ESTEE LAUDER COMPANIES INC
Form 10-K
August 19, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended June 30, 2009

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-14064

The Estée Lauder Companies Inc.

(Exact name of registrant as specified in its charter)

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

Registrant s telephone number, including area code **212-572-4200**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Class A Common Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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

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

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

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

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

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

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

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

The aggregate market value of the registrant s voting common equity held by non-affiliates of the registrant was approximately $3.45 billion at December 31, 2008 (the last business day of the registrant s most recently completed second quarter).*

At August 14, 2009, 118,631,373 shares of the registrant s Class A Common Stock, $.01 par value, and 78,067,261 shares of the registrant s Class B Common Stock, $.01 par value, were outstanding.

Documents Incorporated by Reference

Document	Where Incorporated
Proxy Statement for Annual Meeting of Stockholders to be held November 13, 2009	Part III

* Calculated by excluding all shares held by executive officers and directors of registrant and certain trusts without conceding that all such persons are affiliates of registrant for purposes of the Federal securities laws.

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THE ESTÉE LAUDER COMPANIES INC.

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Forward-Looking Statements and Risk Factors

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements include, without limitation, our expectations regarding sales, earnings or other future financial performance and liquidity, our long-term strategy, restructuring and other initiatives, product introductions, entry into new geographic regions, information systems initiatives, new methods of sale 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, we cannot assure that actual results will not differ materially from our expectations. Factors that could cause actual results to differ from expectations are described herein; in particular, see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Information. In addition, there is a discussion of risks associated with an investment in our securities. See Item 1A. Risk Factors.

PART I

Item 1. ***Business.***

The Estée Lauder Companies Inc., founded in 1946 by Estée and Joseph Lauder, is one of the world s leading manufacturers and marketers of quality skin care, makeup, fragrance and hair care products. Our products are sold in over 140 countries and territories under a number of well-known brand names including: Estée Lauder, Aramis, Clinique, Origins, M A C, Bobbi Brown, La Mer and Aveda. We are also the global licensee for fragrances and/or cosmetics sold under brand names such as Tommy Hilfiger, Donna Karan, Michael Kors, and Sean John. Each brand is distinctly positioned within the market for cosmetics and other beauty products.

We are a pioneer in the cosmetics industry and believe we are a leader in the industry due to the global recognition of our brand names, our leadership in product innovation, our strong market position in key geographic markets and the consistently high quality of our products. We sell our prestige products principally through limited distribution channels to complement the images associated with our brands. These channels, encompassing over 30,000 points of sale, consist primarily of upscale department stores, specialty retailers, upscale perfumeries and pharmacies and prestige salons and spas. In addition, our products are sold in freestanding company-owned stores and spas, our own and authorized retailer websites, stores on cruise ships, direct response television (DRTV), in-flight and duty-free shops and certain fragrances are sold in self-select outlets. We believe that our strategy of pursuing limited distribution strengthens our relationships with retailers, enables our brands to be among the best selling product lines at the stores and heightens the aspirational quality of our brands.

For a discussion of recent developments, see *Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations* Results of Operations Overview.

We have been controlled by the Lauder family since the founding of our company. Members of the Lauder family, some of whom are directors, executive officers and/or employees, beneficially own, directly or indirectly, as of August 14, 2009, shares of Class A Common Stock and Class B Common Stock having approximately 87.6% of the outstanding voting power of the Common Stock.

Unless the context requires otherwise, references to we, us, our and the Company refer to The Estée Lauder Companies Inc. and its subsidiaries

Products

Skin Care - Our broad range of skin care products addresses various skin care needs for women and men. These products include moisturizers, creams, lotions, cleansers, sun screens and self-tanning products, a number of which are developed for use on particular areas of the body, such as the face or the hands or around the eyes. Skin care products accounted for approximately 39% of our net sales in fiscal 2009.

Makeup - We manufacture, market and sell a full array of makeup products, including lipsticks, lip glosses, mascaras, foundations, eyeshadows, nail polishes and powders. Many of the products are offered in an extensive array of shades and colors. We also sell related items such as compacts, brushes and other makeup tools. Makeup products accounted for approximately 39% of our net sales in fiscal 2009.

Fragrance - We offer a variety of fragrance products for women and men. The fragrances are sold in various forms, including eau de parfum sprays and colognes, as well as lotions, powders, creams and soaps that are based on a particular fragrance. Fragrance products accounted for approximately 16% of our net sales in fiscal 2009.

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Hair Care - Hair care products are offered mainly in salons and in freestanding retail stores and include hair color and styling products, shampoos, conditioners and finishing sprays. In fiscal 2009, hair care products accounted for approximately 6% of our net sales.

Given the personal nature of our products and the wide array of consumer preferences and tastes, as well as competition for the attention of consumers, our strategy has been to market and promote our products through distinctive brands seeking to address broad preferences and tastes. Each brand has a single global image that is promoted with consistent logos, packaging and advertising designed to enhance its image and differentiate it from other brands.

Estée Lauder - Estée Lauder brand products, which have been sold since 1946, are technologically advanced and high performance products with a reputation for innovation, sophistication, and superior quality. The broad product line principally consists of skin care, makeup and fragrance products that are presented in high quality packaging.

Aramis and Designer Fragrances - Our Aramis and Designer Fragrances division creates and markets fragrance and skin care products, including the following brand names:

- **Aramis** - We pioneered the marketing of prestige men s fragrance, grooming and skin care products with the introduction of Aramis products in 1964.

- **Lab Series** - Lab Series Skincare for Men, introduced by the Aramis and Designer Fragrances division in 1987, offers a full range of products for cleansing, shaving, treatment and body that are especially formulated to answer the unique needs of men s skin.

- **Tommy Hilfiger** - We have an exclusive global license arrangement to develop and market a line of men s and women s fragrances and cosmetics under the Tommy Hilfiger brand name. We launched the line in 1995 with a men s fragrance, *tommy*. Today, we manufacture and sell a variety of fragrances and ancillary products for men and women.

- **Donna Karan Cosmetics** - In November 1997, we obtained the exclusive global license to develop, market and distribute a line of fragrances and other cosmetics under the Donna Karan New York and DKNY brand names, including certain products that were originally sold by The Donna Karan Company. We launched the first DKNY women s fragrance in fiscal 2000 and the first DKNY men s fragrance in fiscal 2001. Under this license, fragrances have been expanded to include extensive lines of companion bath and body products.

- **Michael Kors** - In May 2003, we entered into a license agreement for fragrances and beauty products under the Michael Kors brand name. The fragrances, as well as ancillary bath and body products, are sold primarily in department stores, specialty stores and freestanding Michael Kors boutiques.

- **Sean John Fragrances** - In 2005, we entered into an exclusive license agreement to develop fragrances and other beauty products under the Sean John brand name. Sean Diddy Combs played an active role in creating the signature scent, Unforgivable. The Unforgivable fragrance, as well as other fragrances and ancillary products, are primarily available at select department and specialty stores as well as travel retail outlets around the world.

- **Missoni** - In 2006, we launched fragrance and ancillary products under our exclusive global licensing agreement with Milan-based fashion house, Missoni. Missoni products are sold in select distribution channels worldwide.

In addition to the foregoing brands, we market and sell Mustang and Kiton products as a licensee.

Clinique - First introduced in 1968, Clinique skin care and makeup products are all allergy tested and 100% fragrance free and have been designed to address individual skin types and needs. The products are based on the research and related expertise of leading dermatologists. Clinique skin care products are generally marketed as part of the 3-Step System: Cleanse, Exfoliate, Moisturize. Other Clinique skin care products include de-aging solutions to help prevent, halt and diminish the visible effects of sun, wind, stress and pollution and assist in repair to help restore contour, minimize the look of lines and wrinkles. Clinique also offers lines of fragrances.

Prescriptives - Introduced in 1979 and sold in five countries, Prescriptives focuses on delivering flawless-looking skin for all skins, from lightest to darkest. Signature services include the ultra-personalized artistry of Custom Blend Makeup and complimentary Colorprinting, which leads the customer to her exact match foundation and customizable color cosmetics. Prescriptives also features a personalized skin care regime for all skins. The products are visually compelling and of minimalist design with a modern, innovative image.

Origins - Origins was introduced in 1990. It is positioned as a plant-based line of skin care, makeup and aromatherapy products that combine time-tested botanical ingredients with modern science to promote total well-being. Origins sells its products at our freestanding Origins stores and through stores-within-stores (which are designed to replicate the Origins store environment within a department store), at traditional retail counters and in perfumeries. Origins also has a license agreement to develop and sell products using the name of Dr. Andrew Weil.

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M A C - M A C products comprise a broad line of color-oriented, professional cosmetics and professional makeup tools targeting makeup artists and fashion-conscious consumers. The products are sold primarily through a limited number of department and specialty stores and at freestanding M A C stores. We acquired the companies behind M A C in three stages: in December 1994, March 1997 and February 1998.

Bobbi Brown - Acquired in October 1995, Bobbi Brown is an exclusive beauty line developed by celebrated makeup artist Bobbi Brown with a focus on service and teaching women to be their own makeup artists. The Bobbi Brown line includes color cosmetics, skin care, professional makeup brushes and tools, accessories and fragrances. Bobbi Brown products are primarily sold through a limited number of department and specialty stores.

La Mer - La Mer products primarily consist of moisturizing creams, lotions, cleansers, toners and other skin care products. The line, which is available in very limited distribution in the United States and certain other countries, is an extension of the initial Crème de la Mer product that we acquired in 1995.

Aveda - We acquired the Aveda business in December 1997 and have since acquired selected Aveda distributors and retail stores. Aveda, a prestige hair care leader, is a manufacturer and marketer of plant-based hair care, skin care, makeup and fragrance products. We sell Aveda products to third-party distributors and prestige salons and spas, cosmetology schools, certain non-U.S. department stores and specialty retailers and directly to consumers at our own freestanding Aveda Experience Centers and certain Aveda Institutes.

Jo Malone - We acquired London-based Jo Malone Limited in October 1999. Jo Malone is known for its unique fragrance portfolio and luxury products for the bath, body and home. Products are also available through a company catalogue, at freestanding stores and at a very limited group of specialty stores, primarily in the United States, Canada and the United Kingdom.

Bumble and bumble - In September 2006, we acquired the remaining minority equity interest in Bumble and bumble. We acquired a controlling majority equity interest in June 2000. Bumble and bumble is a New York-based hair care and education company with two salons that creates high-quality hair care and styling products distributed through other top-tier salons and select prestige retailers. We also provide business and design education to the Bumble and bumble network of independent salons.

Darphin - In April 2003, we acquired Laboratoires Darphin, the Paris-based company dedicated to the development, manufacture and marketing of prestige skin care and makeup products which are distributed primarily through high-end independent pharmacies and specialty stores.

BeautyBank - BeautyBank is our entrepreneurial think tank division whose mission is to develop brands and products for consumers shopping outside of the traditional department store channel on a worldwide basis. Brands developed under the BeautyBank umbrella include:

- **American Beauty** - Launched in 2004, the luxurious fragrance, makeup and advanced skin care line celebrates the beauty of American style. These products, which are sold in the United States at Kohl s Department Stores and Kohls.com, have been developed to meet the needs of the modern American woman, with a straightforward makeup and skin care appeal.

- **Flirt!** - Launched in 2004 and sold in the United States at Kohl s Department Stores and Kohls.com, this makeup line is all about experimenting with color, pop culture and trends; you can Flirt! with the possibilities.

- **Good Skin** - Launched in 2004 and sold in the United States at Kohl s Department Stores and Kohls.com, this line of skin care products was created with the expertise of a dermatologist. This line is color-coded for ease of use. Select products of this brand are now available in a number of countries around the world. *good skin, easy to choose, easy to use, doctor formulated for you.*

- **grassroots research labs -** Introduced in March 2008, grassroots research labs uses natural ingredients that are effective, potent and offer the latest in skin care technology.

- **Daisy Fuentes** - In early fiscal 2007, we launched Dianoche, the first fragrance under our license agreement with Daisy Fuentes, which holds two scents that connect in a single bottle. Dianoche, as well as other fragrances and ancillary products, are available exclusively at Kohl s Department Stores and at Kohls.com.

Tom Ford - In 2006, we entered into a license agreement to develop fragrances and other beauty products under the Tom Ford brand name. In fiscal 2007, we introduced Tom Ford Black Orchid, his first signature fragrance.

Ojon - In 2007, we acquired Ojon Corporation, a company based in Canada which markets naturally-derived, wildcrafted hair and skin care beauty products using ingredients found in the world s rainforests.

Our heritage brands are Estée Lauder, Aramis and Designer Fragrances, Clinique, Prescriptives and Origins. M A C and Bobbi Brown are our makeup artist brands.

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Distribution

We sell our products principally through limited distribution channels to complement the images associated with our brands. These channels include more than 30,000 points of sale in over 140 countries and territories and consist primarily of upscale department stores, specialty retailers, upscale perfumeries and pharmacies and prestige salons and spas. In addition, our products are sold in freestanding company-owned stores and spas, our own and authorized retailer websites, stores on cruise ships, DRTV, in-flight and duty-free shops and certain fragrances are sold in self-select outlets.

We maintain a dedicated sales force which sells to our retail accounts in North America and in the major overseas markets, such as Western Europe and Japan. We have wholly-owned operations in over 40 countries, and controlling interests in joint ventures that operate in four other countries, through which we market, sell and distribute our products. In certain countries, we sell our products through selected local distributors under contractual arrangements designed to protect the image and position of the brands. In addition, we sell certain products in select domestic and international military locations. For information regarding our net sales and long-lived assets by geographic region, see Note 20 of Notes to Consolidated Financial Statements in Item 8.

We sell Aveda products principally to independent salons and spas, cosmetology schools, third-party distributors and specialty retailers and directly to consumers at our own freestanding Aveda Experience Centers and certain Aveda Institutes. There are currently about 7,300 points of sale, primarily in the United States, that sell Aveda products. Bumble and bumble products are principally sold to about 2,400 independent salons, primarily in the United States. Darphin products are principally sold through high-end independent pharmacies, principally in Europe, representing approximately 3,700 points of sale.

As part of our strategy to diversify our distribution, we have been selectively opening new single-brand, freestanding stores that we operate. The Origins, Aveda and M A C brands are the primary focus for this method of distribution. At this time, we operate 601 single-brand, freestanding stores worldwide, the majority of which are in the United States, and expect that number to increase moderately over the next several years. We also operate 97 multi-brand stores.

We sell American Beauty, Flirt!, Good Skin and Daisy Fuentes in approximately 1,000 Kohl s Department Stores in the United States.

We currently sell products from 16 of our brands directly to consumers over the Internet through our own e-commerce sites. Some or all of these brands are sold over the Internet in the following countries: the United States, Canada, the United Kingdom, France, Australia, Korea and China.

