

Ascent Solar Technologies, Inc.  
Form PRE 14A  
April 18, 2013  
Table of Contents

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

SCHEDULE 14A

(RULE 14a-101)

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934

(Amendment No. )

Filed by the Registrant  Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  
 Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))  
 Definitive Proxy Statement  
 Definitive Additional Materials  
 Soliciting Material Pursuant to §240.14a-12

ASCENT SOLAR TECHNOLOGIES, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.  
 Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1 ) Title of each class of securities to which transaction applies:

(2 ) Aggregate number of securities to which transaction applies:

(3 ) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4 ) Proposed maximum aggregate value of transaction:

(5 ) Total fee paid:

Fee paid previously with preliminary materials:

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1 ) Amount Previously Paid:

(2 ) Form, Schedule or Registration Statement No.:

(3 ) Filing Party:

(4 ) Date Filed:



Table of Contents

[ ]

Dear Stockholder:

You are cordially invited to attend the 2013 Annual Meeting of Stockholders of Ascent Solar Technologies, Inc. to be held on June 18, 2013. The meeting will be held at the [ ], [ ] beginning at 2:00 p.m. Mountain Time. At this year's Annual Meeting, our stockholders will be asked to elect two Class 2 directors, to ratify the selection of Hein & Associates LLP as our independent registered public accounting firm and to approve an amendment to the Company's certificate of incorporation to effect a reverse stock split of the Company's issued and outstanding common stock. Additional information about the Annual Meeting is given in the attached Notice of 2013 Annual Meeting of Stockholders and Proxy Statement.

In accordance with rules adopted by the Securities and Exchange Commission, we are pleased to again furnish these proxy materials to stockholders primarily over the Internet, rather than in paper form. We believe these rules allow us to provide our stockholders with expedited and convenient access to the information they need, while helping to conserve natural resources and lower the costs of printing and delivering proxy materials.

Whether or not you plan to attend the Annual Meeting, we hope you will vote as soon as possible. Voting your proxy will ensure your representation at the Annual Meeting. If you attend the Annual Meeting in person, you may vote your shares in person even though you have previously given your proxy.

Sincerely,

Victor Lee  
President and Chief Executive Officer

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Table of Contents

ASCENT SOLAR TECHNOLOGIES, INC.

12300 North Grant Street

Thornton, Colorado 80241

(720) 872-5000

NOTICE OF 2013 ANNUAL MEETING OF STOCKHOLDERS

June 18, 2013

at 2:00 p.m. Mountain Time

TO OUR STOCKHOLDERS:

NOTICE IS HEREBY GIVEN that the 2013 Annual Meeting of Stockholders (the "Annual Meeting") of Ascent Solar Technologies, Inc., a Delaware corporation, will be held on June 18, 2013, at 2:00 p.m. Mountain Time at the [ ], [ ], for the following purposes, as more fully described in the Proxy Statement accompanying this notice:

1. ELECTION OF DIRECTORS. To elect two Class 2 directors to serve until the 2016 annual meeting of stockholders and their successors have been elected and qualified;
2. RATIFICATION OF AUDITORS. To ratify the Audit Committee's appointment of Hein & Associates LLP as our independent registered public accounting firm for the year ending December 31, 2013; and
3. AUTHORIZATION FOR REVERSE STOCK SPLIT. To approve an amendment to the Company's certificate of incorporation (the "Certificate of Incorporation") to effect a reverse stock split of the Company's issued and outstanding common stock (the "Reverse Stock Split").
4. ANY OTHER BUSINESS that may properly come before the Annual Meeting or any adjournments or postponements thereof.

Stockholders who owned shares of our common stock at the close of business on April 15, 2013 are entitled to receive notice of, attend and vote at the Annual Meeting and any adjournment or postponement thereof. A complete list of these stockholders will be available at our corporate offices listed above during regular business hours for the ten days prior to the Annual Meeting.

Your vote is important. Whether or not you plan to attend the Annual Meeting, please vote as soon as possible. If you received notice of how to access the proxy materials over the Internet, a proxy card was not sent to you, but you may vote by telephone or online. If you received a proxy card and other proxy materials by mail, you may vote by mailing a completed proxy card, by telephone or online. For specific voting instructions, please refer to the information provided in the following Proxy Statement, together with your proxy card or the voting instructions you receive by e-mail or that are provided via the Internet.

The Board of Directors recommends stockholders vote FOR the Class 2 director nominees and FOR Proposals 2 and 3.

By Order of the Board of Directors

Victor Lee

President and Chief Executive Officer

Thornton, Colorado

[ ]

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Stockholders to be held on June 18, 2013 — The Proxy Statement and our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 are available at [www.ascentsolar.com](http://www.ascentsolar.com).

Table of Contents

ASCENT SOLAR TECHNOLOGIES, INC.  
12300 North Grant Street  
Thornton, Colorado 80241  
(720) 872-5000

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PROXY STATEMENT

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Your proxy is being solicited by the Board of Directors (the “Board”) of Ascent Solar Technologies, Inc., a Delaware corporation, for use at the 2013 Annual Meeting of Stockholders (the “Annual Meeting”) to be held at 2:00 p.m. Mountain Time on June 18, 2013, or at any adjournment or postponement thereof, for the purposes set forth in this Proxy Statement. The Annual Meeting will be held at the [ ], [ ].

These proxy materials are first being provided on or about [ ] to all stockholders as of the record date, April 15, 2013. Stockholders who owned our common stock at the close of business on April 15, 2013 are entitled to receive notice of, attend and vote at the Annual Meeting. On the record date, there were [ ] shares of our common stock outstanding. This Proxy Statement is being furnished to you with a copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (the “Annual Report”), which was filed with the Securities and Exchange Commission (the “SEC”) on March 14, 2013. We will provide, without charge, additional copies of our Annual Report upon request. Any exhibits listed in the Annual Report also will be furnished upon request at the actual expense we incur in furnishing such exhibit to you. Any such requests should be directed to our Corporate Secretary at our executive offices set forth above.

References to the “Company,” “Ascent Solar,” “our,” “us” or “we” mean Ascent Solar Technologies, Inc.

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Table of Contents

TABLE OF CONTENTS

<u>VOTING AND RELATED MATTERS</u>	<u>1</u>
<u>EXECUTIVE OFFICERS AND DIRECTORS</u>	<u>3</u>
<u>CORPORATE GOVERNANCE</u>	<u>4</u>
<u>EXECUTIVE COMPENSATION</u>	<u>8</u>
<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</u>	<u>10</u>
<u>RELATED PARTY TRANSACTIONS</u>	<u>11</u>
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	<u>13</u>
<u>PRINCIPAL ACCOUNTANTS</u>	<u>14</u>
<u>REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS</u>	<u>14</u>
<u>PROPOSAL NO. 1: ELECTION OF DIRECTORS</u>	<u>14</u>
<u>PROPOSAL NO. 2: RATIFICATION OF APPOINTMENT OF HEIN &amp; ASSOCIATES LLP</u>	<u>15</u>
<u>PROPOSAL NO. 3: AUTHORIZATION FOR REVERSE STOCK SPLIT</u>	<u>15</u>
<u>ANNUAL REPORT ON FORM 10-K</u>	<u>19</u>
<u>STOCKHOLDER PROPOSALS</u>	<u>19</u>
<u>OTHER BUSINESS</u>	<u>19</u>
<u>ANNEX A: CERTIFICATE OF AMENDMENT TO AMENDED AND RESTATED</u>	
<u>CERTIFICATE OF INCORPORATION</u>	<u>21</u>

---

## Table of Contents

### VOTING AND RELATED MATTERS

#### Voting Procedures

As a stockholder of Ascent Solar, you have a right to vote on certain business matters affecting us. The proposals that will be presented at the Annual Meeting and upon which you are being asked to vote are discussed below. Each share of our common stock you owned as of the record date entitles you to one vote on each proposal presented at the Annual Meeting.

#### Electronic Delivery of Proxy Materials

Under rules adopted by the SEC, we are furnishing proxy materials to our stockholders primarily via the Internet, instead of mailing printed copies of those materials to each stockholder. On or about [ ], we sent our stockholders (other than those who previously requested electronic or paper delivery) a Notice of Internet Availability containing instructions on how to access our proxy materials, including our Proxy Statement and our Annual Report, on the Internet. The Notice of Internet Availability also instructs stockholders on how they can vote over the Internet or by telephone.

If you would prefer to receive printed proxy materials, please follow the instructions included in the Notice of Internet Availability. If you have previously elected to receive our proxy materials electronically, you will continue to receive these materials via e-mail unless you elect otherwise.

#### Methods of Voting

You may vote over the Internet, by telephone, by mail or in person at the Annual Meeting.

**Voting over the Internet.** You can vote via the Internet. The website address for Internet voting and the instructions for voting are provided on your Notice or proxy card. You will need to use the control number appearing on your Notice or proxy card to vote via the Internet. If you vote via the Internet you do not need to vote by telephone or return a proxy card.

**Voting by Telephone.** You can vote by telephone by calling the toll-free telephone number provided on your proxy card. You will need to use the control number appearing on your Notice or proxy card to vote by telephone. If you vote by telephone you do not need to vote over the Internet or return a proxy card.

**Voting by Mail.** If you received a printed proxy card, you can vote by marking, dating and signing it, and returning it in the postage-paid envelope provided. You may also download the form of proxy card off the Internet and mail it to us. Please promptly mail your proxy card to ensure that it is received prior to the closing of the polls at the Annual Meeting.

**Voting in Person at the Meeting.** If you attend the Annual Meeting and plan to vote in person, we will provide you with a ballot at the Annual Meeting. If your shares are registered directly in your name, you are considered the stockholder of record, and you have the right to vote in person at the Annual Meeting. If your shares are held in the name of your broker or other nominee, you are considered the beneficial owner of shares held in street name. As a beneficial owner, if you wish to vote at the Annual Meeting, you will need to bring to the Annual Meeting a legal proxy from your broker or other nominee authorizing you to vote those shares.

#### Revoking Your Proxy

You may revoke your proxy at any time before it is voted at the Annual Meeting. To do this, you must:

- enter a new vote over the Internet or by telephone, or by signing and returning a replacement proxy card;
- provide written notice by June 18, 2013 of the revocation to our Corporate Secretary at our principal executive offices, which are located at 12300 North Grant Street, Thornton, Colorado 80241; or
- attend the Annual Meeting and vote in person.

#### Quorum and Voting Requirements

Stockholders of record at the close of business on April 15, 2013 are entitled to receive notice and vote at the meeting. On the record date, there were [ ] issued and outstanding shares of our common stock. Each holder of our common stock voting at the meeting, either in person or by proxy, may cast one vote per share of common stock held on all matters to be voted on at the meeting.

The presence, in person or by proxy, of the holders of a majority of the outstanding shares of common stock entitled to vote constitutes a quorum for the transaction of business at the meeting. Assuming that a quorum is present:

(1)

the affirmative vote of a majority of the shares having voting power present in person or by proxy will be required to elect each director nominee;



## Table of Contents

the affirmative vote of a majority of the shares having voting power present in person or by proxy will be required (2) to ratify the appointment of Hein & Associates LLP as our independent registered public accounting firm for the year ending December 31, 2013;

(3) the affirmative vote of the holders of a majority of the outstanding shares of Common Stock will be required to approve the authorization of the Board of Directors to implement a Reverse Stock Split; and unless otherwise required by our Second Amended and Restated Bylaws (the "Bylaws") or by applicable law, the affirmative vote of a majority of the shares present having voting power in person or by proxy will be required to (4) approve any other matter properly presented for a vote at the meeting; provided that if any stockholders are entitled to vote thereon as a class, such approval will require the affirmative vote of a majority of the shares entitled to vote as a class who are present in person or by proxy.

Votes cast by proxy or in person at the meeting will be tabulated by the election inspectors appointed for the meeting. Such inspectors will also determine whether a quorum is present. The election inspectors will treat abstentions as shares that are present and entitled to vote for purposes of determining the presence of a quorum, but as unvoted for purposes of determining the approval of any matter submitted to the stockholders for a vote. If your shares are held in street name and you do not instruct your broker on how to vote your shares, your brokerage firm, in its discretion, may either leave your shares unvoted or vote your shares on routine matters. The election of directors and the Reverse Stock Split proposal are considered non-routine matters. Consequently, without your voting instructions, your brokerage firm cannot vote your shares on these proposals. These unvoted shares, called "broker non-votes," refer to shares held by brokers who have not received voting instructions from their clients and who do not have discretionary authority to vote on non-routine matters. The proposal to ratify the appointment of Hein & Associates LLP as our independent registered public accounting firm for the current fiscal year is considered a routine matter. To the extent your brokerage firm votes your shares on your behalf on this proposal, your shares also will be counted as present for the purpose of determining a quorum. Abstentions shall have the same effect as a vote against any proposal voted upon at the meeting. Broker non-votes shall have (i) no effect on the outcome of the election of directors and (ii) the same effect as a vote against the Reverse Stock Split proposal.

### Voting of Proxies

When a proxy is properly executed and returned, the shares it represents will be voted at the Annual Meeting as directed. If no specification is indicated, the shares will be voted:

- (1) "for" the election of the director nominees set forth in this Proxy Statement;
- (2) "for" the ratification of the appointment of Hein & Associates LLP as our independent registered public accounting firm for the year ending December 31, 2013; and
- (3) "for" the authorization of the Board of Directors to implement a Reverse Stock Split.
- (4) at the discretion of your proxies on any other matter that may be properly brought before the Annual Meeting.

If your shares are held in street name and you do not instruct your broker on how to vote your shares, your brokerage firm, in its discretion, may either leave your shares unvoted or vote your shares on routine matters, which include the ratification of our independent registered public accounting firm.

### Voting Confidentiality

Proxies, ballots and voting tabulations are handled on a confidential basis to protect your voting privacy. This information will not be disclosed, except as required by law.

### Voting Results

Voting results will be announced at the Annual Meeting and published in a Form 8-K to be filed within four (4) business days after the Annual Meeting.

### Householding of Proxy Materials

In a further effort to reduce printing costs and postage fees, we have adopted a practice approved by the SEC called “householding.” Under this practice, stockholders who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of our proxy materials, unless one or more of these stockholders notifies us that he or she wishes to continue receiving individual copies.

Table of Contents

If: (1) you share an address with another stockholder and received only one set of proxy materials, and would like to request a separate paper copy of these materials; or (2) you share an address with another stockholder and in the future together you would like to receive only a single paper copy of these materials, please notify our Corporate Secretary by mail at 12300 North Grant Street, Thornton, Colorado 80241.

Proxy Solicitation

We will bear the cost of this solicitation. In addition, we may reimburse brokerage firms and other persons representing beneficial owners of shares for reasonable expenses incurred in forwarding solicitation materials to such beneficial owners. Proxies also may be solicited by our directors, officers or employees, personally, or by mail, facsimile, telephone, messenger or via the Internet, without additional compensation.

Driving Directions to the Annual Meeting

The [ ] is approximately 29 miles from Denver International Airport. From the Airport, take Pena Boulevard to I-70 West to I-270 to North I-25 to 120<sup>th</sup> Avenue Exit 223. Merge on to 120<sup>th</sup> turn left on Grant Street, take the first left and proceed through the parking lot to the hotel.

EXECUTIVE OFFICERS AND DIRECTORS

Our executive officers, continuing directors and director nominees, their ages and positions with us as of April 15, 2013, are as follows:

Name	Age	Position
Victor Lee	45	President and Chief Executive Officer, Director
Gary Gatchell	55	Chief Financial Officer and Secretary
Amit Kumar, Ph.D.	48	Chairman of the Board, Director
Kim J. Huntley	58	Director
G. Thomas Marsh	69	Director
Xu Biao	43	Director

Victor Lee (Lee Kong Hian) has been the President and Chief Executive Officer of Ascent Solar Technologies Inc. since February 1, 2012 and as a member of our Board since November 2011. Mr. Victor Lee is the managing director of Tertius Financial Group Pte Ltd, a boutique corporate advisory and private investment firm he founded in February 2009. He brings more than 17 years of experience in corporate banking, real estate finance and investment management, and corporate advisory services at leading worldwide financial institutions. Mr. Victor Lee began his career at Citibank N.A., in 1993, handling small- and medium-sized corporate finance and progressed to a vice president position in the International Personal Banking Division. In 1999 he moved to Deutsche Bank AG as Vice President and in 2004 was promoted to managing director Singapore Market Head in the Private Wealth Management Division, where he was responsible for management of approximately \$1 Billion in assets. From 2007 until 2009, he was with Morgan Stanley Private Wealth Management, most recently as executive director and head of Singapore/Malaysia markets. Mr. Victor Lee holds a Bachelor's degree in Accounting from the University of Wisconsin and a Master's in Wealth Management from the Singapore Management University. Mr. Victor Lee is a designated board representative of TFG Radiant pursuant to the Amended and Restated Stockholders Agreement between us and TFG Radiant.

Gary Gatchell has served as our Chief Financial Officer and Secretary since March 2008. Prior to joining Ascent Solar, Mr. Gatchell served as the Chief Financial Officer of Carrier Access Corporation, a telecommunications equipment provider ("Carrier Access"). Mr. Gatchell joined Carrier Access, a NASDAQ listed company, in June 2005. Prior to joining Carrier Access, from 1999 to 2004, Mr. Gatchell served as the Chief Financial Officer of Voyant Technologies, Inc., a leading provider of audio conferencing equipment that was acquired by Polycom, Inc., and as an audit manager at KPMG. Mr. Gatchell is a registered Certified Public Accountant and holds a Master's degree in Accountancy from the University of Denver. Mr. Gatchell is a member of the AICPA and CSCPA.

