ESTEE LAUDER COMPANIES INC
Form 10-Q
May 02, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549-1004

FORM 10-Q

(Mark One)-

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2014

OR

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from to

Commission file number: 1-14064

The Estée Lauder Companies Inc.

(Exact name of registrant as specified in its charter)

Delaware	**11-2408943**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
767 Fifth Avenue, New York, New York	**10153**
(Address of principal executive offices)	(Zip Code)

212-572-4200

(Registrant s telephone number, including area code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

At April 25, 2014, 234,070,441 shares of the registrant s Class A Common Stock, $.01 par value, and 148,728,082 shares of the registrant s Class B Common Stock, $.01 par value, were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements.***

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Three Months Ended March 31				Nine Months Ended March 31			
	2014		2013		2014		2013	
	(In millions, except per share data)							
Net Sales	$	2,549.8	$	2,291.8	$	8,243.5	$	7,774.3
Cost of Sales		498.7		443.1		1,624.4		1,550.3
Gross Profit		2,051.1		1,848.7		6,619.1		6,224.0
Operating expenses								
Selling, general and administrative		1,709.5		1,605.3		5,173.9		4,831.8
Restructuring and other charges				(1.7)		(2.2)		12.0
Total operating expenses		1,709.5		1,603.6		5,171.7		4,843.8
Operating Income		341.6		245.1		1,447.4		1,380.2
Interest expense, net		12.3		12.6		38.2		41.8
Interest expense on debt extinguishment								19.1
Other income								23.1
Earnings before Income Taxes		329.3		232.5		1,409.2		1,342.4
Provision for income taxes		115.6		53.6		458.5		414.5
Net Earnings		213.7		178.9		950.7		927.9
Net earnings attributable to noncontrolling interests		(0.5)		(0.1)		(4.3)		(2.1)
Net Earnings Attributable to The Estée Lauder Companies Inc.	$	213.2	$	178.8	$	946.4	$	925.8
Net earnings attributable to The Estée Lauder Companies Inc. per common share								
Basic	$	0.55	$	0.46	$	2.44	$	2.39
Diluted		0.54		0.45		2.40		2.35
Weighted-average common shares outstanding								

Basic	385.8	387.2	387.3	387.5
Diluted	392.1	394.0	394.1	394.7
Cash dividends declared per common share	$ .20	$ .18	$ .58	$ .90

See notes to consolidated financial statements.

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THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	2014	2013	2014	2013
	(In millions)			
Net earnings	$ 213.7	$ 178.9	$ 950.7	$ 927.9
Other comprehensive income (loss):				
Net unrealized investment gain (loss)	0.2	0.3	0.6	0.5
Net derivative instrument gain (loss)	1.4	11.9	(14.2)	(6.2)
Amounts included in net periodic benefit cost	5.5	8.2	16.3	25.2
Translation adjustments	(8.2)	(75.6)	44.3	3.2
Benefit (provision) for deferred income taxes on components of other comprehensive income	(2.0)	(9.5)	1.8	(7.3)
Total other comprehensive income (loss)	(3.1)	(64.7)	48.8	15.4
Comprehensive income (loss)	210.6	114.2	999.5	943.3
Comprehensive (income) loss attributable to noncontrolling interests:				
Net earnings	(0.5)	(0.1)	(4.3)	(2.1)
Translation adjustments	(0.1)		(0.8)	(0.8)
	(0.6)	(0.1)	(5.1)	(2.9)
Comprehensive income (loss) attributable to The Estée Lauder Companies Inc.	$ 210.0	$ 114.1	$ 994.4	$ 940.4

See notes to consolidated financial statements.