As is customary in the cosmetics industry, our practice is to accept returns of our products from retailers if properly requested, authorized and approved. In accepting returns, we typically provide a credit to the retailer against sales and accounts receivable from that retailer on a dollar-for-dollar basis. In recognition of this practice, and in accordance with U.S. generally accepted accounting principles, we report revenues on a net sales basis, which reflects the amount of actual returns received and an amount established for anticipated returns. As a percentage of gross sales, returns were 4.4%, 4.4% and 4.2% in fiscal 2009, 2008 and 2007, respectively.

Customers

Our strategy is to build strong relationships with selected retailers globally. Senior management works with executives of our major retail accounts on a regular basis and we believe we are viewed as an important supplier to these customers. Our largest customer, Macy s Inc., sells products primarily within the United States and accounted for 12%, 12% and 14% of our consolidated net sales for the years ended June 30, 2009, 2008 and 2007, respectively, and 11% of our accounts receivable as of June 30, 2009 and 2008.

Marketing

Our marketing strategy is built around our mission statement: Bringing the Best to Everyone We Touch. Mrs. Estée Lauder formulated this marketing philosophy to provide high-quality service and products as the foundation for a solid and loyal consumer base.

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Our marketing efforts focus principally on promoting the quality, value and benefits of our products. Each of our brands is distinctively positioned, has a single global image, and is promoted with consistent logos, packaging and advertising designed to enhance its image and differentiate it from other brands. We regularly advertise our products on television and radio, in upscale magazines and newspapers, the Internet, and through direct mail and photo displays at international airports. In addition, our products receive extensive editorial coverage in prestige publications and other media worldwide. Promotional activities and in-store displays are designed to introduce existing consumers to different products in the line and to attract new consumers. Our marketing efforts also benefit from cooperative advertising programs with retailers, some of which are supported by coordinated promotions, such as purchase with purchase and gift with purchase. Our marketing and sales executives spend considerable time in the field meeting with consumers and key retailers and consulting with demonstrators at the points of sale. These include Estée Lauder Beauty Advisors, Clinique Consultants, Aramis Selling Specialists, Prescriptives Analysts, Origins Guides and M A C Makeup Artists. At in-store counters, demonstrators offer personal demonstrations to market individual products as well as to provide education on basic skin care and makeup application. We conduct extensive sampling programs and we pioneered gift with purchase as a sampling program. We believe that the quality and perceived benefits of sample products have been effective inducements to purchases by new and existing consumers.

We use the Internet to educate and inform consumers about certain of our brands. Currently, 19 of our brands have marketing sites, 16 of which have e-commerce capabilities.

Most of our creative marketing work is done by in-house creative teams. The creative staff designs and produces the sales materials, advertisements and packaging for products in each brand.

Global net expenses for advertising, merchandising, sampling and promotion were $1,878.8 million, $2,034.6 million and $1,841.9 million in fiscal 2009, 2008 and 2007, respectively. These amounts include activities relating to purchase with purchase and gift with purchase promotions that are reflected in net sales and cost of sales.

Information Systems

Information systems support business processes including product development, marketing, sales, order processing, production, distribution and finance. Of the many systems currently being utilized, the most significant to our business needs are: (i) a centralized data repository of essential attributes for each of the products we offer, or plan to offer, which enables us to globally manufacture and market products of consistent quality; (ii) a sales analysis system to track weekly sales at the stock keeping unit (SKU) level at most significant retail sales locations (i.e., sell-through data), increasing our understanding of consumer preferences and enabling us to coordinate more effectively our product development, manufacturing and marketing strategies; (iii) an automated replenishment system with many of our key domestic customers, allowing us to replenish inventories for individual points of sale automatically, with minimal paperwork; and (iv) an inventory management system to provide us with a global view of finished goods availability relative to actual requirements.

We expect that these systems will continue to provide pertinent inventory and sales data in the short term. However, as part of our long-term effort to enhance these systems and increase productivity, we are implementing our Strategic Modernization Initiative (SMI), which includes an enterprise-wide global program that we expect will deliver a single set of integrated data, processes and technologies, which would be scalable and used to standardize business processes across brands, operating units and sales affiliates. As part of SMI, we anticipate the continued migration of our operations to SAP, with the majority of our locations being implemented through fiscal 2012.

Research and Development

We believe that we are an industry leader in the development of new products. Marketing, product development and packaging groups work with our research and development group to identify shifts in consumer preferences, develop new products and improve, redesign or reformulate existing products. In addition, research and development personnel work closely with quality assurance and manufacturing personnel on a worldwide basis to provide ongoing technical assistance and know-how, to ensure consistent global standards for our products and to deliver products with attributes that fulfill consumer expectations. The research and development group has long-standing working relationships with several U.S. and international medical and educational facilities, which supplement internal capabilities. Members of the group are also responsible for regulatory compliance matters.

We do not conduct animal testing on our products or ingredients, nor ask others to test on our behalf, except when required by law. We evaluate our finished products in clinical tests on volunteer panels.

We maintain ongoing research and development programs at our facilities in Melville, New York; Oevel, Belgium; Petersfield, United Kingdom; Tokyo, Japan; Markham, Ontario; Blaine, Minnesota; Shanghai, China; and Colombes, France. As of June 30, 2009, we had approximately 435 employees engaged in research and development. Research and development expenditures totaled $81.6 million, $80.9 million and $74.4 million in fiscal 2009, 2008 and 2007, respectively.

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Manufacturing, Warehousing and Raw Materials

We manufacture skin care, makeup, fragrance and hair care products primarily in the United States, Belgium, Switzerland, the United Kingdom and Canada. We continue to streamline our manufacturing processes and identify sourcing opportunities to improve innovation, increase efficiencies and reduce costs. Our major manufacturing facilities operate as focus plants that primarily manufacture one type of product (e.g., lipsticks) for all of the principal brands. Our plants are modern and our manufacturing processes are substantially automated. While we believe that our manufacturing facilities are sufficient to meet current and reasonably anticipated manufacturing requirements, we continue to identify opportunities to make significant improvements in capacity and productivity. To capitalize on innovation and other supply benefits, we continue to utilize third parties on a global basis for finished goods production, including an increased percentage of volume in Asia/Pacific to support our growth.

We have established a global distribution network designed to meet the changing demands of our customers while maintaining service levels. We are continuously evaluating and restructuring this physical distribution network. We have begun to establish regional inventory centers strategically positioned throughout the world in order to facilitate efficient delivery of our products to our customers.

The principal raw materials used in the manufacture of our products are essential oils, alcohol and specialty chemicals. We also purchase packaging components that are manufactured to our design specifications. Procurement of materials for all manufacturing facilities is generally made on a global basis through our Global Supplier Relations department. We are making a concentrated effort in supplier rationalization with the specific objective of reducing costs, increasing innovation and speed to market and improving quality. In addition, we continue to focus on supply sourcing within the region of manufacture to allow for improved supply chain efficiencies. As a result of sourcing initiatives, there is increased dependency on certain suppliers, but we believe that our portfolio of these suppliers has adequate resources and facilities to overcome any unforeseen interruption of supply. In the past, we have been able to obtain an adequate supply of essential raw materials and currently believe we have adequate sources of supply for virtually all components of our products.

We are continually benchmarking the performance of the supply chain and will add or delete suppliers, and adjust our distribution networks and manufacturing footprint based upon the changing needs of the business. As we integrate acquired brands, we continually seek new ways to leverage our production and sourcing capabilities to improve our overall supply chain performance.

Competition

The skin care, makeup, fragrance and hair care businesses are characterized by vigorous competition throughout the world. Brand recognition, quality, performance and price have a significant impact on consumers choices among competing products and brands. Advertising, promotion, merchandising, the pace and timing of new product introductions, line extensions and the quality of in-store demonstrations also have a significant impact on consumers buying decisions. With our numerous brands, sold in various channels, we are one of the world s leading manufacturers and marketers of skin care, makeup, fragrance and hair care products. We compete against a number of companies, some of which have substantially greater resources than we do.

Our principal competitors consist of large, well-known, multinational manufacturers and marketers of skin care, makeup, fragrance and hair care products, most of which market and sell their products under multiple brand names. They include, among others, L Oreal S.A.; Shiseido

Company, Ltd.; LVMH Moët Hennessey Louis Vuitton; Coty, Inc.; and The Procter & Gamble Company. We also face competition from a number of independent brands, as well as some retailers that have developed their own beauty brands. Certain of our competitors also have ownership interests in retailers that are customers of ours.

Trademarks, Patents and Copyrights

The trademarks used in our business include the brand names Estée Lauder, Clinique, Aramis, Prescriptives, Lab Series, Origins, Tommy Hilfiger, Donna Karan, DKNY, M A C, Bobbi Brown, La Mer, Aveda, Jo Malone, Bumble and bumble, Darphin, Michael Kors, American Beauty, Flirt!, Good Skin , grassroots research labs, Ojon and the names of many of the products sold under these brands. We own the material trademark rights used in connection with the manufacturing, marketing and distribution of most of our major products both in the United States and in the other principal countries where such products are sold. We are the exclusive worldwide licensee for fragrances, cosmetics and/or related products for Tommy Hilfiger, Donna Karan New York, DKNY, Kiton, Michael Kors, Sean John, Missoni, Daisy Fuentes and Tom Ford. Origins sells products using the name of Dr. Andrew Weil and Aramis and Designer Fragrances sells a fragrance in the Americas region using the name Mustang, in each case pursuant to a license agreement. We protect our trademarks for our principal products in the United States and significant markets worldwide. We consider the protection of our trademarks to be important to our business.

A number of our products incorporate patented, patent-pending or proprietary technology in formulations or packaging. In addition, several products are covered by design patents, patent applications or copyrights. While we consider these patents and copyrights, and the protection thereof, to be important, no single patent or copyright is considered material to the conduct of our business.

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Employees

At June 30, 2009, we had approximately 31,300 full-time employees worldwide (including certain demonstrators at points of sale who are employed by us), of whom approximately 12,700 are employed in the United States and Canada. None of our employees in the United States is covered by a collective bargaining agreement. In certain other countries, a limited number of employees are covered by a works council agreement or other syndicate arrangements. We believe that relations with our employees are good. We have never encountered a material strike or work stoppage in the United States or in any other country where we have a significant number of employees.

Government Regulation

We and our products are subject to regulation by the Food and Drug Administration and the Federal Trade Commission in the United States, as well as by various other Federal, state, local and international regulatory authorities and the regulatory authorities in the countries in which our products are produced or sold. Such regulations principally relate to the ingredients, labeling, packaging and marketing of our products. We believe that we are in substantial compliance with such regulations, as well as with applicable Federal, state, local and international and other countries rules and regulations governing the discharge of materials hazardous to the environment. There are no significant capital expenditures for environmental control matters either planned in the current year or expected in the near future. Along with other unrelated parties, we have been named as a potentially responsible party by the Office of the Attorney General of the State of New York with regard to a landfill in Long Island, New York. See *Item 3. Legal Proceedings*.

Seasonality

Our results of operations in total, by region and by product category, are subject to seasonal fluctuations, with net sales in the first half of the fiscal year typically being slightly higher than in the second half of the fiscal year. The higher net sales in the first half of the fiscal year are attributable to the increased levels of purchasing by retailers for the holiday selling season and for fall fashion makeup introductions. Many of our customers that are retailers follow a 4-4-5 retail calendar which may influence the amount and timing of their order placement and receipt of goods in any fiscal quarter. In a traditional 4-4-5 retail calendar, each fiscal quarter is comprised of two 4-week periods and one 5-week period, with one extra week in one quarter every seven years. As a result, the retail quarter-end and the fiscal quarter-end may be different by up to six days. Fluctuations in net sales and operating income in total and by geographic region and product category in any fiscal quarter may be attributable to the level and scope of new product introductions. Additionally, gross margins and operating expenses are impacted on a quarter-by-quarter basis by variations in our launch calendar and the timing of promotions, including purchase with purchase and gift with purchase promotions.

Availability of Reports

We make available financial information, news releases and other information on our website at www.elcompanies.com. There is a direct link from the website to our Securities and Exchange Commission filings via the EDGAR database, where our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge as soon as reasonably practicable after we file such reports and amendments with, or furnish them to, the Securities and Exchange Commission. Stockholders may also contact Investor Relations at 767 Fifth Avenue, New

York, New York 10153 or call 800-308-2334 to obtain a hard copy of these reports without charge.

Corporate Governance Guidelines and Code of Conduct

The Board of Directors has developed corporate governance practices to help it fulfill its responsibilities to stockholders in providing general direction and oversight of management. These practices are set forth in our Corporate Governance Guidelines. We also have a Code of Conduct (Code) applicable to all employees, officers and directors of the Company, including, without limitation, the Chief Executive Officer, the Chief Financial Officer and other senior financial officers. These documents, the charters for the Audit Committee, Compensation Committee and Nominating and Board Affairs Committee, and any waiver of a provision of the Code granted to any senior officer or director or material amendment to the Code, if any, may be found in the Investors section of our website: www.elcompanies.com under the heading Corporate Governance. Stockholders may also contact Investor Relations at 767 Fifth Avenue, New York, New York 10153 or call 800-308-2334 to obtain a hard copy of these documents without charge.

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Executive Officers

The following table sets forth certain information with respect to our executive officers:

Name	Age	Position(s) Held
John Demsey	53	Group President
Amy DiGeso	57	Executive Vice President Global Human Resources
Fabrizio Freda	51	President, Chief Executive Officer and a Director
Harvey Gedeon	66	Executive Vice President Research & Development and Product Innovation
Richard W. Kunes	56	Executive Vice President and Chief Financial Officer
Evelyn H. Lauder	73	Senior Corporate Vice President
Leonard A. Lauder	76	Chairman Emeritus and a Director
Ronald S. Lauder	65	Chairman of Clinique Laboratories, LLC
William P. Lauder	49	Executive Chairman and a Director
Sara E. Moss	62	Executive Vice President and General Counsel
Gregory F. Polcer	54	Executive Vice President Global Supply Chain
Cedric Prouvé	49	Group President International
Alexandra C. Trower	45	Executive Vice President Global Communications

John Demsey was appointed Group President in July 2006. In this role, he is currently responsible for the Estée Lauder, M·A·C, Sean John, Prescriptives, Tom Ford Beauty, Bobbi Brown, Jo Malone and La Mer brands. In January 2005, Mr. Demsey became Global Brand President of Estée Lauder after serving as President and Managing Director of M·A·C since 1998. From 1991 to 1998, he held several positions with Estée Lauder, including Senior Vice President of Sales and Education for Estée Lauder USA and Canada. Before joining us, he worked for Revlon, Borghese, Alexandra de Markoff Cosmetics, and Lancaster Cosmetics. He also held various executive retail positions at Bloomingdale s, Macy s, Benetton and Saks Fifth Avenue. Mr. Demsey serves as Chairman of the M·A·C AIDS Fund and is active in many other AIDS-related organizations.

