ESTEE LAUDER COMPANIES INC
Form 10-Q
May 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549-1004

FORM 10-Q

(Mark One)-

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

For the quarterly period ended March 31, 2015

OR

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

For the transition period from to

Commission file number: 1-14064

The Estée Lauder Companies Inc.

(Exact name of registrant as specified in its charter)

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

212-572-4200

(Registrant s telephone number, including area code)

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

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

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

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

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

At April 28, 2015, 230,852,244 shares of the registrant s Class A Common Stock, $.01 par value, and 147,546,137 shares of the registrant s Class B Common Stock, $.01 par value, were outstanding.

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PART I. FINANCIAL INFORMATION

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

THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	2015	**2014**	**2015**	**2014**
	(In millions, except per share data)			
Net Sales	$ 2,580.5	$ 2,549.8	$ 8,256.0	$ 8,243.5
Cost of Sales	502.9	498.7	1,612.6	1,624.4
Gross Profit	2,077.6	2,051.1	6,643.4	6,619.1
Operating expenses				
Selling, general and administrative	1,680.4	1,709.5	5,265.4	5,173.9
Restructuring and other charges				(2.2)
Total operating expenses	1,680.4	1,709.5	5,265.4	5,171.7
Operating Income	397.2	341.6	1,378.0	1,447.4
Interest expense	15.2	15.0	45.0	44.2
Interest income and investment income, net	3.1	2.7	8.5	6.0
Earnings before Income Taxes	385.1	329.3	1,341.5	1,409.2
Provision for income taxes	112.4	115.6	401.9	458.5
Net Earnings	272.7	213.7	939.6	950.7
Net earnings attributable to noncontrolling interests	(0.6)	(0.5)	(3.7)	(4.3)
Net Earnings Attributable to The Estée Lauder Companies Inc.	$ 272.1	$ 213.2	$ 935.9	$ 946.4
Net earnings attributable to The Estée Lauder Companies Inc. per common share				
Basic	$ 0.72	$ 0.55	$ 2.46	$ 2.44
Diluted	0.71	0.54	2.42	2.40
Weighted-average common shares outstanding				
Basic	378.5	385.8	380.1	387.3

Diluted		384.7		392.1		386.3		394.1
Cash dividends declared per common share	$	.24	$	.20	$	.68	$	.58

See notes to consolidated financial statements.

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THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended March 31		Nine Months Ended March 31	
	2015	**2014**	**2015**	**2014**
	(In millions)			
Net earnings	$ 272.7	$ 213.7	$ 939.6	$ 950.7
Other comprehensive income (loss):				
Net unrealized investment gain (loss)	2.1	0.2	(0.7)	0.6
Net derivative instrument gain (loss)	25.0	1.4	80.3	(14.2)
Amounts included in net periodic benefit cost	10.1	5.5	23.0	16.3
Translation adjustments	(139.5)	(8.2)	(374.1)	44.3
Benefit (provision) for deferred income taxes on components of other comprehensive income	(13.4)	(2.0)	(39.7)	1.8
Total other comprehensive income (loss)	(115.7)	(3.1)	(311.2)	48.8
Comprehensive income (loss)	157.0	210.6	628.4	999.5
Comprehensive (income) loss attributable to noncontrolling interests:				
Net earnings	(0.6)	(0.5)	(3.7)	(4.3)
Translation adjustments	2.1	(0.1)	2.6	(0.8)
	1.5	(0.6)	(1.1)	(5.1)
Comprehensive income attributable to The Estée Lauder Companies Inc.	$ 158.5	$ 210.0	$ 627.3	$ 994.4

See notes to consolidated financial statements.

