our net revenues in fiscal 2012, 2011 and 2010, respectively. In fiscal 2012, 2011 and 2010, our Fragrances segment generated \$2.453 billion, \$2.325 billion and \$2.113 billion in net revenues, respectively, and \$340.5 million, \$286.9 million and \$192.8 million in operating income, respectively.

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

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

We own certain of the trademarks associated with our fragrance products and license other trademarks from celebrities, fashion houses and other Lifestyle brands. In fiscal 2012, we manufactured 70% of our fragrance products at our manufacturing facilities, and we market and distribute our fragrance products globally through local affiliates and third-party distributors. In fiscal 2012, 2011 and 2010, the Americas represented 32%, 32% and 34%, respectively, EMEA represented 54%, 55% and 54%, respectively, and Asia Pacific represented 14%, 13% and 12%, respectively, of our net revenues from our Fragrances segment.

Our top fragrance brands by percentage of net revenues are *Calvin Klein*, *Davidoff*, *Marc Jacobs*, *Chloé* and *Playboy*. We have launched several new fragrance brands since 2010, including *Balenciaga*, *Beyoncé*, *Bottega Veneta*, *Elite Models*, *Guess?*, *Lady Gaga Fame* and *Roberto Cavalli*. Our *JLo* fragrance brand revitalized celebrity fragrances. Our *Beyoncé* fragrance launch set new mass sales records in the U.S., and our *Playboy* fragrance became one of the top-five mass fragrances in Europe and the United States within four years of its launch.

Additionally, we have launched several new fragrances since fiscal 2010 for existing brands such as *Balenciaga L'eau Rose*, *Beyoncé Pulse*, *Calvin Klein Encounter*, *ck one Shock*, *David Beckham Homme*, *Davidoff Game*, *Daisy Marc Jacobs Eau So Fresh*, *DOT Marc Jacobs*, *Eau de Chloé*, *Guess? Homme*, *Just Cavalli*, *Oh Lola! Marc Jacobs* and *See by Chloé*.

### ***Color Cosmetics***

Net revenues from our Color Cosmetics segment represented 31%, 28% and 25% of our net revenues in fiscal 2012, 2011 and 2010, respectively. In fiscal 2012, 2011 and 2010, our Color

Cosmetics segment generated \$1.431 billion, \$1.143 billion and \$891.0 million in net revenues, respectively, and \$200.2 million, \$115.7 million and \$68.9 million in operating income, respectively.

We are an emerging leader in color cosmetics. We are ranked sixth globally and #2 in Europe, and we are growing our presence in North America. Our color cosmetics products include lip, eye, nail and facial color products. We demonstrated our commitment to expanding our color cosmetics offerings with our acquisition of Sally Hansen and *N.Y.C. New York Color* in fiscal 2008. In fiscal 2011, we acquired OPI, the leader in professional nail care, and also acquired the owner of the *Manhattan* brand, which is the #5 color cosmetics brand in the German mass market. As a result, we maintain a #1 position in nail care products in the combined North American and European markets and a #2 position globally.

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

Our strength in color cosmetics is driven by the success and expansion of our *OPI*, *Rimmel* and *Sally Hansen* brands, which have each launched several new products. Under our *Sally Hansen* brand, these include *Complete Salon Manicure* and *Salon Effects*, each of which was among the most successful new product launches in the U.S. color market in the year each was launched. Our OPI brand has recently launched the successful *OPI Shatter* and *GelColor by OPI*. We also launched a collection of lipstick designed by Kate Moss under our *Rimmel* brand. We will seek to expand distribution of *Rimmel* in China by leveraging TJoy's distribution network and increase the presence of Sally Hansen products in new international markets.

We own all our color cosmetics brands and their associated trademarks, except for *Cutex*, which we license. We associate celebrities' images in the advertising of some of our color cosmetics brands such as Kate Moss for *Rimmel*, Heidi Klum for *Astor* and Katy Perry, Nicki Minaj and others for *OPI* color collections. In fiscal 2012, we manufactured 53% of our color cosmetics products at our manufacturing facilities. We market and distribute our color cosmetics products globally through our subsidiaries and our third-party distributors. In fiscal 2012, 2011 and 2010, the Americas represented 57%, 53% and 51%, respectively, EMEA represented 38%, 43% and 46%, respectively, and Asia Pacific represented 5%, 4% and 3%, respectively, of our net revenues from our Color Cosmetics segment.

### ***Skin & Body Care***

Our Skin & Body Care segment net revenues represented 16%, 15% and 14% of our net revenues in fiscal 2012, 2011 and 2010, respectively. In fiscal 2012, 2011 and 2010, our Skin & Body Care segment generated \$727.9 million, \$617.6 million and \$478.6 million in net revenues, respectively and \$(577.8) million, \$30.2 million and \$17.7 million in operating income (loss), respectively.

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

We acquired Philosophy in fiscal 2011 to further develop our Skin & Body Care segment and to access nontraditional sales channels like QVC televised home shopping and e-commerce. We believe our recent acquisition of TJoy will provide us with the necessary distribution infrastructure to become a competitor in the mass beauty market in China. However, we incurred impairment charges for certain indefinite-lived trademarks acquired with the TJoy and Philosophy acquisitions of \$58.0 million and \$130.6 million, respectively, and impairment charges to goodwill of \$384.4 million. These impairments were primarily attributable to reductions in both actual and projected cash flows of Skin & Body Care products related to our *TJoy* and *philosophy* product lines from what were originally anticipated at their acquisitions. At TJoy, these lower than projected cash flows were primarily caused by the early retirement of the

TJoy CEO announced in August 2011 and effective



as of December 31, 2011, and the related transition to new leadership during our third quarter fiscal 2012. In addition, during the second and third quarters of fiscal 2012, certain key sales representatives departed with the former TJoy CEO. At Philosophy, these lower than projected cash flows for our *philosophy* product lines were primarily caused by a more modest contribution from new product launches in fiscal 2012 in the U.S. market, due to an innovation plan that was smaller in scope and less successful than expected, and a slowdown of brand sales momentum in certain key retailers. Furthermore, the expansion of the Philosophy business into certain international markets in fiscal 2012 was delayed due to a longer than expected product registration process in certain countries. We are working intensely to address the above issues at Philosophy by focusing on product innovation and expansion into new geographies.

We own Lancaster, Philosophy and TJoy and their trademarks, and we license the trademarks associated with *adidas*. In fiscal 2012, we manufactured 86% of our skin & body care products at our manufacturing facilities. We market and distribute our skin & body care products globally through our subsidiaries and our third-party distributors. In fiscal 2012, 2011 and 2010, the Americas represented 37%, 28% and 16%, respectively, EMEA represented 49%, 61% and 76%, respectively, and Asia Pacific represented 14%, 11% and 8%, respectively, of our net revenues from our Skin & Body Care segment.

## Research and Development

Research and development is a pillar of our innovation. It combines cutting-edge research and technology, new ingredients and precise market testing, enabling us to develop and support the development of new products while continuing to improve our existing products. Past innovations have included the first use of vanilla as a stand-alone fragrance, development of Lancaster Retinology, a breakthrough anti-aging product, the first ever deodorant with a patented moisture absorbing complex and the first oxygen-based product with a patented system for molecular oxygen delivery to the skin. Our key new product developments with significant product innovation components in fiscal 2011 and 2012 included the introduction of *Sally Hansen Salon Effects*, which are self-adhesive nail polish strips; *Salon Manicure*, a set of salon-style manicure tools and products designed for in-home use; *Rimmel Lash Accelerator Mascara*, which contains an ingredient that helps support natural lash growth; *Lancaster 365 Cellular Elixir*, which contains patented technology that helps support cellular DNA repair; and *Lady Gaga Fame*, which is the first-ever black *eau de parfum* and contains a proprietary new technology that causes it to become invisible once airborne. The Consumer Goods Technology Group recently recognized our excellence in innovation with its 2011 Most Innovative Company award. In addition, our products over the past three years have received eight U.S. FiFi® Awards, six Italian FiFi® Awards, 11 German FiFi® Awards, five U.K. FiFi® Awards, one French FiFi® Award, one Arabia FiFi® Award and one Russian FiFi® Award from The Fragrance Foundation. We continuously seek to improve our products through research and development, and strive to provide the consumer with the best possible products. Our research and development teams work with our marketing and operations teams to identify recent trends and consumer needs and to bring products quickly to market. Additionally, our basic and applied research groups, which conduct longer-term research such as blue sky research, seek to develop proprietary new technologies for first-to-market products and for improving existing products. This research and development is done both internally and through affiliations with various universities, technical centers, supply partners, industry associations and technical associations. As of May 2013, we owned approximately 750 U.S. and foreign patents and patent applications.

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

As of May 2013, we had approximately 250 employees engaged in research and development. Research and development expenditures totaled 0.9% of net revenues in each of fiscal 2012, 2011

and 2010, respectively. We maintain six research and development centers, which are located in the United States, Monaco, Switzerland and China.

### **Suppliers, Manufacturing and Related Operations**

We manufacture approximately 66% of our products in ten facilities around the world. These facilities are located in the United States, Spain, France, Monaco, the United Kingdom and China. Several of these locations provide multi-segment manufacturing. Approximately 34% of our finished products are manufactured to our specifications by third parties.

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

The principal raw materials used in the manufacture of our products are essential oils, alcohol and specialty chemicals. The essential oils in our fragrance products are sourced from fragrance houses. We source approximately 90% of our essential oils requirements under multi-year agreements with four preferred fragrance houses. As a result, we realize material cost savings and benefits from the technology, innovation and resources provided by these fragrance houses.

We purchase the raw materials for all our products from various third parties. We also purchase packaging components that are manufactured to our design specifications. We work in collaboration with our suppliers to meet our stringent design and creative criteria. In fiscal 2012, no single supplier accounted for more than 7% of the materials used in the manufacture of our products.

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

We have established a global distribution network designed to meet the changing demands of our customers while maintaining service levels. In calendar years 2010 and 2011, we received recognition from two of our largest retail customers for our superior performance, including a Wal-Mart Supplier of the Year Award. We are continuing to evaluate and restructure our physical distribution network to increase efficiency and reduce our order lead times.

We also recognize the importance of our employees and have programs in place designed to ensure operating safety. We also have in place programs designed to ensure that our manufacturing and distribution facilities comply with applicable environmental rules and regulations.

### **Marketing and Sales**

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

in order to effectively fulfill the needs of each.

Our marketing strategy creates a distinct image and personality for each brand. Many of our products are linked to recognized designers and design houses such as *Bottega Veneta*, *Calvin Klein*,

*Chloé*, *Guess?* and *Marc Jacobs*, celebrities, such as Beyoncé Knowles, Lady Gaga, David and Victoria Beckham, Jennifer Lopez and Madonna, and Lifestyle brands, such as *adidas*, *Davidoff* and *Playboy*. Each of our brands is promoted with consistent logos, packaging and advertising designed to enhance its image and the uniqueness of each brand. Our strategy is to promote these brands mostly in television, print, outdoor ads, in-store displays and online on brand sites and social networks. We also leverage our relationships with celebrities to endorse certain of our products. Recent campaigns include Heidi Klum for *Astor*, Kate Moss and Georgia May Jagger for *Rimmel*, Katy Perry and Nicki Minaj for *OPI*, Charlotte Gainsbourg for *Balenciaga* and Diane Kruger for *Calvin Klein*.

Our marketing efforts also benefit from cooperative advertising programs with retailers, often in connection with in-store marketing activities. Such activities are designed to attract consumers to our counters, displays and walls and make them try, or purchase, our products. We also engage in sampling and gift-with-purchase programs designed to stimulate product trials. We have more recently been expanding our digital marketing efforts, including through websites we do not control or operate, with a multi-pronged strategy that ranges from brand sites, social networking campaigns and blogs, to e-commerce. Forty-five of our brands currently have marketing sites, 46 have social networking activities and the *philosophy* brand website, which we own and operate, has e-commerce capabilities. We also partner with key brick and mortar retailers in their expansion into e-commerce.

Our in-house creative teams perform and oversee most of our creative marketing work. Together with our brand partners and renowned advertising agencies, our creative staff designs packaging and develops advertising and in-store displays for all our brands.

