COTY INC.
Form 10-K
August 18, 2016

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

Form 10-K
(Mark One)

ý	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	FOR THE FISCAL YEAR ENDED JUNE 30, 2016
	OR
..	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	FOR THE TRANSITION PERIOD FROM TO
	COMMISSION FILE NUMBER 001-35964

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

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

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

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

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý

No ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

As of December 31, 2015, the aggregate market value of the registrant's Class A Common Stock and Class B Common Stock held by non-affiliates was $1,709,238,004 based on the number of shares held by non-affiliates as of December 31, 2015 and the last reported sale price of the registrant's Class A Common Stock on December 31, 2015.

At August 15, 2016, 74,014,981 shares of the registrant's Class A Common Stock, $0.01 par value, and 262,062,370 shares of the registrant's Class B Common Stock, $0.01 par value, were outstanding.

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Forward-looking Statements

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

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

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

Industry, Ranking and Market Data

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

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

Our fiscal year ends on June 30. Unless otherwise noted, any reference to a year preceded by the word "fiscal" refers to the fiscal year ended June 30 of that year. For example, references to "fiscal 2016" refer to the fiscal year ended June 30, 2016. Any reference to a year not preceded by "fiscal" refers to a calendar year.

PART I

Item 1. Business.

We are a leading global beauty company. Founded in Paris in 1904, we are a pure play beauty company with a portfolio of well-known brands that compete in the four segments in which we operate: Fragrances, Color Cosmetics, Skin & Body Care and, during fiscal 2016, we acquired the personal care and beauty business of Hypermarcas S.A. (the “Brazil Acquisition”), which additionally represents a separate segment. We hold the #2 global position in fragrances, the #4 global position in color cosmetics and have a strong regional presence in skin & body care.

We have transformed into a multi-segment beauty company with market leading positions in both North America and Europe through new product offerings, diversified sales channels and our global growth strategy. Today, our business has a diversified revenue base that generated net revenues in fiscal 2016 of 46%, 36%, 16% and 2% from Fragrances, Color Cosmetics, Skin & Body Care and Brazil Acquisition, respectively.

On July 8, 2015, we entered into a definitive agreement (the “Transaction Agreement”) to acquire (the “Transactions”) The Procter & Gamble Company’s (“P&G”) global fine fragrances, salon professional, cosmetics and retail hair color businesses, along with certain hair styling brands (“P&G Beauty Brands”). Following the closing of the Transactions, which is currently expected to occur in October 2016, we expect the combined company to hold the #1 global position in fragrances, the #3 global position in color cosmetics and the #2 global position in hair salon, with combined revenues of approximately $9.2 billion based on fiscal 2015 performance, excluding annualized results for the acquired Bourjois brand and the Brazil Acquisition. The completion of the Transactions is subject to numerous conditions. See “Risk Factors—Risks Relating to the Transactions—The Transactions may not be completed on the terms or timeline currently contemplated, or at all.”

In addition, during fiscal 2016, we acquired the personal care and beauty business of Hypermarcas S.A. (the “Brazil Acquisition”). This acquisition additionally represents a separate segment. We believe these two transactions, combined with organic growth, will help us to achieve our strategic vision to be a new global leader and challenger in the beauty industry.

Our top 10 brands, which we refer to as our “power brands”, generated 70% of our net revenues in fiscal 2016 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. Following the Transactions, we expect to re-evaluate our approach to power brands.

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

Our Brands

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

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

- adidas. adidas is one of the biggest licensed brands in the global mass skin & body care market and maintains a significant presence in deodorants and shower gels. Our adidas products for both men and women blend distinctive brand identity (through each fragrance and product design) and aspirations of performance to appeal to a broad range of consumers. Successful new product launches have contributed to adidas’ net revenues.
- Calvin Klein. Calvin Klein is our largest brand by net revenues and one of the largest fragrance brands by net revenues in the world. It holds strong positions in most developed markets, including the U.S., the United Kingdom (the “U.K.”), Germany and Spain, and in emerging markets, such as China and the Middle East. The brand is also sold in the travel retail sales channel, including duty-free shops. The brand reaches a diverse consumer base through several strong product lines, including ck one, Eternity and euphoria.

•Chloé. Chloé is a top women’s fragrance in the global prestige market. Chloé’s largest markets are travel retail, Italy, the U.S., France, Germany and Spain. Notable launches for the brand include Chloé Signature, Chloé Love Story and See by Chloé.

•DAVIDOFF. DAVIDOFF is the #10 men’s fragrance brand in the worldwide prestige market. Cool Water, DAVIDOFF’s most successful line, is the #2 men’s fragrance brand in the German prestige market and the #9 men’s prestige fragrance brand in the world. It has been one of the world’s leading prestige men’s fragrances since 2006.

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DAVIDOFF Cool Water has joined forces with the National Geographic Society to support its Pristine Seas mission. This initiative aims to raise awareness about the importance of protecting the ocean.

•Marc Jacobs. Marc Jacobs is an iconic fragrance brand, with Daisy Marc Jacobs, Daisy Dream Marc Jacobs, Marc Jacobs Lola, Dot Marc Jacobs and the successful launch of Marc Jacobs Decadence in fall 2015. During fiscal 2016, Marc Jacobs Decadence won the Fragrance Foundation "Prestige Fragrance of the Year" award. The brand has been particularly successful in certain Asian markets, including China, and is a top ranking brand in global travel retail.

•OPI. OPI is the global leader in professional nail care. With a portfolio of approximately 300 creatively-named unique shades, OPI links fashion and entertainment with color cosmetics. OPI regularly creates limited-edition collections with celebrities and entertainment franchises to promote the brand, including collaborations with Gwen Stefani, Miss Piggy, the Muppets and Hello Kitty. OPI is sold through salons, travel retail and traditional retailers. OPI also markets nail gels, nail care products and nail accessories through salons. OPI is sold in over 100 countries and territories.

•philosophy. philosophy enjoys a strong market position in skin & body care in the U.S. prestige market and leverages multiple distribution channels, including direct television sales and e-commerce. philosophy's miracle worker line was one of the most successful skin care launches in the U.S. prestige market the year it was launched. Building on the brand's existing skin care franchises, philosophy's key launches in fiscal 2016 included Ultimate Miracle Worker Multi-Rejuvenating Cream Broad Spectrum SPF 30 and the lightweight breathable oxygen infused Take a Deep Breath collection of skin care and skin color. During fiscal 2016, philosophy's purity made simple won Allure Magazine's 2016 Reader's Choice Award for Best Skin Facial Cleaner for its tenth consecutive year.

•Playboy. Playboy has become a strong mass market brand with established positions in Europe. Playboy offers a variety of deodorant, shower gel and fragrance products in both men and women markets.

•Rimmel. The Rimmel brand comprises a broad line of color cosmetics products covering the entire range of women's color cosmetics, including eye, face, lip and nail products. Rimmel is sold in drugstores and other mass distribution channels. Rimmel is the #3 color cosmetics brand in the European retail mass market. 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. Most recently, the brand is also represented by model and actress Cara Delevingne, supermodel Georgia May Jagger, and international music star Rita Ora.

•Sally Hansen. Sally Hansen is the #1 nail care brand in North America. We believe that Sally Hansen has the most diversified and successful line of nail products in North America. Products in our Sally Hansen line include nail care products, nail color lacquers and nail and beauty implements and are sold in drugstores and other mass retailers. We also sell a broad range of depilatory and wax products through our Sally Hansen brand. In fiscal 2015, we launched Sally Hansen Miracle Gel for at-home gel manicures. Miracle Gel holds the #1 position in nail color in the U.S. and has won 48 industry awards to date, including the Nielsen 2016 Breakthrough Innovation Award for Miracle Gel. Although Sally Hansen is currently primarily a North American brand, it continues to expand its presence in Europe, Asia and South America by focusing on nail products. Miracle Gel, which has experienced steady growth since launch, has enabled Sally Hansen to grow net revenues in the North American and European markets.

In addition to our power brands, we have a broad and deep portfolio of over 60 other brands, which accounted for 30% of our net revenues in fiscal 2016. These include regional brands such as Astor, Bourjois, Jil Sander, Joop! and Lancaster, celebrity brands such as Beyoncé, David Beckham, Jennifer Lopez and Katy Perry and emerging brands such as Roberto Cavalli, Bottega Veneta and Miu Miu. A description of each of our brands is available at www.coty.com, but our website should not be considered part of or in any way incorporated by reference into this Annual Report on Form 10-K.

Our Strategic Vision

Our mission is to become a new global leader by being a challenger in the beauty industry. On July 8, 2015, we entered into the Transaction Agreement to acquire the P&G Beauty Brands. After the completion of the Transactions, we intend to reorganize our business into three new divisions: Coty Luxury Division, focused on fragrances and skin care; Coty Consumer Beauty Division, focused on color cosmetics, retail hair coloring and styling products and body care; and Coty Professional Beauty Division, focused on servicing salon owners and professionals in both hair and nail care. This new category-focused organizational structure puts consumers first by specifically targeting how and where they shop, and what and why they purchase. In this new organizational structure, each division will have full end-to-end responsibility to optimize consumers' beauty experience in the relevant categories and channels, which we believe will drive profitable growth through targeted expertise.

The chart below reflects the anticipated allocation of the combined company brands across our expected new divisions:

Our key business strategies following the Transactions will be to:

- Leverage the Strength and Scale of the Combined Company to Create a New Global Leader and Challenger in the Beauty Industry. We expect that the Transactions will create one of the world's largest pure-play beauty companies, with pro forma combined annual revenues of approximately $9.2 billion based on fiscal 2015 performance, excluding annualized results for the acquired Bourjois brand and the Brazil Acquisition.
- Expand in Attractive New Category, Through the Addition of the Hair Color and Styling Business. Following the Transactions, we will expand our product offering with the addition of the hair color and styling business, led by the Wella and Clairol brands, acquired in the acquisition of P&G Beauty Brands. The combined business will have a balanced portfolio across four product categories, each with a top three global position based on pro forma net sales.
- Combine New Organic Growth Opportunities with a Well-Targeted Acquisition Strategy. Coty was founded in 1904 as a revolutionary mass fragrance company and over the last three decades has successfully completed a number of acquisitions to drive product, geographic and distribution platform diversity and growth. We will leverage further organic growth opportunities presented by the Transactions, and we are continuously evaluating and will also continue to evaluate potential acquisitions that would augment our portfolio going forward and further our progression towards becoming a global leader in beauty.
- Drive Improvements in Margin, Profit and Free Cash Flow, Providing Financial Flexibility. We expect that after the Transactions, the combined operational and financial platform will allow us to drive meaningful earnings per share accretion and substantial incremental free cash flow generation, providing financial flexibility for the Company. In August 2016, our Board of Directors (the "Board") approved a 10% increase in our annual dividend to $0.275 from $0.25 per share in the prior year on our Class A Common Stock and Class B Common Stock. We intend to further increase the annual dividend per share to $0.50 after completion of the Transactions, demonstrating our confidence in our ability to generate substantial cash flow.
- Capitalize on Strong, Well-Aligned and Balanced Leadership Team. Following the Transactions, our new Chief Executive Officer, Camillo Pane, will oversee a management team, together with a broader leadership organization, consisting of executives from Coty and P&G, as well as key external hires.

Certain of the above strategies may be altered if the Transactions are not completed. See "Risk Factors—The Transactions may not be completed on the terms or timeline currently contemplated, or at all."

Fragrances

Our Fragrances segment net revenues represented 46%, 50% and 51% of our net revenues in fiscal 2016, 2015 and 2014, respectively. In fiscal 2016, 2015 and 2014, our Fragrances segment generated $2.013 billion, $2.178 billion and $2.324 billion in net revenues, respectively, and $288.9 million, $352.7 million and $341.2 million in operating income, respectively.

We hold the #2 global position in fragrances. We believe that our success in fragrances results from a combination of strong executive leadership, global expansion, innovation, organic growth, acquisitions, product line extensions and new licenses.
Our fragrance products include a variety of men’s and women’s products. The brands in our Fragrances segment include brands associated with fashion designers, lifestyle brands and brands associated with entertainment personalities. We sell our fragrance products in all distribution channels, from mass to prestige, including travel and retail, to target consumers across all incomes, ages and geographies that we consider important to our business.
We own certain of the trademarks associated with our fragrance products and license other trademarks from celebrities, fashion houses and other lifestyle brands. In fiscal 2016, we manufactured 85% 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 2016, 2015 and 2014, the Americas represented 31% for each year, EMEA represented 52%, 52% and 53% , respectively, and Asia Pacific represented 17%, 17% and 16% , respectively, of our net revenues from our Fragrances segment.
Our top fragrance brands by percentage of net revenues are Calvin Klein, Marc Jacobs, Davidoff and Chloé. We have launched several new fragrance brands since 2011, including Balenciaga, Beyoncé, Bottega Veneta, Guess?, Katy Perry, Miu Miu and Roberto Cavalli.
Color Cosmetics
Net revenues from our Color Cosmetics segment represented 36%, 33% and 30% of our net revenues in fiscal 2016, 2015 and 2014, respectively. In fiscal 2016, 2015 and 2014, our Color Cosmetics segment generated $1.548 billion, $1.445 billion and $1.366 billion in net revenues, respectively, and $213.7 million, $158.5 million and $154.2 million in operating income, respectively.
We are an emerging leader in color cosmetics. We are ranked 4th globally and 2nd in the combined North American and Western European mass retail markets. Our color cosmetics products include lip, eye, nail and facial color products. We maintain a #2 position in nail care products globally.
We have 10 brands in our Color Cosmetics segment, including Bourjois, which we acquired in fiscal 2015. 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 our OPI, Rimmel and Sally Hansen brands.
We own all the brands in our Color Cosmetics segment and their associated trademarks. We associate celebrities’ images in the advertising of some of our color cosmetics brands such as Cara Delevingne, Kate Moss, Georgia May Jagger and Rita Ora for Rimmel, Demi Lovato for N.Y.C. New York Color and Heidi Klum for Astor. In fiscal 2016, we manufactured 64% 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 2016, 2015 and 2014, the Americas represented 45%, 50% and 51%, respectively, EMEA represented 50%, 44% and 44%, respectively, and Asia Pacific represented 5%, 6% and 5%, respectively, of our net revenues from our Color Cosmetics segment.
Skin & Body Care
Our Skin & Body Care segment net revenues represented 16%, 17% and 19% of our net revenues in fiscal 2016, 2015 and 2014, respectively. In fiscal 2016, 2015 and 2014, our Skin & Body Care segment generated $693.4 million, $771.9 million and $861.4 million in net revenues, respectively and $39.3 million, $33.1 million and $(337.3) million in operating income (loss), respectively.
In our Skin & Body Care segment, we continue to develop our brands and product lines and expand 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 Playboy. Lancaster and philosophy are sold in prestige distribution channels, adidas and Playboy are sold in mass distribution channels.
We own Lancaster and philosophy and their trademarks, and we license the trademarks associated with adidas and Playboy. In fiscal 2016, we manufactured 62% of our skin & body care products at our manufacturing facilities. We market and distribute our skin & body care products globally through our subsidiaries and our third-party distributors. In fiscal 2016, 2015 and 2014, the Americas represented 37%, 38% and 34%, respectively, EMEA represented 51%, 50% and 55%, respectively, and Asia Pacific represented 12%, 12% and 11%, respectively, of our net revenues from

our Skin & Body Care segment.

Brazil Acquisition

During fiscal 2016, we acquired the personal care and beauty business of Hypermarcas S.A. (the “Brazil Acquisition”). This acquisition additionally represents a separate segment. The Brazil Acquisition segment represents revenues and expenses generated from multiple product groupings such as skin care, nail care, deodorants, and hair care products which are principally sold within Brazil.

Our Brazil Acquisition segment net revenues represented 2% of our net revenues in fiscal 2016. In fiscal 2016, our Brazil Acquisition segment generated $95.5 in net revenues and $1.5 in operating income (loss).

Research and Development

Research and development is a pillar of our innovation. It combines cutting-edge research and technology, new ingredients and precise market testing, enabling us to develop and support the development of new products while continuing to improve our existing products. Our key new product developments with significant product innovation components in calendar years 2014 and 2015 included Rimmel Wonder'Lash mascara with Argan Oil, a patented creamy, volumizing and conditioning mascara, Sally Hansen Miracle Gel 2.0, the only two-step gel manicure with a plumping top coat that does not require light, philosophy ultimate miracle worker, featuring a patented multi-protection formula for the face and eyes, and Lancaster 365 Skin Repair Serum, which helps manage aging at the roots. In calendar year 2016, our new product developments included Lancaster's new generation sun protection that targets all rays of light in the known solar spectrum. Our products have received numerous awards, including awards from The Fragrance Foundation and CLIO.

We continuously seek to improve our products through research and development, and strive to provide the consumer with the best possible products. Our research and development teams work with our marketing and operations teams to identify recent trends and consumer needs and to bring products quickly to market. Additionally, our basic and applied research groups, which conduct longer-term research such as "blue sky" research, seek to develop proprietary new technologies for first-to-market products and for improving existing products. This research and development is done both internally and through affiliations with various universities, technical centers, supply partners, industry associations and technical associations. As of June 30, 2016, we owned approximately 800 patents and patent applications globally.

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

As of June 30, 2016, we had approximately 300 employees engaged in research and development. Research and development expenditures totaled 1.1%, 1.1% and 1.0% of net revenues in fiscal 2016, 2015 and 2014, respectively. We maintain six research and development centers, which are located in the U.S., Europe, Brazil and China.

Suppliers, Manufacturing and Related Operations

We manufacture approximately 68% of our products in eight facilities around the world. These facilities are located in the U.S., Europe, Brazil and China. Several of these locations provide multi-segment manufacturing. Approximately 30% 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, customer service and product quality, 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 productivity. For example, we are streamlining our manufacturing facilities to optimize costs. To capitalize on supply chain benefits, we will continue to complement our own manufacturing network with the use of pertinent third parties on a global basis for finished goods production.

The principal raw materials used in the manufacture of our products are essential oils, alcohol and specialty chemicals. The essential oils in our fragrance products are generally sourced from fragrance houses. As a result, we realize material cost savings and benefits from the technology, innovation and resources provided by these fragrance houses. We purchase the raw materials for all our products from various third parties. We also purchase packaging components that are manufactured to our design specifications. We work in collaboration with our suppliers to meet our stringent design and creative criteria. In fiscal 2016, no single supplier accounted for more than 10% of the materials used in the manufacture of our products.

We regularly benchmark the performance of our supply chain and adjust our suppliers and 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 material 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 fiscal 2015, we received awards in Leadership and Strategy and Manufacturing in Action, from the Manufacturer of the Year Awards. We are continuing to evaluate and restructure our physical distribution network to increase efficiency and reduce our order lead times.
We also recognize the importance of our employees and have programs in place designed to ensure operating safety. We also have in place programs designed to ensure that our manufacturing and distribution facilities comply with applicable environmental rules and regulations, and these programs have improved our employee safety as benchmarked against industry levels.

Marketing and Sales

We have dedicated marketing and sales forces (including ancillary support services) in most of our significant markets. We believe that local teams dedicated to the commercialization of our brands give us the greatest opportunity to execute our business strategy. We are also developing branding and marketing execution strategies with our top customers.
Our marketing strategy creates a distinct image and personality for each brand. Many of our products are linked to recognized designers and design houses such as Balenciaga, Bottega Veneta, Calvin Klein, Chloé, Marc Jacobs, Miu Miu and Robert Cavalli, celebrities, such as Beyoncé Knowles, David Beckham, Enrique Iglesias, Jennifer Lopez and Katy Perry, 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 Cara Delevingne, Kate Moss and Georgia May Jagger for Rimmel, Jasmine Tookes and Tobias Sorensen for Calvin Klein Eternity NOW, Christy Turlington and Ed Burns for Calvin Klein Eternity and a television spot for Marc Jacobs Daisy Dream directed by long-time Marc Jacobs muse Sofia Coppola.
Our marketing efforts also benefit from cooperative advertising programs with retailers, often in connection with in-store marketing activities. Such activities are designed to attract consumers to our counters, displays and walls and make them try, or purchase, our products. We also engage in sampling and “gift-with-purchase” programs designed to stimulate product trials. We have more recently been expanding our digital marketing efforts, including through websites we do not control or operate, with a multi-pronged strategy that ranges from brand sites, social networking campaigns and blogs, to e-commerce. Currently, 41 of our brands have marketing sites, 36 have social networking activities, two have e-commerce capabilities and 12 are sold on branded e-commerce sites. We also partner with key “brick and mortar” retailers in their expansion into e-commerce.
Our consolidated expenses for advertising and promotional costs were $967.6 million, $1.008 billion and $1.070 billion in fiscal 2016, 2015 and 2014, respectively. Our consolidated expenses for total marketing and advertising were $1.364 billion, $1.471 billion and $1.563 billion in fiscal 2016, 2015 and 2014, respectively.

Distribution Channels and Retail Sales

We currently have offices in more than 35 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, Shoppers Drug Mart, Target, Walgreens and Wal-Mart in the Americas; Auchan, Carrefour, DM Drogerie Markt, Tesco and Watson’s in EMEA; and Chemist Warehouse Group, Priceline Pharmacies and Watsons in Asia Pacific. Our principal retailers in the prestige distribution channel include Macy’s and Ulta in the Americas; Beauty Alliance, Boots, Mueller, Parfumerie Douglas and Watson in EMEA; Chemist Warehouse Group and Priceline Pharmacies in Asia Pacific; and Sephora in multiple geographic regions. Other principal retailers include Kohl’s and QVC in the Americas. In fiscal 2016, 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 2016, 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, cruise lines and other tax-free zones. Travel retail sales channels represented 6% of our net revenues in fiscal 2016. In addition, we sell our products through the internet over our retail partners' e-commerce sites and through online retailers, and we sell our philosophy products through philosophy-branded websites and through direct marketing via television.

In countries and territories in which we sell our products but where we do not have a subsidiary, our products are sold through third-party distributors. Distributors in different countries or territories may sell to different types of customers, such as traditional retailers or via direct marketing. In some cases, we also outsource functions or parts of functions that can be performed more effectively by external service providers. We direct our third-party service providers and distributors in the marketing, advertising and promotion of our products. Our third-party distributors contribute knowledge of the local market and dedicated sales personnel.

In accordance with accounting principles generally accepted in the U.S. ("GAAP"), we report revenues on a net basis, which reflects the amount of actual returns received and the amount established for anticipated returns. As a percentage of gross sales after customer discounts and allowances, returns accounted for approximately 3.0%, 3.3% and 3.9% in fiscal 2016, 2015 and 2014, respectively.

Competition

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

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

Intellectual Property

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

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

A number of our products also incorporate patented, patent-pending or proprietary technology in their respective formulations and/or packaging, and in some cases our product packaging is subject to copyright, trade dress or 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 June 30, 2016, we owned approximately 800 patents and patent applications globally.

Products representing a significant portion of our net revenues are manufactured and marketed under exclusive license agreements granted to us for use on a worldwide and/or regional basis. As of June 30, 2016, we maintained 29 brand licenses. In fiscal 2016, 53% of our net revenues were generated from licensed brands, with our licensed power brands (our top six licenses) representing between 3% and 16% of total net revenues. In each of fiscal 2015 and 2014, 57% and 60% of our net revenues were generated from licensed brands, respectively.

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 image of 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 material compliance with all terms of our brand license agreements.

Most brand licenses have renewal options for one or more terms, which can range from three to ten years. Certain brand licenses provide for automatic extensions, so long as minimum annual royalty payments are made, while renewal of others is contingent upon attaining of specified sales levels. The next power brand license scheduled to expire that does not provide for automatic renewal or renewal at our option expires in fiscal 2022. Three of our brand licenses expire during fiscal 2017. For additional risks associated with our licensing arrangements, see "—Risk Factors —Changes in relationships between Galleria and its brand licensors, or failure to maintain those relationships, following the Transactions could have a material adverse effect on us" and "—Risk Factors—We rely on brand licensors to manage and maintain their brands, and there is no guarantee that the licensors will maintain their celebrity status or positive association among the consumer public".

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 —Changes in relationships between Galleria and its brand licensors, or failure to maintain those relationships, following the Transactions could have a material adverse effect on us", "—Risk Factors—We rely on brand licensors to manage and maintain their brands, and there is no guarantee that the licensors will maintain their celebrity status or positive association among the consumer public", "—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 or the unauthorized diversion by third parties of our products could have a negative impact on our reputation and business".

Employees

As of June 2016, we had approximately 10,060 full-time employees in over 35 countries. In addition, we employ a large number of seasonal contractors during our peak manufacturing and promotional season, primarily at our manufacturing facility in Sanford, North Carolina. We recognize the importance of our employees to our business and believe our relationship with our employees is satisfactory.

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

Government Regulation

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

Environmental, Health and Safety

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

Seasonality

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

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

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

Availability of Reports

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

Item 1A. Risk Factors.

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

Risks Relating 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 and nail category in the U.S. are being influenced by the high volume of new product introductions by diverse companies across several different distribution channels, including private label brands and lower cost brands that have increased pricing pressure. In 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, including our power brands, other brands, and the P&G Beauty Brands the success of our branding, innovation and execution strategies, our ability to acquire or enter into new licenses and to continue to act as licensee of choice for various brands, the success of any future acquisitions, 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 and our ability to protect our intellectual property. If we are unable to continue to compete effectively on a global basis, it could have an adverse impact on our business, results of operations and financial condition.

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

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

Our success depends on our ability to achieve our global business strategy, including our key business strategies following the Transactions.

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;
- execute any acquisitions efficiently and integrate businesses successfully;
- 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;
- optimize the efficiency of our marketing spend and in-store execution;
- manage capital investments and working capital effectively to improve the generation of cash flow; and
- execute any divestitures or discontinuations of any of our brands efficiently.

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.

In May 2016, we announced that we intend to rationalize six to eight percent of combined company net revenues following the close of the Transactions by divesting or discontinuing non-strategic brands. We also intend to rationalize wholesale distribution by reducing the amount of product diversion to the value and mass channels. It will take time to execute this strategy, which may result in expenses and charges as we exit such brands, and our ability to successfully do so could impact our results.

We may not realize the benefits that we expect from our Organizational Redesign.

On July 9, 2014, we announced an organizational structure ("Organizational Redesign") aimed at reinforcing our growth path and strengthening our position as a global leader in beauty. Additionally, on November 3, 2015, we announced that after the completion of the Transactions, we intend to reorganize our business into three new divisions: Coty Luxury Division, Coty Consumer Beauty Division and Coty Professional Beauty Division (the "Post-Merger Reorganization").

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

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

During the past several years, we have explored and undertaken opportunities to acquire other companies and assets as part of our growth strategy. The assets we have acquired in the past several years represent a significant portion of our net assets. We continue to seek financially accretive acquisitions that we believe strengthen our competitive position in our key segments or accelerate our ability to grow our emerging markets presence, including, for example, our Brazil Acquisition and the Transactions.

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, in fiscal 2014, despite efforts to organize the management team and introduce new product innovation, the execution of the brand revamp plan by the management team for TJoy did not gain expected results, resulting in TJoy performing below our expectations and impairments of trademarks. In June 2014, we made the decision to discontinue the TJoy brand. Similarly, Philosophy earned lower net revenues than expected in the first fiscal year after its acquisition primarily due to delays in planned international distribution expansion, an innovation plan that was less successful than expected and a slowdown of brand sales momentum in certain key retailers, all of which also resulted in impairments of trademarks. See "—Our goodwill and other assets have been subject to impairment and may continue to be subject to impairment in the future" and "—The purchase price of future acquisitions may not be representative of the operations acquired." Our failure to achieve intended benefits from any future acquisitions could cause a material adverse effect on our results, business or financial condition.