Amy DiGeso became Executive Vice President - Global Human Resources in May 2006. From May 2005, when she joined us, to May 2006 she was Senior Vice President - Global Human Resources. She was Senior Partner - Global Human Resource in charge of the Human Resources Department at PriceWaterhouseCoopers LLP from May 2001 through June 2003. From April 1999 through April 2001, Ms. DiGeso was President of the Popular Club Plan, a direct sales subsidiary of Federated Department Stores, and from May 1992 through December 1998, she served in various executive capacities at Mary Kay, Inc., including Chief Executive Officer from November 1996 through December 1998. Since June 2003, Ms. DiGeso has been engaged in various philanthropic activities.

Fabrizio Freda is President and Chief Executive Officer of the Company. From March 2008 through June 2009, he was President and Chief Operating Officer of the Company where he was instrumental in designing the Company s long-term strategic plan and oversaw Clinique, Bobbi Brown, La Mer, Jo Malone, Aveda, Bumble and bumble and the Aramis and Designer Fragrances Division. He also was responsible for the Company s International Division, as well as Global Operations, Research and Development, Packaging, Quality Assurance, Merchandise Design, Corporate Store Design and Retail Store Operations. Prior to joining the Company, Mr. Freda served in a number of positions of increasing responsibility at The Procter & Gamble Company (P&G), where he was responsible for various operating, marketing and key strategic efforts for over 20 years. From 2001 through 2007 Mr. Freda was President, Global Snacks, at P&G. Mr. Freda also spent more than a decade in the Health and Beauty Care division at P&G. From 1986 to 1988 he directed marketing and strategic planning for Gucci SpA.

Harvey Gedeon became Executive Vice President - Research and Development in July 2004 and added responsibilities for Corporate Product Innovation in 2007 and Package Development in 2008. From January 2000 to July 2004, he was Senior Vice President - Research and Development. Prior to joining us in January 2000, Mr. Gedeon was Executive Vice President and General Manager, Research and Development and Quality Assurance for Revlon, Inc. from 1997 through 1999.

Richard W. Kunes became Executive Vice President and Chief Financial Officer in November 2004. Prior thereto, he was Senior Vice President and Chief Financial Officer since October 2000. He joined us in 1986 and served in various finance-related positions until November 1993, when he was named Vice President Operations Finance Worldwide. From January 1998 through September 2000, Mr. Kunes was Vice President Financial Administration and Corporate Controller. Prior to joining us, he held finance and controller positions at the Colgate-Palmolive Company.

Evelyn H. Lauder has been Senior Corporate Vice President since 1989, and previously served as Vice President and in other executive capacities since first joining us in 1959 as Education Director. She is a member of the Board of Overseers of Memorial Sloan-Kettering Cancer Center, a member of the Boards of Trustees of Central Park Conservancy, Inc., The Trinity School in New York City (Trustee Emirata), a member of the Board of Directors of New Yorkers for Parks, an Honorary Board Member of Cold Spring Harbor Laboratories and the Founder and Chairman of The Breast Cancer Research Foundation.

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Leonard A. Lauder is Chairman Emeritus and a member of the Board of Directors. He was Chairman of the Board of Directors from 1995 through June 2009 and served as our Chief Executive Officer from 1982 through 1999 and President from 1972 until 1995. Mr. Lauder formally joined us in 1958 after serving as an officer in the United States Navy. Since joining, he has held various positions, including executive officer positions other than those described above. He is Chairman Emeritus of the Board of Trustees of the Whitney Museum of American Art, a Charter Trustee of the University of Pennsylvania, a Trustee of The Aspen Institute and the co-founder and director of the Alzheimer s Drug Discovery Foundation. He also served as a member of the White House Advisory Committee on Trade Policy and Negotiations under President Reagan.

Ronald S. Lauder has served as Chairman of Clinique Laboratories, LLC since returning from government service in 1987 and was Chairman of Estee Lauder International, Inc. from 1987 through 2002. He was a member of the Board of Directors of the Company from 1968 to 1986 and again from 1988 to July 2009. Mr. Lauder joined the Company in 1964 and has served in various capacities. From 1983 to 1986, Mr. Lauder served as Deputy Assistant Secretary of Defense for European and NATO Affairs. From 1986 to 1987, he was U.S. Ambassador to Austria. He is non-executive Chairman of the Board of Directors of Central European Media Enterprises Ltd. He is also an Honorary Chairman of the Board of Trustees of the Museum of Modern Art and President of the Neue Galerie.

William P. Lauder is Executive Chairman and, in such role, he is Chairman of the Board of Directors. He was Chief Executive Officer of the Company from March 2008 through June 2009 and President and Chief Executive Officer from July 2004 through February 2008. From January 2003 through June 2004, he was Chief Operating Officer. From July 2001 through 2002, he was Group President responsible for the worldwide business of Clinique and Origins and the Company s retail store and on-line operations. From 1998 to 2001, he was President of Clinique Laboratories, LLC. Prior to 1998, he was President of Origins Natural Resources Inc., and he had been the senior officer of that division since its inception in 1990. Prior thereto, he served in various positions since joining the Company in 1986. He is a member of the Boards of Trustees of The University of Pennsylvania and The Trinity School in New York City and the Boards of Directors of the Fresh Air Fund, the 92nd Street Y, the Partnership for New York City, GLG Partners Inc. and the Advisory Board of Zelnick Media.

Sara E. Moss is Executive Vice President and General Counsel. She became Executive Vice President in November 2004. She joined us as Senior Vice President, General Counsel and Secretary in September 2003. She was Senior Vice President and General Counsel of Pitney Bowes Inc. from 1996 to February 2003, and Senior Litigation Partner for Howard, Smith & Levin (now Covington & Burling) in New York from 1984 to 1996. Prior to 1984, Ms. Moss served as an Assistant United States Attorney in the Criminal Division in the Southern District of New York, was an associate at the law firm of Davis, Polk & Wardwell and was Law Clerk to the Honorable Constance Baker Motley, a U.S. District Judge in the Southern District of New York.

Gregory F. Polcer became Executive Vice President - Global Supply Chain in July 2008. He is responsible for Global Direct and Indirect Procurement, Manufacturing, Logistics, Quality Assurance and Environmental Affairs and Safety. From 1988 to 2008, he worked for Unilever where he designed and implemented global, regional and local initiatives. Most recently, from 2006 to 2008, he served as the Senior Vice President, Supply Chain for Unilever where he integrated the North and Latin American Supply Chains, provided senior leadership for all global supply management and established a global outsourcing plan. He served as Senior Vice President, Supply Chain - North America from 2005 to 2006 and Senior Vice President, Supply Chain, Home and Personal Care North America from 2002 to 2004.

Cedric Prouvé became Group President - International in January 2003. He is responsible for sales and profits in our International Division, which includes all markets outside of North America, our Travel Retail business worldwide and all of the activities of our sales affiliates and distributor relationships. From August 2000 through December 2002 he was the General Manager of our Japanese sales affiliate. From January 1997 to August 2000, he was Vice President, General Manager, Travel Retail. He started with us in 1994 as General Manager, Travel Retailing - Asia Pacific Region and was given the added responsibility of General Manager of our Singapore affiliate in 1995. Prior to joining us he worked at L Oreal in sales and management positions in the Americas and Asia/Pacific.

Alexandra C. Trower became Executive Vice President - Global Communications in April 2008. She directs the Company s overall communications strategy, oversees brand communications, corporate communications, internal communications and consumer communications. Before joining us, Ms. Trower was Senior Vice President, Media Relations for Bank of America from January 2004 to March 2008. From 1997 to 2002, she worked at JPMorgan Chase, where she was responsible for corporate communications at JPMorgan Fleming Asset Management.

Each executive officer serves for a one-year term ending at the next annual meeting of the Board of Directors, subject to his or her applicable employment agreement and his or her earlier death, resignation or removal.

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Item 1A. ***Risk Factors.***

There are risks associated with an investment in our securities.

Please consider the following risks and all of the other information in this annual report on Form 10-K and in our subsequent filings with the Securities and Exchange Commission (SEC). Our business may also be adversely affected by risks and uncertainties not presently known to us or that we currently believe to be immaterial. If any of the events contemplated by the following discussion of risks should occur or other risks arise or develop, our business, prospects, financial condition and results of operations, as well as the trading prices of our securities, may be adversely affected.

The beauty business is highly competitive, and if we are unable to compete effectively our results will suffer.

We face vigorous competition from companies throughout the world, including multinational consumer product companies. Some of these competitors have greater resources than we do and may be able to respond to changing business and economic conditions more quickly than us. Competition in the beauty business is based on pricing of products, innovation, perceived value, service to the consumer, promotional activities, advertising, special events, new product introductions, electronic commerce initiatives and other activities. It is difficult for us to predict the timing and scale of our competitors actions in these areas. In particular, the fragrance category in the United States is influenced by the high volume of new product introductions by diverse companies across several different distribution channels. Also, the trend toward consolidation in the retail trade, particularly in developed markets such as the United States and Western Europe, has resulted in us becoming increasingly dependent on key retailers, including large-format retailers, who have increased their bargaining strength. This trend has also resulted in an increased risk related to the concentration of our customers. A severe adverse impact on their business operations could have a corresponding material adverse effect on us. Our ability to compete also depends on the continued strength of our brands, our ability to attract and retain key talent and other personnel, the efficiency of our manufacturing facilities and distribution network, and our ability to protect our intellectual property. Our inability to continue to compete effectively in countries around the world could have an adverse impact on our business.

Our inability to anticipate and respond to market trends and changes in consumer preferences could adversely affect our financial results.

Our continued success depends on our ability to anticipate, gauge and react in a timely and cost-effective manner to changes in consumer tastes for skin care, makeup, fragrance and hair care products as well as to where and how consumers shop for those products. We must continually work to develop, produce and market new products, maintain and enhance the recognition of our brands, achieve a favorable mix of products, and refine our approach as to how and where we market and sell our products. While we devote considerable effort and resources to shape, analyze and respond to consumer preferences, we recognize that consumer tastes cannot be predicted with certainty and can change rapidly. If we are unable to anticipate and respond to trends in the market for our products and changing consumer demands, our financial results will suffer.

Our future success depends on our ability to achieve our long-term strategy.

Our vision is to be the global leader in prestige beauty. To achieve our goal, we are implementing a long-term strategy to guide the Company through fiscal 2013. The plan has numerous initiatives across regions, product categories, brands and functions that are designed to leverage our strengths, make us more cost efficient and grow our sales.

Achieving our long-term objectives will require investment in new capabilities, brands, categories, distribution channels, technologies and geographic markets. These investments may result in short-term costs without any current revenues and, therefore, may be dilutive to our earnings, at least in the short term. In addition, we may dispose of or discontinue select brands or streamline operations and incur costs or special charges in doing so. Although we believe that our strategy will lead to long-term growth in revenue and profitability, we may not realize, in full or in part, the anticipated benefits. The failure to realize benefits, which may be due to our ability to execute plans or other risks described herein, global economic conditions, competition, changes in the beauty industry and the other risks described herein, could have a material adverse effect on our business, financial condition and results of operations.

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Acquisitions may expose us to additional risks.

We continuously review acquisition opportunities that would expand our current product offerings, our distribution channels, increase the size and geographic scope of our operations or otherwise offer growth and operating efficiency opportunities. If required, the financing for any of these acquisitions could result in an increase in our indebtedness, dilute the interests of our stockholders or both. Acquisitions may entail numerous risks, including:

- difficulties in assimilating acquired operations or products, including the loss of key employees from or customers of acquired businesses;
- diversion of management s attention from our core businesses;
- adverse effects on existing business relationships with suppliers and customers; and
- risks of entering distribution channels, categories or markets in which we have limited or no prior experience.

Our failure to successfully complete the integration of any acquired business could have a material adverse effect on our business, financial condition and operating results. In addition, there can be no assurance that we will be able to identify suitable acquisition candidates or consummate acquisitions on favorable terms.

We are required to annually test goodwill and intangible assets with indefinite lives to determine if impairment has occurred. If the testing performed indicates that impairment has occurred, we are required to record a non-cash impairment charge for the difference between the carrying value of the goodwill or other intangible assets and the implied fair value of the goodwill or other intangible assets in the period the determination is made. We cannot accurately predict the amount and timing of any impairment of assets. Should the value of goodwill or other intangible assets become impaired, there will be an adverse effect on our financial condition and results of operations.

A general economic downturn or sudden disruption in business conditions may affect consumer purchases of discretionary items and/or the financial strength of our customers that are retailers, which could adversely affect our financial results.

The general level of consumer spending is affected by a number of factors, including general economic conditions, inflation, interest rates, energy costs, and consumer confidence generally, all of which are beyond our control. Consumer purchases of discretionary items tend to decline during recessionary periods, when disposable income is lower, and may impact sales of our products. A decline in consumer purchases of discretionary items also tends to impact our customers that are retailers. We generally extend credit to a retailer based on an evaluation of its financial condition, usually without requiring collateral. However, the financial difficulties of a retailer could cause us to curtail or eliminate business with that customer. We may also assume more credit risk relating to the receivables from that retailer. Our inability to collect the receivable from one of our largest customers or from a group of customers could have a material adverse effect on our business and our financial condition. If a retailer was to liquidate, we may incur additional costs if we choose to purchase the retailer s inventory of our products to protect brand equity.

In addition, sudden disruptions in business conditions, for example, as a consequence of events such as a pandemic or those that are currently taking place in the Middle East, or as a result of a terrorist attack, retaliation and the threat of further attacks or retaliation, or as a result of adverse weather conditions or climate changes, can have a short and, sometimes, long-term impact on consumer spending.

Events that impact consumers willingness or ability to travel and/or purchase our products while traveling may impact our travel retail business, which is a significant contributor to our overall results.

A downturn in the economies in which we sell our products or a sudden disruption of business conditions in those economies could adversely affect our sales and profitability.

We face risks associated with the current global credit crisis.

The volatility in the financial markets and the related economic downturn in markets throughout the world could continue to have a material adverse effect on our business. While we currently generate significant cash flows from our ongoing operations and have access to global credit markets through our various financing activities, credit markets have recently experienced significant disruptions and certain leading financial institutions have either declared bankruptcy or have shown significant deterioration in their financial stability. Further deterioration in global financial markets could make future financing difficult or more expensive. If any financial institutions that are parties to our undrawn revolving credit facility supporting our commercial paper program or other financing arrangements, such as interest rate or foreign exchange hedging instruments, were to declare bankruptcy or become insolvent, they may be unable to perform under their agreements with us. This could leave us with reduced borrowing capacity or unhedged against certain interest rate or foreign currency exposures.