Our consolidated expenses for advertising and promotional costs were \$1.086 billion, \$974.7 million and \$806.4 million in fiscal 2012, 2011 and 2010, respectively.

### **Distribution Channels and Retail Sales**

We currently have offices in more than 30 countries and market, sell and distribute our products in over 130 countries and territories.

We have a balanced multi-channel distribution strategy and market products across price points in prestige and mass channels of distribution. We offer certain products through multiple distribution channels to reach a broader range of customers. We sell products in each of our segments through retailers, including hypermarkets, supermarkets, independent and chain drug stores and pharmacies, upscale perfumeries, upscale and mid-tier department stores, nail salons, specialty retailers, duty-free shops and traditional food, drug and mass retailers. Our principal retailers in the mass distribution channel include CVS, Kmart, Target, Walgreens and Wal-Mart in the United States and Boots, DM, Carrefour and Watson's in Europe. Our principal retailers in the prestige distribution channel include Macy's, Neiman Marcus, Nordstrom and Saks Fifth Avenue in the United States, AS Watson and Douglas in Europe and Sephora in multiple geographic regions. In fiscal 2012, no retailer accounted for more than 10% of our global net revenues; however, certain retailers accounted for more than 10% of net revenues within certain geographic markets. In fiscal 2012, our top ten retailers combined accounted for 29% of our net revenues and Wal-Mart, our top retailer, accounted for 7% of our net revenues. We are pursuing our strategy of geographic expansion by selling through retailers, our subsidiaries or third-party distributors and our strategy of increasing our presence in e-commerce by selling through websites that support an e-commerce-only product distribution business, including our own branded websites. We believe our commercial expertise enhances our capabilities when we enter new markets where products must suit local consumer preferences, incomes and demographics.

We also sell a broad range of our products through travel retail sales channels, including duty-free shops, airlines, sea lines and other tax-free zones. Travel retail sales channels represented 6% of our net revenues in fiscal 2012. In addition, we sell our products through the internet over our retail partners' e-commerce sites and through online retailers, and we sell our philosophy products through *philosophy*-branded websites and through direct marketing via television, such as QVC. We are seeking to expand our presence through alternative distribution channels, including

by leveraging the

expertise of *philosophy* (which sells products through its U.S. and U.K. websites, among other channels) in e-commerce, and direct television sales by expanding the distribution of appropriate brands into these channels.

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

In accordance with GAAP, we report revenues on a net basis, which reflects the amount of actual returns received and the amount established for anticipated returns. As a percentage of gross sales, returns accounted for approximately 3.5%, 3.6% and 4.0% in fiscal 2012, 2011 and 2010, respectively.

## **Competition**

We compete against a number of manufacturers and marketers of fragrances, color cosmetics and personal care products. Our principal global competitors include L'Oréal S.A., Avon Products, Inc., Beiersdorf AG, The Estée Lauder Companies Inc., Elizabeth Arden, Inc., Interparfums, Inc., Kosé Corporation, Revlon Consumer Products Corporation and Shiseido Co., Ltd. and the beauty divisions of Unilever, LVMH Moët Hennessy Louis Vuitton and The Procter & Gamble Company. In addition to the established multinational brands against which we compete, small targeted niche brands continue to enter the market. Competition is also increasing from private label products sold by apparel retailers and mass distribution channel discounters.

We believe that we compete primarily on the basis of perceived value, including pricing and innovation, service to the consumer, promotional activities, advertising, special events, new product introductions, e-commerce and mobile-commerce initiatives, direct sales and other activities. It is difficult for us to predict the timing and scale of our competitors' actions in these areas. In particular, the fragrances segment in the United States has in the past been influenced by the high volume of new product introductions by diverse companies across several different distribution channels.

Refining product portfolios with more enhanced, newer and redesigned products has become a priority as competitors have emerged from the most recent economic decline looking to respond to changing consumer needs. Increased focus on research and development has led to several product enhancements, especially those related to the anti-aging products targeted at the baby boomers. Additionally, the industry's introduction of organic and eco-friendly products has resonated with its increasingly environmentally aware customer base.

## **Intellectual Property**

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

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



protect the trademarks used in our principal products in the United States and significant markets worldwide. We consider the protection of our trademarks to be essential to our business.

A number of our products also incorporate patented, patent-pending or proprietary technology in their respective formulations and/or packaging, and in some cases our product packaging is subject to copyright, trade dress or community design protection. While we consider our patents and copyrights, and the protection thereof, to be important, no single patent or copyright, or group of patents or copyrights, is material to the conduct of our business. As of May 2013, we owned approximately 750 U.S. and foreign patents and patent applications.

Products representing a significant portion of our net revenues are manufactured and marketed under exclusive license agreements granted to us for use on a worldwide and/or regional basis. As of June 30, 2012, the Company maintained 48 licenses, six of which were entered into during fiscal 2011 and one during fiscal 2012. In fiscal 2012, 60% of our net revenues were generated from licensed brands, with our licensed power brands (our top six licenses) representing between 3% and 17% each of total net revenues. In fiscal 2011 and 2010, 62% and 67%, respectively, of our net revenues were generated from licensed brands.

Our existing licenses, including those for our power brands, impose obligations on us that we believe are common to many licensing relationships in the beauty industry. These obligations include:

- paying annual royalties on net sales of the licensed products;

- maintaining the quality of the licensed products and the applicable trademarks;

- permitting the licensor's involvement in and, in some cases, approval of advertising, packaging and marketing plans relating to the licensed products;

- maintaining minimum royalty



payments  
and/or  
minimum  
sales levels  
for the  
licensed  
products;

actively  
promoting the  
sales of the  
licensed  
products;

spending a  
certain  
amount of net  
sales on  
marketing  
and  
advertising  
for the  
licensed  
products;

maintaining  
the integrity  
of the  
specified  
distribution  
channel for  
the licensed  
products;

expanding the  
sales of the  
licensed  
products  
and/or the  
markets in  
which it is  
sold;

agreeing not  
to enter into  
licensing  
arrangements  
with  
competitors  
of certain of  
our licensors;

indemnifying  
the licensor in  
the event of  
product  
liability or  
other claims  
related to our  
products;

limiting  
assignment  
and  
sub-licensing  
to third  
parties  
without the  
licensor's  
consent; and

in some  
cases,  
requiring  
notice to, or  
approval by,  
the licensor of  
certain  
changes in  
control as a  
condition to  
continuation  
of the license.

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

Most licenses have renewal options for one or more terms, which can range from two to 20 years. Certain licenses provide for automatic extensions, so long as minimum annual royalty payments are made, while renewal of others is contingent upon attaining of specified sales levels. The next power brand license scheduled to expire that does not provide for automatic renewal or renewal at our option expires in fiscal 2022. Seven of our licenses expire during fiscal 2013. We have renewed two of these licenses. For additional risks associated with our licensing arrangements, see [Risk Factors](#). Our business is dependent upon certain licenses.

We may be unable to obtain, maintain and protect the intellectual property rights necessary to conduct our business, and may be subject to claims that we infringe or otherwise violate the intellectual property rights of others, which could materially harm our business. For more information, see [Risk Factors](#). Our business is dependent upon certain licenses, [Risk Factors](#). If we are unable to obtain, maintain and protect our intellectual property rights, in particular trademarks, patents and copyrights, or if our brand partners and licensors are unable to maintain and protect their intellectual property rights that we use in connection with our products, our ability to compete could be negatively impacted, [Risk Factors](#). Our success depends on our ability to

operate our business without infringing, misappropriating or otherwise violating the trademarks, patents, copyrights and proprietary rights of other parties and Risk Factors The illegal distribution and sale by third parties of counterfeit versions of our products could have a negative impact on our reputation and business.

## **Employees**

As of May 2013, we had approximately 10,000 full-time employees in over 30 countries. In addition, we employ a large number of seasonal contractors during our peak manufacturing and promotional season primarily at our manufacturing facility in Sanford, North Carolina. We recognize the importance of our employees to our business and believe our relationship with our employees is satisfactory.

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

## **Government Regulation**

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

## **Environmental, Health and Safety**

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

## **Seasonality**

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

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



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

### Description of Property

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

We consider our properties to be generally in good condition and believe that our facilities are adequate for our operations and provide sufficient capacity to meet anticipated requirements. The following table sets forth our principal owned and leased corporate, manufacturing and research and development facilities as of May 24, 2013. The leases expire at various times subject to certain renewal options at our option.

Location/Facility	Owned/Leased	Use
New York, New York (3 locations)	Leased	Corporate/Commercial
Phoenix, Arizona (multiple locations)	Leased	Manufacturing/Commercial/R&D
North Hollywood, California (multiple locations)	Leased	Manufacturing/Commercial/R&D
Morris Plains, New Jersey (3 locations)	Leased	R&D
Sanford, North Carolina	Owned	Manufacturing
Ashford, England	Land Leased, Building Owned	Manufacturing
Chartres, France	Owned	Manufacturing
Paris, France (2 locations)	Leased	Corporate/Commercial
Geneva, Switzerland	Leased	Corporate/Commercial/R&D
Monaco (2 locations)	Leased	Manufacturing/R&D
Granollers, Spain	Owned	Manufacturing
Jiangsu Province, China (multiple locations)	Land Leased, Building Owned	Manufacturing/Commercial/R&D

We are consolidating our New York operations into one location. We are also in the process of combining our three locations in Morris Plains, New Jersey into one location.

### Legal Proceedings

On December 21, 2012, we voluntarily disclosed to the U.S. Commerce Department's Bureau of Industry and Security's Office of Export Enforcement ( OEE ) results of our internal due diligence review conducted with the advice of outside counsel regarding certain export transactions from January 2008 through March 2012. In particular, we disclosed information relating to overall compliance with U.S. export control laws by our majority-owned subsidiary in the UAE, and the nature and quantity of its re-exports to Syria that we believe may constitute violations of the U.S.

Export Administration Regulations ( EAR ). In addition, we disclosed that prior to January 2010

some of our subsidiary's sales to Syria were made to a party that was designated as a target of U.S. economic sanctions by the U.S. Treasury Department's Office of Foreign Assets Control (OFAC). We do not believe these sales constituted a violation of U.S. trade sanctions administered by OFAC. We also notified the Office of Foreign Assets Control of our voluntary disclosure to the OEE. Our investigation is continuing and, once we complete our review, we will supplement the initial voluntary report by filing a final disclosure with OEE. The disclosure addressed the above described findings and the remedial actions we have taken to date.

OEE is still reviewing our initial voluntary disclosure. In our submission, we have provided OEE with an explanation of the activities that led to the sales of our products in Syria. OEE may conclude that our actions resulted in violations of U.S. export control law and warrant the imposition of penalties that could include fines, termination of our ability to export our products and/or referral for criminal prosecution. The penalties may be imposed against us and/or our management. Also, disclosure of our conduct and any fines or other action relating to this conduct could harm our reputation and indirectly have a material adverse effect on our business. We cannot predict when OEE will complete its review or whether it will impose penalties.

On January 14, 2013, we voluntarily disclosed to the U.S. Department of Commerce's Bureau of Industry and Security's Office of Antiboycott Compliance (OAC) additional results of our internal due diligence review. In particular, we disclosed information relating to overall compliance with U.S. antiboycott laws by our majority-owned subsidiary in the UAE, including with respect to the former inclusion of a legend on invoices, confirming that the corresponding goods did not contain materials of Israeli origin. A number of the invoices involved U.S. origin goods. We believe inclusions of this legend may constitute violations of U.S. antiboycott laws. Our investigation is continuing and, once we complete our review, we will supplement the initial voluntary report by filing a final disclosure with OAC. The disclosure addressed the above described findings and the remedial actions we have taken to date.