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THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED BALANCE SHEETS

	March 31 2014 (Unaudited)	June 30 2013
	($ in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,530.2	$ 1,495.7
Accounts receivable, net	1,399.0	1,171.7
Inventory and promotional merchandise, net	1,215.4	1,113.9
Prepaid expenses and other current assets	547.2	515.9
Total current assets	4,691.8	4,297.2
Property, Plant and Equipment, net	1,434.9	1,350.7
Other Assets		
Goodwill	891.5	881.5
Other intangible assets, net	160.2	169.6
Other assets	467.6	446.2
Total other assets	1,519.3	1,497.3
Total assets	$ 7,646.0	$ 7,145.2
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	$ 18.4	$ 18.3
Accounts payable	512.5	481.7
Other accrued liabilities	1,508.4	1,434.6
Total current liabilities	2,039.3	1,934.6
Noncurrent Liabilities		
Long-term debt	1,327.7	1,326.0
Other noncurrent liabilities	596.6	582.7
Total noncurrent liabilities	1,924.3	1,908.7
Contingencies (Note 7)		
Equity		
Common stock, $.01 par value; Class A shares authorized: 1,300,000,000 at March 31, 2014 and June 30, 2013; shares issued: 411,729,182 at March 31, 2014 and 407,988,891 at June 30, 2013; Class B shares authorized: 304,000,000 at March 31, 2014 and June 30, 2013; shares issued and outstanding: 148,728,082 at March 31, 2014 and 148,978,082 at June 30, 2013	5.6	5.6
Paid-in capital	2,498.2	2,289.9
Retained earnings	6,085.1	5,364.1
Accumulated other comprehensive loss	(109.5)	(157.5)
	8,479.4	7,502.1
Less: Treasury stock, at cost; 177,528,817 Class A shares at March 31, 2014 and 168,972,698 Class A shares at June 30, 2013	(4,812.1)	(4,215.2)
Total stockholders equity The Estée Lauder Companies Inc.	3,667.3	3,286.9

Noncontrolling interests		15.1		15.0
Total equity		3,682.4		3,301.9
Total liabilities and equity	$	7,646.0	$	7,145.2

See notes to consolidated financial statements.

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THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended March 31	
	2014	2013
	(In millions)	
Cash Flows from Operating Activities		
Net earnings	$ 950.7	$ 927.9
Adjustments to reconcile net earnings to net cash flows from operatingactivities:		
Depreciation and amortization	280.0	247.2
Deferred income taxes	(33.7)	(43.3)
Non-cash stock-based compensation	124.8	118.4
Excess tax benefits from stock-based compensation arrangements	(31.9)	(47.7)
Loss on disposal of property, plant and equipment	7.6	9.7
Non-cash charges associated with restructuring activities	0.1	1.6
Pension and post-retirement benefit expense	52.6	61.3
Pension and post-retirement benefit contributions	(22.7)	(20.6)
Loss on Venezuela remeasurement	38.3	2.8
Other non-cash items	(0.2)	(25.9)
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(226.7)	(297.0)
Increase in inventory and promotional merchandise, net	(87.4)	(4.2)
Increase in other assets, net	(65.1)	(24.0)
Increase (decrease) in accounts payable	26.4	(104.1)
Increase in other accrued and noncurrent liabilities	156.6	132.1
Net cash flows provided by operating activities	1,169.4	934.2
Cash Flows from Investing Activities		
Capital expenditures	(342.8)	(305.5)
Acquisition of businesses and other intangible assets, net of cash acquired	(9.2)	(8.7)
Proceeds from disposition of long-term investments	8.4	6.3
Purchases of long-term investments	(0.6)	(2.9)
Net cash flows used for investing activities	(344.2)	(310.8)
Cash Flows from Financing Activities		
Borrowings (repayments) of current debt, net	5.3	(198.7)
Proceeds from issuance of long-term debt, net		498.7
Debt issuance costs		(4.1)
Repayments and redemptions of long-term debt	(9.1)	(238.2)
Net proceeds from stock-based compensation transactions	55.4	71.3
Excess tax benefits from stock-based compensation arrangements	31.9	47.7
Payments to acquire treasury stock	(600.3)	(363.2)
Dividends paid to stockholders	(225.2)	(349.3)
Payments to noncontrolling interest holders for dividends	(2.7)	(0.7)
Net cash flows used for financing activities	(744.7)	(536.5)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(46.0)	4.0
Net Increase in Cash and Cash Equivalents	34.5	90.9

Cash and Cash Equivalents at Beginning of Period		1,495.7		1,347.7
Cash and Cash Equivalents at End of Period	$	1,530.2	$	1,438.6

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of The Estée Lauder Companies Inc. and its subsidiaries (collectively, the Company). All significant intercompany balances and transactions have been eliminated.

