ESTEE LAUDER COMPANIES INC
Form 10-Q
February 05, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549-1004

FORM 10-Q

(Mark One)-

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

For the quarterly period ended December 31, 2014

OR

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

For the transition period from to

Commission file number: 1-14064

The Estée Lauder Companies Inc.

(Exact name of registrant as specified in its charter)

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

212-572-4200

(Registrant s telephone number, including area code)

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

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

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

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

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

At January 29, 2015, 230,125,001 shares of the registrant s Class A Common Stock, $.01 par value, and 147,946,137 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 December 31		Six Months Ended December 31	
	2014	2013	2014	2013
	(In millions, except per share data)			
Net Sales	$ 3,044.5	$ 3,018.7	$ 5,675.5	$ 5,693.7
Cost of Sales	573.1	581.6	1,109.7	1,125.7
Gross Profit	2,471.4	2,437.1	4,565.8	4,568.0
Operating expenses				
Selling, general and administrative	1,838.6	1,784.2	3,585.0	3,464.4
Restructuring and other charges		(3.4)		(2.2)
Total operating expenses	1,838.6	1,780.8	3,585.0	3,462.2
Operating Income	632.8	656.3	980.8	1,105.8
Interest expense	15.0	14.6	29.8	29.2
Interest income and investment income, net	3.8	2.2	5.4	3.3
Earnings before Income Taxes	621.6	643.9	956.4	1,079.9
Provision for income taxes	183.9	208.7	289.5	342.9
Net Earnings	437.7	435.2	666.9	737.0
Net earnings attributable to noncontrolling interests	(2.0)	(2.7)	(3.1)	(3.8)
Net Earnings Attributable to The Estée Lauder Companies Inc.	$ 435.7	$ 432.5	$ 663.8	$ 733.2
Net earnings attributable to The Estée Lauder Companies Inc. per common share				
Basic	$ 1.15	$ 1.11	$ 1.74	$ 1.89
Diluted	1.13	1.09	1.71	1.86
Weighted-average common shares outstanding				
Basic	380.0	388.3	380.9	388.1
Diluted	386.1	395.4	387.1	395.1

Cash dividends declared per common share	$	.24	$	.20	$	.44	$	.38

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 December 31		Six Months Ended December 31	
	2014	2013	2014	2013
	(In millions)			
Net earnings	$ 437.7	$ 435.2	$ 666.9	$ 737.0
Other comprehensive income (loss):				
Net unrealized investment gain (loss)	(2.9)	0.1	(2.8)	0.4
Net derivative instrument gain (loss)	21.5	1.9	55.3	(15.6)
Amounts included in net periodic benefit cost	6.3	5.4	12.9	10.8
Translation adjustments	(104.7)	(15.2)	(234.6)	52.5
Benefit (provision) for deferred income taxes on components of other comprehensive income	(10.3)	(2.1)	(26.3)	3.8
Total other comprehensive income (loss)	(90.1)	(9.9)	(195.5)	51.9
Comprehensive income (loss)	347.6	425.3	471.4	788.9
Comprehensive (income) loss attributable to noncontrolling interests:				
Net earnings	(2.0)	(2.7)	(3.1)	(3.8)
Translation adjustments	(1.1)	(0.1)	0.5	(0.7)
	(3.1)	(2.8)	(2.6)	(4.5)
Comprehensive income attributable to The Estée Lauder Companies Inc.	$ 344.5	$ 422.5	$ 468.8	$ 784.4

See notes to consolidated financial statements.

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THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED BALANCE SHEETS

	December 31 2014 (Unaudited)	June 30 2014
	($ in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,241.2	$ 1,629.1
Short-term investments	130.8	
Accounts receivable, net	1,399.0	1,379.3
Inventory and promotional merchandise, net	1,112.3	1,294.0
Prepaid expenses and other current assets	542.7	522.8
Total current assets	4,426.0	4,825.2
Property, Plant and Equipment, net	1,434.2	1,502.6
Other Assets		
Long-term investments	387.9	13.6
Goodwill	993.3	893.2
Other intangible assets, net	215.5	157.3
Other assets	399.7	476.9
Total other assets	1,996.4	1,541.0
Total assets	$ 7,856.6	$ 7,868.8
LIABILITIES AND EQUITY		
Current Liabilities		
Current debt	$ 68.5	$ 18.4
Accounts payable	495.0	524.5
Other accrued liabilities	1,480.7	1,513.8
Total current liabilities	2,044.2	2,056.7
Noncurrent Liabilities		
Long-term debt	1,320.7	1,324.7
Other noncurrent liabilities	662.4	618.0
Total noncurrent liabilities	1,983.1	1,942.7
Contingencies (Note 8)		
Equity		
Common stock, $.01 par value; Class A shares authorized: 1,300,000,000 at December 31, 2014 and June 30, 2014; shares issued: 415,673,504 at December 31, 2014 and 412,590,913 at June 30, 2014; Class B shares authorized: 304,000,000 at December 31, 2014 and June 30, 2014; shares issued and outstanding: 147,946,137 at December 31, 2014 and 148,728,082 at June 30, 2014	5.6	5.6
Paid-in capital	2,700.8	2,562.7
Retained earnings	6,761.5	6,265.8
Accumulated other comprehensive loss	(295.3)	(100.3)
	9,172.6	8,733.8
	(5,354.6)	(4,878.9)

Less: Treasury stock, at cost; 184,779,637 Class A shares at December 31, 2014 and 178,434,483 Class A shares at June 30, 2014				
Total stockholders equity The Estée Lauder Companies Inc.		3,818.0		3,854.9
Noncontrolling interests		11.3		14.5
Total equity		3,829.3		3,869.4
Total liabilities and equity	$	7,856.6	$	7,868.8

See notes to consolidated financial statements.