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. OEE and OAC each have wide discretion to settle claims for violations. We believe that a penalty or penalties that would result in a material loss are reasonably possible. Irrespective of any penalty, we could suffer other adverse effects on our business as a result of any violations or the potential violations, including legal costs and harm to our reputation, and we also will incur costs associated with our efforts to improve our compliance procedures. We have not established a reserve for potential penalties. We do not know whether OEE or OAC will assess a penalty or what the amount of any penalty would be, if a penalty or penalties were assessed. See Risk Factors We may incur penalties and experience other adverse effects on our business as a result of possible EAR violations and Note 15, Commitments and Contingencies in our notes to Condensed Consolidated Financial Statements for the nine months ended March 31, 2013.

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

## MANAGEMENT

Set forth below are the names, ages as of the date of this prospectus and positions with the Company of the persons who will serve as our directors and executive officers upon the consummation of the offering.

### Our Executive Officers

The following table sets forth certain information concerning our executive officers.

Name	Age	Position(s) Held
Michele Scannavini	54	Chief Executive Officer
Sérgio Pedreiro	47	Chief Financial Officer
Jules Kaufman	55	Senior Vice President, General Counsel and Secretary
Géraud-Marie Lacassagne	49	Senior Vice President of Human Resources
Ralph Macchio	56	Senior Vice President of Global Research and Development, Chief Scientific Officer
Darryl McCall	58	Executive Vice President, Operations
Jean Mortier	53	President of Coty Prestige
Renato Semerari	51	President of Coty Beauty
Peter Shaefer	51	Senior Vice President, Strategic Business Development
Kevin Monaco	49	Senior Vice President, Treasurer and Investor Relations
James E. Shiah	53	Senior Vice President, Chief Accounting and Compliance Officer

**Michele Scannavini** is our Chief Executive Officer, a member of the Executive Committee and a member of the Board of Directors of Coty Inc. Prior to becoming CEO on August 1, 2012, Mr. Scannavini was President of Coty Prestige. As part of that role, he led the expansion and global business activities of Coty's designer brand licenses and the growth of our fragrance business. Mr. Scannavini oversaw the growth of our Skin & Body Care segment, successfully led the integration of several acquired businesses and completed the creation of a comprehensive fragrance portfolio through the launch of exclusive luxury licenses. Prior to joining Coty as President of Coty Prestige in 2002, Mr. Scannavini served as the Chief Executive Officer of Fila Holding S.p.A., the sports apparel and footwear company. Prior to joining Fila, he served as the Head of Sales and Marketing for Ferrari S.p.A. and Maserati. He began his career at The Procter & Gamble Company, where he developed his knowledge of the cosmetics industry and the consumer products marketplace. Mr. Scannavini holds a degree in Economics from Bocconi University in Milan.

**Sérgio Pedreiro** is Chief Financial Officer and a member of the Executive Committee of Coty Inc. Mr. Pedreiro oversees strategic leadership for corporate finance, planning and budgeting, treasury, tax and fiscal management and information technologies. He has more than 15 years of comprehensive global financial experience. Prior to joining Coty Inc. as Chief Financial Officer in 2009, Mr. Pedreiro served as Chief Financial Officer and Investor Relations Officer at ALL América Latina Logística S.A. from 2002 to 2008. Prior to working at ALL, he was an Investment Officer with GP Investment, the leading private equity firm in Brazil. Mr. Pedreiro is a director of DKMS Americas. He graduated with honors in Aeronautical Engineering from Instituto Tecnológico de Aeronáutica ITA and has a Master of Business Administration degree from Stanford University Graduate School of Business.

**Jules Kaufman** is Senior Vice President, General Counsel and Secretary of Coty Inc. and is a member of the Executive Committee of Coty Inc. In his role as General Counsel, he is responsible for overseeing Coty's legal affairs worldwide, including, among other things, acquisitions and divestitures, governance, compliance, licenses and patents and regulatory issues. Mr. Kaufman has more than 28 years of legal experience. Prior to joining Coty Inc. as General



Counsel in 2008, he served in Paris and Geneva as Vice President and Division General Counsel for Colgate-Palmolive Company's Europe/South Pacific division. Prior to that, Mr. Kaufman held positions of increasing responsibility within the Colgate legal function. Mr. Kaufman began his career in private practice in New York City. He received his Bachelor of Arts degree from Harvard University and his *Juris Doctor* from the University of Virginia School of Law.

**Géraud-Marie Lacassagne** is Senior Vice President of Human Resources at Coty Inc. and is a member of the Executive Committee of Coty Inc. Mr. Lacassagne leads Coty's worldwide human resources department and oversees all global employee communication initiatives. Prior to becoming Senior Vice President of Human Resources in 2005, Mr. Lacassagne joined the Company as an International Human Resources Manager in 1998. Prior to joining Coty Inc., Mr. Lacassagne was the Director of Human Resources at Nestlé Coffee Specialties France S.A. and also spent eight years at The Dow Chemical Company in various roles. Mr. Lacassagne holds a Master of Science degree in business management from École des Hautes Études Commerciales in Paris.

**Ralph Macchio** is Chief Scientific Officer and Senior Vice President of Global Research & Development at Coty Inc. and is a member of Coty Inc.'s Executive Committee. He is responsible for all Scientific Affairs and Global Regulatory Affairs at the Company and the Global Consumer Affairs Team. Mr. Macchio has 30 years of cosmetic research and development experience. Since joining the Company in 1992, Mr. Macchio has held various positions of increasing responsibility at Coty Inc. Prior to becoming Chief Scientific Officer and Senior Vice President of Global Research and Development in 2007, Mr. Macchio served as Vice President of Global Research and Development. Prior to joining Coty Inc., Mr. Macchio held several positions at Revlon Inc., including Departmental Manager, Color Cosmetics. He received degrees in Biochemistry and Chemistry from the State University of New York at Albany.

**Darryl McCall** is Executive Vice President, Operations and a member of the Executive Committee of Coty Inc. In this position, Mr. McCall oversees Coty Inc.'s supply chain operations worldwide. Among his responsibilities, Mr. McCall ensures optimal service, maintains inventory levels and is responsible for cooperation between our operations and commercial functions. Mr. McCall brings comprehensive and global expertise to the Company with over 25 years of experience in the beauty industry. Prior to joining the Company as Executive Vice President, Operations in 2008, Mr. McCall held numerous positions at The Procter & Gamble Company in Engineering, Manufacturing, Supply Chain, including General Manager Global Personal Cleansing Care and, from April 2007 to March 2008, Product Supply Vice President Global Fabric Care. Mr. McCall is a graduate of the University of California, Santa Barbara where he earned a Bachelor of Science degree in Chemical Engineering.

**Jean Mortier** is President of Coty Prestige and a member of the Executive Committee of Coty Inc. As part of his role, he oversees the continued development and expansion of our worldwide prestige distribution portfolio, and also seeks new business ventures and collaborations. From 2005 until he was appointed President of Coty Prestige in 2012, Mr. Mortier was Senior Vice President, Commercial for Coty Prestige. Prior to that, he held various positions at Unilever PLC in finance, internal audit, human resources, sales and trade marketing, key account management and supply chain, including Senior Vice President, International at Unilever Cosmetics International. Mr. Mortier holds a degree in Business Administration from École Supérieure des Sciences Économiques et Commerciales in Cergy, France.

**Renato Semerari** is President of Coty Beauty and a member of the Executive Committee of Coty Inc. As part of his role, he oversees the continued development and expansion of our worldwide mass distribution portfolio, and also seeks new business ventures and collaborations. From October 2007 until he joined the Company as President of Coty Beauty in 2009, Mr. Semerari was President and Chief Executive Officer of Sephora Europe. From 2002 to 2007, he was President and Chief Executive Officer of Guerlain. Prior to that, Mr. Semerari held the position of International Marketing Director of Parfums Christian Dior and held a series of positions at The Procter & Gamble Company. Mr. Semerari holds a degree in Business Administration from the LUISS University of Rome.

**Peter Shaefer** is Senior Vice President, Strategic Business Development and a member of the Executive Committee of Coty Inc. In this position, Mr. Shaefer identifies and executes new business strategies and opportunities for the Company and leads acquisitions of new entities and the integration thereof. Since joining the Company in 2000, Mr. Shaefer has held various positions at Coty Inc., including Chief Financial Officer for Europe and Asia from 2000 to 2005, and has served as Senior Vice President, Strategic Business Development since 2005. Prior to joining Coty Inc., Mr.



Shaefer was the general auditor at RJRI/Japan Tobacco, International. Prior to that, he spent eight years in the oil industry in various financial and audit positions. Mr. Shaefer graduated with combined honors in Industrial Management and Geology from the University of Liverpool and is a graduate of The Chartered Institute of Public Finance and Accountancy in London, England.

**Kevin Monaco** is Senior Vice President, Treasurer and Investor Relations of Coty Inc. In this position, Mr. Monaco oversees the Company's global treasury and tax functions and represents the Company to the investment community. His responsibilities include capital structure management, liquidity, risk management, the global tax function, and communication of the Company's business strategy to investors and analysts. From 2006 until joining the Company as Senior Vice President, Treasurer and Investor Relations in 2009, Mr. Monaco was Senior Vice President, Treasurer at Travelport Limited. Mr. Monaco has more than 20 years of global finance experience, including positions at Cendant Corporation, Avon Products, Inc. and at JPMorgan Chase and Co. Mr. Monaco holds a Master of Business Administration degree with Honors from the University of Notre Dame Mendoza School of Business and a Bachelor of Science degree in Business Administration from the University of Delaware.

**James E. Shiah** is Senior Vice President, Chief Accounting and Compliance Officer of Coty Inc. In this position, Mr. Shiah is the Company's principal accounting officer responsible for overseeing various activities including financial reporting, systems of internal control and other compliance programs. He has 30 years of diversified global financial experience, including public accounting, operating finance and various corporate staff positions. Prior to becoming Senior Vice President, Chief Accounting and Compliance Officer, Mr. Shiah was Senior Vice President Finance and Global Controller from 2006 to 2011 and Vice President and Corporate Controller from 2001 to 2006. Prior to joining the Company in 2001, Mr. Shiah has held financial leadership positions at various multinational companies, including, Nabisco, Inc., where he was the CFO for Northern Latin American region subsequent to being Chief Internal Auditor; and Bristol-Myers Squibb Company, in that company's internal audit department. Mr. Shiah began his career at Deloitte & Touche LLP in 1982. Mr. Shiah graduated with honors from the State University of New York at Buffalo (Jacobs School of Management), where he received a Master of Business Administration degree in Accounting and Finance. He received a Bachelor of Science degree in Business Administration from the State University of New York at Buffalo, and is a Certified Public Accountant in New York State.

## Our Board of Directors

The following table sets forth information with respect to our Board of Directors:

Name	Age	Director Since
Lambertus J.H. Becht	56	2011
Bradley M. Bloom	60	2011
Joachim Faber	63	2010
Olivier Goudet	48	2013
Peter Harf	67	1996
M. Steven Langman	51	2011
Michele Scannavini	54	2012
Erhard Schoewel	63	2006
Robert Singer	61	2010
Jack Stahl	60	2011

**Lambertus J.H. Becht** joined the Board of Directors of Coty Inc. as Chairman in October 2011. From 1999 to 2011, Mr. Becht was Chief Executive Officer of Reckitt Benckiser plc, a leading global consumer goods company in the

field of Household Cleaning and Health & Personal Care. Prior to that, Mr. Becht was Chief Executive Officer of privately held Benckiser Detergents, which in 1997 became Benckiser N.V. and listed on the Amsterdam and New York Stock Exchanges, and in 1999 merged with Reckitt & Colman plc and listed on the London Stock Exchange with Mr. Becht as Chief Executive Officer. Under Mr. Becht's leadership, Reckitt Benckiser's market capitalization increased from \$7 billion at the time of the merger in 1999 to \$41 billion when he

retired. Before becoming CEO of Benckiser Detergents in 1995, Mr. Becht held a variety of marketing, sales and finance positions at The Procter & Gamble Company in the United States and Germany and served within Benckiser Detergents as General Manager in Canada, the U.K., France and Italy. Mr. Becht holds a Master of Business Administration degree from the University of Chicago Booth School of Business (1982) and a Bachelor of Arts degree in Economics from the University of Groningen in the Netherlands.