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

We completed the Brazil Acquisition in February 2016 and expect to close the Transactions in October 2016. 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, such as the Brazil Acquisition, entail certain particular risks, including difficulties in markets and environments where we lack a significant presence, including inability to seize opportunities available in those markets in comparison to our global or local competitors. For example, our growth strategy may require us to seek market penetration through sales channels with which we are not familiar, which may be the dominant sales channels in the relevant geographies. To the extent we acquire businesses located in countries or jurisdictions with currencies other than the U.S. dollar, the U.S. dollar equivalent cost of the acquisition, as well as future profits and revenues, may be adversely impacted should exchange rates vary in unexpected ways. We may experience difficulties in integrating newly acquired businesses, such as the difficulties we experienced in our acquisition of TJoy relating to the earlier than expected departure of key employees and transition to new leadership. Even if we are able to integrate our acquired businesses, such transactions involve the risk of unanticipated or unknown liabilities, including with respect to environmental and regulatory matters. Our failure to successfully integrate any acquired business could have a material adverse effect on our business, financial condition and operating results.

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

We currently have offices in more than 35 countries and market, sell and distribute our products in over 130 countries and territories. Our growth strategy depends in part on our ability to grow in emerging markets. Our presence in such markets may also expand as a result of our acquisitions, including the Brazil Acquisition and the Transactions.

Our acquisitions and operations in some emerging markets may be subject to greater political and economic volatility and greater vulnerability to infrastructure and labor disruptions than are common in established areas. Although we have implemented policies, procedures and trainings designed to ensure compliance with anti-bribery laws, trade controls and economic sanctions, and similar regulations, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies. We may incur costs or other penalties in the event that any such violations occur, which could have an adverse effect on our business and reputation.

The U.S. has imposed export controls and economic sanctions that prohibit export or re-export of products subject to U.S. jurisdiction to specified end users and destinations, and/or prohibit U.S. companies and other U.S. persons from engaging in business activities with certain persons, entities, countries or governments that it determines are adverse to U.S. foreign policy interests, including Iran and Syria. In 2012, we determined that our majority-owned subsidiary in the United Arab Emirates (“UAE”) had re-exported certain of our products manufactured in the U.S. to Syria, which may have been in violation of U.S. export control laws. We have taken remedial action to cease further sales to Syria. After voluntarily reporting these re-exports to the U.S. Department of Commerce’s Bureau of Industry and Security’s Office of Export Enforcement (the “OEE”), we received a warning letter from the OEE on January 6, 2014 stating that the OEE had closed its investigation. No financial penalties were imposed. In addition, we voluntarily reported to the U.S. Treasury Department's Office of Foreign Assets Control (“OFAC”) that some of the affiliate’s Syria sales were made to a party that was designated as a target of U.S. economic sanctions by OFAC. We also determined that the same affiliate had re-exported some of our products to Iran through an intermediary UAE entity. We ceased all sales to the OFAC-designated party in January 2010 and have ceased all sales to Iran, Syria and OFAC-designated parties. On May 12, 2015, OFAC decided to resolve the matter of these sales by issuing a cautionary letter and declining to impose a financial penalty. The cautionary letter does not preclude OFAC from taking further action if we violate OFAC administered sanctions in the future. We may experience reputational harm and increased regulatory scrutiny as a result of our subsidiary’s sales to Syria and Iran. In addition, the U.S. may impose additional sanctions at any time on other countries where we sell our products. If so, our existing activities may be adversely affected, or we may incur costs in order to come into compliance with future sanctions, depending on the nature of any further sanctions that may be imposed.

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

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

We may incur penalties and experience other adverse effects on our business as a result of possible EAR violations. In 2012, we determined that our majority-owned subsidiary in the UAE had re-exported certain of our products to Syria, and we voluntarily reported these transactions to OEE. We also undertook remedial action to prevent any further such transactions, including auditing the subsidiary and notifying each of the subsidiary's employees and distributors of the current U.S. sanctions and export control laws and asking that each distributor acknowledge the same. We also notified OFAC of our voluntary disclosure to the OEE. We received a warning letter from the OEE on January 6, 2014 stating that the OEE had closed its investigation, and that the OEE imposed no financial penalties. On May 12, 2015, OFAC decided to resolve the matter of these sales by issuing a cautionary letter and declining to impose a financial penalty. However, in the course of our internal investigation into compliance by our majority-owned subsidiary in the UAE with U.S. export control laws, we also determined that the subsidiary may have violated EAR anti-boycott laws by including a legend on invoices confirming that the corresponding goods did not contain materials of Israeli origin. A number of the invoices involved U.S.-origin goods. We voluntarily disclosed the potential violations to the U.S. Department of Commerce, Bureau of Industry and Security, Office of Antiboycott Compliance ("OAC") and undertook remedial action to prevent any further inclusion of the legends on invoices.

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. OAC has 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 OAC will assess a penalty or what the amount of any penalty would be, if a penalty or penalties were assessed. See Note 25, "Commitments and Contingencies" in the notes to our Consolidated Financial Statements.

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

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

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

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

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

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

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

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

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

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

During the past several years, we have taken advantage of selected acquisition opportunities that we believed would complement our current product offerings, expand our distribution channels, increase the size and geographic scope of our operations or otherwise offer operating efficiency opportunities and growth potential. Among other acquisitions in fiscal 2011, we acquired 100% of TJoy for a total cash purchase price of $351.7 million via a stock purchase. In fiscal 2014, we incurred asset impairment charges of $316.9 million, representing the write-off of goodwill, identifiable intangible assets and certain tangible assets with respect to our Skin & Body Care reporting unit. These impairment charges were driven by TJoy, where cash outflows significantly exceeded management expectations notwithstanding the reorganization of the management team and distribution network and the launch of new product offerings.

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

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

The general level of consumer spending is affected by a number of factors, including general economic conditions, inflation, interest rates, energy costs and consumer confidence, each of which is beyond our control. Consumer purchases of discretionary items tend to decline during recessionary periods and otherwise weak economic environments, when disposable income is lower, and may impact sales of our products. For example, our net revenues declined in the 2008-09 economic downturn, and our fiscal 2014 net revenues were affected by a slowdown in the U.S. beauty market in the segments in which we compete, particularly in the mass channel. Global events beyond our control may impact our business, operating results and financial condition. For example, the U.K. recently held a referendum in which a majority of voters voted to exit the European Union, which caused significant volatility in the financial markets. See "—The U.K.'s impending departure from the European Union could have a material adverse effect on us."

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

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

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

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

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

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

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

We remain dependent upon others for our financing needs, and our debt agreements contain restrictive covenants. The Coty Credit Agreement, as amended by the Incremental Credit Agreement (each as defined below under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition-Liquidity and Capital Resources—Debt") contains 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. The Revolving Credit Facility, Term Loan A Facility and Term Loan B Facility (each as defined below under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition-Liquidity and Capital Resources—Debt”) under the Coty Credit Agreement, as amended by the Amendment, will expire in October 2020, October 2020 and October 2022, respectively. There is no assurance that alternative financing or financing on as favorable terms will be found when these agreements expire. See also “—We expect to guarantee a significant amount of debt as a result of the Transactions” and “—Our debt facilities following completion of the Transactions will require us to continue 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.

We operate on a global basis, and the majority of our fiscal 2016 net revenues was generated outside the U.S. We maintain offices in over 35 countries and have key operational facilities located outside the U.S. that manufacture, warehouse or distribute goods for sale throughout the world. In addition, during fiscal 2016, the Brazil Acquisition enhanced our footprint in Brazil. As of June 30, 2016, approximately 71% of our total net revenues, and approximately 45% of our long-lived assets were attributable to our foreign operations. Non-U.S. operations are subject to many risks and uncertainties, including:

- fluctuations in foreign currency exchange rates, which have affected and may in the future affect our results of operations, reported earnings, the value of our foreign assets, the relative prices at which we and foreign competitors sell products in the same markets and the cost of certain inventory and non-inventory items required by our operations;
- changes in foreign laws, regulations and policies, including restrictions on foreign investment, trade, import and export license requirements, quotas, trade barriers and other protection measures imposed by foreign countries, and tariffs and taxes, as well as changes in U.S. laws and regulations relating to foreign trade and investment;
- difficulties and costs associated with complying with, and enforcing remedies under, a wide variety of complex domestic and international laws, treaties and regulations, including the FCPA, and different regulatory structures and unexpected changes in regulatory environments;
- lack of well-established or reliable legal and administrative systems;
- failure to effectively and immediately implement processes and policies across our diverse operations and employee base; and
- adverse weather conditions, social and economic conditions, terrorist attacks, war or other military action or violent revolution, such as recent events in Greece, Ukraine, Russia and the Middle East, and other geopolitical conditions.

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

Substantially all of our cash and cash equivalents that result from these earnings remain outside the U.S. As of June 30, 2016, 2015 and 2014, cash and cash equivalents in foreign operations included $364.8 million, $337.7 million and $1.233 billion, or 98%, 99% and 99.6% of aggregate cash and cash equivalents, respectively.

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

The U.K.'s impending departure from the European Union could have a material adverse effect on us.

On June 23, 2016, the U.K. held a referendum in which a majority of voters voted to exit the European Union, commonly referred to as "Brexit." As a result of the referendum, it is expected that the British government will commence negotiations to determine the terms of the U.K.'s withdrawal from the European Union. A withdrawal could, among other outcomes, disrupt the free movement of goods, services and people between the U.K. and the European Union, undermine bilateral cooperation in key geographic areas and significantly disrupt trade between the U.K. and the European Union or other nations as the U.K. pursues independent trade relations. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which European Union laws to replace or replicate. The effects of Brexit will depend on any agreements the U.K. makes to retain access to European Union or other markets either during a transitional period or more permanently. Given the lack of comparable precedent, it is unclear what financial, trade and legal implications the withdrawal of the U.K. from the European Union would have and how such withdrawal would affect us.

The announcement of Brexit caused significant volatility in global stock markets and currency exchange rate fluctuations, in particular in the value of the British pound and euro. The announcement of Brexit and the withdrawal of the U.K. from the

European Union may also create global economic uncertainty, which may cause our customers to reevaluate their spending budgets. Any of these effects of Brexit, and others that we cannot anticipate, could adversely affect our business, results of operations and financial condition.

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 Polish zloty, the Russian ruble, 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.

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

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

Our business is subject to seasonal variability.

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

We sell our products in a continually changing retail environment.

The retail industry, particularly in the U.S. and Europe, has continued to experience consolidation and other ownership changes, and the business environment for selling fragrances, color cosmetics, and skin & body care products may change further. During the last several years, significant consolidation has occurred. The trend toward consolidation, particularly in developed markets such as the U.S. and Western Europe, has resulted in our becoming increasingly dependent on key retailers that control a higher percentage of retail locations, including large-format retailers and consolidated entities that own retail chains in both the mass and prestige distribution channels, which have increased their bargaining strength. Major retailers may, in the future, continue to consolidate, undergo restructuring or realign their affiliations, which could decrease the number of stores that sell our products or increase ownership concentration within the retail industry. Further business combinations among retailers may impede our growth and the implementation of our business strategy. In addition, the highly competitive U.S. discount and drug store environment has resulted in financial difficulties and store closings for a number of retailers, several of whom have liquidated or been acquired as a result. During the first half of fiscal 2014, retailers, particularly in North America, reduced to a substantial extent their inventories of products, including our products. In fiscal 2016, no retailer accounted for more than 10% of our global net revenues; however, certain retailers accounted for more than 10% of net revenues within certain geographic markets, including the U.S.

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

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

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

A disruption in operations could adversely affect our business.

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

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

As part of our long-term strategy, we are continually looking for opportunities to provide essential business services in a more cost-effective manner. In some cases, this requires the outsourcing of functions or parts of functions that can be performed more effectively by external service providers. The dependence on a third party could lessen our control over deliveries to our customers. While we believe we conduct appropriate due diligence before entering into agreements with outsourcing entities, the failure of one or more such entities to provide the expected services, provide them on a timely basis or provide them at the prices we expect, or the costs incurred in returning these outsourced functions to being performed under our management and direct control, may have a material adverse effect on our results of operations or financial condition.

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

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

Furthermore, P&G Beauty Brands has contracts with third-party suppliers, vendors, customers, landlords and other business partners which may require us or it to obtain consents from these other parties in connection with our transaction with P&G. If these consents cannot be obtained, we or the P&G Beauty Brands may suffer a loss of potential future revenues and may lose rights that are material to our or its respective businesses and the business of the combined company. In addition, third parties with whom we or the P&G Beauty Brands currently have relationships may terminate or otherwise reduce the scope of their relationship with either party in anticipation of the transaction. Any such disruptions could limit our ability to achieve the anticipated benefits of the transaction.

We are increasingly dependent on information technology, and if we are unable to protect against service interruptions, data corruption, cyber-based attacks or network security breaches, our operations could be disrupted.
We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic and financial information, to manage a variety of business processes and activities, and to comply with regulatory, legal and tax requirements. We also depend on our information technology infrastructure for digital marketing activities and for electronic communications among our locations, personnel, customers and suppliers around the world. These information technology systems, some of which are managed by third parties that we do not control, may be susceptible to damage, disruptions or shutdowns due to failures during the process of upgrading or replacing software, databases or components thereof, power outages, hardware failures, computer viruses, attacks by computer hackers, telecommunication failures, user errors or catastrophic events. If our information technology systems suffer severe damage, disruption or shutdown and our business continuity plans do not effectively resolve the issues in a timely manner, our product sales, financial condition and results of operations may be materially and adversely affected, and we could experience delays in reporting our financial results.
In addition, if we are unable to prevent security breaches, we may suffer financial and reputational damage or penalties because of the unauthorized disclosure of confidential information belonging to us or to our partners, customers or suppliers. In addition, the unauthorized disclosure of nonpublic sensitive information could lead to the loss of intellectual property or damage our reputation and brand image or otherwise adversely affect our ability to compete.
Our success depends, in part, on our employees.
Our success depends, in part, on our ability to retain our employees, including our key personnel, such as our executive officers and senior management team and our research and development and marketing personnel. The unexpected loss of one or more of our key employees could adversely affect our business. Our success also depends, in part, on our continuing ability to identify, hire, train and retain other highly qualified personnel. Competition for these employees can be intense, and although our key personnel have signed non-compete agreements, it is possible that these agreements would be unenforceable in some jurisdictions, permitting employees in those jurisdictions to transfer their skills and knowledge to the benefit of our competitors with little or no restriction. We may not be able to attract, assimilate or retain qualified personnel in the future, and our failure to do so could adversely affect our business. These risks may be exacerbated by the stresses associated with the integration of Galleria, implementation of our strategic plan, our recently announced reorganization, recent changes in our senior management team and other initiatives.
Our success depends, in part, on the quality, efficacy and safety of our products.
Product safety or quality failures, actual or perceived, or allegations of product contamination, even when false or unfounded, or inclusion of regulated ingredients could tarnish the image of our brands and could cause consumers to choose other products. Allegations of contamination or other adverse effects on product safety or suitability for use by a particular consumer, even if untrue, may require us from time to time to recall a product from all of the markets in which the affected production was distributed. Such issues or recalls could negatively affect our profitability and brand image.
If our products are perceived to be defective or unsafe, or if they otherwise fail to meet our consumers' standards, our relationships with customers or consumers could suffer, the appeal of one or more of our brands could be diminished, and we could lose sales or become subject to liability claims. In addition, safety or other defects in our competitors' products could reduce consumer demand for our own products if consumers view them to be similar. Any of these outcomes could result in a material adverse effect on our business, financial condition and results of operations.
Our success depends, in part, on our ability to successfully manage our inventories.
We currently engage in a program seeking to improve control over our inventories. This program has identified, and may continue to identify, inventories that are not saleable in the ordinary course, and that may have an adverse effect on our financial results. Moreover, there is no assurance that any inventory management program will be successful. If we misjudge consumer preferences or demands or future sales do not reach forecasted levels, we could have excess inventory that we may need to hold for a long period of time, write down, sell at prices lower than expected or discard. If we are not successful in managing our inventory, our business, financial condition and results of operations could be adversely affected.

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

Our business is subject to numerous laws, regulations and policies. Changes in the laws, regulations and policies, including the interpretation or enforcement thereof, that affect, or will affect, our business or products, including changes in accounting standards, tax laws and regulations, environmental or climate change laws, restrictions or requirements related to product content, labeling and packaging, regulations or accords, trade rules and customs regulations, and the outcome and expense of legal or regulatory proceedings, and any action we may take as a result, could adversely affect our financial results. See "—The U.K.'s impending departure from the European Union could have a material adverse effect on us".

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;
- we may experience a decrease in sales of certain of our existing products as a result of newly-launched products; and
- our product pricing strategies for new product launches may not be accepted by our retail customers or their consumers, which may result in our sales being less than anticipated.

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

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

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

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

We are subject to various foreign, federal, provincial, state, municipal and local environmental, health and safety laws and regulations relating to or imposing liability with respect to, among other things, the use, storage, handling, transportation and disposal of hazardous substances and wastes as well as the emission and discharge of such into the ground, air or water at our facilities or off-site, and the registration and evaluation of chemicals. Certain environmental laws and regulations also may impose liability for the costs of cleaning up contamination, without regard to fault, on current or previous owners or operators of real property and any person who arranges for the disposal or treatment of hazardous substances, regardless of whether the affected site is owned or operated by such person. 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.

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

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

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

Any repurchases pursuant to our stock repurchase program initially announced on February 14, 2014 could affect our stock price and increase volatility. The existence of a stock repurchase program could potentially reduce the market liquidity for our stock. Additionally, we are permitted to and could discontinue our stock repurchase program at any time and any such discontinuation could cause the market price of our stock to decline. See "—We could be adversely affected by significant restrictions following the Transactions in order to avoid tax-related liabilities."

We are controlled by JAB Cosmetics, B.V. ("JABC"), Lucresca SE ("Lucresca"), and Agnaten SE ("Agnaten"). As a result of their control of us, they have the ability to prevent or cause a change in control or approve, prevent or influence certain actions by us.

We are controlled by JABC. Lucresca and Agnaten indirectly share voting and investment control over the shares held by JABC. As of August 15, 2016, JABC holds 100% of our outstanding Class B Common Stock, 9.8% of our Class A Common Stock and 97.5% of the combined voting power of our outstanding common stock. Each share of our Class B common stock has ten votes per share, and our Class A Common Stock has one vote per share. As a result, JABC, Lucresca and Agnaten have the ability to exercise control over decisions requiring stockholder approval, including the election of directors, amendments to our Certificate of Incorporation and significant corporate transactions, such as a merger or other sale of the Company or its assets. JABC, Lucresca and Agnaten have the ability to make these decisions regardless of whether others believe that such change or transaction is in our best interests. So long as JABC or affiliates of JABC continue to beneficially own a sufficient number of shares of Class B Common Stock, even if they own significantly less than 50% of the shares of our outstanding common stock, they will continue to be able to effectively control stockholder decisions. This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of the Company, could deprive stockholders of an opportunity to receive a premium for their Class A Common Stock as part of a sale of the Company and may negatively affect the market price of our Class A Common Stock. Also, JABC and its affiliates are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete indirectly with us. JABC or its affiliates may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us.

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

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

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

While our Board in fact has a majority of independent directors, our Remuneration and Nomination Committee does not consist solely of independent directors. As a result of our use of the "controlled company" exemptions, investors will not have the same protection afforded to stockholders of companies that are subject to all of the NYSE corporate governance requirements.

Risks Relating to the Transactions

If the Distribution does not qualify as a tax-free transaction under sections 355 or 368(a)(1)(D) of the Code or the Merger does not qualify as a tax-free "reorganization" under section 368(a) of the Code, including as a result of actions taken in connection with the Distribution or the Merger or as a result of subsequent acquisitions of us, P&G or Galleria Company common stock, then P&G and its shareholders may incur substantial U.S. federal income tax liability, and we may have substantial indemnification obligations to P&G under the Tax Matters Agreement.

The completion of the distribution by P&G of its shares of Galleria Co. ("Galleria Company") common stock to P&G shareholders (the "Distribution") is conditioned upon P&G's receipt of a written opinion from Cadwalader, Wickersham & Taft LLP, special tax counsel to P&G, to the effect that the (i) Galleria Transfer (as defined below), taken together with the Distribution, should qualify as a tax-free reorganization pursuant to section 368(a)(1)(D) of the Internal Revenue Code of 1986 (the "Code"), (ii) Distribution, as such, should qualify as a distribution to P&G shareholders pursuant to section 355 of the Code, and (iii) Merger (as defined below) should not cause section 355(e) of the Code to apply to the Distribution. In addition, the consummation of the Merger is conditioned on the receipt by P&G of a tax opinion from Cadwalader, Wickersham & Taft LLP, special tax counsel to P&G, and by us of a tax opinion from McDermott Will & Emery LLP, our special tax counsel, in each case, to the effect that the Merger will qualify for U.S. federal income tax purposes as a reorganization within the meaning of section 368(a) of the Code. The opinions will be based on, among other things, certain assumptions and representations as to factual matters and certain covenants made by us, P&G, Galleria Company and Green Acquisition Sub Inc. ("Merger Sub") which, if incorrect or inaccurate in any material respect, could jeopardize the conclusions reached by special tax counsel in their opinions. None of us, P&G, Galleria Company or Merger Sub is aware of any facts or circumstances that would cause the assumptions or representations to be relied upon in the above-described tax opinions to be untrue or incomplete in any material respect or that would preclude any of us, P&G, Galleria Company or Merger Sub from complying with all applicable covenants. None of us, P&G, Galleria Company or Merger Sub intends to waive these conditions. Any change in currently applicable law, which may be retroactive, or the failure of any representation or assumption to be true, correct and complete or any applicable covenant to be satisfied in all material respects, could adversely affect the conclusions reached by counsel. Furthermore, it should be noted that there is a lack of binding administrative and judicial authority addressing the qualification under sections 355 and 368(a)(1)(D) of the Code of transactions substantially similar to the Distribution and the Merger, the opinions will not be binding on the IRS or a court, and the IRS or a court may not agree with the opinions. As a result, while it is impossible to determine the likelihood that the IRS or a court could disagree with the conclusions of the above-described opinions, the IRS could assert, and a court could determine, that the Distribution and Merger should be treated as taxable transactions. As used herein, "Galleria Transfer" means the contribution of certain specified assets related to P&G Beauty Brands by P&G to Galleria Company in exchange for Galleria Company common stock, any distribution to P&G of a portion of the amount calculated pursuant to the Transaction Agreement for the recapitalization of Galleria Company and the assumption of certain liabilities related to P&G Beauty Brands, in each case in accordance with the Transaction Agreement.

If, notwithstanding the receipt of the above-described opinions, the Distribution is determined to be a taxable transaction, each P&G shareholder who receives shares of Galleria Company common stock in the Distribution would generally be treated as recognizing taxable gain equal to the difference between the fair market value of the shares of Galleria Company common stock received by the shareholder and its tax basis in the shares of P&G common stock exchanged therefor and/or, if the exchange offer is completed but is undersubscribed and P&G distributes shares of Galleria Company common stock as a pro rata dividend, receiving a taxable distribution equal to the fair market value of the shares of Galleria Company common stock received by the shareholder in such pro rata distribution. Additionally, in such case, P&G would generally recognize taxable gain equal to the excess of the fair market value of the assets transferred to Galleria Company plus liabilities assumed by Galleria Company over P&G's tax basis in those assets, and this would likely produce substantial income tax adjustments to P&G.

Even if the Galleria Transfer and the Distribution, taken together, were otherwise to qualify as a tax-free transaction under section 368(a)(1)(D) of the Code, and the Distribution were otherwise to qualify as a distribution to P&G shareholders pursuant to section 355 of the Code, the Distribution would become taxable to P&G (but not P&G shareholders) pursuant to section 355(e) of the Code if a 50% or greater interest (by vote or value) of either P&G or Galleria Company was acquired (including, in the latter case, through the acquisition of our stock in or after the Merger), directly or indirectly, by certain persons as part of a plan or series of related transactions that included the Distribution. For this purpose, any acquisitions of shares of our common stock, P&G common stock or Galleria Company common stock within the period beginning two years before the Distribution and ending two years after the Distribution are presumed to be part of such a plan, although we, P&G or Galleria Company may be able to rebut that presumption. While the Merger will be treated as part of such a plan for purposes of the test, standing alone, it should not cause the Distribution to be taxable to P&G under section 355(e) of the Code because P&G shareholders are expected to hold at least 54%, and in all events will hold more than 52%, of our outstanding common stock immediately following the Merger. However, if the IRS were to determine that other acquisitions of our shares of stock, P&G common stock or Galleria Company common stock, either before or after the Distribution, were part of a plan or series of related transactions that included the Distribution, that determination could result in the recognition of a taxable gain by P&G. While P&G generally would recognize gain as if it had sold the shares of Galleria Company common stock distributed to P&G shareholders in the Distribution for an amount equal to the fair market value of such stock, P&G has agreed under the Tax Matters Agreement among us, P&G, Galleria Company and Merger Sub to make a protective election under section 336(e) of the Code with respect to the Distribution which generally causes a deemed sale of Galleria Company's assets upon a taxable Distribution.

In such case, to the extent that P&G is responsible for the resulting transaction taxes, we generally would be required to make periodic payments to P&G equal to the tax savings arising from a “step up” in the tax basis of Galleria Company’s assets as a result of the protective election under section 336(e) of the Code taking effect.

Under the Tax Matters Agreement, we and each of our consolidated subsidiaries, including Galleria Company after the consummation of the Merger (the “Coty Group”), would be required to indemnify P&G against tax-related losses (e.g., increased taxes, penalties and interest required to be paid by P&G) if the Distribution were taxable to P&G as a result of the acquisition of a 50% or greater interest (by vote or value) in us as part of a plan or series of related transactions that included the Distribution, except where such acquisition would not have been taxable but for P&G’s breach of certain provisions described in the Tax Matters Agreement. In addition, the Coty Group would be required to indemnify P&G for any tax liabilities resulting from the failure of the Merger to qualify as a reorganization under section 368(a) of the Code or the failure of the Distribution to qualify as a tax-free reorganization under sections 355 and 368(a) of the Code (including, in each case, failure to so qualify under a similar provision of state or local law) to the extent that such failure is attributable to a breach of certain representations and warranties by us or certain actions or omissions of the Coty Group. Tax-related losses attributable both to actions or omissions by the Coty Group, on the one hand, and certain actions or omissions by P&G, on the other hand, would be shared according to the relative fault of us and P&G. If the Coty Group is required to indemnify P&G in the event of a taxable Distribution, this indemnification obligation would be substantial and could have a material adverse effect on us, including with respect to our financial condition and results of operations. Except as described above, P&G would not be entitled to indemnification under the Tax Matters Agreement with respect to any taxable gain recognized in the Distribution. To the extent that we have any liability for any taxes of P&G, Galleria Company or any of their affiliates with respect to the Transactions that do not result from actions or omissions for which the Coty Group is liable as described above, P&G must indemnify us for such tax-related losses.

We could be adversely affected by significant restrictions following the Transactions in order to avoid tax-related liabilities.