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THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED BALANCE SHEETS

	March 31 2015 (Unaudited)	June 30 2014
	($ in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,288.3	$ 1,629.1
Short-term investments	136.7	
Accounts receivable, net	1,350.2	1,379.3
Inventory and promotional merchandise, net	1,073.1	1,294.0
Prepaid expenses and other current assets	580.9	522.8
Total current assets	4,429.2	4,825.2
Property, Plant and Equipment, net	1,398.2	1,502.6
Other Assets		
Long-term investments	393.7	13.6
Goodwill	1,147.0	893.2
Other intangible assets, net	330.4	157.3
Other assets	396.6	476.9
Total other assets	2,267.7	1,541.0
Total assets	$ 8,095.1	$ 7,868.8
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	$ 135.3	$ 18.4
Accounts payable	497.7	524.5
Other accrued liabilities	1,464.4	1,513.8
Total current liabilities	2,097.4	2,056.7
Noncurrent Liabilities		
Long-term debt	1,317.5	1,324.7
Other noncurrent liabilities	815.3	618.0
Total noncurrent liabilities	2,132.8	1,942.7
Contingencies (Note 8)		
Equity		
Common stock, $.01 par value; Class A shares authorized: 1,300,000,000 at March 31, 2015 and June 30, 2014; shares issued: 417,509,769 at March 31, 2015 and 412,590,913 at June 30, 2014; Class B shares authorized: 304,000,000 at March 31, 2015 and June 30, 2014; shares issued and outstanding: 147,546,137 at March 31, 2015 and 148,728,082 at June 30, 2014	5.7	5.6
Paid-in capital	2,816.7	2,562.7
Retained earnings	6,942.1	6,265.8
Accumulated other comprehensive loss	(408.9)	(100.3)
	9,355.6	8,733.8
	(5,500.5)	(4,878.9)

Less: Treasury stock, at cost; 186,680,701 Class A shares at March 31, 2015 and 178,434,483 Class A shares at June 30, 2014				
Total stockholders equity The Estée Lauder Companies Inc.		3,855.1		3,854.9
Noncontrolling interests		9.8		14.5
Total equity		3,864.9		3,869.4
Total liabilities and equity	$	8,095.1	$	7,868.8

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended March 31 2015	Nine Months Ended March 31 2014
	(In millions)	
Cash Flows from Operating Activities		
Net earnings	$ 939.6	$ 950.7
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	298.6	280.0
Deferred income taxes	(56.2)	(33.7)
Non-cash stock-based compensation	133.9	124.8
Excess tax benefits from stock-based compensation arrangements	(40.7)	(31.9)
Loss on disposal of property, plant and equipment	8.1	7.6
Non-cash charges associated with restructuring charges		0.1
Pension and post-retirement benefit expense	48.3	52.6
Pension and post-retirement benefit contributions	(18.5)	(22.7)
Loss on Venezuela remeasurement	5.3	38.3
Change in fair value of contingent consideration	4.1	
Other non-cash items	(4.4)	(0.2)
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(94.2)	(226.7)
Decrease (increase) in inventory and promotional merchandise, net	104.9	(87.4)
Increase in other assets, net	(14.4)	(65.1)
Increase in accounts payable	14.8	26.4
Increase in other accrued and noncurrent liabilities	55.8	156.6
Net cash flows provided by operating activities	1,385.0	1,169.4
Cash Flows from Investing Activities		
Capital expenditures	(279.8)	(342.8)
Acquisition of businesses and other intangible assets, net of cash acquired	(242.0)	(9.2)
Proceeds from disposition of investments	181.3	8.4
Purchases of investments	(691.7)	(0.6)
Net cash flows used for investing activities	(1,032.2)	(344.2)
Cash Flows from Financing Activities		
Proceeds from current debt, net	118.7	5.3
Debt issuance costs	(1.1)	
Repayments and redemptions of long-term debt	(6.0)	(9.1)
Net proceeds from stock-based compensation transactions	83.5	55.4
Excess tax benefits from stock-based compensation arrangements	40.7	31.9
Payments to acquire treasury stock	(626.1)	(600.3)
Dividends paid to stockholders	(259.8)	(225.2)
Payments to noncontrolling interest holders for dividends	(4.3)	(2.7)
Net cash flows used for financing activities	(654.4)	(744.7)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(39.2)	(46.0)
Net Increase (Decrease) in Cash and Cash Equivalents	(340.8)	34.5

Cash and Cash Equivalents at Beginning of Period		1,629.1		1,495.7
Cash and Cash Equivalents at End of Period	$	1,288.3	$	1,530.2

See notes to consolidated financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

The unaudited interim consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The results of operations of any interim period are not necessarily indicative of the results of operations to be expected for the full fiscal year. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying footnotes included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2014.