We believe Mr. Becht is well qualified to serve as a member of our Board. Mr. Becht has many years of experience in our industry, including executive, operating and international business experience, and we believe these experiences will be critical to his ability to identify, understand and address challenges and opportunities that we will face. Further, we believe that Mr. Becht's experiences as Chief Executive Officer of Reckitt Benckiser will be advantageous as we become a newly public company.

**Bradley M. Bloom** joined the Board of Directors of Coty Inc. in January 2011. Mr. Bloom is a Managing Director of Berkshire Partners LLC, a private equity firm that he co-founded in 1986. Prior to Berkshire Partners LLC, Mr. Bloom was a partner at Thomas H. Lee Company. Mr. Bloom received a Bachelor of Arts degree from Harvard College with a Master of Business Administration from Harvard Business School. Mr. Bloom is or has been a director of several of Berkshire Partners LLC's consumer and retailing companies including Bare Escentuals, Inc., Carters, Inc. and numerous privately held companies.

We believe Mr. Bloom is well qualified to serve as a member of our Board. Mr. Bloom's more than 35 years of experience in the investment and finance industries will be critical to his ability to identify, understand and address challenges and opportunities that we will face as a newly public company.

**Joachim Faber** joined the Board of Directors of Coty Inc. in December 2010. Mr. Faber is also the Chairman of the Supervisory Board of Deutsche Börse AG, Frankfurt, a member of the board of HSBC Holdings Plc, London, Chairman of the Shareholder Committee of Joh. A. Benckiser S.à r.l., Luxembourg and a member of the board of Allianz S.A., Paris. Until 2010, Mr. Faber served as the Chief Executive Officer of Allianz Global Investors, a global asset management company, and a member of the management board of Allianz SE in Munich. Prior to joining Allianz in 1997, he worked for 14 years in various positions for Citicorp in Frankfurt and London. He serves on the board of German Cancer Aid in Bonn, the European School for Management and Technology in Berlin and is Chairman of the Investment Board of the Stifterverband für die Deutsche Wissenschaft. Mr. Faber graduated from the University of Bonn with a degree in Law. He received his PhD degree from the Postgraduate National School of Public Administration Speyer, Germany after completing his research at the Sorbonne University in Paris, France.

We believe Mr. Faber is well qualified to serve as a member of our Board. As Chief Executive Officer of Allianz, Mr. Faber's experience in running a large corporation with multinational operations will be critical to his ability to assess and address operational challenges and opportunities we face. Additionally, Mr. Faber's more than 25 years of experience in the banking and finance industries, will be critical to his ability to identify, understand and address challenges and opportunities that we will face as a newly public company.

**Olivier Goudet** joined the Board of Directors of Coty Inc. in May 2013. Mr. Goudet is Partner and CEO of the Joh. A. Benckiser Group, a position he has held since June 2012. He started his professional career in 1990 at Mars, Incorporated, serving on the finance team of the French business. After six years, he left Mars to join the VALEO Group, where he held several senior executive positions. In 1998, he returned to Mars, where he later became Chief Financial Officer in 2004. In 2008, his role was broadened, and he was appointed Executive Vice President and CFO. In June 2012, he became an Advisor to the Board of Mars. In January 2013, Mr. Goudet became the Chairman of Peet's Coffee & Tea Inc. He is also a member of the board of directors of Anheuser-Busch InBev SA/NV and serves as the chairman of its audit committee. Mr. Goudet holds a Degree in Engineering from l'École Centrale de Paris and graduated from the ESSEC Business School in Paris with a major in Finance.



We believe Mr. Goudet is well qualified to serve as a member of our Board. Mr. Goudet's financial and executive experience, as well as his tenure as a director of other public companies, will be critical to his ability to identify, understand and address the challenges and opportunities that we will face as a newly public company.

**Peter Harf** joined the Board of Directors of Coty Inc. in 1996 and serves as Chair of the Remuneration and Nomination Committee. Mr. Harf was Chairman of the Board of Coty Inc. from 2001 until 2011 and Chief Executive Officer of Coty Inc. from 1993 to 2001. He is Chief Executive Officer of Donata SE. and Parentes SE., which indirectly share voting and investment control over the shares held by JAB. Mr. Harf joined Joh. A. Benckiser SE. in 1981, serving the company in a variety of capacities, including Chairman and Chief Executive Officer since 1988. Prior to joining Joh. A. Benckiser, Mr. Harf was Senior Vice President of Corporate Planning at AEG Telefunken, Frankfurt, Germany. He began his career at the Boston Consulting Group. Mr. Harf is Deputy Chairman of the Board of Directors of Reckitt Benckiser Group plc and Vice Chairman of the Supervisory Board of DKMS German Bone Marrow Donor Center. He is co-founder of DKMS and he is on the board of directors of DKMS Americas. Mr. Harf holds a Master of Business Administration degree from Harvard Business School and a Diploma and a Doctorate in Economics from the University of Cologne in Germany.

We believe Mr. Harf is well qualified to serve as a member of our Board. As our former Chief Executive Officer, Mr. Harf has intimate knowledge of our business and operations, and will bring a valuable perspective to the Board. Mr. Harf's more than 30 years of experience in our industry, including executive, operating and international business experience, will be critical to his ability to identify, understand and address challenges and opportunities that we will face.

**M. Steven Langman** joined the Board of Directors of Coty Inc. in January 2011. He co-founded the Rhône Group L.L.C. in 1996, a private equity firm, where he currently serves as Managing Director. Prior to that, he was Managing Director at Lazard Frères & Co. LLC, which he joined in 1987. Before that he was with Goldman, Sachs & Co. in New York and London. Mr. Langman is also a director of Quiksilver, Inc., which is listed on the New York Stock Exchange, as well as several private companies in which Rhône or its affiliates have a controlling interest. He received a Bachelor of Arts degree from the University of North Carolina and a Master of Science degree from the London School of Economics.

We believe Mr. Langman is well qualified to serve as a member of our Board. Mr. Langman's professional experience and his tenure as a director of other public companies, will be critical to his ability to identify, understand and address challenges and opportunities that we will face as a newly public company.

**Erhard Schoewel** joined the Board of Directors of Coty Inc. in 2006. From 1999 to 2006 he was Executive Vice President responsible for Europe at Reckitt Benckiser plc. From 1979 to 1999 he held positions of increasing responsibilities at Benckiser. Prior to that, he worked for PWA Waldhof. He is a director and interim CEO of Birdseye Iglo Ltd London and a director of Phorms SE Berlin. Mr. Schoewel received a Diplom-Kaufmann degree from University of Pforzheim.

We believe Mr. Schoewel is well qualified to serve as a member of our Board. Mr. Schoewel has many years of experience in our industry, including executive, operating and international business experience, and we believe these experiences will be critical to his ability to identify, understand and address challenges and opportunities that we will face. Further, we believe that Mr. Schoewel's experience as a member of the board of directors of other companies will be advantageous as we become a newly public company.

**Robert Singer** joined the Board of Directors of Coty Inc. in 2010, and serves as Chair of the Audit and Finance Committee. From 2006 to 2009 he served as Chief Executive Officer of Barilla Holding S.p.A., an Italian food company, and before that he served as the President and Chief Operating Officer of Abercrombie and Fitch Co. from May 2004 until August 2005. He served as Chief Financial Officer of Gucci Group N.V. from 1995 to 2004. Mr. Singer started his career at Coopers & Lybrand in 1977. Mr. Singer also serves as a director of Gianni Versace S.p.A.



and a director and chair of the Audit Committees of Mead Johnson Nutrition and Tiffany & Co. Mr. Singer has served as a senior advisor to CCMP Capital Advisors, LLC since 2011. He received a

Bachelor of Arts Humanities degree from Johns Hopkins University, a Master of Arts degree in Comparative Literature from University of California, Irvine and graduated from New York University with a Master of Science in Accounting.

We believe Mr. Singer is well qualified to serve as a member of our Board. Mr. Singer has many years of operating, financial and executive experience, and we believe these experiences will be critical to his ability to identify, understand and address challenges and opportunities that we will face. Mr. Singer has significant public company board experience and extensive risk management experience from his time at Gucci Group and Coopers & Lybrand. Mr. Singer's experience as Chief Executive Officer of Barilla and President and Chief Operating Officer of Abercrombie & Fitch will be advantageous as we become a newly public company.

**Jack Stahl** joined the Board of Directors of Coty Inc. in July 2011. From 2002 to 2006 he served as President and Chief Executive Officer of Revlon Inc. Prior to joining Revlon, Mr. Stahl worked for 22 years with The Coca-Cola Company, culminating in the role of President and Chief Operating Officer. He started his career as an auditor at Arthur Andersen & Co. He serves on the Board of Directors of Dr Pepper Snapple Group, Delhaize Group, Saks Incorporated and the U.S. Board of Advisors of CVC Capital. Mr. Stahl is a member of the Board of Governors of The Boys and Girls Clubs of America. Mr. Stahl received a Bachelor of Arts degree in Economics from Emory University and a Master of Business Administration from the Wharton Business School of the University of Pennsylvania. His book *Lessons on Leadership: The 7 Fundamental Management Skills for Leaders at All Levels* was published in 2007.

We believe Mr. Stahl is well qualified to serve as a member of our Board. Mr. Stahl has significant public company experience, including many years of operating, financial and executive experience, and we believe these experiences will be critical to his ability to identify, understand and address challenges and opportunities that we will face. Mr. Stahl's experience as President and Chief Executive Officer of Revlon and President and Chief Operating Officer of The Coca-Cola Company will be advantageous as we become a newly public company.

### **Controlled Company Exemption**

After completion of this offering, JAB will continue to control a majority of the voting power of our outstanding common stock. As a result, we will be a controlled company within the meaning of the New York Stock Exchange corporate governance standards. Under the New York Stock Exchange rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a controlled company and may elect not to comply with certain New York Stock Exchange corporate governance standards, including the requirements that:

a majority of the  
board of directors  
consist of  
independent directors;

we have a  
nominating/corporate  
governance  
committee that is  
composed entirely of  
independent directors  
with a written charter  
addressing the  
committee's purpose  
and responsibilities;

and

we have a  
compensation  
committee that is  
composed entirely of  
independent directors  
with a written charter  
addressing the  
committee's purpose  
and responsibilities.

We intend to utilize certain of these exemptions following the offering, and may utilize any of these exemptions for so long as we are a controlled company. Accordingly, you will not have the same protections afforded to stockholders of companies that are subject to all of the New York Stock Exchange corporate governance requirements.

### **Structure of our Board of Directors**

Our Certificate of Incorporation provides that the number of directors will be fixed from time to time exclusively pursuant to a resolution adopted by our Board of Directors, but must not consist of less than five or more than 13 directors. Our Board of Directors is presently composed of ten directors. Directors are elected by the stockholders at the annual meeting of stockholders by a plurality of the shares present and entitled to vote. Unless his or her office is earlier vacated in

accordance with our By-laws, each director holds office until his or her successor is duly elected and qualified.

Pursuant to a stockholders agreement entered into among the Company, JAB, Berkshire and Rhône, Berkshire and Rhône each has the right to nominate a director and each of the parties has agreed to vote for Berkshire and Rhône's nominees. Berkshire and Rhône each hold this right so long as they continue to own at least 13,586,957 shares of either class of our common stock in the aggregate, respectively, adjusted for any stock split, dividend or combination, or any reclassification, recapitalization, merger, consolidation, exchange or other similar reorganization. The stockholders agreement also provides that if the Board of Directors increases in size beyond nine directors, the number of directors designated by each of Berkshire and Rhône will be adjusted to ensure proportional representation based on the same ratio calculated with respect to nine directors (assuming seven designees other than Berkshire's and Rhône's designees, except that the number of Berkshire designees and Rhône designees will be rounded down to the nearest whole number). We are also required to cause one Berkshire designee or one Rhône designee to sit on each of the Remuneration and Nomination Committee and the Audit and Finance Committee, with such Berkshire designee and Rhône designee rotating every third annual stockholders meeting between the two committees. If one of Berkshire or Rhône ceases to have the right to designate a director, and the other fund continues to have such right, then that other fund will have the right to have a total of one of its designees on each of the two committees in lieu of the fund that has lost such right. Mr. Bloom is the nominee of Berkshire, and Mr. Langman is the nominee of Rhône.