The Tax Matters Agreement among us, P&G, Galleria Company and Merger Sub will require that we and Galleria Company, for a two-year period following the closing of the Merger, generally avoid taking certain actions. These limitations are designed to restrict actions that might cause the Distribution to be treated under section 355(e) of the Code as part of a plan under which a 50% or greater interest (by vote or value) in us is acquired or that could otherwise cause the Distribution, Merger and/or certain related transactions to become taxable to P&G. Unless we deliver an unqualified opinion of tax counsel reasonably acceptable to P&G, confirming that a proposed action would not cause certain of the transactions contemplated under the Transaction Agreement to become taxable, we and Galleria Company are each generally prohibited or restricted during the two-year period following the closing of the Merger from:

- subject to specified exceptions, issuing stock (or stock equivalents) or recapitalizing, repurchasing, redeeming or otherwise participating in acquisitions of its stock;
- amending its certificate of incorporation or other organizational documents to affect the voting rights of its stock;
- merging or consolidating with another entity, or liquidating or partially liquidating, except for any merger, consolidation, liquidation or partial liquidation that is disregarded for U.S. federal income tax purposes;
- discontinuing, selling, transferring or ceasing to maintain the Galleria Company active business under section 355(b) of the Code;
- taking any action that permits a proposed acquisition of our stock or Galleria Company stock to occur by means of an agreement to which none of us, Galleria Company or their affiliates is a party (including by soliciting a tender offer for Galleria Company stock or our stock, participating in or otherwise supporting any unsolicited tender offer for such stock or redeeming rights under a shareholder rights plan with respect to such stock); and
- engaging in other actions or transactions that could jeopardize the tax-free status of the Distribution, Merger and/or certain related transactions.

Under the Tax Matters Agreement, we and our affiliates would be required to indemnify P&G against tax-related losses (e.g., increased taxes, penalties and interest required to be paid by P&G) if the Galleria Transfer, taken together with the Distribution, fails to qualify for tax-free treatment as a result of the direct or indirect acquisition of a 50% or greater interest (by vote or value) in us as part of a plan or series of related transactions that included the Distribution,

except where such acquisition would not have been taxable but for P&G’s breach of certain provisions described in the Tax Matters Agreement.
Due to these restrictions and indemnification obligations under the Tax Matters Agreement, many strategic alternatives may be unavailable to us during the two-year period following the consummation of the Merger, which could have a material adverse effect on our liquidity and financial condition. We may be limited during this period in our ability to pursue strategic transactions, equity or convertible debt financings or other transactions that may maximize the value of our business and that may otherwise be in our best interests. Also, the restrictions and our potential indemnity obligation to P&G might discourage,

delay or prevent a change of control transaction during this two-year period that our stockholders may consider favorable to our ability to pursue strategic alternatives.

Sales of shares of our common stock after the Transactions may negatively affect the market price of our common stock.

The shares of our common stock issued in the Merger to holders of shares of Galleria Company common stock will generally be eligible for immediate resale. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market after the completion of the Transactions or even the perception that these sales could occur.

It is expected that immediately after the completion of the Transactions, P&G shareholders or former P&G shareholders will hold approximately 54% of the fully diluted shares of our common stock and our existing stockholders will hold approximately 46% of the fully diluted shares of our common stock.

Currently, P&G shareholders include index funds that have performance tied to the Standard & Poor's 500 Index, the Dow Jones Industrial Average or other stock indices, and institutional investors subject to various investing guidelines. Because we may not be included in these indices following completion of the Transactions or may not meet the investing guidelines of some of these institutional investors, these index funds and institutional investors may decide not to participate in the exchange offer conducted by P&G to exchange shares of Galleria Company owned by P&G for shares of P&G common stock, or, if the exchange offer is not fully subscribed, may decide to or may be required to sell the shares of our common stock that they receive in any subsequent pro rata distribution of any remaining shares following completion of an exchange offer. Alternatively, the index funds and institutional investors may participate in the exchange offer and may decide to or may be required to sell the shares of our common stock that they receive in the Merger. In addition, the investment fiduciaries of P&G's defined contribution plans may decide to sell any of our common stock that the trusts receive in the Transactions, or not participate in the exchange offer, in response to fiduciary obligations under applicable law. These sales, or the possibility that these sales may occur, could negatively affect the market price of our common stock and may make it more difficult for us to obtain additional capital by selling equity securities in the future at a time and at a price that it deems appropriate.

The calculation of the merger consideration will not be adjusted if there is a change in the value of P&G Beauty Brands or its assets or our value before the Merger is completed.

The calculation of the number of shares of our common stock to be distributed in the Merger will not be adjusted if there is a change in the value of P&G Beauty Brands or its assets or our value prior to the consummation of the Merger. While we will not be required to consummate the Merger if there has been any "material adverse effect" on P&G Beauty Brands, we will not be permitted to terminate the Transaction Agreement because of the occurrence of events that do not fall within this definition, including changes in the market price of our common stock or changes in the value of P&G Beauty Brands that do not otherwise constitute a material adverse effect on P&G Beauty Brands.

The Transactions may not be completed on the terms or timeline currently contemplated, or at all.

The completion of the Transactions is subject to numerous conditions, including (1) the completion of the transfer by P&G and its subsidiaries of certain specified assets and liabilities related to P&G Beauty Brands ("Galleria") to Galleria Company (the "Separation") and Distribution, (2) the satisfaction of the conditions to P&G's obligation to complete the exchange offer, (3) the conversion of all outstanding shares of our Class B Common Stock into shares of our Class A Common Stock, (4) the receipt of written tax opinions from special tax counsel to P&G and our special tax counsel, and (5) other customary conditions. There is no assurance that the Transactions will be completed on the terms or timeline currently contemplated, or at all. We and P&G have expended and will continue to expend significant management time and resources and have incurred and will continue to incur significant expenses due to legal, advisory and financial services fees related to the Transactions. These expenses must be paid regardless of whether the Transactions are completed.

Governmental agencies may not approve the Merger or the related transactions necessary to consummate the Merger or may impose conditions to the approval of such transactions or require changes to the terms of such transactions. Any such conditions or changes could have the effect of delaying completion of the Transactions, imposing costs on or limiting the revenues of the combined company following the Transactions or otherwise reducing the anticipated benefits of the Transactions.

Failure to complete the Transactions could materially and adversely impact the market price of our Class A Common Stock as well as our business, liquidity, financial condition and results of operations.

If the Transactions are not completed for any reason, the price of our common stock may decline significantly. In addition, we are subject to additional risks, including, among others:

- substantial costs related to the Transactions, such as advisory, legal, accounting, integration and other professional fees and regulatory filing and financial printing fees, which must be paid regardless of whether the Transactions are completed; and

- potential disruption of our business and distraction of our workforce and management team.

We expect to incur significant costs associated with the Transactions that could affect our period-to-period operating results following the completion of the Transactions.

At the time of announcement of the Transactions in July 2015, we anticipated that we would incur charges of an aggregate of approximately $500 million and capital expenditures of approximately $400 million as a result of costs associated with the Transactions. We currently anticipate that we will incur a total of approximately $1.2 billion of operating expenses and capital expenditures of approximately $500 million. Some of the factors affecting the costs associated with the Transactions include the timing of the completion of the Transactions, the resources required in integrating Galleria with our existing businesses and the length of time during which transition services are provided to us by P&G. The amount and timing of this charge could adversely affect our liquidity, cash flows and period-to-period operating results, which could result in a reduction in the market price of shares of our common stock.

Any delay in completing the Transactions may reduce or eliminate the benefits that we expect to achieve.

The Transactions are subject to a number of conditions beyond our and P&G's control that may prevent, delay or otherwise materially adversely affect the completion of the Transactions. We and P&G cannot predict whether and when these conditions will be satisfied. Any delay in completing the Transactions could cause the combined company not to realize some or all of the synergies that we and P&G expect to achieve if the Transactions are successfully completed within the expected time frame.

The integration of Galleria with us may not be successful or anticipated benefits from the Transactions may not be realized.

After completion of the Transactions, we will have significantly more sales, assets and employees than we did prior to the Transactions. The integration process will require us to expand the scope of our operations and financial, accounting and control systems. Our management will be required to devote a substantial amount of time and attention to the process of integrating Galleria with our business operations. The integration process is often difficult and management involvement is inherent in that process. These difficulties include:

- integrating the operations of Galleria while carrying on the ongoing operations of our business;
- managing a significantly larger company than before the Transactions;
- coordinating businesses located in new geographic regions, including significantly increased international operations;
- operating a hair color business, which is a new category in the beauty industry for us;
- operating nine additional large manufacturing facilities in the United States, Germany, Thailand, Mexico, Russia and the U.K.;
- maintaining and protecting the competitive advantages of Galleria, including the trade secrets, know-how and intellectual property related to its production processes;
- integrating business cultures and processes;
- retaining personnel associated with Galleria;
- implementing a new system for the distribution and sale of Galleria products to replace the P&G direct sales force, and integrating that system with our current sales and distribution organization;
- implementing uniform standards, controls, procedures, policies and information systems and minimizing costs associated with such matters; and
- integrating information, purchasing, accounting, finance, sales, billing, payroll and regulatory compliance systems.

We may not be able to successfully or cost-effectively integrate Galleria. While under the Transition Services Agreement, P&G will provide limited transition services to us while Galleria is being integrated into Coty, the term of the Transition Services Agreement will be for a limited period of time following the completion of the Transactions, which may not be sufficiently long for purposes of the integration. The process of integrating Galleria into our operations may cause an interruption of, or loss of momentum in, the activities of Galleria's or our businesses. If our management is not able to effectively manage the integration process, or if any significant business activities are interrupted as a result of the integration process, our business, financial condition and results of operations may be materially adversely affected.

As a combined company, we may not achieve some or any of the synergies that we expect to achieve if the Transactions are successfully completed. Even if we are able to combine the two business operations, it may not be possible to realize the full benefits, including increased sales volume, that we currently expect to result from the Transactions, or to realize those benefits within the time frame that is currently expected. For example, the elimination of duplicative costs may not be possible or may take longer than anticipated, or the benefits from the Transactions may be offset by unanticipated costs or integration delays. In addition, the benefits of the Transactions may be offset by increased operating costs relating to changes in commodity or energy prices, increased competition or other risks and uncertainties. If we fail to realize the benefits we anticipate from the Transactions, our results of operations may be adversely affected.

If the operating results for Galleria following the Transactions are below our expectations, we may not achieve the increases in revenues and net earnings that we expect as a result of the Transactions.

We have projected that we will derive a significant portion of our revenues and net earnings from the operations of Galleria after the Transactions. Therefore, any negative impact on those business operations could harm our operating results. Some of the significant factors that could harm the operations of Galleria, and therefore harm our future combined operating results after the Transactions, include:

- increases in raw materials, energy and packaging costs for Galleria, including the cost of essential oils, alcohol and specialty chemicals;
- more intense competitive pressure from existing or new companies;
- difficulties meeting demand for Galleria products;
- fluctuations in the exchange rates in the jurisdictions in which the combined company operates;
- increases in promotional costs for Galleria; and
- a decline in the markets served by Galleria.

The Transactions will expose us to risks inherent in the hair color business, and risks inherent in those geographies where Galleria currently operates.

If consummated successfully, the Transactions would create one of the world's largest beauty companies and would represent a significant transformation of our existing business. Upon completion of the Transactions, we would be subject to a variety of risks associated with the hair color business, in addition to those we already face in the fragrance, color cosmetics and skin and body care businesses. These risks include changes in consumer preferences, volatility in the prices of raw materials, consumer perceptions of the brands, competition in the retail market and other risks. In addition, we will be exposed to risks inherent in operating in geographies in which we have not operated in or has been less present in the past.

We may be unable to manage our growth effectively, which would harm our business, results of operations and financial condition.

Following the Transactions, we plan to invest in Galleria to grow and leverage our increased scale to benefit our entire beauty portfolio. Our growth strategy, including our strategy with respect to Galleria, may place a strain on our management team, information systems, labor, manufacturing and distribution capacity. P&G Beauty Brands has experienced in the past, and Galleria may experience in the future, manufacturing capacity constraints, particularly in periods where customer demand exceeds management's expectations. We may determine that it is necessary to invest substantial capital in order to secure additional manufacturing and distribution capacity to accommodate the expected growth of our business. There may also be a delay between our decision to invest in our manufacturing and distribution capacity and the time when such capacity is available for use. If we do not make, or are unable to make, the necessary expenditures to accommodate our future growth, or if a significant amount of time passes between our decision to invest and the time in which such capacity is available for use, we may not be successful in executing our growth strategy. If we are unable to effectively address any future capacity constraints within our business, or otherwise manage our future growth, our business, results of operations and financial condition may be adversely affected.

Changes in relationships between Galleria and its brand licensors, or failure to maintain those relationships, following the Transactions could have a material adverse effect on us.

The rights to market and sell certain fine fragrance brands are derived from licenses from unaffiliated third parties and its business is dependent upon the continuation and renewal of those licenses on favorable terms. As of June 30, 2015, P&G Beauty Brands maintained 12 brand license agreements, which collectively accounted for 36% of its net sales in fiscal 2015. As of June 30, 2016, we maintained 29 brand license agreements, which collectively accounted for 53% of our net revenues in fiscal 2016. In addition to our brand licenses, we also have other arrangements in place granting us rights to use trademarks and certain other intellectual property in products marketed under both our licensed and owned brands. In fiscal 2016, our top six licensed brands collectively accounted for 39% of our net revenues, and each represented between 3% and 16% of net revenues. With the exception of the Dolce & Gabbana and Christina Aguilera fragrance licenses, we and P&G have obtained the consent of brand licensors, to the extent required in connection with the Transactions, for the transfer of the applicable brand licenses from P&G Beauty Brands to us in the Transactions. Notwithstanding, these brand licensors may reduce the scope of their relationship with Galleria in anticipation of the Transactions or with us following completion of the Transactions. Any such reduction, or our inability to renew a brand license agreement upon favorable terms or otherwise, could have a material adverse effect on our business, financial condition and results of operations following the Transactions and could limit our ability to achieve the anticipated benefits of the Transactions.

We rely on brand licensors to manage and maintain their brands, and there is no guarantee that the licensors will maintain their celebrity status or positive association among the consumer public.

We, including Galleria following completion of the Transactions, rely on our brand licensors to manage and maintain their brands. Many of these brand licenses are with celebrities whose public personae we believe are in line with our current 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. As a result of the Transactions, such brand licensors may wish to renegotiate or terminate their agreements given management change. 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 success is also partially dependent on the reputation of our respective brand licensors and the goodwill associated with their intellectual property. These 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 these licensors were to enter bankruptcy proceedings, we could lose our rights to use the intellectual property that the applicable licensors license us to use.

Our brand licenses may be terminated if specified conditions are not met.

Our and Galleria's existing brand licenses run for varying periods with varying renewal options and may be terminated if certain conditions, such as royalty payments, are not met. These brand licenses impose various obligations on us and Galleria which 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 image of 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 they are 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.

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

We expect to guarantee a significant amount of debt as a result of the Transactions.

At the completion of the Transactions, to the extent the requirements of the Transaction Agreement are satisfied, we will guarantee Galleria Company's obligations under Galleria Company's $4.5 billion senior secured credit facilities. Galleria Company's obligations are contractually agreed to be $2.9 billion, but are subject to specified adjustments, which may result in the incurred amount being significantly higher or lower. The terms of this debt, as well as the Senior Secured Facilities, will permit us to incur a substantial amount of additional indebtedness, including secured debt.

Our ability to make scheduled payments under, or to refinance, our indebtedness depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to specified financial, business and other factors beyond our control. We may not be able to maintain a level of cash flow from operations sufficient to permit us to pay

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the principal, premium, if any, and interest on our indebtedness. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We may not be able to take any of these actions, and these actions may not be successful or permit us to meet our scheduled debt service obligations and these actions may not be permitted under the terms of our existing or future debt agreements. In the absence of such operating results and resources, we could face liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. Since our debt agreements restrict our ability to dispose of assets, we may not be able to consummate such dispositions, and this could result in our inability to meet our debt service obligations.

In addition, this indebtedness could have other important consequences, including:

- increasing our vulnerability to adverse economic, industry or competitive developments;
- exposing us to the risk of increased interest rates to the extent that our indebtedness bears interest at variable rates;
- making it more difficult to satisfy obligations with respect to our indebtedness, and any failure to comply with the obligations of any of our debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the agreements governing the indebtedness;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- limiting our ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and
- placing us at a competitive disadvantage compared to competitors who are less highly leveraged and who therefore, may be able to take advantage of opportunities that our leverage prevents us from pursuing.

If new debt is added to our and our subsidiaries' existing debt levels, the related risks that we now face would increase.

Our debt facilities following completion of the Transactions will require us to continue 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 currently contain, and will contain following the closing of the Transactions, restrictive covenants. The Coty Credit Agreement, which governs the Senior Secured Facilities contains, and following the Transactions the credit agreement governing Galleria Company's $4.5 billion senior secured credit facilities will 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 following the Transactions, including acquisitions. Should we decide to pursue an acquisition that requires financing that would violate our debt covenants, refusal of our lenders to permit waivers or amendments to our covenants could delay or prevent consummation of our plans. The Senior Secured Facilities will expire in 2022 and Galleria Company's $4.5 billion senior secured credit facilities will expire seven years after the initial funding, which must occur shortly following the closing of the Transactions. There is no assurance that alternative financing or financing on as favorable terms will be found when these facilities expire.

Following the completion of the Transactions, JABC will remain our largest stockholder, owning approximately 36% of the fully diluted shares of Class A Common Stock, and will have the ability to exercise significant influence over decisions requiring stockholder approval.

We are currently controlled by JABC, Lucresca and Agnaten. Lucresca and Agnaten indirectly share voting and investment control over the shares of the Class A Common Stock and Class B Common Stock held by JABC. Following the completion of the Transactions, JABC will remain our largest stockholder, owning approximately 36% of the fully diluted shares of Class A Common Stock. As a result, JABC, Lucresca and Agnaten will continue to have the ability to exercise significant influence over decisions requiring stockholder approval, including the election of directors, amendments to our certificate of incorporation and approval of significant corporate transactions, such as a merger or other sale of the Company or our assets.

This concentration of ownership may have the effect of delaying, preventing or deterring a change in control of us and may negatively affect the market price of Class A Common Stock. Also, JABC and its affiliates are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete

indirectly with us. JABC or its affiliates may also pursue acquisition opportunities that are complementary to our business and, as a result, those acquisition opportunities may not be available to us.
Item 1B. Unresolved Staff Comments.
None.

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Item 2. Properties.

We occupy numerous offices, manufacturing and distribution facilities in the U.S. and abroad. Our principal executive office is located in New York, New York. Following the closing of the Transactions, our principal executive office will be located in London, England. We have six research and development facilities worldwide, located in the United States, Europe, China and Brazil. We also operate manufacturing facilities in the United States, Europe, China and Brazil. In fiscal 2012, we created a fragrance "Center of Excellence" for research and development and centralized global supply chain management in Geneva, Switzerland.

We consider our properties to be generally in good condition and believe that our facilities are adequate for our operations and provide sufficient capacity to meet anticipated requirements. The following table sets forth our principal owned and leased corporate, manufacturing and research and development facilities as of August 15, 2016. The leases expire at various times subject to certain renewal options at our option.

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

Item 3. Legal Proceedings.

On June 28, 2013, we voluntarily disclosed to the U.S. Department of Commerce's Bureau of Industry and Security's Office of Antiboycott Compliance ("OAC") information relating to overall compliance with U.S. antiboycott laws by our majority-owned subsidiary in the United Arab Emirates, including with respect to the former inclusion of a legend on invoices, confirming that the corresponding goods did not contain materials of Israeli origin. A number of the invoices involved U.S. origin goods. We believe the inclusion of this legend may constitute violations of U.S. antiboycott laws. The disclosure addressed our findings and the remedial actions we have taken to date. OAC continues to review our voluntary disclosure. We cannot predict when OAC will complete its review. In July 2016, we entered into a tolling agreement with the OAC extending the statute of limitations on the OAC's investigation until November 30, 2016.

OAC has wide discretion to settle claims for violations. We believe that it is reasonably possible that OAC may impose a penalty or penalties that would result in a material loss. 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 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 25, "Commitments and Contingencies" in the notes to our Consolidated Financial Statements.

In addition, we are involved, from time to time, in litigation, other regulatory actions and other legal proceedings incidental to our business. While we cannot predict any final outcomes, management believes that the outcome of current litigation, regulatory actions and legal proceedings will not have a material effect upon our business, results of operations, financial condition or cash flows. However, management's assessment of our current litigation, regulatory actions and other legal proceedings could change in light of the discovery of facts with respect to litigation, regulatory actions or other proceedings pending against us not presently known to us or determinations by judges, juries or other finders of fact which are not in accord with management's evaluation of the possible liability or outcome of such litigation, regulatory actions and legal proceedings.

PART II

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

Market Information

Our Class A Common Stock is listed and publicly traded on the New York Stock Exchange ("NYSE") under the symbol "COTY".

	Fiscal 2016			Fiscal 2015		
	High	Low	Cash Dividends	High	Low	Cash Dividends
July 1 - September 30	$32.72	$24.90	$ —	$18.47	$16.39	$ —
October 1 - December 31	30.76	25.17	0.25	21.00	15.74	0.20
January 1 - March 31	29.59	21.48	—	24.71	18.33	—
April 1 - June 30	31.60	24.74	—	32.62	23.26	—

Our Class B Common Stock is not listed or publicly traded on any exchange.

Stockholders of Record

As of June 30, 2016 there were 22 stockholders of record of our Class A Common Stock and one stockholder of record of our Class B Common Stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividend Policy

Generally, subject to legally available funds, we intend to pay an annual cash dividend on our Class A Common Stock and Class B Common Stock in the second quarter of each fiscal year. Our ability to pay dividends has certain risks and limitations, and we cannot assure you that any dividends will be paid in the anticipated amounts and frequency, or at all. Our Board retains the right to change our intention to pay dividends at any time. The declaration and payment of all future dividends, if any, will be at the sole discretion of our Board. In the first quarter of fiscal 2017, on August 1, 2016, we announced that our Board approved an increase in our annual cash dividend to $0.275 from $0.25 per share on our Class A Common Stock and Class B Common Stock. We expect to pay the cash dividend on August 19, 2016 to stockholders of record at the close of business on August 11, 2016.

In the first quarter of fiscal 2016, we declared a cash dividend of $0.25 per share, or approximately $90.1 million, on our Class A Common Stock and Class B Common Stock. Of the $90.1 million, $89.0 million was paid in the second quarter of fiscal 2016 to holders of record of Class A Common Stock and Class B Common Stock on October 1, 2015. The remaining $1.1 million is paid as restricted stock units settle.

In the first quarter of fiscal 2015, we declared a cash dividend of $0.20 per share, or approximately $71.9 million, on our Class A Common Stock and Class B Common Stock. Of the $71.9 million, $71.0 million was paid in the second quarter of fiscal 2015 to holders of record of Class A Common Stock and Class B Common Stock on October 1, 2014. The remaining $0.9 million is paid as restricted stock units settle.

As of June 30, 2016, we are required to comply with certain covenants contained within the Coty Credit Agreement (as defined in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Liquidity and Capital Resources—Debt"). These covenants within the Agreements contain customary representations and warranties as well as customary affirmative and negative covenants, including but not limited to, restrictions on incurrence of additional debt, liens, dividends and other restricted payments, asset sales, investments, mergers, acquisitions and affiliate transactions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Financial Condition—Liquidity and Capital Resources—Debt." In addition, the Transaction Agreement restricts our ability to declare, set aside, make or pay any dividends, other than in the ordinary course and in an amount not to exceed $0.25 per share, prior to the closing of the Transactions, without P&G consent. See also "Risk Factors—Risks Relating to the Transactions—We could be adversely affected by significant restrictions following the Transactions in order to avoid tax-related liabilities."

Market Performance Graph
Comparison of Cumulative Total Return Since Date of IPO[a]
Coty Inc., The S&P 500 Index, and Fiscal 2016 Peer Group [b]

[a] Total return assumes reinvestment of dividends at the closing price at the end of each quarter, since June 13, 2013, the date of the IPO.

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

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

Equity Compensation Plan Information

Plan Category	(1) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(2) Weighted-average exercise price of outstanding options, warrants and rights	(3) Number of securities remaining available for future issuance under equity compensation plans[d] (excluding securities[e] reflected in column(1))
Equity compensation plans approved by security holders			
Options	6,420,295	$ 11.41	
Series A Preferred Stock	1,029,633	27.97	
Restricted Stock Units	4,219,465	n/a	
Subtotal	11,669,393	—	13,123,294
Equity compensation plans not approved by security holders			
Options [a]	819,038	$ 9.98	—
Series A Preferred Stock [b]	645,921	27.97	
Phantom Units [c]	349,432	n/a	
Subtotal	1,814,391	—	—
Total	13,483,784		13,123,294

n/a is not applicable

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

[b] On April 14, 2015, a duly constituted committee of the Board unanimously approved employment inducement awards outside of the Company’s Equity and Long-Term Incentive Plan of Series A Preferred Stock in the amount of 645,921 shares to Camillo Pane who had, at that time, been announced as the Company’s new EVP of Category Development.

[c] On December 1, 2014, the Board granted Lambertus J.H. Becht an award of 49,432 phantom units (the “December Grant”). On July 21, 2015, the Board granted to Mr. Becht an award of 300,000 phantom units (the “July Grant”). Both the December Grant and July Grant to Mr. Becht were outside of the Company’s Equity and Long-Term Incentive Plan. At the time of December Grant, the phantom units had a value of $1,000,009 based on the closing price of the Company’s Class A Common Stock on December 1, 2014, and at the time of the July Grant, the phantom units had a value of approximately $8,106,000 based on the closing price of the Class A Common Stock on July 21, 2015. Each phantom unit has an economic value equivalent to one share of the Company’s Class A Common Stock. The phantom

units vest on the fifth anniversary of the grant date and, in the event of a change in control or Mr. Becht's death or disability, the phantom units shall vest immediately. Within 30 days of the grant date, Mr. Becht had the ability to elect whether to receive payment in respect of the phantom units in cash or shares of Class A Common Stock. Mr. Becht elected to receive payment in respect of the December Grant and the July Grant in shares of Class A Common Stock.

[d] Reflects number of securities remaining available for future issuance under equity compensation plans, excluding share reserves related to terminated equity plans.

[e] In connection with the Company's 2016 Annual Meeting of Stockholders, the Company intends to seek the approval of its stockholders to increase the number of shares available for issuance under the Company's equity compensation plans. Pursuant to the Tax Matters Agreement, such increase will also require the Company to deliver to The Procter & Gamble Company ("P&G") an unqualified opinion of tax counsel reasonably satisfactory to P&G confirming such increase in the number of shares available for issuance will not affect the tax-free status of the Transactions.

Issuer Purchases of Equity Securities

The table below provides information with respect to repurchases of shares of our Class A Common Stock that settled during the fiscal quarter ended June 30, 2016. No shares of Class B Common Stock were repurchased during this period.

Period	Total Number of Shares Purchased	Average Price Paid per Share [a]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet be Purchased under the Plans or Programs [a]
April 1, 2016 - April 30, 2016	0	0	0	$500,000,000.00
May 1, 2016 - May 31, 2016	453,008	$25.9061	453,008	$488,264,338.60
June 1, 2016 - June 30, 2016	2,106,739	$26.2025	2,106,739	$433,062,497.54
Total	2,559,747	$26.1500	2,559,747[b]	$433,062,497.54

[a] Includes fees and commissions.
[b] 2,559,747 shares of Class A Common Stock were purchased for approximately $66.9 million under our $500.0 million share repurchase program (the "Repurchase Program") publicly announced on February 4, 2016. All repurchases were made using cash resources. No time has been set for the completion of the Repurchase Program, and the Repurchase Program may be suspended or discontinued at any time. The timing and exact amount of any repurchases will depend on various factors, including ongoing assessments of the capital needs of our business, the market price of our Class A Common Stock, and general market conditions. The Repurchase Program may be executed through open market purchases or privately negotiated transactions, including through Rule 10b5-1 trading plans. As of June 30, 2016, $433.1 million of authorized purchases remained under the Repurchase Program.

Item 6. Selected Financial Data.