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THE ESTÉE LAUDER COMPANIES INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended December 31 2014	2013
	(In millions)	
Cash Flows from Operating Activities		
Net earnings	$ 666.9	$ 737.0
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	198.6	184.4
Deferred income taxes	(32.8)	(18.3)
Non-cash stock-based compensation	100.9	94.9
Excess tax benefits from stock-based compensation arrangements	(14.1)	(25.3)
Loss on disposal of property, plant and equipment	8.0	5.8
Pension and post-retirement benefit expense	33.7	35.0
Pension and post-retirement benefit contributions	(11.9)	(12.8)
Other non-cash items	(4.3)	(0.1)
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(109.8)	(318.4)
Decrease (increase) in inventory and promotional merchandise, net	107.1	(12.9)
Decrease (increase) in other assets, net	2.9	(44.8)
Increase (decrease) in accounts payable	(1.1)	5.6
Increase in other accrued and noncurrent liabilities	49.6	152.3
Net cash flows provided by operating activities	993.7	782.4
Cash Flows from Investing Activities		
Capital expenditures	(187.4)	(216.9)
Acquisition of businesses and other intangible assets, net of cash acquired	(104.2)	(9.2)
Proceeds from disposition of investments	61.2	
Purchases of investments	(560.5)	(0.6)
Net cash flows used for investing activities	(790.9)	(226.7)
Cash Flows from Financing Activities		
Borrowings (repayments) of current debt, net	50.5	3.4
Debt issuance costs	(1.0)	
Repayments and redemptions of long-term debt	(4.9)	(6.7)
Net proceeds from stock-based compensation transactions	23.8	28.2
Excess tax benefits from stock-based compensation arrangements	14.1	25.3
Payments to acquire treasury stock	(478.6)	(204.9)
Dividends paid to stockholders	(168.9)	(148.4)
Payments to noncontrolling interest holders for dividends	(3.1)	
Net cash flows used for financing activities	(568.1)	(303.1)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(22.6)	(0.3)
Net Increase (Decrease) in Cash and Cash Equivalents	(387.9)	252.3
Cash and Cash Equivalents at Beginning of Period	1,629.1	1,495.7
Cash and Cash Equivalents at End of Period	$ 1,241.2	$ 1,748.0

See notes to consolidated financial statements.

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THE ESTÉE LAUDER COMPANIES INC.

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 $(111.4) million and $(14.5) million, net of tax, during the three months ended December 31, 2014 and 2013, respectively, and $(248.1) million and $58.0 million, net of tax, during the six months ended December 31, 2014 and 2013, 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.

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 losses on foreign currency transactions of $6.5 million during the three months ended December 31, 2014 and 2013, and $16.3 million and $6.4 million during the six months ended December 31, 2014 and 2013, respectively.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Accounts Receivable

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions totaling $22.1 million and $23.9 million as of December 31, 2014 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 $266.0 million, or 9%, and $281.4 million, or 9%, of the Company s consolidated net sales for the three months ended December 31, 2014 and 2013, respectively, and $558.8 million, or 10%, and $623.0 million, or 11%, of the Company s consolidated net sales for the six months ended December 31, 2014 and 2013, respectively. This customer accounted for $141.3 million, or 10%, and $158.5 million, or 11%, of the Company s accounts receivable at December 31, 2014 and June 30, 2014, respectively.

Inventory and Promotional Merchandise

Inventory and promotional merchandise, net consists of:

(In millions)	**December 31 2014**	**June 30 2014**
Raw materials	$ 256.9	$ 317.5
Work in process	143.8	192.4
Finished goods	540.1	599.5
Promotional merchandise	171.5	184.6
	$ 1,112.3	$ 1,294.0

Property, Plant and Equipment

(In millions)	December 31 2014	June 30 2014
Assets (Useful Life)		
Land	$ 15.0	$ 15.4
Buildings and improvements (10 to 40 years)	197.8	205.0
Machinery and equipment (3 to 10 years)	667.8	673.9
Computer hardware and software (4 to 10 years)	1,017.7	994.8
Furniture and fixtures (5 to 10 years)	71.1	75.1
Leasehold improvements	1,555.8	1,565.7
	3,525.2	3,529.9
Less accumulated depreciation and amortization	2,091.0	2,027.3
	$ 1,434.2	$ 1,502.6

The cost of assets related to projects in progress of $136.4 million and $229.9 million as of December 31, 2014 and June 30, 2014, respectively, is included in their respective asset categories above. Depreciation and amortization of property, plant and equipment was $96.2 million and $94.0 million during the three months ended December 31, 2014 and 2013, respectively, and $195.1 million and $181.1 million during the six months ended December 31, 2014 and 2013, respectively. Depreciation and amortization related to the Company s manufacturing process is included in Cost of Sales, and all other depreciation and amortization is included in Selling, general and administrative expenses in the accompanying consolidated statements of earnings.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Other Accrued Liabilities

Other accrued liabilities consist of the following:

(In millions)	December 31 2014	June 30 2014
Advertising, merchandising and sampling	$ 327.8	$ 301.7
Employee compensation	330.2	468.2
Payroll and other taxes	202.2	161.2
Accrued income taxes	172.0	113.6
Other	448.5	469.1
	$ 1,480.7	$ 1,513.8

Income Taxes

The effective rate for income taxes was 29.6% and 32.4% for the three months ended December 31, 2014 and 2013, 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.

The effective rate for income taxes was 30.3% and 31.8% for the six months ended December 31, 2014 and 2013, 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.

As of December 31, 2014 and June 30, 2014, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled $69.6 million and $58.1 million, respectively. The total amount of unrecognized tax benefits at December 31, 2014 that, if recognized, would affect the effective tax rate was $49.1 million. The total gross interest and penalties accrued related to unrecognized tax benefits during the three and six months ended December 31, 2014 in the accompanying consolidated statements of earnings was $3.8 million and $4.8 million, respectively. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at December 31, 2014 and June 30, 2014 was $16.8 million and $12.5 million, respectively. On the basis of the information available as of December 31, 2014, the Company does not expect any significant changes to the total amount of unrecognized tax benefits within the next 12 months.

During the six months ended December 31, 2014, 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 December 31, 2014 and June 30, 2014, the Company had current net deferred tax assets of $273.7 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 $60.7 million and $85.5 million as of December 31, 2014 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In March 2013, the FASB issued authoritative guidance to resolve the diversity in practice concerning the release of the cumulative translation adjustment (CTA) into net income (i) when a parent sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets within a foreign entity, and (ii) in connection with a step acquisition of a foreign entity. This amended guidance requires that CTA be released in net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, and that a pro rata portion of the CTA be released into net income upon a partial sale of an equity method investment in a foreign entity only. In addition, the amended guidance clarifies the definition of a sale of an investment in a foreign entity to include both, events that result in the loss of a controlling financial interest in a foreign entity and events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately prior to the date of acquisition. The CTA should be released into net income upon the occurrence of such events. This guidance 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 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. 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 December 31, 2014 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.