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

Our business is subject to numerous laws, regulations and policies. Changes in the laws, regulations and policies, including the interpretation or enforcement thereof, that affect, or will affect, our business, including changes in accounting standards, tax laws and regulations, trade rules and customs regulations, and the outcome and expense of legal or regulatory proceedings, and any action we may take as a result could adversely affect our financial results.

Our success depends, in part, on the quality and safety of our products.

Our success depends, in part, on the quality and safety of our products. If our products are found to be defective or unsafe, or if they otherwise fail to meet our consumers standards, our relationships with customers or consumers could suffer, the appeal of one or more of our brands could be diminished, and we could lose sales and/or become subject to liability claims, any of which could result in a material adverse effect on our business, results of operations and financial condition.

Our success depends, in part, on our key personnel.

Our success depends, in part, on our ability to retain our key personnel, including our executive officers and senior management team. The unexpected loss of one or more of our key employees could adversely affect our business. Our success also depends, in part, on our continuing ability to identify, hire, train and retain other highly qualified personnel. Competition for these employees can be intense. We may not be able to attract, assimilate or retain qualified personnel in the future, and our failure to do so could adversely affect our business. This risk may be exacerbated by the stresses associated with the implementation of our strategic plan and other initiatives.

We are subject to risks related to our international operations.

We operate on a global basis, with approximately 59% of our fiscal 2009 net sales generated outside the United States. We maintain offices in over 40 countries and have key operational facilities located outside the United States that manufacture, warehouse or distribute goods for sale throughout the world. Foreign operations are subject to many risks and uncertainties, including:

- fluctuations in foreign currency exchange rates, which can affect our results of operations, the value of our foreign assets, the relative prices at which we and foreign competitors sell products in the same markets and the cost of certain inventory and non-inventory items required in our operations;
- changes in foreign laws, regulations and policies, including restrictions on trade, import and export license requirements, and tariffs and taxes, as well as changes in United States laws and regulations relating to foreign trade and investment; and
- adverse weather conditions, social, economic and geopolitical conditions, such as terrorist attacks, war or other military action.

These risks could have a material adverse effect on our business, prospects, results of operations and financial condition.

A disruption in operations could adversely affect our business and financial results.

As a company engaged in manufacturing and distribution on a global scale, we are subject to the risks inherent in such activities, including industrial accidents, environmental events, strikes and other labor disputes, disruptions in supply chain or information systems, loss or impairment of key manufacturing sites, product quality control, safety, licensing requirements and other regulatory issues, as well as natural disasters and other external factors over which we have no control. If such an event were to occur, it could have an adverse affect on our business and financial results.

Our information systems and websites may be susceptible to outages and other risks.

We have information systems that support our business processes, including product development, marketing, sales, order processing, production, distribution, finance and intracompany communications throughout the world. We have e-commerce and other Internet websites in the United States and many other countries. These systems may be susceptible to outages due to fire, floods, power loss, telecommunications failures, break-ins and similar events. Despite the implementation of network security measures, our systems may be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering. The occurrence of these or other events could disrupt or damage our information systems and adversely affect our business and results of operations.

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We are subject to risks associated with implementing global information systems.

As part of a program that we call our Strategic Modernization Initiative, or SMI, we are implementing enterprise-wide global programs intended to deliver a single set of integrated data, processes and technologies, which would be scalable and used to standardize business processes across brands, operating units and sales affiliates. As part of SMI, we anticipate the continued migration of our operations to SAP, with the majority of our locations to be implemented through fiscal 2012. Like most entity-wide changes to software systems, the implementation of SMI involves risks and uncertainties. Failure to implement SMI as planned, in terms of timing, specifications and/or costs, could have an adverse impact on our business and results of operations.

The trading prices of our securities periodically may rise or fall based on the accuracy of predictions of our earnings or other financial performance.

Our business planning process is designed to maximize our long-term strength, growth and profitability, not to achieve an earnings target in any particular fiscal quarter. We believe that this longer-term focus is in the best interests of the Company and our stockholders. At the same time, however, we recognize that it may be helpful to provide investors with guidance as to our forecast of net sales and earnings per share. Accordingly, when we announced our year-end financial results for fiscal 2009, we provided guidance as to our expected net sales and earnings per share for the fiscal year ending June 30, 2010 and the quarter ending September 30, 2009. While we generally expect to provide updates to our guidance when we report our results each fiscal quarter, we assume no responsibility to update any of our forward-looking statements at such times or otherwise. In addition, the longer-term guidance we provide is based on goals that we believe, at the time guidance is given, are reasonably attainable for growth and performance over a number of years. Such targets are more speculative than our current quarter and fiscal year expectations.

In all of our public statements when we make, or update, a forward-looking statement about our sales and/or earnings expectations or expectations regarding restructuring or other initiatives, we accompany such statements directly, or by reference to a public document, with a list of factors that could cause our actual results to differ materially from those we expect. Such a list is included, among other places, in our earnings press release and in our periodic filings with the Securities and Exchange Commission (e.g., in our reports on Form 10-K and Form 10-Q). These and other factors may make it difficult for outside observers, such as research analysts, to predict what our earnings will be in any given fiscal quarter or year.

Outside analysts and investors have the right to make their own predictions of our financial results for any future period. Outside analysts, however, have access to no more material information about our plans than any other public investor, and we do not endorse their predictions as to our future performance. Nor do we assume any responsibility to correct the predictions of outside analysts or others when they differ from our own internal expectations. If and when we announce actual results that differ from those that outside analysts or others have been predicting, the market price of our securities could be affected. Investors who rely on the predictions of outside analysts or others when making investment decisions with respect to our securities do so at their own risk. We take no responsibility for any losses suffered as a result of such changes in the prices of our securities.

Failure to adequately maintain the security of our electronic and other confidential information could materially adversely affect our financial condition and results of operations.

We are dependent upon automated information technology processes. As part of our normal business activities, we collect and store certain confidential information, including personal information with respect to customers and employees. We may share some of this information with vendors who assist us with certain aspects of our business. Moreover, the success of our e-commerce operations depends upon the secure transmission of confidential and personal data over public networks, including the use of cashless payments. Any failure on the part of us or our vendors to maintain the security of our confidential data and our employees and customers personal information, including via the penetration of our network security and the misappropriation of confidential and personal information, could result in business disruption, damage to our reputation, financial obligations to third parties, fines, penalties, regulatory proceedings and private litigation with potentially large costs, and also result in deterioration in our employees and customers confidence in us and other competitive disadvantages, and thus could have a material adverse impact on our business, financial condition and results of operations. In addition, a security breach could require that we expend significant additional resources to enhance our information security systems and could result in a disruption to our operations.

As we outsource more functions, we will become more dependent on the entities performing those functions.

As part of our long-term strategy, we are continually looking for opportunities to provide essential business services in a more cost-effective manner. In some cases, this requires the outsourcing of functions or parts of functions that can be performed more effectively by external service providers. These include certain information systems functions such as information technology operations, and certain human resource functions such as employee benefit plan administration. While we believe we conduct appropriate due diligence before entering into agreements with the outsourcing entity, the failure of one or more entities to provide the expected services, provide them on a timely basis or to provide them at the prices we expect may have a material adverse effect on our results of operations or financial condition.

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Item 1B. ***Unresolved Staff Comments.***

As of the filing of this annual report on Form 10-K, there were no unresolved comments from the Staff of the Securities and Exchange Commission.

Item 2. ***Properties*.**

The following table sets forth our principal owned and leased manufacturing, assembly, research and development and distribution facilities as of August 14, 2009. The leases expire at various times through 2026 subject to certain renewal options.

Location	Use	Approximate Square Footage
The Americas		
Blaine, Minnesota (owned)	Manufacturing and R&D	275,000
Blaine, Minnesota (leased)	Distribution	126,000
Oakland, New Jersey (leased)	Manufacturing	148,000
Hauppauge, New York (leased)	Manufacturing / Assembly	140,000
Melville, New York (owned)	Manufacturing	353,000
Melville, New York (owned)	R&D	134,000
Yaphank, New York (leased)	Manufacturing / Assembly	230,000
Bristol, Pennsylvania (leased)	Manufacturing	67,000
Bristol, Pennsylvania (leased)	Distribution	243,000
Bristol, Pennsylvania (leased)	Distribution	243,000
Trevose, Pennsylvania (leased)	Manufacturing / Assembly	140,000
Agincourt, Ontario, Canada (owned)	Manufacturing	96,000
Markham, Ontario, Canada (leased)	Manufacturing	58,000
Markham, Ontario, Canada (leased)	R&D	26,000
Markham, Ontario, Canada (leased)	Manufacturing	79,000
Toronto, Ontario, Canada (leased)	Distribution	186,000
Europe, the Middle East & Africa		
Oevel, Belgium (owned)	Manufacturing	113,000
Oevel, Belgium (leased)	Manufacturing and R&D	70,000
Oevel, Belgium (leased)	Distribution	100,000
Madrid, Spain (leased)	Distribution	90,000
Lachen, Switzerland (owned)	Manufacturing	53,000
Lachen, Switzerland (owned)	Distribution	125,000
Hampshire, United Kingdom (leased)	Distribution	203,000
Petersfield, United Kingdom (owned)	Manufacturing	225,000
Asia/Pacific		
Shanghai, China (leased)	Distribution and R&D	57,000
Tokyo, Japan (leased)	Distribution and R&D	147,600
Tanjong Penjuru, Singapore (leased)	Distribution	56,000

We own, lease and occupy numerous offices, assembly and distribution facilities and warehouses in the United States and abroad. We consider our properties to be generally in good condition and believe that our facilities are adequate for our operations and provide sufficient capacity to meet anticipated requirements. We lease approximately 280,000 square feet of rentable space for our principal offices in New York, New York and own an office building of approximately 57,000 square feet in Melville, New York. As of August 14, 2009, we operated 698 freestanding retail stores, including 17 for the Estée Lauder brand, 35 for Clinique, 131 for Origins, 242 for M A C, 138 for Aveda, 9 for Bobbi Brown, 26 for Jo Malone, 2 for Bumble and bumble, 1 for Good Skin and 97 multi-brand stores.

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Item 3. ***Legal Proceedings*****.**

We are involved, from time to time, in litigation and other legal proceedings incidental to our business. Management believes that the outcome of current litigation and legal proceedings will not have a material adverse effect upon our results of operations or financial condition. However, management s assessment of our 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 us not presently known to us or determinations by judges, juries or other finders of fact which are not in accord with management s evaluation of the possible liability or outcome of such litigation or proceedings.

In 1999, the Office of the Attorney General of the State of New York (the State) notified the Company and ten other entities that they had been identified as potentially responsible parties (PRPs) with respect to the Blydenburgh landfill in Islip, New York. Each PRP may be jointly and severally liable for the costs of investigation and cleanup, which the State estimated in 2006 to be approximately $19.7 million for all PRPs. In 2001, the State sued other PRPs (including Hickey s Carting, Inc., Dennis C. Hickey and Maria Hickey, collectively the Hickey Parties), in the U.S. District Court for the Eastern District of New York to recover such costs in connection with the site, and in September 2002, the Hickey Parties brought contribution actions against the Company and other Blydenburgh PRPs. These contribution actions seek to recover, among other things, any damages for which the Hickey Parties are found liable in the State s lawsuit against them, and related costs and expenses, including attorneys fees. In June 2004, the State added the Company and other PRPs as defendants in its pending case against the Hickey Parties. In April 2006, the Company and other defendants added numerous other parties to the case as third-party defendants. Settlement negotiations with the new third-party defendants, the State, the Company and other defendants began in July 2006 and have resulted in a proposed consent decree to resolve the case. The consent decree requires court approval, which the parties are seeking. We have accrued an amount which we believe would be necessary to resolve our share of this matter. If the settlement is not successfully completed, we intend to vigorously defend the pending claims. While no assurance can be given as to the ultimate outcome, management believes that the resolution of the Blydenburgh matters will not have a material adverse effect on our consolidated financial condition.

Item 4. ***Submission of Matters to a Vote of Security Holders*****.**

No matters were submitted to a vote of security holders during the quarter ended June 30, 2009.

PART II

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

Market for Registrant s Common Equity and Related Stockholder Matters

Our Class A Common Stock is publicly traded on the New York Stock Exchange under the symbol EL. The following table shows the high and low sales prices as reported on the New York Stock Exchange Composite Tape and the cash dividends per share declared in fiscal 2009 and fiscal 2008:

	Fiscal 2009			Fiscal 2008		
	High	**Low**	**Cash Dividends**	**High**	**Low**	**Cash Dividends**
First Quarter	$ 54.75	$ 40.75	$	$ 47.98	$ 38.41	$
Second Quarter	50.89	24.24	.55	47.05	39.47	.55
Third Quarter	32.83	19.81		46.66	37.03	
Fourth Quarter	37.00	24.03		49.43	43.83	
Fiscal Year	54.75	19.81	$ .55	49.43	37.03	$ .55

We expect to continue the payment of cash dividends in the future, but there can be no assurance that the Board of Directors will continue to declare them. In November 2008 and 2007, the Board of Directors declared an annual dividend of $.55, which was paid in December 2008 and 2007, respectively.

As of August 14, 2009, there were approximately 3,056 record holders of Class A Common Stock and 21 record holders of Class B Common Stock.

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Share Repurchase Program

We are authorized by the Board of Directors to repurchase up to 88.0 million shares of Class A Common Stock in the open market or in privately negotiated transactions, depending on market conditions and other factors. As of June 30, 2009, the cumulative total of acquired shares pursuant to the authorization was 65.3 million, reducing the remaining authorized share repurchase balance to 22.7 million. During fiscal 2009, we purchased approximately 1.2 million shares pursuant to the authorization for $55.3 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 2008	674,700	$ 43.79	674,700	23,266,841
August 2008	198,700	$ 44.50	198,700	23,068,141
September 2008	367,261(2)	$ 50.70	333,709	22,734,432
October 2008	160,550(3)	$ 34.95		22,734,432
November 2008				22,734,432
December 2008				22,734,432
January 2009				22,734,432
February 2009				22,734,432
March 2009				22,734,432
April 2009				22,734,432
May 2009				22,734,432
June 2009				22,734,432
Year-to-date	1,401,211	$ 44.69	1,207,109	22,734,432

(1) The initial program covering the repurchase of 8.0 million shares was announced in September 1998 and increased by 20.0 million shares each in November 2007, February 2007 and May 2005 and 10.0 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 settlement of performance share units earned as of June 30, 2008.

(3) Represents shares that were repurchased by the Company in connection with shares withheld to satisfy tax obligations upon the vesting of restricted stock units.