(in millions, except per share data)	Year Ended June 30,				
	2016 [a]	2015 [a]	2014	2013	2012
Consolidated Statements of Operations Data:					
Net revenues	$4,349.1	$4,395.2	$4,551.6	$4,649.1	$4,611.3
Gross profit	2,603.1	2,638.2	2,685.9	2,788.8	2,787.3
Acquisition-related Costs	174.0	34.1	0.7	8.9	10.3
Asset impairment charges	5.5	—	316.9	1.5	575.9
Operating income (loss)	254.2	395.1	25.7	394.4	(209.5)
Interest expense, net	81.9	73.0	68.5	76.5	89.6
Loss on early extinguishment of debt	3.1	88.8	—	—	—
Other expense (income), net	30.4	—	1.3	(0.8)	32.0
Income (Loss) before income taxes	138.8	233.3	(44.1)	318.7	(331.1)
(Benefit) provision for income taxes	(40.4)	(26.1)	20.1	116.8	(37.8)
Net income (loss)	179.2	259.4	(64.2)	201.9	(293.3)
Net income attributable to noncontrolling interests	7.6	15.1	17.8	15.7	13.7
Net income attributable to redeemable noncontrolling interests	14.7	11.8	15.4	18.2	17.4
Net income (loss) attributable to Coty Inc.	$156.9	$232.5	$(97.4)	$168.0	$(324.4)
Per Share Data:					
Weighted-average common shares					
Basic	345.5	353.3	381.7	381.7	373.0
Diluted	354.2	362.9	381.7	396.4	373.0
Cash dividends declared per common share	$0.25	$0.20	$0.20	$0.15	$—
Net income (loss) attributable to Coty Inc. per common share:					
Basic	$0.45	$0.66	$(0.26)	$0.44	$(0.87)
Diluted	0.44	0.64	(0.26)	0.42	(0.87)

(in millions)	Year Ended June 30, 2016 [a]	2015 [a]	2014	2013	2012
Consolidated Cash Flows Data:					
Net cash provided by operating activities	$501.4	$526.3	$536.5	$463.9	$589.3
Net cash (used in) investing activities	(1,059.2)	(171.2)	(257.6)	(229.9)	(333.9)
Net cash provided by (used in) financing activities	592.6	(1,138.2)	(5.7)	69.0	(97.7)

(in millions)	As of June 30, 2016 [a]	2015 [a]	2014	2013	2012
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$372.4	$341.3	$1,238.0	$920.4	$609.4
Total assets	7,100.2	6,018.9	6,592.5	6,470.0	6,183.4
Total debt, net of discount	4,162.8	2,634.7	3,293.5	2,630.2	2,460.3
Total Coty Inc. stockholders' equity	360.2	969.8	843.8	1,494.0	857.2

[a] Included in fiscal 2016 and 2015 are the financial impacts of the Brazil Acquisition as of February 1, 2016 and the Bourjois acquisition as of April 1, 2015.

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

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

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

OVERVIEW

We are a leading global beauty company. We manufacture, market and sell beauty products in the Fragrances, Color Cosmetics, Skin & Body Care and Brazil Acquisition segments with distribution in over 130 countries and territories across both prestige and mass markets. We continue to operate in a challenging market environment particularly in mass fragrance in Western Europe and the U.S. We are focused on growing our ten power brands around the world through innovation, strong support levels and excellence in market execution. With respect to our non-power brands, we expect to see a gradual decline of those brands which are later in their lifecycles. We are also focused on expanding our geographic footprint into emerging markets and diversifying our distribution channels within existing geographies to increase market presence. Consistent with this strategy, we recently acquired the personal care and beauty business of Hypermarcas S.A. (the "Brazil Acquisition"). We believe this acquisition provides us with a platform to leverage the opportunities in one of the largest beauty markets in the world and increase our exposure to higher growth emerging markets over time. Additionally, we entered into agreements to broaden distribution in Asia, South Africa, the United Kingdom ("U.K."), United Arab Emirates ("U.A.E.") and Kingdom of Saudi Arabia ("K.S.A.") during fiscal 2015 and 2014 and our results from certain of these efforts reflect incremental net revenues from joint venture consolidations and conversion from third party to direct distribution in these geographies. On July 9, 2015, we announced the signing of the Transaction Agreement to merge (the "Merger") the P&G Beauty Brands into Coty. To successfully implement our growth strategies and to achieve operating enhancements following the Merger with the P&G Beauty Brands, we intend to rationalize 6% to 8% of the combined company net revenues following the close of the Transactions by divesting or discontinuing non-strategic brands. We also intend to rationalize wholesale distribution by reducing the amount of product diversion to the value and mass channels.

We have determined that our operating and reportable segments are Fragrances, Color Cosmetics, Skin & Body Care and Brazil Acquisition (also referred to as "segments"). The reportable segments represent the Company's product groupings other than the Brazil Acquisition segment. The Brazil Acquisition reportable segment represents revenues and expenses generated from multiple product groupings such as skin care, nail care, deodorants, and hair care products which are principally sold within Brazil.

Non-GAAP Financial Measures

To supplement the financial measures prepared in accordance with GAAP, we use non-GAAP financial measures including Adjusted operating income, Adjusted net income attributable to Coty Inc. and Adjusted net income attributable to our per common share (the "Adjusted Performance Measures"). The reconciliations of these non-GAAP measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are shown in the tables below. These non-GAAP financial measures should not be considered in isolation from, or as a substitute for or superior to, financial measures reported 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 the business as determined in accordance with GAAP. Other companies, including companies in the beauty industry, may calculate similarly titled non-GAAP financial measures differently than we do, limiting the usefulness of those measures for comparative purposes.

Despite the limitations of these non-GAAP financial measures, our management uses the Adjusted Performance Measures as key metrics in the evaluation of our performance and annual budgets and to benchmark performance of our business against our competitors. The following are examples of how these Adjusted Performance Measures are utilized by our management:

- strategic plans and annual budgets are prepared using the Adjusted Performance Measures;
- senior management receives a monthly analysis comparing budget to actual operating results that is prepared using the Adjusted Performance Measures; and
- senior management's annual compensation is calculated, in part, by using the Adjusted Performance Measures.

In addition, our financial covenant compliance calculations under our debt agreements are substantially derived from these Adjusted Performance Measures.

Our management believes that Adjusted Performance Measures are useful to investors in their assessment of our operating performance and the valuation of the Company. In addition, these non-GAAP financial measures address questions we routinely receive from analysts and investors and, in order to ensure that all investors have access to the same data, our management has determined that it is appropriate to make this data available to all investors. The Adjusted Performance Measures exclude the impact of certain items (as further described below) and provide supplemental information regarding our operating performance. By disclosing these non-GAAP financial measures, our management intends to provide investors with a supplemental comparison of our operating results and trends for the periods presented. Our management believes these measures are also useful to investors as such measures allow investors to evaluate our performance using the same metrics that our management uses to evaluate past performance and prospects for future performance. We provide disclosure of the effects of these non-GAAP financial measures by presenting the corresponding treatment prepared in conformity with GAAP in our financial statements, and by providing a reconciliation to the corresponding GAAP measure so that investors may understand the adjustments made in arriving at the non-GAAP financial measures and use the information to perform their own analyses.

Adjusted operating income excludes restructuring costs and business structure realignment programs, amortization, acquisition-related costs and acquisition accounting impacts, the impact of accounting modifications from liability plan accounting to equity plan accounting as a result of amended and restated share-based compensation plans, asset impairment charges and other adjustments as described below. We do not consider these items to be reflective of our core operating performance due to the variability of such items from period-to-period in terms of size, nature and significance. They are primarily incurred to realign our operating structure and integrate new acquisitions, and fluctuate based on specific facts and circumstances. Additionally, Adjusted net income attributable to Coty Inc. and Adjusted net income attributable to Coty Inc. per common share are adjusted for certain interest and other (income) expense as described below and the related tax effects of each of the items used to derive Adjusted net income as such charges are not used by our management in assessing our operating performance period-to-period.

The Adjusted Performance Measures have changed in the fourth quarter of fiscal 2016 to incorporate the exclusion of expense and tax effects associated with the amortization of acquisition-related intangible assets. Our management believes that such amortization is not reflective of the results of operations in a particular year because the intangible assets result from the allocation of the acquisition purchase price to the fair value of identifiable intangible assets acquired. The effect of this exclusion on our non-GAAP presentation was to amend Adjusted operating income in a manner that provides investors with a measure of our operating performance that facilitates period to period comparisons, as well as comparability to our peers. Exclusion of the amortization expense allows investors to compare operating results that are consistent over time for the consolidated company, including newly acquired and long-held businesses, to both acquisitive and nonacquisitive peer companies.

Adjusted Performance Measures reflect adjustments based on the following items:

- Restructuring and other business realignment costs: We have excluded costs associated with restructuring and business structure realignment programs to allow for comparable financial results to historical operations and forward-looking guidance. In addition, the nature and amount of such charges vary significantly based on the size and timing of the programs. By excluding the above referenced expenses from our non-GAAP financial measures, our management is able to evaluate our ability to utilize our existing assets and estimate their long-term value. Furthermore, our management believes that the adjustment of these items supplement the GAAP information with a measure that can be used to assess the sustainability of our operating performance.

- Amortization expense: We have excluded the impact of amortization of finite-lived intangible assets, as such non-cash amounts are inconsistent in amount and frequency and are significantly impacted by the timing and/or size of acquisitions. Our management believes that the adjustment of these items supplement the GAAP information with a measure that can be used to assess the sustainability of our operating performance. Although we exclude amortization of intangible assets from our non-GAAP expenses, our management believes that it is important for investors to understand that such intangible assets contribute to revenue generation. Amortization of intangible assets that relate to past acquisitions will recur in future periods until such intangible assets have been fully amortized. Any future acquisitions may result in the amortization of additional intangible assets.
- Cost related to acquisition activities: We have excluded acquisition-related costs and acquisition accounting impacts such as those related to transaction costs and costs associated with the revaluation of acquired inventory in connection with business combinations because these costs are unique to each transaction. The nature and amount of such costs vary significantly based on the size and timing of the acquisitions and the maturities of the businesses being acquired. Also, the size, complexity and/or volume of past acquisitions, which often drives the magnitude of such expenses, may not be indicative of the size, complexity and/or volume of any future acquisitions.
- Share-based compensation adjustment: We have excluded the impact of the fiscal 2013 accounting modification from liability plan to equity plan accounting for the share-based compensation plans as well as other share-based compensation transactions that are not reflective of the ongoing and planned pattern of recognition for such expense. Refer to “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies and Estimates” contained in the respective forms filed with the SEC for a full discussion of the share-based compensation adjustment.
- Asset impairment charges: We have excluded the impact of asset impairments as such non-cash amounts are inconsistent in amount and frequency and are significantly impacted by the timing and/or size of acquisitions. Our management believes that the adjustment of these items supplement the GAAP information with a measure that can be used to assess the sustainability of our operating performance.
- Other adjustments: We have excluded costs associated with the China Optimization program, Public entity preparedness program, Real estate consolidation program, and gains on sales of assets which are not part of our ongoing business. We do not expect these items to occur, either as a result of their nature or size, as part of our normal business on a regular basis. Our management believes that the exclusion of such amounts allows our management and readers of our financial statements to further understand our financial results.
- Interest and other (income) expense: We have excluded foreign currency impacts associated with acquisition-related and debt financing related forward contracts as the nature and amount of such charges are not consistent and are significantly impacted by the timing and size of such transactions.
- Loss on early extinguishment of debt: We have excluded loss on extinguishment of debt as this represents a non-cash charge, and the amount and frequency of such charges is not consistent and is significantly impacted by the timing and size of debt financing transactions.
- Tax: This adjustment represents the impact of the tax effect of the pretax items excluded from Adjusted net income. The tax impact of the non-GAAP adjustments are based on the tax rates related to the jurisdiction in which the adjusted items are received or incurred.

While acquiring brands and licenses comprises a part of our overall growth strategy, along with targeting organic growth opportunities, we have excluded acquisition-related costs and acquisition accounting impacts in connection with business combinations because these costs are unique to each transaction and the amount and frequency are not consistent and are significantly impacted by the timing and size of our acquisitions. Our management assesses the success of an acquisition as a component of performance using a variety of indicators depending on the size and nature of the acquisition, including:

- the scale of the combined company by evaluating consolidated and segment financial metrics;

- the expansion of product offerings by evaluating segment, brand, and geographic performance and the respective strength of the brands;
- the evaluation of market share expansion in categories and geographies;

- the earnings per share accretion and substantial incremental free cash flow generation providing financial flexibility for us; and
- the comparison of actual and projected results, including achievement of projected synergies, post integration; provided that timing for any such comparison will depend on the size and complexity of the acquisition.

Constant Currency

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

Marketing and Advertising Costs

Management reviews marketing and advertising costs on an aggregated basis, including trade marketing spend activities and advertising and consumer promotional costs, which are included as a reduction to gross revenue and in selling, general and administrative expenses, respectively, based on the counterparty. Marketing and advertising costs for the years ended June 30, 2016, 2015 and 2014 are presented below:

	Year Ended June 30,					
	2016		2015		2014	
Trade marketing spend activities	$396.3		$463.2		$492.9	
% of Net revenues	9.1	%	10.5	%	10.8	%
Advertising and consumer promotional costs	967.6		1,007.7		1,070.0	
% of Net revenues	22.2	%	22.9	%	23.5	%
Total marketing and advertising costs	$1,363.9		$1,470.9		$1,562.9	
% of Net revenues	31.4	%	33.4	%	34.3	%

NET REVENUES

In fiscal 2016, net revenues decreased 1%, or $46.1, to $4,349.1 from $4,395.2 in fiscal 2015. The decrease was the result of a negative price and mix impact of 9% and a negative foreign currency exchange translations impact of 5%, partially offset by an increase in unit volume of 13%. In fiscal 2016, we divested the Cutex brand, which had an immaterial impact on our consolidated net revenues and the Color Cosmetics segment. Also, in fiscal 2016 we completed the Brazil Acquisition in the Americas, and this acquisition positively affected our total net revenues by 2%. In the quarter ended June 30, 2015, we completed the acquisition of the Bourjois cosmetics brand ("Bourjois acquisition"). The incremental net revenues from the Bourjois acquisition in the nine months ended March 31, 2016 positively impacted total net revenues by 3%. The Bourjois acquisition impacted our Color Cosmetics segment primarily in EMEA. In fiscal 2014, we announced the discontinuation of our TJoy brand and the reorganization of our mass business in China ("China Optimization"). The discontinuation of TJoy and China Optimization had an immaterial impact on our consolidated net revenues, however negatively affected our Skin & Body Care segment in Asia Pacific. Excluding the impacts of the Cutex divestiture, the Brazil Acquisition, Bourjois acquisition, the discontinuation of TJoy and China Optimization and foreign currency exchange translations, total net revenues in fiscal 2016 decreased 1% reflecting a decrease in unit volume of 5%, partially offset by a positive price and mix impact of 4%. Excluding the impact of acquisitions, new launches represented approximately 12% of net revenues for fiscal 2016. The contribution from new launches was offset by an approximate 18% decline in net revenues from existing products that are later in their life cycles, in part due to the negative impact of foreign currency exchange translations.

In fiscal 2015, net revenues decreased 3%, or $156.4, to $4,395.2 from $4,551.6 in fiscal 2014. The decrease was primarily the result of a negative foreign currency exchange translations impact of 5%, partially offset by an increase in unit volume of 1% and a positive price and mix impact of 1%. The discontinuation of TJoy and China Optimization had an immaterial impact on our consolidated results, however positively affected our Skin & Body Care segment in Asia Pacific. The Bourjois acquisition positively impacted total net revenues in fiscal 2015 by 1%. The impact to net revenues from the Bourjois acquisition affected our Color Cosmetics segment primarily in EMEA. Excluding the negative impact of foreign currency exchange translations, the discontinuation of TJoy and China Optimization and the Bourjois acquisition, total net revenues in fiscal 2015 were consistent with total net revenues in fiscal 2014, reflecting a positive price and mix impact of 1% offset by a decrease in unit volume of 1%. Excluding the impact of the Bourjois acquisition, new launches represented approximately 16% of net revenues for fiscal 2015. The contribution from new launches was offset by an approximate 20% decline in net revenues from existing products that are later in their life cycles, in part due to the negative impact of foreign currency exchange translations.

Net Revenues by Segment

	Year Ended June 30,			Change %	
(in millions)	2016	2015	2014	2016/2015	2015/2014
NET REVENUES					
Fragrances	$2,012.7	$2,178.3	$2,324.0	(8 %)	(6 %)
Color Cosmetics	1,547.5	1,445.0	1,366.2	7 %	6 %
Skin & Body Care	693.4	771.9	861.4	(10 %)	(10 %)
Brazil Acquisition	95.5	—	—	N/A	N/A
Total	$4,349.1	$4,395.2	$4,551.6	(1 %)	(3 %)

Fragrances

In fiscal 2016, net revenues of Fragrances decreased 8%, or $165.6 to $2,012.7 from $2,178.3 in fiscal 2015. The decline in net revenues reflects a negative foreign currency exchange translations impact of 5% and a decrease in unit volume of 4%, partially offset by a positive price and mix impact of 1%. The decrease in the segment primarily reflects lower net revenues from celebrity and lifestyle brands in the mass retail channel, in part due to brands that are later in their lifecycles and our continued efforts to execute portfolio rationalization on lower-volume product lines in non-strategic distribution channels. In addition, mass fragrances have been adversely impacted by a negative market trend in fiscal 2016. Also contributing to the segment declines were lower net revenues from Calvin Klein, Davidoff, Jil Sander, Chloé and Guess reflecting declines in existing product lines, a lower level of launch activity in fiscal 2016 as compared to fiscal 2015 and a negative foreign currency exchange translations impact. Net revenues declines in the segment were partially offset by growth from Marc Jacobs as well as the launch of the Miu Miu fragrance. Growth from Marc Jacobs primarily reflects incremental net revenues from the launches of Marc Jacobs Decadence and Marc Jacobs Splash, partially offset by declines in existing product lines and a negative foreign currency exchange translations impact. The positive price and mix impact for the segment primarily reflects a lower level of promotional and discounted pricing activities and higher relative volume of higher-priced products such as Marc Jacobs Decadence and the Miu Miu fragrance.

In fiscal 2015, net revenues of Fragrances decreased 6% or $145.7 to $2,178.3 from $2,324.0 in fiscal 2014. The decrease was primarily the result of a negative price and mix impact of 6% and a negative foreign currency exchange translations impact of 4%, partially offset by an increase in unit volume of 4%. Excluding the negative impact of foreign currency exchange translations, net revenues of Fragrances decreased 2%. The decrease in the segment primarily reflects lower net revenues from existing celebrity brands that are later in their lifecycles, Calvin Klein, whose lower net revenues were primarily due to the negative impact of foreign currency exchange translations, and Davidoff and Roberto Cavalli, reflecting lower new launch activity in fiscal 2015 relative to the strong contribution from new launches in fiscal 2014, and declines from existing product lines. The decline in the segment also reflects continued deterioration of fragrance market trends, particularly in Europe. Partially offsetting the decrease in the segment were higher net revenues from Marc Jacobs, in part due to the new launch Marc Jacobs Daisy Dream, along with incremental net revenues from recently launched Enrique Iglesias Adrenaline and Vespa. Results for Chloé were negatively impacted by foreign currency exchange translations. Excluding the impact of foreign currency exchange translations, net revenues for Chloé increased in part due to the new launch of Chloé Love Story. The negative price and mix impact primarily reflects an ongoing increased level of promotional and discounted pricing activity, reflecting a competitive retail environment. Also contributing to the negative price and mix were higher relative volumes of lower-priced products sold in the mass retail channel in a certain emerging market, driven by a change in our distribution model.

Color Cosmetics

In fiscal 2016, net revenues of Color Cosmetics increased 7%, or $102.5, to $1,547.5 from $1,445.0 in fiscal 2015 reflecting a positive price and mix impact of 12% and an increase in unit volume of 1%, partially offset by a negative foreign currency exchange translations impact of 6%. The incremental net revenues from the Bourjois acquisition in the nine months ended March 31, 2016 positively impacted net revenues by 10%, generating 7% of the unit volume increase and a positive price and mix impact of 4%, partially offset by a negative foreign currency exchange translations impact of 1%. Excluding incremental net revenues from the Bourjois acquisition in the nine months ended March 31, 2016, Color Cosmetics net revenues decreased 3% with declines in OPI, N.Y.C. New York Color and Astor, partially offset by growth in Sally Hansen. OPI net revenues decreased primarily due to declining lacquer products in the U.S. professional channel, Nicole by OPI, and a negative foreign currency exchange translations impact. Partially offsetting declines in OPI were incremental net revenues from product launches such as the OPI Hello Kitty collection and OPI Infinite Shine as well as growth in Asia Pacific. N.Y.C. New York Color net revenues declined in part due to shelf space reduction at certain retailers in the U.S. as well as a management decision to discontinue the brand in the U.K. Astor net revenues declined primarily due to a negative foreign currency exchange translations impact. Partially offsetting declines in the segment was net revenues growth in Sally Hansen primarily driven by Sally Hansen Miracle Gel, reflecting an enhanced product offering as well as the expansion of Sally Hansen Miracle Gel in international markets. However, net revenues of Sally Hansen have been adversely impacted by negative foreign exchange translations as well as the negative U.S. retail nail market trend in fiscal 2016. Net revenues of Rimmel in fiscal 2016 were consistent with fiscal 2015 as incremental net revenues from the launches of Rimmel SuperGel nail polish, Rimmel the Only 1 lipstick and Rimmel Supercurler mascara were offset by a negative foreign exchange translations impact. Excluding incremental net revenues from the Bourjois acquisition in the nine months ended March 31, 2016 and the negative foreign currency exchange translations impact of 5%, net revenues for Color Cosmetics increased 2% reflecting a positive price and mix impact of 8% partially offset by a decrease in unit volume of 6%. The positive price and mix impact in part reflects lower relative volumes of lower-priced products, such as the N.Y.C. New York Color brand and higher relative volumes of higher-priced products, such as OPI Hello Kitty collection, Sally Hansen Miracle Gel, Rimmel the Only 1 lipstick and Rimmel Supercurler mascara as well as a lower level of promotional and discounted pricing activities.

In fiscal 2015, net revenues of Color Cosmetics increased 6%, or $78.8, to $1,445.0 from $1,366.2 in fiscal 2014. The increase was primarily the result of a positive price and mix impact of 7% and an increase in unit volume of 5%, partially offset by a negative foreign currency exchange translations impact of 6%. The Bourjois acquisition positively impacted net revenues by 4%, contributing 4% to the unit volume increase. Excluding the impact to net revenues from the Bourjois acquisition and the impact of foreign currency exchange translations, net revenues of Color Cosmetics increased 8%. Higher net revenues were primarily driven by strong growth in Sally Hansen and Rimmel. The increase in Sally Hansen was primarily driven by the success of new launch Sally Hansen Miracle Gel. Higher net revenues in Rimmel primarily reflect incremental net revenues from new launches such as Rimmel Wonder'full mascara and Rimmel Provocalips liquid lipstick along with growth from existing brands, such as Rimmel Lasting Finish foundation and Rimmel Exaggerate eyeliner. Results for OPI were negatively impacted by foreign currency exchange translations. Excluding the impact of foreign currency exchange translations, net revenues for OPI increased, driven by growth in the U.S. professional channel, primarily due to incremental net revenues from new launch OPI Infinite Shine, and an increase in net revenues internationally, primarily reflecting incremental net revenues following the acquisition of a U.K. distributor. Partially offsetting the increase in OPI were lower net revenues in the U.S. retail channel driven by a decline in Nicole by OPI. The positive price and mix impact for the segment primarily reflects a price improvement in all major brands, in part reflecting the new launch of Sally Hansen Miracle Gel.

Skin & Body Care

In fiscal 2016, net revenues of Skin & Body Care decreased 10%, or $78.5, to $693.4 from $771.9 in fiscal 2015 with declines in all brands. The net revenues decrease was primarily the result of a negative foreign currency exchange translations impact of 6%, a decrease in unit volume of 3% and a negative price and mix impact of 1%. The discontinuation of TJoy and China Optimization had a 1% negative impact on net revenues reflecting a 1% unit decline. Lower net revenues in Playboy were due to declines in existing product lines and a negative foreign currency exchange translations impact, partially offset by incremental net revenues from the launch of the Playboy Play It Wild franchise. Lower net revenues from philosophy in part reflects different timing of orders and a lower level of promotional campaigns at a key U.S. customer. adidas net revenues were adversely impacted by foreign currency exchange translations. Excluding this impact, adidas net revenues increased reflecting growth in EMEA driven by launches of adidas UEFA Champions League Edition, adidas toiletry products and the adidas Born Original franchise as well as the positive result from our mass business reorganization in China. Lower net revenues from Lancaster reflects declines in existing product lines and a negative foreign currency exchange translations impact. Excluding the negative foreign currency exchange translations impact of 6% and the impact from the discontinuation of TJoy and China Optimization of 1%, Skin & Body Care net revenues decreased 3% reflecting a decrease in unit volume of 2% and a negative price and mix impact of 1%, in part due to higher relative volumes of lower-priced adidas products.

In fiscal 2015, net revenues of Skin & Body Care decreased 10%, or $89.5, to $771.9 from $861.4 in fiscal 2014. The decrease in the segment was primarily the result of a decline in unit volume of 9% and a negative foreign currency exchange translations impact of 6%, partially offset by a positive price and mix impact of 5%. The discontinuation of TJoy and China Optimization contributed 3% to the unit volume decline and positively impacted price and mix by 4%. Excluding the negative impact of foreign currency exchange translations and the impact to net revenues from the discontinuation of TJoy and China Optimization, net revenues of Skin & Body Care decreased 5% with a unit volume decline of 6% and a positive price and mix impact of 1%, primarily reflecting higher relative volumes of higher-priced products. The decrease in the segment was primarily driven by lower net revenues from adidas and Playboy. Lower net revenues from adidas in part reflect the negative impact of foreign currency exchange translations, a change in our distribution model from subsidiary to distributor in China, a decline in the U.S. primarily related to lower holiday orders and reduced shelf space at a key retailer in fiscal 2015 compared to fiscal 2014 and declining net revenues in existing product lines. Partially offsetting these declines in adidas were incremental net revenues from new launches such as adidas UEFA Champions League Edition and incremental net revenues in Brazil, due to the commercial distributor relationship with Avon. The decline in Playboy was in part driven by the negative impact of foreign currency exchange translations, declining net revenues in existing product lines and lower net revenues in the U.S. related to reduced shelf space at select retailers and lower holiday orders in fiscal 2015 compared to fiscal 2014. Partially offsetting the decline in Playboy were incremental net revenues from new launches such as Playboy #Generation for Him and Playboy #Generation for Her and growth in Brazil, due to the commercial distributor relationship with Avon. Partially offsetting the decrease in the segment were higher net revenues from philosophy primarily reflecting strong growth in Asia Pacific and higher net revenues in key distribution channels in the U.S., in part due to new launch philosophy renewed hope in a jar.

Brazil Acquisition

In fiscal 2016, net revenues from the Brazil Acquisition were $95.5.

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).