Amit Kumar, Ph.D. has served on our Board of Directors since June 2007 and as Chairman since January 2011. Dr. Kumar is currently President and CEO of Geo Fossil Fuels, LLC, a privately held Energy company. From September 2001 until June 30, 2010, Dr. Kumar was President and CEO of CombiMatrix Corporation (NASDAQ: CBMX).

Previously, Dr. Kumar was Vice President of Life Sciences of Acacia Research Corp (NASDAQ: ACTG). From January 1999 to February 2000, Dr. Kumar was the founding President and Chief Executive Officer of Signature BioSciences, Inc., a life science company

3

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Table of Contents

developing technology for advanced research in genomics, proteomics and drug discovery. From January 1998 to December 1999, Dr. Kumar was an Entrepreneur in Residence with Oak Investment Partners, a venture capital firm. From October 1996 to January 1998, Dr. Kumar was a Senior Manager at IDEXX Laboratories, Inc., a biotechnology company. From October 1993 to September 1996, Dr. Kumar was Head of Research & Development for Idetek Corporation, which was later acquired by IDEXX Laboratories, Inc. Dr. Kumar received his B.S. degree in chemistry from Occidental College. After joint studies at Stanford University and the California Institute of Technology, he received his Ph.D. in Chemistry from Caltech in 1991. He also completed a post-doctoral fellowship at Harvard University in 1993. Dr. Kumar has authored and co-authored over 40 peer-reviewed publications and holds a dozen patents. Dr. Kumar brings significant leadership experience as well as experience in photovoltaic research including work on energy conversion using cells made from silicon (single crystal, polycrystalline, and amorphous), gallium arsenide, indium phosphide, metal oxides and other materials. Dr. Kumar is a member of the Board of Directors of CopyTele, Inc. (OTC: COPY) and Aeolus Pharmaceuticals (OTC: AOLS).

Kim J. Huntley has served on our Board of Directors since June 2010. Mr. Huntley served in the Defense Logistics Agency (DLA) of the U.S. Department of Defense (DOD) for more than 32 years in positions of increasing responsibility. Most recently, from July 2008 until his retirement in January 2010, Mr. Huntley served as Director of the Defense Energy Support Center (DESC) in Fort Belvoir, Virginia. The DESC operates as part of the DLA and is responsible for providing energy solutions to the DOD and federal civilian agencies. As Director of the DESC, Mr. Huntley was the principal executive officer in charge of approximately 1,100 employees worldwide and over \$25 billion in annual appropriations involving energy infrastructure and products. From March 2006 and immediately prior to becoming Director of the DESC, Mr. Huntley served in leadership roles involving supply chain management, including Deputy Commander for the Defense Supply Center in Richmond, Virginia and Columbus, Ohio, and as Executive Director of Customer Support and Readiness. From December 2003 to March 2006, Mr. Huntley served as Chief of the Customer Support Office in Fort Belvoir, Virginia. Mr. Huntley chaired the Inter Agency Working Group for Alternative Fuels and Renewable Energy from January 2009 to January 2010. The Group included senior energy representatives from DOD, DOE, EPA, and other major Federal Agencies. Mr. Huntley holds a B.A. degree in Economics from Golden Gate University and attended post-graduate courses in economics at California State University, Hayward. Mr. Huntley brings extensive supply chain, budget and defense industry experience to our Board.

G. Thomas Marsh has served on our Board of Directors since June 2010. In June 2006, Mr. Marsh retired as Executive Vice President of Lockheed Martin Space Systems Company, a subsidiary of Lockheed Martin Corporation. Lockheed Martin Space Systems designs, develops, tests, manufactures and operates advanced-technology systems, including human space flight systems, satellites and instruments, space observatories and interplanetary spacecraft, laser radar, fleet ballistic missiles, and missile defense systems. From 1969 until its merger in 1995 to form Lockheed Martin Corporation, Mr. Marsh worked at Martin Marietta Corporation, most recently in the position of President, Manned Space Systems. After 1995, he held positions of increasing responsibility within Lockheed Martin Corporation, including serving as President and General Manager of the Missiles and Space Operations business unit from 2002 until his appointment as Executive Vice President of Lockheed Martin Space Systems in 2003. Mr. Marsh was responsible for business operations and the activities of approximately 18,000 Space Systems employees. Mr. Marsh holds a B.S. degree in Electrical Engineering from the University of New Mexico, an M.B.A. from the University of Colorado, and attended the Massachusetts Institute of Technology's Sloan School of Management. Mr. Marsh brings a background in executive management and deep experience with the space and defense industries to our Board.

Xu Biao (Winston Xu) has served on our Board of Directors since April 2012. Mr. Xu currently serves as the Chairman of Radiant Group which he founded in 1997, and as the Chairman of TFG Radiant Investment Group Ltd., a joint venture between Radiant Group and Tertius Financial Group, a private investment firm based in Singapore. Mr. Xu has more than 15 years of experience with investments and operations for a broad spectrum of business start-ups, developments, turnarounds and private equity investments. As a Fellow Chartered Institute of Building ("CIOB") member, Mr. Xu is an industry expert in the areas of metallic roofing design and construction, building materials,

manufacturing, and international trading. Mr. Xu is a self-made entrepreneur and has businesses footprints spanning the world. He started his career in 1995 as a project manager for Shenzhen Nanli Decorate Construction Company where he designed and developed over thirty types of profiles and systems and is the owner of such intellectual property. He is a certified engineer in Construction Management from China National Institute of Engineers. He holds a Bachelor of Science degree in Industrial Design from ZhongNan Industrial University, and a MBA from QingHua University. Mr. Xu is a designated board representative of TFG Radiant pursuant to the Amended and Restated Stockholders Agreement between us and TFG Radiant.

## CORPORATE GOVERNANCE

### Overview

Our Bylaws provide that the size of our Board of Directors is to be determined from time to time by resolution of the Board of Directors, but shall consist of at least two and no more than nine members. Our Board of Directors currently consists

## Table of Contents

of five members. Following the annual meeting, the Board of Directors will consist of five members. The Board has determined that the following directors are “independent” as required by the listing standards of The NASDAQ Global Market and by our corporate governance guidelines: Dr. Kumar, Mr. Huntley and Mr. Marsh.

Our Certificate of Incorporation provides that the Board of Directors will be divided into three classes. Our Class 1 director is Dr. Amit Kumar. Our Class 2 directors are Kim J. Huntley and G. Thomas Marsh. Our Class 3 directors are Victor Lee and Xu Biao. The terms of Messrs. Huntley and Marsh expire at the Annual Meeting. Upon the recommendation of the Nominating and Governance Committee, the Board has nominated Messrs. Huntley and Marsh as the Class 2 director nominees.

### Board Leadership Structure and Role in Risk Oversight

We currently separate the roles of Chairman of the Board and Chief Executive Officer. We believe that Dr. Kumar possesses the strategic, technical and industry knowledge and expertise to serve as our Chairman. As President and Chief Executive Officer, Mr. Victor Lee is responsible for day-to-day oversight of our operations and personnel. Notwithstanding the foregoing, our Board does not have a formal policy regarding separation of the Chairman and Chief Executive Officer roles, and the Board may in the future decide to implement such a policy if it deems it in the best interests of us and our stockholders. The Board does not have a lead independent director.

Risk is inherent with every business, and how well a business manages risk can ultimately determine its success. We face a number of risks, including credit risk, interest rate risk, liquidity risk, operational risk, strategic risk and reputation risk. Management is responsible for the day-to-day management of risks we face, while the Board, as a whole and through its committees, has responsibility for the oversight of risk management. In its risk oversight role, the Board of Directors has the responsibility to satisfy itself that the risk management processes designed and implemented by management are adequate and functioning as designed. To do this, the Chairman of the Board meets regularly with management to discuss strategy and the risks we face. In addition, the Audit Committee regularly monitors our enterprise risk, including financial risks, through reports from management. Senior management attends the Board meetings and is available to address any questions or concerns raised by the Board on risk management and any other matters. The Chairman of the Board and independent members of the Board work together to provide strong, independent oversight of our management and affairs through the Board’s standing committees and, when necessary, executive sessions of the independent directors.

### Committees of the Board of Directors

Our Board has three standing committees: an Audit Committee, a Compensation Committee, and a Nominating and Governance Committee. Each committee operates pursuant to a charter. The charters of the Audit Committee, the Compensation Committee, and the Nominating and Governance Committee can be found on our website [www.ascentsolar.com](http://www.ascentsolar.com).

**Audit Committee.** Our Audit Committee oversees our accounting and financial reporting processes, internal systems of accounting and financial controls, relationships with independent auditors, and audits of financial statements.

Specific responsibilities include the following:

- selecting, hiring and terminating our independent auditors;
- evaluating the qualifications, independence and performance of our independent auditors;
- approving the audit and non-audit services to be performed by our independent auditors;
- reviewing the design, implementation, adequacy and effectiveness of our internal controls and critical accounting policies;
- reviewing and monitoring the enterprise risk management process;
- overseeing and monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;
- reviewing, with management and our independent auditors, any earnings announcements and other public announcements regarding our results of operations; and
- preparing the report that the SEC requires in our annual proxy statement.

Our Audit Committee is comprised of Mr. Huntley, Dr. Kumar and Mr. Marsh. Mr. Huntley serves as Chairman of the Audit Committee. The Board has determined that all members of the Audit Committee are independent under the rules of The NASDAQ Global Market, and that Mr. Huntley qualifies as an “audit committee financial expert,” as

defined by the rules of the SEC.

Compensation Committee. Our Compensation Committee assists our Board in determining the development plans and compensation of our officers, directors and employees. Specific responsibilities include the following:

- approving the compensation and benefits of our executive officers;
- reviewing the performance objectives and actual performance of our officers; and

5

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## Table of Contents

administering our stock option and other equity compensation plans.

The Compensation Committee reviews all components of compensation including base salary, bonus, equity compensation, benefits and other perquisites. In addition to reviewing competitive market values, the Compensation Committee also examines the total compensation mix, pay-for-performance relationship and how all elements, in the aggregate, comprise the executives' total compensation package. The CEO makes recommendations to the Compensation Committee from time to time regarding the appropriate mix and level of compensation for other officers. Those recommendations consider the objectives of our compensation philosophy and the range of compensation programs authorized by the Compensation Committee. The Compensation Committee may determine director compensation by reviewing peer group data. Although the Compensation Committee has the authority to retain outside third parties, it does not currently utilize any outside consultants. The Compensation Committee may delegate certain of its responsibilities, as it deems appropriate, to other committees or officers.

Our Compensation Committee is comprised of Mr. Marsh, Mr. Huntley and Dr. Kumar. Mr. Marsh serves as Chairman of the Compensation Committee. Our Board has determined that all members of the Compensation Committee are independent under the rules of The NASDAQ Global Market.

Nominating and Governance Committee. Our Nominating and Governance Committee assists our Board by identifying and recommending individuals qualified to become members of our Board, reviewing correspondence from our stockholders, and establishing, evaluating and overseeing our corporate governance guidelines. Specific responsibilities include the following:

- evaluating the composition, size and governance of our Board and its committees and making recommendations regarding future planning and the appointment of directors to our committees;
- establishing a policy for considering stockholder nominees for election to our Board; and
- evaluating and recommending candidates for election to our Board.

Our Nominating and Governance Committee is comprised of Dr. Kumar, Mr. Huntley, and Mr. Marsh. Dr. Kumar serves as Chairman of our Nominating and Governance Committee. Our Board has determined that all members of the Nominating and Governance Committee are independent under the rules of The NASDAQ Global Market.

When considering potential director candidates for nomination or election, the following characteristics are considered in accordance with our Nominating and Governance Committee Charter:

- high standard of personal and professional ethics, integrity and values;
- training, experience and ability at making and overseeing policy in business, government and/or education sectors;
- willingness and ability to keep an open mind when considering matters affecting interests of us and our constituents;
- willingness and ability to devote the time and effort required to effectively fulfill the duties and responsibilities related to the Board and its committees;
- willingness and ability to serve on the Board for multiple terms, if nominated and elected, to enable development of a deeper understanding of our business affairs;
- willingness not to engage in activities or interests that may create a conflict of interest with a director's responsibilities and duties to us and our constituents; and
- willingness to act in the best interests of us and our constituents, and objectively assess Board, committee and management performances.

In addition, in order to maintain an effective mix of skills and backgrounds among the members of our Board, the following characteristics also may be considered when filling vacancies or identifying candidates:

- independence;
- diversity (e.g., age, geography, professional, other);
- professional experience;
- industry knowledge (e.g., relevant industry or trade association participation);
- skills and expertise (e.g., accounting or financial);
- leadership qualities;
- public company board and committee experience;
- non-business-related activities and experience (e.g., academic, civic, public interest);

• continuity (including succession planning);  
• size of the Board;  
• number and type of committees, and committee sizes; and  
• legal and other applicable requirements and recommendations, and other corporate governance-related guidance regarding Board and committee composition.

6

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## Table of Contents

The Nominating and Governance Committee will consider candidates recommended by stockholders who follow the nomination procedures in our bylaws. The Nominating and Governance Committee does not have a formal policy with respect to diversity; however, as noted above, the Board and the Nominating and Governance Committee believe that it is essential that Board members represent diverse viewpoints.

### Number of Meetings

The Board held a total of [ ] meetings in 2012. Our Audit Committee held [ ] meetings, our Compensation Committee held [ ] meetings, and our Nominating and Governance Committee held [ ] meetings in 2012. Each director attended at least [ ]% of the aggregate of the total number of meetings of the Board and the Board committees on which he served.

### Board Member Attendance at Annual Stockholder Meetings

Although we do not have a formal policy regarding director attendance at annual stockholder meetings, directors are encouraged to attend these annual meetings absent extenuating circumstances. Our 2012 annual meeting was attended by five of the six directors serving at the time.

### Stockholder Nominations

In accordance with our Bylaws, a stockholder wishing to nominate a director for election at an annual or special meeting of stockholders must timely submit a written proposal of nomination to us at our executive offices. To be timely, a written proposal of nomination for an annual meeting of stockholders must be received at least 90 calendar days but no more than 120 calendar days before the first anniversary of the date on which we held our annual meeting of stockholders in the immediately preceding year; provided, however, that in the event that the date of the annual meeting is advanced or delayed more than 30 calendar days from the anniversary of the annual meeting of stockholders in the immediately preceding year, the written proposal must be received: (i) at least 90 calendar days but no more than 120 calendar days prior to the date of the annual meeting; or (ii) no more than 10 days after the date we first publicly announce the date of the annual meeting. A written proposal of nomination for a special meeting of stockholders must be received no earlier than 120 calendar days prior to the date of the special meeting nor any later than the later of: (i) 90 calendar days prior to the date of the special meeting; and (ii) 10 days after the date we first publicly announce the date of the special meeting.

Each written proposal for a nominee must contain: (i) the name, age, business address and telephone number, and residence address and telephone number of the nominee; (ii) the current principal occupation or employment of each nominee, and the principal occupation or employment of each nominee for the prior ten (10) years; (iii) a complete list of companies, whether publicly traded or privately held, on which the nominee serves (or, during any of the prior ten (10) years, has served) as a member of the board of directors; (iv) the number of shares of our common stock that are owned of record and beneficially by each nominee; (v) a statement whether the nominee, if elected, intends to tender, promptly following such person's failure to receive the required vote for election or reelection at the next meeting at which the nominee would face election or reelection, an irrevocable resignation effective upon acceptance of such resignation by the Board; (vi) a completed and signed questionnaire, representation and agreement relating to voting agreements or commitments to which the nominee is a party; (vii) other information concerning the nominee that would be required in a proxy statement soliciting the nominee's election; and (viii) information about, and representations from, the stockholder making the nomination.

A stockholder interested in submitting a nominee for election to the Board of Directors should refer to our Bylaws for additional requirements. Upon receipt of a written proposal of nomination meeting these requirements, the Nominating and Governance Committee of the Board will evaluate the nominee in accordance with its charter and the characteristics listed above.

### Director Compensation

In 2012, our independent directors each received an annual cash retainer of \$20,000 and restricted stock units valued at \$35,000 based on the closing price of our common stock on December 30, 2011. In addition, an independent director received: (1) for serving as a Board committee member, restricted stock unit awards valued at \$10,000 based on the closing price of our common stock as of December 30, 2011; (2) for serving as a committee chairman, restricted stock unit awards valued at \$20,000 based on the closing price of our common stock on December 30, 2011;

and (3) for serving as chairman of the Board, additional cash compensation of \$100,000 and restricted stock unit awards valued at \$40,000 based on the closing price of our common stock on December 30, 2011.

The following Director Compensation Table summarizes the compensation of each of our non-employee directors for services rendered to us during the year ended December 31, 2012:

7

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Table of Contents

## 2012 Director Compensation Table

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)(1)	All Other Comp (\$)	Total (\$)
Amit Kumar (2)	149,500	112,000	—	261,500
Kim J. Huntley	25,167	83,823	—	108,990
G. Thomas Marsh	24,371	91,476	—	115,847
Richard J. Swanson (3)	12,583	85,913	—	98,496
Victor Lee	—	—	—	—
Xu Biao (4)	—	—	—	—
Hans Olav Kvalvaag (5)	—	—	—	—

(1) Represents the aggregate grant date fair value of restricted stock unit awards computed in accordance with FASB ASC Topic 718 for awards of stock granted during the year ended December 31, 2012.