Sales of Unregistered Securities

Shares of Class B Common Stock may be converted immediately into Class A Common Stock on a one-for-one basis by the holder and are automatically converted into Class A Common Stock on a one-for-one basis upon transfer to a person or entity that is not a Permitted Transferee or soon after a record date for a meeting of stockholders where the outstanding Class B Common Stock constitutes less than 10% of the outstanding shares of Common Stock of the Company. There is no cash or other consideration paid by the holder converting the shares and, accordingly, there is no cash or other consideration received by the Company. The shares of Class A Common Stock issued by the Company in such conversions are exempt from registration under the Securities Act of 1933, as amended, pursuant to Section 3(a)(9) thereof.

During the three months ended June 30, 2009, no holders of Class B Common Stock converted such shares into Class A Common Stock.

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Item 6. *Selected Financial Data*.

The table below summarizes selected financial information. For further information, refer to the audited consolidated financial statements and the notes thereto beginning on page F-1 of this report.

	Year Ended or at June 30				
	2009 (a)	2008	2007	2006(b)	2005(c)
	(In millions, except per share data)				
Statement of Earnings Data:					
Net sales	$ 7,323.8	$ 7,910.8	$ 7,037.5	$ 6,463.8	$ 6,280.0
Gross profit	5,442.2	5,914.0	5,262.7	4,777.2	4,677.2
Operating income	418.4	810.7	749.9	619.6	726.8
Interest expense, net (d)	75.7	66.8	38.9	23.8	13.9
Earnings before income taxes, minority interest, discontinued operations and accounting change	342.7	743.9	711.0	595.8	712.9
Provision for income taxes	115.9	259.9	255.2	259.7	293.7
Minority interest, net of tax	(8.4)	(10.2)	(7.1)	(11.6)	(9.3)
Net earnings from continuing operations	218.4	473.8	448.7	324.5	409.9
Discontinued operations, net of tax (e)			0.5	(80.3)	(3.8)
Net earnings	218.4	473.8	449.2	244.2	406.1
Cash Flow Data:					
Net cash flows provided by operating activities	$ 696.0	$ 690.1	$ 661.6	$ 709.8	$ 478.1
Net cash flows used for investing activities	(339.5)	(478.5)	(373.8)	(303.2)	(237.0)
Net cash flows provided by (used for) financing activities	125.8	(78.1)	(411.6)	(594.6)	(300.4)
Per Share Data:					
Net earnings per common share from continuing operations (e):					
Basic	$ 1.11	$ 2.44	$ 2.20	$ 1.51	$ 1.82
Diluted	$ 1.10	$ 2.40	$ 2.16	$ 1.49	$ 1.80
Net earnings per common share:					
Basic	$ 1.11	$ 2.44	$ 2.20	$ 1.14	$ 1.80
Diluted	$ 1.10	$ 2.40	$ 2.16	$ 1.12	$ 1.78
Weighted average common shares outstanding (f):					
Basic	196.3	193.9	204.3	215.0	225.3
Diluted	197.7	197.1	207.8	217.4	228.6
Cash dividends declared per common share	$ .55	$ .55	$ .50	$ .40	$ .40
Balance Sheet Data:					
Working capital	$ 1,453.3	$ 1,088.0	$ 738.7	$ 738.7	$ 804.9
Total assets	5,176.6	5,011.2	4,125.7	3,784.1	3,885.8
Total debt (d)	1,421.4	1,196.9	1,088.5	521.5	714.7
Stockholders equity (f)	1,640.0	1,653.2	1,199.0	1,622.3	1,692.8

(a) Fiscal 2009 results included $61.7 million, after tax, or $.31 per diluted share related to total charges associated with restructuring activities.

(b) Fiscal 2006 results included $93.0 million, after tax, or $.43 per diluted share in special charges related to our cost savings initiative and tax-related matters. Included in the charges was an operating expense charge of $92.1 million, equal to $.27 per diluted common share related to the cost savings initiative. The results also included a special tax charge related to a settlement with the Internal Revenue Service regarding an examination of our consolidated Federal income tax returns for fiscal years 1998 through 2001, and represents the aggregate earnings impact of the settlement through fiscal 2006. The settlement resulted in an increase to our fiscal 2006 income tax provision and a corresponding decrease in fiscal 2006 net earnings of approximately $46 million, or approximately $.21 per diluted common share. During the fourth quarter of fiscal 2006, we completed the repatriation of foreign earnings through intercompany dividends under the provisions of the American Jobs Creation Act of 2004 (the AJCA). In connection with the repatriation, we updated the computation of the related aggregate tax impact, resulting in a favorable adjustment of approximately $11 million, or approximately $.05 per diluted common share, to our initial tax charge of $35 million recorded in fiscal 2005. The tax settlement, coupled with the AJCA favorable tax adjustment, resulted in a net increase to our fiscal 2006 income tax provision and a corresponding decrease in fiscal 2006 net earnings of approximately $35 million, or approximately $.16 per diluted common share.

(c) In the fourth quarter of fiscal 2005, we announced plans to repatriate approximately $690 million of foreign earnings in fiscal year 2006, which included $500 million of extraordinary intercompany dividends under the provisions of the AJCA. This action resulted in an aggregate tax charge of approximately $35 million in our fiscal year ended June 30, 2005, which included an incremental tax charge of approximately $28 million, equal to $.12 per diluted common share.

(d) In November 2008, we issued and sold $300.0 million of 7.75% Senior Notes due November 1, 2013 in a public offering. We used the net proceeds of this offering to repay then-outstanding commercial paper balances upon their maturity. In May 2007, we issued and sold $300.0 million of 5.55% Senior Notes due May 15, 2017 and $300.0 million of 6.00% Senior Notes, due May 15, 2037 in a public offering. We used the net proceeds of this offering to repay long-term commercial paper, which was used to fund our accelerated stock repurchase program, and to pay transaction fees and expenses related to this offering.

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(e) In April 2006, we completed the sale of certain assets and operations of the reporting unit that marketed and sold Stila brand products. As a result, all consolidated statements of earnings information in the consolidated financial statements and footnotes for all periods presented have been restated for comparative purposes to reflect those reporting units as discontinued operations.

(f) During fiscal 2007, we repurchased 22,461,642 shares of our outstanding common stock, of which 15,960,842 shares were purchased for $750.0 million through an accelerated stock repurchase program with a financial counterparty.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The discussion and analysis of our financial condition at June 30, 2009 and our results of operations for the three fiscal years ended June 30, 2009 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. Our most critical accounting policies relate to revenue recognition, inventory, pension and other post-retirement benefit costs, goodwill and other indefinite-lived intangible assets, income taxes and derivatives.

Management of the Company has discussed the selection of significant accounting policies and the effect of estimates with the Audit Committee of the Company s Board of Directors.

Revenue Recognition

Revenues from merchandise sales are recognized upon transfer of ownership, including passage of title to the customer and transfer of the risk of loss related to those goods. In the Americas region, sales are generally recognized at the time the product is shipped to the customer and in the Europe, Middle East & Africa and Asia/Pacific regions sales are generally recognized based upon the customer s receipt. In certain circumstances, transfer of title takes place at the point of sale, for example, at our retail stores. Sales at our retail stores and online are recognized in accordance with a traditional 4-4-5 retail calendar, where each fiscal quarter is comprised of two 4-week periods and one 5-week period, with one extra week in one quarter every seven years. As a result, the retail quarter-end and the fiscal quarter-end may be different by up to six days.

Revenues are reported on a net sales basis, which is computed by deducting from gross sales the amount of actual product returns received, discounts, incentive arrangements with retailers and an amount established for anticipated product returns. Our practice is to accept product returns from retailers only if properly requested, authorized and approved. In accepting returns, we typically provide a credit to the retailer against accounts receivable from that retailer. As a percentage of gross sales, returns were 4.4%, 4.4% and 4.2% in fiscal 2009, 2008 and 2007, respectively.

Our sales return accrual is a subjective critical estimate that has a direct impact on reported net sales. This accrual is calculated based on a history of actual returns, estimated future returns and information provided by authorized retailers regarding their inventory levels. Consideration of these factors results in an accrual for anticipated sales returns that reflects increases or decreases related to seasonal fluctuations. Experience has shown a relationship between retailer inventory levels and sales returns in the subsequent period, as well as a consistent pattern of returns due to the seasonal nature of our business. In addition, as necessary, specific accruals may be established for significant future known or anticipated events. The types of known or anticipated events that we have considered, and will continue to consider, include, but are not limited to, the financial condition of our customers, store closings by retailers, changes in the retail environment and our decision to continue or support new and existing products.

In the ordinary course of business, we have established an allowance for doubtful accounts and customer deductions based upon the evaluation of accounts receivable aging, specific exposures and historical trends. Our allowance for doubtful accounts and customer deductions is a subjective critical estimate that has a direct impact on reported net earnings. The allowance for doubtful accounts was $41.4 million and $26.3 million as of June 30, 2009 and 2008, respectively. The allowance for doubtful accounts was reduced by $14.1 million, $10.2 million and $18.2 million for customer deductions and write-offs in fiscal 2009, 2008 and 2007, respectively, and increased by $29.2 million, $13.2 million and $14.4 million for additional provisions in fiscal 2009, 2008 and 2007, respectively.

Inventory

We state our inventory at the lower of cost or fair market value, with cost being determined on the first-in, first-out (FIFO) method. We believe FIFO most closely matches the flow of our products from manufacture through sale. The reported net value of our inventory includes saleable products, promotional products, raw materials and componentry and work in process that will be sold or used in future periods. Inventory cost includes raw materials, direct labor and overhead, as well as inbound freight. Manufacturing overhead is allocated to the cost of inventory based on the normal production capacity. Unallocated overhead during periods of abnormally low production levels are recognized as cost of sales in the period in which they are incurred.

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We also record an inventory obsolescence reserve, which represents the difference between the cost of the inventory and its estimated realizable value, based on various product sales projections. This reserve is calculated using an estimated obsolescence percentage applied to the inventory based on age, historical trends and requirements to support forecasted sales. In addition, and as necessary, we may establish specific reserves for future known or anticipated events.

Pension and Other Post-retirement Benefit Costs

We offer the following benefits to some or all of our employees: a domestic trust-based noncontributory qualified defined benefit pension plan (U.S. Qualified Plan) and an unfunded, non-qualified domestic noncontributory pension plan to provide benefits in excess of statutory limitations (collectively with the U.S. Qualified Plan, the Domestic Plans); a domestic contributory defined contribution plan; international pension plans, which vary by country, consisting of both defined benefit and defined contribution pension plans; deferred compensation arrangements; and certain other post-retirement benefit plans.

The amounts needed to fund future payouts under these plans are subject to numerous assumptions and variables. Certain significant variables require us to make assumptions that are within our control such as an anticipated discount rate, expected rate of return on plan assets and future compensation levels. We evaluate these assumptions with our actuarial advisors and select assumptions that we believe reflect the economics underlying our pension and post-retirement obligations. While we believe these assumptions are within accepted industry ranges, an increase or decrease in the assumptions or economic events outside our control could have a direct impact on reported net earnings.

The discount rate for each plan used for determining future net periodic benefit cost is based on a review of highly rated long-term bonds. For fiscal 2009, we used a discount rate for our Domestic Plans of 6.75% and varying rates on our international plans of between 2.00% and 9.00%. The discount rate for our Domestic Plans is based on a bond portfolio that includes only long-term bonds with an Aa rating, or equivalent, from a major rating agency. We believe the timing and amount of cash flows related to the bonds included in this portfolio is expected to match the estimated defined benefit payment streams of our Domestic Plans. For fiscal 2009, we used an expected return on plan assets of 7.75% for our U.S. Qualified Plan and varying rates of between 3.25% and 9.00% for our international plans. In determining the long-term rate of return for a plan, we consider the historical rates of return, the nature of the plan s investments and an expectation for the plan s investment strategies. The U.S. Qualified Plan asset allocation as of June 30, 2009 was approximately 32% equity investments, 51% debt securities and 17% other investments. The asset allocation of our combined international plans as of June 30, 2009 was approximately 19% equity investments, 59% debt securities and 22% other investments. The difference between actual and expected return on plan assets is reported as a component of accumulated other comprehensive income. Those gains/losses that are subject to amortization over future periods will be recognized as a component of the net periodic benefit cost in such future periods. For fiscal 2009, our pension plans had actual negative return on assets of $60.5 million as compared with expected return on assets of $52.2 million, which resulted in a net deferred loss of $112.7 million, of which approximately $48 million is currently subject to be amortized over periods ranging from approximately 4 to 22 years. The actual negative return on assets was primarily related to the performance of equity markets during the past fiscal year.

A 25 basis-point change in the discount rate or the expected rate of return on plan assets would have had the following effect on fiscal 2009 pension expense:

(In millions)	**25 Basis-Point Increase**	**25 Basis-Point Decrease**
Discount rate	$ (1.5)	$ 2.4
Expected return on assets	$ (1.9)	$ 1.9

Our post-retirement plans are comprised of health care plans that could be impacted by health care cost trend rates, which may have a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates for fiscal 2009 would have had the following effects:

(In millions)	One-Percentage-Point Increase	One-Percentage-Point Decrease
Effect on total service and interest costs	$ 1.2	$ (1.1)
Effect on post-retirement benefit obligations	$ 8.8	$ (8.4)

For fiscal 2010, we are using a discount rate for the Domestic Plans of 6.50% and varying rates for our international plans of between 1.75% and 8.75%. We are using an expected return on plan assets of 7.75% for the U.S. Qualified Plan and varying rates for our international pension plans of between 2.75% and 8.75%. The net change in these assumptions from those used in fiscal 2009 will result in an increase in pension expense of approximately $1.5 million in fiscal 2010. We will continue to monitor the market conditions relative to these assumptions and adjust them accordingly.

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Goodwill, Intangible Assets and Other Long-Lived Assets

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

We assess goodwill and other indefinite-lived intangibles at least annually for impairment as of the beginning of the fiscal fourth quarter, or more frequently if certain events or circumstances warrant. We test goodwill for impairment at the reporting unit level, which is one level below our operating segments. We identify our reporting units by assessing whether the components of our operating segments constitute businesses for which discrete financial information is available and management of each reporting unit regularly reviews the operating results of those components. Impairment testing is performed in two steps: (i) we determine impairment by comparing the fair value of a reporting unit with its carrying value, and (ii) if there is an impairment, we measure the amount of impairment loss by comparing the implied fair value of goodwill with the carrying amount of that goodwill. The impairment test for indefinite-lived intangible assets encompasses calculating a fair value of an indefinite-lived intangible asset and comparing the fair value to its carrying value. If the carrying value exceeds the fair value, impairment is recorded.