The amount of gains and losses recorded in AOCI related to the Company s available-for-sale investments as of December 31, 2014 is as follows:

(In millions)	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and agency securities	$ 322.7	$	$ (0.7)	$ 322.0
Foreign government and agency securities	16.0			16.0
Corporate notes and bonds	152.7		(0.8)	151.9
Other securities	22.2	0.8		23.0
Total	$ 513.6	$ 0.8	$ (1.5)	$ 512.9

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

The following table presents the Company s available-for-sale securities by contractual maturity as of December 31, 2014:

(In millions)		**Cost**		**Fair Value**
Due within one year	$	130.8	$	130.8
Due after one through five years		382.8		382.1
	$	513.6	$	512.9

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 December 31, 2014:

	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	$	466.3	$	(1.5)	$		$	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(In millions)	Three Months Ended December 31 2014	2013	Six Months Ended December 31 2014	2013
Gross realized gains	$ 1.5	$	$ 1.5	$
Gross realized losses				
Total	$ 1.5	$	$ 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 and RODIN olio lusso, a skin care brand, in October 2014. 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 in fiscal 2018 and fiscal 2020. The aggregate acquisition-date fair value of these transactions, net of cash acquired, was approximately $146 million. The purchase prices recorded are provisional pending final working capital adjustments and completion of the final valuations.

In January 2015, the Company acquired Editions de Parfums Frederic Malle, a fragrance brand, and GLAMGLOW, a skin care brand. The purchase price related to each of these acquisitions includes cash paid at closing plus additional amounts to be paid in the future, which are 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 in fiscal 2019 and fiscal 2020. The aggregate acquisition-date fair value of these transactions, net of cash acquired, was approximately $295 million.

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 six months ended December 31, 2014, the Company acquired Le Labo and RODIN olio lusso, which included the addition of goodwill of $97.7 million, amortizable intangible assets of $6.8 million (with a weighted-average amortization period of approximately 10 years) and non-amortizable intangible assets of $57.9 million related to the Company s fragrance and skin care product categories. During the six months ended December 31, 2014, the Company recognized $6.3 million of goodwill associated with the continuing earn-out obligations related to the acquisition of the Bobbi Brown brand.

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	4.6	6.3	93.1		104.0
Translation adjustments	(0.3)	(0.3)	(0.7)	(2.6)	(3.9)
	4.3	6.0	92.4	(2.6)	100.1
Balance as of December 31, 2014					
Goodwill	70.5	446.7	147.2	397.3	1,061.7
Accumulated impairments	(30.9)			(37.5)	(68.4)
	$ 39.6	$ 446.7	$ 147.2	$ 359.8	$ 993.3

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Other intangible assets consist of the following:

(In millions)	December 31, 2014 Gross Carrying Value	December 31, 2014 Accumulated Amortization	December 31, 2014 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	$ 273.8	$ 221.9	$ 51.9	$ 268.3	$ 216.7	$ 51.6
License agreements	43.0	43.0		43.0	43.0	
	$ 316.8	$ 264.9	51.9	$ 311.3	$ 259.7	51.6
Non-amortizable intangible assets:						
Trademarks and other			163.6			105.7
Total intangible assets			$ 215.5			$ 157.3

The aggregate amortization expense related to amortizable intangible assets was $3.1 million for the three months ended December 31, 2014 and 2013 and was $6.1 million and $6.3 million for the six months ended December 31, 2014 and 2013, respectively. The estimated aggregate amortization expense for the remainder of fiscal 2015 and for each of fiscal 2016 to 2019 is $6.6 million, $12.6 million, $10.6 million, $9.1 million and $8.3 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.

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.

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

(In millions)	Asset Derivatives Balance Sheet Location	Asset Derivatives Fair Value (1) December 31 2014	Asset Derivatives Fair Value (1) June 30 2014	Liability Derivatives Balance Sheet Location	Liability Derivatives Fair Value (1) December 31 2014	Liability Derivatives Fair Value (1) June 30 2014
Derivatives Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	$ 44.2	$ 3.4	Other accrued liabilities	$ 3.6	$ 18.2
Derivatives Not Designated as Hedging Instruments:						
Foreign currency forward contracts	Prepaid expenses and other current assets	2.3	0.8	Other accrued liabilities	2.3	0.9
Total Derivatives		$ 46.5	$ 4.2		$ 5.9	$ 19.1

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

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

(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended December 31 2014	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended December 31 2013	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 December 31 2014	Amount of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion) (1) Three Months Ended December 31 2013
Derivatives in Cash-Flow Hedging Relationships:					
	$ 30.4	$ 3.3	Cost of sales	$ 2.2	$ 1.1

Foreign currency forward contracts								
					Selling, general and administrative		6.6		0.3
Total derivatives	$	30.4	$	3.3		$	8.8	$	1.4

(1) The amount of gain (loss) recognized in earnings related to the amount excluded from effectiveness testing was $0.6 million and $0.7 million for the three months ended December 31, 2014 and 2013, respectively. There was a $0.6 million gain recognized in earnings related to the ineffective portion of the hedging relationships for the three months ended December 31, 2014. There was no gain (loss) recognized in earnings related to the ineffective portion of the hedging relationships for the three months ended December 31, 2013.

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(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Six Months Ended December 31 2014	2013	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) Six Months Ended December 31 2014	2013
Derivatives in Cash-Flow Hedging Relationships:					
Foreign currency forward contracts	$ 64.1	$ (10.3)	Cost of sales	$ 1.8	$ 2.5
			Selling, general and administrative	6.8	2.7
Total derivatives	$ 64.1	$ (10.3)		$ 8.6	$ 5.2

(1) The amount of gain (loss) recognized in earnings related to the amount excluded from effectiveness testing was $(0.8) million and $0.6 million for the six months ended December 31, 2014 and 2013, respectively. The amount of gain (loss) recognized in earnings related to the ineffective portion of the hedging relationships was $0.6 million and $(0.5) million for the six months ended December 31, 2014 and 2013, respectively.