Management Estimates

The preparation of financial statements and related disclosures in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses reported in those financial statements. Certain significant accounting policies that contain subjective management estimates and assumptions include those related to revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill, other intangible assets and long-lived assets, and income taxes. Descriptions of these policies are discussed in the notes to consolidated financial statements in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2014. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, and makes adjustments when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from those estimates and assumptions. Significant changes, if any, in those estimates and assumptions resulting from continuing changes in the economic environment will be reflected in the consolidated financial statements in future periods.

Currency Translation and Transactions

All assets and liabilities of foreign subsidiaries and affiliates are translated at period-end rates of exchange, while revenue and expenses are translated at weighted-average rates of exchange for the period. Unrealized translation gains (losses) reported as cumulative translation adjustments through other comprehensive income (loss) (OCI) attributable to The Estée Lauder Companies Inc. amounted to $(144.4) million and $(7.6) million, net of tax, during the three months ended March 31, 2015 and 2014, respectively, and $(392.5) million and $50.4 million, net of tax, during the nine months ended March 31, 2015 and 2014, respectively.

For the Company s Venezuelan subsidiary operating in a highly inflationary economy, the U.S. dollar is the functional currency. Remeasurement adjustments in financial statements in a highly inflationary economy and other transactional gains and losses are reflected in earnings. During the third quarter of fiscal 2014, the Venezuelan government enacted changes to the foreign exchange controls that expanded the use of its then-existing exchange mechanisms and created another exchange control mechanism (SICAD II), which allowed companies to apply for the purchase of foreign currency and foreign currency denominated securities for any legal use or purpose. The Company considered its specific facts and circumstances in determining the appropriate remeasurment rate and determined the SICAD II rate was the most appropriate rate that reflected the economics of its Venezuelan subsidiary s business as of March 24, 2014, when the SICAD II mechanism became operational. As a result, the Company changed the exchange rate used to remeasure the monetary assets and liabilities of its Venezuelan subsidiary from 6.3 to the SICAD II rate, which was 49.81 as of March 31, 2014. Accordingly, a remeasurement charge of $38.3 million, on a before and after tax basis, was reflected in Selling, general and administrative expenses in the Company s consolidated statements of earnings for the three and nine months ended March 31, 2014.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On February 12, 2015, the Venezuelan government introduced a new open market foreign exchange system (SIMADI), which effectively replaced the SICAD II mechanism. As the SIMADI is the only mechanism legally available at this time for the Company s highest priority transactions, which are the import of goods, the Company changed the exchange rate used to remeasure the monetary assets and liabilities of its Venezuelan subsidiary to the SIMADI rate, which was 191.97 as of March 31, 2015. Accordingly, a remeasurement charge of $5.3 million, on a before and after tax basis, was reflected in Selling, general and administrative expenses in the Company s consolidated statements of earnings for the three and nine months ended March 31, 2015. The net monetary assets of the Company s Venezuelan subsidiary were not material at March 31, 2015.

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

The accompanying consolidated statements of earnings include net exchange gains (losses) on foreign currency transactions, including the effects of Venezuelan remeasurement charges, of $7.2 million and $(41.7) million during the three months ended March 31, 2015 and 2014, respectively, and $(9.2) million and $(48.1) million during the nine months ended March 31, 2015 and 2014, respectively.

Accounts Receivable

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions totaling $20.7 million and $23.9 million as of March 31, 2015 and June 30, 2014, respectively.