The issuance of stock awards to Dr. Kumar in 2012 was limited to 200,000 shares under our 2008 Restricted Stock (2) Plan, as amended. Dr. Kumar received cash in lieu of shares based upon the total target compensation as described above.

Mr. Swanson did not stand for re-election to the Board at the end of his term in 2012. As a result, his term ended (3) with the 2012 annual meeting and 50% of the restricted stock units he was granted on January 4, 2012 were forfeited.

Xu Biao (Winston Xu) Mr. Biao joined our Board on April 16, 2012, following the TFG Radiant purchase of (4) shares from Norsk Hydro.

Following the closing of the Radiant's purchase of shares from Norsk Hydro, on March 30, 2012, Hans Olav (5) Kvalvaag, a designated representative of Norsk Hydro, resigned from our Board.

In addition to the fees listed above, we reimburse the directors for travel expenses submitted to us related to their attendance at meetings of the Board or its committees. The directors did not receive any other compensation or personal benefits.

## Code of Ethics

We have adopted a code of ethics that applies to our principal executive officer, principal financial officer, principal accounting officer and other senior finance and accounting staff. The code is designed to, among other things, deter wrongdoing and to promote the honest and ethical conduct of our officers and employees. The text of our code of ethics can be found on our Internet website at [www.ascentsolar.com](http://www.ascentsolar.com). If we effect an amendment to, or waiver from, a provision of our code of ethics, we intend to satisfy our disclosure requirements by posting a description of such amendment or waiver on that Internet website or via a current report on Form 8-K.

## Communication with the Board of Directors

Stockholders may communicate with the Board by sending correspondence to our Chairman, c/o the Corporate Secretary, at our corporate address on the cover of this Proxy Statement. It is our practice to forward all such correspondence to our Chairman, who is responsible for determining whether to relay the correspondence to the other members of the Board.

## EXECUTIVE COMPENSATION

## Compensation of Executive Officers in 2012

The following Summary Compensation Table sets forth certain information regarding the compensation of our principal executive officer, and the two other most highly compensated executive officers at the end of our last fiscal year for services rendered in all capacities to us during the years ended December 31, 2012 and 2011.



Table of Contents

## Summary Compensation Table

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards \$(1)	Option Awards \$(2)	All Other Comp(\$)	Total (\$)
Victor Lee—Chief Executive Officer(3)	2012	—	—	—	—	—	—
	2011	—	—	—	—	—	—
Ron Eller—Former President and Chief Executive Officer(4)	2012	79,731	—	—	—	175,000	254,731
	2011	251,731	—	430,500	455,620	—	1,137,851
Gary Gatchell—Chief Financial Officer(5)	2012	204,231	50,000	—	—	—	254,231
	2011	199,191	50,000	70,770	147,785	—	467,746

(1) Represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for awards of stock awards granted during the years ended December 31, 2012 and 2011.

(2) Represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for options granted during the years ended December 31, 2012 and 2011.

(3) Mr. Lee became our CEO in February 2012. Mr. Lee agreed to serve as CEO without any cash compensation. Mr. Lee is reimbursed for travel expenses in accordance with the Company's expense reimbursement policies.

(4) Ron Eller ceased to be the President, Chief Executive Officer and a director of the Company on February 1, 2012. Other compensation includes severance paid to Mr. Eller under the terms of his employment agreement. Stock awards and option Awards were granted upon appointment as President and Chief Executive Officer on March 31, 2011.

(5) The stock award for Gary Gatchell had a grant date of February 3, 2011 and was for 21,000 shares with 14,000 vesting based upon achievement of 2011 corporate performance objectives and 7,000 vesting two years from the grant date. The 14,000 shares related to 2011 performance were forfeited because the corporate performance objectives were not met. There were two option awards for Gary Gatchell in 2011. The first was for 40,000 shares at an exercise price of \$3.37 per share with 25% of shares vesting annually beginning February 3, 2012. The second was for 75,000 shares at an exercise price of \$0.68 per share with 25% of shares vesting annually beginning August 4, 2012.

## Executive Employment Agreements

As of December 31, 2012, we did not have any executive employment agreements.

## Separation Agreements

On February 1, 2012, Mr. Eller ceased to be the President, Chief Executive Officer and a director of the Company. As provided for in Mr. Eller's employment agreement dated March 31, 2011, Mr. Eller received his base salary for a period of seven months and an additional portion of Mr. Eller's restricted stock units and stock options were vested. The following table sets forth information concerning the outstanding equity awards granted to the named executive officers as of December 31, 2012.

## Outstanding Equity Awards at Fiscal Year-End

Table of Contents

Name	Option Awards Number of Securities Underlying Unexercised Options(#)		Option Exercise Price(\$/sh)	Option Expiration Date	Stock Awards Number of Shares or Market Value of Shares or Units of Stock That Have Not Vested	
	Exercisable	Unexercisable			Units of Stock That Have Not Vested	Units of Stock That Have Not Vested
Victor Lee	—	—			—	—
Gary Gatchell(1)	20,000	—	\$3.17	12/2/2018	7,000	—
	30,000	30,000	\$4.17	2/8/2020		
	10,000	30,000	\$3.37	2/3/2021		
	18,750	56,250	\$0.68	8/4/2021		
	78,750	116,250				
Ron Eller	50,000	—	2.87	2/1/2013	—	—

Vesting dates of securities underlying unexercised options and stock awards not yet vested as of December 31, 2011:

\$4.17 options—15,000 vest 1/01/13, 15,000 vest 1/01/14. \$3.37 options—10,000 vest 2/4/13, 10,000 vest 2/3/14 10,000 (1) vest 2/3/15. \$0.68 options—18,750 vest 8/4/13, 18,750 vest 8/4/14, 18,750 vest 8/4/15. Stock awards not yet vested—7,000 vest 1/21/13.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table shows information regarding the beneficial ownership of our common stock by our directors, executive officers, former executive officers and greater than 5% beneficial owners as of March 31, 2013.

Beneficial ownership is determined in accordance with the rules of the SEC and generally includes any shares over which a person exercises sole or shared voting or investment power and all shares issuable upon exercise of options or the vesting of restricted stock within 60 days of March 31, 2013. For purposes of calculating the percentage of our common stock beneficially owned, the number of shares of our common stock includes 51,523,758 shares of our common stock outstanding as of March 31, 2013.

Unless otherwise indicated, each of the stockholders listed below has sole voting and investment power with respect to the shares beneficially owned. The address for each director or named executive officer is c/o Ascent Solar Technologies, Inc., 12300 North Grant Street, Thornton, Colorado 80241.

Name of Beneficial Owner	No. of Shares Beneficially Owned	Percentage
5% Stockholders:		
TFG Radiant Investment Group Ltd.(1)	16,032,842	3,883.1
<b>Total liabilities and equity</b>	\$	\$ 7,841.2 3,301.9 7,145.2

See notes to consolidated financial statements.



Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)**

	<b>Six Months Ended December 31</b>	
	<b>2013</b>	<b>2012</b>
	<b>(In millions)</b>	
<b>Cash Flows from Operating Activities</b>		
Net earnings	\$ 737.0	\$ 749.0
Adjustments to reconcile net earnings to net cash flows from operating activities:		
Depreciation and amortization	184.4	156.8
Deferred income taxes	(18.3)	(22.3)
Non-cash stock-based compensation	94.9	88.8
Excess tax benefits from stock-based compensation arrangements	(25.3)	(33.4)
Loss on disposal of property, plant and equipment	5.8	7.5
Non-cash charges associated with restructuring activities		1.4
Pension and post-retirement benefit expense	35.0	41.1
Pension and post-retirement benefit contributions	(12.8)	(12.3)
Other non-cash items	(0.1)	(23.2)
Changes in operating assets and liabilities:		
Increase in accounts receivable, net	(318.4)	(444.9)
Decrease (increase) in inventory and promotional merchandise, net	(12.9)	11.7
Increase in other assets, net	(44.8)	(31.5)
Increase (decrease) in accounts payable	5.6	(158.1)
Increase in other accrued and noncurrent liabilities	152.3	324.5
<b>Net cash flows provided by operating activities</b>	<b>782.4</b>	<b>655.1</b>
<b>Cash Flows from Investing Activities</b>		
Capital expenditures	(216.9)	(205.4)
Acquisition of businesses and other intangible assets, net of cash acquired	(9.2)	(8.7)
Proceeds from disposition of long-term investments		0.7
Purchases of long-term investments	(0.6)	(2.8)
<b>Net cash flows used for investing activities</b>	<b>(226.7)</b>	<b>(216.2)</b>
<b>Cash Flows from Financing Activities</b>		
Borrowings (repayments) of current debt, net	3.4	(192.4)
Proceeds from issuance of long-term debt, net		498.7
Debt issuance costs		(4.1)
Repayments and redemptions of long-term debt	(6.7)	(239.2)
Net proceeds from stock-based compensation transactions	28.2	37.1
Excess tax benefits from stock-based compensation arrangements	25.3	33.4
Payments to acquire treasury stock	(204.9)	(326.5)
Dividends paid to stockholders	(148.4)	(279.5)
<b>Net cash flows used for financing activities</b>	<b>(303.1)</b>	<b>(472.5)</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(0.3)	9.5
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>252.3</b>	<b>(24.1)</b>
<b>Cash and Cash Equivalents at Beginning of Period</b>	<b>1,495.7</b>	<b>1,347.7</b>
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 1,748.0</b>	<b>\$ 1,323.6</b>

See notes to consolidated financial statements.

Table of Contents

**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. For further information, refer to the consolidated financial statements and accompanying footnotes included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

*Management Estimates*

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

*Currency Translation and Transactions*

All assets and liabilities of foreign subsidiaries and affiliates are translated at period-end rates of exchange, while revenue and expenses are translated at weighted-average rates of exchange for the period. Unrealized translation gains (losses) reported as cumulative translation adjustments through other comprehensive income (loss) ( OCI ) attributable to The Estée Lauder Companies Inc. amounted to \$(14.5) million and \$6.1 million, net of tax, during the three months ended December 31, 2013 and 2012, respectively, and \$58.0 million and \$82.6 million of unrealized translation gains, net of tax, during the six months ended December 31, 2013 and 2012, 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 gains (losses) on foreign currency transactions of \$(6.5) million and \$0.5 million during the three months ended December 31, 2013 and 2012, respectively, and \$(6.4) million and \$1.4 million during the six months ended December 31, 2013 and 2012, respectively.

*Accounts Receivable*

Accounts receivable is stated net of the allowance for doubtful accounts and customer deductions totaling \$25.2 million and \$22.7 million as of December 31, 2013 and June 30, 2013, respectively.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*****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 \$281.4 million, or 9%, and \$270.0 million, or 9%, of the Company's consolidated net sales for the three months ended December 31, 2013 and 2012, respectively, and \$623.0 million, or 11%, and \$606.2 million, or 11%, of the Company's consolidated net sales for the six months ended December 31, 2013 and 2012, respectively. This customer accounted for \$149.2 million, or 10%, and \$113.7 million, or 10%, of the Company's accounts receivable at December 31, 2013 and June 30, 2013, respectively.

***Inventory and Promotional Merchandise***

Inventory and promotional merchandise, net consists of:

(In millions)	December 31 2013	June 30 2013
Raw materials	\$ 302.2	\$ 274.2
Work in process	143.6	116.8
Finished goods	524.9	510.9
Promotional merchandise	175.2	212.0
	\$ 1,145.9	\$ 1,113.9

***Property, Plant and Equipment***

(In millions)	December 31 2013	June 30 2013
<b>Assets (Useful Life)</b>		
Land	\$ 15.1	\$ 14.7

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Buildings and improvements (10 to 40 years)	200.6	195.4
Machinery and equipment (3 to 10 years)	665.5	647.9
Computer hardware and software (4 to 10 years)	996.4	948.4
Furniture and fixtures (5 to 10 years)	72.9	71.6
Leasehold improvements	1,466.8	1,349.6
	3,417.3	3,227.6
Less accumulated depreciation and amortization	2,021.9	1,876.9
	\$ 1,395.4	\$ 1,350.7

The cost of assets related to projects in progress of \$183.5 million and \$178.7 million as of December 31, 2013 and June 30, 2013, respectively, is included in their respective asset categories above. Depreciation and amortization of property, plant and equipment was \$94.0 million and \$77.9 million during the three months ended December 31, 2013 and 2012, respectively, and \$181.1 million and \$153.2 million during the six months ended December 31, 2013 and 2012, 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.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS***Other Accrued Liabilities*

Other accrued liabilities consist of the following:

<b>(In millions)</b>	<b>December 31 2013</b>	<b>June 30 2013</b>
Advertising, merchandising and sampling	\$ 337.5	\$ 318.6
Employee compensation	345.0	433.3
Payroll and other taxes	192.1	135.7
Accrued income taxes	173.1	81.3
Other	482.2	465.7
	\$ 1,529.9	\$ 1,434.6

*Income Taxes*

The effective rate for income taxes was 32.4% and 32.0% for the three months ended December 31, 2013 and 2012, respectively. The increase in the effective income tax rate was principally due to a slightly higher effective tax rate on the Company's foreign operations.

The effective income tax rate was 31.8% and 32.5% for the six months ended December 31, 2013 and 2012, respectively. The decrease in the effective income tax rate was principally due to a reduction in income tax reserve adjustments.

As of December 31, 2013 and June 30, 2013, the gross amount of unrecognized tax benefits, exclusive of interest and penalties, totaled \$60.4 million and \$64.0 million, respectively. The total amount of unrecognized tax benefits at December 31, 2013 that, if recognized, would affect the effective tax rate was \$43.3 million. The total gross interest and penalties accrued related to unrecognized tax benefits during the three and six months ended December 31, 2013 in the accompanying consolidated statements of earnings was \$0.1 million and \$0.4 million, respectively. The total gross accrued interest and penalties in the accompanying consolidated balance sheets at December 31, 2013 and June 30, 2013 was \$15.7 million and \$17.4 million, respectively. On the basis of the information available as of December 31, 2013, it is reasonably possible that the total amount of unrecognized tax benefits could decrease in a range of \$5 million to \$10 million within 12 months as a result of projected resolutions of global tax examinations and controversies and a potential lapse of the applicable statutes of limitations.

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

As of December 31, 2013 and June 30, 2013, the Company had current net deferred tax assets of \$288.4 million and \$296.0 million, respectively, substantially all of which are included in Prepaid expenses and other current assets in the accompanying consolidated balance sheets. In addition, the Company had noncurrent net deferred tax assets of \$52.3 million and \$50.3 million as of December 31, 2013 and June 30, 2013, respectively, substantially all of which are included in Other assets in the accompanying consolidated balance sheets.



Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

***Recently Adopted Accounting Standards***

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

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

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

***Recently Issued Accounting Standards***

In July 2013, the FASB issued authoritative guidance that requires an entity to present an unrecognized tax benefit, or a portion of an unrecognized tax benefit, in the financial statements as a reduction to a deferred tax asset for a net operating loss ( NOL ) carryforward, a similar tax loss, or a tax credit carryforward. If either (i) an NOL carryforward, a similar tax loss, or tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position or (ii) the entity does not intend to use the deferred tax asset for this purpose (provided that the tax law permits a choice), an entity should present an unrecognized tax

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benefit in the financial statements as a liability and should not net the unrecognized tax benefit with a deferred tax asset. This guidance becomes effective prospectively for unrecognized tax benefits that exist as of the Company's fiscal 2015 first quarter, with retrospective application and early adoption permitted. The Company will apply this new guidance prospectively when it becomes effective, and the adoption of this disclosure-only guidance is not expected to have a significant impact on its consolidated financial statements.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

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

**NOTE 2 GOODWILL AND OTHER INTANGIBLE ASSETS**

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

(In millions)	Skin Care	Makeup	Fragrance	Hair Care	Total
<b>Balance as of June 30, 2013</b>					
Goodwill	\$ 67.7	\$ 430.4	\$ 54.8	\$ 401.6	\$ 954.5
Accumulated impairments	(32.5)			(40.5)	(73.0)
	35.2	430.4	54.8	361.1	881.5
Goodwill acquired during the period		8.2			8.2
Translation and other adjustments	0.1			0.3	0.4
	0.1	8.2		0.3	8.6

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**Balance as of December 31, 2013**

Goodwill	68.9	438.6	54.8	401.3	963.6
Accumulated impairments	(33.6)			(39.9)	(73.5)
	\$ 35.3	\$ 438.6	\$ 54.8	\$ 361.4	\$ 890.1

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Other intangible assets consist of the following:

(In millions)	December 31, 2013			June 30, 2013		
	Gross Carrying Value	Accumulated Amortization	Total Net Book Value	Gross Carrying Value	Accumulated Amortization	Total Net Book Value
<b><u>Amortizable intangible assets:</u></b>						
Customer lists and other	\$ 267.9	\$ 210.4	\$ 57.5	\$ 268.0	\$ 204.1	\$ 63.9
License agreements	43.0	43.0		43.0	43.0	
	\$ 310.9	\$ 253.4	57.5	\$ 311.0	\$ 247.1	63.9
<b><u>Non-amortizable intangible assets:</u></b>						
Trademarks and other			105.7			105.7
Total intangible assets			\$ 163.2			\$ 169.6

The aggregate amortization expense related to amortizable intangible assets was \$3.1 million for the three months ended December 31, 2013 and 2012, and was \$6.3 million and \$6.2 million for the six months ended December 31, 2013 and 2012, respectively. The estimated aggregate amortization expense for the remainder of fiscal 2014 and for each of fiscal 2015 to 2018 is \$6.2 million, \$12.1 million, \$12.0 million, \$9.9 million and \$8.4 million, respectively.