The amounts of the gains and losses related to the Company s derivative financial instruments not designated as hedging instruments are presented as follows:

(In millions)	Location of Gain or (Loss) Recognized in Earnings on Derivatives	Amount of Gain or (Loss) Recognized in Earnings on Derivatives Three Months Ended December 31 2014	2013	Six Months Ended December 31 2014	2013
Foreign currency forward contracts	Selling, general and administrative	$ 2.8	$ (1.6)	$ 0.1	$ 1.4

Foreign Currency Cash-Flow Hedges

The Company enters into foreign currency forward contracts to hedge anticipated transactions, as well as receivables and payables denominated in foreign currencies, for periods consistent with the Company s identified exposures. The purpose of the hedging activities is to minimize the effect of foreign exchange rate movements on costs, and on the cash flows that the Company receives from foreign subsidiaries. The majority of foreign currency forward contracts are denominated in currencies of major industrial countries. The Company may also enter into foreign currency option contracts to hedge anticipated transactions where there is a high probability that anticipated exposures will materialize. The foreign currency forward contracts entered into to hedge anticipated transactions have been designated as foreign currency cash-flow hedges and have varying maturities through the end of December 2016. Hedge effectiveness of foreign currency forward contracts is based on a hypothetical derivative methodology and excludes the portion of fair value attributable to the spot-forward difference which is recorded in current-period earnings. Hedge effectiveness of foreign currency option contracts is based on a dollar offset methodology.

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The ineffective portion of both foreign currency forward and option contracts is recorded in current-period earnings. For hedge contracts that are no longer deemed highly effective, hedge accounting is discontinued and gains and losses in AOCI are reclassified to earnings when the underlying forecasted transaction occurs. If it is probable that the forecasted transaction will no longer occur, then any gains or losses in AOCI are reclassified to current-period earnings. As of December 31, 2014, the Company s foreign currency cash-flow hedges were highly effective in all material respects. The estimated net gain as of December 31, 2014 that is expected to be reclassified from AOCI into earnings, net of tax, within the next twelve months is $20.1 million. The accumulated gain (loss) on derivative instruments in AOCI was $43.0 million and $(12.5) million as of December 31, 2014 and June 30, 2014, respectively.

At December 31, 2014, the Company had foreign currency forward contracts in the amount of $2,108.2 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the British pound ($463.2 million), Euro ($338.0 million), Swiss franc ($240.8 million), Canadian dollar ($176.8 million), Hong Kong dollar ($148.1 million), Australian dollar ($124.5 million) and Japanese yen ($120.2 million).

Fair-Value Hedges

The Company may enter into interest rate derivative contracts to manage the exposure to interest rate fluctuations on its funded indebtedness and anticipated issuance of debt for periods consistent with the identified exposures.

Credit Risk

As a matter of policy, the Company enters into derivative contracts only with counterparties that have a long-term credit rating of at least A- or higher by at least two nationally recognized rating agencies. The counterparties to these contracts are major financial institutions. Exposure to credit risk in the event of nonperformance by any of the counterparties is limited to the gross fair value of contracts in asset positions, which totaled $46.5 million at December 31, 2014. To manage this risk, the Company has established strict counterparty credit guidelines that are continually monitored. Accordingly, management believes risk of loss under these hedging contracts is remote.

Certain of the Company s derivative financial instruments, with two counterparties, contain credit-risk-related contingent features. At December 31, 2014, the Company was in a net asset position for certain derivative contracts that contain such features. The fair value of those contracts as of December 31, 2014 was $17.4 million. As of December 31, 2014, the Company was in compliance with such credit-risk-related contingent features.

NOTE 6 FAIR VALUE MEASUREMENTS

The Company records certain of its financial assets and liabilities at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. The accounting for fair value measurements must be applied to nonfinancial assets and nonfinancial liabilities that require initial measurement or remeasurement at fair value, which principally consist of assets and liabilities acquired through business combinations and goodwill, indefinite-lived intangible assets and long-lived assets for the purposes of calculating potential impairment. The Company is required to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs that may be used to measure fair value are as follows:

Level 1: Inputs based on quoted market prices for identical assets or liabilities in active markets at the measurement date.

Level 2: Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Inputs reflect management s best estimate of what market participants would use in pricing the asset or liability at the measurement date. The inputs are unobservable in the market and significant to the instrument s valuation.

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The following table presents the Company s hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014:

(In millions)	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency forward contracts	$	$ 46.5	$	$ 46.5
Available-for-sale securities:				
U.S government and agency securities		322.0		322.0
Foreign government and agency securities		16.0		16.0
Corporate notes and bonds		151.9		151.9
Other securities	7.1	15.9		23.0
Total	$ 7.1	$ 552.3	$	$ 559.4
Liabilities:				
Foreign currency forward contracts	$	$ 5.9	$	$ 5.9
Contingent consideration			12.1	12.1
Total	$	$ 5.9	$ 12.1	$ 18.0

The following table presents the Company s hierarchy for its financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2014:

(In millions)	Level 1	Level 2	Level 3	Total
Assets:				
Foreign currency forward contracts	$	$ 4.2	$	$ 4.2
Available-for-sale securities	7.6			7.6
Total	$ 7.6	$ 4.2	$	$ 11.8
Liabilities:				
Foreign currency forward contracts	$	$ 19.1	$	$ 19.1

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

Cash and cash equivalents Cash and all highly-liquid securities with original maturities of three months or less are classified as cash and cash equivalents, primarily consisting of cash deposits in interest bearing accounts, money market funds and time deposits. The carrying amount approximates fair value, primarily because of the short maturity of cash equivalent instruments.

Available-for-sale securities Available-for-sale securities classified within Level 1 of the valuation hierarchy are generally comprised of mutual funds and are valued using quoted market prices on an active exchange. Available-for-sale securities classified within Level 2 of the valuation hierarchy are valued using third-party pricing services. To determine fair value, the pricing services use market prices or prices derived from other observable market inputs such as benchmark curves, credit spreads, broker/dealer quotes, and other industry and economic factors.

Note receivable During the second quarter of fiscal 2013, the Company amended the agreement related to the August 2007 sale of Rodan + Fields (a brand then owned by the Company) to receive a fixed amount in lieu of future contingent consideration and other rights. The fair value of the receivable under the amended agreement was determined by discounting the future cash flows using an implied market rate of 6.1%. This implied market rate reflected the Company s estimate of interest rates prevailing in the market for notes with comparable remaining maturities, the creditworthiness of the counterparty, and an assessment of the ultimate collectability of the instrument. The implied market rate was deemed to be an unobservable input and as such the Company s note receivable was classified within Level 3 of the valuation hierarchy as of June 30, 2014. The remaining $8.4 million principal amount was received in August 2014.

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Foreign currency forward contracts The fair values of the Company s foreign currency forward contracts were determined using an industry-standard valuation model, which is based on an income approach. The significant observable inputs to the model, such as swap yield curves and currency spot and forward rates, were obtained from an independent pricing service. To determine the fair value of contracts under the model, the difference between the contract price and the current forward rate was discounted using LIBOR for contracts with maturities up to 12 months, and swap yield curves for contracts with maturities greater than 12 months.