### **Director Independence**

Since we are a controlled company within the meaning of the New York Stock Exchange corporate governance standards, we are not required to, and have chosen not to, comply with certain independence requirements for directors on our Board of Directors. However, our Board of Directors has determined that each of the following directors satisfies the independence standards of the New York Stock Exchange: Mr. Becht, Mr. Bloom, Mr. Faber, Mr. Goudet, Mr. Langman, Mr. Schoewel, Mr. Singer and Mr. Stahl.

Following the effectiveness of this registration statement, the members of our audit committee must satisfy the independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act), or Rule 10A-3. In order to be considered independent for purposes of Rule 10A-3, no member of the audit committee may, other than in his capacity as a member of the audit committee, the Board of Directors, or any other committee of the Board of Directors: (1) accept, directly or indirectly, any consulting, advisory, or other compensatory fee from the Company or any of its subsidiaries; or (2) directly, or indirectly through one or more intermediaries, control, or be controlled by, or be under common control with, the Company or any of its subsidiaries.

### **Committees of the Board of Directors**

The standing committees of our Board of Directors are the Audit and Finance Committee and the Remuneration and Nomination Committee. Both of the committees are independent of management and, with the exception of Mr. Harf, the members of the committees satisfy the independence standards of the New York Stock Exchange, and report directly to our Board of Directors. In addition, we believe that the members of our Audit and Finance Committee meet the additional independence requirements for audit committee members under Rule 10A-3 of the Exchange Act. From time to time, when appropriate, ad hoc committees may be formed by our Board of Directors.

Our Audit and Finance Committee's members are Mr. Singer, Mr. Bloom and Mr. Stahl. Mr. Singer is the Chairman of our Audit and Finance Committee and our audit committee financial expert, as that term is defined under SEC rules. The Audit and Finance Committee's primary duties and responsibilities include:

- (1) to monitor the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting, and compliance with the Company's Code of Conduct and laws and regulations;
- (2) to monitor the independence and performance of the Company's independent auditors and internal audit department; and
- (3) to provide an objective, direct communication between the Board of Directors, independent auditors, management and the internal audit department.

The Remuneration and Nomination Committee's members are Mr. Harf (Chair), Mr. Faber, Mr. Langman and Mr. Schoewel. The committee's primary duties and responsibilities include:

- (1) to assist the Board of Directors in positioning the Company as a sustainable high

performance  
organization  
through a very  
robust director  
succession and  
qualification  
process;

- (2) to recommend to the Board of Directors nominees for each board committee;
- (3) to review and make recommendations to the Board of Directors concerning board committee structure, operations and Board reporting;
- (4) to discharge the Board of Directors responsibilities relating to the remuneration of the Company's senior executives;
- (5) to approve and evaluate the executive remuneration plans, policies and programs of the Company and ensure that these plans, policies and programs enable the Company to attract and retain exceptional talents and incentivize them to achieve exceptional

performance;

- (6) to provide overall governance and review of the corporate succession plan and conduct succession planning for the Chief Executive Officer, and to guide the Board in appointing and retaining key talents that will nurture the Company's values and culture and strive for constantly improving results;
- (7) to recommend to the Board of Directors the corporate governance principles applicable to the operation of the Remuneration and Nominating Committee; and
- (8) to oversee the evaluation of the performance of the Board of Directors and management.

**Communications with our Board of Directors**

Stockholders, employees and other interested parties may communicate with any of our directors by writing to such director(s) at c/o Board of Directors, Coty Inc., 2 Park Avenue, New York, NY 10016, Attention: Corporate Secretary. All communications with stockholders, employees and other interested parties addressed in this manner will be forwarded to the appropriate director.

## EXECUTIVE COMPENSATION

### *Compensation Discussion and Analysis*

#### **Overview of Compensation Philosophy & Objectives**

The overriding objective of our compensation programs for our named executive officers ( NEOs ) is to encourage, reinforce and reward delivery of stockholder value.

NEO compensation consists of base salaries, annual cash awards under our Annual Performance Plan ( APP ) and equity awards under our Long-Term Incentive Plan ( LTIP ). We also provide certain benefits and perquisites in line with general practice in the country in which the NEO resides and certain payments in lieu of pensions. Variable pay under our APP and LTIP has and will continue to be the most significant element of our NEO compensation program.

*Competitive Compensation.* We compensate our NEOs competitively to ensure that we attract and retain the right talent to deliver stockholder value. We benchmark our compensation against a peer group of companies that includes companies against whom we compete for key talent (the Compensation Peer Group ). We target total direct NEO compensation towards the 75<sup>th</sup> percentile of the Compensation Peer Group.

*Variable, performance-based pay.* We closely align the interests of our NEOs with those of our stockholders through a variable, performance-based compensation program in which a significant portion of total compensation is paid through equity-based long-term incentives.

Our APP is designed to stimulate achievement of outstanding business results by linking highly leveraged annual cash incentives to the achievement of performance targets. We link achievement to compensation by basing NEOs' APP awards on performance against collective and individual targets. Individual targets are derived from our collective targets and tailored to the areas in which an NEO can most effectively grow stockholder value.

To balance incentives to achieve short-term and long-term success, NEOs' compensation also includes annual grants of long-term equity-based compensation under our LTIP. Long-term equity-based compensation further aligns NEOs' and stockholders' interests. All annual equity-based awards have five-year cliff vesting tied to continued employment with the Company.

*Stock Ownership.* We strongly believe in encouraging stock ownership by our NEOs. In addition to stock ownership guidelines, we have encouraged stock ownership through our Executive Ownership Plan (the EOP ), through which certain key executives were invited to purchase restricted stock and receive additional equity to match investments in restricted stock. In fiscal 2013, we replaced the EOP with the Platinum Program ( Platinum ) and, together with the EOP, our Executive Ownership Programs ), which facilitates compliance with our stock ownership guidelines by those executives who are subject to the guidelines. All executives who are subject to our stock ownership guidelines are invited to purchase restricted stock through Platinum and receive additional equity to match investments in restricted stock.

Executives who purchased restricted stock under the EOP received stock options to match their investment, while executives who purchase restricted stock under Platinum will receive restricted stock units to match their investment. All matching stock options under the EOP and matching RSUs under Platinum have five-year cliff vesting tied to continued employment with the Company and continued ownership of the restricted shares that the stock options or restricted stock units, as applicable, match. We believe our Executive Ownership Programs closely align key executives and stockholders, reduce the likelihood of excessive risk taking and eliminates the need for annual performance-based equity incentives.

#### **Executive Summary**



*Our Named Executive Officers*

Our NEOs for fiscal 2012 are:

Michele  
Scannavini,  
our current  
Chief  
Executive  
Officer  
( CEO ),

Bernd  
Beetz, our  
former  
Chief  
Executive  
Officer,

Sérgio  
Pedreiro,  
Chief  
Financial  
Officer  
( CFO ),

Renato  
Semerari,  
President of  
Coty  
Beauty, and

Darryl  
McCall,  
Executive  
Vice  
President,  
Operations.

Mr. Beetz retired as our CEO on July 31, 2012 and resigned from our Board of Directors effective May 1, 2013 to pursue other interests. Mr. Scannavini became our CEO on August 1, 2012. During fiscal 2012, Mr. Scannavini was President of Coty Prestige. On September 19, 2012, Jean Mortier became President of Coty Prestige.

#### *Pay for Performance Overview*

Fiscal 2012 Annual Incentive Compensation. Our collective performance targets for Coty Inc. under the APP and performance relative to these targets in fiscal 2012 are set forth below:

	<b>Target</b> <b>(thousands of</b> <b>\$)</b>	<b>Actual</b> <b>Performance</b> <b>(% of Target)</b>
Adjusted EBITDA	761,000	100.3
Net Sales	4,453,200	102.8
Free Cash Flow	360,000	116.9

The Company met or exceeded each of its APP performance targets for fiscal 2012, resulting in a collective performance factor of 2.31. The collective performance factor is the factor by which the collective portion of NEO's APP award is multiplied (see Annual Incentive Compensation under the APP). We measure Coty Inc.'s financial performance based on targets for adjusted EBITDA, net revenues and free cash flow because we believe these performance measures most accurately measure our performance in executing our business plan, with a focus on top line growth, margin expansion and cash flow generation. The Company's fiscal 2012 performance targets for adjusted EBITDA and net revenues were set to reflect the execution of the annual business plan of Coty Inc. While each target is considered achievable, a superior level of performance was required to receive an award above the target level. NEO individual performance factors ranged from 1.8 to 2.4, and total APP factors for APP awards paid to NEOs ranged from 2.01 to 2.26.

Fiscal 2012 long-term equity compensation. Annual long-term equity awards granted under the LTIP in fiscal 2012 were based on fiscal 2011 collective performance of Coty Inc. and individual performance. In fiscal 2011, Coty Inc. exceeded the maximum award level for each of its collective performance targets. As a result, all NEOs received

between 150% and 152% of their target LTIP awards in fiscal 2012. All fiscal 2012 annual long-term equity awards were paid in the form of stock options with five-year cliff vesting tied to continued employment with the Company.

*Other Highlights*

We believe our compensation program follows best practices. The following principles are incorporated:

Stock ownership encouraged. We strongly believe in encouraging stock ownership by our NEOs. All of our NEOs have participated in the EOP. In fiscal 2012, to further encourage stock ownership, we adopted stock ownership guidelines requiring our CEO to own shares of our common stock equal to five times his base salary and each other NEO to own shares of our common stock equal to three times his base salary.

No tax gross-ups. Any personal income taxes due as a result of compensation and/or perquisites, other than international assignment benefits, are the responsibility of the NEOs. We do not provide tax gross-ups for golden parachute excise taxes.

Incentives do not encourage excessive risk taking. Our compensation program does not contain features that could potentially encourage excessive risk taking, such as multi-year guaranteed bonuses, high pay opportunities relative to peer companies or mega annual equity grants. In addition, we utilize multiple performance measures for performance-based compensation. Our options have five-year cliff vesting tied to continued employment with the Company and management has sizable stock positions relative to their income, which together encourages focus on the long-term value of our stock, aligns management's and stockholders' interests and discourages excessive risk taking to optimize short-term and non-sustainable performance.

No backdating or repricing of stock options. We generally make annual equity awards at the same predetermined times each year. Equity awards, including stock options, are never backdated or issued at below-market prices. Repricing of stock options is expressly prohibited.

Independent external companies engaged for executive compensation information. Each year since fiscal 2010, the Remuneration and Nomination Committee has engaged an independent external company to provide information with respect to executive compensation.

Perquisites. NEO perquisites are reasonable and generally represent less than 1% of total NEO compensation.

Double-trigger equity vesting upon a change in control. In March 2011, we amended our LTIP and EOP to require a double-trigger for accelerated vesting upon a change in control of the Company. This amendment applies to all equity granted after March 2011.

### **Competitive Compensation and Peer Group Rationale**

In establishing compensation for our NEOs, we consider the compensation practices of the Compensation Peer Group. We consider these practices to determine the competitiveness of individual compensation elements and total compensation of our NEOs. We target total direct NEO compensation towards the 75th percentile of the Compensation Peer Group. Individual pay to NEOs varies in accordance with experience, individual and collective performance and other factors determined by the Remuneration and Nomination Committee. Actual total direct compensation reported may vary due to currency fluctuations.

The Compensation Peer Group consists of companies that compete directly with us for executive talent and compete with us in the marketplace for business and investment opportunities.

The Remuneration and Nomination Committee periodically reviews the companies included in the Compensation Peer Group. For fiscal 2012, the Compensation Peer Group included the following companies:

Inter Parfums, Inc.	Avon Products, Inc.
The Estée Lauder Companies, Inc.	Elizabeth Arden, Inc.
Colgate-Palmolive Company	L'Oréal S.A.
Kimberly-Clark Corporation	Ralph Lauren Corporation
The Clorox Company	Revlon, Inc.
The Procter & Gamble Company	Unilever PLC/Unilever NV
Nike, Inc.	Limited Brands, Inc.
Guess?, Inc.	The Gap, Inc.