	Year Ended June 30,			Change %	
(in millions)	2016	2015	2014	2016/2015	2015/2014
NET REVENUES					
Americas	$1,663.3	$1,696.0	$1,703.8	(2%)	— %
EMEA	2,169.0	2,166.0	2,302.9	—%	(6 %)
Asia Pacific	516.8	533.2	544.9	(3%)	(2 %)
Total	$4,349.1	$4,395.2	$4,551.6	(1%)	(3 %)

Americas

In fiscal 2016, net revenues in the Americas decreased 2% or $32.7, to $1,663.3 from $1,696.0 in fiscal 2015. The decline in the region reflects lower net revenues in the U.S., Canada and the regional travel retail business, partially offset by growth in Latin America primarily driven by the Brazil Acquisition. Lower net revenues in the U.S. were due to celebrity and lifestyle fragrance brands in the mass retail channel, in part due to brands that are later in their lifecycles, as well as OPI, N.Y.C. New York Color, philosophy, Calvin Klein and Davidoff. In addition, mass fragrances in the U.S. have been adversely impacted by a negative market trends mentioned in the “Fragrances” and “Color Cosmetics” discussions above. Partially offsetting declines in the U.S. were higher net revenues from Marc Jacobs and Sally Hansen primarily reflecting the success of Marc Jacobs Decadence and Sally Hansen Miracle Gel. Net revenues in Canada decreased due to a negative foreign currency exchange translations impact. Excluding this impact, net revenues in Canada increased driven by growth in Color Cosmetics, partially offset by declines in Playboy. Net revenues decreased in the regional travel retail business reflecting declines in Calvin Klein and Chloé, in part reflecting economic slowdown and currency devaluations in the region, partially offset by Marc Jacobs. Net revenues in the Latin America region increased reflecting incremental net revenues from the Brazil Acquisition and growth in Color Cosmetics, partially offset by a negative foreign currency exchange translations impact and declines in Calvin Klein and Playboy. Excluding the positive impact from the Brazil Acquisition of 6% and a negative foreign currency exchange translations impact of 3%, net revenues in Americas decreased 5%.

In fiscal 2015, net revenues in the Americas decreased $7.8, to $1,696.0 from $1,703.8 in fiscal 2014. Excluding the negative impact of foreign currency exchange translations of 1%, net revenues in the Americas increased 1%. Generating strong growth in the region was Brazil, due to incremental net revenues resulting from the commercial distributor relationship with Avon. Net revenues in the U.S. in fiscal 2015 were consistent with fiscal 2014, in part reflecting strong growth from power brands Sally Hansen, Rimmel and Marc Jacobs offset by lower net revenues from OPI, primarily reflecting the impact of international business transfer to subsidiaries outside of the U.S., a decline in existing celebrity fragrance brands that are later in their lifecycles, and lower net revenues from body care products, in part due to reduced shelf space at select retailers in the U.S. and lower holiday orders in fiscal 2015 compared to fiscal 2014. Net revenues in Canada declined in part due to the negative impact of foreign currency exchange translations along with lower net revenues in the Fragrances segment.

EMEA

EMEA net revenues of $2,169.0 for fiscal 2016 were comparable with fiscal 2015 as increases in the regional export business, the Middle East and Southern Europe were offset by declines in Germany, the U.K., our regional travel retail business and the Netherlands. Net revenues growth in the regional export business was primarily driven by incremental net revenues from the Bourjois acquisition as well as growth in the Fragrances and Skin & Body Care segments. Growth in the Middle East reflects incremental net revenues from the Bourjois acquisition and higher net revenues in Fragrances which has benefited from our K.S.A. joint venture. Net revenues growth in Southern Europe was driven by incremental net revenues from the Bourjois acquisition, partially offset by a negative foreign currency exchange translations impact and declines in Playboy. Net revenues declines in Germany reflect a negative foreign currency exchange translations impact. Excluding this impact, net revenues in Germany increased primarily driven by strong growth in Color Cosmetics. Net revenues in the U.K. were adversely impacted by negative foreign currency exchange translations impact as well as declines in Fragrances, partially offset by incremental net revenues from the Bourjois acquisition. Net revenues declined in our travel retail business primarily due to Fragrances, in part driven by a negative foreign exchange transactions impact. Net revenues in the Netherlands were adversely impacted by declines in Fragrances as well as negative foreign currency exchange translations, partially offset by incremental net revenues from the Bourjois acquisition and growth in Rimmel and adidas. Excluding the negative foreign currency exchange translations impact of 8% and the incremental net revenues from the Bourjois acquisition in the nine months ended March 31, 2016 of 7%, net revenues in EMEA for fiscal 2016 increased 1%.

In fiscal 2015, net revenues in EMEA decreased 6%, or $136.9, to $2,166.0 from $2,302.9 in fiscal 2014. Excluding the negative impact of foreign currency exchange translations of 8% and the impact of the Bourjois acquisition of 2%, net revenues in EMEA in fiscal 2015 were consistent with fiscal 2014. Generating growth in the region was our new subsidiary in South Africa and the Middle East, where we have benefited from our new U.A.E. and K.S.A. joint ventures. Results for Eastern Europe were negatively impacted by foreign currency exchange translations. Excluding the impact of foreign currency exchange translations and the Bourjois acquisition, net revenues for Eastern Europe increased primarily driven by growth in Color Cosmetics and Calvin Klein. Results for Germany and Southern Europe were negatively impacted by foreign currency exchange translations. Excluding the impact of foreign currency exchange translations and the Bourjois acquisition, net revenues for Germany and Southern Europe in fiscal 2015 were consistent with fiscal 2014. Net revenues in the U.K. declined in part due to the negative impact of foreign currency exchange translations and lower net revenues of Fragrances and Skin & Body Care products, offset by strong growth in Color Cosmetics driven by incremental net revenues from OPI due to the acquisition of a U.K. distributor and increased net revenues from Rimmel. Net revenues in our travel retail business declined primarily due to Calvin Klein. Net revenues in EMEA also reflect the negative impact of foreign currency exchange on transactions in our export and travel retail businesses.

Asia Pacific

In fiscal 2016, net revenues in Asia Pacific decreased 3%, or $16.4, to $516.8 from $533.2 in fiscal 2015. The decline in the region reflects lower net revenues in China, Australia and Southeast Asia, partially offset by our regional export business and Japan. Lower net revenues in China primarily reflects declines in Fragrances, in part due to reduced shipments to a key distributor that experienced liquidity issues during fiscal 2016. Net revenues in Australia and Southeast Asia were adversely impacted by negative foreign currency exchange translations. Excluding this impact, Australia and Southeast Asia generated net revenues growth in the Fragrances and Color Cosmetics segments. Partially offsetting declines in the region were higher net revenues in the regional export business driven by strong growth in Fragrances and incremental net revenues from the Bourjois acquisition. Net revenues in Japan increased primarily driven by strong growth in Calvin Klein. Excluding the negative impacts of foreign currency exchange translations of 7% and the discontinuation of TJoy and China Optimization of 1%, net revenues in Asia Pacific increased 5%.

In fiscal 2015, net revenues in Asia Pacific decreased 2% or $11.7, to $533.2 from $544.9 in fiscal 2014. Excluding the negative impact of foreign currency exchange translations of 4% and the impact to net revenues from the discontinuation of TJoy and China Optimization of 2%, net revenues in Asia Pacific in fiscal 2015 were consistent with fiscal 2014. Net revenues in Australia were affected by the negative impact of foreign currency exchange translations. Excluding this impact, however, net revenues in Australia increased primarily due to strong growth in Color Cosmetics, driven by Rimmel, OPI and Sally Hansen, and an increase in Fragrances. Contributing to growth in the region were higher net revenues in our travel retail business, primarily driven by power brands Marc Jacobs, philosophy and OPI, and Korea, primarily driven by Calvin Klein. Results for Southeast Asia were negatively impacted by foreign currency exchange translations. Excluding the impact of foreign currency exchange translations, net revenues for Southeast Asia in fiscal 2015 were consistent with fiscal 2014. Results in the region were adversely impacted by lower net revenues in China. The decline in China was primarily driven by lower net revenues from adidas, in part due to the change in our distribution model.

COST OF SALES

In fiscal 2016, cost of sales decreased 1%, or $11.0, to $1,746.0 from $1,757.0 in fiscal 2015. Cost of sales as a percentage of net revenues increased to 40.1% in fiscal 2016 from 40.0% in fiscal 2015, resulting in a gross margin decline of approximately 10 basis points. In fiscal 2016, cost of sales was negatively impacted by certain items, such as the revaluation of acquired inventory related to the Brazil Acquisition and Bourjois acquisition. In fiscal 2015, cost of sales included the positive impact from refinement of estimates associated with China Optimization and the negative impacts from the Bourjois acquisition, primarily reflecting revaluation of acquired inventory, as well as inventory buyback as we converted one of our distributors to a subsidiary distribution model in the Middle East. Excluding these items, gross margin improved by approximately 30 basis points, which includes a positive impact of approximately 20 basis points from the addition of the Bourjois acquisition and a negative impact of approximately 70 basis points from the addition of the Brazil Acquisition. The improvement in gross margin primarily reflects the positive impact of lower promotional and discounted pricing activity, reported in net revenues, and continued contribution from our supply chain savings program, reported in cost of sales.

In fiscal 2015, cost of sales decreased 6%, or $108.7, to $1,757.0 from $1,865.7 in fiscal 2014. Cost of sales as a percentage of net revenues decreased to 40.0% in fiscal 2015 from 41.0% in fiscal 2014, resulting in a gross margin improvement of approximately 100 basis points. Gross margin includes the positive impact from the refinement of estimates associated with China Optimization partially offset by the negative impact of higher acquisition-related costs in fiscal 2015 compared to fiscal 2014, in part due to costs associated with the Bourjois acquisition. Excluding the impact of these items on net revenues and cost of sales, gross margin improved approximately 50 basis points primarily reflecting continued contribution from our supply chain savings program, reported in cost of sales, partially offset by the negative impact of higher customer discounts and allowances, reported in net revenues.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

In fiscal 2016, selling, general and administrative expenses decreased 2%, or $38.3, to $2,027.8 from $2,066.1 in fiscal 2015. Selling, general and administrative expenses as a percentage of net revenues decreased to 46.6% in fiscal 2016 from 47.0% in fiscal 2015. This decrease of 40 basis points includes approximately 10 basis points related to lower costs related to acquisition activities, business realignment costs, share-based compensation expense adjustment, China Optimization costs and real estate consolidation program costs. Excluding these items described above, selling, general and administrative expenses decreased 2%, or $32.7, to $2,001.7 from $2,034.4 in fiscal 2015 and decreased as a percentage of net revenues to 46.0% from 46.3%, or approximately 30 basis points. This decrease primarily reflects approximately 80 basis points related to lower advertising and consumer promotion spending and approximately 50 basis points related to lower administrative costs, partially offset by approximately 40 basis points related to reserves in connection with liquidity issues at a key distributor in China, approximately 30 basis points of higher share-based compensation expenses and approximately 30 basis points related to the transactional impact from our exposure to foreign currency exchange fluctuations. Advertising and consumer promotion expense decreased due to a reduction in non-strategic spending and a positive foreign exchange translations impact, which enabled us to increase investment in consumer-facing media and absorb added costs related to the Bourjois acquisition and the Brazil Acquisition. Despite added costs from acquisitions, administrative costs decreased primarily reflecting a positive foreign currency exchange translations impact, lower costs related to the management incentive program and savings from our Organizational Redesign and cost control measures. Increased share-based compensation primarily reflects a higher level of options exercises resulting in increased fringe benefit expense in fiscal 2016.

In fiscal 2015, selling, general and administrative expenses decreased 7%, or $153.5, to $2,066.1 from $2,219.6 in fiscal 2014. Selling, general and administrative expenses as a percentage of net revenues decreased to 47.0% in fiscal 2015 from 48.8% in fiscal 2014. This decrease of 180 basis points includes approximately 140 basis points primarily related to lower real estate consolidation program costs, share-based compensation expense adjustment, acquisition-related costs and China Optimization costs partially offset by higher business structure realignment costs. Excluding the items described above and the impact to net revenues associated with China Optimization, selling, general and administrative expenses decreased 5%, or $99.7, to $2,034.4 from $2,134.1 in fiscal 2014 and decreased as a percentage of net revenues to 46.3% from 46.7%. This decrease of 40 basis points primarily reflects lower advertising and consumer promotion spending and administrative costs, partially offset by losses related to foreign currency hedging. Lower advertising and consumer promotion spending primarily reflects the impact of foreign currency exchange translations. Excluding this impact, advertising and consumer promotion spending increased driven by investment in our power brands but declined as a percentage of net revenues, as the increase in spending on power brands was offset by a strategic reduction for the remainder of the portfolio. Lower administrative costs primarily reflect the impact of foreign currency exchange translations and costs savings resulting from our

Organizational Redesign and China Optimization programs, partially offset by additional administrative costs related to the Bourjois acquisition and higher accruals related to the management incentive program.

OPERATING INCOME

In fiscal 2016, operating income decreased 36%, or $140.9, to $254.2 from $395.1 in fiscal 2015. Operating margin, or operating income as a percentage of net revenues, decreased to 5.8% of net revenues in fiscal 2016 as compared to 9.0% in fiscal 2015. This margin decline of approximately 320 basis points reflects approximately 320 basis points related to higher acquisition-related costs, approximately 30 basis points related to higher restructuring expense, approximately 30 basis points related to higher amortization expense and asset impairment charges and approximately 10 basis points related to higher cost of sales, partially offset by approximately 40 basis points related to gains on the sale of assets and approximately 40 basis points related to lower selling, general and administrative expenses.

In fiscal 2015, operating income increased $369.4 to $395.1 from $25.7 in fiscal 2014. Operating margin, or operating income as a percentage of net revenues, increased to 9.0% of net revenues in fiscal 2015 as compared to 0.6% in fiscal 2014. This margin improvement primarily reflects the impact of lower asset impairment charges in our Skin & Body Care segment of approximately 700 basis points. Also contributing to margin improvement was approximately 180 basis points related to lower selling, general and administrative expenses, approximately 100 basis points related to lower cost of sales, approximately 20 basis points related to lower amortization expense and approximately 20 basis points related to the gain on sale of assets, partially offset by approximately 90 basis points related to higher restructuring expense and approximately 80 basis points related to higher acquisition-related costs.

Operating Income by Segment

	Year Ended June 30,			Change %	
(in millions)	2016	2015	2014	2016/2015	2015/2014
OPERATING INCOME (LOSS)					
Fragrances	$288.9	$352.7	$341.2	(18 %)	3 %
Color Cosmetics	213.7	158.5	154.2	35 %	3 %
Skin & Body Care [a]	39.3	33.1	(337.3)	19 %	>100%
Brazil Acquisition	1.5	—	—	N/A	N/A
Corporate	(289.2)	(149.2)	(132.4)	(94 %)	(13 %)
Total	$254.2	$395.1	$25.7	(36 %)	>100%

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

Fragrances

In fiscal 2016, operating income for Fragrances decreased 18%, or $63.8, to $288.9 from $352.7 in fiscal 2015. Operating margin decreased to 14.4% of net revenues in fiscal 2016 as compared to 16.2% in fiscal 2015 primarily driven by higher cost of sales and higher selling, general and administrative expenses as percentages of net revenues, primarily reflecting reserves in connection with liquidity issues at a key distributor in China, partially offset by lower level of promotional and discounted pricing activities.

In fiscal 2015, operating income for Fragrances increased 3%, or $11.5, to $352.7 from $341.2 in fiscal 2014. Operating margin increased to 16.2% of net revenues in fiscal 2015 as compared to 14.7% in fiscal 2014, 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.

Color Cosmetics

In fiscal 2016, operating income for Color Cosmetics increased 35%, or $55.2, to $213.7 from $158.5 in fiscal 2015. Operating margin increased to 13.8% of net revenues in fiscal 2016 as compared to 11.0% in fiscal 2015, primarily reflecting lower cost of sales as a percentage of net revenues, in part due to a lower level of promotional and discounted pricing activities, partially offset by higher selling, general and administrative as a percentage of net revenues, in part reflecting increased advertising and consumer promotional investment and higher amortization expense as a percentage of net revenues as a result of the Bourjois acquisition.

In fiscal 2015, operating income for Color Cosmetics increased 3%, or $4.3, to $158.5 from $154.2 in fiscal 2014. Operating margin decreased to 11.0% of net revenues in fiscal 2015 as compared to 11.3% in fiscal 2014, primarily driven by the impact of the Bourjois acquisition on the segment. Excluding results directly attributable to the Bourjois acquisition, operating income margin improved 50 basis points driven by lower cost of sales partially offset by higher selling, general and administrative expenses as percentages of net revenues.

Skin & Body Care

In fiscal 2016, operating income for Skin & Body Care increased 19%, or $6.2 to $39.3 from $33.1 in fiscal 2015. Operating income in fiscal 2015 includes income of $17.9 related to China Optimization. See “China Optimization”.

Excluding the impact of China Optimization, operating income for Skin & Body Care increased $24.1 to $39.3 from $15.2 in fiscal 2015. Operating margin increased to 5.7% of net revenues as compared to 2.0% in fiscal 2015 driven by lower selling, general and administrative expenses and lower cost of sales as a percentage of net revenues.

In fiscal 2015, operating income for Skin & Body Care increased $370.4, to $33.1 from a loss of $337.3 in fiscal 2014, primarily reflecting asset impairment charges of $316.9 in fiscal 2014. The impairment represents the write-off of goodwill, identifiable intangible assets and certain tangible assets associated with the Skin & Body Care reporting unit which is included in the Skin & Body Care segment. Operating income for Skin & Body Care segment includes one-time gains and losses related to China Optimization.

Excluding the impact of China Optimization in fiscal 2015 and fiscal 2014 and asset impairment charges in fiscal 2014, operating income increased $12.6, to $15.2 from $2.6 in fiscal 2014. Operating margin increased to 2.0% of net revenues in fiscal 2015 as compared to 0.3% in fiscal 2014, primarily driven by lower selling, general and administrative expenses as a percentage of net revenues.

Brazil Acquisition

In fiscal 2016, operating income from the Brazil Acquisition was $1.5.

Corporate

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

Operating loss for Corporate was $289.2, $149.2 and $132.4 in fiscal 2016, 2015 and 2014, respectively, as described under “Adjusted Operating Income” below.

Adjusted Operating Income

Adjusted Operating Income provides investors with supplementary information relating to our performance. See “Overview—Non-GAAP Financial Measures.” Reconciliation of reported operating income to Adjusted Operating Income is presented below:

	Year Ended June 30,			Change %	
(in millions)	2016	2015	2014	2016/2015	2015/2014
Reported Operating Income	$254.2	$395.1	$25.7	(36 %)	>100%
% of Net revenues	5.8 %	9.0 %	0.6 %		
Costs related to acquisition activities	197.5	44.2	26.9	>100%	64 %
Restructuring and other business realignment costs	109.7	91.4	34.1	20 %	>100%
Amortization expense	79.5	74.7	85.7	6 %	(13 %)
Asset impairment charges	5.5	—	316.9	N/A	(100 %)
Share-based compensation expense adjustment	1.3	18.3	27.6	(93 %)	(34 %)
China optimization	—	(19.4)	35.9	100 %	<(100%)
Real estate consolidation program costs	—	(0.7)	32.3	100 %	<(100%)
Public entity preparedness costs	—	—	1.2	N/A	(100 %)
Gain on sale of assets [(a)]	(24.8)	—	—	N/A	N/A
Total adjustments to Reported Operating Income	368.7	208.5	560.6	77 %	(63 %)
Adjusted Operating Income	$622.9	$603.6	$586.3	3 %	3 %
% of Net revenues	14.3 %	13.7 %	12.8 %		

[(a)] In fiscal 2016, gain on sale of assets of $24.8 in the Consolidated Statements of Operations is related to the sale of the Cutex brand. In fiscal 2015, gain on sale of assets of $7.2 in the Consolidated Statements of Operations is related to the sale of a China facility, which is included in China Optimization. See “China Optimization.”

In fiscal 2016, adjusted operating income increased 3%, or $19.3, to $622.9 from $603.6 in fiscal 2015. Adjusted operating margin increased to 14.3% of net revenues in fiscal 2016 as compared to 13.7% in fiscal 2015, driven by approximately 30 basis points related to lower cost of sales as described in “Cost of Sales” and approximately 30 basis points related to lower selling, general and administrative expenses as described under “Selling, General and Administrative Expenses”. Excluding the foreign currency exchange translations impact, adjusted operating income increased 9%.

In fiscal 2015, adjusted operating income increased 3%, or $17.3, to $603.6 from $586.3 in fiscal 2014. Adjusted operating margin increased to 13.7% of net revenues in fiscal 2015 as compared to 12.8% in fiscal 2014, driven by lower cost of sales, selling, general and administrative expenses and amortization expense. Excluding the impact of foreign currency exchange translations, adjusted operating income increased 9%. The Bourjois acquisition negatively impacted operating margin by approximately 20 basis points.

Costs related to acquisition activities

In fiscal 2016, we incurred $197.5 of costs related to acquisition activities. This includes Acquisition-related costs of $174.0, primarily in connection with the acquisition of P&G Beauty Brands, included in the Consolidated Statements of Operations. These costs may include finder's fees, legal, accounting, valuation, and other professional or consulting fees, and other internal costs which may include compensation related expenses for dedicated internal resources. We also incurred $20.3 of costs, primarily reflecting revaluation of acquired inventory in connection with the Brazil Acquisition and Bourjois acquisition, included in Cost of sales in the Consolidated Statements of Operations. We also incurred $3.2 of costs related to acquisition activities, included in Selling, general and administrative expense in the Consolidated Statements of Operations.

In fiscal 2015, we incurred acquisition-related costs of $44.2. These costs primarily consist of consulting and legal fees related to the P&G Beauty Brands and Bourjois acquisitions of $30.2 and $3.9, respectively, included in Acquisition-related costs in the Consolidated Statements of Operations. Also included in connection with the Bourjois acquisition are $3.3 of costs related to acquisition accounting impacts of revaluation of acquired inventory and $0.9 of costs related to inventory obsolescence, included in Cost of sales in the Consolidated Statements of Operations, and $2.5 of costs related to sales returns, included in Net revenues in the Consolidated Statements of Operations. In addition, we incurred $3.4 of costs related to the revaluation of an inventory buyback associated with the conversion of one of our distributors to a subsidiary distribution model in the Middle East, included in Cost of sales in the Consolidated Statements of Operations. Acquisition-related costs of $40.8 and $3.4 were reported in Corporate and the Color Cosmetics segment, respectively.

In fiscal 2014, we incurred acquisition-related costs of $26.9. These costs primarily include $15.2 of fees related to the termination of a pre-existing manufacturing and distribution contract in South Africa after forming our wholly-owned subsidiary in South Africa and $0.4 of costs related to certain completed or contemplated business combinations, included in Selling, general and administrative expenses in the Consolidated Statements of Operations, $10.6 of costs related to acquisition accounting impacts of revaluation of acquired inventory, included in Cost of sales in the Consolidated Statements of Operations, and $0.7 of costs related to certain completed or contemplated business combinations, included in Acquisition-related costs in the Consolidated Statements of Operations.

In all reported periods, all acquisition-related costs were reported in Corporate, except where otherwise noted.

Restructuring and Other Business Realignment Costs

In the first quarter of fiscal 2016, our Board of Directors (the "Board") approved an expansion to the Acquisition Integration Program in connection with the acquisition of the Bourjois brand. Actions and cash payments associated with the program were initiated after the acquisition of Bourjois and are expected to be substantially completed by the end of fiscal 2017. We anticipate the Acquisition Integration Program will result in pre-tax restructuring and related costs of approximately $67.0, all of which will result in cash payments. We incurred $57.6 of restructuring costs life-to-date as of June 30, 2016, which have been recorded in Corporate.

During the fourth quarter of fiscal 2014, the Board approved a program associated with a new organizational structure ("Organizational Redesign") that aims to reinforce our growth path and strengthen our position as a global leader in beauty. We anticipate that the Organizational Redesign will result in pre-tax restructuring and related costs of $145.0 to $180.0, all of which will result in cash payments. We anticipate substantial completion of all project activities by the end of fiscal 2017, with the remaining costs primarily charged to Corporate. We incurred $106.1 of restructuring costs life-to-date as of June 30, 2016, which have been recorded in Corporate. We anticipate that annual savings from the Organizational Redesign will be $160.0 by the end of fiscal 2017.

During the fourth quarter of fiscal 2013, the Board approved a number of business integration and productivity initiatives aimed at enhancing long-term operating margins (the "Productivity Program"). Such activities primarily related to integration of supply chain and selling activities within the Skin & Body Care segment, as well as certain commercial organization re-design activities, primarily in Europe and optimization of selected administrative support functions. The Productivity Program was substantially completed during fiscal 2016. We incurred $51.4 of restructuring costs life-to-date as of June 30, 2016 which have been recorded in Corporate. We realized annual savings of $65.0 as of June 30, 2016.

In fiscal 2016, we incurred restructuring and other business realignment costs of $109.7, as follows:

- We incurred Restructuring costs of $86.9 primarily related to the Acquisition Integration Program and Organizational Redesign, included in the Consolidated Statements of Operations.

- We incurred other business realignment costs of $21.6 primarily related to our Organizational Redesign and the 2013 Productivity Program, included in Selling, general and administrative expenses in the Consolidated Statements of Operations. We incurred $1.2 of accelerated depreciation for fiscal 2016 resulting from a change in the estimated useful life of manufacturing equipment reported in Cost of goods sold in the Consolidated Statements of Operations in Corporate.

In fiscal 2015, we incurred restructuring and other business realignment costs of $91.4.

- We incurred restructuring costs of $76.0, included in Restructuring costs in the Consolidated Statements of Operations, which primarily relate to $58.6 of costs for the Organizational Redesign, $15.3 of costs for the Acquisition Integration Program, and $2.1 of costs related to the 2013 Productivity Program. These costs exclude $0.6 of income related to the refinement in estimates associated with China Optimization. See "China Optimization".
- We incurred other business realignment costs of $15.4 primarily related to our Organizational Redesign and the 2013 Productivity Program, which includes $1.3 of accelerated depreciation expense. All other business realignment costs were included in Selling, general and administrative expenses in the Consolidated Statements of Operations.

In fiscal 2014, we incurred restructuring and other business realignment costs of $34.1.

- We incurred restructuring costs of $27.5, included in Restructuring costs in the Consolidated Statements of Operations, which primarily relate to $13.0 of costs for the Organizational Redesign and $14.2 of costs primarily related to the 2013 Productivity Program. These costs exclude $9.8 of costs associated with the reorganization of our mass business in China. See "China Optimization".
- We incurred other business realignment costs of $6.6 related to certain other programs that primarily includes $4.7 of program costs in North America, of which $0.4 consisted of accelerated depreciation, included in Selling, general and administrative expenses in the Consolidated Statements of Operations.

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

Amortization Expense

In fiscal 2016, amortization expense increased to $79.5 from $74.7 in fiscal 2015 primarily as a result of the Brazil Acquisition and Bourjois acquisition. In fiscal 2016, amortization expense of $43.3, $17.5, $15.6 and $3.1 were reported in the Fragrances segment, Skin & Body Care segment, Color Cosmetics segment and Brazil Acquisition segment, respectively.

In fiscal 2015, amortization expense decreased to $74.7 from $85.7 in fiscal 2014, primarily reflecting the end of product formulation amortization for certain brands. In fiscal 2015, amortization expense of $44.3, $14.1 and $16.3 were reported in the Fragrances segment, Skin & Body Care segment and Color Cosmetics segment, respectively.

In fiscal 2014, amortization expense of $47.5, $13.2 and $25.0 were reported in the Fragrances segment, Skin & Body Care segment, and Color Cosmetics segment, respectively.

Asset Impairment Charges

In fiscal 2016, Asset impairment charges of $5.5 were reported in the Consolidated Statements of Operations. The impairment represents the write-off of long-lived assets in Southeast Asia consisting of customer relationships reported in Corporate.

In fiscal 2015, we did not incur any asset impairment charges.

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

Share-Based Compensation Adjustment

Share-based compensation expense adjustment included in the calculation of Adjusted Operating Income was $1.3, $18.3 and $27.6 in fiscal 2016, 2015 and 2014, respectively.

The decrease in share-based compensation expense adjustment in fiscal 2016 primarily reflects $15.8 of costs in fiscal 2015 associated with shares sold and shares repurchased related to the termination of an employment agreement with a potential CEO incurred by our controlling shareholder on our behalf, which are considered an incremental contribution to us.