Current and long-term debt The fair value of the Company s debt was estimated based on the current rates offered to the Company for debt with the same remaining maturities. To a lesser extent, debt also includes capital lease obligations for which the carrying amount approximates the fair value. The Company s debt is classified within Level 2 of the valuation hierarchy.

Additional purchase price payable The Company s additional purchase price payable represents fixed minimum additional purchase price that was discounted using the Company s incremental borrowing rate, which was approximately 1%. The additional purchase price payable is classified within Level 2 of the valuation hierarchy.

Contingent Consideration The fair value of the Company s contingent consideration obligations is measured using Level 3 inputs which include a weighted-average cost of capital to discount estimated future cash flows based upon the likelihood of achieving certain future operating results.

The estimated fair values of the Company s financial instruments are as follows:

	December 31 2014		June 30 2014	
(In millions)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Nonderivatives				
Cash and cash equivalents	$ 1,241.2	$ 1,241.2	$ 1,629.1	$ 1,629.1
Available-for-sale securities	512.9	512.9	7.6	7.6
Note receivable			8.4	8.5
Current and long-term debt	1,389.2	1,534.8	1,343.1	1,428.3
Additional purchase price payable	36.7	36.7		
Contingent consideration	12.1	12.1		
Derivatives				
Foreign currency forward contracts, net asset (liability)	40.6	40.6	(14.9)	(14.9)

NOTE 7 PENSION AND POST-RETIREMENT BENEFIT PLANS

The Company maintains pension plans covering substantially all of its full-time employees for its U.S. operations and a majority of its international operations. The Company also maintains post-retirement benefit plans which provide certain medical and dental benefits to eligible employees. Descriptions of these plans 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.

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The components of net periodic benefit cost for the three months ended December 31, 2014 and 2013 consisted of the following:

	Pension Plans				Other than Pension Plans	
	U.S.		International		Post-retirement	
(In millions)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Service cost	$ 7.9	$ 7.9	$ 6.1	$ 6.2	$ 0.8	$ 0.8
Interest cost	7.6	7.9	4.4	4.8	1.9	2.0
Expected return on plan assets	(12.5)	(11.7)	(5.3)	(5.2)	(0.6)	(0.5)
Amortization of:						
Prior service cost	0.2	0.2	0.5	0.7	0.2	0.2
Actuarial loss	2.4	1.8	2.6	2.3	0.4	0.2
Net periodic benefit cost	$ 5.6	$ 6.1	$ 8.3	$ 8.8	$ 2.7	$ 2.7

The components of net periodic benefit cost for the six months ended December 31, 2014 and 2013 consisted of the following:

	Pension Plans				Other than Pension Plans	
	U.S.		International		Post-retirement	
(In millions)	**2014**	**2013**	**2014**	**2013**	**2014**	**2013**
Service cost	$ 15.8	$ 15.8	$ 12.5	$ 12.3	$ 1.7	$ 1.7
Interest cost	15.2	15.6	9.0	9.4	3.8	4.0
Expected return on plan assets	(25.0)	(23.4)	(11.0)	(10.2)	(1.2)	(1.0)
Amortization of:						
Prior service cost	0.3	0.4	1.1	1.4	0.4	0.4
Actuarial loss	4.9	3.7	5.4	4.5	0.8	0.4
Net periodic benefit cost	$ 11.2	$ 12.1	$ 17.0	$ 17.4	$ 5.5	$ 5.5

During the six months ended December 31, 2014, the Company made contributions to its international pension plans totaling approximately $6 million.

The amounts recognized in the consolidated balance sheets related to the Company s pension and post-retirement benefit plans consist of the following:

(In millions)	December 31 2014	June 30 2014
Other assets	$ 129.3	$ 135.2
Other accrued liabilities	(26.9)	(26.9)
Other noncurrent liabilities	(373.0)	(380.5)
Funded status	(270.6)	(272.2)
Accumulated other comprehensive loss	311.3	338.2
Net amount recognized	$ 40.7	$ 66.0

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NOTE 8 CONTINGENCIES

Legal Proceedings

The Company is involved, from time to time, in litigation and other legal proceedings incidental to its business. Management believes that the outcome of current litigation and legal proceedings will not have a material adverse effect upon the Company s results of operations, financial condition or cash flows. However, management s assessment of the Company s current litigation and other legal proceedings could change in light of the discovery of facts with respect to legal actions or other proceedings pending against the Company not presently known to the Company or determinations by judges, juries or other finders of fact which are not in accord with management s evaluation of the possible liability or outcome of such litigation or proceedings. Reasonably possible losses in addition to the amounts accrued for litigation and other legal proceedings are not material to the Company s consolidated financial statements.

NOTE 9 STOCK-BASED COMPENSATION

The Company has various stock-based compensation programs (the Plans) under which awards, including stock options, performance share units (PSU), restricted stock units (RSU), market share units (MSU), performance share units based on total stockholder return, and share units, may be granted. As of December 31, 2014, approximately 11,072,200 shares of the Company s Class A Common Stock were reserved and available to be granted pursuant to these Plans.

Total net stock-based compensation expense is attributable to the granting of, and the remaining requisite service periods of stock options, PSUs, RSUs, MSUs, performance share units based on total stockholder return, and share units. Compensation expense attributable to net stock-based compensation is as follows:

	Three Months Ended December 31		Six Months Ended December 31	
(In millions)	**2014**	**2013**	**2014**	**2013**
Compensation expense	$ 38.8	$ 38.6	$ 100.9	$ 94.9
Income tax benefit	12.6	12.8	33.0	31.1

As of December 31, 2014, the total unrecognized compensation cost related to unvested stock-based awards was $168.3 million and the related weighted-average period over which it is expected to be recognized is approximately 2 years.

Stock Options

The following is a summary of the Company s stock option programs as of December 31, 2014 and changes during the six months then ended:

(Shares in thousands)	Shares	Weighted-Average Exercise Price Per Share	Aggregate Intrinsic Value (1) (in millions)	Weighted-Average Contractual Life Remaining in Years
Outstanding at June 30, 2014	14,127.8	$ 41.51		
Granted at fair value	2,166.0	76.13		
Exercised	(755.1)	31.61		
Expired	(16.2)	38.19		
Forfeited	(69.5)	64.00		
Outstanding at December 31, 2014	15,453.0	46.75	$ 455.2	6.5
Vested and expected to vest at December 31, 2014	15,263.4	46.44	$ 454.2	6.5
Exercisable at December 31, 2014	11,094.0	37.73	$ 426.8	5.7

(1) The intrinsic value of a stock option is the amount by which the market value of the underlying stock exceeds the exercise price of the option.