**NOTE 3 RETURNS AND CHARGES ASSOCIATED WITH RESTRUCTURING ACTIVITIES**

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

**Restructuring Charges (Adjustments)**

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

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(In millions)	Three Months Ended December 31		Six Months Ended December 31	
	2013	2012	2013	2012
Employee-related costs	\$ (3.6)	\$ 13.5	\$ (3.5)	\$ 13.6
Asset write-offs		0.1		0.1
Contract terminations	(0.1)		1.0	
Other exit costs	0.2	(0.3)	0.2	(0.1)
Total restructuring charges (adjustments)	\$ (3.5)	\$ 13.3	\$ (2.3)	\$ 13.6

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

(In millions)	Employee- Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Fiscal 2009	\$ 60.9	\$ 4.2	\$ 3.4	\$ 1.8	\$ 70.3
Fiscal 2010	29.3	11.0	2.3	6.2	48.8
Fiscal 2011	34.6	2.4	3.0	1.1	41.1
Fiscal 2012	37.1	1.7	12.6	2.2	53.6
Fiscal 2013	7.7	2.1	1.5	3.3	14.6
Six months ended December 31, 2013	(3.5)		1.0	0.2	(2.3)
Charges recorded through December 31, 2013	\$ 166.1	\$ 21.4	\$ 23.8	\$ 14.8	\$ 226.1

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

(In millions)	Employee- Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Balance at June 30, 2013	\$ 27.5	\$	\$ 0.2	\$ 0.7	\$ 28.4
Charges (adjustments)	(3.5)		1.0	0.2	(2.3)
Cash payments	(10.6)		(0.5)	(0.5)	(11.6)
Translation adjustments	0.2		0.1		0.3
Balance at December 31, 2013	\$ 13.6	\$	\$ 0.8	\$ 0.4	\$ 14.8

Accrued restructuring charges at December 31, 2013 are expected to result in cash expenditures funded from cash provided by operations of approximately \$8 million for the remainder of fiscal 2014 and \$7 million in fiscal 2015.

**NOTE 4 DERIVATIVE FINANCIAL INSTRUMENTS**

The Company addresses certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. The Company enters into foreign currency forward contracts. The Company may enter into option contracts to reduce the effects of fluctuating foreign currency exchange rates and interest rate derivatives to manage the effects of interest rate movements on the Company's aggregate liability portfolio. The Company also enters into foreign currency forward contracts and may use option contracts, not

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designated as hedging instruments, to mitigate the change in fair value of specific assets and liabilities on the balance sheet. The Company does not utilize derivative financial instruments for trading or speculative purposes. Costs associated with entering into these derivative financial instruments have not been material to the Company's consolidated financial results.

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



Table of Contents

## THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

(In millions)	Balance Sheet Location	Asset Derivatives		Liability Derivatives	
		Fair Value (1)		Fair Value (1)	
		December 31 2013	June 30 2013	December 31 2013	June 30 2013
<b>Derivatives Designated as Hedging Instruments:</b>					
Foreign currency forward contracts	Prepaid expenses and other current assets	\$ 11.9	\$ 20.8	Other accrued liabilities	\$ 12.7 \$ 6.4
<b>Derivatives Not Designated as Hedging Instruments:</b>					
Foreign currency forward contracts	Prepaid expenses and other current assets	2.4	0.9	Other accrued liabilities	2.9 2.7
Total Derivatives		\$ 14.3	\$ 21.7		\$ 15.6 \$ 9.1

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

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

(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Three Months Ended December 31		Location of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion) (1) Three Months Ended December 31	
	2013	2012		2013	2012

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Foreign currency forward contracts	\$	3.3	\$	(0.2)	Cost of sales	\$	1.1	\$	(0.4)
					Selling, general and administrative		0.3		2.2
Total derivatives	\$	3.3	\$	(0.2)		\$	1.4	\$	1.8

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(1) The amount of gain recognized in earnings related to the amount excluded from effectiveness testing was \$0.7 million and \$0.5 million for the three months ended December 31, 2013 and 2012, respectively. 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. There was a \$0.2 million net loss recognized in earnings related to the ineffective portion of the hedging relationships for the three months ended December 31, 2012.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

(In millions)	Amount of Gain or (Loss) Recognized in OCI on Derivatives (Effective Portion) Six Months Ended December 31		Location of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion)	Amount of Gain or (Loss) Reclassified from AOCI into Earnings (Effective Portion) (1) Six Months Ended December 31	
	2013	2012		2013	2012
Foreign currency forward contracts	\$ (10.3)	\$ (13.7)	Cost of sales	\$ 2.5	\$ (0.5)
			Selling, general and administrative	2.7	4.7
Total derivatives	\$ (10.3)	\$ (13.7)		\$ 5.2	\$ 4.2

(1) The amount of gain recognized in earnings related to the amount excluded from effectiveness testing was \$0.6 million and \$0.4 million for the six months ended December 31, 2013 and 2012, respectively. There was a \$0.5 million and \$0.2 million net loss recognized in earnings related to the ineffective portion of the hedging relationships for the six months ended December 31, 2013 and 2012, 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		Six Months Ended December 31	
		2013	2012	2013	2012
Foreign currency forward contracts	Selling, general and administrative	\$ (1.6)	\$ (2.4)	\$ 1.4	\$ (0.3)

**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

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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 March 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.

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, 2013, the Company's foreign currency cash-flow hedges were highly effective in all material respects. The estimated net gain as of December 31, 2013 that is expected to be reclassified from AOCI into earnings, net of tax, within the next twelve months is \$1.5 million. The accumulated gain on foreign currency cash-flow hedges in AOCI was \$1.4 million and \$16.9 million as of December 31, 2013 and June 30, 2013, respectively.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

At December 31, 2013, the Company had foreign currency forward contracts in the amount of \$1,922.8 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the British pound (\$511.6 million), Euro (\$361.6 million), Canadian dollar (\$205.4 million), Swiss franc (\$132.7 million), Japanese yen (\$122.1 million), Australian dollar (\$94.4 million) and Hong Kong dollar (\$92.9 million).

***Credit Risk***

As a matter of policy, the Company only enters into derivative contracts 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 \$14.3 million at December 31, 2013. 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 contain credit-risk-related contingent features. At December 31, 2013, the Company was in a net asset position for certain derivative contracts that contain such features with two counterparties. The fair value of collateral required to settle the instruments immediately if a triggering event were to occur is estimated at approximately the fair value of the contracts. The fair value of those contracts in a net asset position was approximately \$1.6 million as of December 31, 2013 and the Company was in compliance with such credit-risk-related contingent features.

**NOTE 5 FAIR VALUE MEASUREMENTS**

The Company records 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, which principally consist of assets and liabilities acquired through business combinations, goodwill, indefinite-lived intangible assets and long-lived assets for the purposes of calculating potential impairment, and liabilities associated with restructuring activities. 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.

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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.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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, 2013:

(In millions)	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Foreign currency forward contracts	\$	\$ 14.3	\$	\$ 14.3
Available-for-sale securities	7.2			7.2
Total	\$ 7.2	\$ 14.3	\$	\$ 21.5
<b>Liabilities:</b>				
Foreign currency forward contracts	\$	\$ 15.6	\$	\$ 15.6

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, 2013:

(In millions)	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Foreign currency forward contracts	\$	\$ 21.7	\$	\$ 21.7
Available-for-sale securities	6.5			6.5
Total	\$ 6.5	\$ 21.7	\$	\$ 28.2
<b>Liabilities:</b>				
Foreign currency forward contracts	\$	\$ 9.1	\$	\$ 9.1

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* The carrying amount approximates fair value, primarily because of the short maturity of cash equivalent instruments.

*Available-for-sale securities* Available-for-sale securities are generally comprised of mutual funds and are valued using quoted market prices on an active exchange. Available-for-sale securities are included in Other assets in the accompanying consolidated balance sheets.

*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 6.3%. This implied market rate reflects 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 is deemed to be an unobservable input and as such the Company's note receivable is classified within Level 3 of the valuation hierarchy. An increase or decrease in the risk premium of 100 basis points would not result in a significant change to the fair value of the receivable.

*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.



Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

(In millions)	December 31 2013		June 30 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Nonderivatives</b>				
Cash and cash equivalents	\$ 1,748.0	\$ 1,748.0	\$ 1,495.7	\$ 1,495.7
Available-for-sale securities	7.2	7.2	6.5	6.5
Note receivable	16.8	16.9	16.8	16.9
Current and long-term debt	1,338.8	1,347.5	1,344.3	1,387.8
<b>Derivatives</b>				
Foreign currency forward contracts (liability)	(1.3)	(1.3)	12.6	12.6

**NOTE 6 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, 2013.

The components of net periodic benefit cost for the three months ended December 31, 2013 and 2012 consisted of the following:

(In millions)	2013	Pension Plans				Other than Pension Plans Post-retirement	
		U.S. 2012	U.S. 2013	International 2012	International 2013	2013	2012
Service cost	\$ 7.9	\$ 8.4	\$ 6.2	\$ 6.1	\$ 0.8	\$ 1.1	
Interest cost	7.9	6.7	4.8	4.5	2.0	1.9	
Expected return on plan assets	(11.7)	(11.3)	(5.2)	(4.9)	(0.5)	(0.5)	
Amortization of:							
Prior service cost	0.2	0.2	0.7	0.7	0.2	0.2	
Actuarial loss	1.8	3.6	2.3	2.4	0.2	1.1	
Net periodic benefit cost	\$ 6.1	\$ 7.6	\$ 8.8	\$ 8.8	\$ 2.7	\$ 3.8	

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The components of net periodic benefit cost for the six months ended December 31, 2013 and 2012 consisted of the following:

(In millions)	Pension Plans				Other than Pension Plans Post-retirement	
	2013	U.S. 2012	2013	International 2012	2013	2012
Service cost	\$ 15.8	\$ 16.9	\$ 12.3	\$ 12.0	\$ 1.7	\$ 2.3
Interest cost	15.6	13.4	9.4	9.0	4.0	3.8
Expected return on plan assets	(23.4)	(22.6)	(10.2)	(9.7)	(1.0)	(1.0)
Amortization of:						
Prior service cost	0.4	0.3	1.4	1.4	0.4	0.4
Actuarial loss	3.7	7.2	4.5	4.7	0.4	2.2
Settlements and curtailments				0.8		
Net periodic benefit cost	\$ 12.1	\$ 15.2	\$ 17.4	\$ 18.2	\$ 5.5	\$ 7.7

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

During the six months ended December 31, 2013, the Company made contributions to its international pension plans totaling approximately \$8 million.

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

<b>(In millions)</b>	<b>December 31</b>		<b>June 30</b>	
	<b>2013</b>		<b>2013</b>	
Other assets	\$	144.5	\$	144.0
Other accrued liabilities		(23.2)		(23.1)
Other noncurrent liabilities		(363.7)		(349.2)
Funded status		(242.4)		(228.3)
Accumulated other comprehensive loss		310.4		315.0
Net amount recognized	\$	68.0	\$	86.7

**NOTE 7 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. Except as disclosed below, 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.

During the fiscal 2007 fourth quarter, the former owner of the Darphin brand initiated litigation in the Paris Commercial Court against the Company and one of its subsidiaries seeking to recover 60.0 million (\$81.9 million at the exchange rate at December 31, 2013) that he claims he was owed as additional consideration for the sale of Darphin to the Company in April 2003. On December 23, 2011, the Paris Commercial Court issued its judgment, awarding the former owner 22.9 million (\$31.2 million at the exchange rate at December 31, 2013) plus interest from 2007. The Company has filed its appeal with the Paris Court of Appeal and oral arguments for the appeal are scheduled for June 2014. In accordance with the judgment, in January 2012, the Company paid 25.3 million (\$34.5 million at the exchange rate at December 31, 2013) to the former owner and received from him a bank guarantee to assure repayment to the Company of such sum (or any part thereof) in the event that

the judgment is reversed by the Paris Court of Appeal. Based upon its assessment of the case, as well as the advice of external counsel, the Company is maintaining the amount it previously accrued as an amount that it believes will ultimately be paid based on the probable outcome of the appeal. Such amount is less than the Paris Commercial Court's award.

**NOTE 8 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, 2013, approximately 14,827,000 shares of the Company's Class A Common Stock were reserved and available to be granted pursuant to these Plans.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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:

(In millions)	Three Months Ended December 31		Six Months Ended December 31	
	2013	2012	2013	2012
Compensation expense	\$ 38.6	\$ 34.3	\$ 94.9	\$ 88.8
Income tax benefit	12.8	11.3	31.1	28.9

As of December 31, 2013, the total unrecognized compensation cost related to unvested stock-based awards was \$159.0 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, 2013 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, 2013	15,071.4	\$ 36.60		
Granted at fair value	1,864.1	67.41		
Exercised	(1,087.0)	25.92		
Expired	(5.2)	25.80		
Forfeited	(60.5)	51.72		
Outstanding at December 31, 2013	15,782.8	40.92	\$ 543.0	6.9
Vested and expected to vest at December 31, 2013	15,610.8	40.69	\$ 540.6	6.9
Exercisable at December 31, 2013	7,565.2	27.16	\$ 364.3	5.6

(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:

(In millions, except per share data)	Three Months Ended December 31		Six Months Ended December 31	
	2013	2012	2013	2012
Per-share weighted-average grant date fair value of stock options granted	\$ 25.09	\$ 20.84	\$ 23.13	\$ 20.30
Intrinsic value of stock options exercised	\$ 37.3	\$ 38.0	\$ 48.1	\$ 65.3

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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	
	2013	2012	2013	2012
Weighted-average expected stock-price volatility	33%	34%	33%	34%
Weighted-average expected option life	8 years	8 years	7 years	8 years
Average risk-free interest rate	2.7%	1.4%	2.5%	1.2%
Average dividend yield	1.1%	1.0%	1.1%	1.0%

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, 2013, the Company granted approximately 291,000 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, 2016, all subject to the continued employment or retirement of the grantees. PSUs granted in fiscal 2014 are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the PSU. In September 2013, approximately 548,800 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 issuance, in settlement of approximately 365,900 PSUs that vested as of June 30, 2013.

The following is a summary of the status of the Company's PSUs as of December 31, 2013 and activity during the six months then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2013	510.9	\$ 53.73
Granted	291.0	67.38

Vested		
Forfeited		
Nonvested at December 31, 2013	801.9	58.68

***Restricted Stock Units***

The Company granted approximately 1,299,200 RSUs during the six months ended December 31, 2013 which, at the time of grant, were scheduled to vest as follows: 300 in fiscal 2014, 475,100 in fiscal 2015, 487,000 in fiscal 2016, 333,800 in fiscal 2017 and 3,000 in fiscal 2018. All RSUs are subject to the continued employment or retirement of the grantees. Certain RSUs granted in fiscal 2014 are accompanied by dividend equivalent rights that will be payable in cash upon settlement of the RSU and, as such, were valued at the closing market value of the Company's Class A Common Stock on the date of grant. Other RSUs granted in fiscal 2014 are not accompanied by dividend equivalent rights and, as such, were valued at the closing market value of the Company's Class A Common Stock on the date of grant less the discounted present value of the dividends expected to be paid on the shares during the vesting period.



Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following is a summary of the status of the Company's RSUs as of December 31, 2013 and activity during the six months then ended:

(Shares in thousands)	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at June 30, 2013	2,222.8	\$ 52.68
Granted	1,299.2	66.02
Vested	(1,238.4)	49.29
Forfeited	(36.2)	57.58
Nonvested at December 31, 2013	2,247.4	62.17

***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***

As of December 31, 2013, the Company had one outstanding market share unit with 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 (ending June 2014), 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%.

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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 is equal to the contractual term of the grant. The average risk-free interest rate is based on the U.S. Treasury strip rates over the contractual term of the grant and the average dividend yield is based on historical experience.

### 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, 2013 and activity during the six months then ended:

<b>(Shares in thousands)</b>	<b>Shares</b>	<b>Weighted-Average Grant Date Fair Value Per Share</b>
Outstanding at June 30, 2013	87.3	\$ 33.27
Granted	10.5	70.68
Dividend equivalents Converted	0.5	72.23
Outstanding at December 31, 2013	98.3	37.47

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS*****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 \$1.3 million and \$0.1 million as compensation expense to reflect additional deferrals and the change in the market value for the three months ended December 31, 2013 and 2012, respectively. The Company recorded \$2.3 million and \$1.5 million as compensation expense to reflect additional deferrals and the change in the market value for the six months ended December 31, 2013 and 2012, respectively.