Certain amounts in the consolidated financial statements of prior years have been reclassified to conform to current year presentation.

The unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

Management Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses reported in those financial statements. Certain significant accounting policies that contain subjective management estimates and assumptions include those related to revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill, other intangible assets and long-lived assets, and income taxes. Descriptions of these policies are discussed in the notes to consolidated financial statements in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2013. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates and assumptions resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

Currency Translation and Transactions

All assets and liabilities of foreign subsidiaries and affiliates are translated at period-end rates of exchange, while revenue and expenses are translated at weighted-average rates of exchange for the period. Unrealized translation gains (losses) reported as cumulative translation adjustments through other comprehensive income (loss) (OCI) attributable to The Estée Lauder Companies Inc. amounted to $(7.6) million and $(83.7) million, net of tax, during the three months ended March 31, 2014 and 2013, respectively, and $50.4 million and $(1.1) million, net of tax, during the nine months ended March 31, 2014 and 2013, respectively.

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For the Company s Venezuelan subsidiary operating in a highly inflationary economy, the U.S. dollar is the functional currency. Remeasurement adjustments in financial statements in a highly inflationary economy and other transactional gains and losses are reflected in earnings. During the third quarter of fiscal 2014, the Venezuelan government enacted changes to the foreign exchange controls that expanded the use of its existing exchange mechanisms and created another exchange control mechanism (SICAD II), which allows companies to apply for the purchase of foreign currency and foreign currency denominated securities for any legal use or purpose. As a result, the Company considered its specific facts and circumstances in determining the appropriate remeasurment rate, principally assessing its legal eligibility to access the available foreign exchange mechanisms, the transactions that would be eligible, the Company s past and expected future ability to transact through those mechanisms, and the Company s intent to utilize a particular mechanism for particular purposes. Although the SICAD II mechanism and its level and frequency of exchange continue to be regulated by the Venezuelan government, it offers the possibility of foreign exchange in a theoretically open market without restricted uses and in management s opinion is the only mechanism legally available at this time for the Company s highest priority transactions, which are the import of goods. Therefore, the Company believes the SICAD II rate is the most appropriate rate that reflects the economics of its Venezuelan subsidiary s business as of March 24, 2014, when the SICAD II mechanism became operational. As a result, the Company changed the exchange rate used to remeasure the monetary assets and liabilities of its Venezuelan subsidiary from 6.3 to the SICAD II rate, which was 49.81 as of March 31, 2014. Accordingly, a remeasurement charge of $38.3 million, on a before and after tax basis, was reflected in Selling, general and administrative expenses in the Company s consolidated statements of earnings for the three and nine months ended March 31, 2014.

The Company enters into foreign currency forward contracts and may enter into option contracts to hedge foreign currency transactions for periods consistent with its identified exposures. Accordingly, the Company categorizes these instruments as entered into for purposes other than trading.

The accompanying consolidated statements of earnings include net exchange gains (losses) on foreign currency transactions, including the effects of Venezuelan remeasurement charges, of $(41.7) million and $0.4 million during the three months ended March 31, 2014 and 2013, respectively, and $(48.1) million and $1.8 million during the nine months ended March 31, 2014 and 2013, respectively.

Accounts Receivable

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions totaling $26.0 million and $22.7 million as of March 31, 2014 and June 30, 2013, respectively.

Concentration of Credit Risk

The Company is a worldwide manufacturer, marketer and distributor of skin care, makeup, fragrance and hair care products. The Company s sales subject to credit risk are made primarily to department stores, perfumeries, specialty multi-brand retailers and retailers in its travel retail business. The Company grants credit to all qualified customers and does not believe it is exposed significantly to any undue concentration of credit risk.