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The following is a summary of the per-share weighted-average grant date fair value of stock options granted and total intrinsic value of stock options exercised:

	Three Months Ended December 31		Six Months Ended December 31	
(In millions, except per share data)	**2014**	**2013**	**2014**	**2013**
Per-share weighted-average grant date fair value of stock options granted	$ 23.62	$ 25.09	$ 22.46	$ 23.13
Intrinsic value of stock options exercised	$ 15.1	$ 37.3	$ 31.9	$ 48.1

The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	Three Months Ended December 31		Six Months Ended December 31	
	2014	**2013**	**2014**	**2013**
Weighted-average expected stock-price volatility	28%	33%	28%	33%
Weighted-average expected option life	9 years	8 years	7 years	7 years
Average risk-free interest rate	2.3%	2.7%	2.2%	2.5%
Average dividend yield	1.1%	1.1%	1.1%	1.1%

The Company uses a weighted-average expected stock-price volatility assumption that is a combination of both current and historical implied volatilities of the underlying stock. The implied volatilities were obtained from publicly available data sources. For the weighted-average expected option life assumption, the Company considers the exercise behavior of past grants and models the pattern of aggregate exercises. The average risk-free interest rate is based on the U.S. Treasury strip rate for the expected term of the options and the average dividend yield is based on historical experience.

Performance Share Units

During the six months ended December 31, 2014, the Company granted approximately 261,700 PSUs, which will be settled in stock subject to the achievement of the Company s net sales, diluted net earnings per common share and return on invested capital goals for the three fiscal years ending June 30, 2017, all subject to the continued employment or retirement of the grantees. PSUs granted in fiscal 2015 are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the PSU. In September 2014, approximately 377,300 shares of the Company s Class A Common Stock were issued and related accrued dividends were paid, relative to the target goals set at the time of the PSU issuance, in settlement of approximately 259,700 PSUs that vested as of June 30, 2014.

The following is a summary of the status of the Company s PSUs as of December 31, 2014 and activity during the six months then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2014	538.6	$ 63.53
Granted	261.7	76.23
Vested		
Forfeited		
Nonvested at December 31, 2014	800.3	67.68

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Restricted Stock Units

The Company granted approximately 1,394,200 RSUs during the six months ended December 31, 2014 which, at the time of grant, were scheduled to vest as follows: 495,100 in fiscal 2016, 511,800 in fiscal 2017 and 387,300 in fiscal 2018. All RSUs are subject to the continued employment or retirement of the grantees. The RSUs granted in fiscal 2015 are accompanied by dividend equivalent rights, payable upon settlement of the RSU either in cash or shares (based on the terms of the particular award) upon settlement of the RSU and, as such, were valued at the closing market price of the Company s Class A Common Stock on the date of grant.

The following is a summary of the status of the Company s RSUs as of December 31, 2014 and activity during the six months then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2014	2,222.1	$ 62.21
Granted	1,394.2	76.23
Dividend equivalents	4.0	72.23
Vested	(939.1)	60.77
Forfeited	(48.0)	66.17
Nonvested at December 31, 2014	2,633.2	70.09

Performance Share Units Based on Total Stockholder Return

During fiscal 2013, the Company granted PSUs to an executive of the Company with an aggregate target payout of 162,760 shares of the Company s Class A Common Stock, subject to continued employment through the end of the relative performance periods, which end June 30, 2015, 2016 and 2017. Such PSUs will be settled based upon the Company s relative total stockholder return (TSR) over the relevant performance period as compared to companies in the S&P 500 on July 1, 2012. No settlement will occur if the Company s TSR falls below a minimum threshold, and up to an aggregate of 260,416 shares of the Company s Class A Common Stock will be issued depending on the extent to which the Company s TSR equals or exceeds the minimum threshold. The PSUs are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the PSUs.

The grant date fair value of the PSUs of $11.0 million was estimated using a lattice model with a Monte Carlo simulation and the following assumptions for each performance period, respectively: contractual life of 33, 45 and 57 months, average risk-free interest rate of 0.3%, 0.5% and 0.7% and a dividend yield of 1.0%. Using the historical stock prices and dividends from public sources, the Company estimated the covariance structure of the returns on S&P 500 stocks. The volatility for the Company s stock produced by this estimation was 32%. The average risk-free interest rate is based on the U.S. Treasury strip rates over the contractual term of the grant and the dividend yield is based on historical experience.

Market Share Unit

The Company had one outstanding market share unit, which vested on June 30, 2014. The market share unit had a grant date fair value of $10.6 million that was estimated using a lattice model with a Monte Carlo simulation and the following assumptions: contractual life of 41 months, a weighted-average expected volatility of 29%, a weighted-average risk-free interest rate of 1.6% and a weighted-average dividend yield of 1.0%. The Company used an expected stock-price volatility assumption that is a combination of both current and historical implied volatilities from options on the underlying stock. The implied volatilities were obtained from publicly available data sources. The expected life was equal to the contractual term of the grant. The average risk-free interest rate was based on the U.S. Treasury strip rates over the contractual term of the grant and the average dividend yield was based on historical experience. In accordance with the terms of the grant, 320,000 shares of the Company s Class A Common Stock were issued, and related dividends were paid. The number of shares equaled the maximum payout under the award, because the average closing stock price per share of the Company s Class A Common Stock on the New York Stock Exchange during the last 20 trading days ending on June 30, 2014 exceeded $75.00 per share.

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THE ESTÉE LAUDER COMPANIES INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Share Units

The Company grants share units to certain non-employee directors under the Non-Employee Director Share Incentive Plan. The following is a summary of the status of the Company s share units as of December 31, 2014 and activity during the six months then ended:

(Shares in thousands)	**Shares**		**Weighted-Average Grant Date Fair Value Per Share**
Outstanding at June 30, 2014	98.8	$	37.67
Granted	10.2		71.33
Dividend equivalents	0.7		73.16
Converted			
Outstanding at December 31, 2014	109.7		41.00

Cash Units

Certain non-employee directors defer cash compensation in the form of cash payout share units, which are not subject to the Plans. These share units are classified as liabilities and, as such, their fair value is adjusted to reflect the current market value of the Company s Class A Common Stock. The Company recorded $0.6 million and $1.3 million as compensation expense to reflect additional deferrals and the change in the market value for the three months ended December 31, 2014 and 2013, respectively. The Company recorded $0.8 million and $2.3 million as compensation expense to reflect additional deferrals and the change in the market value for the six months ended December 31, 2014 and 2013, respectively.