Concentration of Credit Risk

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

The Company s largest customer sells products primarily within the United States and accounted for $268.6 million, or 10%, and $284.0 million, or 11%, of the Company s consolidated net sales for the three months ended March 31, 2015 and 2014, respectively, and $827.4 million, or 10%, and $907.0 million, or 11%, of the Company s consolidated net sales for the nine months ended March 31, 2015 and 2014, respectively. This customer accounted for $199.7 million, or 15%, and $158.5 million, or 11%, of the Company s accounts receivable at March 31, 2015 and June 30, 2014, respectively.

Inventory and Promotional Merchandise

Inventory and promotional merchandise, net consists of:

(In millions)	March 31 2015	June 30 2014
Raw materials	$ 254.5	$ 317.5
Work in process	133.3	192.4
Finished goods	551.2	599.5
Promotional merchandise	134.1	184.6
	$ 1,073.1	$ 1,294.0

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Property, Plant and Equipment

(In millions)	March 31 2015	June 30 2014
Assets (Useful Life)		
Land	$ 14.9	$ 15.4
Buildings and improvements (10 to 40 years)	195.5	205.0
Machinery and equipment (3 to 10 years)	642.1	673.9
Computer hardware and software (4 to 10 years)	985.0	994.8
Furniture and fixtures (5 to 10 years)	68.0	75.1
Leasehold improvements	1,534.5	1,565.7
	3,440.0	3,529.9
Less accumulated depreciation and amortization	2,041.8	2,027.3
	$ 1,398.2	$ 1,502.6

The cost of assets related to projects in progress of $156.8 million and $229.9 million as of March 31, 2015 and June 30, 2014, respectively, is included in their respective asset categories above. Depreciation and amortization of property, plant and equipment was $97.2 million and $94.0 million during the three months ended March 31, 2015 and 2014, respectively, and $292.3 million and $275.1 million during the nine months ended March 31, 2015 and 2014, respectively. Depreciation and amortization related to the Company s manufacturing process is included in Cost of Sales, and all other depreciation and amortization is included in Selling, general and administrative expenses in the accompanying consolidated statements of earnings.

Other Accrued Liabilities

Other accrued liabilities consist of the following:

(In millions)	March 31 2015	June 30 2014
Advertising, merchandising and sampling	$ 305.7	$ 301.7
Employee compensation	384.6	468.2
Payroll and other taxes	155.0	161.2
Accrued income taxes	147.9	113.6
Other	471.2	469.1
	$ 1,464.4	$ 1,513.8

Income Taxes

The effective rate for income taxes was 29.2% and 35.1% for the three months ended March 31, 2015 and 2014, respectively. The decrease in the effective income tax rate was primarily attributable to a reduction in the effective tax rate on the Company s foreign operations, partially offset by an increase in income tax reserve adjustments. Contributing to a higher effective tax rate in the prior-year period was the impact of the Venezuelan remeasurement charge for which no tax benefit was provided.

The effective rate for income taxes was 30.0% and 32.5% for the nine months ended March 31, 2015 and 2014, respectively. The decrease in the effective income tax rate was primarily attributable to a reduction in the effective tax rate on the Company s foreign operations, partially offset by an increase in income tax reserve adjustments. Contributing to a higher effective tax rate in the prior-year period was the impact of the Venezuelan remeasurement charge for which no tax benefit was provided.

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As of March 31, 2015 and June 30, 2014, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled $75.1 million and $58.1 million, respectively. The total amount of unrecognized tax benefits at March 31, 2015 that, if recognized, would affect the effective tax rate was $51.6 million. The total gross interest and penalties accrued related to unrecognized tax benefits during the three and nine months ended March 31, 2015 in the accompanying consolidated statements of earnings was $0.9 million and $5.7 million, respectively. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at March 31, 2015 and June 30, 2014 was $16.7 million and $12.5 million, respectively. On the basis of the information available as of March 31, 2015, the Company does not expect any significant changes to the total amount of unrecognized tax benefits within the next 12 months.