The Company s largest customer sells products primarily within the United States and accounted for $284.0 million, or 11%, and $253.0 million, or 11%, of the Company s consolidated net sales for the three months ended March 31, 2014 and 2013, respectively, and $907.0 million, or 11%, and $859.2 million, or 11%, of the Company s consolidated net sales for the nine months ended March 31, 2014 and 2013, respectively. This customer accounted for $206.0 million, or 15%, and $113.7 million, or 10%, of the Company s accounts receivable at March 31, 2014 and June 30, 2013, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventory and Promotional Merchandise

Inventory and promotional merchandise, net consists of:

(In millions)	March 31 2014	June 30 2013
Raw materials	$ 326.0	$ 274.2
Work in process	160.6	116.8
Finished goods	572.5	510.9
Promotional merchandise	156.3	212.0
	$ 1,215.4	$ 1,113.9

Property, Plant and Equipment

(In millions)	March 31 2014	June 30 2013
Assets (Useful Life)		
Land	$ 15.2	$ 14.7
Buildings and improvements (10 to 40 years)	202.3	195.4
Machinery and equipment (3 to 10 years)	654.1	647.9
Computer hardware and software (4 to 10 years)	975.1	948.4
Furniture and fixtures (5 to 10 years)	72.2	71.6
Leasehold improvements	1,496.5	1,349.6
	3,415.4	3,227.6
Less accumulated depreciation and amortization	1,980.5	1,876.9
	$ 1,434.9	$ 1,350.7

The cost of assets related to projects in progress of $219.5 million and $178.7 million as of March 31, 2014 and June 30, 2013, respectively, is included in their respective asset categories above. Depreciation and amortization of property, plant and equipment was $94.0 million and $88.6 million during the three months ended March 31, 2014 and 2013, respectively, and $275.1 million and $241.8 million during the nine months ended March 31, 2014 and 2013, respectively. Depreciation and amortization related to the Company s manufacturing process is included in Cost of Sales and all other depreciation and amortization is included in Selling, general and administrative expenses in the accompanying consolidated statements of earnings.

Other Accrued Liabilities

Other accrued liabilities consist of the following:

(In millions)	March 31 2014	June 30 2013
Advertising, merchandising and sampling	$ 300.1	$ 318.6
Employee compensation	420.1	433.3
Payroll and other taxes	157.1	135.7
Accrued income taxes	175.9	81.3
Other	455.2	465.7
	$ 1,508.4	$ 1,434.6

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Income Taxes

The effective rate for income taxes was 35.1% and 23.0% for the three months ended March 31, 2014 and 2013, respectively. The increase in the effective income tax rate was principally due to various discrete adjustments that were recognized in the prior-year period that resulted in a lower quarterly tax rate. These prior-year period adjustments included the reversal of income tax reserves, the reversal of a deferred tax asset valuation allowance on certain net operating loss carryforwards, and the retroactive reinstatement of the U.S. Federal research and development tax credit signed into law on January 2, 2013. Contributing to the higher quarterly effective tax rate in the current-year period was a higher effective tax rate related to the Company s foreign operations, which included the impact of the Venezuelan remeasurement charge for which no tax benefit has been provided.

The effective income tax rate was 32.5% and 30.9% for the nine months ended March 31, 2014 and 2013, respectively. The increase in the effective income tax rate was attributable to a higher effective tax rate on the Company s foreign operations, including the impact of the Venezuelan remeasurement charge for which no tax benefit has been provided, as well as the prior-year period impact of income tax reserve reversals and the retroactive reinstatement of the U.S. Federal research and development tax credit signed into law on January 2, 2013.

As of March 31, 2014 and June 30, 2013, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled $56.7 million and $64.0 million, respectively. The total amount of unrecognized tax benefits at March 31, 2014 that, if recognized, would affect the effective tax rate was $40.5 million. During the three and nine months ended March 31, 2014, the Company recognized a gross interest and penalty benefit in the accompanying consolidated statements of earnings of $0.7 million and $0.3 million, respectively. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at March 31, 2014 and June 30, 2013 was $14.0 million and $17.4 million, respectively. On the basis of the information available as of March 31, 2014, the Company does not expect any significant changes to the total amount of unrecognized tax benefits within the next 12 months.