NOTE 10 NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC. PER COMMON SHARE

Net earnings attributable to The Estée Lauder Companies Inc. per common share (basic EPS) is computed by dividing net earnings attributable to The Estée Lauder Companies Inc. by the weighted-average number of common shares outstanding and contingently issuable shares (which satisfy certain conditions). Net earnings attributable to The Estée Lauder Companies Inc. per common share assuming dilution (diluted EPS) is computed by reflecting potential dilution from stock-based awards.

A reconciliation between the numerator and denominator of the basic and diluted EPS computations is as follows:

(In millions, except per share data)	Three Months Ended December 31 2014	Three Months Ended December 31 2013	Six Months Ended December 31 2014	Six Months Ended December 31 2013
Numerator:				
Net earnings attributable to The Estée Lauder Companies Inc.	$ 435.7	$ 432.5	$ 663.8	$ 733.2
Denominator:				
Weighted-average common shares outstanding Basic	380.0	388.3	380.9	388.1
Effect of dilutive stock options	4.6	5.3	4.6	5.1
Effect of RSUs	1.5	1.4	1.6	1.5
Effect of PSUs based on TSR		0.1		0.1
Effect of MSU		0.3		0.3
Weighted-average common shares outstanding Diluted	386.1	395.4	387.1	395.1
Net earnings attributable to The Estée Lauder Companies Inc. per common share:				
Basic	$ 1.15	$ 1.11	$ 1.74	$ 1.89
Diluted	1.13	1.09	1.71	1.86

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As of December 31, 2014 and 2013, outstanding options to purchase 2.2 million and 1.9 million shares, respectively, of Class A Common Stock were not included in the computation of diluted EPS because their inclusion would be anti-dilutive. As of December 31, 2014 and 2013, 0.8 million PSUs have been excluded from the calculation of diluted EPS because the number of shares ultimately issued is contingent on the achievement of certain performance targets of the Company, as discussed in Note 9 Stock-Based Compensation.

NOTE 11 EQUITY

	Total Stockholders Equity The Estée Lauder Companies Inc.						Non-	
(In millions)	**Common Stock**	**Paid-in Capital**	**Retained Earnings**	**AOCI**	**Treasury Stock**	**Total**	**controlling Interests**	**Total Equity**
Balance at June 30, 2014	$ 5.6	$ 2,562.7	$ 6,265.8	$ (100.3)	$ (4,878.9)	$ 3,854.9	$ 14.5	$ 3,869.4
Net earnings			663.8			663.8	3.1	666.9
Common stock dividends			(168.1)			(168.1)	(5.8)	(173.9)
Other comprehensive income (loss)				(195.0)		(195.0)	(0.5)	(195.5)
Acquisition of treasury stock					(425.5)	(425.5)		(425.5)
Stock-based compensation		138.1			(50.2)	87.9		87.9
Balance at December 31, 2014	$ 5.6	$ 2,700.8	$ 6,761.5	$ (295.3)	$ (5,354.6)	$ 3,818.0	$ 11.3	$ 3,829.3

The following is a summary of quarterly cash dividends declared per share on the Company s Class A and Class B Common Stock during the six months ended December 31, 2014:

Date Declared	**Record Date**	**Payable Date**	**Amount per Share**
August 14, 2014	August 29, 2014	September 15, 2014	$ .20
November 3, 2014	November 28, 2014	December 15, 2014	$ .24

On February 4, 2015, a quarterly dividend was declared in the amount of $.24 per share on the Company s Class A and Class B Common Stock. The dividend is payable in cash on March 16, 2015 to stockholders of record at the close of business on February 27, 2015.

Common Stock

During the six months ended December 31, 2014, the Company purchased approximately 6.4 million shares of its Class A Common Stock for $478.6 million.

During the six months ended December 31, 2014, approximately 0.8 million shares of the Company s Class B Common Stock were converted into the same amount of shares of the Company s Class A Common Stock.

Subsequent to December 31, 2014 and through January 29, 2015, the Company repurchased approximately 1 million additional shares of its Class A Common Stock for $76.8 million pursuant to its share repurchase program.

Accumulated Other Comprehensive Income (Loss)

The following table represents changes in AOCI, net of tax, by component for the six months ended December 31, 2014:

(In millions)	Net Unrealized Investment Gain (Loss)	Net Derivative Instrument Gain (Loss)	Amounts Included in Net Periodic Benefit Cost	Translation Adjustments	Total
Balance at June 30, 2014	$ 1.4	$ (0.9)	$ (233.0)	$ 132.2	$ (100.3)
OCI before reclassifications	(1.3)	41.3	10.7(1)	(248.1)	(197.4)
Amounts reclassified from AOCI	(1.1)	(5.6)	9.1		2.4
Net current-period OCI	(2.4)	35.7	19.8	(248.1)	(195.0)
Balance at December 31, 2014	$ (1.0)	$ 34.8	$ (213.2)	$ (115.9)	$ (295.3)

(1) Includes foreign currency translation gains of $14.0 million.

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The following table represents the effects of reclassification adjustments from AOCI into net earnings for the three and six months ended December 31, 2014 and 2013:

	Amount Reclassified from AOCI				
	Three Months Ended December 31		Six Months Ended December 31		Affected Line Item in Consolidated Statement of Earnings
(In millions)	2014	2013	2014	2013	
Gain (Loss) on Available-For-Sale Securities					
Available-for-sale securities	$ 1.5	$	$ 1.5	$	Interest income and investment income, net
Benefit (provision) for deferred taxes	(0.4)		(0.4)		Provision for income taxes
	$ 1.1	$	$ 1.1	$	Net earnings
Gain (Loss) on Cash-Flow Hedges					
Foreign currency forward contracts	$ 2.2	$ 1.1	$ 1.8	$ 2.5	Cost of sales
Foreign currency forward contracts	6.6	0.3	6.8	2.7	Selling, general and administrative
	8.8	1.4	8.6	5.2	Earnings before income taxes
Benefit (provision) for deferred taxes	(3.1)	(0.4)	(3.1)	(1.8)	Provision for income taxes
	$ 5.7	$ 1.0	$ 5.5	$ 3.4	Net earnings
Gain (Loss) on Fair-Value Hedges					
Settled interest rate-related derivatives	$ 0.1	$	$ 0.2	$ 0.1	Interest expense
Benefit (provision) for deferred taxes	(0.1)	(0.1)	(0.1)	(0.1)	Provision for income taxes
	$	$ (0.1)	$ 0.1	$	Net earnings
Amounts Included in Net Periodic Benefit Cost					
Amortization of prior service cost	$ (0.9)	$ (1.1)	$ (1.8)	$ (2.2)	**(1)**
Amortization of actuarial loss	(5.4)	(4.3)	(11.1)	(8.6)	**(1)**
	(6.3)	(5.4)	(12.9)	(10.8)	Earnings before income taxes
Benefit (provision) for deferred taxes	1.9	1.5	3.8	3.1	Provision for income taxes
	$ (4.4)	$ (3.9)	$ (9.1)	$ (7.7)	Net earnings
Total reclassification adjustments, net	$ 2.4	$ (3.0)	$ (2.4)	$ (4.3)	Net earnings

(1) See Note 7 Pension and Post-Retirement Benefit Plans for additional information.

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THE ESTÉE LAUDER COMPANIES INC.

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NOTE 12 STATEMENT OF CASH FLOWS

Supplemental cash flow information for the six months ended December 31, 2014 and 2013 is as follows:

(In millions)	2014	2013
Cash:		
Cash paid during the period for interest	$ 32.8	$ 32.5
Cash paid during the period for income taxes	$ 200.0	$ 235.5
Non-cash investing and financing activities:		
Incremental tax benefit from the exercise of stock options	$ (2.5)	$ (2.9)
Capital lease obligations incurred	$ 8.2	$ 2.0
Accrued dividend distribution to noncontrolling interest	$ 2.6	$ 5.0

NOTE 13 SEGMENT DATA AND RELATED INFORMATION

Reportable operating segments include components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker (the Chief Executive) in deciding how to allocate resources and in assessing performance. Although the Company operates in one business segment, beauty products, management also evaluates performance on a product category basis. Product category performance is measured based upon net sales and earnings before income taxes, interest expense, interest income and investment income, net and total adjustments associated with restructuring activities. Total adjustments associated with restructuring activities are not allocated to the product categories because they result from activities that are deemed part of a company-wide program to redesign the Company s organizational structure.

The accounting policies for the Company s reportable segments are substantially the same as those for the consolidated financial statements, as described 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. The assets and liabilities of the Company are managed centrally and are reported internally in the same manner as the consolidated financial statements; thus, no additional information is produced for the Chief Executive or included herein. There has been no significant variance in the total or long-lived asset values associated with the Company s segment data since June 30, 2014.

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(In millions)	Three Months Ended December 31 2014	Three Months Ended December 31 2013	Six Months Ended December 31 2014	Six Months Ended December 31 2013
PRODUCT CATEGORY DATA				
Net Sales:				
Skin Care	$ 1,274.4	$ 1,261.3	$ 2,365.8	$ 2,432.3
Makeup	1,176.2	1,129.1	2,197.5	2,130.1
Fragrance	439.7	477.8	817.1	845.2
Hair Care	137.1	135.1	265.2	259.9
Other	17.1	15.3	29.9	26.1
	3,044.5	3,018.6	5,675.5	5,693.6
Adjustments associated with restructuring activities		0.1		0.1
Net Sales	$ 3,044.5	$ 3,018.7	$ 5,675.5	$ 5,693.7
Operating Income (Loss) before total adjustments associated with restructuring activities:				
Skin Care	$ 317.1	$ 338.0	$ 493.5	$ 579.6
Makeup	253.4	248.3	379.3	414.6
Fragrance	47.5	60.5	86.5	97.4
Hair Care	16.2	7.7	25.0	16.1
Other	(1.4)	(1.7)	(3.5)	(4.2)
	632.8	652.8	980.8	1,103.5
Reconciliation:				
Total adjustments associated with restructuring activities		3.5		2.3
Interest expense	(15.0)	(14.6)	(29.8)	(29.2)
Interest income and investment income, net	3.8	2.2	5.4	3.3
Earnings before income taxes	$ 621.6	$ 643.9	$ 956.4	$ 1,079.9
GEOGRAPHIC DATA				
Net Sales:				
The Americas	$ 1,201.4	$ 1,194.6	$ 2,316.2	$ 2,397.0
Europe, the Middle East & Africa	1,211.5	1,181.0	2,153.7	2,072.2
Asia/Pacific	631.6	643.0	1,205.6	1,224.4
	3,044.5	3,018.6	5,675.5	5,693.6
Adjustments associated with restructuring activities		0.1		0.1
Net Sales	$ 3,044.5	$ 3,018.7	$ 5,675.5	$ 5,693.7
Operating Income (Loss):				
The Americas	$ 120.8	$ 152.2	$ 178.2	$ 308.2
Europe, the Middle East & Africa	355.2	332.4	525.1	513.2
Asia/Pacific	156.8	168.2	277.5	282.1
	632.8	652.8	980.8	1,103.5
Total adjustments associated with restructuring activities		3.5		2.3

Operating Income	$ 632.8	$ 656.3	$ 980.8	$ 1,105.8

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THE ESTÉE LAUDER COMPANIES INC.

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations.***

RESULTS OF OPERATIONS

We manufacture, market and sell beauty products including those in the skin care, makeup, fragrance and hair care categories which are distributed in over 150 countries and territories. The following table is a comparative summary of operating results for the three and six months ended December 31, 2014 and 2013, and reflects the basis of presentation described in Note 1 of Notes to Consolidated Financial Statements *Summary of Significant Accounting Policies* for all periods presented. Products and services that do not meet our definition of skin care, makeup, fragrance or hair care have been included in the other category.

	Three Months Ended December 31		Six Months Ended December 31	
(In millions)	**2014**	**2013**	**2014**	**2013**
NET SALES				
By Region:				
The Americas	$ 1,201.4	$ 1,194.6	$ 2,316.2	$ 2,397.0
Europe, the Middle East & Africa	1,211.5	1,181.0	2,153.7	2,072.2
Asia/Pacific	631.6	643.0	1,205.6	1,224.4
	3,044.5	3,018.6	5,675.5	5,693.6
Adjustments associated with restructuring activities		0.1		0.1
Net Sales	$ 3,044.5	$ 3,018.7	$ 5,675.5	$ 5,693.7