The last reported annual revenues of Compensation Peer Group companies ranged from \$654 million to \$83.7 billion, with a median of \$10.5 billion. Benchmarking of compensation was size adjusted to reflect our annual net revenues of approximately \$4.1 billion in fiscal 2011.

### **Elements of Compensation**

Our NEO compensation programs consist of three key elements: base pay, annual cash incentive awards under the APP, and equity-based compensation under the LTIP. We also provide certain benefits and perquisites to assist NEOs in the performance of their duties.

We pay for performance and target our total direct compensation towards the 75th percentile compared to the Compensation Peer Group. For fiscal 2012, target total direct compensation of NEOs was near the 75th percentile compared to the Compensation Peer Group.

*Base Salary*

We pay base salaries to provide executives with a secure, fixed base of cash compensation in recognition of individual responsibilities and job performance. Consistent with our pay-for-performance philosophy, base salary did not account for more than 20% of any NEO's fiscal 2012 actual total direct compensation.

Salary levels are typically set and annually reviewed by the Remuneration and Nomination Committee. Any salary increases are approved by the Remuneration and Nomination Committee

after a comparative analysis of base salaries for similar positions among the Compensation Peer Group (as described in Competitive Compensation and Peer Group Rationale ). When determining base salaries, the Remuneration and Nomination Committee considers external market conditions in addition to total direct compensation targets.

*Annual Incentive Compensation under the APP*

We pay incentive cash compensation awards annually under the APP. The APP is a key component of our compensation program for NEOs. It is designed to stimulate achievement of outstanding business results by linking highly leveraged annual cash awards with the achievement of quantifiable performance measures.

Target APP awards for each NEO are calculated as a percentage of such NEO's base salary and may be multiplied by a factor ranging from zero to 3.6. Fifty percent of the factor is based on collective financial performance, and the other fifty percent is based on achievement of individual goals derived from our collective financial targets and tailored to the areas in which an NEO can most effectively grow stockholder value.

APP award targets ranged from 60% to 120% of NEO base salary in fiscal 2012.

Collective Performance. Collective performance is based on the financial performance of Coty Inc. and, for certain NEOs, the operations for which they are directly responsible. The Remuneration and Nomination Committee sets these collective performance targets across several performance measures based on our internal planning and forecasting processes. Each performance measure is weighted, and targets for each performance measure are set at minimum , below , target , exceeds and maximum award levels.

In fiscal 2012, collective targets were established for Coty Inc. and for the operations for which Mr. Scannavini and Mr. Semerari were directly responsible. The collective portions of Mr. Scannavini's and Mr. Semerari's awards were based partially on Coty Inc.'s performance and partially on the performance of the operations for which each was respectively responsible during fiscal 2012. Collective performance was measured by net revenues, adjusted EBITDA (defined as adjusted operating profit before depreciation and amortization) and free cash flow. While targets are considered achievable, a superior level of performance is required to receive an award above the target level.

For fiscal 2013, we have established collective targets for Coty Inc. and the operations for which each of Mr. McCall, Mr. Pedreiro, Mr. Mortier and Mr. Semerari are respectively responsible. The collective factor of Mr. Scannavini's APP award will be based only on Coty's Inc.'s performance against these targets, and the collective factor of each of the other NEOs will be based partially on Coty Inc.'s performance and partially on the performance of the operations for which such NEO is directly responsible.

In fiscal 2013, Coty Inc.'s collective performance will be measured by net revenue growth, adjusted EBT growth (defined as adjusted net income before taxes) and the reduction of net working capital as a percentage of net revenues.

The collective performance for the operations for which the NEOs are directly responsible will be measured as follows:

Operations  
for which  
Mr. Mortier  
and Mr.  
Semerari are  
each directly  
responsible:

net revenue  
growth,

reduction  
of average  
net  
working  
capital as a  
percentage  
of net  
revenues  
and

adjusted  
EBIT  
growth  
(defined as  
adjusted  
earnings  
before  
interest and  
taxes).

Operations  
for which  
Mr. Pedreiro  
is directly  
responsible:

adjusted net  
earnings growth,

compliance with  
Sarbanes-Oxley  
requirements  
and

reduction of  
average net  
working capital  
as a percentage  
of net sales.

Operations  
for which  
Mr. McCall  
is directly  
responsible:

evolution  
of total  
supply  
chain cost,

evolution  
of service  
level  
calculated  
based on  
missed  
orders and

reduction  
of supply  
chain net  
working  
capital as a  
percentage  
of net  
sales.

We believe these changes to our collective performance measures will further balance management's focus between growth and cash earnings.

**Individual Performance.** The Remuneration and Nomination Committee also establishes weighted, individual targets for each NEO. Individual targets are derived from our collective targets and tailored to the areas in which an NEO can most effectively grow stockholder value. Examples of individual targets include net revenue growth in emerging markets, market share gains in specific market segments or improvements in customer service. Individual targets are measurable and serve to focus each NEO on the area of our business in which he can add the most stockholder value.

**Evaluation and Payment.** Each fiscal year, the Remuneration and Nomination Committee measures collective financial performance and individual performance to determine APP awards for that fiscal year. The Remuneration and Nomination Committee also sets an aggregate amount available for payment of APP awards based on collective financial performance.

In its review of collective performance, the Remuneration and Nomination Committee determines whether collective performance meets targets set at minimum, below, target, exceeds and maximum award levels. If actual performance is between two award levels, the factor is calculated pro rata between the two award levels based on actual performance.

Measurement of performance against the established collective targets is subject to certain automatic adjustments, such as changes in accounting principles, impairment of intangibles, the impact of discontinued operations, acquisition expenses, nonrecurring income/expenses, the impact on net revenues of foreign currency rate fluctuations and other factors that the Remuneration and Nomination Committee may deem outside of management's control. Such



adjustments are intended to be used only in extraordinary circumstances, and infrequently, and should any take place in a given fiscal year the basis for their use would be detailed in the Company's proxy statement.

We condition APP awards on meeting EBITDA minimum targets so that no awards will be paid if the minimum profits target is not met. We believe this directly ties receiving awards under our APP to delivering stockholder value.

In its review of individual performance, the Remuneration and Nomination Committee rates each NEO's performance against each of his individual goals. The CEO participates in each performance review, except for his own. Based on the aggregate amount available for payment of APP awards, a corresponding individual factor is prescribed to each NEO's rating.

APP awards are calculated after the end of the fiscal year and paid in a single payment (adjusted for taxes as applicable) around the beginning of the second quarter of the following fiscal year.

Illustrative Example. As an example, assume an NEO has an annual base salary of \$500,000 and an annual APP target set at 50% of his base salary and that his APP award is based 50% on Coty Inc.'s collective performance and 50% on his individual performance. Also assume that Coty Inc.'s collective performance factor is 1.30 and the NEO's individual performance factor is 1.00.

Based on these facts, the NEO's target APP award is \$250,000 and his total APP factor is 1.15, resulting in an APP award of \$287,500. His APP award could have ranged from \$0 if his total APP factor was 0 to \$900,000 if his total APP factor was 3.6.

The formulas below illustrate the calculation:

Target APP Award:	\$500,000 times 50%	=	\$250,000
APP total factor:	(1.30 times 50%) + (1.00 times 50%)	=	1.15
Actual APP Award:	\$250,000 times 1.15	=	\$287,500

Please see Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table for a more detailed discussion of the mechanics of the APP program, including detail regarding the financial performance targets for fiscal 2012.

#### *Long-Term Incentive Compensation Awards*

We pay long-term incentive compensation in the form of equity under our long-term incentive compensation plans and our executive ownership programs. Historically, annual awards under the LTIP and equity received to match investments made under the EOP have been in the form of non-qualified stock options. In fiscal 2013, the annual grant under the LTIP was in the form of restricted stock units. In fiscal 2013, we also adopted the Equity and Long-Term Incentive Plan ( Omnibus LTIP and, together with the LTIP, Long Term Incentive Plans ), which governs all equity awards granted to employees after its adoption in November 2012, and Platinum, our new executive ownership program. Matching equity under Platinum is in the form of restricted stock units.

We believe these awards will further focus our executives on increasing stockholder value. All annual equity awards under the LTIP and Omnibus LTIP, stock options ( Matching Options ) under the EOP and restricted stock units ( Matching RSUs ) under Platinum have five-year cliff vesting tied to continued employment with the Company.

Our equity compensation program encourages retention of and long-term focus by our NEOs by giving them an ownership stake in our future growth and financial success. The program also provides a direct link between the interests of our stockholders and our NEOs and other eligible leadership employees.

We use the Black-Scholes methodology and, when applicable, the Monte Carlo methodology to value equity awards (both ours and those of companies in the Compensation Peer Group) to enable meaningful comparisons across companies and across time. Shares purchased under the EOP are not considered compensation because executives purchase the shares at their fair market value. Shares purchased under the EOP and Matching Options granted under the EOP are not taken into account in determining target compensation levels for the NEOs.

Annual Awards under our Long-Term Incentive Plans. Awards under our Long-Term Incentive Plans recognize strong collective financial performance and individual achievement and align each NEO's interests with our organizational goals and our stockholders' long-term financial interests. The number of total available awards may be increased or decreased each year based on the Company's financial performance.

The Remuneration and Nomination Committee considers several factors when determining long-term incentive awards for each NEO. First, notional grants or target awards are established. As total target direct compensation is benchmarked against the 75th percentile of the Compensation Peer Group, the Remuneration and Nomination Committee deducts the NEO's base salary and target APP award from the total target direct compensation when determining the NEO's target annual award under the LTIP. Then, these target awards are adjusted based on the Remuneration and Nomination Committee's determination of the total pool size and the NEO's individual performance during the fiscal year.

Award determinations are typically made in September of each year. There is no relationship between the timing of the granting of awards and our release of material non-public information.

Special Grant of IPO Units. In exceptional cases, the Remuneration and Nomination Committee may grant additional awards as it deems appropriate. In fiscal 2011, the Remuneration and Nomination Committee determined to grant a special incentive grant of IPO Units. The grant was designed to motivate, retain and engage key executives to prepare the Company for a successful initial public offering. The Remuneration and Nomination Committee determined the grant amount and recipients of the grant based on information about grants made by companies considered comparable to us prior to such companies' initial public offerings provided by an independent external company. Since the IPO Units were an extraordinary, non-recurring grant, they were not taken into account in setting each NEO's

target total compensation in fiscal 2011 or 2012.

### *Executive Stock Ownership*

We strongly believe in encouraging stock ownership by our NEOs. We encourage NEOs to own stock in the Company in two ways: through our Executive Ownership Programs and by our stock ownership guidelines.

Executive Ownership Programs. The primary way we encourage stock ownership and compliance with stock ownership guidelines by our NEOs is through our Executive Ownership Programs. In December 2012, Platinum replaced the EOP as our Executive Ownership Program. Under our Executive Ownership Programs, executives are invited to purchase restricted stock, and any executive who purchases shares of restricted stock receives additional matching equity. Under the EOP, matching equity was in the form of Matching Options. Matching equity under Platinum is in the form of Matching RSUs. All of our NEOs have participated in the EOP. In February 2013, the first year of Platinum, our CEO purchased 200,000 restricted shares through Platinum.

The maximum amount a participant could purchase in any fiscal year under the EOP was equal to the participant's APP award for the prior fiscal year. If an invitee purchased restricted stock under the EOP, he received an award of Matching Options. The number of Matching Options was based on the total value of the shares of restricted stock purchased. For each share of restricted stock purchased up to a value equal to 25% of the invitee's APP award for the prior fiscal year, the invitee received two Matching Options. Once the 25% threshold was reached, any additional shares purchased were matched on a four-to-one basis. For example, if an NEO received an APP award of \$500,000 and purchased 20,000 shares of restricted stock under the EOP at a value of \$14.25 per share, the NEO received 62,458 Matching Options. In this example, 8,771 shares of restricted stock purchased were matched on a two-to-one basis and the remaining 11,229 shares of restricted stock purchased were matched on a four-to-one basis. While there is no specific maximum purchase for a participant under Platinum, any purchase higher than the participant's annual base salary in any given year must receive approval of the CEO. For every three shares of restricted stock purchased up to an amount equal to 15% of the participant's annual base salary, the participant will receive one Matching RSU.