During the second quarter of fiscal 2014, the Spain Supreme Court notified the Company that its appeal with respect to the disallowance of tax deductions claimed by its Spanish subsidiary for fiscal years 1999 through 2002 was denied. This decision represents the final outcome of the matter, which did not have a material impact on the Company s consolidated financial statements. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

As of March 31, 2014 and June 30, 2013, the Company had current net deferred tax assets of $294.8 million and $296.0 million, respectively, substantially all of which are included in Prepaid expenses and other current assets in the accompanying consolidated balance sheets. In addition, the Company had noncurrent net deferred tax assets of $55.4 million and $50.3 million as of March 31, 2014 and June 30, 2013, respectively, substantially all of which are included in Other assets in the accompanying consolidated balance sheets.

Recently Adopted Accounting Standards

In February 2013, the Financial Accounting Standards Board (FASB) issued authoritative guidance requiring an entity to present, in a single location either parenthetically on the face of the financial statements or in a separate note, significant amounts reclassified from each component of accumulated other comprehensive income (loss) (AOCI) and the income statement line items affected by the reclassification. An entity is not permitted to provide this information parenthetically on the face of the income statement if it has items that are not required to be reclassified in their entirety to net income. Instead of disclosing the income statement line affected, a cross reference to other disclosures that provide additional details on these items is required. This guidance became effective prospectively for the Company s fiscal 2014 first quarter and the adoption of this disclosure-only guidance did not have a significant impact on the Company s consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In July 2012, the FASB amended its authoritative guidance related to testing indefinite-lived intangible assets for impairment. Under the revised guidance, entities testing their indefinite-lived intangible assets for impairment have the option of performing a qualitative assessment before performing further impairment testing. If entities determine, on the basis of qualitative factors, that it is more-likely-than-not that the asset is impaired, a quantitative test is required. This guidance became effective in the beginning of the Company s fiscal 2014 first quarter and the adoption of this guidance did not have an impact on the Company s consolidated financial statements.

In December 2011, the FASB issued authoritative guidance that creates new disclosure requirements about the nature of an entity s rights of offset and related arrangements associated with its financial instruments and derivative instruments. This revised guidance helps reconcile differences in the offsetting requirements under U.S. GAAP and International Financial Reporting Standards (IFRS). These requirements mandate that entities disclose both gross and net information about instruments and transactions eligible for offset in the statement of financial position as well as instruments and transactions subject to an agreement similar to a master netting arrangement. In January 2013, the FASB issued an update that limits the scope of these disclosures to recognized derivative instruments, repurchase agreements and reverse repurchase agreements, and securities borrowing and lending transactions to the extent they are offset in the balance sheet or subject to an enforceable master netting arrangement or similar agreement. This disclosure-only guidance became effective for the Company s fiscal 2014 first quarter, with retrospective application required. The Company currently does not hold any financial or derivative instruments within the scope of this guidance that are offset in its consolidated balance sheets or are subject to an enforceable master netting arrangement. The adoption of this guidance did not have an impact on the Company s results of operations, financial position or cash flows.

Recently Issued Accounting Standards

In April 2014, the FASB issued authoritative guidance which changes the criteria for a disposal to qualify as a discontinued operation. This revised standard defines a discontinued operation as (i) a component of an entity or group of components that has been disposed of or is classified as held for sale that represents a strategic shift that has or will have a major effect on an entity s operations and financial results or (ii) an acquired business or nonprofit activity that is classified as held for sale on the date of acquisition. The standard also requires expanded disclosures related to discontinued operations and added disclosure requirements for individually material disposal transactions that do not meet the discontinued operations criteria. This guidance becomes effective prospectively for the Company s fiscal 2016 first quarter, with early adoption permitted, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available to be issued. The Company will apply this new guidance when it becomes effective and the adoption of this guidance is not expected to have a significant impact on its consolidated financial statements.