During the nine months ended March 31, 2015, the Company formally concluded the compliance process with respect to fiscal 2013 under the U.S. Internal Revenue Service Compliance Assurance Program. The conclusion of this process did not impact the Company s consolidated financial statements.

As of March 31, 2015 and June 30, 2014, the Company had current net deferred tax assets of $262.3 million and $295.1 million, respectively, substantially all of which are included in Prepaid expenses and other current assets in the accompanying consolidated balance sheets. In addition, the Company had noncurrent net deferred tax assets of $76.4 million and $85.5 million as of March 31, 2015 and June 30, 2014, respectively, substantially all of which are included in Other assets in the accompanying consolidated balance sheets.

Recently Adopted Accounting Standards

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

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

Recently Issued Accounting Standards

In April 2015, the FASB issued authoritative guidance that simplifies the presentation of debt issuance costs. Under the revised guidance, entities would no longer be able to recognize debt issuance costs as an asset in the balance sheet. The amendments in this update require that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this update. This guidance becomes effective for the Company s fiscal 2017 first quarter. Early adoption is only permitted for financial statements that have not been previously issued. Upon adoption, a reporting entity is required to apply the new guidance on a retrospective basis and required to comply with the applicable disclosures for a change in an accounting principle. The Company will apply this new guidance retrospectively when it becomes effective, and the adoption of this guidance is not expected to have a significant impact on its consolidated financial statements.

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In April 2015, the FASB issued authoritative guidance to clarify the accounting treatment for fees paid by a customer in cloud computing arrangements. Under the revised guidance, if a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If the cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. The revised guidance will not change a customer s accounting for service contracts. The guidance becomes effective for the Company s fiscal 2017 first quarter, with early adoption permitted. Upon adoption, a reporting entity can elect to apply the new guidance prospectively after the effective date, or retrospectively. The Company is currently evaluating the impact of adoption of this standard on its consolidated financial statements.

In June 2014, the FASB amended its authoritative guidance on accounting for certain share-based payment awards. The amended guidance requires that if share-based compensation awards have terms of a performance target that affect vesting and that could be achieved after the requisite service period, such performance target should be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant-date fair value of the award and compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. This guidance becomes effective for the Company s fiscal 2017 first quarter, with early adoption permitted. The guidance will permit an entity to apply the amendments in the update either (a) prospectively to all awards granted or modified after the effective date or (b) retrospectively to all awards with performance targets that are outstanding as of the beginning of the earliest annual period presented in the consolidated financial statements and to all new or modified awards thereafter. The Company will apply this new guidance when it becomes effective, and is currently evaluating the impact of adoption on its consolidated financial statements.

In May 2014, the FASB issued authoritative guidance that defines how companies should report revenues from contracts with customers. The standard requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It provides companies with a single comprehensive five-step principles-based model to use in accounting for revenue and supersedes current revenue recognition requirements, including most industry-specific and transaction-specific revenue guidance. This guidance becomes effective for the Company s fiscal 2018 first quarter, and early adoption is not permitted. In April 2015, the FASB proposed a deferral of the effective date of the new revenue standard by one year. The proposal will be subject to the FASB s due process requirements, which include a period for public comments. If the proposed deferral is passed, the new standard would not be effective for the Company until fiscal 2019. The guidance permits an entity to apply the standard retrospectively to all prior periods presented, with certain practical expedients, or apply the requirements in the year of adoption, through a cumulative adjustment. The Company will apply this new guidance when it becomes effective and has not yet selected a transition method. The Company is currently evaluating the impact of adoption on its consolidated financial statements.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2   INVESTMENTS

During the fiscal 2015 second quarter, the Company modified its cash investment strategy to invest a portion of its cash and cash equivalents in short- and long-term investments. The Company s investment objectives include capital preservation, maintaining adequate liquidity, asset diversification, and achieving appropriate returns within the guidelines set forth in the Company s investment policy. These investments are classified as available-for-sale, with any temporary difference between the cost and fair value of an investment presented as a separate component of accumulated other comprehensive income (loss) (AOCI). See Note 6   Fair Value Measurements for further information about how the fair value of investments are determined.