**NOTE 9 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.

(In millions, except per share data)	Three Months Ended December 31		Six Months Ended December 31	
	2013	2012	2013	2012
<b>Numerator:</b>				
Net earnings attributable to The Estée Lauder Companies Inc.	\$ 432.5	\$ 447.5	\$ 733.2	\$ 747.0
<b>Denominator:</b>				
Weighted-average common shares outstanding				
Basic	388.3	387.4	388.1	387.6
Effect of dilutive stock options	5.3	5.5	5.1	5.6
Effect of RSUs	1.4	1.0	1.5	1.4
Effect of PSUs based on TSR	0.1	0.4	0.1	0.2
Effect of MSU	0.3	0.4	0.3	0.3
Weighted-average common shares outstanding Diluted	395.4	394.7	395.1	395.1
<b>Net earnings attributable to The Estée Lauder Companies Inc. per common share:</b>				
Basic	\$ 1.11	\$ 1.16	\$ 1.89	\$ 1.93
Diluted	1.09	1.13	1.86	1.89

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As of December 31, 2013 and 2012, outstanding options to purchase 1.9 million and 3.2 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, 2013 and 2012, 0.8 million and 0.9 million of PSUs, respectively, 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 8 Stock-Based Compensation.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 10 EQUITY**

(In millions)	Common Stock	Total Stockholders Paid-in Capital	Equity Retained Earnings	The Estée Lauder Companies Inc. AOCI	Treasury Stock	Total	Non-controlling Interests	Total Equity
Balance at June 30, 2013	\$ 5.6	\$ 2,289.9	\$ 5,364.1	\$ (157.5)	\$ (4,215.2)	\$ 3,286.9	\$ 15.0	\$ 3,301.9
Net earnings			733.2			733.2	3.8	737.0
Common stock dividends - cash			(148.2)			(148.2)	(5.0)	(153.2)
Other comprehensive income				51.2		51.2	0.7	51.9
Acquisition of treasury stock					(155.0)	(155.0)		(155.0)
Stock-based compensation		147.4			(46.9)	100.5		100.5
Balance at December 31, 2013	\$ 5.6	\$ 2,437.3	\$ 5,949.1	\$ (106.3)	\$ (4,417.1)	\$ 3,868.6	\$ 14.5	\$ 3,883.1

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, 2013:

Date Declared	Record Date	Payable Date	Amount per Share
August 14, 2013	August 30, 2013	September 16, 2013	\$ .18
October 30, 2013	November 29, 2013	December 16, 2013	\$ .20

On February 4, 2014, a quarterly dividend was declared in the amount of \$.20 per share on the Company's Class A and Class B Common Stock. The dividend is payable in cash on March 17, 2014 to stockholders of record at the close of business on February 28, 2014.

**Common Stock**

During the six months ended December 31, 2013, the Company purchased approximately 2.9 million shares of its Class A Common Stock for \$204.9 million.

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During the six months ended December 31, 2013, approximately 0.3 million shares of the Company's Class B Common Stock were converted into the Company's Class A Common Stock.

Subsequent to December 31, 2013 and through January 29, 2014, the Company repurchased approximately 1.2 million additional shares of its Class A Common Stock for \$83.6 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, 2013:

(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, 2013	\$ 0.8	\$ 18.3	\$ (213.7)	\$ 37.1	\$ (157.5)
OCI before reclassifications	0.3	(6.6)	(4.8)(1)	58.0	46.9
Amounts reclassified from AOCI		(3.4)	7.7		4.3
Net current-period OCI	0.3	(10.0)	2.9	58.0	51.2
Balance at December 31, 2013	\$ 1.1	\$ 8.3	\$ (210.8)	\$ 95.1	\$ (106.3)

(1) Includes foreign currency translation losses of \$6.2 million.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

(In millions)	Amount Reclassified from AOCI		Affected Line Item in Consolidated Statement of Earnings
	Three Months Ended December 31, 2013	Six Months Ended December 31, 2013	
<b>Gain (Loss) on Cash-Flow Hedges</b>			
Foreign currency forward contracts	\$ 1.1	\$ 2.5	Cost of sales
Foreign currency forward contracts	0.3	2.7	Selling, general and administrative
	1.4	5.2	Earnings before income taxes
Benefit (provision) for deferred taxes	(0.4)	(1.8)	Provision for income taxes
	\$ 1.0	\$ 3.4	Net earnings
<b>Gain (Loss) on Fair-Value Hedges</b>			
Settled interest rate-related derivatives	\$	\$ 0.1	Interest expense, net
Benefit (provision) for deferred taxes	(0.1)	(0.1)	Provision for income taxes
	\$ (0.1)	\$	Net earnings
<b>Amounts Included in Net Periodic Benefit Cost</b>			
Amortization of prior service cost	\$ (1.1)	\$ (2.2)(1)	
Amortization of actuarial loss	(4.3)	(8.6)(1)	
	(5.4)	(10.8)	Earnings before income taxes
Benefit (provision) for deferred taxes	1.5	3.1	Provision for income taxes
	\$ (3.9)	\$ (7.7)	Net earnings
<b>Total reclassification adjustments, net</b>	\$ (3.0)	\$ (4.3)	Net earnings

(1) See Note 6 Pension and Post-Retirement Benefit Plans for additional information.

**NOTE 11 STATEMENT OF CASH FLOWS**

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Supplemental cash flow information for the six months ended December 31, 2013 and 2012 is as follows:

(In millions)	2013	2012
<b>Cash:</b>		
Cash paid during the period for interest	\$ 32.5	\$ 51.7
Cash paid during the period for income taxes	\$ 235.5	\$ 145.5
<b>Non-cash investing and financing activities:</b>		
Incremental tax benefit from the exercise of stock options	\$ (2.9)	\$ (4.3)
Capital lease obligations incurred	\$ 2.0	\$ 4.1
Accrued dividend distribution to noncontrolling interest	\$ (5.0)	\$ (4.2)
Note receivable	\$	\$ (22.4)



Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 12 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 before returns associated with restructuring activities, and earnings before income taxes, net interest expense, interest expense on debt extinguishment, other income and total charges associated with restructuring activities. Returns and charges 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, 2013. 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, 2013.

Table of Contents

## THE ESTÉE LAUDER COMPANIES INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In millions)	Three Months Ended December 31		Six Months Ended December 31	
	2013	2012	2013	2012
<b>PRODUCT CATEGORY DATA</b>				
<b>Net Sales:</b>				
Skin Care	\$ 1,261.3	\$ 1,279.9	\$ 2,432.3	\$ 2,393.4
Makeup	1,129.1	1,049.3	2,130.1	2,009.7
Fragrance	477.8	458.8	845.2	806.4
Hair Care	135.1	131.9	259.9	245.8
Other	15.3	13.2	26.1	27.3
	3,018.6	2,933.1	5,693.6	5,482.6
Returns associated with restructuring activities	0.1	(0.1)	0.1	(0.1)
Net Sales	\$ 3,018.7	\$ 2,933.0	\$ 5,693.7	\$ 5,482.5
<b>Operating Income (Loss) before total charges associated with restructuring activities:</b>				
Skin Care	\$ 338.0	\$ 356.7	\$ 579.6	\$ 615.7
Makeup	248.3	226.5	414.6	387.8
Fragrance	60.5	77.3	97.4	130.7
Hair Care	7.7	10.1	16.1	20.8
Other	(1.7)	(2.9)	(4.2)	(4.9)
	652.8	667.7	1,103.5	1,150.1
<b>Reconciliation:</b>				
Total charges associated with restructuring activities	3.5	(14.6)	2.3	(15.0)
Interest expense, net	(12.4)	(13.4)	(25.9)	(29.2)
Interest expense on debt extinguishment				(19.1)
Other income		21.3		23.1
Earnings before income taxes	\$ 643.9	\$ 661.0	\$ 1,079.9	\$ 1,109.9
<b>GEOGRAPHIC DATA</b>				
<b>Net Sales:</b>				
The Americas	\$ 1,194.6	\$ 1,140.2	\$ 2,397.0	\$ 2,322.3
Europe, the Middle East & Africa	1,181.0	1,105.3	2,072.2	1,930.2
Asia/Pacific	643.0	687.6	1,224.4	1,230.1
	3,018.6	2,933.1	5,693.6	5,482.6
Returns associated with restructuring activities	0.1	(0.1)	0.1	(0.1)
Net Sales	\$ 3,018.7	\$ 2,933.0	\$ 5,693.7	\$ 5,482.5
<b>Operating Income (Loss):</b>				
The Americas	\$ 152.2	\$ 132.1	\$ 308.2	\$ 304.4
Europe, the Middle East & Africa	332.4	324.6	513.2	521.5
Asia/Pacific	168.2	211.0	282.1	324.2
	652.8	667.7	1,103.5	1,150.1
Total charges associated with restructuring activities	3.5	(14.6)	2.3	(15.0)
Operating Income	\$ 656.3	\$ 653.1	\$ 1,105.8	\$ 1,135.1



Table of Contents**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, 2013 and 2012, 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.

(In millions)	Three Months Ended December 31		Six Months Ended December 31	
	2013	2012	2013	2012
<b>NET SALES</b>				
<b>By Region:</b>				
The Americas	\$ 1,194.6	\$ 1,140.2	\$ 2,397.0	\$ 2,322.3
Europe, the Middle East & Africa	1,181.0	1,105.3	2,072.2	1,930.2
Asia/Pacific	643.0	687.6	1,224.4	1,230.1
	3,018.6	2,933.1	5,693.6	5,482.6
Returns associated with restructuring activities	0.1	(0.1)	0.1	(0.1)
Net Sales	\$ 3,018.7	\$ 2,933.0	\$ 5,693.7	\$ 5,482.5
<b>By Product Category:</b>				
Skin Care	\$ 1,261.3	\$ 1,279.9	\$ 2,432.3	\$ 2,393.4
Makeup	1,129.1	1,049.3	2,130.1	2,009.7
Fragrance	477.8	458.8	845.2	806.4
Hair Care	135.1	131.9	259.9	245.8
Other	15.3	13.2	26.1	27.3
	3,018.6	2,933.1	5,693.6	5,482.6
Returns associated with restructuring activities	0.1	(0.1)	0.1	(0.1)
Net Sales	\$ 3,018.7	\$ 2,933.0	\$ 5,693.7	\$ 5,482.5
<b>OPERATING INCOME (LOSS)</b>				
<b>By Region:</b>				
The Americas	\$ 152.2	\$ 132.1	\$ 308.2	\$ 304.4
Europe, the Middle East & Africa	332.4	324.6	513.2	521.5
Asia/Pacific	168.2	211.0	282.1	324.2
	652.8	667.7	1,103.5	1,150.1
Total charges associated with restructuring activities	3.5	(14.6)	2.3	(15.0)
Operating Income	\$ 656.3	\$ 653.1	\$ 1,105.8	\$ 1,135.1
<b>By Product Category:</b>				

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Skin Care	\$	338.0	\$	356.7	\$	579.6	\$	615.7
Makeup		248.3		226.5		414.6		387.8
Fragrance		60.5		77.3		97.4		130.7
Hair Care		7.7		10.1		16.1		20.8
Other		(1.7)		(2.9)		(4.2)		(4.9)
		652.8		667.7		1,103.5		1,150.1
Total charges associated with restructuring activities		3.5		(14.6)		2.3		(15.0)
Operating Income	\$	656.3	\$	653.1	\$	1,105.8	\$	1,135.1

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.**

The following table presents certain consolidated earnings data as a percentage of net sales:

	Three Months Ended December 31		Six Months Ended December 31	
	2013	2012	2013	2012
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	19.3	19.4	19.8	20.2
Gross profit	80.7	80.6	80.2	79.8
Operating expenses:				
Selling, general and administrative	59.1	57.9	60.8	58.9
Restructuring and other charges	(0.1)	0.4		0.2
Total operating expenses	59.0	58.3	60.8	59.1
Operating income	21.7	22.3	19.4	20.7
Interest expense, net	0.4	0.5	0.5	0.5
Interest expense on debt extinguishment				0.4
Other income		0.7		0.4
Earnings before income taxes	21.3	22.5	19.0	20.2
Provision for income taxes	6.9	7.2	6.0	6.6
Net earnings	14.4	15.3	13.0	13.6
Net earnings attributable to noncontrolling interests	(0.1)		(0.1)	
Net earnings attributable to The Estée Lauder Companies Inc.	14.3%	15.3%	12.9%	13.6%

We operate on a global basis, with the majority of our net sales generated outside the United States. Accordingly, fluctuations in foreign currency exchange rates can affect our results of operations. Therefore, we present certain net sales information excluding the effect of foreign currency rate fluctuations to provide a framework for assessing the performance of our underlying business outside the United States. Constant currency information compares results between periods as if exchange rates had remained constant period-over-period. We calculate constant currency information by translating current-period results using prior-year period weighted-average foreign currency exchange rates.

In order to meet the demands of consumers, we continually introduce new products, support new and established products through advertising, merchandising and sampling and phase out existing products that no longer meet the needs of our consumers or our objectives. The economics of developing, producing, launching, supporting and discontinuing products impact our sales and operating performance each period. The introduction of new products may have some cannibalizing effect on sales of existing products, which we take into account in our business planning.

**Overview**

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We believe that the best way to continue to increase stockholder value is to provide our customers and consumers with the products and services that they have come to expect from us in the most efficient and profitable manner while recognizing consumers' changing shopping habits. To be the global leader in prestige beauty, we continued to implement a long-term strategy that is guiding us through fiscal 2016. The strategy has numerous initiatives across geographic regions, product categories, brands and functions that are designed to leverage our strengths, make us more productive and grow our sales.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

We have a strong, diverse and highly valuable brand portfolio with global reach and potential, and we plan to continue building upon and leveraging our history of outstanding creativity, innovation and entrepreneurship. We have succeeded in expanding our distinctive High-Touch service model and will continue to look for ways to further evolve it within our channels of distribution and geographic regions. As an example, we continue to enhance our capabilities to deliver superior retailing experiences, particularly in freestanding retail stores. We also continue to increase brand awareness and sales by expanding our efforts to evolve our online strategy into a multi-pronged digital strategy encompassing e-commerce and m-commerce, as well as digital and social media. We are leveraging our regional organization in an effort to assure that we are locally relevant with our products, services, marketing and visual merchandising.

As part of our strategy, we are continuing to position ourselves to capitalize on opportunities in the fastest-growing areas in prestige beauty. Skin care, our most profitable product category, continues to be a strategic priority for our innovation and investment spending, particularly in the Asia/Pacific region and with product launches such as Advanced Night Repair Synchronized Recovery Complex II from Estée Lauder and Dramatically Different Moisturizing Lotion + from Clinique. We are also focusing our attention on luxury consumers across all product categories and have seen continued strength in the net sales of many of our higher-end prestige products. We will also continue to build our makeup product category through the introduction of new product offerings and our fragrance category through new launches and innovation, such as Estée Lauder Modern Muse and new fragrances from Michael Kors. In addition, we are expanding our hair care brands both in salons and in other retail channels.

We are strengthening our geographic presence by seeking share growth in large, image-building cities within core markets such as the United States, the United Kingdom, France, Italy and Japan. In addition, we continue to prioritize efforts to expand our presence and accelerate share growth in emerging markets such as China, the Middle East, Eastern Europe and Brazil and focus on consumers who purchase in the travel retail channel, in stores at their travel destinations or when they return to their home market. We also continue to expand our digital presence which has resulted in growth in the net sales of our products sold online. In North America, the programs we implemented to drive profitable growth in our traditional department store channel have resonated with consumers, delivering solid retail sales growth during the holiday selling season. At the same time, we are also expanding our presence in other channels, such as specialty multi-brand retailers, freestanding retail stores and online. Internationally, we continue to take actions to grow in European perfumeries and pharmacies and in department stores, particularly in Asia and the United Kingdom. In addition, we are emphasizing our skin care and makeup initiatives to boost our travel retail business and continuing efforts to grow our freestanding retail store, online, specialty multi-brand retailer and prestige salon businesses. The travel retail business continues to be an important source of sales growth and profitability. Our business in this channel has benefited from the implementation of programs we designed to target consumers in distinct travel corridors, enhance consumers High-Touch experiences and convert travelers into purchasers.

During the remainder of fiscal 2014, we plan to continue building on our strengths and our heritage of innovation to bring unique and high-performance products with long-term appeal and enduring quality to our consumers. We expect our strategy will enable us to continue to succeed in high growth channels, benefit from regional opportunities, focus on emerging market consumers and enhance our local relevance. We plan on continuing to bring highly innovative products to consumers and elevating our personalized High-Touch philosophy through customization with key retailers, expansion in freestanding retail stores and extending it to fast-growing digital platforms. We remain dedicated to investing in select areas to improve our capabilities or develop new ones. Our main focuses continue to be digital capabilities, research and development, product innovation, consumer insight and local relevance.

While our overall business is performing well, we are seeing continued weakness in certain European countries and Korea due to challenging economic environments. Despite improving results in Korea, we continue to see competitive pressures there in prestige beauty. Elsewhere, we are cautious of an uncertain retail environment in the United States in the short term, unfavorable currencies in certain emerging countries, and a



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slowing of the near-term growth trend in China and Hong Kong. We are also seeing an adverse impact of recent Chinese government actions on the travel and spending of Chinese consumers, which are affecting our travel retail business.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.**

Our Venezuelan subsidiary has been operating in a highly inflationary economy since January 2010. Ongoing macroeconomic uncertainties in Venezuela have resulted in stringent controls on foreign currency exchange, as well as a devaluation of its currency, the bolivar fuerte ( VEF ), in February 2013, which did not have a significant impact on our consolidated net sales or operating income. On January 23, 2014, in an effort to control inflation, pricing and product shortages, the Venezuelan government imposed a cap on profit margins. We are currently evaluating the impact of this law which, along with further controls on foreign currency exchange or other actions by the Venezuelan government, including a devaluation, could have a negative effect on our local business. While we derived less than 1% of our consolidated net sales and approximately 2% of our consolidated operating income from our business in Venezuela for the six months ended December 31, 2013, as a matter of sensitivity, a hypothetical further VEF devaluation of approximately 45% would result in a remeasurement loss of approximately \$20 million, after tax, based on our VEF-denominated net assets as of December 31, 2013.