All matching stock options under the EOP and matching RSUs under Platinum have five-year cliff vesting tied to continued employment with the Company and continued ownership of the restricted shares that the Matching Options or Matching RSUs, as applicable, match.

Stock Ownership Guidelines. In February 2012, we adopted stock ownership guidelines that apply to our NEOs. Our CEO's target is five times his annual base salary. Targets for all other NEOs are three times the NEO's annual base salary. Each NEO has seven years to meet his target.

Please see Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table for a more detailed discussion of the mechanics of our long-term equity program and the actual awards granted in fiscal 2012.

### *Other Benefits and Perquisites*

General. In general, our NEOs participate in the same benefit plans generally available to our employees in the home country in which the NEO resides. These benefit plans include health insurance, life insurance and disability coverage. NEOs receive the same coverage as the rest of our employees.

Perquisites. We provide NEOs with reasonable perquisites on an individual basis. The perquisites include housing allowances and car allowances to the extent deemed necessary for business purposes. Except for one-time relocation expenses paid to Mr. McCall, perquisites represented less than 1% of each NEO's total direct compensation in fiscal 2012. All perquisites with an aggregate value of at least \$10,000 received by an NEO are reported in the Summary Compensation Table.

Retirement Plans and Payments in Lieu of Retirement Plans. We provide retirement benefits to our NEOs in the United States and certain other employees in the United States under our Coty Inc. Retirement Savings Plan.



In addition, under Mr. Beetz's employment agreement entered into in 2002, we began making certain payments to Mr. Beetz at age 60 due to the absence of a Company defined benefit retirement plan. These payments are made under Mr. Beetz's employment agreement entered into in 2002 and are to match payments he was entitled to at that time through his previous employer.

Until February 2012, we also made certain payments to Mr. Scannavini in lieu of his participation in a social retirement plan in Italy for his own retirement investment plans. In February 2012, Mr. Scannavini agreed to revoke his right to receive these payments. As consideration for revoking these rights, Mr. Scannavini received a special grant in February 2012 of IPO Units and shares of restricted stock under the LTIP.

Potential Payments upon Termination of Employment. The employment agreements with our NEOs and our compensation plans provide for certain payments and incremental benefits if an NEO's employment is terminated under certain circumstances. There are no tax gross-ups provided in connection with these payments or incremental benefits. These payments and incremental benefits are discussed in Potential Payments upon Termination or Change in Control.

### ***Employment Agreements***

We have also entered into employment agreements with each of our NEOs. The employment agreements are described in Employment Agreements.

### ***Tax and Accounting Implications***

Section 162(m) of the Internal Revenue Code (Section 162(m)) limits the Company's deductions for compensation paid to the chief executive officer and three other most highly compensated executive officers (other than the chief financial officer) to \$1,000,000 per year, but contains an exception for certain performance-based compensation. However, there is transitional relief from Section 162(m) for compensation paid pursuant to certain plans or agreements of corporations which are privately held and which become publicly held in an initial public offering.

Our compensation programs are intended to maximize the deductibility of the compensation paid to our NEOs to the extent that we determine it is in our best interests and to further advance organizational growth while providing competitive base salaries.

While the Remuneration and Nomination Committee is mindful of the benefit to the Company of the full deductibility of compensation, the committee believes that the requirements of Section 162(m) should not impair its flexibility in compensating our NEOs in a manner that can best promote the Company's objectives. Therefore, the Remuneration and Nomination Committee has not adopted a policy that requires that all compensation be deductible. The Remuneration and Nomination Committee intends to continue to compensate our executive officers in a manner consistent with the best interests of our company and our stockholders.

### ***The Remuneration and Nomination Committee***

The Remuneration and Nomination Committee's primary duty is to assist the Board of Directors in making sure that management is properly incentivized to drive stockholder value. To help achieve this objective, the Remuneration and Nomination Committee assists the Board of Directors by:

- Designing and implementing appropriate compensation

plans, policies  
and programs  
for the CEO  
and senior  
executives,  
including:

conducting an annual  
review of our overall  
compensation  
philosophy and all  
executive  
compensation  
policies and  
programs to ensure  
coordination and  
achievement of  
intended objectives,  
including ensuring  
that the  
compensation  
philosophy, policies  
and programs reflect  
pay-for-performance  
principles, align  
interests of our  
executives and  
stockholders and  
enable us to attract  
and retain  
exceptional talent,  
nurture our culture  
and values and  
encourage focus for  
constantly improving  
results;

reviewing and approving annual corporate goals and objectives and individual performance and goals relevant to compensation of our Executive Committee and setting targeted compensation levels based on this assessment;

reviewing and approving the criteria and sources by which we benchmark our executive compensation programs;

reviewing and amending executive benefit plans, short- and long-term incentive and other compensation arrangements as required by law or as necessary or advisable from tax, administrative or regulatory perspectives;



reviewing,  
considering  
and approving  
management's  
proposals for  
all grants of  
equity-based  
incentives to  
executives,  
employees and  
directors; and

considering  
and discussing  
with  
management  
risks, if any,  
inherent to the  
design of our  
compensation  
plans, policies  
and practices.

Approving  
remuneration  
and  
coordinating  
performance  
evaluation  
reviews of all  
members of the  
Board of  
Directors and  
recommending  
nominees for  
committees of  
the Board of  
Directors.

Engaging in  
succession  
planning to  
ensure that the  
Company has  
an effective  
plan to replace  
key leaders in  
the  
organization if  
needed.

The Remuneration and Nomination Committee generally seeks input from our CEO, our Senior Vice President of Human Resources and an independent external company when discussing the performance and compensation of our executive officers, as well as during the process of negotiating compensation packages of new executives. No NEO participates in deliberations of the Remuneration and Nomination Committee related to his own compensation.

***Independent External Companies Engaged by the Remuneration and Nomination Committee***

The Remuneration and Nomination Committee has engaged an independent external company to provide information with respect to our executive compensation each year since fiscal 2010.

The independent external company reports directly to the Remuneration and Nomination Committee, with input from certain members of senior management. All decisions with respect to the amount and form of NEO compensation under our executive compensation programs are made solely by the Remuneration and Nomination Committee and may reflect factors and considerations other than the information provided by the independent external company.

The Remuneration and Nomination Committee engaged Towers Watson as its executive compensation consultant in fiscal 2011 and for part of fiscal 2012. In fiscal 2011 and 2012, Towers Watson performed a thorough review of the APP. As part of this assessment, Towers Watson reviewed market practices with regard to incentive plan design, performed a quantitative analysis of goals and the pay for performance relationship and a qualitative assessment of key design features and reviewed the overall cost of the program. The APP was compared against market practices within the general industry, the Compensation Peer Group and the broader comparable industry group. Both the qualitative and quantitative assessments demonstrated that the APP supports and drives our performance-oriented culture while being aligned with competitive market practices and cost efficiency. After this review, the Remuneration and Nomination Committee decided to maintain the current APP design and endorse the plan as a strong component of the employees' value proposition.

During fiscal 2012, the Remuneration and Nomination Committee engaged Deloitte LLP to provide information regarding competitive compensation practices of the Compensation Peer Group and other publicly available benchmarking data, as well as information about advantages and disadvantages of alternative compensation approaches.

**Summary Compensation Table**

The following table sets forth information regarding fiscal 2011 and 2012 compensation for our NEOs. Columns otherwise required by SEC rules are omitted where there is no amount to report.

Name & Title	Year	Salary (\$) <sup>(1)</sup>	Stock Awards (\$) <sup>(2)</sup>	Option Awards (\$) <sup>(3)</sup>	Non-Equity Incentive Plan Compensation (\$) <sup>(1)(4)</sup>	All other Compensation (\$) <sup>(1)</sup>	Con
Michele Scannavini	2012	1,100,616	993,400 <sup>(5)</sup>	3,697,350	1,479,409	405,733 <sup>(5)</sup>	
CEO	2011	1,099,411	2,696,000	2,962,559	2,259,279	610,129 <sup>(5)</sup>	
Bernd Beetz	2012	1,681,600		18,032,585	4,550,410	690,000 <sup>(6)</sup>	2
	2011	1,632,600	10,110,000	12,735,142	6,954,900	664,617 <sup>(6)</sup>	3
Sérgio Pedreiro	2012	515,000		1,493,400	681,300		
CFO	2011	500,000	2,696,000	1,332,214	1,012,500		
Renato Semerari	2012	927,159		2,634,000	1,117,225	18,931 <sup>(7)</sup>	
President, Coty Beauty	2011	899,617	2,696,000	2,007,500	1,862,148		
Darryl McCall	2012	642,023		1,627,960	792,982	158,298 <sup>(8)</sup>	
EVP, Operations	2011	491,978	1,348,000	952,285	687,904		

(1) Mr. Scannavini and Mr. Semerari are paid in Euros. All of Mr. McCall's payments were made in Swiss Francs except for his fiscal 2011 salary and his relocation assistance

payment.  
Exchange  
rates for fiscal  
2011 and  
2012  
compensation  
are calculated  
using the  
weighted  
average  
monthly  
exchange rate  
during the  
fiscal year.

(2) Amounts  
represent the  
grant date fair  
value of the  
IPO Units  
granted on  
September 14,  
2010 and  
February 1,  
2012  
calculated in  
accordance  
with FASB  
ASC Topic  
718. These  
IPO Units  
were a special  
incentive  
grant designed  
to motivate,  
retain and  
engage key  
executives to  
prepare the  
Company for  
a successful  
initial public  
offering. The  
IPO Units are  
described  
above in IPO  
Units.

(3) Amounts  
represent the  
grant date fair

value of Stock Options granted to each NEO for fiscal 2010 and 2011 performance and are calculated in accordance with FASB ASC Topic 718. All amounts represent Stock Options granted under the LTIP or Matching Options granted under the EOP. See note 22 to our consolidated financial statements for information concerning the calculation of the value of Stock Option and Matching Option awards.

- (4) Amounts represent cash awards paid under the APP in October 2011 with respect to fiscal 2011 performance and in October 2012 with respect to fiscal 2012 performance.

(5)

Mr. Scannavini received \$62,411 in fiscal 2011 and \$45,941 in fiscal 2012 as a housing allowance, and we provided him with a lease valued at \$16,049 in fiscal 2011 and \$15,752 in fiscal 2012 for a dual-purpose company car.

Mr. Scannavini also received a cash payment of \$531,669 in fiscal 2011 and a pro-rated cash payment of \$344,040 in fiscal 2012 in lieu of his participation in a social retirement program in Italy for his own retirement investment plans. In February 2012, Mr. Scannavini received a grant of 70,000 IPO Units and 30,000 shares of Restricted

Stock as consideration for foregoing his right to any future cash payments in lieu of his participation in a social retirement program.

- (6) In each of fiscal 2011 and 2012, Mr. Beetz's housing allowance was \$90,000 annually, and we provided him with a lease valued at \$50,000 annually for a dual-purpose company car. Mr. Beetz also received payments in lieu of pension payments equal to \$504,617 in fiscal 2011 and \$550,000 in fiscal 2012.
- (7) We provided Mr. Semerari with a lease valued at \$18,931 in fiscal 2012 for a dual-purpose company car.
- (8) We provided Mr. McCall

with a lease  
valued at  
\$27,796 in  
fiscal 2012 for  
a  
dual-purpose  
company car.  
In fiscal 2012,  
Mr. McCall  
received  
\$30,011 for  
relocation  
assistance  
services,  
\$53,595 as a  
cost of living  
adjustment  
and a  
one-time  
payment of  
\$46,896, each  
in connection  
with Mr.  
McCall s  
relocation  
from Paris,  
France to  
Geneva,  
Switzerland.



**Grants of Plan-Based Awards**

The following table and footnotes provide information on all grants of plan-based compensation under Coty's plans made to NEOs during fiscal 2012.