The decrease in the share-based compensation expense adjustment in fiscal 2015 compared to fiscal 2014 primarily reflects the impact of the vesting of special incentive awards associated with our initial public offering and an increase in the actual and expected forfeiture rate reflecting the impact of our recent Organizational Redesign, partially offset by $15.8 of costs associated with shares sold and shares repurchased related to the termination of an employment agreement with a potential CEO incurred by our controlling shareholder on our behalf, which are considered an incremental contribution to us.

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 calculated under liability plan accounting for the Series A Preferred Stock. We follow the same treatment of the share-based compensation for the financial covenant compliance calculations under our debt agreements. See "Overview—Non-GAAP Financial Measures." Share-based compensation expense calculated under equity plan accounting for the recurring nonqualified stock option awards and director-owned and employee-owned shares, restricted shares, and RSUs, and calculated under liability plan accounting for the Series A Preferred Stock is reflected in the operating results of the segments. Share-based compensation adjustment is included in Corporate. See Note 3, "Segment Reporting" in the notes to our Consolidated Financial Statements.

China Optimization

In fiscal 2016, we did not incur any China Optimization costs.

In fiscal 2015, we recognized income of $19.4 related to China Optimization, of which $7.3, $7.2, $3.0, $1.3 and $0.6 was recorded in Net revenues, Gain on sale of assets, Cost of sales, Selling, general and administrative expenses and Restructuring costs in the Consolidated Statements of Operations, respectively. Income of $11.6 was restructuring related primarily consisting of $5.3 due to the gain on sale of a facility of $7.2 net of real estate tax expense related to the sale of $1.9 and $5.7 due to a change in estimates related to inventory obsolescence and sales returns recorded in connection with the China Optimization at June 30, 2014. Income of $7.8 primarily reflects changes in estimates associated with pre-restructuring related activities. We primarily attribute the changes in estimates to the unanticipated sale of the TJoy brand and supporting production facility to a single buyer at the beginning of the third quarter, allowing the brand to remain viable in the marketplace. We believe that this resulted in lower than initially estimated returns, customer incentives payments and related costs. Income of $17.9, $0.9 and $0.6 related to China Optimization was reported in the Skin & Body Care segment, Color Cosmetics segment and Corporate, respectively.

During the fourth quarter of fiscal 2014, we entered into a distribution agreement with a third-party distributor for some of our brands sold through the mass distribution channel in China and announced that we are discontinuing our TJoy brand. In conjunction with these events, we commenced implementation of restructuring and product rationalization activities of our mass business in China ("China Optimization") that are expected to generate operating efficiencies. We realized annual savings from the China Optimization of $45.0 as of June 30, 2015.

Real Estate Consolidation Program Costs

In fiscal 2016, we did not incur any real estate consolidation program costs.

In fiscal 2015, we recognized $0.7 of income related to the refinement of lease loss expense estimates in connection with the consolidation of real estate in New York.

In fiscal 2014, we incurred $32.3 of costs in connection with the consolidation of real estate in New York. The real estate consolidation program costs primarily consist of $21.4 of lease loss expense, $5.0 of duplicative rent expense and $4.1 of accelerated depreciation.

In all reported periods, all real estate consolidation 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 fiscal 2016 and 2015, we did not incur any public entity preparedness costs.

In fiscal 2014, we incurred public entity preparedness costs of $1.2 primarily consisting of a third-party expense reimbursement for legal fees and expense related to our IPO and the restatement of the Certificate of Incorporation, Bylaws and stockholders agreement to JAB Holdings B.V., which is the successor to JAB Holdings II B.V., Berkshire Partners LLC and Rhône Capital L.L.C. and remaining miscellaneous costs associated with our IPO.

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.

Gain on sale of assets

In fiscal 2016, we sold the Cutex brand and related assets and recorded a gain of $24.8 which has been reflected in Gain on sale of assets in the Consolidated Statements of Operations.

INTEREST EXPENSE, NET

In fiscal 2016, net interest expense was $81.9 as compared with $73.0 in fiscal 2015. Interest expense increased primarily due to higher interest rates on higher average debt balances and increased deferred financing costs. Offsetting the increased interest expense was a one-time net derivative gain of $11.1 related to foreign currency forward contracts to facilitate debt refinancing and a foreign currency net gain of $12.8 in connection with the Brazil Acquisition and subsequent intercompany loans.

In fiscal 2015, net interest expense was $73.0 as compared with $68.5 in fiscal 2014. This increase is primarily due to increased amortization of deferred fees of $2.9 related to debt-refinancing, an increase of $1.3 in foreign exchange expense, net of derivative contracts, higher global borrowings incurring an additional $1.4 in interest expense and decreased interest income of $0.7. These items were offset by $1.8 reduced interest expense due to lower rates on average gross debt resulting from prepayment of Senior Notes.

LOSS ON EARLY EXTINGUISHMENT OF DEBT

In fiscal 2016, we incurred $3.1 in losses related to the write-off of deferred financing costs in connection with the refinancing of the Prior Coty Inc. Credit Facilities.

In fiscal 2015, we incurred $88.8 in losses on the early extinguishment of debt in conjunction with the repurchase of our Senior Notes as described in "—Financial Condition—Liquidity and Capital Resources" below.

INCOME TAXES

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

	2016	2015	2014
(Benefit) Provision for income taxes	$(40.4)	$(26.1)	$20.1
Effective income tax rate	(29.1)%	(11.2)%	(45.6)%

The effective income tax rate for fiscal 2016 was (29.1)% as compared with (11.2)% in fiscal 2015 and (45.6)% in fiscal 2014. The effective income tax rate in fiscal 2016 reflects a change in recognized tax benefit of $ 51.4 due settlement of tax audits in multiple jurisdictions and the expiration of foreign and state statutes of limitation. The effective income tax rate in fiscal 2015 reflects a change in recognized tax benefit of $62.0 due to the settlement of tax audits in multiple foreign jurisdictions and the expiration of foreign and state statutes of limitation. The effective income tax rate in fiscal 2014 reflects tax expense of $36.1 in valuation allowances primarily due to TJoy's ongoing operating losses and excess U.S. net deferred tax assets that cannot be recognized, asset impairment charges of $67.4 offset by a change in recognized tax benefit of $49.2 due to the settlement of tax audits in multiple foreign jurisdictions and the expiration of foreign and state statutes of limitation.

During fiscal 2015, we transferred certain international intellectual property rights to our wholly owned subsidiary in Switzerland in order to align our ownership of these international intellectual property rights with our global operations. Although the transfer of foreign intellectual property rights between consolidated entities did not result in any gain in the consolidated results of operations, we generated a taxable gain in the U.S. that was offset by net operating loss carryforwards. Income taxes incurred related to the intercompany transactions are treated as a prepaid income tax in our Consolidated Balance Sheet and amortized to income tax expense over the life of the intellectual property. The prepaid income tax is included in Prepaid expenses and other current assets and Other noncurrent assets in the Consolidated Balance Sheet in the amounts of $7.6 and $7.6 and $135.8 and $143.4, respectively, for the fiscal year end June 30, 2016 and 2015, respectively. The prepaid income taxes are amortized as a component of income tax expense over twenty years.

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

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

	Year Ended June 30, 2016			Year Ended June 30, 2015			Year Ended June 30, 2014		
(in millions)	Income Before Income Taxes	Provision for Income Taxes	Effective Tax Rate	Income Before Income Taxes	Provision for Income Taxes	Effective Tax Rate	Income Before Income Taxes	Provision for Income Taxes	Effective Tax Rate
Reported Income (Loss) Before Income Taxes	$138.8	(40.4)	(29.1)%	$233.3	(26.1)	(11.2)%	$(44.1)	20.1	(45.6)%
Adjustments to Reported Operating Income [(a)]	368.7	50.7		208.5	86.1		560.6	87.5	
Other adjustments [(b)]	9.6	(0.7)		88.8	34.0		—	—	
Adjusted Income Before Income Taxes	$517.1	$ 9.6	1.9 %	$530.6	$ 94.0	17.7 %	$516.5	$ 107.6	20.8 %

(a) See the reconciliation included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Net Revenues—Operating Income—Adjusted Operating Income".

(b) See the reconciliation included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Net Income (Loss) Attributable to Coty Inc."

The adjusted effective tax rate was 1.9% compared to 17.7% in the prior-year period. The decrease was a result of reversal of certain unrecognized tax benefits associated with the settlement of tax audits in multiple foreign jurisdictions. Cash paid during the year ended June 30, 2016, 2015 and 2014, for income taxes of $118.1, $104.8 and $84.1 represents 22.8%, 19.8% and 16.3% of Adjusted income before income taxes for the fiscal year ended, respectively.

NET INCOME (LOSS) ATTRIBUTABLE TO COTY INC.

In fiscal 2016, net income (loss) attributable to Coty Inc. decreased $75.6 to $156.9, from $232.5 in fiscal 2015. This decrease primarily reflects lower operating income and losses on foreign currency contracts in fiscal 2016, partially offset by lower loss on early extinguishment of debt and higher tax benefit in fiscal 2016 related to a tax settlement with the IRS.

In fiscal 2015, net income attributable to Coty Inc. increased $329.9 to $232.5, from a loss of $97.4 in fiscal 2014. This increase primarily reflects higher operating income partially offset by loss on early extinguishment of debt, as described in "Loss of Early Extinguishment of Debt" above, and higher tax expense, as described in "Income Taxes" above.

Adjusted Net Income Attributable to Coty Inc. provides supplementary information regarding our performance. See "Overview—Non-GAAP Financial Measures."

	Year Ended June 30,			Change %	
(in millions)	2016	2015	2014	2016/2015	2015/2014
Reported Net Income (Loss) Attributable to Coty Inc.	$156.9	$232.5	$(97.4)	(33 %)	>100%
% of Net revenues	3.6 %	5.3 %	(2.1 %)		
Adjustments to Reported Operating Income [(a)]	368.7	208.5	560.6	77 %	(63 %)
Adjustments to other expense [(b)]	30.4	—	—	N/A	N/A
Loss on early extinguishment of debt [(c)]	3.1	88.8	—	(97 %)	N/A
Adjustments to interest expense [(d)]	(23.9)	—	—	N/A	N/A
Adjustments to noncontrolling interest expense [(e)]	—	(1.2)	—	100 %	N/A
Change in tax provision due to adjustments to Reported Net Income (Loss) Attributable to Coty Inc.	(50.0)	(120.1)	(87.5)	58 %	(37 %)
Adjusted Net Income Attributable to Coty Inc.	$485.2	$408.5	$375.7	19 %	9 %
% of Net revenues	11.2 %	9.3 %	8.2 %		
Per Share Data					
Adjusted weighted-average common shares [(f)]					
Basic	345.5	353.3	381.7		
Diluted	354.2	362.9	390.7		
Adjusted net income attributable to Coty Inc. per common share					
Basic	$1.40	$1.16	$0.98		
Diluted	$1.37	$1.13	$0.96		

(a) See the reconciliation included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Net Revenues—Operating Income-Adjusted Operating Income".

(b) In fiscal 2016, we incurred losses of $29.6 on foreign currency contracts related to payments to Hypermarcas S.A. in connection with the Brazil Acquisition and expenses of $0.8 related to the purchase of the remaining mandatorily redeemable financial instrument in a subsidiary included in Other expense, net in the Consolidated Statements of Operations.

(c) In fiscal 2016, the amount represents the write-off of deferred financing costs in connection with the refinancing of the Prior Coty Inc. Credit Facilities, included in Loss on early extinguishment of debt in the Consolidated Statements of Operations. In fiscal 2015, the amount represents the repurchase of our previously existing Senior Notes, included in Loss on early extinguishment of debt in the Consolidated Statements of Operations.

(d) The amount primarily represents one-time gains of $11.1 on short-term forward contracts to exchange Euros for U.S. Dollars related to the Euro-denominated portion of the Term Loan B Facility and a net gain of $12.8 in connection with the Brazil Acquisition and subsequent intercompany loans, included in Interest expense, net in the Consolidated Statements of Operations.

(e) Noncontrolling interest expense related to the revaluation of inventory buyback associated with the conversion of one of our distributors to a subsidiary distribution model in the Middle East, included in Net income attributable to noncontrolling interests in the Consolidated Statements of Operations.

(f) In fiscals 2016 and 2015, the adjusted number of common shares used to calculate non-GAAP adjusted diluted net income attributable to Coty Inc. per common share was the same as the number of diluted shares used to calculate GAAP net income (loss) per common share. In fiscal 2014 using the treasury stock method, the number of adjusted diluted common shares to calculate non-GAAP adjusted diluted net income per common share was 9.0 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. In fiscal 2016, 2015, and 2014, respectively, the adjusted number of common shares used to calculate non-GAAP adjusted basic net income attributable to Coty Inc. per common share was identical to the number of basic shares used to calculate GAAP net (loss) income per common share.

Quarterly Results of Operations Data

The following tables set forth our unaudited quarterly consolidated statements of operations data for each of the eight quarters in the periods ended June 30, 2016. We have prepared the quarterly consolidated statements of operations data on a basis consistent with the consolidated financial statements included in Part II, Item 8, “Financial Statements and Supplementary Data” in this Annual Report on Form 10-K. In the opinion of management, the financial information reflects all adjustments, consisting only of normal recurring adjustments, which we consider necessary for a fair presentation of this data. This information should be read in conjunction with the consolidated financial statements and related notes included in Part II, Item

8, "Financial Statements and Supplementary Data" in this Annual Report. The results of historical periods are not necessarily indicative of the results of operations for any future period.

	Three Months Ended							
	Fiscal 2016 [a]				Fiscal 2015 [b]			
	June 30,	March 31,	December 31,	September 30,	June 30,	March 31,	December 31,	September 30,
(in millions, except per share data)	2016	2016	2015	2015	2015	2015	2014	2014
Consolidated Statements of Operations Data:								
Net revenues	$1,075.6	$950.7	$1,210.5	$1,112.3	$1,019.5	$933.8	$1,259.6	$1,182.3
Gross profit	610.0	581.7	742.8	668.6	605.4	582.0	750.7	700.1
Asset impairment charges	—	—	—	5.5	—	—	—	—
Acquisition-related costs	75.7	37.0	45.5	15.8	32.2	0.3	1.6	—
Operating (loss) income	(2.9)	23.0	152.4	81.7	(23.4)	114.7	183.7	120.1
Interest expense, net	26.2	25.1	14.6	16.0	16.7	17.6	19.1	19.6
Other expense (income), net	—	6.6	24.1	(0.3)	0.2	(0.5)	0.3	—
(Loss) income before income taxes	(29.1)	(8.7)	110.6	66.0	(40.3)	97.6	164.3	11.7
Provision (benefit) for income taxes	2.1	11.6	13.0	(67.1)	(65.9)	15.4	29.4	(5.0)
Net (loss) income	$(31.2)	$(20.3)	$97.6	$133.1	$25.6	$82.2	$134.9	$16.7
Net (loss) income attributable to noncontrolling interests	$(4.5)	$2.4	$5.3	$4.4	$1.1	$2.9	$6.1	$5.0
Net income attributable to redeemable noncontrolling interests	$4.3	$4.1	$3.3	$3.0	$3.5	$3.8	$3.4	$1.1
Net (loss) income attributable to Coty Inc.	$(31.0)	$(26.8)	$89.0	$125.7	$21.0	$75.5	$125.4	$10.6
Per Share Data:								
Weighted-average common shares:								
Basic	338.8	337.9	345.0	360.0	360.4	344.7	353.4	354.2
Diluted	338.8	337.9	354.3	369.9	369.4	354.8	362.6	364.3
Cash dividends declared per common share	$—	$—	$—	$0.25	$—	$—	$—	$0.20
Net (loss) income attributable to Coty Inc. per common share:								
Basic	$(0.09)	$(0.08)	$0.26	$0.35	$0.06	$0.22	$0.35	$0.03
Diluted	(0.09)	(0.08)	0.25	0.34	0.05	0.21	0.35	0.03

[a] Beginning in the third quarter of fiscal 2016, the financial results presented above include the impacts of the Brazil Acquisition.
[b] Beginning in the fourth quarter of fiscal 2015, the financial results presented above include the impacts of the Bourjois acquisition.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our cash and cash equivalents balances increased by approximately $31.1 during fiscal 2016 primarily as a result of our 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, offset by the repayment of debt and cash used for acquisitions. As of June 30, 2016, we had cash and cash equivalents of $372.4 compared with $341.3 at June 30, 2015.

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

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

Debt

	June 30, 2016	June 30, 2015
Short-term debt	$19.8	$22.1
Coty Credit Agreement		
Revolving Credit Facility due October 2020	670.0	—
Term Loan A Facility due October 2020	1,883.6	—
Term Loan B Facility due October 2022	1,596.0	—
2015 Credit Agreement due March 2018	—	800.0
Coty Inc. Credit Facility		
2013 Term Loan due March 2018	—	1,050.0
Incremental Term Loan due April 2018	—	625.0
Revolving Loan Facility due April 2018	—	136.5
Other long-term debt and capital lease obligations	0.7	1.1
Total debt	4,170.1	2,634.7
Less: Short-term debt and current portion of long-term debt	(161.8)	(28.8)
Total Long-term debt	4,008.3	2,605.9
Less: Discount on Long-term debt	(7.3)	—
Total Long-term debt, net	$4,001.0	$2,605.9

Short-Term Debt

We maintain short-term lines of credit with financial institutions around the world. Total available lines of credit were $108.5 and $127.7, of which $19.8 and $22.1 were outstanding at June 30, 2016 and 2015, respectively. Interest rates on these short-term lines of credit vary depending on market rates for borrowings within the respective geographic locations plus applicable spreads. Interest rates plus applicable spreads on these lines ranged from 0.5% to 16.5% and from 0.7% to 18.0% as of June 30, 2016 and 2015, respectively. The weighted-average interest rate on short-term debt outstanding was 14.0% and 7.1% as of June 30, 2016 and 2015, respectively. In addition, we had undrawn letters of credit of $4.6 and $4.1 as of June 30, 2016 and 2015, respectively.

Long Term Debt

Our long term debt facilities consisted of the following as of June 30, 2016:

Facility	Maturity Date	Principal Amount (in millions)	Interest Rate Terms	Applicable Interest Rate Spread as of June 30, 2016	Debt Discount	Repayment Schedule
Revolving Credit Facility[a]	October 2020	$1,500.0	LIBOR[a] plus a margin ranging from 1.00% to 2.00% per annum or a base rate plus a margin ranging from 0.00% to 1.00% per annum, based on the Company's total net leverage ratio [c] [d] [f]	1.75%	N/A[b]	Payable in full at maturity date
Term Loan A Facility[a] - USD Portion	October 2020	$1,750.0	LIBOR[a] plus a margin ranging from 1.00% to 2.00% per annum or a base rate plus a margin ranging from 0.00% to 1.00% per annum, based on the Company's total net leverage ratio [c] [f]	1.75%	N/A[b]	Quarterly repayments beginning June 30, 2016 at 1.25% of original principal amount
Term Loan A Facility[a] - Euro Portion	October 2020	€140.0	EURIBOR[a] plus a margin of 1.00% to 2.00% per annum, based on the Company's total net leverage ratio[c] [f]	1.75%	N/A[b]	Quarterly repayments beginning September 30, 2016 at 1.25% of original principal amount
Term Loan B Facility[a] - USD portion	October 2022	$500.0	LIBOR[a] (subject to a 0.75% floor) plus a margin of 3.00% or a base rate (subject to a 1.75% floor), plus a margin of 2.00%[f]	3.00%	0.50%	Quarterly repayments beginning June 30, 2016 at 0.25% of original principal amount
Term Loan B Facility[a] - Euro portion	October 2022	€990.0[e]	EURIBOR[a] (subject to a 0.75% floor) plus a margin of 2.75%	2.75%	0.50%	Quarterly repayments beginning June 30, 2016 at 0.25% of original principal amount [e]

[a] As defined below.
[b] N/A - Not Applicable.
[c] As defined per the respective loan agreement.
[d] Additionally we will pay to the Revolving Credit Facility lenders an unused commitment fee calculated at a rate ranging from 0.25% to 0.50% per annum, based on our total net leverage ratio[c]. As of June 30, 2016, the applicable rate on the unused commitment fee was 0.50%.
[e] Includes €665.0 million of the Euro portion of Term Loan B originated on October 27, 2015, and the €325.0 million from the Incremental Term Loans, as defined below, originated on April 8, 2016. Repayments on the €325.0 million Incremental Term Loan B are payable quarterly beginning on September 30, 2016 at 0.25% of the original principal amount.

[f] The selection of the applicable interest rate for the period is at our discretion.

On October 27, 2015, we refinanced our long term debt facilities. Our long term debt facilities that were outstanding prior to our refinancing consisted of the following as of June 30, 2015:

Facility	Maturity Date	Principal Amount	Interest Rate Terms	Applicable Interest Rate Spread as of June 30, 2015	Debt Discount	Repayment Schedule
2013 Term Loan [(a)]	March 2018	$1,250.0	LIBOR[(c)] plus a margin ranging from 0.0% to 1.75% based on the Company's consolidated leverage ratio[(d)]	1.50%	N/A[(b)]	Quarterly repayments commence on October 1, 2016 and will total $175.0, and $875.0 in fiscal 2017, and 2018 respectively
Incremental Term Loan [(a)]	April 2018	$625.0	LIBOR[(c)] plus a margin ranging from 0.0% to 1.75% based on the Company's consolidated leverage ratio[(d)]	1.50%	N/A[(b)]	Payable in full on April 2, 2018
2013 Revolving Loan Facility [(a)]	April 2018	$1,250.0	LIBOR[(c)] plus a margin ranging from 0.15% to 0.25% based on the Company's consolidated leverage ratio[(d)]	1.28%	N/A[(b)]	Payable in full at maturity date
2015 Credit Agreement [(a)]	March 2018	$800.0	Applicable base rate[(c)] plus a margin ranging from 0.125% to 1.875% based on the Company's consolidated leverage ratio[(d)]	1.63%	N/A[(b)]	Payable in full on March 31, 2018

(a) As defined below.
(b) N/A - Not Applicable.
(c) Applicable base rates of interest on amounts borrowed under the 2015 Credit Agreement were based on the London Interbank Offered Rate ("LIBOR"), a qualified Eurocurrency LIBOR, an alternative base rate, or a qualified local currency rate, as applicable to the borrowings, plus applicable spreads determined by the consolidated leverage ratio.
(d) As defined per the respective loan agreement.

Coty Credit Agreement

On October 27, 2015, we entered into a Credit Agreement (the "Coty Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent. The Coty Credit Agreement provides for senior secured credit facilities (the "Senior Secured Facilities") comprising (i) a revolving credit facility in an aggregate principal amount up to $1,500.0 (the "Revolving Credit Facility") which includes up to $80.0 in swingline loans available for short term borrowings, (ii) a $1,750.0 Term Loan A Facility ("Term Loan A Facility") and (iii) a Term Loan B Facility comprising of a $500.0 tranche and a €665.0 million tranche ("Term Loan B Facility"). The Term Loan B Facility was issued at a 0.50% discount. The proceeds of the Coty Credit Agreement were primarily used to refinance our previously existing debt, which included the 2015 Credit Agreement due March 2018 and facilities under the Coty Inc. Credit Facility (together, the "Prior Coty Inc. Credit Facilities").

On April 8, 2016, we entered into an Incremental Assumption Agreement and Amendment No. 1 (the "Incremental Credit Agreement") to the Coty Credit Agreement. The Incremental Credit Agreement provides for an additional €140.0 million in commitments under the Term Loan A Facility and an additional €325.0 million in commitments under the Term Loan B Facility of the Coty Credit Agreement (the "Incremental Term Loans"). The proceeds of the Incremental Term Loans were used to partially repay outstanding balances under the Revolving Credit Facility. The terms of the €140.0 million and €325.0 million portions of the Incremental Term Loans are substantially the same as the respective existing Term Loan A Facility and Euro denominated portion of the Term Loan B Facility.

The Coty Credit Agreement is guaranteed by Coty Inc.'s wholly-owned domestic subsidiaries and secured by a first priority lien on substantially all of the assets of Coty Inc. and its wholly-owned domestic subsidiaries, in each case subject to certain carve outs and exceptions.

Prior Coty Inc. Credit Facilities

2015 Credit Agreement

On March 24, 2015, we entered into a Credit Agreement (the "2015 Credit Agreement") with JPMorgan Chase Bank, N.A., as administrative agent, and Bank of America, N.A., BNP Paribas, Crédit Agricole Corporate & Investment Bank, ING Bank, N.V., Morgan Stanley MUFG Loan Partners, LLC and Wells Fargo Bank, N.A., as syndication agents. The 2015 Credit Agreement provided for a term loan of $800.0 (the "2015 Term Loan"), payable in full on March 31, 2018.

Coty Inc. Credit Facility

On June 25, 2014, we entered into an Incremental Term Loan Amendment (the “Incremental Amendment”) to the 2013 Credit Agreement. The 2014 Incremental Amendment provided for an incremental term loan of $625.0 (the “Incremental Term Loan”), which had substantially the same terms and conditions as the 2013 Term Loan, except with respect to principal repayments.

On April 2, 2013, we refinanced our then-existing credit facility by entering into a Credit Agreement (the “2013 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 2013 Credit Agreement provided a term loan of $1,250.0 (the “2013 Term Loan”), which would have expired on March 31, 2018. The 2013 Credit Agreement additionally provided a revolving loan facility of $1,250.0 (the “2013 Revolving Loan Facility”) which would have expired on April 2, 2018, provided for up to $80.0 in swingline loans.

Deferred Financing Fees

For the fiscal years ended June 30, 2016, 2015, and 2014, we recognized deferred financing fees of $59.0, $11.2, and $2.2, respectively. For the fiscal years ended June 30, 2016, 2015, and 2014, we wrote-off deferred financing fees of $3.1, $5.1, and nil, respectively, of which $3.1 and $4.2 in fiscal 2016 and 2015, respectively, were recorded to Loss on early extinguishment of debt in the Consolidated Statement of Operations. The remaining $0.9 of the fees written off in fiscal 2015 was recorded to Interest expense in the Consolidated Statement of Operations. As of June 30, 2016 and 2015, we had deferred financing fees of $64.6 and $20.9 recorded in Other noncurrent assets on our Consolidated Balance Sheet.

Interest

Interest is payable quarterly or on the last day of the interest period applicable to borrowings under our long-term debt facilities. For fiscal 2016, the weighted-average interest rates for the Revolving Credit Facility, Term Loan A Facility, and Term Loan B Facility under the Coty Credit Agreement were 1.97%, 1.99% and 3.61%, respectively.

With respect to the Prior Coty Inc. Credit Facilities, the weighted-average interest rates on our 2015 Term Loan, Incremental Term Loan and the 2013 Term Loan collectively were 1.77%, 1.70%, and 1.60% in fiscal 2016, 2015, and 2014, respectively. The weighted-average interest rates on our 2013 Revolving Loan Facility were 1.67%, 1.40%, and 1.30% in fiscal 2016, 2015, and 2014.

Senior Notes

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

On June 16, 2010, we issued $500.0 of Senior Secured Notes (the “Senior Notes”) in three series in a private placement transaction: (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.

Financial Covenants

We are required to comply with certain affirmative and negative covenants contained within the Coty Credit Agreement. The Coty Credit Agreement includes a financial covenant that requires us to maintain a total net leverage ratio, as defined therein, equal to or less than 5.50 to 1.00 for each fiscal quarter through December 31, 2016, subject to certain agreed step-downs thereafter. In the four fiscal quarters following the closing of any material acquisition, as defined in the Coty Credit Agreement, the applicable leverage ratio shall be the lesser of 1.00 to 1.00 higher than the applicable rate at the time, and 5.95 to 1.00. After the four fiscal quarter period ends, the net leverage ratio levels will return to pre-material acquisition levels.