We believe we have and will continue to offset to some extent the impact of these challenges as a result of our strategy to mitigate weaknesses we find in certain areas with strengths in others. However, if economic conditions or the degree of uncertainty or volatility worsen or the adverse conditions previously discussed are further prolonged, then we expect there to be a negative effect on ongoing consumer confidence, demand and spending and, as a result, our business. We will continue to monitor these and other risks that may affect our business.

We plan to continue to invest in the significant modernization of our global information systems, which includes the Strategic Modernization Initiative ( SMI ) as well as other initiatives. We expect these initiatives should, over time, provide for overall profitability improvements by enhancing gross margin and supporting efficiencies in select operating expenses, which should enable us to strategically reinvest our savings in activities that will support our future growth.

As a result of our January 2013 SMI rollout, approximately \$94 million of accelerated orders were recorded as net sales in the fiscal 2013 second quarter that likely would have occurred in the fiscal 2013 third quarter. The impact on net sales and operating results by product category and geographic region is as follows:

(In millions)	Three and Six Months Ended December 31, 2012	
	Net Sales	Operating Results
<b>Product Category:</b>		
Skin Care	\$ 48	\$ 40
Makeup	32	26
Fragrance	10	9
Hair Care	4	3
Other	0	0
Total	\$ 94	\$ 78
<b>Region:</b>		
The Americas	\$ 29	\$ 23
Europe, the Middle East & Africa	15	12
Asia/Pacific	50	43
Total	\$ 94	\$ 78

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These actions created a difficult comparison between the fiscal 2014 second quarter and the fiscal 2013 second quarter of approximately \$94 million in net sales and approximately \$78 million in operating results and impacted our operating margin comparisons. We believe the presentation of certain quarter and year-to-date comparative information in the following discussions that exclude the impact of the timing of these orders is useful in analyzing the net sales and operating results of our business.

We plan to roll out the last major wave of SMI in July 2014 in certain of our locations. As a result, some retailers may accelerate their sales orders that we believe would normally occur in our fiscal 2015 first quarter into our fiscal 2014 fourth quarter in advance of this implementation to provide adequate safety stock to mitigate any potential short-term business interruption associated with the SMI rollout.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.*****Returns and Charges Associated with Restructuring Activities***

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

**Restructuring Charges (Adjustments)**

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

(In millions)	Three Months Ended December 31		Six Months Ended December 31	
	2013	2012	2013	2012
Employee-related costs	\$ (3.6)	\$ 13.5	\$ (3.5)	\$ 13.6
Asset write-offs		0.1		0.1
Contract terminations	(0.1)		1.0	
Other exit costs	0.2	(0.3)	0.2	(0.1)
Total restructuring charges (adjustments)	\$ (3.5)	\$ 13.3	\$ (2.3)	\$ 13.6

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

(In millions)	Employee-Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Fiscal 2009	\$ 60.9	\$ 4.2	\$ 3.4	\$ 1.8	\$ 70.3
Fiscal 2010	29.3	11.0	2.3	6.2	48.8
Fiscal 2011	34.6	2.4	3.0	1.1	41.1
Fiscal 2012	37.1	1.7	12.6	2.2	53.6
Fiscal 2013	7.7	2.1	1.5	3.3	14.6
Six months ended December 31, 2013	(3.5)		1.0	0.2	(2.3)
Charges recorded through December 31, 2013	\$ 166.1	\$ 21.4	\$ 23.8	\$ 14.8	\$ 226.1

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

(In millions) Total

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	Employee-Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	
Balance at June 30, 2013	\$ 27.5	\$	\$ 0.2	\$ 0.7	\$ 28.4
Charges (adjustments)	(3.5)		1.0	0.2	(2.3)
Cash payments	(10.6)		(0.5)	(0.5)	(11.6)
Translation adjustments	0.2		0.1		0.3
Balance at December 31, 2013	\$ 13.6	\$	\$ 0.8	\$ 0.4	\$ 14.8

Accrued restructuring charges at December 31, 2013 are expected to result in cash expenditures funded from cash provided by operations of approximately \$8 million for the remainder of fiscal 2014 and \$7 million in fiscal 2015.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

*Second Quarter Fiscal 2014 as Compared with Second Quarter Fiscal 2013*

**NET SALES**

Net sales increased 3%, or \$85.7 million, to \$3,018.7 million, primarily reflecting growth in our makeup, fragrance and hair care product categories, partially offset by lower net sales in skin care. Geographically, net sales growth was led by Europe, the Middle East and Africa and the Americas, partially offset by lower net sales in Asia/Pacific. Excluding the impact of foreign currency translation, net sales increased 4%.

In advance of our January 2013 implementation of SMI at certain of our locations and to provide adequate safety stock to mitigate any potential short-term business interruption associated with the rollout, certain of our retailers accelerated their orders during the prior-year second quarter. Those additional orders, which totaled approximately \$94 million, likely would have occurred in our fiscal 2013 third quarter and created a difficult comparison to the prior-year period. Excluding the impact of the accelerated orders, reported net sales would have increased 6% overall, with growth in all of our product categories and geographic regions.

*Product Categories*

The overall change in net sales in each product category was negatively impacted by the accelerated orders in the prior-year period from certain of our retailers due to our implementation of SMI as follows: skin care, approximately \$48 million; makeup, approximately \$32 million; fragrance, approximately \$10 million; and hair care, approximately \$4 million.

*Skin Care*

Net sales of skin care products decreased 1%, or \$18.6 million, to \$1,261.3 million. The recent launches of Advanced Night Repair Synchronized Recovery Complex II from Estée Lauder and Dramatically Different Moisturizing Lotion + from Clinique contributed approximately \$140 million of incremental sales, combined. These launches resulted in lower sales of certain existing Advanced Night Repair products from Estée Lauder and Dramatically Different Moisturizing Lotion from Clinique of approximately \$140 million, combined. Also contributing to the decrease were lower sales of Perfectionist CP+R Serum from Estée Lauder and Even Better Eyes Dark Circle Corrector from Clinique, both of which were new launches in the prior-year period, of approximately \$23 million, combined. Excluding the impact of foreign currency translation, skin care net sales decreased less than 1%. The lower sales were partially due to the accelerated orders, as previously discussed. Excluding the impact of the accelerated orders, reported net sales in skin care would have increased 2%.

*Makeup*

Makeup net sales increased 8%, or \$79.8 million, to \$1,129.1 million, primarily reflecting higher net sales from our makeup artist brands, certain product offerings from Estée Lauder and the recent launch of All About Shadow from Clinique of approximately \$86 million, combined. Sales from our makeup artist brands benefited from new product offerings, as well as expanded distribution in line with our retail store strategy. Partially offsetting these increases were lower sales of Even Better Makeup SPF 15 and Chubby Stick Moisturizing Lip Colour Balm from

Clinique of approximately \$5 million, combined. The impact of foreign currency translation on makeup net sales was de minimis. Excluding the impact of the accelerated orders, reported net sales in makeup would have increased 11%.

***Fragrance***

Net sales of fragrance products increased 4%, or \$19.0 million, to \$477.8 million, primarily reflecting our strategy to build on our fragrance category, including the recent launches of Estée Lauder Modern Muse and Michael Kors Sexy Amber, which contributed approximately \$37 million to the category, combined. Higher sales of Jo Malone and Tom Ford fragrances also contributed approximately \$24 million to the increase. These increases were partially offset by lower sales of Tommy Hilfiger Freedom Men and Coach Love, both of which were launched in the prior-year period, as well as Estée Lauder *pleasures* of approximately \$11 million, combined. The remaining \$31 million decrease in net sales is primarily due to lower sales of certain fragrances from our heritage brands. The impact of foreign currency translation on fragrance net sales was de minimis. Excluding the impact of the accelerated orders, reported net sales in fragrance would have increased 7%.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

***Hair Care***

Hair care net sales increased 2%, or \$3.2 million, to \$135.1 million, primarily reflecting the continued success and growth of the Invati line of products and launch of Dry Remedy Daily Moisturizing Oil from Aveda which contributed approximately \$5 million, combined, to the increase. The category also benefited from sales generated from expanded global distribution of Aveda products to salons and Bumble and bumble products to specialty multi-brand retailers. Partially offsetting these increases were lower sales of Ojon and Bumble and bumble brand products of approximately \$2 million, combined. The decrease in Ojon net sales was primarily due to the exit of that business from the direct response television channel. The lower Bumble and bumble net sales were primarily due to a decrease in sales at salons. Excluding the impact of foreign currency translation, hair care net sales increased 3%. Excluding the impact of the accelerated orders, reported net sales in hair care would have increased 5%.

***Geographic Regions***

The overall change in net sales in each geographic region was negatively impacted as a result of the accelerated orders in the prior-year period from certain of our retailers due to our implementation of SMI as follows: Americas, approximately \$29 million; Europe, the Middle East & Africa, approximately \$15 million; and Asia/Pacific, approximately \$50 million.

Net sales in the Americas increased 5%, or \$54.4 million, to \$1,194.6 million. Net sales in the United States increased approximately \$40 million, primarily due to higher sales from certain of our makeup artist and luxury brands, partially offset by lower net sales from certain of our heritage brands. Net sales in Latin America increased approximately \$18 million, led by Venezuela and Chile. The net sales increase in Venezuela was primarily due to price increases as a result of rising inflation. We continue to be cautious regarding the potential impact of margin controls and other restrictions in Venezuela, as previously discussed. Net sales in Canada decreased approximately \$3 million primarily due to lower sales from certain of our heritage brands. Excluding the impact of foreign currency translation, the Americas net sales increased 6%. Excluding the impact of the accelerated orders, reported net sales in the Americas would have increased 8%.

In Europe, the Middle East & Africa, net sales increased 7%, or \$75.7 million, to \$1,181.0 million, primarily reflecting higher sales from our travel retail business, the United Kingdom and Russia of approximately \$77 million, combined. The net sales increase in our travel retail business primarily reflected a stronger retail environment for our products, an increase in global airline passenger traffic and expanded distribution. This was despite a recent slowdown at retail, in part, due to an adverse impact of recent Chinese government actions on the travel and spending of Chinese consumers. The higher sales in the United Kingdom were primarily driven by our makeup artist and luxury brands. Higher sales in Russia were primarily driven by certain of our makeup artist and heritage brands and reflect an uneven ordering pattern from a certain retailer. These increases were partially offset by lower net sales in Switzerland and Nordic of approximately \$11 million, combined, primarily driven by the accelerated orders in the prior-year period. Excluding the impact of foreign currency translation, Europe, the Middle East & Africa net sales increased 6%. Excluding the impact of the accelerated orders, reported net sales in Europe, the Middle East & Africa would have increased 8%.

Net sales in Asia/Pacific decreased 6%, or \$44.6 million, to \$643.0 million, primarily reflecting lower net sales in Japan and China of approximately \$37 million, combined. The decline in Japan was driven by the weakening of the Japanese yen. The decrease in China was driven by the accelerated orders in the prior-year period. As previously discussed, we remain cautious about the near-term growth trend in China. These decreases were partially offset by higher net sales in Hong Kong and the Philippines of approximately \$4 million, combined. Excluding the impact of foreign currency translation, Asia/Pacific net sales decreased 3%. Excluding the impact of the accelerated orders, reported Asia/Pacific net sales would have increased 1%.



We strategically stagger our new product launches by geographic market, which may account for differences in regional sales growth.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**COST OF SALES**

Cost of sales as a percentage of total net sales decreased to 19.3% as compared with 19.4% in the prior-year period. This improvement reflected strategic changes in pricing and the mix of our business of approximately 30 basis points, combined. These improvements were partially offset by unfavorable manufacturing variances of approximately 10 basis points.

Since certain promotional activities are a component of sales or cost of sales and the timing and level of promotions vary with our promotional calendar, we have experienced, and expect to continue to experience, fluctuations in the cost of sales percentage. In addition, future cost of sales mix may be impacted by the inclusion of potential new brands or channels of distribution which have margin and product cost structures different from those of our current mix of business.

**OPERATING EXPENSES**

Operating expenses as a percentage of net sales increased to 59.0% as compared with 58.3% in the prior-year period and reflects the impact on our net sales from the accelerated orders in the prior-year period. This increase primarily reflected an adjustment made in the prior-year period related to the overstatement of accounts payable balances of approximately 50 basis points and unfavorable changes in foreign exchange transactions of approximately 30 basis points. The increase also reflected higher planned spending on advertising, merchandising and sampling to support our major launches, as well as higher stock-based compensation expense of approximately 20 basis points each. Also contributing to the increase were higher selling and shipping costs of approximately 10 basis points. Partially offsetting these increases were lower charges associated with restructuring activities of approximately 60 basis points and a decrease in general and administrative expenses as a percentage of net sales of approximately 10 basis points. Excluding the impact of the accelerated orders in the prior-year period, operating expenses as a percentage of net sales would have decreased 130 basis points.

Changes in advertising, merchandising and sampling spending result from the type, timing and level of activities related to product launches and rollouts, as well as the markets being emphasized.

**OPERATING RESULTS**

Operating income increased less than 1%, or \$3.2 million, to \$656.3 million. Operating margin declined to 21.7% of net sales as compared with 22.3% in the prior-year period, which reflected our increase in investment spending in line with our strategy, partially offset by our higher gross margin. The overall operating results were negatively impacted by approximately \$78 million related to the accelerated orders in the prior-year period from certain of our retailers. The following discussions of Operating Results by *Product Categories* and *Geographic Regions* exclude the impact of total charges (adjustments) associated with restructuring activities of \$(3.5) million, or less than 1% of net sales, for the three months ended December 31, 2013 and \$14.6 million, or less than 1% of net sales, for the three months ended December 31, 2012. We believe the following analysis of operating results better reflects the manner in which we conduct and view our business. Excluding the impact of the

accelerated orders in the prior-year period and returns and charges (adjustments) associated with restructuring activities, operating income would have increased 11% and operating margin would have improved 80 basis points.

***Product Categories***

The overall change in operating results in each product category was negatively impacted as a result of the accelerated orders in the prior-year period from certain of our retailers due to our implementation of SMI as follows: skin care, approximately \$40 million; makeup, approximately \$26 million; fragrance, approximately \$9 million; and hair care, approximately \$3 million.

Skin care operating income decreased 5%, or \$18.7 million, to \$338.0 million, primarily reflecting lower results from certain of our heritage brands, due in part to increased investment spending behind recent product launches. Makeup operating income increased 10%, or \$21.8 million, to \$248.3 million, primarily reflecting improved results from M A C attributable to a growth in net sales. Fragrance operating income decreased 22%, or \$16.8 million, to \$60.5 million, primarily reflecting higher investment spending behind recent major launches. Hair care operating results decreased 24%, or \$2.4 million, to \$7.7 million, primarily reflecting additional investments related to expanded distribution and an increase in spending behind the Invati line of products from Aveda. Excluding the impact of the accelerated orders, skin care, makeup, fragrance and hair care operating results would have increased (decreased) 7%, 24%, (12)% and 8%, respectively.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

***Geographic Regions***

The overall change in operating results in each geographic region was negatively impacted as a result of the accelerated orders in the prior-year period from certain of our retailers due to our implementation of SMI as follows: Americas, approximately \$23 million; Europe, the Middle East & Africa, approximately \$12 million; and Asia/Pacific, approximately \$43 million.

Operating income in the Americas increased 15%, or \$20.1 million, to \$152.2 million, primarily reflecting the increase in net sales, as previously discussed, as well as a more measured approach to spending. Partially offsetting these higher results were an increase in investment spending to support our major launches in the region, which is in line with our strategy, as well as the impact of an adjustment made in the prior-year period related to the overstatement of accounts payable balances. Excluding the impact of the accelerated orders, operating income in the Americas would have increased 40%.

In Europe, the Middle East & Africa, operating income increased 2%, or \$7.8 million, to \$332.4 million. Higher results from the United Kingdom, Russia, our travel retail business, Iberia and the Balkans totaled approximately \$16 million, combined. These improvements were partially offset by lower operating results in Switzerland and Italy of approximately \$10 million, combined. Excluding the impact of the accelerated orders, operating income in Europe, the Middle East & Africa would have increased 6%.

In Asia/Pacific, operating income decreased 20%, or \$42.8 million, to \$168.2 million. Lower results in China, Hong Kong and Japan totaled approximately \$44 million, combined. These lower results were partially offset by higher operating results of approximately \$9 million in Korea and Australia, combined. The higher operating results in Korea were primarily due to lower investment spending. Excluding the impact of the accelerated orders, operating income in Asia/Pacific was relatively flat.

**INTEREST EXPENSE, NET**

Net interest expense decreased to \$12.4 million as compared with \$13.4 million in the prior-year period, primarily due to higher interest income.

**OTHER INCOME**

We recognized \$21.3 million as other income for the three months ended December 31, 2012, reflecting the amended agreement related to the August 2007 sale of Rodan + Fields (a brand then owned by us).

**PROVISION FOR INCOME TAXES**

The provision for income taxes represents U.S. federal, foreign, state and local income taxes. The effective rate differs from the federal statutory rate primarily due to the effect of state and local income taxes, the taxation of foreign income and income tax reserve adjustments, which represent changes in our net liability for unrecognized tax benefits including tax settlements and lapses of the applicable statutes of limitations. Our effective tax rate will change from quarter to quarter based on recurring and non-recurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local income taxes, tax reserve adjustments, the ultimate disposition of deferred tax assets relating to stock-based compensation and the interaction of various global tax strategies. In addition, changes in judgment from the evaluation of new information resulting in the recognition, derecognition or remeasurement of a tax position taken in a prior annual period are recognized separately in the quarter of change.