Investments in privately-held companies in which the Company has significant influence, but less than a controlling financial interest, are generally accounted for under the equity method of accounting. These investments were not material to the Company s consolidated financial statements as of March 31, 2015 and June 30, 2014 and are included in Long-term investments in the accompanying consolidated balance sheets.

The Company evaluates investments held in unrealized loss positions for other-than-temporary impairment on a quarterly basis. Such evaluation involves a variety of considerations, including assessments of the risks and uncertainties associated with general economic conditions and distinct conditions affecting specific issuers. Factors considered by the Company include, but are not limited to (i) the length of time and extent the security has been in a material loss position; (ii) the financial condition and creditworthiness of the issuer; (iii) future economic conditions and market forecasts related to the issuer s industry, sector, or geography; (iv) the Company s intent and ability to retain its investment until maturity or for a period of time sufficient to allow for recovery of market value; and (v) an assessment of whether it is more likely than not that the Company will be required to sell its investment before recovery of market value.

Gains and losses recorded in AOCI related to the Company s available-for-sale investments as of March 31, 2015 were as follows:

(In millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$ 292.7	$ 0.2	$ (0.1)	$ 292.8
Foreign government and agency securities	20.5			20.5
Corporate notes and bonds	166.7	0.2	(0.1)	166.8
Time deposits	12.9			12.9
Other securities	30.2	1.2		31.4
Total	$ 523.0	$ 1.6	$ (0.2)	$ 524.4

Gross unrealized investment gains recorded in AOCI related to the Company s available-for-sale investments as of June 30, 2014 were $2.1 million.

The following table presents the Company s available-for-sale securities by contractual maturity as of March 31, 2015:

(In millions)		**Cost**		**Fair Value**
Due within one year	$	136.7	$	136.7
Due after one through five years		386.3		387.7
	$	523.0	$	524.4

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The following table presents the fair market value of the Company s investments with gross unrealized losses that are not deemed to be other-than temporarily impaired as of March 31, 2015:

	In a Loss Position for Less Than 12 Months		In a Loss Position for More Than 12 Months	
(In millions)	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Available-for-sale securities	$ 291.2	$ (0.2)	$	$

Gross gains and losses realized on sales of investments included in the consolidated statements of earnings were as follows:

	Three Months Ended March 31		Nine Months Ended March 31	
(In millions)	**2015**	**2014**	**2015**	**2014**
Gross realized gains	$ 0.1	$	$ 1.6	$
Gross realized losses	(0.1)		(0.1)	
Total	$	$	$ 1.5	$

The Company utilizes the first-in, first-out method to determine the cost of the security sold.

NOTE 3 ACQUISITION OF BUSINESSES

The Company acquired Le Labo, a fragrance brand, in November 2014, RODIN olio lusso, a skin care brand, in October 2014 and in January 2015, Editions de Parfums Frédéric Malle, a fragrance brand, and GLAMGLOW, a skin care brand. The results of operations of these businesses are included in the accompanying consolidated financial statements commencing with the date they were acquired. The purchase price related to each of these acquisitions includes cash paid at closing plus additional amounts to be paid in the future, a portion of which is contingent on the achievement of certain future operating results. The amounts paid at closing were funded by cash on hand and through the issuance of commercial paper. The additional amounts are expected to be paid from fiscal 2018 through fiscal 2020 with the exception of working capital adjustments, which are anticipated to be settled during fiscal 2015. The aggregate acquisition-date fair value of these transactions was approximately $445 million. The purchase prices recorded are provisional pending final working capital adjustments and completion of the final valuations.

These fiscal 2015 acquisitions were not material, individually or in the aggregate, to the Company s consolidated financial statements. Pro forma results of operations of the prior-year period have not been presented, as the impact on the Company s consolidated financial results would not have been material.