As of June 30, 2016, we are in compliance with all financial covenants within the Coty Credit Agreement as described above.

Business Combinations

Brazil Acquisition

On February 1, 2016, we completed the Brazil Acquisition in order to further strengthen our position in the Brazilian beauty and personal care market. The total consideration was R$3,599.5 million, the equivalent of $901.9 which was paid in cash during fiscal 2016.

Pending Transaction with P&G

On July 9, 2015, we announced the signing of a definitive agreement to merge the P&G Beauty Brands, comprising 43 beauty brands, into us through a Reverse Morris Trust transaction. The purchase consideration to be issued in connection with the Merger will consist of a combination of equity and assumed debt. Pursuant to the Transaction Agreement, the assumed debt of $2,900.0 from the P&G Beauty Brands is subject to a $1,000.0 adjustment pursuant to a collar based on the trading price of our stock (within a range of $22.06 to $27.06 per share) prior to the close of the transaction as well as other contractual valuation adjustments. Consequently, the assumed debt is expected to be between approximately$1,900.0 and $3,900.0.

As of August 17, 2016, we expect that P&G shareholders will receive 409.7 million shares or 54% of all outstanding shares of the combined company on a fully diluted basis.

As of August 17, 2016, including an adjustment for the two brands that will not transfer to us upon completion of the Merger, a working capital adjustment, and other adjustments, the estimated total transaction value is expected to be $13,200.0 based on the closing price of our common stock on August 17, 2016 of $27.71, which is above the collar. This comprises $11,400.0 in equity and an estimated amount of assumed debt of $1,800.0. The amount of debt assumed of $1,800.0 reflects the $1,900.0 amount pursuant to the collar (reflecting such closing price of our common stock on August 17, 2016) and an estimated decrease of $100.0 in connection with certain other adjustments.

The Merger is expected to close in October 2016, subject to regulatory clearances, works council consultations, and other customary conditions. The final purchase price allocation will be based on the closing price of our common stock on the date of the closing.

We recognized acquisition-related costs associated with the Merger of $163.8 and $30.2 for the fiscal years ended June 30, 2016 and 2015, respectively, which are included in Acquisition-related costs in the Consolidated Statements of Operations. We currently estimate that we will incur a total of approximately $1,200.0 of operating expenses and $500.0 of capital expenditures associated with the Merger through fiscal 2020. The amount and timing of this charge would affect our liquidity, cash flows and comparability of period-to-period operating results. Additionally, we anticipate realizing $780.0 million of cost savings over the next four fiscal years as a result of the Merger.

We estimate that the failure to complete the Merger could result in unrecoverable costs of approximately $400.0 to us as of June 30, 2016, which include costs already incurred related to integration efforts as well as costs that would be required to exit signed agreements.

Dispositions

During fiscal 2016, we sold the Cutex brand and related assets for a total disposal price of $29.2. We allocated $4.2 of goodwill to the brand as part of the sale. We recorded a gain of $24.8 which has been reflected in Gain on sale of assets in the Consolidated Statements of Operations for the fiscal year ended June 30, 2016.

Cash Flows

	Year Ended June 30,		
	2016	2015	2014
Consolidated Statements of Cash Flows Data:			
(in millions)			
Net cash provided by operating activities	$501.4	$526.3	$536.5
Net cash (used in) investing activities	(1,059.2)	(171.2)	(257.6)
Net cash provided by (used in) financing activities	592.6	(1,138.2)	(5.7)

Net cash provided by operating activities

Net cash provided by operating activities was $501.4, $526.3 and $536.5 for fiscal 2016, 2015 and 2014, respectively. The decrease in operating cash inflows in fiscal 2016 compared with fiscal 2015 was $24.9. This decrease is primarily due to the change in Gain on sale of assets relating to the Cutex brand, Loss on extinguishment of debt and lower cash provided by Net income totaling $183.5. Offsetting the decrease in cash inflows was an increase of bad debt provision of $17.4, as well as an increase in accounts payable of $141.2 relating to additional operating expenses as well as a change in the frequency of our payables processing from a bi-monthly to a monthly basis.

The decrease in operating cash flows in fiscal 2015 compared with fiscal 2014 of $10.2 is primarily due to an increase in net working capital of $46.5 primarily attributable to a decrease in cash inflows attributable to more favorable vendor terms negotiated in the prior years. Offsetting the increased cash outflows in the current year was the absence of an advance of royalty payments to a licensor that occurred in the prior year of $36.5.

Net cash (used in) investing activities
Net cash used in investing activities was $(1,059.2), $(171.2) and $(257.6) for fiscal 2016, 2015 and 2014, respectively. The increase in cash outflows in fiscal 2016 as compared to fiscal 2015 of $888.0 is primarily driven by $890.8 paid in connection with the Brazil Acquisition, net of cash received, $17.9 paid in connection with the acquisition of a digital marketing company and a loss of $29.6 on a foreign currency forward contract related to the Brazil Acquisition. This is partially offset by lower capital expenditures in the current year of $20.8 and the elimination of $30.0 of annual contingent purchase price payments made in connection with the acquisition of the Calvin Klein license from Unilever in 2006.
The decrease in cash outflows in fiscal 2015 as compared to fiscal 2014 of $86.4 is primarily driven by lower capital expenditures in the current year of $30.6, the use of equity to acquire a business in the current year, cash received from the Bourjois acquisition of $12.3 and the receipt of $14.8 primarily from the completion of the sale of assets in China.
Net cash provided by (used in) financing activities
Net cash provided by (used in) financing activities was $592.6, $(1,138.2) and $(5.7) for fiscal 2016, 2015 and 2014, respectively. The increase in cash inflows in fiscal 2016 as compared to fiscal 2015 of $1,730.8 is primarily attributable to higher net cash inflows from debt transactions of $2,270.9 substantially related to the net proceeds from the Coty Credit Agreement used to refinance the Prior Coty Inc. Credit Facilities. The increase in the financing cash inflows was also attributable to a decrease of net payments for foreign currency forward contracts of $28.2, which were partially offset by year over year cash outflows of $531.8 for the purchase of treasury shares, and higher payments of deferred financing fees of $46.4.
The increase in fiscal 2015 as compared to fiscal 2014 of $1,132.5 is primarily attributable to higher net cash outflows from debt related transactions of $1,400.3 including higher net repayments on revolving loan facilities of $817.5 and repayment of Senior Secured Notes of $584.6 and higher net payments for foreign currency contracts of $35.8, partially offset by lower cash outflows for the repurchase of treasury stock of $306.2.
Dividends
On September 11, 2015, we declared a cash dividend of $0.25 per share, or $90.1 on our Class A Common Stock and Class B Common Stock, RSUs and phantom units. Of the $90.1, $89.0 was paid on October 15, 2015 to holders of record of Class A Common Stock and Class B Common Stock on October 1, 2015 and was recorded as a decrease to Additional paid-in capital (“APIC”) in the Consolidated Balance Sheet as of June 30, 2016. The remaining $1.1 is payable upon settlement of the RSUs and phantom units outstanding as of October 1, 2015, and was recorded as Other noncurrent liabilities in the Consolidated Balance Sheet.
Additionally, we reduced the dividend accrual recorded in a prior period by $0.3 to adjust for accrued dividends on RSUs no longer expected to vest, which was recorded as an increase to APIC in the Consolidated Balance Sheet as of June 30, 2016. Total accrued dividends on unvested RSUs and phantom units of $1.8 are included in Other noncurrent liabilities in the Consolidated Balance Sheet as of June 30, 2016.
The Transaction Agreement restricts our ability to declare, make or pay any dividends, other than in ordinary course and for an amount not to exceed $0.25 per share prior to the closing of the Transactions, without P&G consent. In July 2016, P&G provided consent to our dividend declared on August 1, 2016 (Note 25).
On September 16, 2014, we announced a cash dividend of $0.20 per share, or $71.9 on our Class A Common Stock and Class B Common Stock. Of the $71.9, $71.0 was paid on October 15, 2014 to holders of record of Class A Common Stock and Class B Common Stock on October 1, 2014 and was recorded as a decrease to APIC in the Consolidated Balance Sheet as of June 30, 2015. The remaining $0.9 is payable upon settlement of the RSUs outstanding as of October 1, 2014, and was recorded as Other noncurrent liabilities in the Consolidated Balance Sheet.
Additionally, we reduced the dividend accrual recorded in a prior period by $0.3 to adjust for accrued dividends on RSUs no longer expected to vest, which was recorded as an increase to APIC in the Consolidated Balance Sheet as of June 30, 2015. Total accrued dividends on unvested RSUs of $1.4 are included in Other noncurrent liabilities in the Consolidated Balance Sheet as of June 30, 2015.
Share Repurchase Program
Since February 2014, the Board has authorized us to repurchase our Class A Common Stock under approved repurchase programs. Repurchases may be made from time to time at our discretion, based on ongoing assessments of

the capital needs of the business, the market price of our Class A Common Stock, and general market conditions. As of June 30, 2016, we had $433.1 remaining under the current repurchase program that was approved on February 3, 2016. The following table summarizes the share repurchase activities during the years ended June 30, 2016, 2015, and 2014:

Period	Number of shares repurchased (in millions)	Cost of shares repurchased (in millions)	Lowest fair value of shares repurchased per share	Highest fair value of shares repurchased per share
Fiscal Year Ended June 30, 2016	27.4	$ 767.0	$ 25.10	$ 30.35
Fiscal Year Ended June 30, 2015	13.4	263.1	18.64	21.99
Fiscal Year Ended June 30, 2014	6.6	100.0	14.64	15.69

Other Share Repurchases

In addition to the above mentioned repurchase activities, on December 3, 2015, we entered into a stock purchase agreement with a shareholder holding more than 5% of our Class A Common Stock to repurchase 1.0 million shares of our Class A Common Stock. On December 17, 2015, we remitted payment for the repurchased shares at a price of $27.91 per share. The fair value of shares repurchased was approximately $27.9, which was recorded as an increase to Treasury stock in the Consolidated Balance Sheets and Consolidated Statements of Equity and Redeemable Noncontrolling Interests.

On September 29, 2014, we entered into an agreement with Mr. Scannavini, our former Chief Executive Officer in connection with his resignation. The agreement required that we purchase on or before January 27, 2015 all Class A Common Stock Mr. Scannavini held directly or indirectly, including shares of Class A Common Stock obtained upon the exercise of certain stock options, for a share price of $17.21, which is the average closing value of the Class A Common Stock on the New York Stock Exchange over five business days immediately preceding September 29, 2014. As a result of the agreement, we purchased 2.4 million shares of our Class A Common Stock for $42.0 and reflected as an increase to Treasury stock in our Consolidated Balance Sheets and Consolidated Statements of Equity and Redeemable Noncontrolling Interests during the year ended June 30, 2015. We made a net payment to Mr. Scannavini of $29.5, which is the purchase amount of $42.0 net of the aggregate exercise price of his vested stock options of $12.5.

On June 12, 2014, in connection with a related party transaction, we repurchased a total of 27.9 million and less than 0.1 million shares of Class B Common Stock and Class A Common Stock, respectively, for $16.78 per share, which was determined by calculating the volume weighted average price of our Class A Common Stock from May 30, 2014 through June 5, 2014, inclusive. The value of Class B shares and Class A shares repurchased was $468.0 and $1.0, respectively, and was reflected as an increase to Treasury stock in our Consolidated Balance Sheets and Consolidated Statements of Equity and Redeemable Noncontrolling Interests.

Contractual Obligations and Commitments

Our principal contractual obligations and commitments as of June 30, 2016 are presented below:

(in millions)	Total	Payments Due in Fiscal					Thereafter
		2017	2018	2019	2020	2021	
Long-term debt obligations	$4,150.2	$141.9	$111.3	$111.3	$111.3	$2,158.4	$ 1,516.0
Interest on long-term debt obligations[(a)]	765.1	128.9	138.3	156.1	164.8	91.8	85.2
Operating lease obligations	507.6	70.2	67.3	59.9	50.4	45.5	214.3
License agreements:[(b)]							
Royalty payments	240.2	34.7	34.1	34.6	31.7	20.7	84.4
Advertising and promotional spend obligations	153.6	39.5	27.6	29.5	31.0	13.0	13.0
Other contractual obligations[(c)]	263.0	139.8	47.8	28.9	24.6	13.7	8.2
Other long-term obligations:							
Pension obligations (mandated)[(d)]	18.5	4.2	3.9	3.7	3.4	3.3	—
Total	$6,098.2	$559.2	$430.3	$424.0	$417.2	$2,346.4	$ 1,921.1

[(a)] Interest costs on our variable rate debt after consideration of our interest rate swap arrangements 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 $51.2 over the term of our long-term debt.

[b] 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.

[c] Other contractual obligations primarily represent advertising/marketing, manufacturing, logistics and capital improvements commitments. Additionally, we have included the mandatorily redeemable financial instruments arising out of our joint ventures as discussed in Note 20, "Mandatorily Redeemable Financial Interest". We also maintain several distribution agreements for which early termination could result in potential future cash outflows that have not been reflected above. Included in the balance for fiscal 2017 and 2018 are $91.8 and $9.2, respectively, of contractual obligations for consulting services related to the acquisition of the P&G Beauty Brands. The future cash outflows related to these consulting commitments are subject to early termination upon the contingency the acquisition of the P&G Beauty Brands does not occur.
[d] Represents future contributions to our pension plans mandated by local regulations or statutes. See Note 17, "Employee Benefit Plans" in the notes to our 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 $237.8 at June 30, 2016.

The table above excludes obligations for uncertain tax benefits, including interest and penalties, of $131.9 as of June 30, 2016, as we are unable to predict when, or if, any payments would be made. See Note 15, "Income Taxes" in the notes to our Consolidated Financial Statements for additional information on our uncertain tax benefits.

Additionally the table excludes $73.3 of Redeemable noncontrolling interest which is reflected in the Redeemable noncontrolling interests in the Consolidated Balance Sheets as of June 30, 2016. We have a 33% redeemable noncontrolling interest in our consolidated subsidiary in the UAE. We have the right to purchase the noncontrolling interest in this subsidiary from the noncontrolling interest holder ("call right") and the noncontrolling interest holder has the right to sell its noncontrolling interest ("put right") to us at certain points in time. Given the provisions of the put and call rights, the entire noncontrolling interest is redeemable outside of our control and is recorded in temporary equity at the estimated redemption value of $73.3 as of June 30, 2016. On February 12, 2016, we gave notice of intent to exercise our option to purchase the noncontrolling interest in a certain Hong Kong subsidiary at an estimated purchase price of approximately $10.1 for the remaining 45% interest as of June 30, 2016. The transaction is effective as of June 30, 2016 with the payment expected to be made by August 31, 2016. The $10.1 is recorded as a reduction to Redeemable noncontrolling interest in our Consolidated Statements of Equity and Redeemable Noncontrolling interests and as Accrued expenses and other current liabilities in the Consolidated Balances Sheets.

See Note 21, "Noncontrolling Interests and Redeemable Noncontrolling Interests" in the notes to our Consolidated Financial Statements for further discussion related to the calculation of the redemption value for each of these noncontrolling interests.

In December 2014, we gave notice of intent to exercise our Call right for 14% of a certain Singapore subsidiary from the noncontrolling interest holder at an estimated purchase price of approximately $10.7 for this 14%. In addition, on September 29, 2015, we gave notice of intent to exercise our option to terminate the Shareholders' Agreement with the noncontrolling interest holder and to purchase the remaining 35% of the noncontrolling interest holder's interest in the Singapore subsidiary. We have estimated a purchase price of approximately $50.0 for the 35% interest assuming a buyout. We are currently negotiating with the noncontrolling interest holder on alternatives to reorganize the ownership structure and distribution agreements to optimize the operations for the Merger.

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, which primarily relate to receivables, inventory purchases and sales, 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 losses (gains) of $7.2, $(7.9) and $18.7 in fiscal 2016, 2015 and 2014, respectively, resulting from non-financing foreign currency exchange transactions which are included in their associated expense type and are included in the Consolidated Statements of Operations. Net gains (losses) of $19.2, $(4.1) and $(2.8) in fiscal 2016, 2015 and 2014, respectively, resulting from financing foreign exchange currency transactions are included in Interest expense, net in the Consolidated Statements of Operations. Net (losses) of $(29.4), nil and nil in fiscal 2016, 2015 and 2014, respectively, resulting from acquisition-related foreign exchange currency transactions are included in Other expense, net in the Consolidated Statements of Operations. Exchange gains or losses are also partially offset through the use of qualified derivatives under hedge accounting, for which we record accumulated gains or losses in Accumulated other comprehensive income until the underlying transaction occurs at which time the gain or loss is reclassified into the respective account in the Consolidated Statements of Operations.

The accumulated loss on these derivative instruments in AOCI, net of tax, was $28.9 and $0.1 as of June 30, 2016 and June 30, 2015, respectively.

We have experienced and will continue to experience fluctuations in our net income as a result of balance sheet transactional exposures. As of June 30, 2016, in the event of a 10.0% unfavorable change in the prevailing market rates of hedged foreign currencies versus the U.S. dollar, the change in fair value of all foreign exchange forward contracts would result in a $45.9 increase in the fair value of the forward contracts. In the view of management, these hypothetical gains resulting from an assumed change in foreign currency exchange rates are not material to our consolidated financial statement position or results of operations. This gain does not include the impact on our underlying foreign currency exposures.

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. We have designated 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.

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, operating income in fiscal 2016 would decrease/increase by $8.1.

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 fair value of contracts in net asset positions, which totaled $9.2 as of June 30, 2016. Accordingly, management believes risk of material 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 $4.6 and $4.1 as of June 30, 2016 and 2015, respectively.

Critical Accounting Policies

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 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. Returns represent 3%, 3% and 4% of gross revenue after customer discounts and allowances in fiscal 2016, 2015 and 2014, respectively. Trade spending activities recorded as a reduction to gross revenue after customer discounts and allowances represent 8%, 9% and 9% in fiscal 2016, 2015 and 2014, 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. If the historical data we use to calculate these estimates does not approximate future returns, additional allowances may be required.

Inventory

Inventories include items which are considered salable or usable in future periods, and are stated at the lower of cost or market value, with cost being based on standard cost which approximates actual cost on a first-in, first-out basis. Costs include direct materials, direct labor and overhead (e.g., indirect labor, rent and utilities, depreciation, purchasing, receiving, inspection and quality control) and in-bound freight costs. We classify inventories into various categories based upon their stage in the product life cycle, future marketing sales plans and the disposition process. We also record an inventory obsolescence reserve, which represents the excess of the cost of the inventory over its estimated market value, based on various product sales projections. This reserve is calculated using an estimated obsolescence percentage applied to the inventory based on age, historical trends, and requirements to support forecasted sales. In addition, and as necessary, we may establish specific reserves for future known or anticipated events. These estimates could vary significantly, either favorably or unfavorably, from the amounts that we may ultimately realize upon the disposition of inventories if future economic conditions, customer inventory levels, product discontinuances, sales return levels, competitive conditions or other factors differ from the our estimates and expectations.

Business Combinations

We allocate the cost of an acquired business to the assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. The excess value of the cost of an acquired business over the estimated fair value of the assets acquired and liabilities assumed is recognized as goodwill. The valuation of the acquired assets and liabilities will impact our future operating results, as we recognize depreciation and amortization expense on long lived assets. We use a variety of information sources to determine the value of acquired assets and liabilities including: third-party appraisers for the values and lives of property, identifiable intangibles and inventories; and legal counsel or other experts to assess the obligations associated with legal, environmental or other claims.

Significant judgment is required in estimating the fair value of intangible assets and in assigning their respective useful lives. The fair value estimates are based on historical information and on future expectations and assumptions deemed reasonable by management, but are inherently uncertain. Determining the useful life of an intangible asset also requires judgment. Certain brand intangibles are expected to have indefinite lives based on their history and our plans to manage the acquired brands. Other intangible assets are expected to have determinable useful lives. Our assessment of intangible assets that have an indefinite life and those that have a determinable life is based on a number of factors including the competitive environment, market share, brand history, underlying product life cycles, operating plans and the macroeconomic environment. The costs of determinable-lived intangible assets are amortized to expense over the estimated useful life.

Goodwill, Other Intangible Assets and Long-Lived Assets

Goodwill

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

We assess goodwill at least annually as of May 1 for impairment, or more frequently, if certain events or circumstances warrant. We test goodwill for impairment at the reporting unit level, which is the same level as our reportable segments. We identify our reporting units by assessing whether the components of our reporting segments constitute businesses for which discrete financial information is available and management of each reporting unit regularly reviews the operating results of those components.

When testing goodwill for impairment, we have the option of first performing a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as the basis to determine if it is necessary to perform a quantitative goodwill impairment test. In performing our qualitative assessment, we consider the extent to which unfavorable events or circumstances identified, such as changes in economic conditions, industry and market conditions or company specific events, could affect the comparison of the reporting unit's fair value with its carrying amount. If we conclude that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we are required to perform a quantitative impairment test.

Quantitative 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 used a combination of the income and market approaches. We believe the blended use of both models compensates for the inherent risk associated with either model if used on a stand-alone basis, and this combination is indicative of the factors a market participant would consider when performing a similar valuation.

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. Under the market approach, we utilize information from comparable publicly traded companies with similar operating and investment characteristics as the reporting units, which creates valuation multiples that are applied to the operating performance of the reporting units being tested, to value the reporting unit.

The key estimates and factors used in these approaches 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 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.

There were no impairments of goodwill at our reporting units in fiscal 2016 and 2015.

In fiscal 2014, we anticipated realizing significant improvements in cash flows in our Skin & Body Care Reporting Units China operations beginning in the third quarter due to the reorganization of our management team and distribution network in China and the launch of new product offerings. In the course of evaluating the results for the third quarter and the preparation of third quarter financial statements, we noted the net cash outflows associated with the TJoy mass channel business in China were significantly in excess of previous expectations and management concluded that the results in China represented an indicator of impairment that required an interim impairment test for goodwill and certain other intangible assets in the Skin & Body Care Reporting Unit. Consequently, goodwill was fully impaired, resulting from a reduction in fair value of the Skin & Body Care reporting unit of 43.4% from the May 1, 2013 fair value and total non-cash impairment charge of $316.9, of which $256.4 related to goodwill and $60.5 to other assets.

Based on the annual impairment test performed at May 1, 2016, we determined that the fair values of our reporting units significantly exceeded their respective carrying values at that date by a range of approximately 120.0% to greater than 200.0%. To determine the fair value of our 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 of 8.0%.

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 indefinite-lived other intangible assets (trademarks) at least annually as of May 1 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. 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.
On May 1, 2016, we performed our annual impairment testing of indefinite-lived other intangible assets and determined that no adjustments to carrying values were required.
Our indefinite-lived other intangible assets had a carrying value of $1,417.0 as of June 30, 2016, and comprise trademarks for the following brands: OPI of $659.0, philosophy of $261.8, Sally Hansen of $181.7, Bourjois of $115.2 and other brands totaling $199.3. As of May 1, 2016, we determined that the fair value of our philosophy brand exceeded its carrying value by approximately 21% using projections that assumed weighted average growth rates of approximately 3.5% and a discount rate of 9.0%. The fair value of the philosophy trademark would fall below its carrying value if the weighted average annual growth rate decreased by approximately 145 basis points or the discount rate increased by 127 basis points. The fair value of our Bourjois brand exceeded its carrying value by approximately 19% using projections that assumed weighted average growth rates of approximately 3.5% and a discount rate of 9.0%. The fair value of the Bourjois trademark would fall below its carrying value if the weighted average annual growth rate decreased by approximately 136 basis points or the discount rate increased by 131 basis points. The fair values of the remaining indefinite-lived trademarks exceeded their carrying values by amounts ranging from 59.0% to greater than 200.0%.
On May 1, 2015, we performed our annual impairment testing of indefinite-lived other intangible assets and determined that no adjustments to carrying values were required.
In the course of evaluating the results for the third quarter fiscal 2014 and the preparation of third quarter financial statements, we noted the net cash outflows associated with the TJoy mass channel business in China were significantly in excess of previous expectations and management concluded that the results in China represented an indicator of impairment that required an interim impairment test for goodwill and certain other intangible assets in the Skin & Body Care Reporting Unit.
Concurrent with the evaluation of future cash flows of the reporting unit, we also re-evaluated future cash flows from other long lived assets in China, consisting of the TJoy trademark, customer relationships and a manufacturing facility, with a total carrying value of $69.1. It was determined that the carrying value of this asset group exceeded its fair value resulting in an impairment charge of $60.5. The TJoy trademark and customer relationships of $21.0 and $33.5, respectively, were fully impaired and the remaining $6.0 impairment charge was attributable to the reduction of the carrying value of a manufacturing facility.
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.
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.

In conjunction with our analysis of our go-to-market strategy in Southeast Asia during the first quarter of fiscal 2016, we evaluated future cash flows for this asset group and determined that the carrying value exceeded the undiscounted cash flows. As a result, we evaluated the fair value of the long-lived assets in the asset group, through an analysis of discounted future cash flows, and determined that the customer relationships were fully impaired and thus recorded $5.5 of Asset impairment charges in the Consolidated Statements of Operations for the fiscal year ended June 30, 2016.

There were no impairments of long-lived assets in fiscal 2015.
During fiscal 2014, we recorded a $6.0 impairment charge in asset impairment charges in the Consolidated Statements of Operations related to a manufacturing facility in China as discussed above in Other Intangible Assets. Subsequently in October 2014, we agreed to sell certain TJoy assets for cash of 86.0 million RMB ($14.1) in conjunction with China Optimization. As a result, we recognized a gain of $7.2 in Gain on sale of assets in the Consolidated Statements of Operations during fiscal 2015.

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 (loss). 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. In fiscal 2016, our pension plans had actual returns on assets of $5.6 as compared with expected return on assets of $3.7, which resulted in a net deferred gain of $1.9, substantially all of which is currently subject to be amortized over periods ranging from approximately 10 to 31years. 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 were as follows:

	Pension Plans				Other Post-Employment Benefits	
	U.S.		International			
	2016	2015	2016	2015	2016	2015
Discount rates	3.3%-3.8%	4.1%-4.5%	0.2%-1.9%	1.0%-2.7%	3.8%-4.0%	4.1%-4.6
Future compensation growth rates	N/A	N/A	1.5%-2.5%	1.5%-2.5%	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					
	2016	2015	2014	2016	2015	2014	2016	2015	2014
Discount rates	4.1%-4.5%	3.1%-4.5%	3.6%-5.0%	1.0%-2.7%	1.8%-3.2%	2.3%-3.8%	4.1%-4.6%	4.2%-4.8%	5.4%
Future compensation growth rates	N/A	N/A	N/A	1.5%-2.5%	2.0%-2.5%	2.0%-2.5%	N/A	N/A	N/A
Expected long-term rates of return on plan assets	5.1%	6.5%	6.5%	2.3%-4.3%	2.8%-4.3%	3.3%-4.3%	N/A	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	$ 0.4	$ (0.4)
Effect on post-employment benefit obligation	6.4	(5.7)

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

We account for our share-based compensation plans for common stock as equity plans. The share-based compensation for equity plans is estimated and fixed at the grant date, based on the estimated fair value of the award. Series A Preferred Stock is accounted for using the liability accounting method to the extent the award is expected to be settled in cash. Accordingly, share-based compensation expense for the liability was measured at the end of each reporting period based on the fair value of the award on each reporting date and was recognized as an expense to the extent earned.

Share-based compensation expense totaled $35.4, $35.9 and $46.8 in fiscal 2016, 2015 and 2014, respectively. Share-based compensation expense is recorded in Selling, general and administrative expenses in the Consolidated Statements of Operations.