Testing goodwill for impairment requires us to estimate fair values of reporting units using significant estimates and assumptions. The assumptions made will impact the outcome and ultimate results of the testing. We use industry accepted valuation models and set criteria that are reviewed and approved by various levels of management and, in certain instances, we engage third-party valuation specialists to advise us. To determine fair value of the reporting unit, we generally use an equal weighting of the income and market approaches. In certain circumstances, equal weighting will not be applied if one of these methods may be less reliable (e.g., only the income approach would be used for reporting units with existing negative margins). We believe both approaches are equally relevant and the most reliable indications of fair value because the fair value of product or service companies is more dependent on the ability to generate earnings than on the value of the assets used in the production process.

Under the income approach, we determine fair value using a discounted cash flow method, estimating future cash flows of each reporting unit, as well as terminal value, and discounting such cash flows at a rate of return that reflects the relative risk of the cash flows.

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

The key estimates and factors used in these two approaches include, but are not limited to, revenue growth rates and profit margins based on internal forecasts, terminal value, the weighted-average cost of capital used to discount future cash flows and comparable market multiples. The fiscal 2009 compound annual growth rate of sales for the first eight years of our projections ranged between 6% and 19% with the higher growth rates in those reporting units that start with the smallest base in fiscal 2009. The fiscal 2008 compound annual growth rate of sales for the first five years of our projections ranged between 10% and 21% with the higher growth rates in those reporting units that start with the smallest base in fiscal 2008. For reporting units with positive earnings, growth in the corresponding earnings before interest and taxes ranged from 6% to 46% in fiscal 2009 as compared with 10% to 31% in fiscal 2008. The terminal growth rates were projected at 3% after eight years in fiscal 2009 as compared with 3% after five years in fiscal 2008, which reflects our estimate of long term market and gross domestic product growth. The weighted-average cost of capital used to discount future cash flows ranged from 11% to 17% in fiscal 2009 as compared with 10% to 15% in fiscal 2008. The range of market multiples used in our fiscal 2009 impairment testing was from 2 to 3 times trailing-twelve-month sales and 10 times trailing-twelve-month earnings before interest, taxes and depreciation and amortization. The range of market multiples used in our fiscal 2008 impairment testing was from 2 to 3 times trailing-twelve-month sales and 11 to 14 times trailing-twelve-month earnings before interest, taxes and depreciation and amortization. Future changes in these estimates and assumptions could materially affect the results of our reviews for impairment of goodwill. However, a decrease of 30 basis points in our terminal growth rate or an increase of 30 basis points in our weighted-average cost of capital would still result in a fair value calculation exceeding our book value for each of our reporting units. Changes in the valuation assumptions from those used in the prior year primarily reflect the impact of the current economic environment on the reporting units and their projected future results of operations.

To determine fair value of other indefinite-lived intangible assets, we use an income approach, the relief-from-royalty method. This method assumes that, in lieu of ownership, a third party would be willing to pay a royalty in order to obtain the rights to use the comparable asset. Other indefinite-lived intangible assets fair values require significant judgments in determining both the assets estimated cash flows as well as the appropriate discount and royalty rates applied to those cash flows to determine fair value. Changes in such estimates or the application of alternative assumptions could produce significantly different results.

We review other long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When such events or changes in circumstances occur, a recoverability test is performed comparing projected undiscounted cash flows from the use and eventual disposition of an asset or asset group to its carrying value. If the projected undiscounted cash flows are less than the carrying value, an impairment would be recorded for the excess of the carrying value over the fair value, which is determined by discounting future cash flows.

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As the duration and magnitude of the volatility of the current economic conditions remain uncertain, we will continue to monitor and evaluate the potential impact on our business and on our interim and annual impairment testing. Accordingly, it is possible that we would recognize an impairment charge in the future with respect to goodwill, intangible assets and other long-lived assets.

Income Taxes

We account for income taxes using an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. As of June 30, 2009, we have current net deferred tax assets of $202.7 million and non-current net deferred tax assets of $156.0 million. The net deferred tax assets assume sufficient future earnings for their realization, as well as the continued application of currently anticipated tax rates. Included in net deferred tax assets is a valuation allowance of $23.5 million for deferred tax assets, where management believes it is more-likely-than-not that the deferred tax assets will not be realized in the relevant jurisdiction. Based on our assessments, no additional valuation allowance is required. If we determine that a deferred tax asset will not be realizable, an adjustment to the deferred tax asset will result in a reduction of net earnings at that time.

We provide tax reserves for Federal, state, local and international exposures relating to periods subject to audit. The development of reserves for these exposures requires judgments about tax issues, potential outcomes and timing, and is a subjective critical estimate. We assess our tax positions and record tax benefits for all years subject to examination based upon management s evaluation of the facts, circumstances, and information available at the reporting dates. For those tax positions where it is more-likely-than-not that a tax benefit will be sustained, we have recorded the largest amount of tax benefit with a greater than 50% likelihood of being realized upon settlement with a tax authority that has full knowledge of all relevant information. For those tax positions where it is not more-likely-than-not that a tax benefit will be sustained, no tax benefit has been recognized in the financial statements. We classify applicable interest and penalties as a component of the provision for income taxes. Although the outcome relating to these exposures is uncertain, in management s opinion adequate provisions for income taxes have been made for estimable potential liabilities emanating from these exposures. In certain circumstances, the ultimate outcome of exposures and risks involves significant uncertainties which render them inestimable. If actual outcomes differ materially from these estimates, they could have a material impact on our results of operations.

Derivatives

We address certain financial exposures through a controlled program of risk management that includes the use of derivative financial instruments. We primarily enter into foreign currency forward and 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 our aggregate liability portfolio. We also enter into foreign currency forward and option contracts, not designated as hedging instruments, to mitigate the change in fair value of specific assets and liabilities on the balance sheet. We do not utilize derivative financial instruments for trading or speculative purposes. Hedge effectiveness is documented, assessed and monitored by employees who are qualified to make such assessments and monitor the instruments. Variables that are external to us such as social, political and economic risks may have an impact on our hedging program and the results thereof.

Our derivative financial instruments are recorded as either assets or liabilities on the balance sheet and measured at fair value. All derivatives outstanding as of June 30, 2009 are (i) designated as a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge), (ii) designated as a hedge of a forecasted transaction or of the variability of cash flows to be received or paid related to a recognized asset or liability (foreign currency cash-flow hedge), or (iii) not designated as a hedging instrument. Changes in the fair value of a derivative that is designated and qualifies as a fair-value hedge that is highly effective are recorded in current-period earnings, along with the loss or gain on the hedged asset or liability that is attributable to the hedged risk (including losses or gains on firm commitments). Changes in the fair value of a derivative that is designated and qualifies as a foreign currency cash-flow hedge of a foreign-currency-denominated forecasted transaction that is highly effective are recorded in other comprehensive income (loss) (OCI). Gains and losses deferred in OCI are then recognized in current-period earnings when earnings are affected by the variability of cash flows of the hedged foreign-currency-denominated forecasted transaction (e.g., when periodic settlements on a variable-rate asset or liability are recorded in earnings). Changes in the fair value of derivative instruments not designated as hedging instruments are reported in current-period earnings.

For a discussion on the quantitative impact of market risks related to our derivative financial instruments, refer to *Liquidity and Capital Resources Market Risk.*

Quantitative Analysis

During the three-year period ended June 30, 2009 there have not been material changes in the assumptions underlying these critical accounting policies, nor to the related significant estimates. The results of our business underlying these assumptions have not differed significantly from our expectations.

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While we believe that the estimates that we have made are proper and the related results of operations for the period are presented fairly in all material respects, other assumptions could reasonably be justified that would change the amount of reported net sales, cost of sales, operating expenses or our provision for income taxes as they relate to the provisions for anticipated sales returns, allowance for doubtful accounts, inventory obsolescence reserve and income taxes. For fiscal 2009, had these estimates been changed simultaneously by 2.5% in either direction, our reported gross profit would have increased or decreased by approximately $5.0 million, operating expenses would have changed by approximately $1.0 million and the provision for income taxes would have increased or decreased by approximately $2.9 million. The collective impact of these changes on operating income, net earnings and net earnings per diluted common share would be an increase or decrease of approximately $6.0 million, $8.9 million and $.04, respectively.

RESULTS OF OPERATIONS

Overview

Global economic challenges and uncertainties have had a significant impact on our business during fiscal 2009. These challenges and uncertainties have negatively affected consumer demand, which is having an adverse impact on our customers that are retailers as well as on our own retail stores. These events have led to significant retailer destocking and changes in their ordering patterns for the products that we sell, which has contributed to the overall decline in our results of operations during this year.

In the Americas region, the U.S. department store channel experienced a very soft retail environment, which deteriorated beyond our expectations. While our business continues to suffer from lower store traffic and destocking, we believe that we gained share in the skin care category at U.S. department stores with the help of positive consumer response to new product offerings and gift sets. Net sales results in alternative channels were generally mixed. Trends at our freestanding retail stores followed those in department stores while sales of our products online and via direct response television (DRTV) continued to grow.

Global economic uncertainty has also impacted our business in Europe, the Middle East & Africa. Net sales in many of our key markets declined during fiscal 2009. Our business was also impacted by retailer destocking and tighter working capital management. Sales and profits in our travel retail business fell sharply due to a slowdown in passenger traffic, retailer destocking and the impact of weaker currencies.

At this time, our business in the Asia/Pacific region has been least affected by the global financial crisis, with net sales rising double digits in several countries, although growth in the region has slowed overall including in Japan, our largest market there. Net sales in China grew at a faster pace than in the other countries in the region as we continue our expansion in this emerging market. Strong constant currency net sales increases in Korea were offset by the weakness of the Korean won. Despite the overall net sales increase in this region, growth has been tempered by a softer retail environment.

In addition to the ongoing global financial crisis, our business has been negatively impacted by changes in foreign currency exchange rates caused by the dramatic strengthening of the U.S. dollar during fiscal 2009. If the U.S. dollar strengthens, there would be an adverse impact on our future results.

We are taking actions to mitigate the impact of these economic conditions. We believe that the best way 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 their changing shopping habits. To achieve our goal to be the global leader in prestige beauty, we are implementing a long-term strategy to guide the Company through fiscal 2013. The plan has numerous initiatives across regions, product categories, brands and functions that are designed to leverage our strengths, make us more cost efficient and grow our sales.

As part of our strategy, we plan to shift our category mix towards higher margin categories with greater global growth potential. Skin care, our most profitable category, is a strategic priority for our innovation and investment spending, particularly in the Asia/Pacific region. We also plan to strengthen 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 will continue to prioritize efforts to expand our presence and accelerate share growth in emerging markets such as China, Russia, the Middle East and Eastern Europe. While we expect the retail environment in North America to continue to be challenging, we recognize the need to restore profitable growth in our traditional department store channel. We have recently implemented changes to reshape our organization to meet the needs of the changing retail landscape. Internationally, we plan to achieve profitable growth in European perfumeries and pharmacies and in department stores in Asia, while accentuating our makeup and skin care initiatives to boost our travel retail business. In addition, we will continue our efforts to grow our business online and through DRTV. To optimize our portfolio, we will focus on improving our margins and share in our distribution channels. We plan to re-energize certain of our brands through the introduction of products that feature advances in research and technology. At the same time, we will be investing in initiatives to incubate and develop next generation products and brands, as well as evaluating the viability of certain existing brands and products. We intend to leverage our regional organizations to increase effectiveness and efficiencies while utilizing strategic partnerships, alliances and licensing to build scale in research and development, distribution and third party manufacturing.

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Charges Associated with Restructuring Activities

In an effort to drive down costs and achieve synergies within our organization, in February 2009, we announced the implementation of a multi-faceted cost savings program (the Program) to position the Company to achieve long-term profitable growth. We anticipate the Program will result in related restructuring and other special charges in fiscal 2009 and over the next few fiscal years totaling between $350 million and $450 million before taxes. We expect that the implementation of this Program, combined with other on-going cost savings efforts, will result in savings of approximately $450 million to $550 million (beginning with approximately $175 million to $200 million in fiscal 2010) including the reduction of certain costs relative to an assumed normalized spending pattern. Our long-range forecast for operating margin reflects these anticipated savings, net of strategic reinvestments.

The Program focuses on a redesign of our organizational structure in order to integrate the Company in a more cohesive way and operate more globally across brands and functions. The principal aspect of the Program is the reduction of the workforce by approximately 2,000 employees. Specific actions taken during fiscal 2009 included:

- Resize and Reorganize the Organization We began our realignment and optimization of our organization to better leverage scale, improve productivity and reduce complexity in each region and across various functions. This included reduction of the workforce, which occurred through the consolidation of certain functions through a combination of normal attrition and job eliminations, and a rationalization of manufacturing capacity via the scheduled closure of one of our manufacturing and assembly plants.

- Exit Unprofitable Operations To improve the profitability in certain of our brands and regions, we have selectively exited certain channels of distribution, categories and markets. In doing so, we incurred costs to reduce workforce, terminate contracts, write off fixed assets and discontinue certain product lines and stock-keeping units.

- Outsourcing In order to balance the growing need for information technology support with our efforts to provide the most efficient and cost effective solutions, we initiated the outsourcing of certain information technology processes. We incurred costs to eliminate certain related headcount and to transition services to an outsource provider.

For the year ended June 30, 2009, aggregate restructuring charges of $70.3 million were recorded in our consolidated statements of earnings related to the Program. These charges primarily reflected employee-related costs, asset write-offs, contract terminations and other exit costs.

The following table presents the restructuring activity as of and for the year ended June 30, 2009 under the Program:

	Employee-Related Costs	Asset Write-offs	Contract Terminations	Other Exit Costs	Total
Charges	$ 60.9	$ 4.2	$ 3.4	$ 1.8	$ 70.3
Cash payments	(7.5)		(0.5)	(1.6)	(9.6)

Non-cash write-offs		(4.2)			(4.2)
Translation adjustments	0.6				0.6
Other adjustments	(2.4)				(2.4)
Balance at June 30, 2009	$ 51.6	$	$ 2.9	$ 0.2	$ 54.7

Accrued restructuring charges at June 30, 2009 are expected to result in cash expenditures funded from cash provided by operations of approximately $48 million, $6 million and $1 million in fiscal 2010, 2011 and 2012, respectively.

The total amount of restructuring charges incurred plus other initiatives approved through June 30, 2009, include approximately $75 million for employee-related costs, approximately $6 million in asset write-offs and approximately $8 million of contract terminations and other exit costs.