NOTE 4 GOODWILL AND OTHER INTANGIBLE ASSETS

During the nine months ended March 31, 2015, the Company acquired Le Labo, RODIN olio lusso, Editions de Parfums Frédéric Malle and GLAMGLOW, which included the addition of goodwill of $254.2 million, amortizable intangible assets of $27.5 million (with a weighted-average amortization period of approximately 9 years) and non-amortizable intangible assets of $157.2 million related to the Company s fragrance and skin care product categories. Approximately $159 million of goodwill recorded in connection with certain of these acquisitions is expected to be deductible for tax purposes. During the nine months ended March 31, 2015, the Company recognized $7.2 million of goodwill associated with the continuing earn-out obligations related to the acquisition of the Bobbi Brown brand.

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

(In millions)	Skin Care	Makeup	Fragrance	Hair Care	Total
Balance as of June 30, 2014					
Goodwill	$ 68.9	$ 440.7	$ 54.8	$ 402.3	$ 966.7
Accumulated impairments	(33.6)			(39.9)	(73.5)
	35.3	440.7	54.8	362.4	893.2
Goodwill acquired during the period	121.2	7.2	133.0		261.4
Translation adjustments	(0.6)	(1.0)	(2.0)	(4.0)	(7.6)
	120.6	6.2	131.0	(4.0)	253.8
Balance as of March 31, 2015					
Goodwill	184.3	446.9	185.8	393.4	1,210.4
Accumulated impairments	(28.4)			(35.0)	(63.4)
	$ 155.9	$ 446.9	$ 185.8	$ 358.4	$ 1,147.0

Other intangible assets consist of the following:

(In millions)	March 31, 2015 Gross Carrying Value	March 31, 2015 Accumulated Amortization	March 31, 2015 Total Net Book Value	June 30, 2014 Gross Carrying Value	June 30, 2014 Accumulated Amortization	June 30, 2014 Total Net Book Value
Amortizable intangible assets:						
Customer lists and other	$ 293.7	$ 225.0	$ 68.7	$ 268.3	$ 216.7	$ 51.6
License agreements	43.0	43.0		43.0	43.0	
	$ 336.7	$ 268.0	68.7	$ 311.3	$ 259.7	51.6
Non-amortizable intangible assets:						
Trademarks and other			261.7			105.7
Total intangible assets			$ 330.4			$ 157.3

The aggregate amortization expense related to amortizable intangible assets was $3.6 million and $3.0 million for the three months ended March 31, 2015 and 2014, respectively, and was $9.7 million and $9.3 million for the nine months ended March 31, 2015 and 2014, respectively. The estimated aggregate amortization expense for the remainder of fiscal 2015 and for each of fiscal 2016 to 2019 is $3.9 million, $15.2 million, $13.2 million, $11.7 million and $10.7 million, respectively.

NOTE 5 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

	Asset Derivatives			**Liability Derivatives**		
		Fair Value (1)			**Fair Value (1)**	
(In millions)	**Balance Sheet Location**	**March 31 2015**	**June 30 2014**	**Balance Sheet Location**	**March 31 2015**	**June 30 2014**
Derivatives Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	$ 67.4	$ 3.4	Other accrued liabilities	$ 2.1	$ 18.2
Derivatives Not Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	3.6	0.8	Other accrued liabilities	13.3	0.9
Total Derivatives		$ 71.0	$ 4.2		$ 15.4	$ 19.1

(1) See Note 6 Fair Value Measurements for further information about how the fair value of derivative assets and liabilities are determined.

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

(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended March 31 2015	2014	Location of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion) (1) Three Months Ended March 31 2015	2014
Derivatives in Cash-Flow Hedging Relationships:					
Foreign currency forward contracts	$ 39.1	$ 3.2	Cost of sales	$ 3.6	$ 1.1
			Selling, general and administrative	10.5	0.6
Total derivatives	$ 39.1	$ 3.2		$ 14.1	$ 1.7