Name	Grant Date	Estimated Future Payments under Non-Equity Incentive Plan Awards (\$) <sup>(1)</sup>			Estimated Future Payouts under Equity Incentive Plan Awards (#) <sup>(2)</sup>	All Other Option Awards: Number of Securities Underlying Options (#) <sup>(3)</sup>	All Other Stock Awards: Number of Shares of Stock or Units (#) <sup>(4)</sup>	Exercise or Buyback Price of Options Awards (\$/share)
		Minimum	Target	Maximum				
		Michele Scannavini	9/22/2011					
	1/10/2012					291,163	10	
	2/1/2012				70,000		30,000	
Bernd Beetz	9/22/2011		2,017,920	7,264,512		1,875,000	10	
	1/10/2012					2,318,225	10	
Sérgio Pedreiro	9/22/2011		309,000	1,112,400		380,000	10	
Renato Semerari	9/22/2011		556,295	2,002,663		600,000	10	
	1/10/2012					60,000	10	
Darryl McCall	9/22/2011		385,214	1,386,769		300,000	10	
	1/10/2012					97,600	10	

(1) Represents the range of possible payments under the APP. Mr. Scannavini and Mr. Semerari will be paid in euros. Mr. McCall will be paid in

Swiss francs.  
Exchange  
rates for fiscal  
2012  
compensation  
are calculated  
using the  
weighted  
average  
monthly  
exchange rate  
during the  
fiscal year.

- (2) Represents  
IPO Units  
granted to Mr.  
Scannavini on  
February 1,  
2012 as  
described in  
IPO Units.
- (3) Awards issued  
on September  
22, 2011  
represent  
Stock Options  
granted under  
the LTIP  
based on  
performance  
in fiscal 2011.  
Awards issued  
on January 10,  
2012  
represent the  
Matching  
Options  
granted under  
the EOP.
- (4) Represents  
shares of  
restricted  
stock granted  
under the  
LTIP.

*Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards Table*

*Employment Agreements*

The material terms of each NEO's current employment agreement are described below:

Michele Scannavini. Under his employment agreement, Mr. Scannavini is an at-will employee and our CEO. The agreement provides that Mr. Scannavini is eligible to participate in our benefit plans and retirement plan generally available to our local executives and is entitled to the use of a company car in accordance with our local policy.

Sérgio Pedreiro. Under his employment agreement, Mr. Pedreiro is an at-will employee and our CFO. The agreement provides that Mr. Pedreiro is eligible to participate in our benefit plans and retirement plans generally available to local executives.

Renato Semerari. Under his employment agreement, Mr. Semerari is an at-will employee and President of Coty Beauty. The agreement provides that Mr. Semerari is entitled to use of a company car or a car allowance in accordance with our local policy and to participate in our benefit plans and retirement plans generally available to our local executives.

Darryl McCall. Under his employment agreement, Mr. McCall is an at-will employee and our Executive Vice President, Operations. The agreement provides that Mr. McCall is entitled to use of a company car or a car allowance in accordance with our local policy, a cost of living allowance through July 2014 equal to 48,000 CHF and to participate in our benefit plans and retirement plans generally available to our local executives.

*Mr. Beetz Retirement Agreement*

Effective July 31, 2012, Mr. Beetz retired as Chief Executive Officer of Coty Inc. Following his retirement, Mr. Beetz will continue to receive payments in lieu of a pension of \$550,000 per year, which he is entitled to receive under his employment agreement.

*Annual Incentive Compensation Awards under our APP*

APP awards are calculated as set forth above in Annual Incentive Compensation.

**Collective Factor.** The collective factor for fiscal 2012 APP awards was based on collective performance for adjusted EBITDA (defined as adjusted operating profit before depreciation and amortization), net revenues and free cash flow. The table below sets forth each of the collective targets of Coty Inc. for purposes of incentive payout under this APP component:

**Coty Inc. Fiscal 2012 Targets**

	<b>Target</b> <b>(thousands</b> <b>of \$)</b>	<b>Minimum</b> <b>% of</b> <b>Target</b>	<b>Payout</b> <b>(Factor)</b>	<b>Below</b> <b>% of</b> <b>Target</b>	<b>Payout</b> <b>(Factor)</b>	<b>Target</b> <b>% of</b> <b>Target</b>	<b>Payout</b> <b>(Factor)</b>	<b>Exceeds</b> <b>% of</b> <b>Target</b>	<b>Payout</b> <b>(Factor)</b>
Adjusted EBITDA	\$ 761,000	91.5	0	95.0	.20	100.0	.40	104.2	.80
Net Revenues	\$ 4,453,200	96.0	0	98.0	.15	100.0	.30	102.0	.60
Free Cash Flow	\$ 360,000	88.9	0	94.4	.15	100.0	.30	104.2	.60
<b>TOTAL</b>			0		.50		1.00		2.00

The collective factor of Coty Inc. for fiscal 2012 was 2.31. The collective factor for fiscal 2012 of the operations for which Mr. Scannavini and Mr. Semerari were directly responsible in fiscal 2012 were 1.97 and 1.88, respectively. In fiscal 2012, adjustments were made to take into account cost related to certain of our 2011 Acquisitions and costs related to the proposed initial public offering.

The following example illustrates the calculation of the collective portion of an NEO's APP award. Based on the actual performance of Coty Inc., if an NEO had a target APP award of \$500,000 and his collective component was based solely on the financial performance of Coty Inc., his collective factor for fiscal 2012 is 2.31 and he would receive \$577,500 for the collective component of his APP award. The remaining 50% of his APP award would be determined by his individual factor.

**Individual Factor.** As in Annual Incentive Awards, Individual Factor, the remaining 50% of each NEO's APP award is based on achievement of individual goals set by the Remuneration and Nomination Committee. Once achievement levels are determined, individual factors are adjusted based on collective performance.

The individual goals of each NEO for fiscal 2012 were:

**Michele Scannavini.** Mr. Scannavini's individual goals, all of which relate to the commercial operations for which he was directly responsible during fiscal 2012, were to build brand equity in fragrances, execute the acquisition business plans for Philosophy, launch a color cosmetics brand in the prestige distribution channel, increase sales in certain geographic areas, increase gross margin and enhance the internal talent pool.

**Bernd Beetz.** Mr. Beetz's individual goals were to build brand equity of our products, execute business plans of the four acquisitions completed in fiscal 2011, improve financial oversight and tax effectiveness, increase sales in certain geographic areas, improve gross margin and enhance the internal talent pool.

**Sérgio Pedreiro.** Mr. Pedreiro's individual goals were to manage our initial public offering and transition to becoming a publicly-traded entity, ensure appropriate funding and support for new business opportunities, improve working capital, increase gross margin and enhance the internal talent pool.

**Renato Semerari.** Mr. Semerari's individual goals, all of which relate to the commercial operations for which he is directly responsible, were to increase market share of our products, develop products in certain distribution channels, execute acquisition business plans for Dr. Scheller,

OPI and TJoy, improve gross margin, increase sales in certain geographic areas and transition the organization to a new trade marketing structure.

**Darryl McCall.** Mr. McCall's individual goals were to execute business plans of the four acquisitions completed in fiscal 2011 and certain other projects, improve tax effectiveness of operations, improve working capital and reduce inventory, improve technical capability in certain geographic markets, improve service levels in certain geographic areas and distribution channels and increase gross margin.

APP Awards by NEO. The following table shows the minimum, target and maximum amounts each NEO could have been awarded in fiscal 2012.

<b>Name</b>	<b>Salary (\$)<sup>(1)</sup></b>	<b>Award Target Relative to Salary (%)</b>	<b>Award Minimum (\$)</b>	<b>Award Maximum (\$)</b>	<b>Award Target (\$)</b>	<b>Actual APP Factor</b>	<b>Actual Award (\$)</b>
Michele Scannavini	1,100,616	60	0	2,377,331	660,370	2.24	1,479,409
Bernd Beetz	1,681,600	120	0	7,264,512	2,017,920	2.26	4,550,410
Sérgio Pedreiro	515,000	60	0	1,112,400	309,000	2.21	681,300
Renato Semerari	927,159	60	0	2,002,663	556,295	2.01	1,117,225
Darryl McCall	642,022	60	0	1,386,769	385,214	2.06	792,982

(1) In fiscal 2012, Mr. Scannavini and Mr. Semerari were paid in euros and Mr. McCall was paid in Swiss francs. Exchange rates for fiscal 2012 compensation are calculated using the weighted average monthly

exchange rate  
during the  
fiscal year.

*Long-Term Incentive Compensation Awards*

Annual Grant. Through the process described in Long-Term Incentive Compensation, Annual Awards under our Long-Term Incentive Plans, the Remuneration and Nomination Committee determined that the total number of awards available for the annual grant in fiscal 2012 was 150% of the target size, resulting in a total pool size of 7,702,500 stock options. The target awards for Mr. Scannavini, Mr. Beetz, Mr. Semerari, Mr. McCall and Mr. Pedreiro were 400,000, 1,250,000, 400,000, 200,000 and 250,000, respectively. After assessing the individual performance of each NEO, the Remuneration and Nomination Committee awarded each of Mr. Scannavini, Mr. Beetz, Mr. Semerari and Mr. McCall 150% of their respective target awards and Mr. Pedreiro 152% of his target award.

Matching Options under our Executive Ownership Programs. In fiscal 2012, Mr. Scannavini, Mr. Beetz, Mr. Semerari and Mr. McCall received Matching Options under the EOP.

IPO Units. In fiscal 2011, the Remuneration and Nomination Committee granted a special incentive grant of IPO Units. The grant was designed to motivate, retain and engage key executives to prepare the Company for a successful initial public offering. The IPO Units vest in two tranches if our capital stock is publicly traded by September 14, 2015: 50% vest on the first day our capital stock is publicly traded on a national exchange and the remaining 50% vest on the first anniversary of that date.

Each NEO received IPO Units in the fiscal 2011 grant. The IPO Units granted to Mr. Beetz were forfeited pursuant to his retirement. Mr. Scannavini received an additional grant of 70,000 IPO Units in fiscal 2012 as consideration for no longer receiving certain payments in lieu of participation in a social retirement program.

*Outstanding Equity Awards at June 30, 2012*

The following table shows outstanding equity awards held by the NEOs on June 30, 2012. The market value of the shares of unvested restricted stock is determined by multiplying the number of outstanding awards by \$14.25, which was the value of our common stock on June 30, 2012. The market value does not reflect, nor in any way assures, that the amounts will correspond to the actual value that will be recognized by the NEOs.

## Outstanding Equity Awards at Fiscal Year-End

Name	Option Awards				Stock Awards		
	Number of Securities Underlying Unexercised Options Exercisable (#) <sup>(1)</sup>	Number of Securities Underlying Unexercised Options Unexercisable (#) <sup>(1)</sup>	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) <sup>(2)</sup>	Market Value of Shares or Units of Stock That Have Not Vested (\$)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or other Rights that have not Vested (#) <sup>(3)</sup>
Michele Scannavini	142,580		5.10	10/18/2015			
		300,000	10.20	9/10/2017			
		404,700	10.20	11/1/2017			
		300,000	6.40	1/7/2019			
		200,000	8.25	9/8/2019			
		520,000	9.20	9/14/2020			
		291,660	9.20	12/3/2020			
		600,000	10.50	9/22/2021			
		291,163	10.50	1/10/2022			
							470,000
							30,000
Bernd Beetz	1,000,000		4.65	9/30/2014			
	1,250,000		5.10	9/30/2015			
	2,500,000		5.10	10/18/2015			
		1,265,000	10.20	9/10/2017			
		4,435,500	10.20	11/1/2017			
		1,250,000	6.40	1/7/2019			
		1,381,150	6.40	3/2/2019			
		625,000	8.25	9/8/2019			
		1,650,000	9.20	9/14/2020			
		1,839,080	9.20	12/3/2020			
		1,875,000	10.50	9/22/2021			
		2,318,225	10.50	1/10/2022			
							1,500,000
Darryl McCall	100,000		10.70	6/6/2018			



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200,000	6.40	1/7/2019
15,750	6.40	3/2/2019
100,000	8.25	9/8/2019
250,000	9.20	9/14/2020
10,900	9.20	12/3/2020
300,000	10.50	9/22/2021
97,600	10.50	