In July 2013, the FASB issued authoritative guidance that requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss (NOL) carryforward, a similar tax loss, or a tax credit carryforward. If either (i) an NOL carryforward, a similar tax loss, or tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position or (ii) the entity does not intend to use the deferred tax asset for this purpose (provided that the tax law permits a choice), an entity should present an unrecognized tax benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset. This guidance becomes effective prospectively for unrecognized tax benefits that exist as of the Company s fiscal 2015 first quarter, with retrospective application and early adoption permitted. The Company will apply this new guidance prospectively when it becomes effective, and the adoption of this guidance is not expected to have a significant impact on its consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In March 2013, the FASB issued authoritative guidance to resolve the diversity in practice concerning the release of the cumulative translation adjustment (CTA) into net income (i) when a parent sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity, and (ii) in connection with a step acquisition of a foreign entity. This amended guidance requires that CTA be released in net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, and that a pro rata portion of the CTA be released into net income upon a partial sale of an equity method investment in a foreign entity only. In addition, the amended guidance clarifies the definition of a sale of an investment in a foreign entity to include both, events that result in the loss of a controlling financial interest in a foreign entity and events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately prior to the date of acquisition. The CTA should be released into net income upon the occurrence of such events. This guidance becomes effective prospectively for the Company s fiscal 2015 first quarter with early adoption permitted. The Company will apply this new guidance when it becomes effective and the adoption of this guidance is not expected to have a significant impact on its consolidated financial statements.

In February 2013, the FASB issued authoritative guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligations within the scope of this guidance is fixed at the reporting date. It does not apply to certain obligations that are addressed within existing guidance in U.S. GAAP. This guidance requires an entity to measure in-scope obligations with joint and several liability (e.g., debt arrangements, other contractual obligations, settled litigations, judicial rulings) as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount it expects to pay on behalf of its co-obligors. In addition, an entity is required to disclose the nature and amount of the obligation. This guidance should be applied retrospectively to all prior periods for those obligations resulting from joint and several liability arrangements within the scope of this guidance that exist at the beginning of the Company s fiscal 2015 first quarter, with early adoption permitted. The Company will apply this guidance when it becomes effective, and the adoption of this guidance is not expected to have a significant impact on its consolidated financial statements.

NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS

The following table presents goodwill by product category and the related change in the carrying amount:

(In millions)	**Skin Care**	**Makeup**	**Fragrance**	**Hair Care**	**Total**
Balance as of June 30, 2013					
Goodwill	$ 67.7	$ 430.4	$ 54.8	$ 401.6	$ 954.5
Accumulated impairments	(32.5)			(40.5)	(73.0)
	35.2	430.4	54.8	361.1	881.5
Goodwill acquired during the period		9.4			9.4
Translation adjustments				0.6	0.6
		9.4		0.6	10.0

Balance as of March 31, 2014										
Goodwill		69.0		439.8		54.8		400.1		963.7
Accumulated impairments		(33.8)						(38.4)		(72.2)
	$	35.2	$	439.8	$	54.8	$	361.7	$	891.5

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Other intangible assets consist of the following:

(In millions)	March 31, 2014 Gross Carrying Value	Accumulated Amortization	Total Net Book Value	June 30, 2013 Gross Carrying Value	Accumulated Amortization	Total Net Book Value
Amortizable intangible assets:						
Customer lists and other	$ 268.0	$ 213.5	$ 54.5	$ 268.0	$ 204.1	$ 63.9
License agreements	43.0	43.0		43.0	43.0	
	$ 311.0	$ 256.5	54.5	$ 311.0	$ 247.1	63.9
Non-amortizable intangible assets:						
Trademarks and other			105.7			105.7
Total intangible assets			$ 160.2			$ 169.6

The aggregate amortization expense related to amortizable intangible assets was $3.0 million and $3.2 million for the three months ended March 31, 2014 and 2013, respectively, and was $9.3 million and $9.4 million for the nine months ended March 31, 2014 and 2013, respectively. The estimated aggregate amortization expense for the remainder of fiscal 2014 and for each of fiscal 2015 to 2018 is $3.1 million, $12.1 million, $12.0 million, $9.9 million and $8.4 million, respectively.