We incurred other special charges in connection with the implementation of the Program for the year ended June 30, 2009 of $10.1 million related to consulting, other professional services, and accelerated depreciation. The total amount of other special charges expected to be incurred to implement these initiatives, including those incurred through June 30, 2009, is approximately $36 million. In addition to the other special charges, we recorded $8.1 million reflecting sales returns (less a related cost of sales of $1.2 million) and a write-off of inventory associated with exiting unprofitable operations of $8.0 million.

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During the year ended June 30, 2009, we recorded a gain of $3.6 million related to excess accruals that were recorded as other special charges in prior years.

Total charges associated with restructuring activities included in operating income for the year ended June 30, 2009 were $91.7 million.

While our business strategies are designed to strengthen the Company over the long-term, we believe the uncertainty about future market conditions, consumer spending patterns and the financial strength of some of our retail customers, coupled with retailer destocking and tighter working capital management, will continue to negatively affect our net sales and operating results. In line with our strategic plan, we will continue to seek ways to contain costs and reduce our inventory levels.

We manufacture, market and sell beauty products including those in the skin care, makeup, fragrance and hair care categories which are distributed in over 140 countries and territories. The following table is a comparative summary of operating results from continuing operations for fiscal 2009, 2008 and 2007 and reflects the basis of presentation described in Note 2 and Note 20 to the Notes to Consolidated Financial Statements for all periods presented. Products and services that do not meet our definition of skin care, makeup, fragrance and hair care have been included in the other category.

	Year Ended June 30 (In millions)		
	2009	2008	2007
NET SALES			
By Region:			
The Americas	$ 3,421.2	$ 3,711.5	$ 3,560.9
Europe, the Middle East & Africa	2,611.3	3,006.7	2,493.4
Asia/Pacific	1,299.4	1,192.6	983.2
Returns associated with restructuring activities	(8.1)		
	$ 7,323.8	$ 7,910.8	$ 7,037.5
By Product Category:			
Skin Care	$ 2,886.0	$ 2,996.8	$ 2,601.0
Makeup	2,830.9	3,000.4	2,712.7
Fragrance	1,150.9	1,432.0	1,308.6
Hair Care	402.4	427.1	377.1
Other	61.7	54.5	38.1
Returns associated with restructuring activities	(8.1)		
	$ 7,323.8	$ 7,910.8	$ 7,037.5
OPERATING INCOME (LOSS)			
By Region:			
The Americas	$ 115.2	$ 228.3	$ 336.4
Europe, the Middle East & Africa	229.7	433.1	321.4
Asia/Pacific	165.2	149.7	93.2
Total charges associated with restructuring activities	(91.7)	(0.4)	(1.1)
	$ 418.4	$ 810.7	$ 749.9
By Product Category:			
Skin Care	$ 294.1	$ 405.6	$ 341.5
Makeup	279.8	359.4	339.3

Fragrance		(60.8)		36.2		28.1
Hair Care		1.1		11.5		42.5
Other		(4.1)		(1.6)		(0.4)
Total charges associated with restructuring activities		(91.7)		(0.4)		(1.1)
	$	418.4	$	810.7	$	749.9

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

	Year Ended June 30		
	2009	2008	2007
Net sales	100.0%	100.0%	100.0%
Cost of sales	25.7	25.2	25.2
Gross profit	74.3	74.8	74.8
Operating expenses:			
Selling, general and administrative	66.7	64.3	64.0
Restructuring and other special charges	1.0	0.0	0.0
Goodwill impairment	0.2		0.1
Impairment of intangible and other long-lived assets	0.7	0.2	0.0
	68.6	64.5	64.1
Operating income	5.7	10.3	10.7
Interest expense, net	1.0	0.9	0.6
Earnings before income taxes, minority interest and discontinued operations	4.7	9.4	10.1
Provision for income taxes	1.6	3.3	3.6
Minority interest, net of tax	(0.1)	(0.1)	(0.1)
Net earnings from continuing operations	3.0	6.0	6.4
Discontinued operations, net of tax			0.0
Net earnings	3.0%	6.0%	6.4%

In order to meet the demands of consumers, we continually introduce new products, support new and established products through advertising, sampling and merchandising and phase out existing products that no longer meet the needs of our consumers. The economics of developing, producing, launching and supporting products influence 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.

Fiscal 2009 as Compared with Fiscal 2008

NET SALES

Net sales decreased 7%, or $587.0 million, to $7,323.8 million, reflecting declines in each of our major product categories. Net sales decreases in Europe, the Middle East & Africa and the Americas reflected customer destocking in all of our major product categories. These declines were partially offset by growth in Asia/Pacific. Excluding the $389.4 million impact of foreign currency translation, net sales decreased 2%. The following discussions of Net Sales by *Product Categories* and *Geographic Regions* exclude the impact of returns associated with restructuring activities of $8.1 million incurred in fiscal 2009. We believe the following analysis of net sales better reflects the manner in which we conduct and view our business.

Product Categories

Skin Care

Net sales of skin care products decreased 4%, or $110.8 million, to $2,886.0 million, primarily reflecting declines in net sales from our heritage brands. Despite the difficult economic environment and the unfavorable impact of foreign currency translation, we continued to enhance select product lines to address the needs of our consumers. The recent launches of Perfectionist [CP+] Wrinkle Lifting Serum and the new Time Zone line of moisturizing products from Estée Lauder and Superdefense SPF 25 Age Defense Moisturizer and Youth Surge SPF 15 Age Decelerating Moisturizer from Clinique contributed incremental sales of approximately $181 million, combined. While these new product launches contributed favorably to the category, they were partially offset by lower sales from other existing products in the Perfectionist, Idealist and Re-Nutriv lines from Estée Lauder and the Superdefense and Repairwear lines from Clinique of approximately $163 million, combined. Net sales of most other product lines in this category also experienced declines, particularly in Europe, the Middle East & Africa and the Americas, partially offset by double-digit growth in Asia/Pacific. Excluding the impact of foreign currency translation, skin care net sales increased 2%.

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Makeup

Makeup net sales decreased 6%, or $169.5 million, to $2,830.9 million, primarily reflecting lower net sales from our heritage brands of approximately $162 million. Lower net sales in the makeup product category also reflected a net decrease from our makeup artist brands of approximately $14 million, driven by the Americas region, partially offset by additional points of distribution internationally. These declines were mitigated in part by recent product launches of reformulated Superfit Makeup and High Impact Lip Colour SPF 15 from Clinique, as well as Estée Lauder Signature Blush, which contributed incremental sales to the category of approximately $82 million, combined. Excluding the impact of foreign currency translation, makeup net sales decreased 1%.

Fragrance

Net sales of fragrance products decreased 20%, or $281.1 million, to $1,150.9 million. This decline was largely due to lower sales of designer fragrances, of which approximately $181 million was attributable to certain DKNY, Tommy Hilfiger and Sean John fragrances. Also contributing to the decrease were lower sales of certain Estée Lauder and Clinique fragrances of approximately $132 million, combined. The recent launches of Estée Lauder Sensuous, Hilfiger Men, the new DKNY Men fragrance and I Am King Sean John partially offset these declines by collectively contributing sales of approximately $88 million to the category. Excluding the impact of foreign currency translation, fragrance net sales decreased 14%.

Hair Care

Hair care net sales decreased 6%, or $24.7 million, to $402.4 million, primarily reflecting a soft salon retail environment and a reduction in points of distribution in the United States. Net sales were also negatively impacted as a result of the conclusion of a hotel amenities program in the third quarter of fiscal 2008. These declines were partially offset by incremental sales of approximately $13 million from new products, such as Dry Remedy Shampoo and Conditioner and the Sun Care line of products from Aveda. The category also benefited from improved sales of hair color products, as well as an increase in points of distribution outside of the United States, including the acquisition of an independent distributor in Australia. Excluding the impact of foreign currency translation, hair care net sales decreased 3%.

Geographic Regions

Net sales in the Americas decreased 8%, or $290.3 million, to $3,421.2 million. Lower net sales in the United States from our heritage and makeup artist brands as well as our hair care businesses contributed approximately $275 million to the decrease. Net sales declines in Canada of approximately $36 million were partially offset by growth in Latin America of approximately $3 million. Net sales in these markets reflected the adverse impact of the strengthening of the U.S. dollar. Economic conditions in the Americas region, particularly in the department store channel, have negatively impacted our businesses. Ongoing challenges faced by certain of our department store customers in the United States may continue to affect our net sales for the short and medium term. Excluding the impact of foreign currency translation, net sales in the Americas decreased 7%.

In Europe, the Middle East & Africa, net sales decreased 13%, or $395.4 million, to $2,611.3 million, primarily reflecting the unfavorable impact of foreign currency translation. Net sales decreases of approximately $323 million were driven by the United Kingdom, our travel retail business, Spain, France and Italy. These performances reflected retailer destocking and tighter working capital management by certain key retailers. Net sales in our travel retail business also declined due to a significant slowdown in passenger traffic and the impact of weaker currencies in certain key markets. Partially offsetting these decreases were higher net sales of approximately $11 million in the Middle East and Israel. Excluding the impact of foreign currency translation, net sales in Europe, the Middle East & Africa decreased 4%.

Net sales in Asia/Pacific increased 9%, or $106.8 million, to $1,299.4 million, reflecting higher net sales of approximately $109 million in China, Japan and Hong Kong. Net sales growth in China and Hong Kong benefited from the launches of new skin care products while Japan s increase was generated from the strengthening of the Japanese yen. Partially offsetting these increases were lower net sales of approximately $13 million in Australia, New Zealand and Korea, reflecting the strengthening of the U.S. dollar against their respective local currencies. Despite the overall net sales increase in this region, growth has been tempered by a softer retail environment. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 14%.

We believe the unfavorable global economic conditions will continue to adversely impact our financial performance. We cannot predict with certainty the magnitude or duration of the impact or how it will vary across each of our geographic regions.

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

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COST OF SALES

Cost of sales as a percentage of total net sales increased to 25.7% as compared with 25.2% in the prior year. This change reflected an increase in obsolescence charges of approximately 40 basis points, excess overhead costs that were not recovered due to lower production levels of approximately 30 basis points and the negative effect of exchange rates of approximately 20 basis points. The increase in cost of sales margin also reflected the fiscal 2009 impact of charges associated with restructuring activities and an increase in the level and timing of promotional activities of approximately 10 basis points, each. Partially offsetting these increases were favorable changes in the mix of our business and from other manufacturing variances of approximately 50 basis points and 10 basis points, respectively.

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 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 increased to 68.6% of net sales as compared with 64.5% of net sales in the prior year. In light of the current economic conditions, we continued to apply various cost-containment measures to maintain expenses in line with our business needs. While the implementation of these initiatives helped reduce total operating expenses as compared with the prior year, the dramatic decline in net sales during fiscal 2009 was the principal factor that negatively impacted our operating expense margin. In addition to the decline in net sales, operating expense margin increased by approximately 110 basis points due to charges associated with restructuring activities, as previously discussed.

During fiscal 2009, we evaluated our goodwill, intangible assets and other long-lived assets based upon certain triggering events as well as our annual impairment test of goodwill and other indefinite-lived intangible assets. Inclusive of the impairment charges incurred during the third quarter of fiscal 2009, we recorded impairment charges of approximately $14 million related to goodwill, approximately $23 million related to trademarks with indefinite lives, approximately $17 million related to other amortizable intangible assets and approximately $9 million related to property, plant and equipment for the fiscal year ended June 30, 2009. The principal factors that contributed to these impairment charges were lower than expected operating cash flow performance relative to the reporting unit and/or affected assets being tested and the impact of the current economic environment on their projected future results of operations. Collectively, these charges resulted in an increase to our operating expense margin of approximately 90 basis points. For further detailed discussion, refer to Note 4 and Note 5 to the Notes to the Consolidated Financial Statements.

Despite a reduction in actual selling, advertising, merchandising and sampling spending, operating expense margin increased by approximately 60 basis points driven by the decline in consumer demand in the current economic environment. 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.

Other factors that contributed to the increase in operating expense margin were higher costs of global information technology systems and infrastructure of approximately 50 basis points, net losses from foreign exchange transactions of approximately 40 basis points, and charges resulting from the degradation of the businesses of certain of our retail customers of approximately 20 basis points.

OPERATING RESULTS

Operating income decreased 48%, or $392.3 million, to $418.4 million. Operating margin decreased to 5.7% of net sales as compared with 10.3% in the prior year, reflecting our lower gross margin and the increase in our operating expense margin as previously discussed. The following discussions of Operating Results by *Product Categories* and *Geographic Regions* exclude the impact of total charges associated with restructuring activities of $91.7 million, or 1.3% of net sales. We believe the following analysis of operating results better reflects the manner in which we conduct and view our business.

Product Categories

Fragrance operating results decreased over 100%, or $97.0 million, to an operating loss of $60.8 million primarily reflecting lower net sales of designer fragrance products and certain fragrances from our heritage brands as well as a charge for intangible asset impairment, which were partially offset by a reduction in selling, advertising, merchandising and sampling spending. Hair care operating income decreased 90%, or $10.4 million, to $1.1 million primarily reflecting lower net sales and a charge for intangible asset impairment. Skin care operating income decreased 27%, or $111.5 million, to $294.1 million and makeup operating income decreased 22%, or $79.6 million, to $279.8 million. The reduced operating results for the skin care and makeup categories primarily reflected the decline in net sales and charges for goodwill, intangible asset and other long-lived asset impairments, as well as the majority of the impact of the excess overhead charge, loss from foreign exchange transactions and certain other operating expenses as described above.

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Geographic Regions

Operating income in the Americas decreased 50%, or $113.1 million, to $115.2 million. This decline reflected charges for goodwill, intangible asset and other long-lived asset impairments, the majority of the impact of the excess overhead charge and the charge related to the degradation of a certain retailer of approximately $66 million, combined. Also contributing to the decline were lower sales experienced by the majority of our businesses in the region due to current economic conditions, partially offset by cost containment and contingency plan efforts.

In Europe, the Middle East & Africa, operating income decreased 47%, or $203.4 million, to $229.7 million. This decrease primarily reflected lower results of approximately $156 million in our travel retail business, Spain, France, Russia, the United Kingdom and Italy, of which approximately $34 million related to charges for goodwill and intangible asset impairments and the degradation of certain retailers.

In Asia/Pacific, operating income increased 10%, or $15.5 million, to $165.2 million. Most of our affiliates in this region experienced an increase despite a softer retail environment in certain countries. Approximately $20 million of this increase was generated in Hong Kong, China, Korea and Japan. Partially offsetting these improvements were lower results in Australia, Singapore and New Zealand of approximately $5 million, combined.

INTEREST EXPENSE, NET

Net interest expense was $75.7 million as compared with $66.8 million in the prior year. Interest expense increased primarily due to higher average debt balances, which include an additional $300.0 million of senior notes issued in November 2008, partially offset by lower average interest rates on pre-existing borrowings. In addition, interest income decreased primarily due to lower average investment rates.