The fair value of our outstanding Series A Preferred Stock liability as of June 30, 2016 and 2015 and were estimated using the Black-Scholes valuation model with the following assumptions:

	2016	2015
Expected life	4.79 years	5.79 years
Risk-free interest rate	1.01 %	1.96 %
Expected volatility	36.74 %	26.14 %
Expected dividend yield	0.96 %	0.63 %

Our stock options generally become exercisable 5 years from the date of the grant.

The fair value of our outstanding nonqualified stock options accounted for as equity plans granted during fiscal 2015 was estimated using the Black-Scholes valuation model with the assumptions in the table below. There were no stock options accounted for under equity plans granted during fiscal 2016 and 2014.

	2015
Expected life	7.50 years
Risk-free interest rate	1.79 %
Expected volatility	31.73 %
Expected dividend yield	0.80 %

Share-based Compensation Expense Adjustment

Prior to June 12, 2013, our share-based compensation plans were accounted for as liability plans as they allowed for cash settlement or contained put features to sell shares back to us for cash. Accordingly, share-based compensation expense was measured at the end of each reporting period based on the fair value of the award on each reporting date and was recognized as an expense to the extent vested until the award was settled. If the award was settled for shares, the shares were included in the number of shares of common stock outstanding and the fair value of the shares was re-measured at each reporting period date through Selling, general and administrative expense as share-based compensation expense if the shares were classified as Accrued expenses and other current liabilities. Once the holders had retained the risks and rewards of share ownership by holding the shares for a reasonable period of time after they were vested and issued, generally a period of six months from vesting and issuance, the liability was reclassified, in the Consolidated Balance Sheets, between liabilities and equity as Redeemable common stock at fair value. Subsequent changes in fair value of the shares classified as Redeemable common stock were recognized in Retained earnings or, in the absence of Retained earnings, in Additional paid-in capital.

On June 12, 2013 in conjunction with our IPO, our outstanding share-based plans, consisting solely of common stock plans, were amended to eliminate the ability to settle the awards for cash and the put features to sell the shares back to us for cash and provided only a share settlement option and, as such, the plans are accounted for as equity plans. Accordingly, share-based compensation was estimated and fixed based on the fair value of outstanding share-based instruments on June 12, 2013, net of estimated forfeitures and recognized over the requisite service period.

Prior to June 12, 2013, management evaluated the impact of share-based compensation on operating income by comparing the expense that was 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 was 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 would be accounted for as equity plans in connection with our IPO, because the participants would no longer be able to settle the awards under the plan in cash or sell the shares back to us for cash; and
- certain financial covenant calculations for our debt agreements were derived from calculations including share-based compensation expenses based on the equity method of accounting.

The following table compares the impact of share-based compensation expense in total to the sum of a) share-based compensation expense under equity plan accounting based on grant date fair value and b) share-based compensation expense for Series A Preferred Stock, which is used to measure the performance of segments:

	Year Ended June 30,		
	2016	2015	2014
Share-based compensation expense:			
Expense under liability plan accounting Series A Preferred Stock	0.4	0.4	—
Expense under liability plan accounting for special transactions [(d)]	—	15.8	—
Expense under equity plan accounting	35.0	19.7	46.8
Total share-based compensation expense [(a)]	35.4	35.9	46.8
Expense under equity plan accounting based on grant date fair value[(b)] and expense for Series A Preferred Stock [(b)]	34.1	17.6	19.2
Share-based compensation expense adjustment for pre-IPO grants[(c)] and special transactions[(d)]	$1.3	$18.3	$27.6

[(a)] See Note 23, "Share-Based Compensation Plans," in the notes to our 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 Pre-IPO share-based compensation plans for common stock.

[(c)] Share-based compensation adjustment for Pre-IPO grants in fiscal 2016, 2015, and 2014 of $1.3, $2.5 and $27.6, respectively, consisted of (i) the difference between share-based compensation expense accounted for under equity plan accounting based on the grant date fair value and total share-based compensation expense, which was accounted for under liability plan accounting prior to June 12, 2013 and equity plan accounting subsequent to the IPO based on the fair value on June 12, 2013, 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 was dependent upon the occurrence of (i) an initial public offering by September 14, 2015, or (ii) if an initial public offering had not occurred by September 14, 2015, upon achievement of a target fair value of our share price and the completion of the service period on September 14, 2015. On June 13, 2013, the date our Class A common stock began trading on the New York Stock Exchange, 50% of the special incentive awards vested.

The remaining 50% of the special incentive awards vested on June 13, 2014 the one-year anniversary of the IPO. Prior to the IPO, we used liability plan accounting to measure share-based compensation expense in the Consolidated Statements of Operations on common stock issued to employees and directors 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 was reclassified as Redeemable common stock at fair value. Subsequent changes in fair value of the shares classified as Redeemable common stock were recognized in retained earnings or, in the absence of retained earnings, in additional paid-in capital. We use equity plan accounting based on grant date fair value to measure the performance of the segments.

(d) The adjustment also includes $15.8 million related to special transactions our parent company JABC has conducted with a related party as explained at Note 22 "Equity," in the notes to our Consolidated Financial Statements. This expense is excluded from our segments and operating income as management views the discounted sale of shares and subsequent repurchase as outside the normal course of business.

Income Taxes

We are subject to income taxes in the U.S. 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, including 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, 2016 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, 2016. It is not practicable for us to determine the amount of additional income and withholding taxes that may be payable in the event the undistributed earnings are repatriated.

The balance of cumulative undistributed earnings of non-U.S. subsidiaries was $2,426.0 and $2,138.7 as of June 30, 2016 and 2015, respectively. Our cash and cash equivalents balance at June 30, 2016 and 2015 includes $364.8 and $337.7, respectively, of cash held by foreign operations associated with our permanent reinvestment strategy.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We have operations both within the U.S. 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 ad 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 Management” within Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources” and is incorporated in this Item 7A by reference.

Item 8. Financial Statements and Supplementary Data.

The information required by this Item appears beginning on page F-1 of this Annual Report on Form 10-K and is incorporated in this Item 8 by reference.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Our management, with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2016. Based on the evaluation of our disclosure controls and procedures as of June 30, 2016, our CEO and CFO concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

We have included our Management Report over Internal Control over Financial Reporting in "Item 15. Exhibits, Financial Statement Schedules" and is incorporated in this Item 9A by reference.

Changes in Internal Control over Financial Reporting

On February 1, 2016, we completed the Brazil Acquisition. As a result, we have excluded the internal controls of the Brazil Acquisition from our annual evaluation of the effectiveness of internal control over financial reporting for our Company. For the year ended June 30, 2016, the Brazil Acquisition represents 2.2% of total net revenues of our Company, and as of June 30, 2016, the Brazil Acquisition represents 7.4% of total assets of our Company.

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

Inherent Limitations on Effectiveness of Controls

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

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Directors

Name	Age	Director Since
Lambertus J.H. Becht	60	2011
Joachim Faber	66	2010
Olivier Goudet	51	2013
Peter Harf	70	1996
Paul S. Michaels	64	2015
Erhard Schoewel	67	2006
Robert Singer	64	2010

Lambertus J.H. Becht joined Coty's board of directors (the "Board") as Chairman in November 2011 and became Coty's interim CEO in September 2014. He also serves as the Chairman of the board of directors of Jacobs Douwe Egberts B.V. and of

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the board of directors of the parent of Keurig Green Mountain, Inc., as well as a non-executive director of Peet's Coffee & Tea, Inc. and the Caribou Coffee Company, Inc./Einstein Noah Restaurant Group, Inc. Mr. Becht is also a partner and Chairman of the JAB group of companies ("JAB Group"). From 1999 to August 2011, Mr. Becht was Chief Executive Officer of Reckitt Benckiser Group plc, a leading global consumer goods company in the field of household cleaning and health and 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. Before becoming Chief Executive Officer of Benckiser Detergents in 1995, Mr. Becht held a variety of marketing, sales and finance positions at P&G in the United States and Germany and served within Benckiser Detergents as General Manager in Canada, the United Kingdom, France and Italy. Mr. Becht holds a Master of Business Administration degree from the University of Chicago Booth School of Business 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 Chairman of our Board. Mr. Becht has many years of experience in the consumer products industry, including executive, operating, marketing, finance and international business experience, and was Chief Executive Officer of Reckitt Benckiser. We believe these experiences are advantageous to us and are critical to his ability to identify, understand and address challenges and opportunities that we face.

Mr. Becht will step down as Coty's interim CEO effective as of the day following the closing of the Transactions, but will continue to serve as Chairman of the Board.

Joachim Faber joined the Board in 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 JAB Holding Company S.á r.l. and a member of the board of Allianz S.A., Paris. Mr. Faber was a member of the Supervisory Board of OSRAM Licht AG and the Chairman of its audit committee until June 30, 2014. Until 2011, 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 and the European School for Management and Technology in Berlin. 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 financial expertise and experience in running a large corporation with multinational operations in addition to his more than 25 years of experience in the banking and finance industries, is critical to his ability to identify, understand, assess and address challenges and opportunities that we face.

Olivier Goudet joined the Board in May 2013. Mr. Goudet is Partner and Chief Executive Officer of the JAB Group, an investment firm, a position he has held since June 2012. He started his professional career in 1990 at Mars, Incorporated, a manufacturer of food products, serving on the finance team of the French business. After six years, he left Mars, Incorporated to join the VALEO Group, where he held several senior executive positions, including Chief Financial Officer. In 1998, he returned to Mars, Incorporated, where he later became Chief Financial Officer in 2004. In 2008, his role was broadened, and he was appointed Executive Vice President and Chief Financial Officer until April 2012. Between June 2012 and November 2015, Mr. Goudet served as an Advisor to the board of directors of Mars, Incorporated. In January 2013, Mr. Goudet became the Chairman of Peet's Coffee & Tea, Inc., a premier specialty coffee and tea company. In September 2013, Mr. Goudet was appointed as board member of Jacobs Douwe Egberts B.V. Mr. Goudet is also Chairman of the Caribou Coffee Company, Inc./Einstein Restaurant Group, Inc. and a board member of Espresso-House Holding AB and the parent company of Keurig Green Mountain, Inc. In September 2014, Mr. Goudet joined the board of Jimmy Choo PLC. In April 2015, he became the Chairman of the board of directors of Anheuser-Busch InBev SA/NV. Mr. Goudet holds a Degree in Engineering from l'Ecole 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, is critical to his ability to identify, understand and address the challenges and opportunities that we face.

Peter Harf joined the Board in 1996 and serves as Chair of the Remuneration and Nomination Committee. Mr. Harf was Chairman of the Board from 2001 until 2011 and Chief Executive Officer of Coty from 1993 to 2001. He is Chief Executive Officer of Lucresca and Agnaten, privately owned holding companies, which indirectly share voting and investment control over shares of Coty. Mr. Harf joined JAB in 1981, serving the company in a variety of capacities, including Chairman and Chief Executive Officer since 1988. In September 2014, Mr. Harf became the Chairman and member of the board of directors of Jimmy Choo PLC. Mr. Harf is also Chairman of Espresso-House Holding AB and a board member of the Caribou Coffee Company, Inc./Einstein Noah Restaurant Group, Inc., Peet's Coffee & Tea, Inc., Jacobs Douwe Egberts B.V. and the parent company of Keurig Green Mountain, Inc. Mr. Harf is also co-founder and Executive Chairman of DKMS. Prior to joining the

JAB Group, 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 was Deputy Chairman of the Board of Directors of Reckitt Benckiser Group plc from 1999 to December 2015, and was Chairman of the board of directors and a member of the audit committee of Anheuser-Busch InBev SA/NV until 2012. 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 brings a valuable perspective to the Board. Mr. Harf's more than 30 years of experience in our industry, including executive, operating, strategic planning and international business experience, is critical to his ability to identify, understand and address challenges and opportunities that we face.

Paul S. Michaels joined the Board in June 2015. Prior to joining Coty, Paul S. Michaels served as the President of Mars, Incorporated, a manufacturer of food products and parent company of William Wrigley Jr. Co., from January 2004 to January 2015. Mr. Michaels began his career at P&G and later moved to Johnson & Johnson, where he spent 15 years building many of the company's flagship brands. Mr. Michaels holds a Bachelor of Arts from the University of Notre Dame.

We believe Mr. Michaels is well qualified to serve as a member of our Board. Mr. Michael's expertise and creativeness in working with global brands in the consumer goods industry, is critical to his ability to identify, understand and address challenges and opportunities that we face.

Erhard Schoewel joined the Board 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. In 2012, Mr. Schoewel was elected to the Supervisory Board of the Jahr Holding GmbH & Co. KG in Hamburg, Germany. From 2007 to 2015, he was Chairman 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 the consumer products industry, including executive, operating and international business experience and experience as a member of the board of directors of other companies, and we believe these experiences are critical to his ability to identify, understand and address challenges and opportunities that we face.

Robert Singer joined the Board 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 2004 until 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. Since 2009, Mr. Singer has also served as a director of Gianni Versace S.p.A. and a director of Mead Johnson Nutrition. He also serves as a director and chair of the audit committees of Tiffany & Co. and Jimmy Choo PLC. 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, including his experience as Chief Executive Officer of Barilla Holding S.p.A. and President and Chief Operating Officer of Abercrombie and Fitch Co., and we believe these experiences are critical to his ability to identify, understand and address challenges and opportunities that we face. Mr. Singer has significant public company board and audit committee experience and extensive risk management experience from his time at Gucci Group and Coopers & Lybrand.

In addition, on July 15, 2016, our Board appointed Camillo Pane, our current Executive Vice President, Category Development, to the position of our CEO and to the Board, each effective as of the day following the closing of the Transactions, which is expected to be in October 2016. Mr. Pane will succeed Mr. Becht. Mr. Becht will continue to serve as Chairman of the Board following the closing of the Transactions. For Mr. Pane's biography, see "Executive Officers—Camillo Pane" below.

Executive Officers

The following table sets forth certain information concerning our executive officers except as set forth above under "Directors".

Name	Age	Position(s) Held
Patrice de Talhouët	50	Chief Financial Officer
Sebastien Froidefond	48	Senior Vice President of Human Resources
Edgar Huber	54	President of Global Markets
Jules P. Kaufman	58	Senior Vice President, General Counsel and Secretary
Ralph Macchio	59	Senior Vice President of Global Research and Development, Chief Scientific Officer
Camillo Pane	46	Executive Vice President, Category Development
Mario Reis	57	Executive Vice President, Supply Chain
Kevin Monaco	52	Senior Vice President, Treasurer and Investor Relations
Ayesha Zafar	59	Senior Vice President, Group Controller

Patrice de Talhouët is Chief Financial Officer and a member of the Coty Executive Committee. Mr. de Talhouët oversees strategic leadership for corporate finance, planning and budgeting, treasury, tax and fiscal management and information technologies, as well as business development and mergers and acquisitions. He has more than 20 years of comprehensive global financial experience. Prior to joining Coty as Chief Financial Officer in January 2014, Mr. de Talhouët spent nearly seven years with food products manufacturer Mars, Incorporated, serving as Corporate Finance Officer Americas and a member of the finance executive committee from April 2011 to December 2013 and Chief Financial Officer Europe Mars Chocolate from January 2007 to March 2011. Before joining Mars, Incorporated, Mr. de Talhouët spent more than a decade in senior finance positions at Alcatel-Lucent. Mr. de Talhouët started his career at Société Générale S.A. bank. Mr. de Talhouët has served as a member of Devoteam’s Remuneration Committee from 2002 through 2010 and of Devoteam’s Audit Committee since 2011. He holds a Bachelor’s degree in Economics and International Management from Nanterre University and as well as a Master’s degree in Finance, Accounting and Corporate Law from Conservatoire National des Arts et Métiers (CNAM).

Sebastien Froidefond is Senior Vice President of Human Resources at Coty and a member of the Coty Executive Committee. Mr. Froidefond leads Coty’s worldwide human resources department and oversees all global employee communication initiatives. Prior to joining Coty in August 2015, Mr. Froidefond was Managing Director of Spire S.A.S. and Human Resources Vice President for the Global Consumer Healthcare division of Sanofi, a multinational pharmaceutical company. From 2001 until his appointment as Sanofi’s Human Resources Vice President, Mr. Froidefond served in various roles of increasing responsibility within Sanofi’s human resources functions in the United Kingdom, Latin America, Africa, Turkey, the Middle East, Eurasia and South Asia. He has over 20 years of experience in building and leading world class human resources organizations at country, regional and global levels. Mr. Froidefond holds a Master in Economics from Université Paris X and an advanced degree in consulting from Institut Supérieur de Gestion.

Edgar O. Huber is President of Global Markets of Coty and is a member of the Coty Executive Committee. Mr. Huber has served in this position since November 2015 and oversees sales execution and steers Coty’s business according to specific consumer and retailer needs and priorities. Prior to joining Coty, Mr. Huber was Director, President and Chief Executive Officer of Lands’ End, Inc., a leading global apparel retail brand, from 2011 until 2015. He served as President and Chief Executive Officer of the Juicy Couture Division of Liz Claiborne, Inc., from 2008 until 2011. He has over 15 years of service in a number of senior roles at L’Oréal, S.A. and he was a key account and brand manager for Mars, Incorporated. Mr. Huber holds a Bachelor of Arts Degree from the Handelsakademie Innsbruck/Telfs, Austria and a Masters of Business Administration from the Wirtschaftsuniversität Wien (Vienna University of Economics and Business), Austria. Mr. Huber has also completed the International Management Program at HEC (Haute Etudes Commerciales) in Jouy-en-Josas, France, and the CEDEP (General Management Program) at INSEAD in Foutainbleau, France.

Jules P. Kaufman is Senior Vice President, General Counsel and Secretary of Coty and a member of the Coty Executive Committee. In his role as General Counsel, he oversees Coty’s legal affairs worldwide, including, among other things, acquisitions and divestitures, corporate governance, securities compliance, intellectual property, licensing and regulatory issues. Mr. Kaufman has more than 30 years of comprehensive legal experience. Prior to joining Coty as General Counsel in January 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 had responsibility for mergers and acquisitions, SEC, finance and corporate governance matters within the Colgate corporate legal group. Mr. Kaufman began his career as a corporate lawyer with two New York City based law firms. He received his Bachelor of Arts degree from Harvard University and his Juris Doctor from the University of Virginia School of Law.

Ralph Macchio is Chief Scientific Officer and Senior Vice President of Global Research & Development at Coty and is a member of the Coty Executive Committee. He is responsible for all Scientific Affairs and Global Regulatory Affairs at Coty and the Global Consumer Affairs Team. Mr. Macchio has over 30 years of cosmetic research and development experience.

Since joining Coty in 1992, Mr. Macchio has held various positions of increasing responsibility at Coty. 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, 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.

Camillo Pane is Executive Vice President, Category Development and a member of the Coty Executive Committee, and, effective as of the day following the closing of the Transactions, Mr. Pane will become our CEO and a member of the Board. Prior to joining Coty in this position in July 2015, Mr. Pane spent 20 years with Reckitt Benckiser Group plc, where he held numerous high profile international marketing and general management roles throughout his career, in both developed and emerging markets, most recently as Senior Vice President, Global Category Officer Consumer Health from July 2011 until July 2015. Mr. Pane holds a degree in business administration from the University of Bocconi in Milan.

Mario Reis is Executive Vice President, Supply Chain and a member of the Coty Executive Committee. Mr. Reis brings diversified experience in supply chain and commercial fields with a unique perspective and a strong skill set for a best in class end-to-end supply chain. Mr. Reis has more than 30 years of experience as a solid business leader and supply chain expert. Prior to joining Coty in this position in May 2014, Mr. Reis built his career at Groupe Danone, a multinational food products corporation, where he held several senior executive positions within Worldwide Operations from 1996 to 2014. Most recently, Mr. Reis served as Managing Director of Groupe Danone South Africa from 2009 until 2014. Mr. Reis worked at Mars, Incorporated and Bain & Co. in various business roles of increasing responsibility from 1986 to 1996. Mr. Reis holds a Master of Business Administration degree from INSEAD, the University of Manchester and a Bachelor of Science degree with Honors from the University of Manchester.

Kevin Monaco is Senior Vice President, Treasurer and Investor Relations of Coty. 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 October 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.

Ayesha Zafar is Senior Vice President, Group Controller of Coty. In this position, Ms. Zafar is the Company's principal accounting officer responsible for overseeing various activities including financial reporting systems of internal control and other compliance programs. Prior to her appointment in May 2016, Ms. Zafar served as Vice President Controller of The Hertz Corporation, a car rental business, since January 2013 and as Controller from March 2012 to January 2013. Ms. Zafar brings 30 years of finance experience in international companies across consumer goods, including Campbell Soup Company, PepsiCo, Inc. and Colgate-Palmolive Company, as well as pharmaceuticals and publishing. Ms. Zafar is a Certified Public Accountant. Ms. Zafar holds a Bachelor of Science degree in Accounting from Excelsior College.

Each executive officer serves for a one-year term ending at the next meeting of our Board at which executive officers are elected or, if earlier, his or her death, resignation or removal, subject to his or her applicable employment agreement.

Structure of Our Board

Our Amended and Restated Certificate of Incorporation ("Certificate of Incorporation") provides that the number of directors will be fixed from time to time by a resolution adopted by our Board, but must not consist of less than five or more than 13 directors. Our Board is presently composed of seven 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 Amended and Restated Bylaws ("Bylaws"), each director holds office until his or her successor is duly elected and qualified, or, if earlier, until such director's death, resignation or removal.

Four directors on our Board have a relationship with the JAB Group. Each of Lambertus Becht, Olivier Goudet and Peter Harf may be deemed to have an indirect pecuniary interest in a portion of the shares of our outstanding Class A

Common Stock and Class B Common Stock beneficially owned by Lucresca, Agnaten and JAB, and, together with certain other persons, each exercises voting and investment control over the shares of the Company beneficially owned by Lucresca, Agnaten and JAB. Mr. Goudet is the CEO of the JAB Group, and Mr. Harf is the Chief Executive Officer of Agnaten and Lucresca. Mr. Faber also serves in a position similar to a director of JAB Holding Company s.á.r.l. Each of these directors receives compensation for the services each provides to the JAB Group. Our Board considers this structure appropriate in view of the JAB Group's significant investment in and control of the Company.

Board Leadership

While our Board believes it is important for its chairman to have both a stake in and deep understanding of the Company, our Corporate Governance Guidelines permit our Board flexibility in determining whether to appoint an independent chairman. Our Board has appointed Lambertus J.H. Becht as the Chairman of our Board, and our Board has determined that Mr. Becht was independent until he became our interim CEO in September 2014. Our Board has determined that Mr. Becht is not independent during his service as our interim CEO.

As disclosed above, on July 15, 2016, our Board appointed Camillo Pane, our current Executive Vice President, Category Development, to the position of our CEO and to the Board, each effective as of the day following the closing of the Transactions, which is expected to be in October 2016. Mr. Pane will succeed Mr. Becht. Mr. Becht will continue to serve as a Chairman of the Board following the closing of the Transactions.

Executive Sessions

Our Board meets regularly in executive session without management directors or any members of management. In addition, the independent directors on our Board meet annually in executive session. Generally, the Chairman of our Board serves as Chairman in each of these sessions. However, during Mr. Becht's service as our interim CEO, the director then serving the longest tenure serves as chairman of these sessions.

Controlled Company Exception

JABC, Agnaten and Lucresca, acting as a group, beneficially own a majority of the voting power of our outstanding Common Stock. As a result, we are currently a "controlled company" within the meaning of the NYSE corporate governance standards. Under the NYSE 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 to not comply with certain NYSE corporate governance standards. Despite the availability of such exceptions, our Board has determined that it will be composed of a majority of independent directors and our Remuneration and Nomination Committee (the "RNC") will have a written charter addressing its role and responsibilities. As permitted by NYSE rules for "controlled companies", our Board does not require the RNC to be comprised solely of directors who meet the NYSE's heightened independence standards for members of compensation committees.

Following the closing of the Transactions, we will not be a "controlled company" within the meaning of the NYSE rules and, subject to the applicable transition periods, our Board intends to take all action necessary to comply with the applicable NYSE listing rules for companies that do not qualify as "controlled companies", including the heightened independence standards that would apply to the RNC members.

Committees of Our Board

The standing committees of our Board are the Audit and Finance Committee (the "AFC") and the RNC. From time to time, when appropriate, ad hoc committees may be formed by our Board.

AFC. The members of the AFC are Joachim Faber, Erhard Schoewel and Robert Singer. Our Board has determined that Mr. Singer, the Chair of the AFC, is an audit committee financial expert, as that term is defined under SEC rules. Our Board has also determined that each member of the AFC meets the independence criteria set forth in Rule 10A-3 ("Rule 10A-3") under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The AFC has adopted a written charter that describes its primary duties and responsibilities, and the AFC and our Board review its charter each year. The AFC's primary duties and responsibilities include:

- monitoring the integrity of our financial reporting process and systems of internal controls regarding finance, accounting, and compliance with our Code (as defined below) and laws and regulations;
- being responsible for the appointment, compensation, retention and oversight of the work of our independent auditors and assessing and monitoring the independence and performance of our independent auditors and internal audit department;
- providing an objective, direct communication between our Board, independent auditors, management and the internal audit department;
- reviewing and pre-approving both audit and non-audit services to be provided by our independent auditors and establishing policies and procedures for the pre-approval of audit and non-audit services to be provided by the independent auditors;
- meeting to review the audited and quarterly financial statements and discussing these statements with management and our independent auditors, including reviewing the Company's specific disclosures under the "Management's

Discussion and Analysis of Financial Condition and Results of Operations," in the Company's Annual Report on Form 10-K and based on such review and discussion, recommending to the Board as to the approval of the Company's audited financial statements and if they should be included in the Company's Annual Report on Form 10-K;

- establishing procedures for the review, approval and ratification of related person transactions; and
- overseeing the Company's risk management policies and reviewing and evaluating the risk management policies in light of the Company's business strategy, capital strength and overall risk tolerance.

RNC. The members of the RNC are Peter Harf (Chair), Lambertus J.H. Becht, Paul S. Michaels and Erhard Schoewel. Since we are a "controlled company", the NYSE does not require each member of the RNC to satisfy the NYSE independence criteria for RNC members. Our Board has determined that Messrs. Schoewel and Michaels satisfy the independence criteria for RNC members. Messrs. Becht and Harf are not considered independent for purposes of membership on the RNC.

The RNC has adopted a written charter that describes its primary duties and responsibilities, and the RNC and our Board review the RNC's charter each year. The RNC's primary duties and responsibilities include:

- identifying individuals qualified to become Board members (consistent with criteria recommended by the RNC and approved by the Board) and recommending to our Board nominees for election at the annual meeting of stockholders and nominees for each board committee;
- reviewing and making recommendations to our Board concerning board committee structure, operations and Board reporting;
- discharging our Board's responsibilities relating to the remuneration of our senior executives, including our Chief Executive Officer;
- approving and evaluating our executive remuneration plans, policies and programs and ensuring that these plans, policies and programs enable us to attract and retain exceptional talents and incentivize them to achieve exceptional performance;
- overseeing succession planning for our senior executives, including our Chief Executive Officer, and guiding our Board in appointing and retaining key talents that will nurture our values and culture and strive for constantly improving results;
- recommending to our Board the corporate governance principles, annually reviewing them and recommending changes to the Board as appropriate;
- reviewing and making recommendations with respect to the remuneration of all directors;
- assessing the results of the Company's most recent advisory vote on executive compensation;
- reviewing and discussing with management the Company's compensation discussion and analysis and SEC-required disclosures and recommending to the Board based on that review and discussion whether the compensation discussion and analysis should be included in the Company's Annual Report on Form 10-K and/or proxy statement;
- preparing the compensation committee report required by SEC rules to be included in the Company's Annual Report on Form 10-K and/or proxy statement; and