The effective rate for income taxes was 32.4% for the three months ended December 31, 2013 as compared with 32.0% in the prior-year period. The increase in the effective income tax rate of 40 basis points was principally due to a slightly higher effective tax rate on the Company's foreign operations.

**NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC.**

Net earnings attributable to The Estée Lauder Companies Inc. as compared with the prior-year period decreased 3%, or \$15.0 million, to \$432.5 million and diluted net earnings per common share decreased 4% from \$1.13 to \$1.09.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

*Six Months Fiscal 2014 as Compared with Six Months Fiscal 2013*

**NET SALES**

Net sales increased 4%, or \$211.2 million, to \$5,693.7 million, primarily reflecting growth in each of our major product categories. Geographically, net sales growth was led by Europe, the Middle East and Africa and the Americas, partially offset by lower net sales in Asia/Pacific. Excluding the impact of foreign currency translation, net sales increased 5%.

In advance of our January 2013 implementation of SMI at certain of our locations and to provide adequate safety stock to mitigate any potential short-term business interruption associated with the rollout, certain of our retailers accelerated their orders during the prior-year second quarter. Those additional orders, which totaled approximately \$94 million, likely would have occurred in our fiscal 2013 third quarter and created a difficult comparison to the prior-year period. Excluding the impact of the accelerated orders, reported net sales would have increased 6% overall, with growth in all of our major product categories and geographic regions.

*Product Categories*

The overall change in net sales in each product category was negatively impacted as a result of the accelerated orders in the prior-year period from certain of our retailers due to our implementation of SMI as follows: skin care, approximately \$48 million; makeup, approximately \$32 million; fragrance, approximately \$10 million; and hair care, approximately \$4 million.

*Skin Care*

Net sales of skin care products increased 2%, or \$38.9 million, to \$2,432.3 million. The recent launches of Advanced Night Repair Synchronized Recovery Complex II from Estée Lauder and Dramatically Different Moisturizing Lotion + and reformulated Repairwear Laser Focus from Clinique, as well as higher sales from the Nutritious Vita-Mineral line of products from Estée Lauder contributed approximately \$400 million, combined, to the increase. The recent launches resulted in lower sales of certain existing Advanced Night Repair products from Estée Lauder and Dramatically Different Moisturizing Lotion and Repairwear Laser Focus from Clinique of approximately \$283 million, combined. Also partially offsetting the net sales increase were lower sales of Perfectionist CP+R Serum from Estée Lauder and Even Better Eyes Dark Circle Corrector from Clinique, both of which were new launches in the prior-year period, of approximately \$65 million, combined. Excluding the impact of foreign currency translation, skin care net sales increased 3%. Excluding the impact of the accelerated orders, reported net sales in skin care would have increased 4%.

*Makeup*

Makeup net sales increased 6%, or \$120.4 million, to \$2,130.1 million, primarily reflecting higher net sales from our makeup artist brands and the recent launch of All About Shadow from Clinique of approximately \$140 million, combined. Partially offsetting these increases were lower sales of Chubby Stick Moisturizing Lip Colour Balm from Clinique, as well as Pore Refining Solutions Makeup from Clinique and Pure Color

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Vivid Shine Lipstick from Estée Lauder, both of which were launched in the prior-year period, of approximately \$26 million, combined. Excluding the impact of foreign currency translation, makeup net sales increased 7%. Excluding the impact of the accelerated orders, reported net sales in makeup would have increased 8%.

### ***Fragrance***

Net sales of fragrance products increased 5%, or \$38.8 million, to \$845.2 million, primarily reflecting the recent launch of Estée Lauder Modern Muse and higher sales of Jo Malone and Tom Ford fragrances of approximately \$86 million, combined. These increases were partially offset by lower sales of DKNY Be Delicious So Intense, which anniversaried its prior-year period launch, as well as lower sales of Estée Lauder *pleasures*, Donna Karan Cashmere Mist, Estée Lauder Beautiful and DKNY Be Delicious Women of approximately \$30 million, combined. The impact of foreign currency translation on fragrance net sales was de minimis. Excluding the impact of the accelerated orders, reported net sales in fragrance would have increased 6%.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

***Hair Care***

Hair care net sales increased 6%, or \$14.1 million, to \$259.9 million, primarily reflecting the continued success and growth of the Invati line of products and the launch of Dry Remedy Daily Moisturizing Oil from Aveda, which contributed approximately \$13 million, combined to the increase. The category also benefited from sales generated from expanded global distribution of Aveda products to salons and Bumble and bumble products to specialty multi-brand retailers. Partially offsetting these increases were lower sales of Ojon and Bumble and bumble brand products of approximately \$4 million. The decrease in Ojon net sales was primarily due to the exit of that business from the direct response television channel. The lower Bumble and bumble net sales were primarily due to a decrease in sales at salons. Excluding the impact of foreign currency translation, hair care net sales increased 7%. Excluding the impact of the accelerated orders, reported net sales in hair care would have increased 7%.

***Geographic Regions***

The overall change in net sales in each geographic region was negatively impacted as a result of the accelerated orders in the prior-year period from certain of our retailers due to our implementation of SMI, as follows: Americas, approximately \$29 million; Europe, the Middle East & Africa, approximately \$15 million; and Asia/Pacific, approximately \$50 million.

Net sales in the Americas increased 3%, or \$74.7 million, to \$2,397.0 million. Net sales in the United States increased approximately \$49 million, primarily due to higher sales from certain of our makeup artist, luxury and hair care brands, and designer fragrances, partially offset by lower net sales from certain of our heritage brands. Net sales in Latin America increased approximately \$27 million, led by Venezuela and Brazil. The net sales increase in Venezuela was primarily due to price increases as a result of rising inflation. We continue to be cautious regarding the potential impact of margin controls and other restrictions in Venezuela, as previously discussed. Net sales in Canada decreased approximately \$1 million. Excluding the impact of foreign currency translation, the Americas net sales increased 4%. Excluding the impact of the accelerated orders, reported net sales in the Americas would have increased 5%.

In Europe, the Middle East & Africa, net sales increased 7%, or \$142.0 million, to \$2,072.2 million, primarily reflecting higher sales from our travel retail business, the United Kingdom, Russia and Germany of approximately \$129 million, combined. The net sales increase in our travel retail business primarily reflected a stronger retail environment for our products, the success of new launch initiatives, an increase in global airline passenger traffic and expanded distribution. Higher sales in the United Kingdom and Germany were primarily driven by certain of our makeup artist and luxury brands. Higher sales in Russia were primarily driven by certain of our makeup artist and heritage brands and reflect, to a lesser extent, an uneven ordering pattern from a certain retailer. These increases were partially offset by lower net sales in Switzerland and South Africa of approximately \$9 million, combined. Excluding the impact of foreign currency translation, Europe, the Middle East & Africa net sales increased 6%. Excluding the impact of the accelerated orders, reported net sales in Europe, the Middle East & Africa would have increased 8%.

Net sales in Asia/Pacific decreased less than 1%, or \$5.7 million, to \$1,224.4 million, primarily reflecting lower net sales in Japan, Australia and Taiwan of approximately \$47 million, combined. The declines in Japan and Australia were driven by the weakening of their respective currencies. The decrease in Taiwan was driven by the accelerated orders in the prior-year period. These decreases were partially offset by net sales growth in China, Hong Kong and Singapore of approximately \$42 million, combined. The net sales growth in China was primarily due to expanded distribution. Higher net sales in Hong Kong were primarily driven by certain of our heritage and makeup artist brands. Net sales growth in Singapore was primarily due to our heritage and luxury brands. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 3%. Excluding the impact of the accelerated orders, reported net sales in Asia/Pacific would have increased 4%.



We strategically stagger our new product launches by geographic market, which may account for differences in regional sales growth.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**COST OF SALES**

Cost of sales as a percentage of total net sales decreased to 19.8% as compared with 20.2% in the prior-year period. This improvement reflected strategic changes in the mix of our business and pricing of approximately 40 basis points, combined. Also contributing to the improvement was a decrease in obsolescence charges and a favorable comparison to the prior-year period which included a provision for foreign transactional taxes, of approximately 30 basis points, combined. These improvements were partially offset by unfavorable manufacturing variances of approximately 20 basis points.

Since certain promotional activities are a component of sales or cost of sales and the timing and level of promotions vary with our promotional calendar, we have experienced, and expect to continue to experience, fluctuations in the cost of sales percentage. In addition, future cost of sales mix may be impacted by the inclusion of potential new brands or channels of distribution which have margin and product cost structures different from those of our current mix of business.

**OPERATING EXPENSES**

Operating expenses as a percentage of net sales increased to 60.8% as compared with 59.1% in the prior-year period and reflects the impact on our net sales from the accelerated orders in the prior-year period. This increase primarily reflected higher spending on advertising, merchandising and sampling in line with our strategy and in support of our major launches of approximately 90 basis points. The increase also reflected the impact of an adjustment made in the prior-year period related to the overstatement of accounts payable balances of approximately 40 basis points and higher general and administrative costs of approximately 20 basis points. Also contributing to the increase were unfavorable changes in foreign exchange transactions of approximately 20 basis points and higher costs related to selling and shipping, and stock-based compensation of approximately 10 basis points each. Partially offsetting these changes were lower charges associated with restructuring activities of approximately 20 basis points. Excluding the impact of the accelerated orders in the prior-year period, operating expenses as a percentage of net sales would have increased 70 basis points.

Changes in advertising, merchandising and sampling spending result from the type, timing and level of activities related to product launches and rollouts, as well as the markets being emphasized.

**OPERATING RESULTS**

Operating income decreased 3%, or \$29.3 million, to \$1,105.8 million. Operating margin declined to 19.4% of net sales as compared with 20.7% in the prior-year period, which reflected our increase in investment spending in line with our strategy, partially offset by our higher gross margin. The overall operating results were negatively impacted by approximately \$78 million related to the accelerated orders in the prior-year period from certain of our retailers. The following discussions of Operating Results by *Product Categories* and *Geographic Regions* exclude the impact of total charges (adjustments) associated with restructuring activities of \$(2.3) million, or less than 1% of net sales, for the six months

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ended December 31, 2013 and \$15.0 million, or less than 1% of net sales, for the six months ended December 31, 2012. We believe the following analysis of operating results better reflects the manner in which we conduct and view our business. Excluding the impact of the accelerated orders in the prior-year period and returns and charges (adjustments) associated with restructuring activities, operating income would have increased 3% and operating margin would have declined 50 basis points.

### *Product Categories*

The overall change in operating results in each product category was negatively impacted as a result of the accelerated orders in the prior-year period from certain of our retailers due to our implementation of SMI as follows: skin care, approximately \$40 million; makeup, approximately \$26 million; fragrance, approximately \$9 million; and hair care, approximately \$3 million.

Skin care operating income decreased 6%, or \$36.1 million, to \$579.6 million, primarily reflecting lower results from certain of our heritage brands, due to an increase in investment spending for recent major launches in line with our strategy, partially offset by higher results from La Mer. Makeup operating income increased 7%, or \$26.8 million, to \$414.6 million, primarily reflecting improved results from M A C, partially offset by lower results from certain of our heritage brands. Fragrance operating income decreased 25%, or \$33.3 million, to \$97.4 million, primarily reflecting higher investment spending behind recent major launches, partially offset by higher results from our luxury brands. Hair care operating results decreased 23%, or \$4.7 million, to \$16.1 million, primarily reflecting lower results from Ojon. Excluding the impact of the accelerated orders, skin care, makeup, fragrance and hair care operating results would have increased (decreased) 1%, 15%, (20)% and (10)%, respectively.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

***Geographic Regions***

The overall change in operating results in each geographic region was negatively impacted as a result of the accelerated orders in the prior-year period from certain of our retailers due to our implementation of SMI as follows: Americas, approximately \$23 million; Europe, the Middle East & Africa, approximately \$12 million; and Asia/Pacific, approximately \$43 million.

Operating income in the Americas increased 1%, or \$3.8 million, to \$308.2 million, primarily reflecting the increase in net sales, as previously discussed, as well as a more measured approach to spending. Partially offsetting these higher results was an increase in investment spending predominantly in the first quarter of fiscal 2014 to support our launches, in line with our strategy, as well as an adjustment made in the prior-year period related to the overstatement of accounts payable balances. Excluding the impact of the accelerated orders, operating income in the Americas would have increased 10%.

In Europe, the Middle East & Africa, operating income decreased 2%, or \$8.3 million, to \$513.2 million. Higher results in the Balkans, Russia and Iberia totaled approximately \$7 million, combined. These improvements were more than offset by lower operating results in the Middle East and Italy of approximately \$16 million. Excluding the impact of the accelerated orders, operating income in Europe, the Middle East & Africa would have increased less than 1%.

In Asia/Pacific, operating income decreased 13%, or \$42.1 million, to \$282.1 million. Higher results in Korea and Australia totaled approximately \$9 million, combined. The higher operating results in Korea were due to lower investment spending. These higher results were more than offset by lower operating results of approximately \$43 million in China, Japan and Hong Kong, combined. Excluding the impact of the accelerated orders, operating income in Asia/Pacific would have increased less than 1%.

**INTEREST EXPENSE, NET**

Net interest expense was \$25.9 million as compared with \$29.2 million in the prior-year period. Interest expense decreased primarily due to the refinancing of debt at lower rates during fiscal 2013.

**INTEREST EXPENSE ON DEBT EXTINGUISHMENT**

During the first quarter of fiscal 2013, we redeemed the \$230.1 million principal amount of our 7.75% Senior Notes due 2013 at a price of 108% of the principal amount. We recorded a pre-tax expense on the extinguishment of debt of \$19.1 million representing the call premium of \$18.6 million and the pro-rata write-off of \$0.5 million of issuance costs and debt discount.

**OTHER INCOME**

We recognized \$23.1 million as other income for the six months ended December 31, 2012, primarily reflecting the amended agreement related to the August 2007 sale of Rodan + Fields (a brand then owned by us).

**PROVISION FOR INCOME TAXES**

The provision for income taxes represents U.S. federal, foreign, state and local income taxes. The effective rate differs from the federal statutory rate primarily due to the effect of state and local income taxes, the taxation of foreign income and income tax reserve adjustments, which represent changes in our net liability for unrecognized tax benefits including tax settlements and lapses of the applicable statutes of limitations. Our effective tax rate will change from quarter to quarter based on recurring and non-recurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local income taxes, tax reserve adjustments, the ultimate disposition of deferred tax assets relating to stock-based compensation and the interaction of various global tax strategies. In addition, changes in judgment from the evaluation of new information resulting in the recognition, derecognition or remeasurement of a tax position taken in a prior annual period are recognized separately in the quarter of change.

The effective income tax rate was 31.8% and 32.5% for the six months ended December 31, 2013 and 2012, respectively. The decrease in the effective income tax rate of 70 basis points was principally due to a reduction in income tax reserve adjustments.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**NET EARNINGS ATTRIBUTABLE TO THE ESTÉE LAUDER COMPANIES INC.**

Net earnings attributable to The Estée Lauder Companies Inc. as compared with the prior-year period decreased 2%, or \$13.8 million, to \$733.2 million and diluted net earnings per common share decreased 2% from \$1.89 to \$1.86.

**FINANCIAL CONDITION**

**LIQUIDITY AND CAPITAL RESOURCES**

*Overview*

Our principal sources of funds historically have been cash flows from operations, borrowings pursuant to our commercial paper program, borrowings from the issuance of long-term debt and committed and uncommitted credit lines provided by banks and other lenders in the United States and abroad. At December 31, 2013, we had cash and cash equivalents of \$1,748.0 million compared with \$1,495.7 million at June 30, 2013. Our cash and cash equivalents are maintained at a number of financial institutions. As of December 31, 2013, 1% of the total balance was insured by governmental agencies. To mitigate the risk of uninsured balances, we select financial institutions based on their credit ratings and financial strength and perform ongoing evaluations of these institutions to limit our concentration risk exposure.

Our business is seasonal in nature and, accordingly, our working capital needs vary. From time to time, we may enter into investing and financing transactions that require additional funding. To the extent that these needs exceed cash from operations, we could, subject to market conditions, issue commercial paper, issue long-term debt securities or borrow under our revolving credit facilities.

Based on past performance and current expectations, we believe that cash on hand, cash generated from operations, available credit lines and access to credit markets will be adequate to support currently planned business operations, information systems enhancements, capital expenditures, potential stock repurchases, commitments and other contractual obligations on both a near-term and long-term basis. Our cash and cash equivalents balance at December 31, 2013 includes cash in offshore jurisdictions associated with our permanent reinvestment strategy. We do not believe that the indefinite reinvestment of these funds offshore impairs our ability to meet our domestic debt or working capital obligations. If these indefinitely reinvested earnings were repatriated into the United States as dividends, we would be subject to additional taxes.

The effects of inflation have not been significant to our overall operating results in recent years. Generally, we have been able to introduce new products at higher prices, increase prices and implement other operating efficiencies to sufficiently offset cost increases, which have been moderate.