PROVISION FOR INCOME TAXES

The provision for income taxes represents Federal, foreign, state and local income taxes. The effective rate differs from statutory rates due to the effect of state and local income taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate will change from year to year 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 audit settlements and the interaction of various global tax strategies.

The effective rate for income taxes for the year ended June 30, 2009 was 33.8% as compared with 34.9% in the prior year. The decrease in the effective income tax rate of 110 basis points was primarily attributable to a favorable settlement with the Appeals Division of the IRS (560 basis points), partially offset by an increase in non-deductible expenses and an increase in state and local income tax expense (450 basis points).

NET EARNINGS

Net earnings as compared with fiscal 2008 decreased 54%, or $255.4 million, to $218.4 million and diluted net earnings per common share declined 54% from $2.40 to $1.10. These results include the impact of total charges associated with restructuring activities of $61.7 million, after tax, or $.31 per diluted common share.

Fiscal 2008 as Compared with Fiscal 2007

NET SALES

Net sales increased 12%, or $873.3 million, to $7,910.8 million, reflecting net sales growth in all of our product categories within each geographic region. Skin care, makeup and fragrance net sales increases were led by Europe, the Middle East & Africa while most of the net sales increase in hair care was achieved in the Americas. The increase in net sales reflected our efforts to capitalize on growth opportunities internationally. Excluding the impact of foreign currency translation, net sales increased 8%.

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Product Categories

Skin Care

Net sales of skin care products increased 15%, or $395.8 million, to $2,996.8 million. This growth reflected the launches of Idealist Pore Minimizing Skin Refinisher, Cyber White EX and Hydra Bright Skin Tone Perfecting Moisturizers from Estée Lauder. Also contributing to the growth were the recent launches of products in the Acne Solutions Clear Skin System, Redness Solutions and Even Better Skin Tone Corrector from Clinique as well as The Eye Concentrate and The Moisturizing Gel Cream from La Mer. Collectively, these new products resulted in incremental sales of approximately $215 million. Net sales increases from Re-Nutriv and Resilience Lift Extreme Ultra Firming products from Estée Lauder, products in Clinique s 3-Step Skin Care System and Repairwear line, and Tri-Aktiline Instant Deep Wrinkle Filler from Good Skin totaled approximately $80 million. These improvements were partially offset by approximately $55 million of lower sales from certain other existing Idealist products and Perfectionist products from Estée Lauder. Net sales of other new and existing products also significantly contributed to the growth. Excluding the impact of foreign currency translation, skin care net sales increased 10%.

Makeup

Makeup net sales increased 11%, or $287.7 million, to $3,000.4 million reflecting growth from our makeup artist brands of approximately $194 million. Also contributing to the growth were incremental sales from the launches of Estée Lauder Signature Hydra Lustre Lipstick, Double Wear Zero Smudge Mascara and Eyeliner from Estée Lauder, Supermoisture Makeup and Superbalm Moisturizing Gloss from Clinique, as well as higher sales of Double Wear Stay-In-Place Makeup from Estée Lauder of approximately $97 million, combined. Partially offsetting these increases were lower sales of approximately $30 million of Pure Color Eyeshadow and High Gloss from Estée Lauder and Colour Surge Lipstick from Clinique. Excluding the impact of foreign currency translation, makeup net sales increased 7%.

Fragrance

Net sales of fragrance products increased 9%, or $123.4 million, to $1,432.0 million. The launches of Sean John Unforgivable Woman, Dreaming Tommy Hilfiger, Estée Lauder Pure White Linen Light Breeze, Estée Lauder *pleasures delight* and DKNY Delicious Night collectively contributed approximately $95 million to the growth in the category. Higher sales of approximately $62 million of DKNY Be Delicious, Jo Malone and Tom Ford fragrances also contributed to the increase. Lower sales of approximately $53 million of Tommy Girl by Tommy Hilfiger, DKNY Red Delicious Women and DKNY Be Delicious Men partially offset the growth in this product category. Excluding the impact of foreign currency translation, fragrance net sales increased 5%.

Hair Care

Hair care net sales increased 13%, or $50.0 million, to $427.1 million, primarily due to the inclusion of the Ojon brand which was acquired at the end of July 2007, as well as growth from Aveda and Bumble and bumble. Aveda net sales increases benefited from the launches of Smooth

Infusion and Aveda Men Pure-Formance products, as well as the fiscal 2008 acquisition of an independent distributor. Bumble and bumble net sales benefited from new points of distribution and increases from its hotel amenities program, which concluded in the fiscal 2008 third quarter. Excluding the impact of foreign currency translation, hair care net sales increased 11%.

Geographic Regions

Net sales in the Americas increased 4%, or $150.6 million, to $3,711.5 million, primarily reflecting net sales growth in Canada and Latin America, as well as the addition of the Ojon brand, of approximately $98 million, combined. Additional net sales increases of approximately $65 million were attributable to our designer fragrances business and our makeup artist and hair care brands in the United States. Partially offsetting this growth was approximately $37 million related to weaknesses in certain of our heritage brands in the United States as a result of competitive pressures and challenges in the department store channel. We believe that economic uncertainty in the United States has affected our business, particularly in the department store channel. These challenges have been mitigated through sales in alternative channels, such as freestanding retail stores, Internet distribution, self-select distribution and direct-response television. Excluding the impact of foreign currency translation, net sales in the Americas increased 3%.

All countries in Europe, the Middle East & Africa experienced net sales growth, which contributed to the increase in net sales of 21%, or $513.3 million, to $3,006.7 million, although net sales growth rates slowed in certain key countries. This growth was led by our travel retail business and the United Kingdom, as well as in Russia, which benefited from our expansion in this market. The results in this region were inclusive of an exchange rate benefit due to the weakening of the U.S. dollar of approximately $206 million. Excluding the impact of foreign currency translation, net sales in Europe, the Middle East & Africa increased 12%.

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Net sales in Asia/Pacific increased 21%, or $209.4 million, to $1,192.6 million, reflecting growth from all countries in the region. This increase reflected higher net sales of approximately $172 million in China, Japan, Hong Kong, Australia and Korea. The results in this region were inclusive of an exchange rate benefit due to the weakening of the U.S. dollar of approximately $66 million. Excluding the impact of foreign currency translation, Asia/Pacific net sales increased 15%.

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

COST OF SALES

Cost of sales as a percentage of total net sales was 25.2%, which is the same as in fiscal 2007. Cost of sales as a percentage of net sales reflected a decrease in the level and timing of promotional activities of approximately 20 basis points and a positive effect of exchange rates of approximately 10 basis points. Offsetting these improvements was an unfavorable change in the mix of our business, an increase in obsolescence charges, and employee-related charges designed to streamline certain business activities and achieve future cost savings of approximately 10 basis points, each.

Despite the rise in energy and raw material prices in the current year, we were able to maintain our overall cost of goods margin through other efficiencies achieved from ongoing savings initiatives.

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 new brands which have margin and product cost structures different from those of our existing brands.

OPERATING EXPENSES

Operating expenses increased to 64.5% of net sales as compared with 64.1% of net sales in the fiscal 2007. The increase in operating expenses and operating expense margin reflected higher costs of global information technology systems and infrastructure of approximately 30 basis points. An additional 20 basis points resulted from an increase in valuation reserves reflecting the diminishing likelihood of realizing value from a promissory note and convertible preferred stock received in connection with the divestiture of Stila in fiscal 2006. We also recorded an increase in intangible asset amortization resulting from recent strategic acquisitions, as well as employee-related charges designed to streamline certain business activities and achieve future cost savings, of approximately 10 basis points each. Operating expense margin in fiscal 2007 was adversely impacted by charges related to our pharmacy channel of approximately 40 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 8%, or $60.8 million, to $810.7 million as compared with fiscal 2007. Operating margin declined to 10.3% of net sales as compared with 10.7% in fiscal 2007, reflecting our constant cost of sales margin and the increase in our operating expense margin, as previously discussed.

Product Categories

Fragrance operating income increased 29%, or $8.1 million, to $36.2 million, reflecting profitable international growth, partially offset by increased spending in support of designer fragrance products initiatives. Skin care operating income increased 19%, or $64.1 million, to $405.6 million, primarily reflecting improved international results from certain of our heritage brands and net sales growth from La Mer products and Tri-AktilineTM Instant Deep Wrinkle Filler from Good SkinTM. In addition, the fiscal 2007 results in this category reflected organizational costs of approximately $30 million, primarily related to our pharmacy channel in Europe. Makeup operating income increased 6%, or $20.1 million, to $359.4 million, primarily reflecting improved results internationally. These improvements were partially offset by lower results in the United States from certain of our heritage brands, the charge on the impairment of Stila-related financial instruments, and costs related to the establishment of new points of distribution for M A C. Hair care operating income declined 73%, or $31.0 million, to $11.5 million, primarily reflecting costs related to the acquisition and integration of Ojon to position the brand for future growth. The results in this category also reflected an increase in intangible asset amortization resulting from fiscal 2008 strategic acquisitions as well as costs related to the establishment of new points of distribution.

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Geographic Regions

Operating income in the Americas declined 32%, or $108.1 million, to $228.3 million, primarily reflecting a difficult retail environment in which our heritage brands faced challenges in the department store channel. We also experienced significant pressure on the profitability of our hair care business as discussed above. At the same time, we continued to invest in our global information technology systems and infrastructure. In addition, we established new points of distribution for existing brands, incurred costs to streamline certain business activities to generate future efficiencies and incurred a charge on the impairment of Stila-related financial instruments, as discussed above.

In Europe, the Middle East & Africa, operating income increased 35%, or $111.7 million, to $433.1 million primarily due to higher results of approximately $71 million in our travel retail business, the United Kingdom, Italy, the Balkans and Spain. Partially offsetting these increases were lower results in Russia and India of approximately $6 million, reflecting spending to support our expansion in these markets. The overall operating results in this region were adversely impacted in fiscal 2007 by the pharmacy channel charges discussed above.

In Asia/Pacific, operating income increased 61%, or $56.5 million, to $149.7 million. All of our affiliates in this region experienced an increase in operating income, primarily resulting from net sales growth led by Japan, Hong Kong, China, Australia and Korea, which contributed approximately $43 million, collectively.

INTEREST EXPENSE, NET

Net interest expense was $66.8 million as compared with $38.9 million in fiscal 2007. This change primarily resulted from higher average debt balances, including an additional $600.0 million of senior notes issued in the fourth quarter of fiscal 2007, partially offset by lower average interest rates.

PROVISION FOR INCOME TAXES

The provision for income taxes represents Federal, foreign, state and local income taxes. The effective rate differs from statutory rates due to the effect of state and local taxes, tax rates in foreign jurisdictions and certain nondeductible expenses. Our effective tax rate will change from year to year based on non-recurring and recurring factors including, but not limited to, the geographical mix of earnings, enacted tax legislation, state and local taxes, tax audit settlements and the interaction of various global tax strategies. The effective rate for income taxes for the year ended June 30, 2008 was 34.9% as compared with 35.9% in fiscal 2007. The decrease in the effective income tax rate of 100 basis points resulted primarily from a decrease in state and local income tax expense (240 basis points) partially offset by an increase in the tax effect of our foreign operations (140 basis points).

NET EARNINGS

Net earnings as compared with fiscal 2007 increased 5%, or $24.6 million, to $473.8 million and diluted net earnings per common share improved 11% from $2.16 to $2.40.

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 June 30, 2009, we had cash and cash equivalents of $864.5 million compared with $401.7 million at June 30, 2008. Our cash and cash equivalents are maintained at a number of financial institutions. As of June 30, 2009, approximately 10% of the total balance is 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.

During fiscal 2009, we have been able to issue commercial paper in amounts and with terms that we deem acceptable. We do not anticipate protracted difficulties in securing this form of working capital financing. However, in order to maintain sufficient cash reserves over a longer period of time, in light of the current macroeconomic conditions, and the real or perceived lack of available credit, we issued $300.0 million of 7.75% Senior Notes due November 1, 2013 during the second quarter of fiscal 2009. The net proceeds were used to repay then-outstanding commercial paper balances upon their maturity.

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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.

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 selling prices or increase selling prices sufficiently to offset cost increases, which have been moderate.

Debt

At June 30, 2009, our outstanding borrowings were as follows:

	Long-term Debt	Short-term Debt (In millions)	Total Debt
6.00% Senior Notes, due May 15, 2037 (2037 Senior Notes(1))	$ 296.3	$	$ 296.3
5.75% Senior Notes, due October 15, 2033 (2033 Senior Notes(2))	197.5		197.5
5.55% Senior Notes, due May 15, 2017 (2017 Senior Notes(3))	324.1		324.1
7.75% Senior Notes, due November 1, 2013 (2013 Senior Notes) (4)	299.8		299.8
6.00% Senior Notes, due January 15, 2012 (2012 Senior Notes(5))	244.2		244.2
$13.5 million promissory note due August 31, 2012 (6)	15.2		15.2
$7.0 million promissory note due July 31, 2009 (7)		7.7	7.7
Turkish lira overdraft facility		12.5	12.5
Other borrowings	10.5	13.6	24.1
	$ 1,387.6	$ 33.8	$ 1,421.4

(1) Consists of $300.0 million principal and unamortized debt discount of $3.7 million.
(2) Consists of $200.0 million principal and unamortized debt discount of $2.5 million.
(3) Consists of $300.0 million principal, unamortized debt discount of $0.4 million and a $24.5 million adjustment to reflect the fair value of outstanding interest rate swaps.
(4) Consists of $300.0 million principal and unamortized debt discount of $0.2 million.
(5) Consists of $250.0 million principal, unamortized debt discount of $0.3 million and a $5.5 million adjustment to reflect the remaining termination value of an interest rate swap that is being amortized to interest expense over the life of the debt.
(6) Consists of $13.5 million face value and unamortized premium of $1.7 million.
(7) Consists of $7.0 million face value and capitalized interest of $0.7 million.

We have a $750.0 million commercial paper program under which we may issue commercial paper in the United States. Our commercial paper is currently rated A-1 by Standard & Poor s and P-1 by Moody s. Our long-term credit ratings are A with a negative outlook by Standard & Poor s and A2 with a negative outlook by Moody s. At June 30, 2009, there was no commercial paper outstanding. We also have $201.4 million in additional uncommitted credit facilities, of which $16.3 million was used as of June 30, 2009.

We have an undrawn $750.0 million senior unsecured revolving credit facility that expires on April 26, 2012. This facility may be used primarily to provide credit support for our commercial paper program, to repurchase shares of our common stock and for general corporate purposes. Up to the equivalent of $250 million of the credit facility is available for multi-currency loans. The interest rate on borrowings under the credit 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 $0.3 million to establish the facility which will be amorti