NOTE 3 RETURNS AND CHARGES ASSOCIATED WITH RESTRUCTURING ACTIVITIES

During the second quarter of fiscal 2013, the Company closed its multi-faceted costs savings program implemented in February 2009 (the Program) and will continue to execute all remaining initiatives through fiscal 2014. Total cumulative restructuring charges and other costs to implement those initiatives from inception of the Program to date are $318.1 million. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

Restructuring Charges (Adjustments)

The following table presents restructuring charges (adjustments) related to the Program as follows:

(In millions)	Three Months Ended March 31 2014	Three Months Ended March 31 2013	Nine Months Ended March 31 2014	Nine Months Ended March 31 2013
Employee-related costs	$ (0.2)	$ (3.4)	$ (3.7)	$ 10.2
Asset write-offs		0.3		0.4
Contract terminations	0.2	0.3	1.2	0.3
Other exit costs		0.8	0.2	0.7
Total restructuring charges (adjustments)	$	$ (2.0)	$ (2.3)	$ 11.6

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The following table presents aggregate restructuring charges (adjustments) related to the Program to date:

(In millions)	Employee-Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Fiscal 2009	$ 60.9	$ 4.2	$ 3.4	$ 1.8	$ 70.3
Fiscal 2010	29.3	11.0	2.3	6.2	48.8
Fiscal 2011	34.6	2.4	3.0	1.1	41.1
Fiscal 2012	37.1	1.7	12.6	2.2	53.6
Fiscal 2013	7.7	2.1	1.5	3.3	14.6
Nine months ended March 31, 2014	(3.7)		1.2	0.2	(2.3)
Charges recorded through March 31, 2014	$ 165.9	$ 21.4	$ 24.0	$ 14.8	$ 226.1

The following table presents accrued restructuring charges (adjustments) and the related activities under the Program:

(In millions)	Employee-Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Balance at June 30, 2013	$ 27.5	$	$ 0.2	$ 0.7	$ 28.4
Charges (adjustments)	(3.7)		1.2	0.2	(2.3)
Cash payments	(14.1)		(0.7)	(0.5)	(15.3)
Translation adjustments	0.4			(0.1)	0.3
Balance at March 31, 2014	$ 10.1	$	$ 0.7	$ 0.3	$ 11.1

Accrued restructuring charges at March 31, 2014 are expected to result in cash expenditures funded from cash provided by operations of approximately $4 million for the remainder of fiscal 2014 and $7 million in fiscal 2015.

NOTE 4 DERIVATIVE FINANCIAL INSTRUMENTS

The Company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. The Company enters into foreign currency forward contracts. The Company may enter into option contracts to reduce the effects of fluctuating foreign currency exchange rates and interest rate derivatives to manage the effects of interest rate movements on the Company s aggregate liability portfolio. The Company also enters into foreign currency forward contracts and may use option contracts, not designated as hedging instruments, to mitigate the change in fair value of specific assets and liabilities on the balance sheet. The Company does not utilize derivative financial instruments for trading or speculative purposes. Costs associated with entering into these derivative financial instruments have not been material to the Company s consolidated financial results.

For each derivative contract entered into where the Company looks to obtain hedge accounting treatment, the Company formally and contemporaneously documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking the hedge transaction, the nature of the risk being hedged, how the hedging instruments effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge s inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. If it is determined that a derivative is not highly effective, or that it has ceased to be a highly effective hedge, the Company will be required to discontinue hedge accounting with respect to that derivative prospectively.

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The fair values of the Company s derivative financial instruments included in the consolidated balance sheets are presented as follows:

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value (1)		Balance Sheet Location	Fair Value (1)	
(In millions)		**March 31 2014**	**June 30 2013**		**March 31 2014**	**June 30 2013**
Derivatives Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	$ 14.6	$ 20.8	Other accrued liabilities	$ 13.5	$ 6.4
Derivatives Not Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	2.2	0.9	Other accrued liabilities	5.0	2.7
Total Derivatives		$ 16.8	$ 21.7		$ 18.5	$ 9.1

(1) See Note 5 Fair Value Measurements for further information about how the fair value of derivative assets and liabilities are determined.

The amounts of the gains and losses related to the Company s derivative financial instruments designated as hedging instruments are presented as follows:

	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended March 31		Location of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion) (1) Three Months Ended March 31	
(In millions)	**2014**	**2013**		**2014**	**2013**
Foreign currency forward contracts	$ 3.2	$ 13.5	Cost of sales	$ 1.1	$ (0.9)
			Selling, general and administrative	0.6	