***Credit Ratings***

Changes in our credit ratings will likely result in changes in our borrowing costs. Our credit ratings also impact the cost of our revolving credit facility as discussed below. Downgrades in our credit ratings may reduce our ability to issue commercial paper and/or long-term debt and would likely increase the relative costs of borrowing. A credit rating is not a recommendation to buy, sell, or hold securities, is subject to revision or withdrawal at any time by the assigning rating organization, and should be evaluated independently of any other rating. As of January 29, 2014, our commercial paper is rated A-1 by Standard & Poor's and P-1 by Moody's and our long-term debt is rated A+ with a stable outlook by Standard & Poor's and A2 with a stable outlook by Moody's.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****Debt**

At December 31, 2013, our outstanding borrowings were as follows:

(\$ in millions)	Long-term Debt	Current Debt	Total Debt
3.70% Senior Notes, due August 15, 2042 ( 2042 Senior Notes(1)), (6)	\$ 248.9	\$	\$ 248.9
6.00% Senior Notes, due May 15, 2037 ( 2037 Senior Notes ) (2), (6)	296.5		296.5
5.75% Senior Notes, due October 15, 2033 ( 2033 Senior Notes(3))	197.8		197.8
2.35% Senior Notes, due August 15, 2022 ( 2022 Senior Notes ) (4), (6)	249.8		249.8
5.55% Senior Notes, due May 15, 2017 ( 2017 Senior Notes(5)), (6)	324.5		324.5
Other borrowings	5.4	15.9	21.3
	\$ 1,322.9	\$ 15.9	\$ 1,338.8

(1) Consists of \$250.0 million principal and unamortized debt discount of \$1.1 million.

(2) Consists of \$300.0 million principal and unamortized debt discount of \$3.5 million.

(3) Consists of \$200.0 million principal and unamortized debt discount of \$2.2 million.

(4) Consists of \$250.0 million principal and unamortized debt discount of \$0.2 million.

(5) Consists of \$300.0 million principal, unamortized debt discount of \$0.2 million and a \$24.7 million adjustment to reflect the termination value of interest rate swaps.

(6) As of December 31, 2013, we were in compliance with all restrictive covenants, including limitations on indebtedness and liens, and expect continued compliance.

We have a \$1.0 billion commercial paper program under which we may issue commercial paper in the United States. As of December 31, 2013, we had no commercial paper outstanding.

We have a \$1.0 billion senior unsecured revolving credit facility that expires on July 14, 2015 (the Facility). The Facility may be used to provide credit support for our commercial paper program and for general corporate purposes. Up to the equivalent of \$250 million of the Facility is available for multi-currency loans. The interest rate on borrowings under the Facility is based on LIBOR or on the higher of prime, which is the rate of interest publicly announced by the administrative agent, or ½% plus the Federal funds rate. We incurred costs of approximately \$1 million to establish the Facility which are being amortized over the term of the Facility. The Facility has an annual fee of \$0.6 million, payable quarterly, based on our current credit ratings. The Facility also contains a cross-default provision whereby a failure to pay other material financial obligations in excess of \$100.0 million (after grace periods and absent a waiver from the lenders) would result in an event of default and the acceleration of the maturity of any outstanding debt under this facility. At December 31, 2013, no borrowings were outstanding under this agreement.



We have a fixed rate promissory note agreement with a financial institution pursuant to which we may borrow up to \$150.0 million in the form of loan participation notes through one of our subsidiaries in Europe. The interest rate on borrowings under this agreement is at an all-in fixed rate determined by the lender and agreed to by us at the date of each borrowing. At December 31, 2013, no borrowings were outstanding under this agreement. Debt issuance costs incurred related to this agreement were de minimis.

We have borrowing agreements with two financial institutions pursuant to which our subsidiary in Turkey may borrow up to 50.0 million Turkish lira (\$23.9 million at the exchange rate at December 31, 2013). The interest rate on borrowings under these agreements was approximately 9%. There were no debt issuance costs incurred related to these agreements. The outstanding balance at December 31, 2013 was 22.2 million Turkish lira (\$10.6 million at the exchange rate at December 31, 2013) and is classified as current debt in our consolidated balance sheet.

Total debt as a percent of total capitalization (excluding noncontrolling interests) decreased to 26% at December 31, 2013 from 29% at June 30, 2013.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

***Cash Flows***

Net cash provided by operating activities was \$782.4 million during the six months ended December 31, 2013 as compared with \$655.1 million in the prior-year period. The change in cash flows provided by operating activities primarily reflected a favorable change in accounts receivable due to the timing of shipments and timing of collections, due in part to the accelerated orders in the prior-year period from certain retailers to prepare for the implementation of SMI at certain affiliates. Also contributing to the increase in cash provided by operating activities were favorable changes in the levels and timing of accounts payable including a lower balance in the prior-year period resulting from early payments to prepare for the implementation of SMI. Partially offsetting these changes were lower accrued income taxes, primarily due to the timing of payments.

Net cash used for investing activities was \$226.7 million during the six months ended December 31, 2013 as compared with \$216.2 million in the prior-year period. The increase primarily reflected higher capital expenditure activity in the current-year period related to counters and leasehold improvements.

Net cash used for financing activities was \$303.1 million during the six months ended December 31, 2013 as compared with \$472.5 million in the prior-year period. The decrease in cash used for financing activities primarily reflected lower dividend payments consistent with our quarterly dividend payout schedule as compared with our final annual dividend payment made in the prior-year period, as well as a decrease in cash used for the acquisition of treasury stock. In addition, the prior-year period reflected the proceeds from the issuance of the 2022 Senior Notes and 2042 Senior Notes, which was partially offset by the redemption of the 2013 Senior Notes and repayment of commercial paper.

***Dividends***

For a summary of quarterly cash dividends declared per share on our Class A and Class B Common Stock during the six months ended December 31, 2013, see Notes to Consolidated Financial Statements, Note 10 *Equity*.

***Pension and Post-retirement Plan Funding***

There have been no significant changes to our pension and post-retirement funding as discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

***Commitments, Contractual Obligations and Contingencies***

Since June 30, 2013, we made additional commitments primarily pursuant to leases for certain retail stores and, to a lesser extent, other operating leases, which will result in an increase to our contractual obligations previously disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013. Operating lease commitments are expected to increase by approximately \$2 million, \$35 million, \$38 million, \$32 million, \$30 million and \$63 million in fiscal 2014, 2015, 2016, 2017, 2018 and thereafter, respectively. There have been no other significant changes to our commitments and contractual obligations since June 30, 2013. For a discussion of contingencies, see Notes to Consolidated Financial Statements, Note 7 *Contingencies*.

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

There have been no significant changes to our derivative financial instruments and hedging activities as discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

***Foreign Exchange Risk Management***

We enter into foreign currency forward contracts to hedge anticipated transactions, as well as receivables and payables denominated in foreign currencies, for periods consistent with our 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 we receive from foreign subsidiaries. The majority of foreign currency forward contracts are denominated in currencies of major industrial countries. We 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 March 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. 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 accumulated in other comprehensive income (loss) 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 accumulated other comprehensive income (loss) are reclassified to current-period earnings. As of December 31, 2013, these foreign currency cash-flow hedges were highly effective in all material respects.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.**

At December 31, 2013, we had foreign currency forward contracts in the amount of \$1,922.8 million. The foreign currencies included in foreign currency forward contracts (notional value stated in U.S. dollars) are principally the British pound (\$511.6 million), Euro (\$361.6 million), Canadian dollar (\$205.4 million), Swiss franc (\$132.7 million), Japanese yen (\$122.1 million), Australian dollar (\$94.4 million) and Hong Kong dollar (\$92.9 million).

***Credit Risk***

As a matter of policy, we only enter into derivative contracts 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 \$14.3 million at December 31, 2013. To manage this risk, we established strict counterparty credit guidelines that are continually monitored. Accordingly, management believes risk of loss under these hedging contracts is remote.

Certain of our derivative financial instruments contain credit-risk-related contingent features. At December 31, 2013, we were in a net asset position for certain derivative contracts that contain such features with two counterparties. The fair value of collateral required to settle the instruments immediately if a triggering event were to occur is estimated at approximately the fair value of the contracts. The fair value of those contracts in a net asset position was approximately \$1.6 million as of December 31, 2013 and the Company was in compliance with such credit-risk-related contingent features.

***Market Risk***

Using the value-at-risk model, as discussed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, the high, low and average measured value-at-risk for the twelve months ended December 31, 2013 related to our foreign exchange contracts are as follows:

(In millions)	High	Low	Average
Foreign exchange contracts	\$ 27.4	\$ 19.1	\$ 21.9

The change in the value-at-risk measures from June 30, 2013 related to our foreign exchange contracts reflected an increase in foreign exchange volatilities and a different portfolio mix. We believe that any resulting loss incurred would be offset by the effects of market rate movements on the respective underlying transactions for which the derivative financial instrument was intended.

**OFF-BALANCE SHEET ARRANGEMENTS**

We do not maintain any off-balance sheet arrangements, transactions, obligations or other relationships with unconsolidated entities, other than operating leases, that would be expected to have a material current or future effect upon our financial condition or results of operations.

**CRITICAL ACCOUNTING POLICIES**

As disclosed in our Annual Report on Form 10-K for the fiscal year ended June 30, 2013, the discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in conformity with U.S. generally accepted accounting principles. The preparation of these financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in those financial statements. These judgments can be subjective and complex, and consequently actual results could differ from those estimates and assumptions. Our most critical accounting policies relate to revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill, other intangible assets and long-lived assets, and income taxes. Since June 30, 2013, there have been no significant changes to the assumptions and estimates related to our critical accounting policies.

**RECENTLY ISSUED ACCOUNTING STANDARDS**

For a discussion regarding the impact of accounting standards that were recently issued but not yet effective, on the Company's consolidated financial statements, see Notes to Consolidated Financial Statements, Note 1 *Summary of Significant Accounting Policies*.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**FORWARD-LOOKING INFORMATION**

We and our representatives from time to time make written or oral forward-looking statements, including statements contained in this and other filings with the Securities and Exchange Commission, in our press releases and in our reports to stockholders. The words and phrases "will likely result," "expect," "believe," "planned," "may," "should," "could," "anticipate," "estimate," "project," "intend," "forecast" or similar expressions are used in our forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, without limitation, our expectations regarding sales, earnings or other future financial performance and liquidity, product introductions, entry into new geographic regions, information systems initiatives, new methods of sale, our long-term strategy, restructuring and other charges and resulting cost savings, and future operations or operating results. Although we believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our business and operations, actual results may differ materially from our expectations. Factors that could cause actual results to differ from expectations include, without limitation:

(1) increased competitive activity from companies in the skin care, makeup, fragrance and hair care businesses, some of which have greater resources than we do;

(2) our ability to develop, produce and market new products on which future operating results may depend and to successfully address challenges in our business;

(3) consolidations, restructurings, bankruptcies and reorganizations in the retail industry causing a decrease in the number of stores that sell our products, an increase in the ownership concentration within the retail industry, ownership of retailers by our competitors or ownership of competitors by our customers that are retailers and our inability to collect receivables;

(4) destocking and tighter working capital management by retailers;

(5) the success, or changes in timing or scope, of new product launches and the success, or changes in the timing or the scope, of advertising, sampling and merchandising programs;

(6) shifts in the preferences of consumers as to where and how they shop for the types of products and services we sell;

(7) social, political and economic risks to our foreign or domestic manufacturing, distribution and retail operations, including changes in foreign investment and trade policies and regulations of the host countries and of the United States;

(8) changes in the laws, regulations and policies (including the interpretations and enforcement thereof) that affect, or will affect, our business, including those relating to our products or distribution networks, changes in accounting standards, tax laws and regulations, environmental or climate change laws, regulations or accords, trade rules and customs regulations, and the outcome and expense of legal or regulatory proceedings, and any action we may take as a result;

(9) foreign currency fluctuations affecting our results of operations and the value of our foreign assets, the relative prices at which we and our foreign competitors sell products in the same markets and our operating and manufacturing costs outside of the United States;

(10) changes in global or local conditions, including those due to the volatility in the global credit and equity markets, natural or man-made disasters, real or perceived epidemics, or energy costs, that could affect consumer purchasing, the willingness or ability of consumers to travel and/or purchase our products while traveling, the financial strength of our customers, suppliers or other contract counterparties, our operations, the cost and availability of capital which we may need for new equipment, facilities or acquisitions, the returns that we are able to generate on our pension assets and the resulting impact on funding obligations, the cost and availability of raw materials and the assumptions underlying our critical accounting estimates;

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

(11) shipment delays, commodity pricing, depletion of inventory and increased production costs resulting from disruptions of operations at any of the facilities that manufacture nearly all of our supply of a particular type of product (i.e. focus factories) or at our distribution or inventory centers, including disruptions that may be caused by the implementation of SAP as part of our Strategic Modernization Initiative or by restructurings;

(12) real estate rates and availability, which may affect our ability to increase or maintain the number of retail locations at which we sell our products and the costs associated with our other facilities;

(13) changes in product mix to products which are less profitable;

(14) our ability to acquire, develop or implement new information and distribution technologies and initiatives on a timely basis and within our cost estimates and our ability to maintain continuous operations of such systems and the security of data and other information that may be stored in such systems or other systems or media;

(15) our ability to capitalize on opportunities for improved efficiency, such as publicly-announced strategies and restructuring and cost-savings initiatives, and to integrate acquired businesses and realize value therefrom;

(16) consequences attributable to local or international conflicts around the world, as well as from any terrorist action, retaliation and the threat of further action or retaliation;

(17) the timing and impact of acquisitions and divestitures, which depend on willing sellers and buyers, respectively; and

(18) additional factors as described in our filings with the Securities and Exchange Commission, including the Annual Report on Form 10-K for the fiscal year ended June 30, 2013.

We assume no responsibility to update forward-looking statements made herein or otherwise.

**Item 3. *Quantitative and Qualitative Disclosures About Market Risk.***



## Edgar Filing: Ascent Solar Technologies, Inc. - Form PRE 14A

The information required by this item is set forth in Item 2 of this Quarterly Report on Form 10-Q under the caption Liquidity and Capital Resources - Market Risk and is incorporated herein by reference.

### **Item 4. Controls and Procedures.**

Our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and to ensure that information required to be disclosed is accumulated and communicated to management, including our principal executive and financial officers, to allow timely decisions regarding disclosure. The Chief Executive Officer and the Chief Financial Officer, with assistance from other members of management, have reviewed the effectiveness of our disclosure controls and procedures as of December 31, 2013 and, based on their evaluation, have concluded that the disclosure controls and procedures were effective as of such date.

As part of our Strategic Modernization Initiative, we anticipate the continued migration of our operations to SAP-based technologies with the majority of our locations being enabled through calendar 2014.

There have been no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the second quarter of fiscal 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**THE ESTÉE LAUDER COMPANIES INC.****PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

For a discussion of legal proceedings, see Notes to Consolidated Financial Statements, Note 7 *Contingencies*.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****Share Repurchase Program**

We are authorized by the Board of Directors to repurchase up to 216.0 million shares of our Class A Common Stock in the open market or in privately negotiated transactions, depending on market conditions and other factors. As of December 31, 2013, the cumulative total of acquired shares pursuant to the authorization was 169.3 million, reducing the remaining authorized share repurchase balance to 46.7 million. During the six months ended December 31, 2013, we purchased approximately 2.2 million shares pursuant to the authorization for \$155.0 million as outlined in the following table:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares that May Yet Be Purchased Under the Program(1)
July 2013	358,900	\$ 65.36	358,900	48,583,218
August 2013	279,200	65.68	279,200	48,304,018
September 2013	264,386(2)	66.76		48,304,018
October 2013	443,373(2)	72.76		48,304,018
November 2013	1,031,000	71.44	1,031,000	47,273,018
December 2013	540,127	73.19	540,127	46,732,891
	2,916,986	\$ 70.24	2,209,227	46,732,891

(1) The initial program covering the repurchase of 16.0 million shares was announced in September 1998 and increased by 40.0 million shares each in November 2012, November 2007, February 2007 and May 2005 and 20.0 million shares in both May 2004 and October 2002.

(2) Includes shares that were repurchased by the Company in connection with shares withheld to satisfy tax obligations upon the vesting of stock-based compensation.

## Edgar Filing: Ascent Solar Technologies, Inc. - Form PRE 14A

Subsequent to December 31, 2013 and through January 29, 2014, we repurchased approximately 1.2 million additional shares of our Class A Common Stock for \$83.6 million pursuant to our share repurchase program.

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**Item 6. Exhibits.**

<b>Exhibit Number</b>	<b>Description</b>
10.1	The Estée Lauder Companies Inc. Executive Annual Incentive Plan (filed as Exhibit 10.1 to our Current Report on Form 8-K filed on November 14, 2013). *
31.1	Certification pursuant to Rule 13a-14(a) (CEO).
31.2	Certification pursuant to Rule 13a-14(a) (CFO).
32.1	Certification pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CEO). (furnished)
32.2	Certification pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (CFO). (furnished)
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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\* Incorporated herein by reference.

Exhibit is a management contract or compensatory plan or arrangement.

Table of Contents

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**THE ESTÉE LAUDER COMPANIES INC.**

Date: February 5, 2014

By: /s/ TRACEY T. TRAVIS  
Tracey T. Travis  
Executive Vice President  
and Chief Financial Officer  
(Principal Financial and  
Accounting Officer)

Table of Contents

**THE ESTÉE LAUDER COMPANIES INC.**

**INDEX TO EXHIBITS**

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101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

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\* Incorporated herein by reference.

Exhibit is a management contract or compensatory plan or arrangement.